

Ref: B06455

PRIME MINISTER

c Sir Robert Armstrong

Thermal Power Station for India

Your meeting at 2 pm today is to decide

- (a) whether we should seek to clinch this deal while Mrs Gandhi is still here;
- (b) how much extra aid we should in that context be willing to provide;
- (c) where the money for such extra aid should come from.

2. The meeting will be attended by the Foreign and Commonwealth Secretary, the Secretary of State for Trade, the Chief Secretary, Mr Kenneth Baker and Sir John Thomson.

3. The meeting will have before it Mr Coles' letter to the Department of Trade of 22nd March circulating the assessment of prospects made by Sir John Thomson following your talk with him after your lunch for Mrs Gandhi on Monday; and the Foreign and Commonwealth Office letter of 23rd March to Mr Coles giving Mr Hurd's views and enclosing a paper by the FCO and ODA. Three of the briefs for Mrs Gandhi's visit are also relevant: ZMV(82) 13-15.

4. The Indians want three concessions in order to defend a decision to award the contract to us without international tender, which will be criticised by the Chairman of their Public Accounts Committee. There may be an element of try-on here, since they know that we are already offering exceptionally favourable financing terms for the contract, and that they must sign up with us by 15th May if they are to get the benefit of a $7\frac{3}{4}$ per cent rate of interest rather than 10 per cent. The three desired concessions are -

- (i) They want us to make our normal disbursements from IDA 6, in the second and third as well as first years, and not to limit them pro rata because of the shortfall in American money.



65 (ii) They want our ATP contribution increased to £75 million over 4-5 years.

(iii) They want our regular aid programme increased to £115 million a year (in cash terms) over the next four years, to offset the fact that they (unlike other aid recipients) have to use part of it for RTA in lieu of debt service (see paragraph 7 below).

5. The FCO and ODA can agree to (i). The Department of Trade as the responsible Department are resistant to (ii). The ATP contribution approved by Ministers before Mrs Gandhi's visit was £51 million. Following negotiations last weekend DOT officials were prepared to recommend £62 million. They are now prepared to go to £65 million, but regard £75 million as unnecessarily high. At a pinch, Mr Biffen might agree to £70 million, which would probably do.

6. The real problem is (iii). The Indians are getting an exceptional £100 million in 1981/2 because we are underspent elsewhere. On present plans they will get £85 million in 1982/3, £82.5 million in 1983/4, £80 million in 1984/5 and £80 million in 1985/6. The ODA claim that these are fixed cash sums, which is no doubt over-cautious. They do not think India could absorb more than £100 million from us in 1982/3; they could manage to go to £90 million from within the existing Aid Budget, but would need new money above that and for any increase over the planned figures thereafter. Lord Carrington will press for an appropriate increase in the Aid Budget, ie up to £35 million a year extra if the Indian demand is to be met in full. If the meeting supports the Chief Secretary in resisting this, he will probably suggest that you write to Mrs Gandhi tomorrow agreeing to increase the aid programme for India but not saying by how much.

7. The RTA argument is complicated. In 1978, under OECD arrangements, we waived outstanding debt service for very poor countries. But in India's case the amount was so large (£30 million per annum) that we made them continue to pay it and gave them extra aid in compensation. The Indians still pay us £30 million a year under this arrangement. But they no longer believe that the aid we give them is that much larger



than it would otherwise have been. They have a point. But if we now agreed to forego their £30 million payment, our total Aid Budget would be that much the poorer and would need topping up with an equivalent amount of new money from the Treasury.

8. The power station contract will be worth £400 million and will involve about 5,000 jobs over three years.

HANDLING

9. It would probably be easiest to address, successively, the three issues in paragraph 1 above.

10. Should we close now? The Secretary of State for Trade, the Foreign and Commonwealth Secretary and Sir John Thomson should say whether they regard this as our best, and perhaps only, hope of getting the contract at all. Mr Baker should comment on the industrial and employment implications.

11. What extra ground bait should we offer? The meeting should focus on the three Indian requests in paragraph 4 above -

(i) The Chief Secretary and the Foreign and Commonwealth Secretary should have no trouble in agreeing to meet the IDA point.

(ii) How far could the Secretary of State for Trade agree to increase the ATP provision? Do the Foreign and Commonwealth Secretary and Sir John Thomson consider that would be enough? £70 million over 4-5 years may emerge as a compromise figure.

(iii) On the main aid figure, do the Foreign and Commonwealth Secretary and Secretary of State for Trade agree with Sir John Thomson that £115 million is near the Indian minimum? If not, what lesser figure do they suggest? If India could not absorb more than £100 million next year, should not we suggest a rising cash profile so as to allow for inflation? Eg £100 million in 1982/3 rising to £115 million in 1985/6? Though less than an annual average of £115 million, might this not do? Or would there be any advantage in offering to cancel the RTA arrangement, thus putting India on a par with everyone else?.



