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161215Z MAR 82
FROM COMMCEN HSP
TO MODUK

DESKBY 161400Z

IMMEDIATE

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SIC

Ps
Ps/LBs
Ps/Pws
Mr Giffard
Mr Donald

Hd. SAD (Ltd),
Hd. Defence D.,
Hd. News D.,
Ps/~~no.~~ 10, Downing St.,
(For Mr. Coles)
(8x)

GRS 1500
CONFIDENTIAL
DESKBY 161400Z
FM DELHI 161215Z MAR 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 299 OF 16 MARCH.
AND TO IMMEDIATE MODUK (FOR HDS)

MY TELEGRAM NUMBER 249: MRS GANDHI'S VISIT - DEFENCE SALES

1. I RAN OVER THE GROUND TODAY WITH DEFENCE SECRETARY KAUL. HE EXPECTS TO BE ABLE TO TELL ME TOMORROW WHAT THE CABINET'S DECISION IS ON THE MARITIME HARRIER, NAVAL HELICOPTER REQUIREMENT AND THE ROLLS ROYCE SPEY ENGINE FOR THE INDIAN NAVY. DEPENDING ON THAT IT MAY BE UNNECESSARY FOR THE PRIME MINISTER TO RAISE ANY OF THESE QUESTIONS SUBTANTIVELY WITH MRS GANDHI.
2. KAUL AGREED THAT THE INDIANS WOULD BUY SOVIET MISSILES FOR SOME AIR DEFENCE TASKS AND WESTERN MISSILES FOR OTHERS (PARA 3(E) OF MY TELEGRAM UNDER REFERENCE). TO MAINTAIN THE INDIAN BARGAINING POSITION THEY WOULD NEGOTIATE FOR TERMS ON EACH OF THREE COMPETING SYSTEMS: OPTICAL RAPIER, ROLAND AND CROTALE. PROVIDED THE TERMS ARE RIGHT RAPIER IN MY OPINION STANDS A GOOD CHANCE OF WINNING. I RECOMMEND THAT THE PRIME MINISTER SHOULD COMMEND IT TO MRS GANDHI.
3. THE INDIAN DECISION BETWEEN THE FOUR CONTENDERS FOR THE LIGHT TRANSPORT AIRCRAFT (LTA) IS ACCORDING TO KAUL LIKELY TO BE TAKEN IN APRIL. BUT I WOULD NOT BE SURPRISED IF THIS LONG OUTSTANDING DECISION SLIPPED FURTHER. RAJIV GANDHI'S VIEWS WILL BE VERY IMPORTANT. SHORTS SKYVAN HAS A CHANCE BUT I DOUBT IF IT IS THE FRONT RUNNER. OF ALL THE PROJECTS MENTIONED IN THIS TELEGRAM THIS IS THE ONE ON WHICH INTERNATIONAL POLITICAL INFLUENCE WILL PROBABLY HAVE THE LEAST EFFECT. NEVERTHELESS IF IT DOES NOT OVERLOAD THE AGENDA I RECOMMEND THAT THE PRIME MINISTER SHOULD MENTION IT

THE AGENDA I RECOMMEND THAT THE PRIME MINISTER SHOULD MENTION IT TO MRS GANDHI.

