



10 DOWNING STREET

PERSONAL MESSAGE  
SERIAL No. 7198A183

cc Mr. ...

OPS

India Relations

THE PRIME MINISTER

28 November, 1983

My dear Prime Minister

During our most useful preliminary talk when I had the pleasure of calling on you the day before the Commonwealth Heads of Government Meeting opened, I referred rather briefly to two bilateral points: the modernisation of the Durgapur steel plant; and GEC's bid for the captive power station for Balco. I did not want to take time going into detail when we had so much to discuss of immediate concern in the CHOGM context. But it may be helpful if I send you now this letter in amplification since both points are of considerable importance for our bilateral relations.

When we met in September last year you and I sketched out a basis for Indo-British cooperation on the then proposed new steel plant at Daitari. Given the subsequent postponement of that project, we would be very interested in replacing it with a cooperative venture on a similar scale for the modernisation and possible expansion of the Durgapur steel plant, originally built with British assistance. We would be prepared to offer comparable financing, including aid, to support a substantial supply of British capital equipment. If I am right in thinking that this project is of major importance and priority from India's point of view, it would be a magnificent context for cooperation between us, in an area where British technology is known to be a world leader, and for the extensive utilisation of aid funds.

/ The offer

SH



The offer by GEC to construct a captive power station for Balco's smelter at Korba, which I also mentioned, has been backed by a financing package including capital and local cost aid. GEC have quoted what I understand are very competitive terms, as regards both delivery period and price. I hope therefore that their tender will be given fair and favourable consideration by the Government of India. Their success would be a crucial factor in achieving the aim (on which our officials have been working together so constructively) of ensuring that our current year's aid allocation to India is fully and satisfactorily utilised. It would also be an excellent way of maintaining GEC's currently very active interest in the Indian market, notwithstanding their disappointment over their failure to win the telephone exchanges contract earlier this year.

There is another matter which did not arise in our discussion but which I should also like to mention. I think it would add a further valuable dimension to Indo/British relationships if we could resuscitate the practice of periodic non-official conferences on matters of current interest, involving leading Indian and British intellectuals, writers, politicians and other opinion formers. If you agree that such exchanges would be useful, I hope you will encourage the appropriate people on your side to talk to our High Commissioner about the best way to proceed. He was instructed to put forward some of our own ideas on this subject to your people earlier this year; but our minds are entirely open and flexible on detail and we shall much look forward to hearing your ideas.

Yours sincerely  
Rangachar

Her Excellency Shrimati Indira Gandhi



MR. ALISON

The PM told me that she  
no longer wished me to  
get involved, following  
her tête à tête with Lord C

GEC and System X

earlier this week

MA 30/6

Mr. Scholar.

A.S.C. 27/6

We spoke this morning.

Since then Robert Wade-Gery, our High Commissioner in Delhi, has rung me. He has been in touch with GEC who are now to send a mission to India. He thought that, once this mission has taken place and GEC have generally stirred themselves more, he might well advise that the Prime Minister should send a message to Mrs. Gandhi supporting their bid.

I told him that if the Department of Trade were to advise in due course that GEC really had done everything possible I thought that the Prime Minister would look favourably on a recommendation that she should send a message.

You were going to ask the Prime Minister whether she wanted you to talk to Lord Carrington. I am rather inclined to think that, now GEC are sending a mission to India, this might not be necessary.

A.S.C.

29 June 1983



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Secretary of State for Trade & Industry

27 June 1983

ECNO (2)  
Prime Minister

Not very encouraging.

MUS 27/6

Tim Flesher Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

PA

MUS 20/7

Dear Tim

SYSTEM X/INDIA

You will recall that GEC have bid to supply System X telephone exchanges and related technology to India. They are competing with the French, Germans and Belgians for a £200m order which will establish a second technology for digital telephone switching in what is potentially an enormous market - the first such foothold was preempted last year by the French, successfully by-passing international competition with an astute mix of financial and trading offers. This is the only major current opportunity for exporting System X, and success in India would represent a significant entry into world markets.

2 The evaluation of competing bids has dragged on now for over a year, and was due to conclude this summer. We know that System X has shown well in most respects of the technical appraisal - except that it cannot yet show the required number of lines in public service - and that GEC have put in a reasonably competitive price. Knowing that the French backed their earlier pre-emptive bid with mixed credits, we have offered to match any soft terms offered for this tender using the Aid and Trade Provision. The prospect was thus reasonably optimistic.

3 However, in recent weeks the future of this four horse competition has been put in doubt by various inter-departmental machinations in Delhi, and it seems that the Indian Cabinet is poised to abandon the tender in favour of an alternative solution to their switching requirements. We do not know what this alternative may be, although intelligence from the High Commission and through GEC indicates that it involves another pre-emptive offer from the French. It is believed that President Mitterand has been lobbying personally with Mrs Gandhi to this end.





*I think it would be advisable for Richard (Plessey) to let Peter Carrington know that GEC's efforts are falling short*

4 GEC are arguing that a similar level of intervention from the UK is required urgently to keep alive the competitive tender and hence their prospects in India. Following the clear advice of the Acting High Commissioner in Delhi my Secretary of State does not think Prime Ministerial intervention would in fact be appropriate at this juncture. GEC have not yet done enough themselves to establish the true position, and an early intervention might expose the Prime Minister to a rebuff. The Post are further concerned not to cut across the other outstanding exchange over Sea King/Sea Eagle. Since GEC may well seek to put their arguments directly, you should be aware of the reasoning behind our conclusion.

5 Our Acting High Commissioner advises - and we agree - that the situation is possibly already beyond redemption, and that until we and GEC can establish additional attractions for the System X bid which would justify Indian reconsideration of their position, it would be unwise to associate the Prime Minister with this cause. Our experience of GEC's efforts in India to date, the inadequacy of which has attracted criticism from all sides, does not encourage thoughts that they can yet snatch success, even with high level endorsement. In short, we see little to be gained and something possibly lost (in terms of credibility) from acceding to GEC's request at this point.

6 This advice by no means indicates that we are giving up our backing for GEC. A team was in Delhi in April led by the Chief Engineer of BT - Kenneth Baker, who was to have led the team, was detained in London at the last moment - and was able to make an effective presentation of the case for System X. It is significant that GEC did not send any senior level support for this visit. Mr Baker has indicated his willingness to reinstate his own visit, and has invited his opposite number to visit the UK. Our Acting High Commissioner continues to press the Indian Minister of Communications to acknowledge the attractions of the UK bid. We have recently secured agreement to making an unconditional offer of aid support, matching the financial terms offered by the French. This will require over £52 million from the ATP. We have indicated further aid support for the local costs of the project if requested.

7 The onus is now on GEC to identify ways of improving their offer and to get out to Delhi and put their case directly to the decision-makers - they are currently considering this. The time for Prime Ministerial intervention, if at all, is after GEC have established their claims with the Indians.

8 While the prospects for System X in India now look uncertain, we have good prospects for other digital telecommunication orders in this market. Plessey have secured a Letter of Intent for rural exchanges (based on System X





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technology) and are also well poised to supply advanced private branch exchanges. These orders, funded with bilateral aid, could well establish UK digital technology in the smaller but nonetheless lucrative end of the Indian switching market. In addition, STC are negotiating a collaborative arrangement for local manufacture of optical fibres, and BT are discussing other collaborations.

9 I am copying this to John Holmes and Michael Power in the Foreign Office.

*Yours ever  
Steve*

STEPHEN NICKLEN  
Private Secretary

27 JUN 1983

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