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From the
Minister for Trade

Mr A J Coles
PS/Prime Minister
10 Downing Street
Whitehall
London SW1

Prime Minister
There is a letter from
Sir John Buckley
in his folder.

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

AKL

14v

14 May 1982

Dear John,

ORISSA STEEL PLANT

Delhi tel no. 210 alt' d. - and 213.

Copies of recent telegrams from New Delhi on this subject will have reached you at No 10 but my Minister asked me to write to you with his own comments on the way events have unfolded.

Mr Rees has been keeping in close touch with the situation and has explored with officials here what, if any, action should be taken to deal with the situation.

The Minister has asked Sir John Buckley (the Chairman of Davy) to see him on Monday in order to get a firsthand report from him and to explore how best to secure for the UK a substantial part in whatever form the Indians now decide the project should take.

The judgment we form here is that the Indians have only now realised the consequences of maintaining the turn-key approach to a project which has been substantially altered from the original conception upon which the Letter of Intent was based. Not only has the location of the steel plant been moved at a very late stage in the negotiations but also the specifications for the project have undergone extensive modification. Doubtless the Indians hoped that they might still have the benefit of the old price with the new concept but that would have been an impossible position for Davy despite the crucial importance to them of the project and the substantial sums they have already spent on it. The important thing now as we see it is to avoid recriminations and instead to work actively to see what role we can secure for Davy and the other UK companies in whatever now goes forward. Indian officials have already indicated that they do not rule out the possibility of substantial equipment supply from the UK. In all of this we shall have to have careful regard to what is said to the press.



In short what has occurred looks for the moment as being by no means the end of the story and we must do all we can to avoid any precipitate action which might make it the end of the story so far as the UK is concerned. It is possible that we shall want to suggest some personal communications between the Prime Minister and Mrs Gandhi as one of the means of achieving this objective.

I am sending copies of this letter to PS/Mr Hurd, FCO, PS/Mr Marten, ODA, PS/SOS, DOI and PS/Ch Secretary (Treasury).

Yours ever,

Nick McInnes

N McINNES
Private Secretary to the
Minister for Trade (PETER REES)

14 MAY 1962

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TRADE
e. DOT
CS (Hunt)
FCO - Hurd
OBA - Marten

10 DOWNING STREET

From the Principal Private Secretary

17 May 1982

ORISSA STEEL PLANT

You wrote to John Coles on 14 May 1982 about the Orissa Steel Plant.

We have shown your letter to the Prime Minister, and she has taken note of the present situation.

I have of course already written to you seeking your advice on a reply for the Prime Minister to send to a letter which Sir John Buckley sent her last Friday about the project.

I am sending copies of this letter to the recipients of yours.

C. A. WHITMORE

N. McInnes, Esq.,
Department of Trade.

HL

NO DISTRIBUTION

K129

DWF G 48/14

LUK 466/14

OO FCO (DOT) (DESKBY 141100Z)

OO FCO

OO NUMBER TEN

GRS 488

CONFIDENTIAL

DESKBY 141100Z

FM DELHI 140843Z MAY 82

TO IMMEDIATE DOT

TELEGRAM NUMBER CREDA 210 OF 14 MAY

INFO IMMEDIATE FCO, NUMBER TEN

MY CREDA 207: ORISSA STEEL PLANT

1. GHOSH YESTERDAY HANDED OVER TO RAPER A FORMAL LETTER TERMINATING THE NEGOTIATIONS FOR A FIXED PRICE TURNKEY CONTRACT. RAPER SHOWED ME THE LETTER BUT DID NOT LEAVE A COPY. IT CLAIMS THAT THE PROPOSAL OF 9 MAY (FOR MECON TO DO THE ONSHORE WORK) REPRESENTED A UNILATERAL DEPARTURE BY DAVY FROM THE FIXED PRICE TURNKEY CONCEPT: THE LETTER OF INTENT OF SEPTEMBER 1981 AND THE MOU OF FEBRUARY 1982 ARE THEREFORE "REVOKED AND RESCINDED".

2. ALTHOUGH IT PUTS THE ONUS FOR THE BREAKDOWN ON DAVY, THE LETTER DOES NOT MENTION THE PRICE ESCALATION AND DOES NOT THEREFORE EXCLUDE THE POSSIBILITY OF SUBSTANTIAL SUPPLY OF EQUIPMENT BY DAVY OR OTHER BRITISH FIRMS (GHOSH MENTIONED TO RAPER, AS GILL HAD TO ME, THE SINTER PLANT AND BLAST FURNACE AND POWER PLANT). I AGREED WITH RAPER THAT OUR TACTICS SHOULD BE TO USE THE ATTRACTIONS OF THE FINANCING PACKAGE (PARTICULARLY THE EUROCURRENCY LOAN SINCE WE CANNOT BE SURE OF THE SIZE OF AID) AS A LEVER FOR EARLY DECISIONS

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TRED

10 Downing St.

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DOT/CRIZ]

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CANNOT BE SURE OF THE SIZE OF AID) AS A LEVER FOR EARLY DECISIONS ON SOURCES OF SUPPLY FOR THE STEEL PLANT. BENJAMIN AND BEETHAM HAVE URGED THE DEA TO PURSUE THIS ARGUMENT WITH THE STEEL MINISTRY.