4. KAUL SAID THAT HE WAS ALMOST CERTAIN THAT NO DECISION ON JAGUAR NUMBERS WOULD BE TAKEN BEFORE MRS GANDHI'S VISIT. IF THIS IS SO I MAINTAIN THE ADVICE IN PARA 3 OF MY TELNO 238.
5. THE INDIANS HAVE NOW, AS WE SUGGESTED, FORMALLY ASKED ROLLS ROYCE WHETHER RB 199 CAN BE SOLD TO INDIA AND MANUFACTURED HERE. ROLLS ROYCE REPRESENTATIVES HERE HAVE ASSURED ME THAT THEY ARE ENTITLED TO GIVE A FIRM POSITIVE REPLY. WITHOUT GOING QUITE SO FAR I HAVE GIVEN KAUL THE IMPRESSION THAT THE REPLY WILL BE POSITIVE. IT WOULD BE GOOD IF IT WERE POSSIBLE FOR THE PRIME MINISTER TO TELL MRS GANDHI SO FORMALLY OR IF THAT IS IMPOSSIBLE INFORMALLY.
6. KAUL ASSURED ME THAT ALTHOUGH THE LIGHT COMBAT AIRCRAFT (LCA) IN-SERVICE DATE WAS A LONG WAY OFF THE PROJECT HAD A HIGH PRIORITY. THERE SHOULD BE NO HOLD UP IN CONTINUOUS PLANNING AND DESIGN WORK FROM NOW ON. THE INDIANS EXPECT TO HAVE DISCUSSIONS WITH THE SWEDES. I BELIEVE THAT THIS IS INDEED A FIRM INDIAN PROJECT AND THAT AN INDIAN/SWEDISH/BRITISH AEROSPACE/ROLLS ROYCE PARTNERSHIP OFFERS EXCELLENT OPPORTUNITIES. I RECOMMEND THAT IN ADDITION TO SPEAKING ABOUT THE RB 199 (WHICH WILL GO INTO THE INDIAN VERSION OF THE LCA) THE PRIME MINISTER SHOULD CONFIRM TO MRS GANDHI THE GREAT INTEREST OF THE TWO BRITISH COMPANIES IN LCA. WORDS WILL HAVE TO BE CHOSEN CAREFULLY TO AVOID A MISLEADING IMPRESSION ABOUT BRITISH FINANCIAL COMMITMENTS.
7. I TOLD KAUL THAT MY PERSONAL HOPE FOR INDO/BRITISH MILITARY AIRCRAFT COLLABORATION WAS SUCCESSIVE MANUFACTURE IN INDIA OF JAGUAR, RB 199, LCA AND EVENTUALLY TORNADO. WE DISCUSSED DATES FOR THE LATTER AND I CONCLUDE THAT THE INDIANS WOULD HAVE TO KNOW AROUND THE LATTER PART OF THIS YEAR THAT WE ARE WILLING TO AGREE TO THE MANUFACTURE OF TORNADO IN INDIA IN A TIMEFRAME WHICH WOULD PERMIT THE PRODUCTION OF THE FIRST AIRCRAFT IN 1987. CONTRARY TO WHAT THE CHIEF OF THE AIR STAFF TOLD ME (PARA 3(C) OF MY TELEGRAM UNDER REFERENCE) KAUL SAID THAT THE INDIANS MIGHT POSSIBLY BE INTERESTED IN THE IDS VERSION OF TORNADO AS WELL AS THE ADV.
8. THERE IS AN IMPORTANT POLITICAL AS WELL AS COMMERCIAL BACKGROUND TO THIS QUESTION. I HAVE DISCUSSED THE SITUATION WITH MY FRENCH COLLEAGUE. HE SAYS THAT THE MIRAGE CONTRACT IS ON THE TABLE WAITING FOR THE INDIAN SIGNATURE. EVERYTHING HAS BEEN SORTED OUT EXCEPT THAT THE FRENCH PRICE IS QUITE HIGH RELATIVE TO RUSSIAN PRICES. 40 AIRCRAFT SEEM ASSURED BUT THE INDIANS HAVE NOT MADE A DECISION ABOUT MANUFACTURE IN INDIA, THOUGH THE OPTION IS ON

MADE A DECISION ABOUT MANUFACTURE IN INDIA, THOUGH THE OPTION IS ON THE TABLE FOR THEM TO TAKE UP. I BELIEVE THE INDIANS SEE THE BUY OF 45 MIRAGES AS THE ANSWER WHICH THEY HAVE PROMISED THEIR ELECTORATE TO PAKISTAN'S F 16S. THEY HAVE ALSO BEEN NEGOTIATING WITH THE RUSSIANS FOR MIRAGE 27 IN ITS FIGHTER/BOMBER CONFIGURATION (PARA 2 OF MY TELNO 136). THE INDIANS HAVE LEARNT TO BE SUSPICIOUS OF SPECIOUS SOVIET PROMISES ABOUT AIRCRAFT PERFORMANCE ETC, AND I BELIEVE THEY HAVE BEEN HAVING DIFFICULTY IN GETTING ADEQUATE ASSURANCES FROM THE RUSSIANS. IT MAY BE THAT SOVIET DEFENCE MINISTER USTINOV, ACCOMPANIED BY THE HEAD OF THE SOVIET AIR FORCE WILL DURING HIS CURRENT VISIT HERE PROVIDE SUCH ASSURANCES AND PROMISE AN IRRESISTABLE PRICE.

9. MY GUESS IS THAT THE INDIANS ARE USING THE CURRENT VISIT OF THE CHIEF OF THE INDIAN AIR FORCE TO THE UK AND MRS GANDHI'S FORTHCOMING VISIT TO TIGHTEN THE SCREWS ON THE RUSSIANS AND POSSIBLY THE FRENCH. HOWEVER, THERE IS ALSO AN ELEMENT OF COMPARATIVE SHOPPING. IT IS POSSIBLE THAT THE INDIANS WILL BUY BOTH MIG 27 AND MIRAGE FOR EARLY DELIVERY AND ALSO ANOTHER AIRCRAFT, EITHER MORE MIRAGE OR ELSE TORNADO, FOR MANUFACTURE IN INDIA TOWARDS THE END OF THIS DECADE. ACCORDINGLY THEREEIAJCNITTOT TO PLAY FOR, ACCORDINGLY I RECOMMEND THAT THE PRIME MINISTER SHOULD GO AS FAR AS SHE CAN IN RECOMMENDING TORNADO AS WELL AS LCA.

