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FM DELHI 230615Z JUN 82
TO PRIORITY DOT
TELEGRAM NUMBER CREDA 299 OF 22 JUNE
INFO PRIORITY FCO, ODA, NUMBER TEN

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FOLLOWING FOR BENJAMIN, PEP

MY CREDA 291: STEEL PLANTS

1. I HAD SEPARATE MEETINGS TODAY WITH THE SECRETARY STEEL (GILL) AND THE MINISTER OF FINANCE (MUKHERJEE). THE UPSHOT IS AS FOLLOWS:

(A) TWO PAPERS ARE READY FOR THE CABINET ON THE DAITARI AND VIJAYANAGAR STEEL PLANTS RESPECTIVELY AND ARE LIKELY TO BE TAKEN ON 29 OR 30 JUNE.

(B) THE FINANCE MINISTER WILL HOLD A PRIOR MEETING WITH THE STEEL AND PLANNING MINISTERS TO PREPARE THE WAY. (MY IMPRESSION IS THAT THE FINANCE MINISTER HAS ALREADY SPOKEN WITH THE PRIME MINISTER AND WILL NOT ENCOUNTER SERIOUS DIFFICULTIES.)

(C) THE PAPER ON THE ORISSA STEEL PLANT PUTS OPTIONS BEFORE MINISTERS, PRESUMABLY INCLUDING INTERNATIONAL TENDERING. THE FINANCE MINISTER HOWEVER WILL ARGUE FOR THE OPTION WHICH PROPOSES A NEGOTIATION WITH THE UK ON THE BASIS OF MAKING USE OF AS MUCH OF THE PREVIOUS NEGOTIATIONS AS POSSIBLE.

(D) IF AND WHEN HE IS SUCCESSFUL THE INDIANS WILL WELCOME A SUGGESTION FROM HMG TO SEND A COMPOSITE TEAM INCLUDING TECHNICAL-FINANCIAL/LEGAL EXPERTS TO VISIT LONDON IN JULY WITH THE PRIMARY OBJECT OF ESTABLISHING WHICH PARTS OF THE PREVIOUS NEGOTIATION CAN BE ASSUMED TO REQUIRE NO FURTHER DETAILED NEGOTIATION. THE FINANCE MINISTER THOUGHT THAT A CONSIDERABLE NUMBER OF PACKAGES WOULD BE FOUND TO HAVE BEEN SUBSTANTIALLY AGREED. THE REMAINING PACKAGES WOULD BE THE SUBJECT OF DETAILED NEGOTIATIONS IN THE COMING MONTHS. THE BRITISH WOULD ALSO BE ASKED TO PROVIDE CONSULTANCY SERVICES AND KNOWHOW GOING BEYOND WHAT MECON COULD MANAGE.

(E) AS REGARDS PRICE, THE FINANCE MINISTER HOPED THAT THE BRITISH QUOTATIONS WOULD BE AT "PAR". HE WOULD FACE POLITICAL DIFFICULTIES IN JUSTIFYING A DEAL WITH THE BRITISH AFTER THE FAILURE OF THE PREVIOUS NEGOTIATIONS UNLESS HE COULD ARGUE THAT THE PRICES WERE IN LINE WITH INTERNATIONAL TENDERING AND IN ACCORDANCE WITH THE INDIAN EXPERIENCE OF PURCHASING EQUIPMENT FOR OTHER STEEL PLANTS, NOTABLY VISHAKHAPATNAM. THE FIXED PRICE CONCEPT HAD SCUPPERED THE PREVIOUS DEAL. IN PUTTING FORWARD PRICES FOR THE NEW DEAL WE SHOULD BUILD IN FLEXIBILITY IN THE FORM OF ESCALATION CLAUSES, ETC.

(F) THE FINANCE MINISTER LEFT ME WITH THE IMPRESSION THAT HE WAS AIMING FOR THE SAME PLANT AS FORMERLY, BUT WITH A MORE FLEXIBLE PRICE STRUCTURE, NO BINDING REQUIREMENT FOR CONSTRUCTION IN 45 MONTHS AND INDIAN MANAGEMENT, INCLUDING PROVISION OF THE ONSHORE FACILITIES.

