

CONFIDENTIAL



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RB
 TELEPHONE DIRECT LINE 01-212 3301
 SWITCHBOARD 01-212 7676

23 February 1981

The Rt Hon The Lord Carrington KCMG MC
 Secretary of State for Foreign and
 Commonwealth Affairs
 Foreign and Commonwealth Office
 London SW1

TAL to see
 R.
 (1)

MS

Prime Minister

Hope that GEC may go ahead
 with the French on the basis summarised
 in the final para?

Dear Peter.

Am

GUANGDONG NUCLEAR POWER STATION

Following my letter to you of 19 December 1980, we agreed to sound out officially the French attitude to a joint approach on the Guangdong nuclear power station project, while keeping open the door to partnership with Westinghouse of America.

Accordingly, officials from the Departments of Industry, Trade, Energy and the FCO met French officials in Paris on 9 February. The French recognised the significance of the Hong Kong connection and agreed, in principle, to the conclusion of commercial arrangements under which Framatome would supply the nuclear island and GEC the conventional island, including turbine generators. The French were prepared to consider some cross sub-contracting for equipment for the two islands but they strongly resisted any UK share in the fuel supply, on the grounds that this was tied to the responsibilities and obligations of the nuclear island supplier. Officials do not consider this is the last word on fuel supply and will continue to press for a share.

At the commercial level, GEC have had further discussions with Framatome. A draft agreement has been produced which GEC are prepared to sign, but they require Government approval before doing so. The draft agreement allows either party to scrap their exclusive commitment, if the Chinese seek separate bids for the respective islands. Meanwhile, there is considerable pressure from Framatome, China Light and Power (CLP) (the potential joint customer), and strong advice from the Governor of Hong Kong and HM Ambassador to Peking in favour of a deal with the French.

At the moment, all the signs are that the Chinese have not reached final decisions about nuclear power. Indeed recent events suggest that economic constraints are putting many investments



back in time. Nevertheless, one major factor in favour of an immediate deal with the French is that it is preferred by Sir Lawrence Kadoorie, the Chairman of CLP, whose goodwill is essential for the forthcoming negotiations on the Castle Peak "B" Power Station Project. Castle Peak "B" is potentially the largest ever order for the UK power plant industry and, unless CLP awards the contract for it to GEC, their chances of gaining any part of the Guangdong nuclear project will be remote.

The arguments in favour of a deal with the French are reinforced by GEC's view that the UK can only secure a share in the project if we take an early decision to participate with a foreign nuclear island supplier and jointly mount a determined commercial drive. Also, although the Chinese will make the final decision, the French appear to have a favoured position in Peking.

It is possible to argue that in the longer term there could be merit in a deal involving GEC with Westinghouse/Bechtel/British Nuclear Fuels Limited. Dr Marshall (UK AEA) considers that, in view of Chinese uncertainties, the Government would take a risk by selecting Framatone at this stage, especially as the commercial benefits from a Westinghouse deal are potentially greater. But the considerable and immediate importance of the Castle Peak "B" Station and the need for CLP's fullest cooperation are the overriding considerations. Dr Marshall, together with the nuclear industry, accept the strength of the Castle Peak "B" argument.

The proposed agreement between GEC and Framatone would not preclude GEC from seeking an agreement with Westinghouse should the Chinese reject an Anglo-French offer. Exploration of the American Administration's attitude to the sale of nuclear hardware to the People's Republic of China is therefore continuing. British Nuclear Fuels Limited will pursue discussions with Westinghouse on fuel supply. It is also desirable that both the Hong Kong Government and CLP should press for dual sourcing of fuel for Guangdong under an Anglo/French partnership so as to secure a role for BNFL. It is perfectly legitimate to argue that the Chinese should not rely upon one source of supply of fuel.

There are no relevant public expenditure implications at this stage. We and the French agree that equity is not an issue at the moment and the French have assured us that no unusual credit arrangements have been proposed. Officials here are, however, preparing the paper on equity requested in Geoffrey Howe's letter of 31 December 1980 as a contingency should the issue of equity be resurrected.

