

GRS 1600  
SECRET  
DESKBY 261500Z  
FM DELHI 261413Z AUG 82  
TO IMMEDIATE DOT  
TELEGRAM NUMBER OTTER 025 OF 26 AUGUST  
INFO IMMEDIATE FCO, ODA

SECRET

Prime Minister

Trade

LM  
22/8

Yes  
not

FOLLOWING FOR BENJAMIN, PEP

YOUR TELNOS OTTER 50 TO 53

STEEL

1. I CALLED ON FINANCE MINISTER MUKHERJEE THIS AFTERNOON AND ASKED FOR HIS ADVICE ABOUT HOW WE SHOULD NOW PROCEED ON THE STEEL FRONT. WITHOUT ANY FURTHER PROMPTING, HE REPLIED IN THE FOLLOWING REMARKABLE TERMS:

(A) HAVING BEEN PERSONALLY INVOLVED IN THE DAVY/ORISSA PLAN SINCE HIS TIME AS STEEL MINISTER, AND HAVING PARTICULARLY WELCOMED 'MRS THATCHER'S CRUCIAL LETTER TO MRS GANDHI', FROM WHICH SO MUCH HAD FLOWED, HE HAD MUCH REGRETTED THE SUDDEN COLLAPSE IN MID-MAY OF THE NEGOTIATIONS BETWEEN DAVY AND THE INDIAN STEEL AUTHORITIES. THE LATTER, IN HIS VIEW, HAD NOT BEHAVED WELL: THEY HAD CHANGED BOTH THE SITE AND IMPORTANT ELEMENTS OF THE SPECIFICATION AT THE LAST MOMENT, WITHOUT PROPERLY ALLOWING FOR THE EFFECT THAT SUCH CHANGES WERE BOUND TO HAVE BOTH ON THE PRICE AND ON THE TIME-FRAME THAT DAVY COULD OFFER.

(B) THE CURRENTLY VALID INDIAN CABINET DECISION, TAKEN IN THE LIGHT OF THE MAY COLLAPSE, WAS THAT THE ORISSA STEEL CONTRACT SHOULD NOT PROCEED ON A TURN-KEY AND NEGOTIATED BASIS BUT SHOULD BE PUT OUT TO INTERNATIONAL TENDER IN DISCRETE PACKETS. THIS SOUNDED GOOD BUT WOULD NOT MEET INDIA'S NEED FOR SUBSTANTIAL EXTRA STEEL CAPACITY ON THE SCALE AND WITHIN THE TIME SCALE ENVISAGED IN THE PROPOSED DEAL WITH DAVY. NOR WOULD IT COPE WITH INDIA'S NEED TO GET AS NEAR AS POSSIBLE TO 100% EXTERNAL FINANCING (THOUGH HE REALISED THERE WOULD PROBABLY HAVE TO BE SOME CONTRIBUTION FROM INDIAN FUNDS TO LOCAL INFRASTRUCTURE COSTS).

(C) HE THEREFORE INTENDED TO SEEK A NEW CABINET DECISION, IF POSSIBLE IN MID-SEPTEMBER, IE IN THE PERIOD BETWEEN HIS OWN RETURN FROM LONDON/TORONTO/WASHINGTON (ABOUT 12 SEPTEMBER) AND MRS GANDHI'S DEPARTURE FOR MOSCOW (ABOUT 20 SEPTEMBER). THIS NEW DECISION WOULD INVOLVE GOING BACK TO THE IDEA OF A TURN-KEY PROJECT WITH DAVY IN THE LEAD.

(D) THE NEW CABINET DECISION WOULD BE BASED ON TWO INPUTS. FIRST THE FEASIBILITY STUDY WHICH THE INDIAN STEEL AUTHORITIES AND HIS OWN MINISTRY EXPECTED TO COMPLETE WITHIN ABOUT A WEEK: THE DPR WOULD TAKE LONGER, BUT NO MATTER. SECOND, A LETTER FROM ME, WHICH COULD SUITABLY BE ADDRESSED TO ALEXANDER IN MRS GANDHI'S OFFICE AND SHOULD IF POSSIBLE BE DELIVERED ABOUT 6 SEPTEMBER, IE LONG ENOUGH BEFORE HIS OWN RETURN FOR IT TO BE PROCESSED FOR CABINET DECISION BUT NOT LONG ENOUGH TO GIVE THE RATS TIME TO GET AT IT. /E



