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FM DELHI 291250Z SEP

29 SEP 1982

TO IMMEDIATE DOT
TEL NUMBER OTTER 109 OF SEPTEMBER 29
RPTD FOR INFO TO FCO AND ODA.

FOLLOWING FOR BENJAMIN, PEP.

MY TWO IPTS: ORISSA STEEL.

1. MRS THATCHER DULY SUGGESTED, HALFWAY THROUGH BREAKFAST THIS MORNING, THAT WE SHOULD DISCUSS ORISSA STEEL. MRS GHANDI AGREED. THEREUPON, WITHOUT VISIBLE PROMPTING, MUKHERJEE SAID HE WOULD LIKE TO PROPOSE A WAY FORWARD. THIS TURNED OUT TO BE ALMOST EXACTLY THE PLAN ALEXANDER HAD ASKED ME TO PROMPT MRS THATCHER TO SUGGEST.

2. THE MUKHERJEE PROPOSALS DIFFERED FROM THE ALEXANDER PLAN AT (B)- (F) IN MY SECOND IPT ONLY AS FOLLOWS:

(I) HE DID NOT MENTION (D) OR (E).

(II) AS BEFITTED A FINANCE MINISTER, HE EXPANDED (F). THE BSC OFFER SHOULD BE ACCOMPANIED BY A FINANCIAL PACKAGE, WHICH (HE IMPLIED) SHOULD COVER THE FULL COST OF THE EQUIPMENT INVOLVED. THE PACKAGE WOULD NOT OF COURSE BE ALL AID. GOVERNMENTAL EXPORT CREDIT AND COMMERCIAL LENDING WOULD ALSO BE INVOLVED, AS BEFORE.

3. IN ANSWER TO A QUESTION FROM MRS GANDHI, THE PM SAID THAT SHE WELCOMED MUKHERJEE'S PROPOSALS. MRS GANDHI THEREUPON SAID THAT SHE TOO WELCOMED IT. WE SHOULD NOW PROCEED ACCORDINGLY.

4. ALEXANDER AND I WERE THEN INVITED BY THE TWO PRIME MINISTERS TO SUGGEST THE NEXT STEPS. I ASKED IF THE INDIANS WOULD LIKE THE MUKHERJEE PROPOSALS TO BE FORMALLY AGREED IN WRITING BETWEEN THE TWO GOVERNMENTS. THE ANSWER WAS YES. SO I SUGGESTED THAT I SHOULD NEGOTIATE AN APPROPRIATE EXCHANGE OF LETTERS WITH ALEXANDER SEMI COLON THEREAFTER, BSC COULD BE PUT INTO DETAILED CONTACT WITH THE INDIAN STEEL AUTHORITIES. THIS WAS AGREED.

5. IN ANSWER TO A QUESTION FROM THE PM, MRS GANDHI AND MUKHERJEE MADE CLEAR THAT, SO LONG AS THE INDIANS COULD DEAL THROUGH BSC AS THE LEADERS ON OUR SIDE, THEY WOULD REGARD IT AS ENTIRELY A MATTER FOR US TO DECIDE WHICH PARTICULAR BRITISH FIRMS WERE SLATED TO PROVIDE WHICH EQUIPMENT. THE IMPLICATION (NOT SPELLED OUT) WAS THAT DAVY COULD FEATURE IN THE LIST BUT SHOULD OPERATE THROUGH BSC AS INTERMEDIARY.

6. AT THE END OF BREAKFAST THE TWO PRIME MINISTERS DISCUSSED THE LINE TO BE TAKEN WITH THE PRESS ABOUT THE SCOPE OF THEIR DISCUSSIONS. IT WAS AGREED, INTER ALIA, THAT THE UNDERSTANDING THEY HAD REACHED ON STEEL SHOULD NOT BE REVEALED AT THIS STAGE. THE PRESS WOULD BE TOLD ONLY THAT THEY HAD NOTED WITH SATISFACTION THE AGREEMENT ON THE RIHAND POWER CONTRACT AND HAD DISCUSSED OTHER BILATERAL ECONOMIC ISSUES INCLUDING STEEL.

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SENT AT 1423 29 DL

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