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PRIME MINISTER

INDIA : WESTLAND HELICOPTERS

I have seen Geoffrey Howe's minute of 13 May. I agree that we should now think of the consequences of the WG30 contract not proceeding. Apart, of course, from the aid situation, there are also the problems of the company itself, but these are being pursued separately.

2 On the aid programme implications, I share Geoffrey Howe's view that there should be a reduction in the Indian programme for 1985/86 without jeopardising normal commercial relations and avoiding a major row. I am sure that the Indians also accept that some reduction will be inevitable.

3 Before deciding on a specific figure, this situation does give us an opportunity to try to adjust some of the expectations that the Indians have built up on the operation of our aid programme.

4 First, the belief that our aid will always be in a 100 per cent cash grant form. I recall our worries both about the Westland's order and the BALCO power station when



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confronted with meeting the whole value in cash. This is not necessarily the way other countries' aid to India is provided, and we could obtain a higher value of exports with a more flexible grant allocation of 25-50 per cent given that there is still a large volume of export credit capacity for India unused. This would be entirely consistent with international practice and would help avoid the heavy expenditure commitment on the whole cost of particular projects. Second, the presumption that we shall always attempt to spend the full volume of the aid programme allocation. When you agreed the increase in 1982 with Mrs Gandhi, I recall it was on the basis that we should have our share of the more significant projects. But the Indians have not been entirely reliable in following this through, and looking to the future there are some major investments that we could not readily contemplate on the basis of 100 per cent grant nor where the presumption of automatic payment will help us gain the leverage to secure an inside track.

5 I recognise that we shall require some skill in shifting from historic attitudes, but India is by far our largest bilateral programme. If we are to have the facility to shift emphasis to new markets such as Indonesia or China, a more efficient way of deploying our aid in future would seem very desirable.



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6 On the particular scale of the immediate reduction, I would rather start from the premise of establishing what genuinely additional projects we can agree with the Indians. My officials have suggested several to ODA, such as power generators for Najarjunasagar and Calcutta, gas turbines and one or two others that we were previously considering for ATP support when the bilateral programme appeared full.

7 On the allocation of residual funds, there will inevitably be problems of finding sufficient projects to take up the expenditure this financial year. We should also need to make provision for any subsequent years' payments. But in principle the Foreign Secretary's approach seems entirely right.

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21 May 1985

Department of Trade and Industry

India PT 4

Belarus

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