12. Should the Aid Budget be increased? The Foreign and Commonwealth Secretary should lead and the Chief Secretary should comment. Would they be willing, as a compromise to be sure of the contract, to find half the extra aid money for India from within the Aid Budget and half from new money? If the cash profile suggested above were acceptable, they would each have to provide about £50 million in cash over the next four years. Failing this, is Mrs Gandhi likely to be satisfied with an unquantified offer at this stage? If so, should some new money be provided when that offer comes to be implemented?

CONCLUSION

13. The meeting is likely to agree that every effort should be made to secure the contract this week. Your summing up will need to make clear

- how far we are prepared to go to meet Indian requests for aid concessions in that context;
- how any assurances we give should be conveyed to Mrs Gandhi;
- whether the overall Aid Budget should be increased, and if so by how much.

24th March 1982

R L WADE-GERY



10 DOWNING STREET

Prime Minister

Cabinet office advice will be
available for you to read over
lunch tomorrow.

A. J. C. $\frac{23}{3}$.

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Foreign and Commonwealth Office

London SW1A 2AH

23 March 1982

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t-c.

Dear John,

Thermal Power Station for India

As agreed yesterday, I am sending you a paper prepared by officials of both wings of the FCO which sets out the impact on the Aid Programme of providing the extra funds envisaged by the Indians, as regards our bilateral aid to India, the Aid and Trade provision, and accelerating our contributions to IDA. This is to help discussion at the Prime Minister's meeting tomorrow. It is intended to set out the consequences of Sir John Thomson's assessment of Indian requirements.

In Lord Carrington's absence in Brussels, the paper has been seen by Mr Hurd. Mr Hurd notes that officials have looked very carefully to see whether the extra amounts which would be entailed on the basis of Sir John Thomson's analysis could be accommodated within the existing programme. The paper shows that the larger amounts required for the project from the Aid and Trade provision can be found from within the total allocation we are proposing for each year. The extra cost of paying our contributions to IDA 6 on the original schedule, instead of keeping pace with the slower disbursements of the Americans, can also be absorbed.

But raising our bilateral aid to India to £115 million would involve an increase of at least £35 million per year. It would cause major dislocation to other programmes if this amount were met within the existing total. One consideration is therefore that it would require an addition to our aid funds. The same issue would arise if IDA 7 were to be brought forward.

/Although it is

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Although it is clearly important to assess the Indians' bottom line, in our view this will only be established after further negotiation. It is no less important to define our own bottom line, and the respective weight to be given to the financial package, to any improvement in the bilateral aid programme and a change in our position on IDA 6.

I am sending copies of this letter to John Kerr (HM Treasury), Richard Riley (Department of Industry), John Rhodes (Department of Trade), Sir Robert Armstrong and Sir John Thomson.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street



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u RTD
wade-bey

10 DOWNING STREET

From the Private Secretary

22 March 1982

Thermal Power Station for India

The Prime Minister and Mrs. Gandhi discussed the prospective Indian thermal power station contract for NEI at their plenary meeting this morning and subsequently over luncheon. Her impression is that our best chance of securing this contract lies in reaching agreement on it in principle before Mrs. Gandhi leaves London; and she is clear that we should make every effort to do so, not least because of the employment implications.

The Indians are bargaining hard at all levels. The problem is to identify their bottom line. At the Prime Minister's request, Sir John Thomson has prepared the enclosed note which addresses this problem.

The Prime Minister would like to hold an early meeting with those concerned, in order to consider two questions:

- (a) Is Sir John Thomson's analysis of Indian minimum terms accepted?
- (b) How can we meet it?

We will be getting in touch with you and others concerned about the exact time of the meeting.

I am sending copies of this letter to Brian Fall (Foreign and Commonwealth Office), John Kerr (H.M. Treasury) and Richard Riley (Department of Industry).

A. J. COLES

John Rhodes, Esq.,
Department of Trade.

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Thermal Power Station

Over the past 48 hours I have had a number of informal talks with the Indian Permanent Secretary to the Treasury and with Mrs Gandhi's Principal Adviser. It is clear that the Indians are prepared to settle in principle here and now that the thousand megawatt thermal power station (value not less than £400 million to the United Kingdom) should come to us.

However they need a quid pro quo to justify to their Public Accounts Committee and Parliament giving us a contract without going through international competition. The minimum price seems to be that we should up our contribution from the aid/trade provision for this project from the figure of £62 million, where I understand it now stands, to £75 million over a 4/5 year period, ie an increase of approximately £3 million per annum. The rest of the price is in the regular bilateral aid budget for India. After negotiations we have brought them down to asking for £115 million per annum inclusive of RTA and the technical co-operation budget for the four years beginning 1982-83. We might knock them down by £2 or £3 million per annum, but realistically we have to reckon on the sums just mentioned.