(G) FINANCING WOULD BE ON THE LINES PREVIOUSLY DISCUSSED. IN MAKING THEIR LOAN TO INDIA THE IMF HAD EXPLICITLY TAKEN INTO ACCOUNT THE BORROWING WHICH WOULD BE REQUIRED FOR THE ORISSA STEEL PLANT. NEITHER GILL NOR MUKHERJEE MADE ANY EXPLICIT REFERENCE TO AID BUT THIS WILL PRESUMABLY BE AN IMPORTANT POINT IN THE NEGOTIATIONS.

(H) THE FINANCE MINISTER SAID THAT THE VIJAYANAGAR PLANT WOULD ALSO BE FINANCED THROUGH EUROLOANS (HIS PERMANENT SECRETARY, WHO IS ABOUT TO BE POSTED AS INDIAN REPRESENTATIVE TO THE WORLD BANK, HAS TOLD ME HE DOES NOT LIKE THIS IDEA). THE FINANCE MINISTER EXPECTS THE VIJAYANAGAR PROJECT TO COME BEHIND THE ORISSA ONE BECAUSE HE WILL FIRST HAVE TO GET AUTHORITY FROM THE CABINET TO SPEND THE MONEY WHEREAS THIS ALREADY EXISTS FOR THE ORISSA ONE, AND THEN WILL HAVE TO CLEAR IT WITH THE IMF. THE INVESTMENT WILL BE SMALLER THAN FOR THE ORISSA PLANT AND THE TECHNICAL ROUTE WILL BE DIFFERENT. FOR VIJAYANAGAR THE INTENTION IS TO HAVE DIRECT REDUCTION BY THE ELECTRIC ARC PROCESS.

(I) HOWEVER, THE NEGOTIATING PROCEDURE COULD BE THE SAME FOR BOTH PLANTS. WHILE STATING THIS THE FINANCE MINISTER WAS UNWILLING TO COMMIT HIMSELF TO NEGOTIATING SOLELY WITH THE UK. GILL ALSO AVOIDED SUCH A COMMITMENT BUT SPOKE FAVOURABLY OF DISCUSSIONS HE HAD HAD

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WITH BABCOCKS. HE LIKED THEIR REPRESENTATIVES AND THE FLEXIBLE APPROACH THEY HAD ADOPTED. THEY HAD SHOWN THEMSELVES WILLING TO BE CONSULTANTS, ENGINEER CONSTRUCTORS OR SOMETHING MORE. HE BELIEVED THEY HAD ACCESS TO THE RIGHT TECHNOLOGY. ALL THIS SOUNDS HOPEFUL FOR BRITAIN, BUT THERE WAS NO COMMITMENT.

(J) BOTH GILL AND MUKHERJEE SAID THEY STRONGLY AGREED WITH MY VIEW THAT NEITHER THE BRITISH NOR THE INDIAN SIDE SHOULD COME FORWARD WITH CUT AND DRIED PROPOSALS. THE INDIANS SHOULD SAY WHAT THEY HAVE IN MIND AND THE BRITISH SHOULD RESPOND AS FAVOURABLY AS THEY CAN. THE OBJECT WOULD BE TO RETAIN FLEXIBILITY ON BOTH SIDES WHILE WORKING OUT A NEGOTIATED AGREEMENT. THUS THERE WOULD BE NO PROPOSALS TO BE ACCEPTED OR REJECTED UNTIL IT WAS KNOWN THAT AGREEMENT HAD EFFECTIVELY BEEN REACHED.

(K) BOTH OF THEM WANTED HMG TO TAKE A LEADING PART IN THE NEGOTIATIONS. THEY LIKED THE IDEA OF PEP COORDINATING AND LEADING THE UK SIDE.

