

GRS 480
RESTRICTED
DESKBY 180800Z
FM DELHI 180335Z OCT 82
TO IMMEDIATE DOT
TELEGRAM NUMBER OTTER 137 OF 15 OCTOBER.

RESTRICTED

PS TO PM 10, DOWNING ST.

Trade

FOR PEP FROM BENJAMIN

MT

DAITARI STEEL

1. IN DISCUSSION WITH GILL ON 14 AND 15 OCTOBER, BOTH PRIVATELY AND WITH BSC TEAM LED BY SCHOLEY, THE POSITION ON ORISSA FLOWING FROM THE PRIME MINISTER'S BREAKFAST EMERGED AS FOLLOWS:

(A) BSC HAVING BEEN GIVEN A COPY OF MECON'S FEASIBILITY STUDY ON 15 OCTOBER, A MEETING WILL TAKE PLACE ON 18 OCTOBER BETWEEN BSC, SAIL, MECON AND PEP TO REVIEW INITIAL REACTIONS FOLLOWED BY MORE DETAILED DISCUSSIONS ON TECHNICAL FEATURES AT MECON'S OFFICE IN RANCHI.

(B) ON COMPLETION OF THIS FAMILIARISATION PHASE, BSC WILL IN CONSULTATION WITH HMG PROPOSE THOSE AREAS OF EQUIPMENT SUPPLY WHERE WE REGARD OURSELVES AS CAPABLE AND INTERNATIONALLY COMPETITIVE. THIS WILL BE DONE NOT LATER THAN THE MIDDLE OF NOVEMBER.

(C) IN PARALLEL GOI AND HMG WILL CONSIDER WHAT MIGHT BE AN APPROPRIATE UK FINANCIAL PACKAGE. IT IS ALSO ENVISAGED THAT A SAIL/MECON TEAM SHOULD VISIT UK LATER IN NOVEMBER TO HAVE DISCUSSIONS WITH PARTICULAR UK SUPPLIERS.

(D) GOI ARE BEING APPROACHED BY A NUMBER OF OTHER POTENTIAL SUPPLIERS, NOTABLY THE RUSSIANS, JAPANESE, GERMANS AND FRENCH, WHILST UK IS BEING OFFERED FIRST BITE, THESE OTHER COUNTRIES WILL ALSO BE MAKING DETAILED PROPOSALS, WHICH MIGHT NEED TO BE TAKEN INTO ACCOUNT IN DECIDING THE PARTICULAR SCOPE FOR UK SUPPLY. GILL WOULD PREFER TO TIE THINGS UP WITH US AS QUICKLY AS POSSIBLE, IN ORDER TO ESTABLISH HOW BEST TO HANDLE THESE OTHER SUITORS.

(E) GILL'S AIM IS TO ACHIEVE A SITUATION WHERE THE INDIANS HAVE A COMPREHENSIVE INVENTORY OF SUPPLY FOR THE PLANT, WITH ASSOCIATED FINANCE TO COVER 100% NOT ONLY OF THE OFF-SHORE COSTS BUT ALSO OF RELATED LOCAL COSTS (EG STRUCTURALS), AS QUICKLY AS POSSIBLE IE WITHIN 4-6 MONTHS.

2. OTHER ASPECTS WHICH BECAME CLEAR WERE:

(A) GILL HAS AN OVER-RIDING PRIORITY TO GENERATE, IN ASSOCIATION WITH PACKAGES OF EXTERNAL EQUIPMENT, THE MAXIMUM OF ADDITIONAL EXTERNAL FINANCE SEMICOLON AND THIS WILL OVER-RULE ANY CONSIDERATIONS OF INDIA'S ABILITY TO BUILD PARTS OF THE STEEL COMPLEX FROM INTERNAL RESOURCES.

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(B) MECON ARE FIRMLY IN THE DRIVING SEAT, THROUGH HAVING DONE THE FEASIBILITY STUDY AND THROUGH THEIR ASSOCIATION WITH SAIL, WHO WILL BE PROVIDING THE BULK OF THE MANAGEMENT FOR THE NEW PLANT EVEN IF IT IS ESTABLISHED AS A SEPARATE COMPANY.

(C) GILL WAS AT THIS STAGE VERY RELUCTANT TO BE SPECIFIC ABOUT BSC'S ROLE, INDICATING THAT THERE WILL 'BE SEVERAL LEVELS OF INTER-ACTION' SEMICOLON HE WOULD BE CLEARER ABOUT THIS WHEN THE SCOPE OF THE UK PACKAGE HAD BEEN DEFINED.

3. THE PRESENCE OF THE DEPUTY CHAIRMAN OF BSC, EXPRESSING VERY FIRMLY THE CORPORATION'S COMMITMENT TO ASSIST AS REQUIRED, SET A FAVOURABLE CLIMATE. BSC'S ROLE AS HMG'S GUIDE ON TECHNICAL QUALITY AND COMPETITIVENESS WAS STRESSED IN DISCUSSION, AND WE SHOULD ALSO BE ABLE TO SECURE FOR THEM A FORMAL POSITION AS MONITORING AUTHORITY FOR UK AID FUNDS WHICH SHOULD HELP TO COUNTER DIFFICULTIES STEMMING FROM MECON.

4. AN IMMEDIATE REVIEW OF THE POSITION WILL BE REQUIRED WHEN THE BSC TECHNICAL SURVEY TEAM RETURNS TO LONDON. MEANWHILE, MISS NEVILLE ROLFE WILL BE ACCOMPANYING THEM TO RANCHI. IN VIEW OF THE CLEAR URGENCY ON THE INDIAN SIDE TO PROCEED TO IMPLEMENT THE BREAKFAST AGREEMENT, WE SHOULD AVOID FURTHER DELAY IN FORMALLY CONFIRMING THAT AGREEMENT BY MEANS OF THE HIGH COMMISSIONER'S PROPOSED EXCHANGE OF LETTERS WITH ALEXANDER.

5. ON DURGAPUR MODERNISATION, THE SAIL/MECON STUDY WILL BE PRESENTED TO BSC AND PEP AT THE DISCUSSIONS ON 18 OCTOBER.

WADE-GERY

MINIMAL
SAD
TRED

ADDITIONAL DIST:
SUB-CONTINENT
ECONOMIC/TRADE