

SUBJECT

CONFIDENTIAL

✓ Marked
India. Pt 2: UK/Indian
Relation

RECORD OF A MEETING AT RASTRAPATI BHAVAN ON 16 APRIL 1981
AT 1115 BETWEEN THE PRIME MINISTER AND MR. VENKATARAMAN,
MINISTER OF FINANCE, GOVERNMENT OF INDIA.

Present:

Prime Minister
Sir John Thomson
Sir John Graham
Mr. Mathrani
Mr. Tim Lankester

Mr. Venkataraman, Minister of
Finance
Mr. Malhotra, Ministry of
Finance
Mr. Bhalla, Ministry of External
Affairs

Coastal Steel Plant

After exchanging courtesies, the Prime Minister said that she had just had a long talk with Mrs Gandhi and Mr Mukherjee about the coastal steel plant contract. She had tried, in particular, to clarify HMG's position on the aid that would be available if Davy were to win the contract. Mr. Mukherjee seemed to be under the impression that the UK would be simply reallocating part of the existing provision for India. She had tried to make clear that this was not so. The UK Aid Programme was now basically split into two: there was an aid provision for individual countries, and there was a provision for project aid which was intended to help UK industry win contracts throughout the developing world. The latter was only available for UK led bids. If Davy did not win the steel contract, it could very well be that the aid which was intended for it would not go to India, but to another country. The Davy bid was very competitive, and it was supported by a generous aid package; there would also be a French aid component. She had great hopes that Davy would win; it would do much to cement Indo/British relations.

Mr. Venkataraman said that the Government of India were actively considering two proposals - the one from the UK, the other from the Federal Republic of Germany. If the UK led bid was competitive, he saw no reason why it should not win.

Mr. Malhotra said that they were quite clear that the aid on offer in support of the Davy bid would only be available to India if Davy won it. The question of reallocation

CONFIDENTIAL

/ had

CONFIDENTIAL

- 2 -

had only been raised by the Indian Government in the context of the substantial decline in the UK aid provision for India over the coming year. The offer of aid towards the steel plant alongside the decline in the general aid provision caused them considerable embarrassment in relation to other donors. In particular, the Germans were not cutting their overall level of assistance (which was running at DM 400 million this year), and they had not tried to link their programme with their bid for the steel plant. Mr. Venkataraman added that the UK's general provision for India was being cut from £140 million in 1980/81 to £87 million in the coming year, which was inclusive of the retroactive terms adjustment. Sir John Thompson commented that the ceiling for the coming year was in fact £97 million.

The Prime Minister said that the UK had had to reduce its overall aid programme. Sir John Graham said that the reduction in the Indian programme was not greater proportionately than for other countries. Sir John Thompson said that the UK was India's largest bilateral donor, and in 1980/81 India had in fact received from the UK £10 million more than it had expected.

The Prime Minister said that the Government of India seemed to be criticising the UK because of the disproportionately large size of its aid programme in the past. The UK had tried to be most cooperative in its aid and other relations with India, and she hoped that - in the context of the current steel negotiations - India would not "take it out" on the UK now.

IDA Replenishment

Mr. Venkataraman said that the Government of India were worried about the sixth and seventh replenishments of the International Development Assistance (IDA). Negotiations for the seventh replenishment would be getting under way shortly. India was concerned that if IDA's resources were not increased, development assistance to developing countries would be badly affected. He hoped that the UK would do their utmost to persuade other countries, and in particular the USA, to be generous. As regards the sixth replenishment, they were concerned about the revised profile of contributions announced

CONFIDENTIAL

/ by the new

CONFIDENTIAL

- 3 -

by the new US Administration. The US had not reduced their total contribution but the contribution in the first two years of the replenishment period would be sharply down on the previous Administration's intentions. Mr. McNamara, visiting India recently, had indicated that IDA would shortly run out of commitment authority because of the changed US position. The situation would be even worse if other donor countries were to follow the US; it was important that they should stick to their previously announced commitments.

