



From the Minister for Trade

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5 December 1984

INDIA: ATP FOR DESU GAS TURBINES

Thank you for your letter of 27 November about this case. I have also seen George Younger's letter to you of 28 November and Peter Rees wrote to me on 30 November.

The commercial case for an ATP offer, not only in support of GEC/Rolls Royce, but also (as George Younger has also pointed out) in support of John Brown, remains strong. Evaluation of bids is well under way, and both companies consider that they are in with a good chance of success, if the French finance terms can be matched. Political factors are involved too; the Indian Government has said they would welcome an ATP offer, so that the British bids have a fair chance in the evaluation. Particularly in current difficult circumstances, they will not easily understand a refusal to help with their capital city's power problems.

ATP is intended to be used in defence of our commercial interests, and industry would find it hard to understand failure to use it in so clear cut a case. We of course fully accept that a test of developmental value has to be met. On any basis of common sense, I find it difficult to believe that it cannot be. Leaving aside the more detailed technical and operational points, your main objection is, as I understand it, that the level of tariffs in Delhi is not sufficient to cover the full cost of electricity supply; and that higher tariffs would reduce peak demand. I understand the case for encouraging the Indians to move towards more economic pricing. But we must also recognize that we are dealing with a responsible and well informed Government which, in setting tariffs, must take account of social and political factors, which limit its freedom of manoeuvre.



In any event, the case for gas turbines is in important respects independent of the level of tariffs. Whatever the level of demand, peak requirements will still exist and there will be a role for gas turbines as an efficient means of meeting them. They also have other uses highly relevant to achieving a more efficient power system in Indian conditions. For example, gas turbines can be used to help improve the efficiency of existing plant by making possible the introduction of a regular, planned maintenance programme. At present, in Delhi, because power cuts cannot be imposed for maintenance purposes, maintenance can only be carried out when plant breaks down.

I shall be writing to you further on a number of the detailed points you have raised. My officials would also be glad to pursue these with yours, if that would be helpful. We could then perhaps meet to consider together whether any further investigations need to be done before the matter is put to the Prime Minister for consideration, as requested in No. 10's minute of 9 November. But an offer needs to be made in the fairly near future if British companies are not to lose their position, so I hope this could be done expeditiously.

I am copying this to the Prime Minister, to George Younger and to Peter Rees.

ms,

PAUL CHANNON

Paul