10. WE SHOULD BE ALERT TO POSSIBLE PUBLICITY VALUE FROM THE FIRST FLIGHT BY A JAGUAR ASSEMBLED AT BANGALORE. THE ACTUAL FIRST FLIGHT MAY WELL TAKE PLACE LATER THIS WEEK. IF ALL GOES WELL THE FIRST PUBLIC FLIGHT IS EXPECTED BEFORE THE END OF THE MONTH.

11. PLEASE PASS A COPY OF THIS TELEGRAM TO COLES, NUMBER TEN DOWNING STREET. ✓

THOMSON
BT

[hand, as requested.]

NNNN

Ref: A07798

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MR. COLES

A.I.C. 23/3
h-a.

Indian Prime Minister's Visit: Defence Sales

A brief on defence sales is included in the briefs for Mrs. Gandhi's visit. The brief covers Jaguar, light combat aircraft, Sea King, Rapier and Sea Harrier. There are also defensive points on HMS Hermes and Sea Eagle. The Minister of State for Defence Procurement in the Ministry of Defence (Lord Trenchard) has, however, also suggested that the Prime Minister might find it useful to see a copy of the report produced by the Head of Defence Sales following a visit which he made to India from 25th January to 1st February. I attach a copy.



D. J. Wright

15th March 1982

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VISIT TO INDIA - 25 JANUARY TO 1 FEBRUARY 1982

It proved possible to see everyone and everything that we had planned to see in the time available. This was no mean achievement on the part of the High Commission who had an inordinate number of visitors to cope with during the days either side of Republic Day.

OVERALL IMPRESSIONS OF POTENTIAL FOR EXPORTS

In India it is easy to see the French as a great threat - and they are - but it must be remembered that the real competition is Russia.

When Hindustan Aeronautics can build a MIG 21 for \$1.25 m versus \$20.0 m for a buy of a Mirage 2000, and a T72 tank costs £350K versus an estimated £1.25 m for a 4030, it is clear that only massive goodwill and a strongly felt desire not to become over-dependent on Russia keep us (or the French) in the game at all. We do benefit from very powerful support among the senior British trained officers in India. All the Chiefs of Staff fall into this category as do their deputies but beneath them, probably a decade away, are younger officers with very different loyalties. We must do everything possible to strengthen our position now.

The effect of politics on procurement policy is sharply felt and stoically accepted. India will buy the Mirage 2000 (probably 40 of them) - more for the \$80 m it will deliver to Congress (I) Party funds than for its effectiveness against the F16. (The MIG 21 BIS with Ferranti Radar will perform this task as adequately at less than 25% of the price).

The decision on how many Jaguars to build will be affected by depleted foreign currency availability but it will be equally affected by the political need to balance Squadrons of Western origin against Squadrons of Warsaw Pact origin.

There can be no doubt that the need to employ Agents in India continues. Both political and working level access are necessary.

There is a partly justified feeling among Politicians and the Military that we the British have tended to rest on our laurels, have not made enough top-level visits, have not ensured adequate support for our products and are refusing to release our latest technology to one of our oldest friends and best customers. The French are providing or rather promising (as is their wont) all that we are not.

Recent visits by the First Sea Lord, Sir Austin Pearce, Sir Frederick Page, Basil Blackwell and David Plastow have done much to consolidate several very genuine improvements in performance but we must keep up the pressure and be consistently reassuring on technology release.

India has bought £450 m of defence supplies and contracts from us in the last five years. There is still much to be gained.

KEY VISITS

The Republic Day Parade was a good opportunity to see the full range of Indian equipment in a short time. It is easy to forget when all the conversations are about new technology that this is a country with 1 million troops in very traditional roles.

In Delhi we saw all the Chiefs of Staff and their Deputies; had a full meeting with the Naval Staff since much that is current concerns them and had half a morning with the Defence Secretary and Secretary for Defence Production.

We met all the key Agents and many of the local British representatives over the four days and particularly valued the opportunity to meet the Military socially at functions organised by the High Commissioner, the Defence Adviser and one of the Agents.

We visited Hindustan Aeronautics in Bangalore over two days combining discussions on the future of the various aircraft programmes with a very full factory tour. The Chairman, Baljit Kapur, is an old adversary and was really very forthcoming in the end on several issues although his venality will be, if he continues in his role, a continuing problem for us. HAL now has very well organised manufacturing units where the new investment levels are enviable but it is very short of work at present and the Mirage decision is a major body blow. There must still be a major opportunity to hold the Mirage buy at a maximum of 40 if only to utilise the new investments. BAe are actively working on this.