I recognise the tightness of the aid budget. But it looks as if we might in practice be going to meet their requests anyway and it would be a pity not to get the full credit for it. In the aid year just ending we shall be paying £100 million approximately on the regular aid budget. Given inflation and the fact that the Indian figures are all acknowledged to be in cash terms (not constant pounds), we are in any case likely to find ourselves paying something like the £115 million for which they are asking at least in the years 1984-85 and 1985-86. In short, they are asking us to find only a small sum in extra money and the value to us now of the contract for NEI is politically very great. The indications are that it will lead on to other large contracts.

J A THOMSON
22nd March 1982

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~~Prime Minister~~

A.J.C. $\frac{22}{3}$

Mr. John Coles,
10 Downing Street.

c.c. PS/Minister for Trade
PS/Minister for Industry
Sir Peter Preston, ODA.
Mr. Giffard, FCO.
Mr. Caines, DOT.
Mr. Bonney, Treasury.
Mr. Benjamin, DOT

India: Super Thermal Power Station

As you know from Sir Peter Preston's report of the meeting with Mr. Malhotra on 19 March, there were further discussions between the Department of Trade (Mr. Benjamin and myself) and Mr. Sivaraman of the Department of Economic Affairs (DEA) yesterday. A report is attached.

Our conclusion was that with the improvements described in my note, involving some additional ATP of (£9.5 m) and RTA local cost aid (£10 m), the financial package is now seen as a sufficiently attractive basis for a negotiated contract for the power station project, when considered in isolation. However, the DEA is continuing to place the decision on this in the overall context of relations with Britain on aid matters.

Miss M.T. Neville-Rolfe,
Projects and Export Policy,
Department of Trade.

21 March, 1982.

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India: Super Thermal Power Station and Associated Projects
Discussions on 20 March, 1982

At Sir Peter Preston's meetings with Mr. Malhotra and Mr. Sivaraman of the Department of Economic Affairs (DEA) on 19 March it was agreed that there should be this further discussion between the Department of Trade and Mr. Sivaraman about the DEA's request that the financial package for the power station and associated coal mine and transmission line be improved.

2. As Mr. Malhotra had on the previous day, Mr. Sivaraman set the issue firmly in the context of wider Indian concerns about reductions in the UK's bilateral aid to India. The DEA faced severe presentational problems in giving Britain a negotiated contract for such a massive project (especially following the award of the steel plant to Davy); it was looking for justification for this, both in terms of a demonstrably most favourable financial package for the projects and improvements generally in the UK-India aid relationship.

3. On the financial package, Mr. Sivaraman pointed out that this needed to compare favourably with other offers India had received. The DEA's particular concern was the requirement for eurocurrency borrowing in the UK offer; this would diminish India's borrowing capacity under the IMF's guidelines, at a time when substantial borrowing, e.g., to develop oil resources would be needed. Other soft financing offers available did not have this drawback. We emphasised that the resources available to improve the package were severely constrained; there was no possibility of aid to substitute fully for eurocurrency, but we were willing to consider flexibly what could be done to achieve improvements in this area.

4. Mr. Sivaraman proposed that the package be considered excluding the transmission line: no decision had been taken about this, and it might well be sourced from within India. On this basis, an improved package along the following lines was discussed (summarised in the table attached). We made it clear that this would be subject to Ministerial approval.

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/-(a)

- (a) UK content would be increased by £30 m by including with the power station the substation which had been included in the transmission line (£15 m) and sourcing all the imported coal mine equipment from the UK (this is now known to be possible). On the same basis as the rest of the power station/coal mine this would attract 15% ATP (an additional £4.5 m) and 100% ECGD cover.
- (b) RTA: Mr. Sivaraman proposed that of the uncommitted RTA funds available up to 1988, up to £65 m should be used for these projects, i.e., the £10 m proposed for the transmission line and a further £10 m should be added to the original proposal for the power station/coal mine.
- (c) This would leave some £50 m to be met from eurocurrency borrowing. After consultation with Lazard's, we indicated that this could be covered by a fixed rate longterm (12 year) commercial loan, at prevailing eurobond rates. This would leave India's eurocurrency borrowing capacity unaffected under the IMF guidelines. We also indicated that in order, in effect, to soften the terms on this element somewhat, a further £4-5 m of ATP might be found for the project.

5. We had further discussion with Mr. Sivaraman after he had consulted Mr. Malhotra about these projects. He indicated that, on its merits taken alone, a package along these lines would be very attractive. However, Mr. Malhotra remained very concerned about the overall picture of the relationship with the UK on aid and project issues; and his concerns could not be met by the kind of improvement that had been proposed to the package alone.

