



PRIME MINISTER

INDIA: ORISSA STEEL PROJECT

At your meeting with Mrs Gandhi on 29 September it was agreed that the British Steel Corporation should discuss with the Indian authorities which parts of this project might be supplied by UK industry. Initial discussions took place earlier this month, and we have now been asked to indicate as a matter of urgency, the packages of equipment which could be supplied competitively from the UK.

Attached as an annex is the list of packages which, on the basis of BSC's assessment, present very attractive business and for which UK firms would be highly competitive. This would be worth some £650m at today's prices. The figures are approximate at this stage and, of course, the Indians may not agree to the UK supplying as much as this. But if we are to propose this extent of supply, we must be ready to back it with the necessary finance.

AID

When the negotiations with Davy broke down in May, we had offered £120m of special aid and £50m of local cost aid in support of Davy's bid. The Indians have made it clear in subsequent discussions that they would expect any financial package associated with a new British initiative to be broadly comparable to that which applied to the Davy bid. At the present time £20m in each of the three financial years 1983/84 - 1985/86 has been set aside in support of this project.

However if the UK offers all the packages recommended by BSC, the total UK content would be only marginally smaller than the UK content in the Davy bid. Indian expectations of aid will rise accordingly. I do not think we should offer the £120m which was our final offer designed to clinch the business in May. But I have no doubt that if we are not able to present an aid package which recognises that the proposed level of UK content is of the same order of magnitude as before, the Indians will be very likely to turn elsewhere for the business. The Russians, Germans and Japanese are already showing keen interest.

It is important that Prime Minister we make every effort to understand that the Chief Secretary to further work will be commenting, broadly agreeing.

2. Agree to provision of extra £40m aid

Yes. subject to view of EX colleagues

Mr.

A.J.C. 3/11

①



Must not

I understand that Francis Pym and Neil Marten have suggested that our initial offer should be no more than £80m, but that they would be willing to go to £100m on the understanding that no further aid resources would be made available to this project. My judgement is that the Indians would be likely to reject £80m out of hand as inadequate in relation to such extensive supply from the UK. I propose therefore we should be prepared to offer £100m (subject to normal appraisal) to support the packages totalling £650m. This would require £20m in each of the two years 1986/87 and 1987/88 in addition to the sums already reserved. We should also be ready to provide local cost aid from the RTA provision at the same level as before if the Indians request it.

SUBSIDY LEVELS

Since May, interest rates for the export credit which would also be involved have risen from $7\frac{1}{4}\%$ to 10%, and domestic interest rates have fallen. The subsidy element of the package proposed above would be 24.1% with £100m aid the subsidy value of the final package in support of Davy was 44.4%. There is still some way to go, but this package would be a fair and reasonable offer to try and get as much as we can.

CONCLUSIONS

I believe that we now have a very real opportunity to salvage a large proportion of the business lost in May. It is of course possible that the Indians will decide not to accept UK sourcing for all our priority packages, in which case the level of UK content and the required financial support would be lower. However we should approach the Indians with the aim of securing a maximum of business. This can only be achieved if we are prepared to support the business with an appropriate financial package. I should therefore be grateful for agreement that provision should be made for a further £40m of aid in support of this project.

I am copying this to the members of EX and to Neil Marten.

LORD COCKFIELD

Approved by Secretary of State and signed in his absence.

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3 NOV 1982

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UK SOURCEABLE PACKAGES

<u>Package</u>	<u>Value £m</u>	<u>Potential Lead UK supplier(s)</u>	<u>Possible Location of Work</u>	<u>Comments</u>
1. Wire Rod Mill	30	Davy McKee (Sheffield)	Sheffield	Virtually the same as in the Davy bid.
2. Materials Handling	80	GEC Materials Handling Strachan Henshaw Babcock Hoxey NEI Clark Chapman	Teeside Bristol Kent	Valuable work for a range of smaller companies.
3. Coke Ovens	160	Babcock Woodhall Duckham	North of England	To have been supplied by French in Davy bid, but Indians favour UK design.
4. Continuous Casting	30	BSC Distington	Cumberland	
5. Sinter Plant	25	Davy McKee (Stockton) Lurgi UK	Sheffield	Virtually the same as in the Davy bid.
6. Computer Systems	15	BSC(OS), ICL, Ferranti	Various	BSC are world leaders.
7. Power Plant & Electrical Distribution	120	GEC/Babcock	North West England	Indians very impressed with similar UK package in Davy bid.
8. Oxygen Plant	20	BOC	Various	UK highly competitive.
9. Blast Furnace	125	Cleveland Bridge Davy McKee/Fa.1 Wurth	Teeside	Different specification from before - High UK fabrication content.
10. Workshops, Labs and Training Centre	25	BSC Distington coordinat- ing many smaller suppliers.	Cumberland	Includes c£15m of UK machine tools.
11. Transportation (locomotives etc)	20	Thomas Hill	Rotherham	High value - added business.
Total	550			

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ODA

10 DOWNING STREET

From the Private Secretary

8 November 1982

INDIA: ORISSA STEEL PROJECT

The Prime Minister has seen Lord Cockfield's minute of 2 November and Mr. Brittan's undated minute commenting on this.

