

PDCA-116

SEP - 3 1986

ACTION MEMORANDUM FOR THE ADMINISTRATOR

FROM: *for* AA/ANE, Charles W. Greenleaf, Jr. **JAG**

SUBJECT: INDIA - Defensive Mixed Credits; Computers and Associated Technology (398-0350)

Problem: You are requested to authorize \$7.0 million in grant Economic Support Funds for AID participation in a government - mixed credit financing package with the Export-Import Bank of the United States (Eximbank). The AID-Eximbank package will finance the sale to the Government of India (GOI) from Control Data Corporation (CDC) of computers and associated technology.

This will be the first mixed credit authorized under the Trade and Development Enhancement Act of 1983.

Discussion:

1. The Trade and Development Enhancement Act of 1983 (TDEA) authorizes AID, in cooperation with Eximbank and/or private financial institutions, to offer "government-mixed credit" financing that will enable U.S. exporters to meet concessional financing terms proposed by foreign competitors for a particular export sale. The Act imposes three substantive requirements. First, the U.S. mixed-credit financing package must be defensive in nature, i.e., there must be reasonable proof that unfair concessional foreign financing is being offered to, or arranged for, a bona fide foreign competitor for a United States export sale. Second, the U.S. exports to be financed must be reasonably expected to contribute to the advancement of the development objectives of the importing country. Third, the exports must be consistent with the economic, security and political criteria used to establish country allocations for Economic Support Funds.

All mixed credit transactions undertaken under the authority of the TDEA must be unanimously approved by the National Advisory Council on International Monetary and Financial Policies (NAC).

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2. The GOI, through the Electronics Corporation of India Limited, (ECIL) is embarking on a nationwide program to computerize critical areas of the economy, including the health, education, banking, utility, energy, petroleum, agricultural, government research and industrial sectors with a view to increasing their ability to deliver needed goods and services to the economy. The GOI has recognized the need for western and particularly, US technology for this purpose. Prime Minister Rajiv Gandhi, among other trade liberalization measures, lifted many of the sanctions against technology imports. The U.S. is strongly supporting India's initiative, as underscored by the 1984 bilateral Memorandum of Understanding on Technology Transfer (MOU), which has received considerable press coverage here and abroad.

The proposed AID-Eximbank mixed credit package will assist the Indian Government in financing the purchase of computer technology and training from Control Data Corporation, of Edina, Minnesota. The package is necessary to enable CDC to compete effectively with French government supported mixed credit financing. As verified by Eximbank, the French competitor, CII Bull, offered substantially similar technology supported by mixed credit terms containing a grant element of 30.53 percent.

To substantially meet the French offer, AID will provide a \$7 million grant. The AID grant will be parallel to and utilized in combination with an Eximbank loan of \$20 million. The combined AID-Eximbank package will permit a sale of not to exceed \$27 million for a 25.93 percent grant element.

The proposed mixed credit was unanimously approved by the NAC on May 16, 1985 (see Tab A). Contracts between CDC and ECIL were signed in February 1986 (see Tab B). After obtaining the necessary GOI approvals, the ECIL requested financing from Eximbank (and AID) by telex of July 25, 1986 (see Tab C). The particulars of the transaction are set forth in more detail in the attached Eximbank Preliminary Commitment Memorandum, dated March 7, 1985 (see Tab D).

3. The sale can be reasonably expected to contribute to the development objectives of India. It will provide India with the capacity to manufacture mainframe computers, thereby laying the foundation for the emergence of a new industry with substantial employment effects. The wider utilization of computers in the Indian economy should also contribute to the more efficient operation of both the public and private sectors, including such key development sectors as health, agriculture, industry, and education.

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4. Acquisition of the computer technology by India is consistent with the economic, security and political criteria used to establish country allocations for Economic Support Funds, provided that a satisfactory technology transfer agreement is concluded between the U.S. and Indian governments. (see paragraph 5 below). The computerization of substantial segments of India's economy will contribute to India's economic and political stability. The sale will also contribute to the strengthening of U.S. trade relations with India. It is estimated that there will be approximately \$480 million in follow-on sales as India undertakes the long-term expansion of its computer industry. U.S. companies will now be in an excellent position to compete for these sales. The sale and the proposed AID-Eximbank mixed credit have the strong support of both the Commerce and State Departments.

In summary, the AID grant meets the three substantive requirements of the Trade and Development Enhancement Act of 1983 mentioned above.

5. Licensing of the technology transfer is subject to signature of a set of assurances in addition to the MOU. Agreement in principle was reached in exchanges in 1984 and 1985. The Embassy has clarified three points recently raised by the Ministry of External Affairs; only one remains subject to a final GOI approval prior to signature, and the Department of State expects this will be speedily obtained.

