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From the Minister for Trade

The Rt Hon Timothy Raison MP
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Eland House
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12 December 1984

Tim

INDIA ATP: DESU GAS TURBINES

with CP?

Thank you for your further letter of 12 December about my proposal for ATP to be offered in support of bids by GEC/Rolls Royce and John Brown Engineering for a 180MW gas turbine power station for the Delhi Electric Supply Undertaking. ATP of up to £8.77m would be involved, assuming a 25% grant element, depending on which bid is successful.

On the timing of a decision I agree that deadlines in India are far from sacrosanct; nevertheless, DESU intends to place an order shortly after the election, as they urgently need the additional capacity. If an ATP offer is to be made it should be made quickly. We have rehearsed the issues extensively. We have not agreed and I would now like the Prime Minister to consider the matter, as she has requested. I would have preferred to go to EX formally as you suggest; but there is simply no time to do this.

Commercially, the case for ATP support is very strong. Two British companies, GEC/Rolls Royce and John Brown, have submitted strong competitive bids, and have a good chance of success, if the French soft credit terms can be matched. Apart from the immediate commercial, industrial, and employment benefits of the order, the winner will be in a strong position to secure a collaboration agreement with the Indian manufacturer BHEL, giving a unique position in the Indian market for gas turbines and potential sales of £150m; this would be particularly significant for the UK if the GEC/Rolls Royce British technology is chosen.

ATP is designed to be used in defence of our commercial interests in just such a situation as this and industry would find it hard to understand failure to use it in so clear cut a case. You will recall that the Report of the Aid and Trade Working Party, endorsed by Ministers in 1979, stated that, while, to meet the requirements of the Overseas Development Act, all projects have to pass a minimum test of developmental soundness, it is the industrial and



commercial objectives of the scheme which predominate in the selection of projects. Peter Rees' letter of 30 November, reaffirming the point - which I accept - that any project financed from the aid programme has to have clear developmental value, is not inconsistent with this.

There are four final points I would like to make on the developmental issue, on which I find your advisers' view unconvincing. First, the project is a clear developmental priority for the Indians, in view of the difficult power situation in Delhi. Second, our competitors are prepared to commit aid funds to it. Third, irrespective of the level of tariffs, there are good uses for the gas turbines eg for peak supplies, and to allow maintenance on other plant (essential if the use of existing capacity is to be improved), though I accept we do not have the evidence to measure accurately their impact against the alternatives. Finally, and perhaps most important, it is unrealistic - and irrelevant to the potential developmental benefits of gas turbines in the DESU situation - to refuse to help because the Indians themselves are partly to blame for their current power difficulties in Delhi. Refusal to give ATP will not change Indian policies on investment or tariffs; it will simply hand the business to our competitors.

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

PAUL CHANNON

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