Superthermal power station and coal mine revised financing proposal

	£ m
Power station: UK content including sub-station	285.0
Coal mine: increased UK content	83.0
Local costs: both projects	175.0
	<hr/>
	543.0

Financed by:

Export credits	368.0
ATP aid	60.2
RTA aid	65.0
	<hr/>
	493.2
	49.8
	<hr/>
	543.0

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~~PS/Prime Minister~~

cc: PS/Secretary of State for Foreign
and Commonwealth Affairs
PS/Secretary of State for Trade
PS/Chief Secretary
PS/Mr Marten
Mr Giffard, FCO
Mr C Benjamin, PEP, DOT
Mr Bonnie, HM Treasury
Sir John Thomson
PS/Mr Hurd
Mr M St Burton SAD FCO
Mr C R O Jones, ODA

MRS GANDHI'S VISIT : THERMAL POWER STATION

1. Mr Malhotra, Secretary of the Indian Department of Economic Affairs, arrived at very short notice in London on 19 March with the purpose of talking to officials in advance of Mrs Gandhi's arrival. His aim was to urge us to make certain concessions on the size of the aid programme, IDA payments and the financial package for the thermal power station thus (he implied) creating a more favourable climate for the award of the contract for the power station to the UK contractor, Northern Engineering Industries Ltd, without going to international tender. The final decision on the award will in fact be Mrs Gandhi's. Although she will almost certainly not want to discuss the power station with the Prime Minister she will raise the IDA question.

2. The meetings with Mr Malhotra were chaired by myself and attended by Sir John Thomson and representatives of the Treasury, FCO, and Department of Trade. A summary of the points raised and positions reached follows:

Size of our Aid Programme in India

3. This subject is covered in brief ZMV(82)14. Our programme declined from £140 million in 1980/81 to about £100 million in the year just ending. The Indians have been told that the target figure for next year is £85 million and the likely spending figure £75 million. Mr Malhotra argued that the cash value of the programme /should

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should remain at £100 million and that that level should be taken to exclude additional cash spent on commercially valuable projects like the steel plant and the thermal power station and also the local cost aid deriving from the RTA agreement. This last is likely to amount to £35 million in the current financial year and some £42 million next year and could go up to a level of £50 million quite soon. So what he was demanding was in effect a total aid programme of up to £150 million but excluding both the steel plant and the power station.

4. I took the line that Ministers were now considering the whole shape of the future aid programme and individual demands on it. However, I was not at all encouraging to the idea that the Indian share could be significantly higher than the figure we have already given them (we told them that we hoped that India would continue to receive about that amount in cash in future years). There is no doubt that the Indians consider that if one deducts from our total aid to India the local cost aid, which was originally promised to the Indians as additional to the normal aid programme, the remainder of the programme will sink to a very low level indeed - not much more than £40m next year. This is factually correct. Resentment is certainly felt. The Indians might be mollified if we indicated an interest in moving up to a cash level of about £100m gross. If the Prime Minister wishes to be more forthcoming on the amount of future aid to India, it should be noted that to maintain the Indian programme at a cash level of even £100 million could, within the total aid programme limits as now set, only be done at the expense of other bilateral programmes already greatly squeezed or at the expense of other items to which we are not legally committed, such as the Aid and Trade Provision.

Financial package for Thermal Power Station

5. The British content for exported goods and services, if we get this contract, is likely to be £350-450 million. We have already offered the Indians £50.7 million grant aid under the Aid and Trade Provision and £55 million in local costs. Mr Malhotra wanted us to give still more favourable terms.

/6. We explained

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6. We explained to Mr Malhotra that we had already on offer a financially attractive package, taking into account the aid and export credit terms. We could look at the details again. It might be possible, for example, to manoeuvre somewhat about the payment for different parts of the package or to negotiate on the timing of payments. But any revised proposals would have to go to Ministers (Treasury Ministers have already expressed doubts about the size of the concessional element in relation to the whole). Further detailed discussions are to take place tomorrow (20 March) at the Department of Trade and if anything positive emerges DOT will provide an additional brief.

IDA (International Development Association)

7. See brief ZMV(82)13. Following the South/South Conference in New Delhi, Mrs Gandhi presents herself as the chief Third World spokesman on IDA (India is chief sufferer from IDA commitment cuts). She is lobbying widely to get other donors not to tailor their IDA commitments to the (temporarily) reduced US subscriptions.

8. Mr Malhotra strongly urged the UK to release its subscription for commitment in three equal tranches as it would have done if the US had not fallen behind in depositing its notes; and that we should actively persuade other lending donors to do likewise. He acknowledged that we had been helpful in the past year in persuading other donors to release their first tranche of IDA 6 before the Americans paid up in 1981 and that we had supported firmly a 40% share of IDA 6 for India.

9. We explained - and the Prime Minister might like to take a similar line with Mrs Gandhi - that we recognise the strength of feeling amongst developing countries on this point. However, proportionality (the release of our subscriptions pro rata with the US) is the only way we can exert any leverage on the US in this replenishment. Other donors (notably the Germans) are very unhappy at the way US contributions have lagged behind in past replenishments and are insisting on tougher conditions in all such international financial institutions. If we drop the pro rata principle in IDA, it will certainly disappear in the other institutions. It is thus in the best long term interests
/of developing

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of developing countries as a whole not to abandon this policy. This would remain our line for the IDA Deputies' Meeting on 6 April, unless Ministers wished to change it.