At State's request, we have instructed the Mission that signing of the technology transfer implementing agreement must take place prior to obligation of the AID funds. If, however, progress continues to be made but it is impossible to obtain a signed technology transfer implementing agreement before the AID funds must be obligated, our grant agreement will impose the requirement that a satisfactory technology transfer agreement be signed as a condition precedent to disbursement of the AID funds.

Disbursement, Terms & Conditions: The AID funds will be obligated by a bilateral grant agreement with the GOI which will be signed prior to the Eximbank loan agreement. The AID grant agreement will require in addition to the above mentioned condition precedent to disbursement, other conditions including the signed purchase- and-sale agreement between ECIL and CDC, the signed loan agreement with Eximbank, and satisfaction of such conditions precedent as that loan agreement may require. Thus, if the ECIL - EXIM Loan Agreement is not successfully concluded, disbursement of AID funds will not take place and the AID grant agreement can be terminated.

When the terms and conditions of both the EXIM-ECIL Loan Agreement and the AID-GOI Grant Agreement are met, the disbursement of the AID Grant will be made in one payment up front to cover the 15 percent down payment required for this sale and for training and other related costs. The Eximbank will finance the balance of the contract (\$20 million) with a ten year loan at 9.85% interest. The Eximbank funds will be disbursed as needed according to a mutually agreed upon disbursement schedule. The U.S. Government project implementation/monitoring responsibilities will be handled by Eximbank. Eximbank's provisions relating to ocean transport and source/origin of commodities shall apply. They require 100 percent U.S. source/origin.

Congressional Notification: A CN was submitted on August 4, 1986 and expired on August 18, 1986.

Recommendation: That you sign the attached project authorization and the cable, approving \$7.0 million in ESF grant funds for the mixed credit financing of India's purchase of computers and associated technology from CDC.

Attachments:

- Tab A. NAC Approval
- Tab B. CDC-ECIL Contracts
- Tab C. ECIL request
- Tab D. Eximbank paper
- Tab E. Authorization
- Tab F. Cable

Clearances:

ANE/PD:RPratt-(draft)
GC/ANE:HMorrisdraft
ANE/SA:LButlerdraft
ANE/SA:JManley(draft)
ANE/PD:PMatheson (draft)
ANE/PD:PBloom (draft)
ANE/DP:BSidman (draft)
PPC/PB:JSilver
PPC/EA:NRiden (draft)
GC/ANE:AMattice (draft)
DAA/ANE:RBell
GC:HFIV
State NEA/INS/RRBemer(draft)

AAJ/PDC

ANE/PD/SA: DDevin: eb 18712/83; EXT 7-6960:0777n

SEP 5/86

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National Advisory Council

On International Monetary and Financial Policies

Subject: Export-Import Bank/AID - Mixed Credit
-- India

Action:

The National Advisory Council gives unanimous consent to consideration of the following proposed mixed credit, consisting of an Export-Import Bank Preliminary Commitment and an associated A.I.D. grant, as authorized by Section 644 of Public Law 98-181:

A. Export-Import Bank

To: Control Data Corporation

Direct Credit:
Amount: \$20,000,000

Obligor: Electronics Corporation of India

Purpose: Assist in financing the sale of U.S. computer technology, systems, etc.

Terms:
Maturity: Twenty approximately equal semi-annual installments beginning six months after delivery

Interest: 9.85 percent per annum

B. A.I.D.

Grant: \$7,000,000

The foregoing is the text of an action of the National Advisory Council on International Monetary and Financial Policies approved on May 16, 1985.

Robert S. Watson

Robert S. Watson
Secretary

References:

Eximbank P.C. 85-0-5970 and
NAC Document 85-80
Staff Committee Minutes 85-20





FOR NATIONAL ADVISORY COUNCIL
USE ONLY

National Advisory Council
Document 85-80
May 13, 1985

OFFICE OF
ASSISTANT SECRETARY
FOR INTERNATIONAL AFFAIRS

MEMORANDUM

TO : NAC Agencies
FROM : Robert S. Watson, Secretary, National Advisory Council
SUBJECT: AID Participation in Mixed Credit for India

Attached is A.I.D.'s request for NAC approval of its participation with Eximbank in a proposed mixed credit for India in support of U.S. computer goods and services. A poll on this transaction will be taken at the Staff Committee meeting on Tuesday, May 14.

Attachment

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MEMORANDUM FOR ROBERT WATSON, Secretary
National Advisory Council on International
Monetary and Financial Policies

SUBJECT: Notification and Request of Approval of A.I.D.
Participation in a Mixed Credit Transaction

In accordance with Section 646(a)(2) of the Trade and Development Enhancement Act of 1983, the National Advisory Council on International Monetary and Financial Policies is hereby notified and its approval requested for A.I.D.'s participation with Eximbank in the offer of a mixed credit to the Government of India to finance the purchase of goods and services from a United States supplier, the Control Data Corporation.