Mrs. Thatcher considers it important that we make every effort to obtain as much work as possible for British industry in connection with this project. She therefore agrees that we should be prepared to offer £100m of aid (subject to normal appraisal) to support the packages totalling £540m. She also agrees with the conditions suggested in Mr. Brittan's minute.

I am copying this letter to the Private Secretaries to the members of EX and to Mr. Neil Marten.

A. J. COLES

John Rhodes, Esq.,
Department of Trade

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PRIME MINISTER

INDIA : ORISSA STEEL PLANT

I have seen Arthur Cockfield's minute to you of 2 November and Leon Brittan's of 3 November. I should like to add my support to the proposals put forward for securing this potentially large amount of business for a number of British manufacturers spanning a broad area of industry. The additional work will be very welcome. Indeed for some of the companies concerned, foreign contracts now offer the only sales prospect, given the lack of home orders from BSC. The added value of these hardware exports will be particularly high since there will be relatively little imported content.

2 I support the proposal that we should aim to secure the maximum business and to do this I also accept, like Leon Brittan, that we shall have to offer a realistic financial package. I leave it to others closer to the problem to judge the exact level of our opening bid. I should have thought myself that the Indians, who are very shrewd negotiators, will have a very clear idea, especially in view of the earlier negotiations, how much business they are prepared to place with us and how much aid is appropriate. I can see merit therefore in making a realistic opening offer linked to the total package, making it plain that

(2)

Prime Minister

You have already made
your views clear.

MS

10/11



it would be scaled down for anything less than the £650m. This would be better than opening too low and finding ourselves forced to quickly raise the bid to something closer to what we are prepared to give.

3 I accept that if we were to get this package there would be problems of ECGD Section 2 cover for future commercial business. I would hope, however, that the limit for India, which has an excellent record and good prospects, could be reviewed if it should threaten to inhibit good commercial prospects.

4 I am copying this to the members of EX and to Neil Marten.

PJ

P J

9 November 1982

Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

TRADE = PROMOTIONAL VISITS & APRIL 81

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PRIME MINISTER

Prime Minute
Content with the conditions
which the Chief Secretary suggests
in para. 5?

A. J. C. $\frac{4}{11}$

INDIA: ORISSA STEEL PROJECT

Yes not

I have seen Arthur Cockfield's minute to you of 2 November reporting progress on this project. I accept that a substantial subsidy from the aid programme will be needed to secure these exports, but I should draw your attention to one or two points of difficulty.

2. The most difficult problems relate to ECGD and the Consensus. If we are successful in achieving the full £650 million of business the ECGD section 2 limit for India will, I understand, be largely used up, with the danger that other contracts on straight commercial terms which are at present under negotiation may be squeezed out. The uncertainties about the size and timing of the steel plant business make it difficult to assess how serious a problem this is, but we must recognise that it exists.

3. A further problem is that the proposal in Arthur Cockfield's minute amounts to a mixed credit with a grant element in the range 20-25%, which under the Consensus rules requires prior notification to our partners in the OECD. This will be embarrassing in view of our general stance against export subsidies in that forum. It will also mean breaking for the first time our firm policy of not initiating mixed credits at below 25% grant element. On balance I think this may be a lesser evil than the alternative of adding up to £12 million to the aid content (for which ODA have no provision) in order to reach a 25% grant element. You will however wish to consider the point.

4. The total subsidy involved, including the RTA money, is incidentally 32%, not the 24% quoted in Arthur's minute. I would not however regard this as excessive in the circumstances.

5. It is a pity that my officials were not consulted about the important financial aspects of this proposal, as the conventions require, so that some of the difficulties could have been ironed out. If it is essential that an offer is made immediately, I think a decision to go ahead should be subject to the following conditions:-

(a) as proposed by Francis Pym and Neil Marten, we should not initially offer the full £100 million of regular aid, since the Indians are bound to want to improve on our opening bid.

(b) it must be understood that if in the course of negotiations it is necessary to go beyond £100 million, any further amounts must be found from within the aid programme, if necessary at the expense of the Aid and Trade Provision.

(c) nothing above the normal ECGD terms, eg by way of capitalisation of interest, should be offered.

(d) the amount of aid on offer should be reconsidered if the amount of UK business turns out to be less than the £650 million now envisaged.

7. I am copying this minute to the members of EX and to Neil Marten.

L.B.

LEON BRITTAN

received 4.11.82

Trade : Co-ordination of Ministers & businessmen
on Trade promotion visits abroad

April 81



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LONDON