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DESKBY 121430Z

TRED

X2

FM DELHI 121230Z MAY 82

TO IMMEDIATE DOT

TELEGRAM NUMBER CREDA 203 OF 12 MAY.

INFO IMMEDIATE FCO, NO 10 DOWNING STREET.

MY TELNO CREDA 199: ORISSA STEEL PLANT

1. THE DAVY TEAM, ACCOMPANIED BY BEETHAM, HAD A LONG MEETING WITH GILL THIS MORNING DURING WHICH THE LATTER UNDERLINED THE GOI'S VIEW OF DAVY'S DEPARTURE FROM THE CONCEPT OF A FIXED PRICE TURNKEY CONTRACT BY:

(A) NOT BEING PREPARED TO OFFER A FIXED ONSHORE PRICE SEMICOLON

(B) NOT ABIDING BY THE TECHNICAL PERAMETERS SEMICOLON

(C) PLAINLY ESCALATING THE OFFSHORE PRICE (TAKING EXCHANGE RATES INTO ACCOUNT, BY SOME DOLLARS 970 MILLION).

2. GILL SAID THAT THE GOI WOULD THEREFORE HAVE TO CANCEL THE OLD FRAMEWORK AND START AFRESH. OTHERWISE ITS CREDIBILITY IN AWARDING A FIXED PRICE TURNKEY CONTRACT WHICH WAS NEITHER, WOULD BE NIL.

3. AT A FURTHER MEETING THIS AFTERNOON WITH BENJAMIN AND BEETHAM (WITHOUT DAVY) GILL SAID VERY CLEARLY THAT THE OLD CONCEPT "NO LONGER SURVIVES" BECAUSE OF DAVY'S POSITION ON THE ONSHORE CONTRACT (WHICH WAS A POINT OF PRINCIPLE FOR THE GOI) AND THE PRICE ESCALATION. THIS DECISION WOULD BE COMMUNICATED FORMALLY TO DAVY TOMORROW. THE GOI HAD NOT DECIDED ON THE NEXT STEPS, BUT HE (GILL) WOULD LIKE TO DISCUSS THEM WITH ME. I AM SEEING HIM AT 0500Z TOMORROW.

FCO PLEASE PASS IMMEDIATE TO NO. 10 DOWNING STREET.

THOMSON

2+

IMMEDIATE

DWF G 144/11

~~SECRET~~

LUK NR 366/11

00 FCO (DOT) DESKBY 111500Z

CRE/DOT

00 FCO

IMMEDIATE

00 NO. 10

SAD

GRS 800
CONFIDENTIAL

ms

PS/~~NO 10~~

DESKBY 111500Z
FROM DELHI 111250Z MAY
TO IMMEDIATE FCO

TRED

TELEGRAM NUMBER CREDA 199 OF 11 MAY 1982
INFO IMMEDIATE FCO, NO 10

YOUR TELEGRAM NUMBER CREDA 203: ORISSA STEEL PLANT

1. SINCE FRIDAY THERE HAVE BEEN INTENSIVE DISCUSSIONS BETWEEN OURSELVES, BENJAMIN AND DAVYS (LED BY WHITING) AND ALSO FREQUENT EXCHANGES WITH THE INDIANS. BOTH SETS OF MEETINGS HAVE LED TO NUMEROUS TELEPHONE CALLS TO PARTIES IN LONDON. THE MAIN EVENTS HAVE BEEN:

(A) A MEETING ON 8 MAY BETWEEN GILL, WHITING AND MYSELF AT WHICH WHITING AND I TRIED OUT ON GILL AN IDEA SUGGESTED TO US AS A WAY OF BREAKING THE DEADLOCK IN THE NORMAL NEGOTIATIONS (MY TELNO CREDA 190) WHICH HAD LEFT A GAP OF SOMETHING LIKE DOLLARS 400 MILLION. THE IDEA WAS THAT DAVYS SHOULD SAY THAT THE CHANGE OF SITE, ETC, MADE IT IMPOSSIBLE FOR THEM TO QUOTE A FIXED PRICE FOR THE ON-SHORE WORK BY 15 MAY. HENCE THEY WOULD BE HAPPY FOR MECON TO TAKE THIS ON UNDER THEIR OVERALL TECHNICAL SUPERVISION. THE DETAILS OF THIS WOULD BE DECIDED LATER BUT A FIRM FOB CONTRACT FOR DOLLARS 2,182 MILLION WOULD BE CONCLUDED BY 15 MAY, THEN