Transaction: The transaction has a total export value of \$27 million and consists of the following items:

| | <u>U.S. \$Millions</u> |
|--|------------------------|
| Thirty-one (31) "Cyber 180" Model 810 and 830 computer systems, assembly kits and peripheral equipment | \$14.0 |
| Software | 1.0 |
| Computer systems testing and assembly equipment | 4.0 |
| Equipment for production facility including HVAC and electrical equipment | 4.0 |
| Training (in U.S.) | 1.0 |
| Technology transfer, including documentation instruction manuals and know-how fee | 3.0 |
| | <hr/> |
| | \$27.0 |

Eximbank has agreed to finance up to \$20 million of the transaction on the most concessional OECD Arrangement terms plus respective fees. A.I.D. would provide a grant of up to \$7 million. The total package would be a tied aid credit.

FOR NAC USE ONLY



EXPORT-IMPORT BANK OF THE UNITED STATES
811 VERMONT AVENUE, NW
WASHINGTON, DC 20571

SENIOR VICE PRESIDENT
DIRECT CREDITS AND FINANCIAL GUARANTEES

MAY 9 1985

National Advisory Council on
International Monetary and
Financial Policies
Office of the Assistant Secretary
for International Affairs
Room 5455
Department of Treasury
Washington, D.C. 20220

Attention: Mr. Robert S. Watson
Secretary

Re: India - Electronics Corporation of India
Control Data Corporation - P.C. No. 85-0-5970
Computers and Computer Technology Transfer

Dear Sirs:

Eximbank respectfully requests the NAC's approval on a proposed mixed credit pertaining to the above transaction.

On May 7, 1985 Eximbank's Board of Directors reviewed the referenced transaction (which Exim had previously authorized on standard terms per the attached memo, dated March 7, 1985) and agreed to participate with AID in a mixed credit, contingent upon AID making available a grant of \$7 million or more. The Board memo which addresses the mixed credit proposal, dated May 6, 1985, is also attached.

Under the terms of Exim's approval of the mixed credit, AID would provide a grant of \$7 million or more towards the total contract value of \$27 million. Exim would then contribute \$20 million, or 100% of the balance of the costs, whichever is less, on the same terms as currently authorized: 9.85% and a ten-year repayment term. Referring to the Exim financing (Option II) authorized per the March 7 memo, the AID funds would, in effect, be applied as follows:

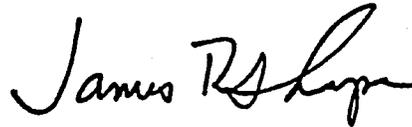
A handwritten signature or mark in the bottom right corner of the page.

First, in substitution for the cash payment; second, as substitution for the 10% supplier participation; and, finally, toward reducing the direct loan value from Eximbank.

As noted in the May 6 Board memo, the combination of an Exim \$20 million direct credit and an AID grant of \$7 million would provide a grant element of 25.93%; the French grant element in this case is 30.50%.

We would appreciate a response from the Council at your earliest convenience. If you or any members of the Council have questions regarding this request, please do not hesitate to call Mr. Albert Hamilton, Government Affairs Officer (566-8853), or Ms. Page Ramsey, Loan Officer (566-7910).

Sincerely,



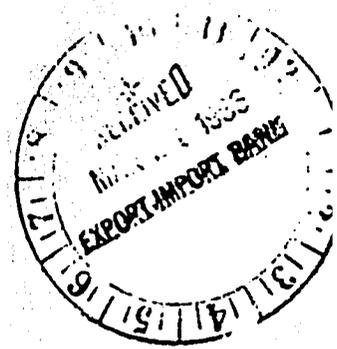
James R. Sharpe
Senior Vice President
Direct Credits and Financial Guarantees

Enclosures (2)

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GD CONTROL DATA

International Operations
Legal Services
8100 34th Avenue South
Mailing Address/Box 0
Minneapolis, Minnesota 55440 U.S.A.
Telex Number: 29 0435



March 21, 1986

Ms. Page Ramsey
Asia Division, Room 1111
Export-Import Bank of the United States
811 Vermont Avenue, N.W.
Washington, DC 20571

Subject: Control Data Indo-Asia Company/Government of India
Contracts

Dear Page:

Pursuant to your request I enclose one copy each of the following executed agreements:

(1) License Agreement by and between the Government of India and Control Data Indo-Asia Company; and

(2) Materials Purchase Agreement by and between the Government of India and Control Data Indo-Asia Company.

Because neither agreement has become effective in accordance with its terms, we would appreciate your retaining them in strict confidence; they are provided to you now solely for purposes of your internal analysis and review.

Should you or your counsel have any questions, please feel free to call me at (612) 853-3282.