10. If Mrs Gandhi remains unconvinced by these arguments, the Prime Minister might say that she notes her strong views and will reflect on them in preparing for the exchange of views with other major donors at the Deputies' meeting. I would advise that no undertaking to revise our position should be given since we believe our arguments are sound. However, obviously in any future replenishment these arrangements will need to be re-examined. In any case, we shall continue to argue for a 40% share of IDA for India and for substantial Indian access to the ordinary lending of the Asian Development Bank after its current replenishment of capital has been negotiated.

/ 11. As this IDA point seems likely to figure prominently, I attach a suggested line to take which amplifies the existing brief.

CONCLUSION

12. To summarise, we could, if necessary, offer some possibility of improving the aid offer on the power station though detailed discussions would be needed. We can offer no prospect of significant increases in our bilateral aid above the levels presently planned. On IDA we should defend our line but if pressed hard agree to reflect further. We have to bear in mind that whatever concessions we might make during this visit we are unlikely to get a firm commitment on the power station here and now.

T. P. Ho *[Signature]*
(FCO Resident Clerk)

for Peter Preston
Overseas Development Administration
19 March 1982

(Retyped at ODA's request by FCO)

I D A

1. We fully recognise the problems for India and other recipients of the reduced commitment authority in the second year of IDA 6.
2. This results from the failure of the US to obtain Congressional appropriations. It was because of similar past failures that the IDA 6 Agreement negotiated in 1979 made a specific provision for restricting the commitment of contributions by other donors pro rata to US contributions.
3. The whole purpose of this provision was to maintain maximum pressure on US to keep up contributions. If we and other major donors now waive the rule about pro rata commitment that pressure disappears and no such provisions in future will be credible.
4. We have believed it to be in best interests of IDA beneficiaries to have proper and effective burden-sharing provisions. If we abandon this we believe future replenishments of IDA and other similar funds will be made more difficult to negotiate at satisfactory levels.
5. We know Mrs Gandhi has discussed this with other developing countries recently. Have they weighed carefully the risks of taking all the pressure off the US and of the difficulties of future replenishments?
6. (IF MRS GANDHI MAINTAINS HER PRESSURE)

We will certainly reflect on what has been said in preparing for discussions in Washington in April

/and take



and take into account strong Indian views in talking to other donors. But there is a balance to be struck between short-term and long-term considerations.

7. In any case we shall continue to press for 40% of IDA 6 commitments to go to India over the whole period.

ADVANCE COPY

CREDA 96

IMMEDIATE DELHI

MR. BENJAMIN 21

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LUK NR 003/17

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FROM DELHI 170830Z MAR

TO IMMEDIATE DOT (FOR BENJAMIN)

TELEGRAM NUMBER CREDA 96 OF 17 MARCH 1932

AND TO IMMEDIATE ODA

MY TELNO 298: MRS GANDHI'S VISIT: THERMAL POWER STATION

1. I HAVE JUST HAD NEARLY AN HOUR ON THIS SUBJECT WITH THE MINISTER OF FINANCE SUPPORTED BY HIS PERMANENT SECRETARY. AS I WAS LEAVING, THE MINISTER OF ENERGY AND THE TWO MOST SENIOR MEMBERS OF THE PRIME MINISTER'S STAFF ASKED FOR A MEETING TO DISCUSS THE PROJECT. I BELIEVE THERE MAY BE A SECOND MEETING THIS AFTERNOON WITH MRS GANDHI. THIS PROBABLY ACCOUNTS FOR THE WAY IN WHICH HER OFFICE HAVE KEPT ON POSTPONING THE TIME FOR MY MEETING WITH HER. I SHALL PROBABLY HEAR MORE THIS EVENING. I TOLD THE FINANCE MINISTER THAT IF HE JUDGED IT HELPFUL I WOULD POSTPONE MY DEPARTURE FROM DELHI.

2. IN THE LIGHT OF THE PRIME MINISTER'S BRIEFING MEETING THIS AFTERNOON YOU MAY LIKE TO KNOW THAT THE FINANCE MINISTER RAISED FOUR POINTS. SHORN OF CIRCUMLOCUTION THEY WERE

(A) THE FINANCIAL PACKAGE SHOULD BE IMPROVED:

(B) THE TOTALITY OF BRITISH AID TO INDIA SHOULD BE MAINTAINED AT NOT LESS THAN £100 MILLION PER ANNUM AND SHOULD NOT ALL BE TIED

54/3

TO MAJOR PROJECTS:

(C) WE SHOULD DROP OUR INSISTENCE ON PROPORTIONALITY FOR IDA 6 AND URGE THE FRENCH, GERMANS AND JAPANESE TO DO LIKEWISE:

(D) WE MUST PROVIDE THE INDIAN GOVERNMENT WITH COMPELLING QUOTABLE REASONS (NO DOUBT SUCH AS THE ABOVE) AS A RATIONALE FOR NEGOTIATING WITH THE UK SUCH A HUGE PROJECT (US DOLLARS 1.5 BILLION) GIVEN THAT (I) SMALLER PROJECTS GO TO GLOBAL TENDERING; (II) OTHER COUNTRIES HAVE MADE SIMILAR OFFERS TO CURB; (III) THE INDIAN DOMESTIC PRODUCERS WILL SCREAM IF WE GET IT.