(L) GILL SAID THAT HE WOULD LIKE TO HAVE ONE MORE MEETING WITH ME BEFORE I LEFT. THIS INDICATES A MEETING ON 28 OR 29 JUNE.

2. THE FINANCE MINISTER SPOKE WARMLY ABOUT THE BRITISH PERFORMANCE AT THE AID INDIA CONSORTIUM. HIS PERMANENT SECRETARY REPORTED THAT IT HAD HAD A SIGNIFICANT EFFECT ON SEVERAL OTHER DELEGATIONS. OUR ARGUMENTS IN FAVOUR OF INDIA IN VARIOUS INTERNATIONAL FINANCIAL FORA, ESPECIALLY OVER IDA 6 HAD BEEN NOTED AND APPRECIATED. HE EXPRESSED HIS THANKS TO HMG.

3. AS A RESULT OF THESE CONVERSATIONS I AM REASONABLY SATISFIED THAT WE SHALL HAVE A SECOND OPPORTUNITY TO GET THE ORISSA PLANT AND MAY ALSO GET THE SECOND STEEL PLANT AT VIJAYANAGAR, OR AT ANY RATE THE LION'S SHARE OF THE EQUIPMENT FOR BOTH. BUT WE MUST NOT COUNT OUR CHICKENS BEFORE THEY ARE HATCHED. THERE IS FIRST THE MEETING OF THE INDIAN CABINET NEXT WEEK AND THEN SOME VERY DELICATE NEGOTIATIONS WHICH WILL ALTERNATE BETWEEN LONDON AND DELHI BUT WHICH SHOULD PREFERABLY BEGIN IN LONDON. IT WILL BE IMPORTANT TO MOVE AS QUICKLY AS WE CAN AND I BELIEVE THE FINANCE MINISTER AND THE STEEL MINISTER WILL BE WITH US ON THIS. I HINTED TO THE FORMER THAT THE POLITICAL EFFECT OF THE VIJAYANAGAR PLANT ON THE FORTHCOMING KARNATAKA ELECTIONS MIGHT BE LOST IF IT COULD NOT BE SHOWN THAT ACTION WAS TAKING PLACE ON THE ORISSA PLANT. OTHERWISE THE OPPOSITION MIGHT ARGUE THAT IT WAS ALL AN ELECTORAL GIMMICK AND THAT NOTHING IN PRACTICE WOULD HAPPEN AFTER THE ELECTIONS. HE INDICATED THAT HE APPRECIATED THE POINT. BUT MORE IMPORTANT THAN SPEED WILL BE THE ADROITNESS WITH WHICH WE MANAGE THE NEGOTIATIONS. IT WOULD BE FOOLISH TO IGNORE THE CLEAR INDIAN PREFERENCE FOR HMG TO COORDINATE AND MANAGE THE UK SIDE. THIS POINTS TO PEP TAKING THE LEAD. GILL ASKED ME TO SAY THAT "UNORTHODOX" WAYS OF PROCEEDING WERE NOT WELCOME TO THE MINISTRY OF STEEL AND WOULD TEND TO CAUSE DELAYS AND MISUNDERSTANDINGS. IF THE INDIAN CABINET DECISION IS AS FORESHADOWED BY THE MINISTER OF FINANCE I RECOMMEND THAT WE SHOULD BE AS FLEXIBLE AS POSSIBLE IN FALLING IN WITH THEIR PREFERRED WAYS OF WORKING AND THAT WE SHOULD BE READY TO RECEIVE AN INDIAN TEAM IN LONDON IN JULY.

4. I HAVE BEEN CONSIDERING WHETHER A PERSONAL MESSAGE FROM THE PRIME MINISTER TO MRS GANDHI WOULD BE USEFUL BUT I CONTINUE TO ADVISE THAT WE SHOULD HOLD THIS IN RESERVE. I DO NOT SEE AN EARLY OCCASION FOR ONE AT LEAST SO LONG AS THINGS ARE GOING OUR WAY.

FCO PSE PASS TO NUMBER TEN.

THOMSON

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