Against this background officials advise that the Government should agree to GEC entering into an agreement with Framatone for a joint approach to the Guangdong nuclear project, subject to:



- a GEC seeking to secure a balance of advantage in the supply of hardware from UK and French sources;
- b The agreement being exclusive, thus ruling out an all-French proposal;
- c The agreement not precluding a deal with Westinghouse, if the Chinese reject the Anglo-French proposals;
- d The possibility of future dual sourcing of fuel by BNFL being pursued (with the support of CLP and the Hong Kong Government if necessary);
- e BNFL continuing discussions with Westinghouse;
- f Discussions with the French on safety issues being pursued;
- g The National Nuclear Company discussing their possible involvement in the project with Framatone with a view possibly to obtaining sub-contracting orders for UK suppliers of reactor components.

I agree with the advice of officials and I would welcome your early agreement and that of colleagues to my authorising GEC to go ahead with their agreement with Framatone on the basis proposed. It would be helpful to have your comments by close of play on Wednesday 25 February in time for the next stage of officials' discussions in Hong Kong on the Castle Peak "B" Project.

I am copying this letter to the Prime Minister, Geoffrey Howe, John Biffen and David Howell.

Edward Heath

21 FEB 1981





Foreign and Commonwealth Office
London SW1

2 pp.

✓ MJD

China

25 February 1981

Paul Kirk,

GUANGDONG NUCLEAR POWER STATION

Thank you for your letter of 23 February.

I doubt whether the Chinese will take early decisions on the Guangdong project. But I remain convinced that our best chance of securing a significant share of the business for UK industry if it goes ahead lies in cooperation with the French. I also attach very great importance to following the advice of Sir L Kadoorie at a time when, as you point out, the negotiations over the Castle Peak 'B' contract have reached a crucial stage. I therefore agree that GEC should be authorised to conclude an agreement with Framatome on the conditions mentioned in your letter. As you say, if the Chinese reject an Anglo-French package, GEC and other British firms would not be precluded from seeking other partners.

I am copying this letter to the Prime Minister, Geoffrey Howe, John Biffen and David Howell.

gmc ✓

lan

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
London SW1

26 FEB 1981



✓
MAA

01-211-6402

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
London SW1

25 February 1981

Jan King

GUANGDONG NUCLEAR PROJECT

Thank you for copying to me your letter of 23 February to Peter Carrington.

You will recall that in my letter of 5 January I argued for keeping open the option of collaborating with Westinghouse. I am now persuaded that it is in the UK's interest for GEC now to conclude an exclusive agreement with Framatone in order that the negotiations over the Castle Peak 'B' contract are not prejudiced.

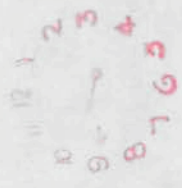
I note that there is no evidence that China has decided not to purchase a reactor from Westinghouse and that this outcome could present valuable opportunities to UK industry. I think that it is important therefore that the Nuclear Industry should not be impeded in pursuing possible collaboration with Westinghouse on this project and I welcome the provisos which you included in your letter. I hope that the Embassy in Peking will be active in monitoring the development of Chinese thinking about the project in order that UK industry may have the best chance to maximise business with Westinghouse if they become the chosen reactor vendor.

I am copying this letter to the recipients of yours.

D A R HOWELL

Jan King

Jan King



CONFIDENTIAL



China

10 DOWNING STREET

From the Private Secretary

25 February, 1981.

Guangdong Nuclear Power Station

The Prime Minister has seen a copy of the Secretary of State for Industry's letter of 23 February to the Foreign and Commonwealth Secretary, about co-operation with the French on the Guangdong Nuclear Project. She has taken note of the proposal in the final paragraph of the letter.

I am sending copies of this letter to Roderic Lyne (Foreign and Commonwealth Office), John Wiggins (HM Treasury), Stuart Hampson (Department of Trade) and Julian West (Department of Energy).

M. O'D. B. ALEXANDER

I.K.C. Ellison, Esq.,
Department of Industry.