

CONFIDENTIAL

From the Secretary of State

John Coles Esq  
Private Secretary  
10 Downing Street  
London SW1

Dear John,

*Prime Minister*  
*To note, pending Indian reaction to X.*

*It is not worth putting a contract of this size in, especially for £25m. It would be better to offer £20m. M*

3 March 1982 *A.J.C. 3/3*

## INDIA: ORISSA STEEL PLANT: FRENCH AID SHORTFALL

Following my letter of 11 February, I am writing to let you know that we have now received the French Government's formal response to my Secretary of State's request that they make good the shortfall on the financing originally offered by the French companies in the Davy consortium, or accept a reduction in French content.

The French have agreed to the latter option, confirming their offer of a credit mixte of FF1600 million (approximately £145m), but no longer insisting that the original French content of FF2300m (approximately £209m) remain unaffected. They have specified the items of equipment to which their offer is linked, releasing FF700 million (approximately £63m) of power plant equipment for procurement elsewhere. However, they have laid down as a condition for this offer that any soft finance package made available for the power plant contract must be confirmed as equivalent in concessional terms to the French credit mixte. While we have said in response that it is for the Indian Government to decide what would be acceptable, this condition, which has already been transmitted to Delhi, has put the Indian Government in an extremely strong position to press us to make good the French shortfall fully.

As you will recall from my previous letter the Indians are likely to see this as requiring a further £23m of grant aid. The High Commissioner's view is that to be certain of satisfying the Indians we now need to offer a further £20m. Our view after a further careful examination of the figures is that a case can be made to the Indians that a further £15m, together with export credits on the released French content, would be sufficient, because the French offer is less generous in its terms, as well as its size, than was originally understood. We would again try to persuade the Government of India to accept about half of this as RTA local cost aid from within the bilateral programme. In return we would obtain some £63m of additional UK business. I understand that such an offer could be accommodated within the existing aid programme.

It is clearly important to resolve this matter as quickly as possible, particularly with Mrs Gandhi's visit in prospect. We have therefore asked the High Commissioner to put this proposal to the Indians at the earliest opportunity. There is, however, a real risk that they may not be willing to accept that £15m is sufficient in view of

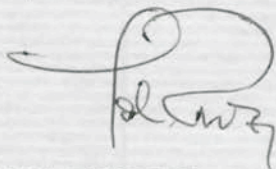




*From the Secretary of State*

their original expectations on the basis of which their decision to award the contract to the Davy consortium was taken. In that case my Secretary of State considers that we should be prepared to offer £20m, as recommended by the High Commissioner, in order to bring the matter to a conclusion.

Copies of this letter go to John Holmes (FCO), Mike Power (ODA), Peter Jenkins (Treasury) and Jonathan Spencer (Industry).

*Yours sincerely,*  


JOHN RHODES  
Private Secretary





UNITED STATES DEPARTMENT OF STATE

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WASHINGTON, D. C.

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Trade

10 DOWNING STREET

*From the Private Secretary*

4 March 1982

INDIA: ORISSA STEEL PLANT

The Prime Minister has seen your letter of 3 March. She has commented that it is not worth putting a contract of this size in jeopardy for £5 million and that it would therefore be better to offer a further £20 million of grant aid, rather than the £15 million proposed in your letter.

I am sending a copy of this letter to John Holmes (Foreign and Commonwealth Office), Mike Power (Overseas Development Administration), Peter Jenkins (HM Treasury) and Jonathan Spencer (Department of Industry).

A.J. COLES

John Rhodes, Esq.,  
Department of Trade.

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Trade (2)  
Prime Minister

A.S.C. 11/3

Treasury Chambers, Parliament Street, SW1P 3AG

J Rhodes Esq Private Secretary to  
Rt Hon John Biffen MP  
Secretary of State  
Department of Trade  
1 Victoria Street  
London SW1H 0ET

*[Handwritten scribble]*

11 March 1982

A.S.C. 12/3

*[Handwritten initials]*

Dear John,

INDIA: ORISSA STEEL PLANT

The Chief Secretary has seen your letter of 3 March to John Coles and his reply of 4 March.

The Chief Secretary was surprised to see that a further £15m had been offered - £5m more than previously agreed - without consultation with the Treasury. The Treasury stands ready to act very swiftly in such cases and he hopes that the proper procedures will be followed in future.

On the substance of the matter the Chief Secretary accepts that we should not put the project in jeopardy, particularly since the changes made by the French make an additional £63m worth of business available for UK procurement. He understands that your Department and the ODA are confident that the provisos in my letter of 25 February can be met, and on that basis he agrees to a further aid grant of up to £20m as proposed.

I am copying this letter to the recipients of yours.

Yours sincerely  
Terry Mathews

T F MATHEWS  
Private Secretary