(E) IT WOULD BE USEFUL IF I COULD DISCUSS THE PRECISE TERMS OF MY LETTER IN DRAFT WITH ALEXANDER BEFORE I DELIVERED IT. BUT BROADLY IT SHOULD RENEW THE BRITISH GOVERNMENT'S ORIGINAL OFFER AS SET OUT IN MRS THATCHER'S LETTER (SIC). IT SHOULD MAKE CLEAR THAT THE BRITISH GOVERNMENT WERE KEEN TO SEE THE DEAL GO FORWARD ON A TURN-KEY BASIS WITH DAVY IN THE LEAD; AND THAT THEY EXPECTED IT TO BE POSSIBLE TO PUT FORWARD A FINANCIAL PACKAGE COMPARABLE TO WHAT HAD BEEN ENVISAGED IN MAY. THIS PACKAGE SHOULD OF COURSE INCLUDE THE THREE STANDARD ELEMENTS OF EXPORT CREDIT, AID AND COMMERCIAL FINANCING; AND IT SHOULD COME AS CLOSE AS POSSIBLE TO COVERING 100% OF THE COST OF THE PROJECT. MY LETTER SHOULD VOTE THAT THE INDIAN GOVERNMENT'S PRESENT REQUIREMENTS HAD CHANGED IN TWO RESPECTS, VIZ THE SITE (IE AT DAITARI RATHER THAN PARADIP) AND CERTAIN ASPECTS OF THE SPECIFICATION (HE WAS NOT SPECIFIC ABOUT THE LATTER AND DID NOT MAKE CLEAR WHETHER HE MEANT THE VARIATIONS INTRODUCED BY THE INDIANS AT THE LAST MINUTE IN THE APRIL/MAY NEGOTIATIONS OR THE FURTHER CHANGES MENTIONED BY GILL TO YOU EARLIER THIS MONTH OR BOTH.) THE IMPLICATIONS OF THESE CHANGES SHOULD BE NEGOTIATED URGENTLY BETWEEN THE PARTIES: IE BETWEEN THE INDIAN STEEL AUTHORITIES ON ONE SIDE AND DAVY ON THE OTHER.

2. I ASKED MUKHERJEE WHY HIS PRESENT ADVICE WAS SO RADICALLY DIFFERENT FROM THE STEER WHICH YOU AND I HAD HAD FROM GILL AND OTHERS AT THE OFFICIAL LEVEL EARLIER THIS MONTH. HE REPLIED WITH A SMILE THAT GILL AND CO, AS GOOD CIVIL SERVANTS, HAD BEEN BASING THEMSELVES ON THE EXISTING INDIAN CABINET DECISION AND HAD BEEN, WITHIN THAT LIMITATION, WORKING FOR AS BRITISH AN ARRANGEMENT AS SEEMED FEASIBLE. HE HIMSELF, AS A POLITICIAN, WAS SUGGESTING THE BASIS FOR A NEW APPROACH FLOWING FROM A NEW CABINET DECISION.

3. BEFORE THIS MEETING TOOK PLACE I HAD ALREADY, IN THE LIGHT OF YOUR TELEGRAM NUMBER OTTER 52, ARRANGED TO SEE ALEXANDER AT 11.30 HRS BST TOMORROW. IN ORDER NOT TO LOSE MOMENTUM AT WHAT IS CLEARLY A CRUCIAL STAGE, I HAD BETTER STICK TO THIS. MY INTENTION IS TO REPORT WHAT HAS HAPPENED TO ALEXANDER WITH SOME FRANKNESS AND TO SHOW HIM TWO DRAFTS:

(I) THE DRAFT IN YOUR TELNO OTTER 51 (IE THE GILL PLAN):

(II) THE DRAFT IN MIFT (IE THE MUKHERJEE PLAN).

I SHALL EXPLAIN THAT UNDER THE INFLUENCE OF GILL AND OTHERS AT THE OFFICIAL LEVEL WE HAD UNTIL TODAY BEEN THINKING IN TERMS OF (I): BUT THAT IN THE LIGHT OF MUKHERJEE'S ADVICE WE WERE NOW, SUBJECT TO ALEXANDER'S VIEWS, ASSUMING THAT (II) WAS WHAT THE INDIAN GOVERNMENT WOULD PREFER. IF ALEXANDER AGREES, I SHALL ASK HIM TO STUDY (II) URGENTLY AND IN DETAIL AND TO LET ME KNOW IF HE WISHED TO SUGGEST ANY AMENDMENTS TO IT. I SHALL MAKE CLEAR THAT IN ITS PRESENT FORM IT IS NO MORE THAN A COCKSHY BASED ON MY TALK WITH MUKHERJEE AND THAT WE WOULD BE ENTIRELY OPEN TO ALTERNATIVE DRAFTING SUGGESTIONS.



