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PS / Secretary of State for Trade and Industry

22 November 1984

C D Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Charles,

INDIA: ATP FOR DESU GAS TURBINES

Your letter of 9 November to Peter Ricketts asked about the gas turbine power station project for the Delhi Electricity Supply Undertaking (DESU). ATP support for this has been rejected by ODA on developmental grounds.

2 I should point out that in addition to GEC/Rolls Royce, John Brown Engineering are also pursuing this project. We sought agreement to an ATP offer being made in support of both companies on a conditional matching basis. In view of the competitive position which emerged with the opening of the bids on 6 November, it seems certain that we cannot win the business unless ATP is provided. Finance offers were read out alongside the price and technical bids at the public bid opening. The French and Italian bidders both offered aid-supported soft credit and there is also an attractive US finance offer, which may or may not include an aid element.

3 Commercially, both UK companies are well in contention. GEC/Rolls Royce appear particularly well placed: their price is the second lowest in absolute terms and appears to be the lowest in terms of cost per kw hour. John Brown too have submitted a very competitive bid as regards offshore price, and believe their bid to be the most comprehensive in terms of scope. But neither can hope to succeed unless we can match the financial terms offered by competitors' governments.

4 There is a strong industrial and commercial case for supporting this project, particularly as the Indian manufacturers BHEL are seeking a foreign collaborator to manufacture gas turbines in India. On capital goods, Indian Government policy is that once an Indian company has signed a collaboration agreement, only that company is allowed to import such equipment. Hence the collaboration agreement gives the foreign company involved a



unique position in the Indian market. The winner of the DESU contract will be in a much stronger position to secure the collaboration agreement with BHEL.

5 We believe that there is also a developmental case for the project. Power shortages in India as a whole are chronic and Delhi suffers from frequent power cuts. The Indians are engaged on an extensive programme of major new thermal and hydro stations and are also taking steps to improve the output of their existing stations. These measures will, however, take some years to bear fruit: there is a crucial shortage of power now, which could be met by the gas turbines. They will continue to be needed for use in emergency and to meet peak demand as power becomes available from outer sources. Security of supply is particularly important for a capital city: London, for example, is supported by numerous gas turbine installations. We asked the CEGB to produce an appraisal of the project, which they have done based on British Electricity International's knowledge of the Delhi network over a number of years. This appraisal, which ODA are now considering, concludes that the project is desirable, technically and economically. We very much hope therefore that a matching ATP offer can be agreed quickly.

6 I am sending a copy of this letter to Peter Ricketts.

Yours ever,

A handwritten signature in cursive script, appearing to read 'Ruth'.

RUTH THOMPSON
Private Secretary

India Relations Pt 4

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