

LUK NR 323/18

OO FCO (DOT)

OO FCO

OO FCO (ODA)

OO NUMBER TEN

P.O.

GRS 730

CONFIDENTIAL

FROM DELHI 180430Z JUN

TO IMMEDIATE DOT

TELEGRAM NUMBER CRED A 291 OF 17 JUNE

INFO IMMEDIATE FCO, ODA, NUMBER TEN

FOLLOWING FOR BENJAMIN (PEP)

ORISSA STEEL PLANT

1. I CALLED THIS AFTER NOON ON ALEXANDER (MRS GANDHI'S PRINCIPAL SECRETARY) TO UNDERLINE THE PRIME MINISTER'S PERSONAL INTEREST IN PRODUCING THE BEST RESULT POSSIBLE IN OUR TWO GOVERNMENT'S MUTUAL INTERESTS FROM THE WRECK OF THE STEEL PLANT NEGOTIATIONS. ALEXANDER RESPONDED FRANKLY AND ON THE WHOLE FAVOURABLY.

2. ALEXANDER SAID THAT HE HAD ONLY BEEN BROUGHT INTO THE DETAILED DISCUSSIONS OVER THE STEEL PLANT BECAUSE OF MRS GANDHI'S PERSONAL WISH TO RESCUE AS MUCH AS POSSIBLE FROM THE WRECK. SHE WAS AWARE OF THE PRIME MINISTER'S SPECIAL CONCERN. SHE HAD BEEN MOST IMPRESSED BY THE TONE OF THEIR MEETING IN LONDON IN MARCH AND BY THE RESULTS ACHIEVED. THIS LED ALEXANDER TO PRAISE THE PRIME MINISTER'S HANDLING OF THE FALKLANDS CRISIS AND TO OFFER HIS WARM CONGRATULATIONS ON OUR 'WIN'. HE SAID THAT IN PUBLIC THE GOVERNMENT OF INDIA'S PLEASURE WOULD BE MUTED BECAUSE OF THEIR MEMBERSHIP OF THE NON-ALIGNED MOVEMENT. I TOOK THE OPPORTUNITY TO TELL HIM OF MY CONVERSATION WITH NARASIMHA RAO, (MY TELNO 542), TO REAS HIM THE WORST PASSAGE IN THE NON-ALIGNED COMMUNIQUE, TO HAND HIM RAMPHAL'S STATEMENT OF 15 JUNE AND TO URGE THAT IT WAS IN INDIA'S INTERESTS TO PUT IN A RESERVATION. HE TOOK NOTE OF ALL THIS BUT I IMAGINED WILL LEAVE IT TO NARASIMHA RAO, WHOSE POLITICAL ADROITNESS HE PRAISED.

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3. WE THEN WENT BACK TO STEEL AND ALEXANDER ASKED ME ABOUT A PIECE ON THE ORISSA STEEL PLANT WHICH HAD APPEARED PROMINENTLY IN THIS MORNING'S ECONOMIC TIMES UNDER THE HEADLINE "UK OFFERS ASSISTANCE ON REVISED COST BASIS" (TEXT, NOT TO ALL, IN MY IFT). I TOLD HIM THAT THE REPORT THAT I HAD MADE A NEW BRITISH OFFER TO THE MINISTER OF STEEL HAD NOT COME FROM ME AND WAS WIDE OF THE MARK. I HAD TOLD THE MINISTER OF STEEL THAT IF THE INDIANS WOULD TELL US WHAT THEY WANTED WE WOULD PRODUCE THE BEST FINANCING OFFER WE COULD. I ASKED ALEXANDER WHETHER HE THOUGHT THIS WAS THE RIGHT WAY TO PROCEED. HE DID AND SAID THAT THE INDIAN CABINET WOULD TAKE TWO PAPERS IN THE WEEK BEGINNING 26 JUNE: ONE DEALING WITH THE ORISSA STEEL PLANT AND THE OTHER WITH THE VIJAYANAGAR STEEL PLANT. THE FORMER WOULD SUGGEST THAT USE SHOULD BE MADE OF WHAT HAD BEEN ACHIEVED DURING THE ABORTIVE NEGOTIATIONS TO MOVE FORWARD RAPIDLY. IF APPROVED, AN INDIAN TEAM WOULD COME TO LONDON TO NEGOTIATE WITH "THE UK". THE SECOND PAPER WOULD PROPOSE THAT EARLY PROGRESS SHOULD BE MADE WITH SETTING UP A SECOND STEEL PLANT AT VIJAYANAGAR. ALEXANDER COMMENTED THAT THIS WAS BAD ECONOMICS BUT GOOD POLITICS. (VIJAYANAGAR IS IN KARNATAKA WHERE AN IMPORTANT STATE ELECTION WILL TAKE PLACE IN THE NEXT FEW MONTHS). THERE WOULD BE IMPORTANT BUSINESS FOR "THE UK" WHERE IT WAS COMPETITIVE IN THE VIJAYANAGAR PLANT AS WELL AS IN THE ORISSA PLANT.