Sincerely yours,

Ralph W. Beha
Assistant General Counsel
International Operations

Encls.

cc: M. G. Eleftheriou
I. P. Donoghue
J. H. Grierson

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EXIBANK

TLX 9531556310:"AS"
ALT 953314589:"AS"

BT

ELECTRONICS CORPORATION OF INDIA
ATTN: MR. S. KALYANAM
GENERAL MANAGER
HYDERABAD, INDIA

COPY TO: THE HONORABLE
JOHN GUNTHER DEAN
AMERICAN AMBASSADOR
AMERICAN EMBASSY
NEW DELHI, INDIA

SUBJECT: EXPORT SALE OF CONTROL DATA COMPUTERS AND TECHNOLOGY

THANK YOU FOR YOUR LETTER OF JULY 29, 1986 CONFIRMING YOUR INTEREST IN EXIMBANK FINANCING FOR THIS PROJECT. WE WOULD LIKE TO ADDRESS BELOW THE POINTS YOU RAISE IN THE SAME ORDER AS YOU PRESENT THEM.

(1) IN MOST EXIMBANK CREDITS, THE CASH PAYMENT IS PAYABLE IN EITHER OF TWO WAYS: (A) IN ONE PAYMENT PRIOR TO DISBURSEMENT OF EXIM FINANCING OR (B) IN INSTALLMENTS EQUAL TO AT LEAST 15 PERCENT OF THE VALUE OF EACH COMPLETED SHIPMENT UNDER THE CONTRACT.

FOR THE SUBJECT TRANSACTION, THE CASH PAYMENT WOULD BE FUNDED BY THE A.I.D. GRANT, WHICH WILL BE DISBURSED BY A.I.D. TO CONTROL DATA AGAINST CONTRACTUAL DOCUMENTS PRESENTED TO EXIM AND A.I.D. (THE BALANCE OF THE A.I.D. GRANT FUNDS, AFTER SATISFYING THE CASH PAYMENT, WILL BE APPLIED TO SUBSEQUENT EXPORTS UNTIL THE GRANT FUNDS ARE DEPLETED, AT WHICH TIME EXIM FUNDING WILL COMMENCE.)

(2) INTEREST RATES ARE PAYABLE ON ALL AMOUNTS DISBURSED AND OUTSTANDING UNDER THE EXIMBANK CREDIT. THE RATE AUTHORIZED ON THIS TRANSACTION IS 9.85 PERCENT.

(3) THE CUT-OFF DATE FOR DISBURSEMENT OF FUNDS UNDER THE EXIMBANK CREDIT (THE QUOTE EXPIRY DATE UNQUOTE) IS SET AT THE LAST EXPECTED SHIPMENT DATE FOR THE U.S. EXPORTS. ON THIS TRANSACTION, THE DATE COULD BE SET AT BETWEEN 12 AND 36 MONTHS AFTER THE CREDIT BECOMES OPERATIVE AND DISBURSEMENTS THEREBY AUTHORIZED BY EXIMBANK.

(4) REPAYMENT OF THE EXIM LOAN WILL BEGIN APPROXIMATELY SIX MONTHS AFTER THE MIDPOINT OF DELIVERY OF GOODS AND SERVICES. THE DATE WILL BE FIXED IN THE CREDIT AGREEMENT. HOWEVER, EXIMBANK WILL CONSIDER REVISING THE DATES AFTER THE EXPIRY DATE SHOULD CIRCUMSTANCES CHANGE.

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THIS TRANSACTION IS 9.85 PERCENT.

(3) THE CUT-OFF DATE FOR DISBURSEMENT OF FUNDS UNDER THE EXIMBANK CREDIT (THE QUOTE EXPIRY DATE UNQUOTE) IS SET AT THE LAST EXPECTED SHIPMENT DATE FOR THE U.S. EXPORTS. ON THIS TRANSACTION, THE DATE COULD BE SET AT BETWEEN 12 AND 36 MONTHS AFTER THE CREDIT BECOMES OPERATIVE AND DISBURSEMENTS THEREBY AUTHORIZED BY EXIMBANK.

(4) REPAYMENT OF THE EXIM LOAN WILL BEGIN APPROXIMATELY SIX MONTHS AFTER THE MIDPOINT OF DELIVERY OF GOODS AND SERVICES. THE DATE WILL BE FIXED IN THE CREDIT AGREEMENT. HOWEVER, EXIMBANK WILL CONSIDER REVISING THE DATES AFTER THE EXPIRY DATE SHOULD CIRCUMSTANCES CHANGE.