3. I DISCUSSED WITH RAPER, BENJAMIN AND LAZARDS THE QUESTION OF PUBLICITY. IT WAS CLEAR TO ME THAT THERE WAS ALREADY A GOOD DEAL OF PUBLICITY AND THAT MORE WAS INEVITABLE. WE SHOULD DO BEST TO AGREE A JOINT LINE WITH THE GOVERNMENT OF INDIA. LAZARDS STRESSED THE IMPORTANCE FOR THE MAINTENANCE OF THE FINANCIAL PACKAGE OF AVOIDING ALARMIST SPECULATION AND OF REASSURING THE BANKS INVOLVED IN THE EUROLOAN. RAPER WAS CLEAR THAT FOR THE TIME BEING AT ANY RATE DAVYS WOULD STICK TO A 'NO COMMENT' POSITION.

4. BENJAMIN AND I CALLED ON GILL THIS MORNING. WE AGREED THAT THE PRESS QUESTIONING WAS BECOMING INSISTENT AND UNAVOIDABLE. WE ALSO AGREED ON THE NEED FOR A LINE WHICH WOULD DO SOMETHING TO REASSURE THE BANKS. IN THE ABSENCE OF HIS MINISTERS HE WAS UNABLE TO AGREE TO AN OFFICIAL JOINT STATEMENT. WE AGREED HOWEVER THAT BOTH SIDES WOULD USE THE LINE CONTAINED IN MY IFT, AND THAT WE WOULD DO OUR BEST NOT TO GO BEYOND IT. HOWEVER SENIOR JOURNALISTS WHO WERE INSISTENT WOULD BE GIVEN A LITTLE MORE BUT ONLY BY SENIOR OFFICERS IN THE MINISTRY OF STEEL OR IN THIS MISSION. TO THE EXTENT NECESSARY WE WILL TAKE THE LINE (NOT AGREED WITH THE INDIANS IN DETAIL) IN MY SECOND IFT.

5. GILL UNDERTOOK TO SEND THE AGREED LINE TO THE INDIAN HIGH COMMISSION IN LONDON. HE ALSO AGREED THAT LAZARDS SHOULD BE AUTHORISED TO TELL THE BANKS THAT THE AGREED LINE HAD HIS PERSONAL APPROVAL.

FCO PLEASE PASS TO NUMBER TEN DOWNING STREET

THOMSON

NNNN

ADVANCE COPY

IMMEDIATE

DWF G 66/14

LMLUK 478/14

OO FCO (DOT) (DESKBY 141200Z)

OO FCO

OO NO 10

OO FCO (ODA)

GRS 560

CONFIDENTIAL

DESKBY 141200Z

FM DELHI 140953Z MAY 82

TO IMMEDIATE DOT

TELEGRAM NUMBER CREDA 213 OF 14 MAY
INFO IMMEDIATE FCO, NO 10, ODA

MY CREDA 207: ORISSA STEEL PLANT

1. IT IS DISAPPOINTING THAT WE HAVE NOT GOT THE STEEL PLANT CONTRACT ON THE LINES ENVISAGED ESPECIALLY GIVEN ALL THE EFFORT THAT WE PUT INTO IT LAST SUMMER AND SUBSEQUENTLY. IT IS PLAIN THAT THIS RESULT IS NOT DUE TO A LACK OF GOOD WILL ON THE INDIAN SIDE. THEY CLAIM (AND ON THE WHOLE I BELIEVE THEM) THAT THEY WOULD HAVE BEEN READY TO NEGOTIATE ADJUSTMENTS BOTH IN THE TURNKEY CONCEPT AND IN THE PRICE HAD THEY BEEN AWARE EVEN AS LATE AS FEBRUARY OR MARCH OF DAVY'S REAL POSITION. THEY SAY THAT WHEN THIS WAS DISCLOSED TO THEM ON 20 APRIL IT CAME AS A BOMBSHELL. THERE WAS NOT SUFFICIENT TIME TO ABSORB IT, NEGOTIATE IN A TENSE POSITION AND OBTAIN CABINET APPROVAL FOR A REVISED CONCEPT. SINCE THERE IS STILL A GREAT DEAL TO PLAY FOR IT IS IMPORTANT TO AVOID RECRIMINATIONS.