4. IN REPLY TO MY COMMENTS AND QUESTIONS ALEXANDER GAVE ME THE FOLLOWING CLARIFICATIONS:

(A) THE INDIANS HAD ALREADY DECIDED ON THE BASIS OF THE PRECEDING NEGOTIATIONS WHICH PIECES OF EQUIPMENT THEY WANTED FROM WHICH SUPPLIERS. HE MENTIONED FOR EXAMPLE THE DAVY SINTER PLANT AND THE GEC POWER PLANT. BUT THIS WAS MEANT TO BE ILLUSTRATIVE AND PROBABLY ALSO COVERS THE DAVY BLAST FURNACES AND RAW MATERIALS HANDLING EQUIPMENT WHICH HE HAS PREVIOUSLY MENTIONED TO ME.

(B) ON SUCH ITEMS THE INDIANS WOULD NOT BE GOING IN FOR COMPETITIVE TENDERING PROVIDED THEY COULD GET DECENT TERMS FROM THE SUPPLIERS OF THEIR CHOICE. HE LEFT ME WITH THE IMPRESSION THAT ON SOME OTHER ITEMS THERE WOULD BE INTERNATIONAL TENDERING.

(C) THE INDIANS HAD DROPPED THE IDEA OF A TURN-KEY APPROACH AND WOULD ENTRUST THE PROJECT MANAGEMENT TO TWO NEW INDIAN COMPANIES TO

RUN THE TWO NEW STEEL PLANTS. THEY WERE ALREADY LOOKING FOR A CHAIRMAN FOR THE ORISSA ONE.

(D) HE WAS CONFIDENT THAT THE DECISION WOULD BE TAKEN ALONG THE LINES HE HAD OUTLINED BY THE END OF THIS MONTH.

5. ALEXANDER IS A CAUTIOUS MAN AND HE WOULD NOT HAVE TOLD ME THE FOREGOING UNLESS HE KNEW THAT IT WAS BROADLY ACCEPTABLE TO MRS GANDHI. NEVERTHELESS THINGS IN INDIA HAVE A HABIT OF SLIPPING (MRS GANDHI LAID THE FOUNDATION STONE FOR THE VIJAYANAGAR PLANT ABOUT TEN YEARS AGO) AND IT WOULD BE IMPRUDENT TO COUNT ON BOTH PAPERS RECEIVING CABINET APPROVAL BY THE END OF THE MONTH. IT IS VERY IMPORTANT THAT NO HINT OF WHAT ALEXANDER SAID SHOULD GET OUT SINCE THERE ARE PLENTY OF OUR COMPETITORS WHO WILL BE KEEN TO THROW SPANNERS INTO THE WORKS. I REFERRED SEVERAL TIMES TO DAVYS BUT IT WAS NOTICEABLE THAT ALEXANDER INVARIABLY SPOKE OF "THE UK". I AM NOT CLEAR WHAT ROLE, IF ANY, BEYOND THAT OF A SUPPLIER IS SEEN FOR DAVYS. YOU WILL KNOW BEST HOW TO HANDLE THE SITUATION IN LONDON BUT I BELIEVE THAT WE SHOULD BE EXTREMELY CAUTIOUS IN ANYTHING THAT WE SAY TO DAVYS AT THIS STAGE. IF THE UK GETS REALLY SUBSTANTIAL ORDERS OUT OF ALL THIS IT WILL BE LARGELY DUE TO THE GOOD RELATIONSHIP BETWEEN THE TWO PRIME MINISTERS AND TO OUR ACTION IN RELATIONS TO IDA 6.

THOMSON

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