
India/Britain

India cancels its British steel contract

by Uma Zykofsky from New Delhi

The Thatcher government's efforts to expand its weight in developing-sector economies received a setback last month. On May 13, following a special cabinet session, the government of India announced the cancellation of a \$2.8 billion contract for the construction of the Paradeep steel complex awarded last September to British steelmaker Davy McKee. It had been the largest single contract India ever awarded to an international firm. The decision was made after Davy McKee attempted to renegotiate the terms of the contract, and escalate the \$2.8 billion to \$4 billion.

The Davy McKee fiasco, and details now coming out in New Delhi about British business practices, suggest that it is unwise to do business with the British. The British steelmaker had used the Prince of Wales as an aggressive lobbying agent for this contract. Prime Minister Thatcher was also involved, providing all sorts of British government guarantees in order to gain the contract, guarantees the British sought to violate before the ink was dry on the letter of intent.

The British have been making an effort to gain contracts for a number of multibillion-dollar industrial projects now in the planning or contract stage in India, as well as in other developing countries. The long-standing "historical ties" between Britain and India have been invoked as part of this effort. The Davy McKee contract had been awarded last year despite criticism in India that it did not offer the best technology available, and that Indian companies had been deprived of contracts they could fulfill themselves. And this May, the first part of a project to upgrade the Indian telephone network with electronic systems was awarded to a French firm; that was a contract the British had been seriously bidding for.

Contract violations

When the contract was originally announced, as Indian government sources now reveal, the reason Davy McKee got the Paradeep deal over the technologically superior Mannesman-Demag of West Germany was because better credit terms were offered: \$350 million

from British government grants, \$500 million in Euro-currency loans, and a \$190 million French soft loan.

The West German competitor could not come up with such a package. As soon as the project was clinched, the British government, however, backed out of its grants, and the French partners pulled out of their portion as well.

Then Davy McKee began to delay the project and haggle on the agreed-upon cost estimates.

They managed to stall past the May 15, 1982 deadline, when the interest rate for the project loan increased from 7.5 to 10 percent, and finally asked the government to "reopen discussion on the contract," but not reopen bidding, asking for the cost estimate to be increased to \$4 billion without any inclusion of those construction costs of the project which would be passed on to India.

A further change demanded was an unlimited time schedule; a deadline had been originally agreed upon. A clause stating unlimited cost escalation was also demanded.

Indian government sources summarized Davy's position as an effort to hook India into a British equipment-supply cycle and overall British supervision of the project without assuming any responsibility for results. Such a position became totally unacceptable to the government of India.

Plan review

On the heels of the Davy McKee lesson, a review of some of the current Sixth Five-Year Plan projects is under way. The steel plant in question is to be the seventh major steel complex in the country, the sixth in the public sector.

While other steel plants were built in the 1950s and 1960s in collaboration with the Soviet Union, West Germany, and Britain, the Paradeep plant, along with a new plant being built at Vizakapatnam with Soviet assistance, is the first new steel complex to be built here in the last 15 years.

Indian steelmakers are in a position to design and construct a plant domestically, importing foreign equipment only as needed; informed sources say that while this course of action will provide a push for the domestic economy, longer construction schedules may be incurred.

Prime Minister Indira Gandhi has already voiced her view that India must use the best available technology in all sectors to move the development of the entire country forward. While the foreign-exchange position is tight, holdings having fallen by 30 percent to approximately \$2.4 billion in March 1982, the Prime Minister is said to be concerned that whatever is purchased or contracted abroad be the best possible so that it benefits the economy as a whole.