3. EVEN IF THE DECISION SHOULD GO OUR WAY IN PRINCIPLE I DOUBT IF MRS GANDHI WILL WANT TO DISCUSS THE THERMAL POWER PROJECT AS SUCH. THAT IS NOT HER USUAL STYLE. BUT SHE WILL PROBABLY WANT TO DISCUSS THE IDA 6 POINT RAISING IT OSTENSIBLY ON BEHALF OF ALL DEVELOPING COUNTRIES. WE SHOULD ALSO BE FULLY BRIEFED ON POINTS (A) AND (B). IF WE HAVE ANYTHING TO SAY ON THEM DURING THE COURSE OF THE VISIT I SUSPECT IT WILL BEST BE DONE BY ME TO ALEXANDER, MRS GANDHI'S PRINCIPAL SECRETARY, UNLESS OF COURSE WE CAN ACCEPT THEM FULLY AND FORMALLY IN WHICH CASE THE PRIME MINISTER MIGHT LIKE TO SAY SO TO MRS GANDHI.

4. THE SITUATION IS ON A KNIFE EDGE. I HOPE WE SHALL REFRAIN FROM ANY UNNECESSARY IRRITANTS E.G. THE POINT IN MY TELNO 303. PLEASE PASS A COPY OF THIS TO COLES AT NO.17.

THOMSON

NNNN



FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY

KENNETH BAKER MP

The Rt Hon Leon Brittan MP
Chief Secretary
HM Treasury
LONDON SW1

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212
SWITCHBOARD 01-212 7676

6401

cc PS/Secretary of State
PS/Secretary
Mr Gill
Mr Benjamin
Mr Havelock
Miss Neville-Rolfe
Ms Scrope (on file)

23 February 1982

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Prime Minister

To note

Dear Leon,

INDIA: 1000MW THERMAL POWER STATION

In his recent letter to you, John Biffen reported the present position in our negotiations with the Indians on these projects.

I was pleased to learn that you had given your immediate approval for the increase in aid. The power station projects are of the greatest industrial and commercial importance to us.

While in India last month, I called on Mr Mahajan, the Indian Minister of State for Energy, and Mr Sah, the Chairman of the National Thermal Power Corporation. They made it clear that of the many national offers they had received - from Japan, France and Germany amongst others - they were well inclined to consider the British proposals on technical grounds, subject to us providing a financial package which recognised their economic constraints.

The main power station contract is unique. As the Government of India were not prepared to choose between the alternatives, the main British power generation companies have provided for the first time ever, joint proposals embodying their individual strengths.

The projects could bring some 40,000 man-years of work to our heavy engineering industries, mostly over the next two or three years. Much of this employment will be in Northern Ireland and our Special Development Areas in Scotland and the North. If the transmission project comes to fruition, as well as the power station with its associated coalmine, the total UK content could be as high as £444 million. However, I do not think it likely that, in the event, the Indians will be prepared to release all the work on the transmission lines, the major part of which can

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India

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h.a. 25/2



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be manufactured in India. As work on the transmission lines will not start for some 18 months after the work on the station and mine, we have some time in which to influence the decision on this.

On the other hand, I believe that the auguries bode well for signature by 16 May of the power station, including the associated coalmine contract. Our agreement to maintain the proportions of assistance for the enlarged project will of course be a major factor in this.

I am copying this letter to the Prime Minister, Peter Carrington, John Biffen and Neil Marten.

Yours ever

Kenneth

KENNETH BAKER

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24 FEB 1982



From the Secretary of State

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The Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
London, SW1P 3AG

23 February 1982

Dear Leon,

INDIA: 1000 MW THERMAL POWER STATION PROJECTS

Many thanks for your most helpfully prompt reply to my letter of 16 February.

As a result our officials were able to have a constructive meeting with the Department of Economic Affairs in Delhi, and in consequence technical negotiations are being stepped up. We are entirely at one with you about the negotiations needing to have a fruitful outcome by 16 May, and indeed that has been one of our levers all along to encourage the Indians to move more quickly. In addition, of course, we are also encouraging the Indians to take negotiations as far as possible towards a firm commitment by the time of Mrs Gandhi's visit next month.

Clearly, as you recognise the projects will have an extremely important impact on our heavy engineering industries in the difficult next few years. Furthermore, this is the first instance when our power generation companies have combined forces and will help to establish them securely in the Indian and similar markets. I would not wish to prolong unnecessarily this exchange of views, but on an "opportunity cost" basis it does seem legitimate to treat Retrospective Terms Adjustment aid on a different basis to ATP and ECGD support, since we have a commitment with the government of India to approve

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From the Secretary of State

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expenditure of this aid. I understand that the lack of worthwhile opportunities is already causing embarrassment. Setting this aside, the combination of ATP and ECGD support is within the normal range. The level of support is the minimum permissible under the Consensus guidelines for cases exempt from prior notification.