FOR DOLLARS 2,182 MILLION WOULD BE CONCLUDED BY 15 MAY. THEN WE WOULD GET AWAY FROM THE OLD FRAMEWORK WITH THE PRICES ATTACHED TO IT AND BEGIN ON A NEW BASIS. GILL REPLIED THAT THIS IDEA IN PRINCIPLE SEEMED THE ONLY WAY OUT. WE DREW ATTENTION POINTEDLY TO THE FOB PRICE BUT GILL MADE NO COMMENT. WE DISCUSSED WITH HIM IN GENERAL TERMS THE DRAFT OF A LETTER TO GIVE EFFECT TO THE ABOVE SCHEME.

(B) THE LETTER (COPY BY BAG) DATED 9 MAY WAS SENT TO GILL ON SUNDAY. HE SAID HE WOULD HAVE TO CONSULT HIS COLLEAGUES EG IN THE DEA, AND WOULD LET US KNOW THE RESULT AT LUNCH TIME ON MONDAY. MEANWHILE IT WAS ARRANGED THAT HOYLE AND GHOSH SHOULD GO THROUGH THE ANNEXES TO THE LETTER NOT WITH THE INTENTION OF NEGOTIATING THEM BUT SIMPLY TO VERIFY THAT THE TWO SIDES WERE TALKING ABOUT THE SAME THING. THE RESULT OF THIS DISCUSSION WAS AN IDENTITY OF VIEWS.

(C) ON MONDAY AFTERNOON GILL KEPT POSTPONING A DEFINITIVE REPLY UNTIL EVENTUALLY WHITING AND I CALLED ON HIM IN THE EVENING. HE HE SAID THAT HE HAD STILL NOT HAD REACTIONS FROM ALL CONCERNED. HE MADE NO MENTION OF ANY SUBSTANTIVE POINT, THOUGH GIVEN VARIOUS OPPORTUNITIES TO DO SO, AGREED TO ENSURE THAT THE WORK ON THE DOCUMENTATION WAS SPEEDED UP AND WAS GENERALLY AMIABLE. NEVERTHELESS WHITING AND I LEFT WITH A SENSE OF DISQUIET. ACCORDINGLY, I RANG ALEXANDER IMMEDIATELY AND HE AGREED TO SEE ME THE NEXT MORNING.

(D) WHEN I SAW ALEXANDER THIS MORNING HE SAID THE INDIANS FELT "LET DOWN" BY DAVYS. IT WAS APPARENT THAT DAVYS WERE NOT ABLE TO FULFIL THE FIXED PRICE TURNKEY CONTRACT FOR WHICH THEY HAD BID. HE REFERRED TO THE LETTER OF 9 MAY AS ILLUSTRATION OF THIS BUT STRESSED THAT "THE IMPORTANT THING IS THAT DAVY IS NOT STICKING TO THE OLD QUOTATION FOR FOB". I REBUTTED HIS POINTS MAKING IT CLEAR THAT DAVY HAD ASSURED ME THAT THEY WOULD CARRY OUT THE ORIGINAL SPECIFICATIONS AS THEY UNDERSTOOD THEM FOR THE PRICE THEY HAD ORIGINALLY QUOTED. WE AGREED THAT THE ESSENCE OF THE