(5,6 AND 8) THE CREDIT APPLICATION FEE AND THE COMMITMENT FEE ARE REQUIRED ON ALL EXIMBANK TRANSACTIONS. OF COURSE, THESE FEES WILL PERTAIN ONLY TO THE EXIMBANK FUNDING AND NOT TO THE A.I.D. GRANT PORTION OF THE TRANSACTION. SINCE EXIMBANK IS NOT ISSUING A GUARANTEE, THERE WILL BE NO GUARANTEE FEE. IF THE BORROWER ELECTS TO PAY THE CREDIT APPLICATION FEE OVER A THREE YEAR PERIOD, THE FEE WILL BEAR INTEREST AT THE RATE APPLICABLE ON THE EXIM FUNDING.

DISBURSEMENT FOR U.S COSTS WILL BE MADE FROM THE A.I.D. GRANT FIRST, UP TO AN AMOUNT OF U.S. DLRS. 7.0 MILLION, THEN FROM EXIMBANK, UP TO AN AMOUNT OF U.S. DLRS. 20 MILLION, BASED ON A TOTAL CONTRACT VALUE OF DLRS. 27 MILLION. THERE WILL NOT BE SUPPLIER CREDIT FINANCING, ALTHOUGH SUPPLIER CREDIT FINANCING WAS ORIGINALLY APPROVED AND REFERENCED IN OUR MARCH 29, 1985 LETTER. INSTEAD, A.I.D. AND EXIM WILL FUND THE ENTIRE TRANSACTION.

IX GENERAL TERMS:
=====

(A) IT HAS BEEN A LONGSTANDING EXIMBANK POLICY TO REQUIRE GOVERNMENT GUARANTEES FOR DEBTS OF GOVERNMENT-OWNED AGENCIES. THUS, WE MUST CONTINUE TO REQUEST THE UNCONDITIONAL GUARANTEE OF THE GOVERNMENT OF INDIA.

(B) BY U.S. LAW, U.S. EXIMBANK CAN ONLY FINANCE THE COST OF U.S. FREIGHT, AND ALL FINANCED ITEMS MUST BE TRANSPORTED BY VESSELS OF U.S. REGISTRY, UNLESS A WAIVER FROM THE U.S. MARITIME ADMINISTRATION IS OBTAINED.

(C) YOUR JULY 29, 1986 TELEX CONSTITUTES A SUFFICIENT APPLICATION FOR CONVERSION OF THE PRELIMINARY COMMITMENT TO A FINAL LOAN AUTHORIZATION.

WE HOPE THE FOREGOING SERVES TO CLARIFY THE POINTS RAISED BY YOUR LETTER, AND WE LOOK FORWARD TO YOUR VISIT TO EXIMBANK DURING THE WEEK OF AUGUST 18. BEST REGARDS, RAYMOND J. ALBRIGHT' EXIMBANK

SENT 1417 EDT 08/15/86

NNNN
ACCEPTED IWC734 BEING PROCESSED

** COMPLETE **
WE DISCONNECT
Elapsed time: 00.02.26

PRELIMINARY COMMITMENT MEMORANDUM TO THE BOARD OF DIRECTORS
Asia Division

March 7, 1985

P.C. No.: 85-0-5970

Initial Written Contact: 1-11-85

COUNTRY India
APPLICANT Control Data Corporation, Edina, Minnesota
OBLIGOR Electronics Corporation of India
GUARANTOR Government of India
SUBJECT Request by Control Data Corporation to assist in financing the sale of computer technology, computer systems, subassemblies, components, capital goods and technical assistance. Shipments are expected to take place over a two-year period, at the end of which the Electronics Corporation of India will have the capability to assemble computers.

FINANCING PLAN

Total Cost of U.S. Goods and Services: \$27,000,000
To be Financed as Follows:

| | | <u>Total Term</u> |
|--|---------------------|-------------------|
| <u>Option I</u> | | |
| 15% Cash Payment | \$ 4,050,000 | |
| 65% Eximbank Credit @ 9.85% | 17,550,000 | 11.5 years |
| 20% Private Credit w/o Exim G'tee. | 5,400,000 | 4.0 years |
| | <u>\$27,000,000</u> | |
| <u>Option II</u> | | |
| 15% Cash Payment | 4,050,000 | |
| 75% Eximbank Credit @ 9.85% | 20,250,000 | 11.5 years |
| 10% Supplier Credit @ 9.85% w/Exim G'tee. | 2,700,000 | 3.0 years |
| | <u>\$27,000,000</u> | |
| <u>Option III</u> | | |
| 15% Cash Payment | 4,050,000 | |
| 85% Private Credit w/Exim G'tee. (U.S. dollars or foreign currency) | <u>22,950,000</u> | 11.5 years |
| | <u>\$27,000,000</u> | |

Credit Application Fee: 2.0% Guarantee Fee: 0.5%
Credit Commitment Fee: 0.5% Disbursement: Pari passu
Guarantee Commitment Fee: 0.125% P.C. Expiry Date: 9-15-85
Repayment: Twenty semiannual installments beginning six months after the midpoint of deliveries, but not later than October 31, 1986. Eximbank to be repaid last.