SECRET

4. I SHOULD BE GRATEFUL IF YOU COULD LET ME KNOW BY 1100 BST WHETHER YOU ARE CONTENT WITH THIS PROCEDURE; WHETHER YOU HAVE ANY COMMENTS ON THE DRAFT IN MIFT; AND WHETHER I MAY INDICATE TO ALEXANDER THAT I HAVE GENERAL AUTHORITY FROM LONDON TO WRITE ON SOME SUCH LINES IF HE AGREES THAT THIS IS WHAT IS NOW WANTED (I COULD IF NECESSARY MAKE CLEAR THAT I DO NOT YET HAVE SUCH AUTHORITY, ALTHOUGH I EXPECT TO GET IT; BUT THIS WOULD CLEARLY DETRACT FROM THE FORCE OF MY PRESENTATION).

5. SOMEWHAT CONFUSINGLY I WAS GIVEN A RATHER DIFFERENT STEER BY RAJIV GANDHI WHO LUNCHED WITH ME SHORTLY BEFORE I SAW MUKHERJEE. RAJIV SAID THAT VZ HAD BEEN DISCUSSING OUR STEEL AFFAIRS WITH MUKHERJEE AND HAD ADVISED HIM TO CONCLUDE A DEAL WITH BRITAIN AS QUICKLY AS POSSIBLE. IN RAJIV'S VIEW, SUCH A DEAL WOULD NEED TO BE BASED ON BRITAIN PROVIDING VIRTUALLY EVERYTHING ENVISAGED IN THE ABORTIVE DAVY DEAL; BUT INSTEAD OF BEING PRESENTED HERE AS A SINGLE TURN-KEY PACKAGE IT WOULD HAVE TO BE PRESENTED AS ABOUT 10 SEPARATE PACKETS. HE ACCEPTED THAT, FOR OUR OWN REASONS CONNECTED WITH FINANCING, WE MIGHT NEED TO DEVISE SOME WAY OF STRINGING THESE SEPARATE PACKETS TOGETHER INTO SOME KLED OF WHOLE. RAJIV ADDED THAT THERE WOULD BE NO OBJECTION TO DAVY PLAYING A PROMINENT PART AS THE BRITISH SUPPLIER WITHIN MANY OF THESE PACKETS. BUT IN ANSWER TO A SPECIFIC QUESTION FROM ME HE COMMENTED THAT FOR PRESENTATIONAL PURPOSES HERE IT MIGHT WELL BE USEFUL IF THE LEAD ROLE ON OUR SIDE COULD BE UNDERTAKEN BY SOME OTHER PARTY, SUCH AS THE BRITISH STEEL CORPORATION. RAJIV CONCLUDED BY ADVISING ME TO SEEK MORE SPECIFIC ADVICE FROM MUKHERJEE AND TO BE GUIDED BY WHAT HE SAID. HE WOULD TRY TO TELEPHONE MUKHERJEE HIMSELF IN THE COURSE OF THE AFTERNOON TO INDICATE THE LINES WHICH HE HAD SPOKEN TO ME.

6. RAJIV'S MANNER WAS TENTATIVE AND HE GAVE THE IMPRESSION OF THINKING ALOUD. MUKHERJEE, BY CONTRACT, WAS CRISP, BRIEF AND TO THE POINT; AND HE LEFT NO DOUBT WHATEVER ABOUT PRECISELY WHAT HE WANTED. IT IS A GREAT NUISANCE THAT, AS THINGS HAVE TURNED OUT, I DID NOT SEE THEM THE OTHER WAY ROUND. BUT IN THE CIRCUMSTANCES I AM SURE THAT IT IS MUKHERJEE WE SHOULD BE GUIDED BY. RAJIV HAS BEEN INCOMMUNICADO SINCE I EMERGED FROM MUKHERJEE; BUT I HOPE TO SPEAK TO HIM LATER THIS EVENING TO TELL HIM WHAT HAS HAPPENED AND (MF I AM NOT TOO LATE) TO STEER HIM AWAY FROM LOBBYING MUKHERJEE IN FAVOUR OF THE BSC IDEA.

3  
SECRET

/Y. I AM NOT



SECRET

7. I AM NOT CLEAR ABOUT WHAT MUKHERJEE MEANT BY  
"MRS THATCHER'S LETTER": CLEARLY SOMETHING MORE SUBSTANTIAL THAN  
THE MESSAGE IN FCO TELNO 649 OF 25 SEPTEMBER 1981. THE ONLY  
CANDIDATE WE HAVE SO FAR BEEN ABLE TO FIND ON OUR FILES HERE IS MY  
PREDECESSOR'S LETTER TO MUKHERJEE OF 24 APRIL 1981. CAN YOU  
IDENTIFY ANY ALTERNATIVE CANDIDATE?

WADE-GERY

LIMITED  
SAD  
TRED  
ODA  
MR GIFFARD  
MR DONALD  
MR EVANS

ADDITIONAL DISTRIBUTION  
SUB-CONTINENT ECONOMIC  
TRADE

MR BENJAMIN  
PEP/DOT

4

SECRET