MATTER WAS A SEVERE DIFFERENCE OF OPINION BETWEEN DAVY AND THE INDIAN SIDE ON WHAT WAS COVERED BY THE ORIGINAL QUOTATION AND ON THE EFFECT OF VARIOUS CHANGES INTRODUCED BY THE INDIAN SIDE. ALEXANDER SAID THAT THE CABINET WOULD MEET LATER IN THE DAY. HE BELIEVED THAT IT WOULD CONCLUDE IN THE LIGHT OF THE SITUATION HE HAD DESCRIBED THAT THE LETTER OF INTENT TO DAVY WAS INVALID OR INOPERATIVE. THEY WOULD ALSO REAFFIRM THEIR DECISION TO PROCEED WITH THE STEEL PLANT PROJECT. THEY WOULD PROBABLY INSTRUCT THE MINISTRY OF STEEL TO PRESENT THEM WITH OPTIONS TO THIS END

THE MINISTRY OF STEEL TO PRESENT THEM WITH OPTIONS TO THIS END WHICH COULD INCLUDE A CONTRACT WITH DAVY ON THE "NEW BASIS" INDICATED IN THE LETTER OF 9 MAY BUT COULD ALSO INCLUDE OTHER FORMS OF CONTRACT WITH OTHER PEOPLE. I SPOKE STRONGLY ABOUT THE EFFECT ON MY GOVERNMENT AND ON THE PRIME MINISTER PERSONALLY OF A TERMINATION OF AN ARRANGEMENT IN TO WHICH BOTH SIDES HAD PUT SO MUCH EFFORT AND HMG HAD BEEN PREPARED TO PROVIDE SO MUCH FINANCIAL ASSISTANCE. ALEXANDER ASSURED ME THAT THE GOVERNMENT OF INDIA WAS GREATLY APPRECIATIVE OF THE OUTSTANDING EFFORTS BY HMG AND DID NOT IN ANY WAY BLAME THEM FOR THE SITUATION THAT HAD ARISEN. THE GAP BETWEEN THE PRICE DAVY HAD ORIGINALLY BID FOR FOB AND THEIR NEW PRICE WAS TOONHIGH AND THAT WAS THE PROBLEM.

(E) AT THAT POINT I DEPLOYED THE CONCESSIONS IN PARA 2 OF YOUR TELEGRAM UNDER REFERENCE. ON THE BASIS OF A PREVIOUS CONSULTATION WITH LAZARDS, I TOLD ALEXANDER THAT THE CAPITALISATION OF INTEREST WOULD SAVE THE GOVERNMENT OF INDIA A SUM IN THE ORDER OF DOLLARS 120 TO DOLLARS 140 MILLION. I POINTED OUT THAT THIS TOGETHER WITH THE AID AND HIS ADMISSION THAT THE NET OF THE INDIAN ADDITIONS AND DELETIONS TO THE SPECIFICATION AMOUNTED TO AN ADDITIONAL SUM OF DOLLARS 60 TO DOLLARS 75 MILLION REDUCED THE GAP BETWEEN THE TWO SIDES TO DOLLARS 200 MILLION AT THE MOST. I SAID THAT THIS WAS A LOT LESS THAN THE GOVERNMENT OF INDIA WOULD HAVE TO PAY IF THEY MISSED THE PRESENT DEADLINE AND BOUGHT THE SAME STEEL PLANT NEXT WEEK. ALEXANDER ASSENTED TO ALL OF THIS AND ASKED WHETHER HE COULD QUOTE ME TO THIS EFFECT AT THE CABINET MEETING. I SAID HE COULD. HOWEVER HE REAFFIRMED HIS EXPECTATION THAT THE CABINET WOULD CONCLUDE AS SUGGESTED ABOVE.

2. WHITING LEFT LAST NIGHT FOR LONDON AND WAS REPLACED EARLY THIS MORNING BY SIR JOHN BUCKLEY WITH WHOM I HAVE SO FAR HAD TWO CONSULTATIONS TODAY. DAVY ARE READY TO CUT THEIR PRICE BY A FURTHER DOLLAR 22 MILLION CALCULATED AS ABOUT 1% OF THEIR FOB PRICE. HOWEVER AS FAR AS I KNOW, THEY HAVE NOT COMMUNICATED THIS TO THE INDIANS AND WHEN I RANG ALEXANDER A FEW MINUTES AGO WITH THE OBJECT OF BRINGING BUCKLEY TO SEE HIM I WAS TOLD HE WAS IN A CABINET MEETING.

THOMSON

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