SPECIAL
CONDITIONS None.

STAFF
RECOMMENDATION Approval. 3-21-85

BOARD ACTION

SUMMARY AND CONCLUSION

Control Data Corporation (CDC) is seeking Exim's assistance to establish a dominant position for its computer technology in the enormous Indian market. India, which has no computer manufacturing capabilities at present, has invited bids for the sale of technology to computerize critical areas of its economy. The follow-on potential beyond this \$27 million sale is estimated to be \$450 million over a period of eight years. Strong support for this sale has come from both Commerce and State Department, urging Eximbank's assistance. The project is viewed as important, not only because of the follow-on potential, but more immediately this would be the first export sanctioned under the new bilateral agreement on technology transfer, which will be highlighted during Rajiv Gandhi's visit to the U.S. in June.

Strong competition is posed by CII Bull of France, which is offering mixed credit terms containing a grant element of 32.4%. Staff evaluated several counter-offers available to Exim (Appendix A) but recommends Exim's standard financing options, outlined on page 1. Both financing and the competing technologies, which are similar enough, are considered to be important but not decisive factors in the contract award. Evaluations by the engineer, country economist and policy analyst pose no objections to this transaction. Exim's exposure in India totals \$175.7 million. Potential exposure, including outstanding P.C.'s and pending applications, is \$1.3 billion.

BACKGROUND AND ISSUES

The Government of India, through the Electronics Corporation of India, is embarking on a nationwide program to computerize critical areas of the economy. Until recently, the GOI would not allow foreign companies to operate computer facilities in the country, and India has long felt the lack of its own technology, as well as the burden of additional imports. Last November, Rajiv Gandhi among other trade liberalization measures lifted many of the sanctions against technology imports. The U.S. is strongly supporting India's initiative, as underscored by the newly-created bilateral Memorandum of Understanding on Technology Transfer, which has received considerable press coverage here and abroad.

The Department of Electronics, on behalf of the Electronics Corporation of India, has requested a bid for the purchase of technology to provide the capacity to assemble and integrate computer systems locally in India. Under Control Data's proposal, the project would be implemented in phases, starting with the purchase of computer systems, followed by the gradual assembly from components. Control Data would provide two computer models, the CYBER 830 and CYBER 810, and it should be stressed that these models are not state-of-the-art technology, but rather the lower-end of mid-level technology.

With a successful bid on this contract, Control Data Corporation anticipates an additional \$450 million in follow-on sales over the next eight years. The Engineering Division believes that this estimate is not unrealistic. A contract award to Control Data would establish a major presence for U.S. technology in this market.

Commerce and State Departments are actively supporting this sale, viewing it as a "test case" for avowed Indian interest in collaboration in technology transfer, a tilt away from a French orientation, and a catalyst for substantial U.S. export sales. Negotiations are in the final stages on the implementing agreement for the M.O.U. on Technology Transfer, and this transaction would be the first export sanctioned under the new agreement. Moreover, State plans to present this agreement and transactions like Control Data's as the centerpiece of U.S.-India cooperation when Rajiv Gandhi visits Washington later this year.

The only competition for this sale is from CII Bull of France, short-listed together with Control Data from a list of five bidders. CII Bull is a former Honeywell manufacturer which was nationalized in 1978. A comparison of the technologies of the two reveals that, on balance, they are roughly comparable.

CII Bull is offering a mixed credit which would yield a grant element of 32.4%. On a net present value basis, the borrower would save \$6.0 million on the French bid over Exim's 75% direct loan option.

Since the competing technologies are similar enough that technology is not a decisive factor, the remaining differences in the two offers are the French mixed credit financing and the numerous restrictions relating to anti-nuclear assurances and third party sales which will be imposed by the U.S. but not by France. The user restrictions have been the subject of ongoing negotiations between India and the U.S. since June 1984. Although agreement is expected soon, the restrictions have thus far blocked the signing of the implementing agreement of the technology transfer accord and have also held up issuance of CDC's export license. Further, these restrictions may ultimately be perceived by the Indians as too burdensome. If that is the perception, then the Indians may view U.S. suppliers as unreliable, subject to a pull-out because of India's non-compliance with the agreement or because of arbitrary cancellation of the agreement by the U.S.

Although CDC is at a competitive disadvantage because of France's mixed credit and the burdens on India posed by the technology transfer agreement, staff believes the overriding factor in the contract award will be India's plans for its commercial relationship with the U.S. As noted above, the bilateral technology transfer agreement has developed amid considerable fanfare in the U.S., which is portraying the accord as a frontier of collaboration between the two countries. The proposed \$27 million is but a small part in India's planned \$480 million computer investment, so India's real decision now is which path to choose -- U.S. or France -- for this longer-term procurement. Staff concludes that a concessionary credit offer by Exim would contribute only marginally to Control Data's competitive position, because financing is not a decisive factor in this case.