The Prime Minister said that the UK contributed a higher proportion of GDP to IDA than most other countries. She sometimes wished that we did not, and instead concentrated more on bilateral aid. For the UK seemed to get more credit for its bilateral aid efforts. She cited the example of Bangladesh, whose President had criticised the UK for not being generous enough. But he had not seemed to understand that the UK was making a large contribution to Bangladesh aid receipts through IDA. The Prime Minister went on to say that she understood the problem of the sixth replenishment caused by the US Administration's decision, and she supposed that projects such as the Sri Lanka dam proposal would be affected. Sir John Graham asked whether India had made direct representations to the US about the problem. Mr. Venkataraman replied that they had indeed done so. Secretary Regan had replied in terms which were helpful^{only} to the extent that he had affirmed that the Administration stood by its commitment in terms of the total contribution to the sixth replenishment. He repeated that both they, and the World Bank, were worried about the revised profile of payments. Mr. Malhotra added that India was also worried about the attitude of the US Congress.

Trade and Protection

Mr. Venkataraman said that India was concerned about what appeared to be the growing protectionism of the developed countries. Unless they kept their markets open, the developing countries would not be able to purchase the plant and equipment needed for their development programmes. India was faced with a growing balance of payments problem. It was spending \$7 billion

/ per year

CONFIDENTIAL

CONFIDENTIAL

- 4 -

per year on oil imports, which constituted 72 per cent of export earnings. He hoped that the UK Government would do everything possible to hold off protectionist pressures, and to persuade its EEC partners to do likewise.

The Prime Minister said that the UK had an open door policy on trade: the UK market was far more open than that of some other EEC Countries, who too often used non-tariff barriers to keep out imports. UK consumers, in any case, would not tolerate greater protection. But Japanese imports were a real problem - not only for UK industries, but for other countries trying to compete in the UK market. Mr. Mathrani commented that many of India's UK quotas were not filled. Mr. Malhotra said that this was true, but for some Indian exports which were growing rapidly, the quotas were too tight.

The Prime Minister went on to say that she fully appreciated the problems for India and other countries caused by high oil prices. She hoped that the Indian Government had made representations to OPEC and also to the Saudi Foreign Minister during his recent visit. She would certainly be discussing oil prices when she visited Saudi Arabia and the Gulf. The UK had for a time tried to hold back the price of North Sea oil, although ultimately this had not proved feasible. She wondered whether any of the OPEC countries had been willing to provide India with rebates on the oil price.

Mr. Malhotra said that India had raised the latter point several times. But only one country, Iraq, had agreed to a rebate. They had agreed a 20 year interest free loan against last year's increase in price; an agreement had been signed, but in the event it had not been implemented because of the Iran/Iraq war.

Thermal Power Plant

Sir John Thomson said that UK proposals for a thermal power plant had been discussed over recent weeks and months with the Indian Government. It would be helpful to have an indication of the Government's position.

/ Mr. Venkataraman

CONFIDENTIAL

CONFIDENTIAL

- 5 -

Mr. Venkataraman said that they were planning on an expansion of electricity capacity of 19,500 megawatts. The infrastructure and project requirements were currently being worked out. Mr. Malhotra added that an investment decision on the particular power plant in question had yet to be made. The Ministry of Power had been asked to enquire with the Planning Commission, who were responsible for allocating the investment budget, whether there was scope for constructing an additional plant.

UK Investment in India

The Prime Minister said that many UK companies wanted to invest in India. But some companies with existing investments felt that they were not getting as good a deal as they might. She hoped that any particular problems could be sorted out. She did not want any feeling that companies were being badly treated to dissuade new investment. She cited the problems which ICI were currently having with their pharmaceutical plant at Ennore. According to the ICI Chairman, the Government of India had frozen the plant's prices at levels of 1970 and 1974, and this was causing heavy losses. Mr. Malhotra said that he would look into this to see what could be done.

Sir John Graham also mentioned the problems of Burmah Oil. Mr. Venkataraman said a tentative decision had been reached on the Burmah issue with a view to an early announcement.

Indo/British Collaboration

The Prime Minister expressed the hope that Indo/British collaboration could be expanded both in India and in third countries.

Mr. Malhotra said that technical collaboration with British firms in India had been increasing very rapidly. There was particular scope for collaboration in the coal industry. There was also great scope for increased collaboration in third countries though - if this were to be successful - British partners had to be prepared to make some sacrifices initially in order to allow Indian companies part of the business.

CONFIDENTIAL

/ The meeting

CONFIDENTIAL

- 6 -

The meeting finished at 1205 hours.

T.P. LANKESTER

16 April 1981

cc Sir John Thomson
Sir John Graham
Mr. Alexander
Mr. Mathrani

CONFIDENTIAL