2. I BELIEVE THAT WE CAN STILL OBTAIN A GOOD OUTCOME FOR BRITISH

~~R/ No 10 Downing St (2)~~
 HQ, JAH.
 HQ 1RED.
 ODA.
 (4)
 (DOT(CRE)).

2. I BELIEVE THAT WE CAN STILL OBTAIN A GOOD OUTCOME FOR BRITISH INDUSTRY AND BANKING PROVIDED WE PLAY OUR HAND SKILFULLY AND WITH DUE CONSIDERATION FOR THE INDIAN PERSONALITIES AND POLITICS INVOLVED. IN MY VIEW THE ESSENCE OF OUR STRATEGY SHOULD BE TO GET THE GOI TO MAKE PROPOSALS AND THAT WE SHOULD THEN TELL THEM TO WHAT EXTENT WE WOULD BE PREPARED TO ASSIST IN FINANCING THEM. IN THIS WAY I HOPE TO REVERSE THE POSITION HITHERTO AND PUT THE INDIANS IN THE POSITION OF DEMANDEUR.

3. BENJAMIN AND I BEGAN THIS PROCESS WHEN WE SAW GILL THIS MORNING. I SAID THAT FOLLOWING THE INDIAN LETTER TO DAVY OF YESTERDAY ALL GOVERNMENT BETS WERE OFF IE THERE WAS AT THE MOMENT NO BRITISH AID MONEY ON THE TABLE. WHAT WE PUT FORWARD IF ANYTHING WOULD DEPEND ON WHAT THE INDIANS OFFERED US. I SAID THAT THE VERY FAVOURABLE FINANCIAL PACKAGE NEGOTIATED BY LAZARDS WAS LINKED SPECIFICALLY TO THE STEEL PROJECT AND WAS DUE TO EXPIRE ON 21 MAY. HOWEVER I WAS ASKING LAZARDS TO USE THEIR BEST ENDEAVOURS TO EXTEND THIS TO 29 OR 30 MAY (I HAPPEN TO KNOW THAT LAZARDS HAVE ALREADY GOT THIS AUTHORITY FROM THE OTHER BANKS). IN ORDER TO MAKE USE OF THIS SHORT SPACE OF TIME I PROPOSED THAT WE SHOULD AGREE ON THE FOLLOWING TIMETABLE:

18 MAY: GILL SHOULD GIVE ME GOVERNMENT OF INDIA PROPOSALS:

19 AND 20 MAY: THESE WOULD BE DISCUSSED BETWEEN US AND REPORTED TO LONDON:

21 TO 24 MAY: THE UPSHOT WOULD BE CONSIDERED IN LONDON AND IF NECESSARY IN OTHER CAPITALS:

25 MAY: THE DISCUSSION WOULD BE RESUMED IN DELHI ON THE BASIS OF UPDATED INSTRUCTIONS:

26 MAY: WE SHOULD REACH AGREEMENT AD REFERENDUM:

27 AND 28 MAY: THE GOVERNMENTS INVOLVED SHOULD CONSIDER AND RATIFY THE AGREEMENT:

29 MAY: SIGNATURE OF THE CONTRACT AND THE MANDATE TO THE BANKS.

4. GILL AGREED THAT WE MUST HAVE A TIMETABLE, AND AT FIRST HEARING THIS WAS AN ACCEPTABLE BASIS ON WHICH TO WORK BUT HE WOULD HAVE TO CONSULT WITH HIS COLLEAGUES ESPECIALLY FROM THE DEPARTMENT OF ECONOMIC AFFAIRS. HE WOULD GIVE ME HIS ANSWER TOMORROW.

OF ECONOMIC AFFAIRS. HE WOULD GIVE ME HIS ANSWER TOMORROW.

5. WE THEN WENT ON TO AGREE THE RESPONSE TO PRESS QUERIES IN MY TEL NO CRED A 211. WE HAD SOME DIFFICULTY IN RETAINING THE NAME OF DAVY IN THE FUTURE SCENARIO.

6. THE NEGOTIATION PROPOSED MAY BE VERY DIFFICULT BUT WITH GOOD WILL ON BOTH SIDES I BELIEVE THERE IS A REASONABLE CHANCE OF SUCCESS. I AM DISCUSSING WITH BENJAMIN THE MECHANICS OF THIS TRICKY OPERATION. HE IS RETURNING TO LONDON TONIGHT AND WILL BE AVAILABLE FOR CONSULTATION TOMORROW. ONE OF THE POINTS ON WHICH HE WILL HAVE MY VIEWS CONCERNS THE RESPECTIVE ROLES OF THE VARIOUS PARTICIPANTS ON THE BRITISH SIDE.

FCO PLEASE PASS TO NO 10 DOWNING STREET

THOMSON

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