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Trade  
BR

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*From the Private Secretary*

30 April 1982

Christopher Benjamin sent me on 28 April a short note about the current position on the Indian Steel Plant in case the Prime Minister was able to speak to Sir John Buckley during her lunch for the Prime Minister of Thailand on that day.

This is simply to record that no opportunity for discussion arose.

A. J. COLES

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CONFIDENTIAL

Under Secretary - Projects and Export Policy Division



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28 April 1982

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*Dear Sir,*

We spoke about the possibility of the Prime Minister having a word with Sir John Buckley - attached is the short note requested.

*Yours,  
C B*

C B BENJAMIN





## INDIAN STEEL PLANT - CURRENT POSITION

### LINE TO TAKE

Whilst recognising the negotiating dilemma of Davy, if opportunity offers Sir John Buckley should have stressed on him the extreme importance of handling the Indians, and care should be to meet presentationally their wishes whilst allowing Davy a way around later.

### BACKGROUND

The crucial stage has been reached on price negotiations, which must be completed by 15 May. Agreement achieved on the major part of the contract, problems in financing arrangements largely resolved, and some aspects on which GOI attach importance conceded, eg role of their own steel consultants, Davy's taking full turnkey responsibility. Davy and their subcontractors have put in a major effort, with some 100 staff in Delhi.

Outstanding points remain:

- (a) Price: Davy's basic negotiating position is that they are prepared to build the original plant specified at the time of the letter of intent in September 1981 at the price then agreed. But the Indians have subsequently made major changes - notably, the mill is virtually a new entity, and they have sought a range of specification improvements, most of them non-essential adjustments. In addition, the site has been changed. The net result has been an increase in the total price of \$2554 million in September 1981 to a current total of \$3057 million - the bulk of the increase would, however, be in UK goods and services.

The Indians have, however, complained that this figure is well above the value on which they originally gained Cabinet approval, and are particularly concerned at the prospect of confronting their own Ministers on such a substantial increase being largely attributable to their adjustments. Negotiations are proceeding, and Davy is breaking down the increase in costs in further detail in the hope of bringing the Indians closer - assuming this can be done, the area of difference will be less than 5%, though in a contract of this magnitude this is still a large sum in itself.





- (b) Local Costs: the new location was decided 8 weeks ago, since when no site examination has been possible. Davy are willing to take on the local erection and commissioning, but argue that they cannot currently put forward a fixed-price. The Indians are arguing that their unwillingness to provide such a fixed price, and one lower than the original estimate for local costs, is undermining the concept of a "fixed-price turnkey bid".
- (c) French Element: We have still not put the subsidy make-up for taking over the power station from the French, and the Indians are arguing that a further small element of aid may be needed to restore the financing picture.

It is conceivable that further concessions may be sought by the Indians to restore the subsidy element of the new total to that of the original package. We have deliberately not, therefore, become sandwiched in the price negotiations, and are holding back any further discussions on (c) until we can see more clearly what the final differences may be.

SP is out of the country at the moment, but apparently remains confident.

PEP Division  
Department of Trade  
28 April 1982



28 APR 1982

