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OVERSEAS DEVELOPMENT ADMINISTRATION
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From the Minister

12 December 1984

The Rt Hon Paul Channon MP
Minister for Trade
Department of Trade & Industry
1 Victoria Street
LONDON SW1H 0ET

Dear Mr. Channon,

Thank you for your two letters of 5 and 11 December. I had hoped that, in view of our and the Treasury's objections on developmental grounds, you would drop the proposal for ATP support for the Delhi Electricity Supply Gas Turbines.

I have read your latest arguments carefully. But, as I am sure you recognise, they do not in fact address the objections which I made and Peter Rees endorsed. In essence you are making two points. First, in the paper attached to your letter, that because of the pressure of rising demand for electricity the Delhi authorities must install more capacity. And second, in your letter itself, that whatever the developmental arguments, "the primary issue is the defence of our commercial interests".

Since we have already corresponded at such length, let me just say three things in reply. First, we have explained in detail why it is not proven that investment in new capacity, rather than tariff changes or improvements in existing capacity utilisation, is the right course. Second, even giving DESU the benefit of the doubt on that score, getting them out of the mess they are in due to earlier misdirected investment policy is not the way we want to help the electricity sector in India. And third, the primary issue in all aid proposals, whether ATP or not, is the developmental justification: you will have noticed that this point is specifically endorsed by Peter Rees.

The Prime Minister has said that she wishes to be consulted before a decision is taken. Given that you and I are unable to agree, this issue will have to be referred to EX, of which she is of course Chairman, so that other colleagues with an interest (such as Peter Rees) can give their views. If, however, an EX meeting is not possible before your 24 December deadline - which experience would suggest may not be real - I am content for our case to rest on this letter.

I am copying this letter to the Prime Minister, Peter Rees, Geoffrey Howe and Robert Armstrong.

Finanby

Michael McAuliffe

P.S.

for TIMOTHY RAISON
(Approved by Mr Raison
and signed in his absence)

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