It is further noted that Exim's use of a concessionary credit on this transaction would not be consistent with our strategy concerning such financing, which generally prescribes that we reserve concessionary offers for selected "target" cases. In general, these "target" cases should counter flagrant use

of mixed credit by other countries for predatory commercial gain or abuses of OECD procedures for mixed credits, and should be timed to advance U.S. negotiating objectives in OECD. Exim also gives special attention to another country's first use of mixed credit to penetrate a market. In this case the French have already penetrated the Indian market with mixed credit financing, so that the subject transaction would not serve the desired function as a "signal" to the French. Also, the French grant element of 32.4% is well within OECD guidelines and there are no evident benefits to U.S. negotiations in OECD from using an Exim concessionary credit in India at this time.

On the other hand, this transaction could be evaluated by Exim in the context of the \$480 million projected procurement associated with this project. In that perspective, Exim could consider sending a mixed credit "signal" to the French that we would not tolerate their effective "purchasing" of the entire future market through their offer of concessional terms on this initial contract which is less than one-tenth of the market share.

COST OF FINANCING

Assuming a commercial bank rate of LIBOR + 3/4% for 20% of the U.S. costs, a 65% Exim loan at a rate of 9.85%, plus respective fees, would yield the following blended rates under Option I:

| <u>LIBOR</u> | <u>Blended Rate</u> | <u>Option II</u> |
|--------------|---------------------|------------------|
| 10% | 10.6% | 10.6% |
| 12% | 10.8% | |
| 14% | 11.0% | |
| 16% | 11.3% | |

FINANCIAL EVALUATION

Borrower

Electronics Corporation of India (ECIL) is a Government of India undertaking established in 1967 and currently has a work force of more than 7,000 engaged in the production of electronic products. Exim has no experience with this entity.

Guarantor

The guarantee of the Government of India has been offered and is the basis for the finding of a reasonable assurance of repayment on this transaction. (Please see "Country Economic Conditions" below.)

EXPORTER AND PRODUCTS

Control Data Corp.; Arden Hills, Minnesota: Computer main frames, related components and transfer of technology.

Control Data Corp.; Sunnyvale, California: Software and communications equipment.

EXPORT SALE MIXED CREDIT PARTICIPATION AUTHORIZATION

Names of Country/Entity: India Name: Mixed Credit participation--
Computers and Associated
Technology (Control Data,
Exporter)

Number: 398-0350

1. Pursuant to Section 645 of the Trade and Development Enhancement Act of 1983, 12 U.S.C. 635r, I hereby authorize A.I.D. participation with the Export-Import Bank of the United States ("Eximbank") in an export sale government-mixed credit for the Government of India ("Cooperating Country"). A.I.D. participation will involve planned obligations of not to exceed Seven Million United States Dollars (\$7,000,000) on a grant basis from Economic Support Funds over a three year period from the date of authorization in accord with the A.I.D. OYB/Allotment process. The funds will be used as part of a government-mixed credit package to finance the U.S. export sale described below.
2. The government-mixed credit in which A.I.D. will participate will assist the Cooperating Country in financing the U.S. costs of the export sale to India by Control Data Corporation ("U.S. Exporter"), a U.S. corporation, of computer technology, computer systems, subassemblies, components, capital goods and technical assistance. The sale is evidenced by contracts dated February 7, 1986.
3. The A.I.D. grant will be parallel to and utilized in combination with funds to be provided by Eximbank on a loan basis pursuant to separate agreement. The combined A.I.D.-Eximbank package will be substantially as concessional as foreign financing offered by a bona fide foreign competitor for the export sale, the terms of such foreign financing having been reasonably proved. The package will permit a sale of not to exceed \$27 million on overall credit terms no more concessional than a 25.93 percent grant element, as compared with a 30.53 percent grant element for the foreign offer.
4. The export sale can reasonably be expected to contribute to the advancement of the development objectives of the Cooperating Country and will be consistent with the economic, security and political criteria used to establish country allocations of Economic Support Funds.

5. The Grant Agreement which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. Regulations and Delegations of Authority shall be subject to the following essential terms, together with such other terms and conditions as A.I.D. may deem appropriate.

6. Prior to any disbursement, or the issuance of any commitment documents under the Grant Agreement:

(a) the Cooperating Country shall furnish, in form and substance satisfactory to A.I.D., a signed purchase and sale agreement with the U.S. Exporter, a signed Credit Agreement with Eximbank, and evidence of having satisfied such conditions precedent as may be agreed upon in the Credit Agreement with Eximbank;

(b) a satisfactory technology transfer implementing agreement shall be signed by the U.S. and Indian governments.