The tank factory at Avardi, near Madras, where the Vijayanta is made proved a marked contrast to HAL. It is antiquated (all machine tools are at least 20 years old) and one of the most scruffy engineering units I have ever seen. I am not surprised that the quality of the product is proving so poor.

SPECIFIC PROSPECTS

D Sales 4 has prepared a report, which is available, detailing specific conversations and product discussions. The following are the major issues:

1. SEA HARRIER

The approval request is with Cabinet. The chances of early approval are good. The 12 aircraft plus spare engines are worth £103 m.

2. SEA KING

The approval request for a Helicopter purchase is with Cabinet. The competition is Super Puma. The chances for Sea King are 60/40. Westlands' credibility is better but not good. They are taking appropriate top-level action. Value - £175 m to £200 m.

3. JAGUAR

A request to build 31 Jaguars beyond ship 45 is with Cabinet and has been for 6 weeks. It is unlikely to be approved. The most likely build is 16 but the affair is incredibly complex and it is sad to think that the massive investment and effort which has been put in at HAL might in the end be so little used. The build of 16 aircraft could be worth up to £60 m to BAe. This in addition to the first 85.

4. The Light Combat Aircraft scheduled for entry to production in 1990 is gaining real momentum as a project. BAe are the favoured collaborative partners but much will depend on our ability to supply an appropriately uprated RB199. The Indians are reluctant to request it formally having been snubbed in 1973 but can be persuaded to do so. We are working on delivering the Germans.

5. There is a need for a Maritime patrol capability for the Navy and an AEW capability for the Air Force. If both of these could be tied in to the proposed 748 based Coastguarder programme the presently prohibitively high unit price could be reduced to an acceptable level. Possible need is for 18 - 20 aircraft at around £9 m per ship.

6. One of the very few areas where we found ourselves differing from the High Commissioner is on the possibility of Tornado sale. With the strike capability of Jaguar and the air defence capability of the Mig, and planned Mirage Squadrons to be followed by LCA, I see no prospect whatsoever of a Tornado sale. This was stated by CAS, DCAS, AVM Greene(ACAS(PLANS)) and Kapur at HAL.

7. Rolls-Royce's chance of gaining the contract for the SM1A is now very good - value up to £25 m including spares - if fitted to all three Godovari Class Frigates.

8. FH70 is in a very tough competition. I would not rate its chances above evens - value £244 m for 200 guns and tractors.

9. If the engineering problems with the Sundance pack on the Vijayanta can be overcome I believe they will be retrofitted. Vickers have a real opportunity however to fit the CV12 in new production vehicles. This would be worth £.2 m per vehicle, which on 6/7 vehicles per month over five years would amount to up to £80 m depending on the degree of local manufacture.

10. In the medium term however all the evidence (well concealed) points to a plan to push out the Chetak new tank programme and to build the T72 under licence at Avardi.

11. There is an immediate opportunity, if it is economical, to re-open the line at ROF Leeds to sell 10 Combat Engineering Tractors at approximately £1 m per copy.
12. There could well be an early decision to buy 8 Optical Rapier sets for hill-country use with the possibility of a bolt-on buy of Darkfire later. They will probably buy Mobile SAM 9 for their main airfield defence. Value to us of the Optical buy will be in the order of £30 m.

OTHER ISSUES AND ACTIONS

1. The French sales presence in India is powerful. They have an OFEMA office in Delhi and Bangalore. Our DAS have difficulty in discussing requirements with their Indian opposite numbers because of suspicion over their intelligence role. We agreed to examine the possibility of having a man in Delhi whose role would be entirely sales related.
2. It is not insignificant either that the Russian General and Admiral responsible for sales to India have both been doing the job for over 20 years.
3. The CAS, Dilbagh Singh, will visit Sir Michael Beetham in March. He is very pro-British and very straightforward. The key messages that we must get across to him are:
 - a. our willingness to release key technologies as early as is practicable including RB199.
 - b. our willingness to do everything possible to help India to make effective use of their investment in Jaguar. Dilbagh Singh fought a very hard battle to minimise the Mirage buy and we should provide him with every supporting argument. ACAS(PLANS)'s view is that if we put him in Hawk and Tornado during his visit we may never get him out. Hawk is important because they know that they could well fail with their own Ajeet trainer programme.
4. In our view, when Mrs Gandhi visits the PM in March the key issues should be Sea Harrier (if not sewn up before), Sea King, the Jaguar build and Rapier.
5. We discussed the problems of effective communication at length with Kaul, the Secretary of Defence and the High Commissioner. We agreed to examine the possibility of setting up a 6 monthly review meeting with the Indians. This would give us two key advantages:
 - a. it would give us a better early insight into their real requirements.
 - b. it could take the sting out of many complaints which can fester for much, much longer than 6 months.

The potential business outlined above is alone worth over £1000 m. There are many other less major but nevertheless important opportunities. We need to strengthen our attack on them considerably.

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