Once again my sincere thanks for the great speed at which you answered my request.

I am copying this to the recipients of yours.

Yours

John Biffen

JOHN BIFFEN

CONFIDENTIAL

India BIC



file

10 DOWNING STREET

From the Private Secretary

18 February 1982

INDIA: 1000MW THERMAL POWER STATION

The Prime Minister has seen and taken note of the minute of 16 February from the Secretary of State for Trade to the Chief Secretary.

I am sending copies of this letter to Terry Mathews (Chief Secretary's Office), John Holmes (Foreign and Commonwealth Office), Michael Power (Overseas Development Administration), and Jonathan Spencer (Department of Industry).

A. J. COLES

John Rhodes, Esq.,
Department of Trade

SR



N.S.P.N.

MR 15.
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P.a.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Biffen MP
 Secretary of State
 Department of Trade
 1 Victoria Street
 London SW1H 0ET

17 February 1982

2 Jan.

will repeat if required

INDIA : 1000 MW THERMAL POWER STATION AND RELATED PROJECTS

Thank you for your letter of 16 February.

As you recognise, the overall cost of the financing terms you propose to help secure these orders is very high. A subsidy level of 55 - 61% is well above the average for ATP cases and the use of some £50 million from the ATP on this one project risks denying funds for other orders which require a more modest level of government support. In view of the importance of the business and the degree of commitment we have already entered into on the previous offer, I do not propose to stand in your way if you wish to give it overriding priority for the available ATP funds. I must make it clear, however, that I would not regard any resulting pressure on the ATP allocation as an argument for increasing the total amount allocated for ATP.

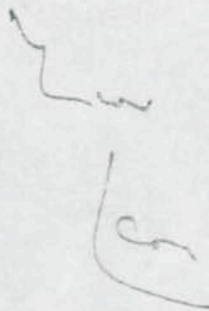
On the question of how the overall subsidy is calculated, I cannot agree that it is right to ignore the local costs support under the Retrospective Terms Adjustment (RTA) agreement with India. Although, as you imply, we are committed to allowing the Indians to use the equivalent of their loan service payments on past aid loans for local costs linked to new imports from the UK, in practice RTA payments must be accommodated within the overall ceiling for the aid programme. Thus, if in any given year RTA money is not spent on local costs in India, it is in principle available for use elsewhere in the aid programme. It is therefore incorrect to say that RTA carries no opportunity cost, although I would accept that it might be politically difficult to refuse RTA for local costs, if we won these contracts.

You also raise the possibility of spreading the real value of both the ATP and the RTA payments over a 15 year period to coincide with the repayment period for the commercial loans. I realise that you are not seeking agreement to this proposal at

this stage but I should say that this proposition will need to be considered very carefully.

On the export credit aspects, I am content with arrangements for the Section 2 limit agreed by officials in EGC, though I would note that the potential exposure involved is very high. It must be clearly understood that if either of these two very large and important projects are not secured, the export credit cover will not be automatically available for other business: in this situation the market limit will need to be further reviewed. On interest rates, there can of course be no question of holding the old Consensus rate of $7\frac{3}{4}\%$ for the steel mill, power station and coal mine if contracts are not signed by 16 May.

I am copying this to the recipients of your letter.

Handwritten signature of Leon Brittan, consisting of two stylized, cursive-like lines.

LEON BRITTAN

11 FEB 1962

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From the Secretary of State

Prime Minister

(2)

You may wish to note the developments relating to the major contract in India.

16 1/2

Chief Secretary
H M Treasury
London SW1A

16 February 1982

Dear Leon,

INDIA: 1000MW THERMAL POWER STATION
PROJECTS/EXPORT CREDIT LIMITS

You and colleagues will wish to be aware of recent developments on these related projects (with a maximum initial UK content of £444m), and the associated implications for export credit limits. Our objective is to reach agreement in principle with the Indians in time for Mrs Gandhi's visit to London in March.

We have been pursuing arduously a negotiated contract for the power station project for the past 18 months. Neil Marten agreed in principle last April that up to a maximum of £40m of ATP could be made available for the power station and the associated open cast mine. In the event only £31m was indicated in the proposals preceding the relevant Memorandum of Understanding signed during the Prime Minister's visit. In addition export credits of £210m were agreed. Neil Marten also agreed that we could express our willingness to see used aid of up to £30m towards local costs out of the existing bilateral programme, if the Indians agreed.

Following Kenneth Baker's visit to Delhi last month, it emerged that there are good prospects of the UK securing a negotiated contract for this major project, which is our current key commercial target in this important market. The industrial importance of the project rests not only on the acknowledged acute capacity pressures facing the power plant industry, but also on the fact



From the Secretary of State

that this is the first project in which we have managed to persuade the three major companies in the industry - NEI, GEC and Babcocks - to work together. 40,000 man-years of work could result for our companies.