7. Eximbank's provisions relating to ocean shipping and source/origin of commodities shall apply.

15/ Marshall Brown
M. Peter McPherson

SEP 9 1986

Date

Clearances:

AA/ANE: CWGreenleaf
DAA/ANE: JNorris
ANE/PD: PBloom
ANE/DP: BSidman
ANE/EA: PBoughton
GC/ANE: HMorris
GC/HFry
PPC/EA: NR Eden
A-AP/PPC
GC/ANE: AMattice: paj: 8/20/86: 1197A

M. V. Dagala

s/ Martin V. Dagala

SEP - 5 1986

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AID/ANE/PD/SA:DDEVIN:MYRA:1100N
08/21/86 7-6960
AID/A/AID:MPCPHERSON

AID/A/AA/ANE:JANORRIS
AID/ANE/SA:JMANLEY/LBUTLER
AID/PPC/PB:NRIDEN/JSILVER{DRAFT}
AID/GC:HFRY

| AID/PD:PBLOOM {DRAFT}
| AID/ANE/DP:BSIDMAN {DRAFT}
| AID/GC/ANE:HMORRIS {DRAFT}
| AID/GC/ANE:AMATTICE {DRAFT}

PRIORITY NEW DELHI

AIDAC FROM A/AID, MCPHERSON TO MISSION DIRECTOR, CYLKE

E.O. 12356: N/A

TAGS: N/A

SUBJECT: INDIA- DEFENSIVE MIXED CREDITS: COMPUTERS AND ASSOCIATED TECHNOLOGY {398-0350}

REF: STATE 249396

1. I HAVE THIS DATE AUTHORIZED DOLS SEVEN MILLION FOR THE SUBJECT PROJECT. YOU ARE AUTHORIZED TO NEGOTIATE THE GRANT AGREEMENT ACCORDING TO THE DRAFT CABLED REFTEL, EXCEPT THAT AUTHORIZATION INCLUDES ADDITIONAL CONDITION PRECEDENT AS FOLLOWS: QUOTE: A TECHNOLOGY TRANSFER IMPLEMENTING AGREEMENT SHALL BE SIGNED BY THE U.S. AND INDIAN GOVERNMENTS. UNQUOTE. INCLUSION OF THIS CP WOULD BE, PER ACTION MEMORANDUM, QUOTE: IF PROGRESS CONTINUES TO BE MADE IN THE NEGOTIATIONS BUT IT IS IMPOSSIBLE TO OBTAIN A SIGNED AGREEMENT BEFORE THE AID FUNDS MUST BE OBLIGATED. UNQUOTE. DETERMINATION OF WHETHER CP WILL BE INCLUDED WILL BE MADE BE AID/W. IF BY SEPTEMBER 12, TECHNOLOGY TRANSFER AGREEMENT HAS NOT BEEN SIGNED, MISSION SHOULD REPORT STATUS AND PROVIDE JUDGEMENT ON PROGNOSIS FOR SIGNING.

2. A CLAUSE PROVIDING A TERMINAL DATE FOR SATISFACTION OF CONDITIONS PRECEDENT SHOULD BE ADDED TO THE DRAFT

MPCP
DD
JAN
HF

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GRANT AGREEMENT. CLAUSE SHOULD READ AS FOLLOWS: QUOTE:
IF ALL OF THE CONDITIONS SPECIFIED IN ARTICLE IV
{CONDITIONS PRECEDENT TO DISBURSEMENT} HAVE NOT BEEN
MET WITHIN 90 DAYS FROM THE DATE OF THIS AGREEMENT, OR
SUCH LATER DATE AS A.I.D. MAY AGREE IN WRITING, A.I.D.,
AT ITS OPTION, MAY TERMINATE THIS AGREEMENT BY WRITTEN
NOTICE TO GRANTEE. END QUOTE. DETERMINATION AS TO
WHETHER THE TERMINAL DATE SHOULD BE EXTENDED WILL BE
MADE BY AID/W.

3. ANY OTHER CHANGES IN DRAFT GRANT AGREEMENT SHOULD BE
CABLED FOR AID/W APPROVAL. WHEN YOU HAVE OBTAINED
AGREEMENT FROM THE GOI, PLEASE ADVISE. THE SIGNING
CEREMONY WILL BE HELD IN AID/W. PLEASE CONFIRM THE
INDIAN AMBASSADOR WILL BE AUTHORIZED TO SIGN ON BEHALF
OF THE GOI.

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ADDITIONAL CLEARANCES:

AID/ANE/PD/PE:RPRATT {DRAFT}
AID/PPC/EA:NRIDEN {DRAFT} *me*
YY

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