The outstanding issues are financial. These essentially arise from a substantial increase in potential UK content resulting from the Government of India's need, given their acute domestic resource constraints, to obtain 100% offshore financing for the project at reasonably attractive overall interest rates. In consequence, the Indian Government have requested proposals entailing maximum UK content for the totality of resources required. The maximum UK content of the 2 x 500MW power station and coal mine have risen to £338m, and in addition a new project - the associated transmission line - with maximum UK content of £106m has been added. This brings the total potential UK content of £444m, compared with £210m last year. However, unless the Indians obtain proposals which involve suitable financing, the project will not go ahead. I consider that this would require us at least:-

- (a) to maintain our earlier aid and export credit offer for the power station and coal mine in respect of their increased UK content;
- (b) to offer the same relative level of export credit cover (but no ATP) for the transmission line.

Overall, these proposals would involve ATP support increasing to £51m, export credit cover increasing to £440m, and the 7 $\frac{3}{4}$ % export credit rate for the combined power station and coal mine being maintained until the deadline of 16 May. In addition there could be presentational advantage in agreeing to proposals which the Indians may put forward to increase amounts of already committed local costs aid towards the project.



From the Secretary of State

Export Credit Issues

Officials have reached agreement on the increased export credit limits for India, to cater for these projects and other demands (including increased cover for the steel plant to meet the French shortfall). They have concluded that it would be justified to increase the current limit for India (which includes principal and accrued interest) of £1.3 billion to £1.8 billion. This new limit entails a reservation of £900m for the steel plant, £650m for the power station projects (which implies a firm reservation for £390m UK content), and enables the balance of requests for cover currently on hand to be handled on a "first come first served" basis. If either of the steel plant or power station projects do not come to fruition, export credit cover available for other projects would not be increased automatically, and a further review of the market would then take place.

This would enable us to offer the Indians financing proposals for the power station projects for the maximum UK content of £444m, whilst the firm export credit reservation would be for the likely UK content of £390m. The interest rate for the power station, would be maintained at 7 $\frac{3}{4}$ % until the export credit consensus deadline of 16 May; (the coal mine would be eligible for this interest rate on the explicit basis that it formed part of the power station contract and contractual commitments would be entered into by 16 May).

ATP Aspects

The proposed increase in ATP (from the £40m previously agreed) to £51m is necessary solely in order to maintain the earlier ATP offer of 15% of the UK content, in line with increased maximum UK content of the power station and coal mine. The subsidy element for all the projects taken together is 41%; excluding the transmission line, the subsidy element is 48% - within the limits for such ATP supported projects. This is on the basis that the



From the Secretary of State

interest rates over the next 15 years would be 15%. This aid would be spread over a 5 year period. I am glad that Neil Marten has agreed in principle (subject to developmental appraisal) to increasing the aid in line with the UK content. I should be glad to have your early confirmation as well.

Other Support

It appears that the Government of India would also be interested in seeing an increased amount of already agreed local costs element from the normal bilateral programme used on these projects. Given the difficulties the Indians have had in spending the requisite amounts of such aid on projects involving UK exports, there would be a presentational advantage in demonstrating our willingness to do so. We have proposed a total of £55m, (apportioned £35m, £10m and £10m on the power station, coal mine and transmission projects respectively). I understand that Neil Marten has also agreed this in principle.

I believe your officials have requested subsidy calculations including this local costs support. Such calculations are of course of questionable value, since the absence of competing projects means that there is a zero opportunity cost; in consequence it would be very difficult to refuse an Indian request to see local costs support used on such projects. However, the arithmetical calculations give a figure of 55% for the projects taken together (61% for the power station, 63% for the coal mine, and 31% for the transmission line).

On the purely commercial side, the Banks have indicated their ability to provide the balance of resources of about £150-£200m though euro currency loans in a mixture of currencies with a 10 year duration.

Phasing of Aid Payments

In view of the Indian preoccupation with achieving a low average



From the Secretary of State

interest rate over the 15 year construction-repayment period, my officials have proposed that the same volume of aid in real terms be spread over 15 years, in line with the payment of interest on the loans, rather than over the 5 year construction period as is normally the case. This would also have the cash flow advantage from our point of view in reducing the incidence of aid over the next two years, and spreading it over a longer period.

I understand that officials are considering the implications of these suggestions but that resolution of this will take time. However, if the Indians confirm their desire to see aid so phased, we will need to come to an early decision on this issue in relation to this project.

Conclusions

My officials will need to present revised financing proposals to the Indians within the next day or two. I should therefore be grateful if you could indicate as soon as possible your agreement to the increases in aid being proposed in respect of these projects.

Copies of this letter go to John Coles (No 10) - in view of Mrs Gandhi's impending visit, and the Private Secretaries of FCO, ODA, and Industry

*Yours
John Biffen*

JOHN BIFFEN

16 FEB 1982

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