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JU16



PRIME MINISTER

GUANGDONG NUCLEAR PROJECT

In the light of Michael Jopling's report to you of his conversation with Lord Kadoorie in Hong Kong you asked for an assessment of the situation on the Guangdong project. A background note is attached at Annex A: the principal issue for consideration at present is whether we should choose to work in partnership with the French or the Americans on the nuclear island.

2 You may recall that in February 1981, against the background of the final discussions on the Castle Peak B station in Hong Kong and the need to give particular weight at that time to the views of Lord Kadoorie, colleagues agreed that GEC should seek to enter into an agreement with the French nuclear suppliers, Framatome. In the event, it proved possible to gain the Castle Peak contract without entering into a firm agreement. The French for their part have since been content to stand back from any firm commitment. In the interim, in the absence of any clear indication that China will go forward with the project in the near future, it has been possible to take forward the alternative



possibility of collaborating with Westinghouse.

3 As discussions now stand the likely shape of the package which would emerge with either partner would be broadly as follows. With the French, Framatome would supply the nuclear island and the fuel supply while the UK would provide the conventional turbine island. In view of the UK's limited PWR experience it is unlikely that we would be given responsibility for the overall project design and management of the project. With the Americans, the core of the nuclear island, the nuclear steam supply system, would be provided by Westinghouse. In addition to the conventional turbine island, the UK would supply some of the balance of nuclear plant components and a large proportion of the long term fuel supply, with some chance of supplying the first fuel charge. The note at Annex B summarises the principal arguments for and against each partner on the basis of packages structured on these lines, though it is important to note that the extent to which the Chinese would be prepared to accept major nuclear island components from UK suppliers remains uncertain.

4 In weighing the merits of each partner I attach great importance to the views of China Light and Power (CLP) and those of Lord Kadoorie in particular. When he visited the UK in October last year he stressed to me the importance he placed on an Anglo French approach to this project. As joint customer with the Guangdong Power Company (GPC) for the power from the plant, and as advisor to the Chinese on technical issues and negotiating



tactics CLP stand in a key position. I also attach considerable weight to the comments made by Vice Premier Gu Mu to Peter Rees and by Prime Minister Zhao Ziyang to Humphrey Atkins on their recent visits to Peking, suggesting that - other things being equal - the Chinese still favour the French for the nuclear island and the UK for the conventional island. HM Ambassador in Peking certainly takes the view that the Chinese are likely to opt for the French. However, even if we thought it in our interests to seek to make a pre-emptive bid with the French now, recent soundings suggest that Framatome are likely to be reluctant to sign an agreement with GEC at present. The French say that they think a Chinese decision to go forward with the project is still a long way off.

5 Turning to the Anglo/American option, which is the one favoured by the Chairman of the Atomic Energy Authority, Dr Marshall, the fact remains that, despite the statements in Peking to Peter Rees and Humphrey Atkins there are factions within China which appear to favour Westinghouse. Indeed, I understand there has been one bid at provincial level to encourage a team composed of Westinghouse, GEC, the relevant national nuclear authorities and Department of Industry officials to visit Guangdong to explain an Anglo/American package. A formal invitation for such a visit has yet to be received, and I am advised that in any case



the major decisions of principle on the project will be taken in Peking rather than at provincial level. However, I believe we cannot discount these counter-signals. Moreover, Westinghouse, in contrast to Framatome, are now pressing for rapid progress. Westinghouse are anxious that the UK Government should now approach the State Department in Washington to seek clearance under the Non-Proliferation Act for the National Nuclear Corporation as a Westinghouse licensee to supply PWR technology to China. Officials accept that such an approach is a necessary step in developing the Anglo/American option, though its precise timing will require consideration. Providing outstanding contractual and technical difficulties can be resolved, and we receive a favourable response from the State Department, in two or three months it may be possible to achieve a credible Anglo/American package to weigh against the Anglo/French package which has already been developed. I understand, however, that GEC are less sanguine than Westinghouse about the likely rate of progress.

6 There are several risks attached to continuing to hold open both options. HM Ambassador in Peking has advised that if we delay too long in seeking to make a pre-emptive bid with one partner, we may miss the opportunity to influence the thinking and attitude of such an unsophisticated and uncertain customer as



the Chinese. We run the danger of losing the goodwill and support of Lord Kadoorie. We risk either the French or the Americans seeking to make a pre-emptive bid on their own - we know that both the French turbine company Alsthom and Westinghouse's turbine division have made overtures to the Chinese. And if we had to go to the negotiating table at short notice in the near future we could find ourselves unprepared: a detailed position on certain technical questions and on a financial package cannot be finalised until we know with which partner we may be working.

7 Nevertheless, despite these risks, my assessment is that for the present we should continue to pursue both routes and seek to bring the American option to a state of readiness for negotiation comparable to the French option. The primary advantage in pursuing this course is that it would enable the UK to keep its negotiating strategy as flexible as possible. It is clear that some elements at least within the Chinese authorities are seeking to keep their own negotiating options as wide as possible and I consider that it would be premature to narrow the options on the UK side at this stage. Unless and until we have an indication to the contrary from the customer we should continue to pursue an Anglo/American package within our range of options since this holds the prospect of providing a higher proportion of goods and services from the UK.

8 GEC endorse this view. While the French at present appear to



be the most favoured, GEC do not consider that a final choice of prospective partner can be made until there has been further contact with the Chinese. Given the uncertainties surrounding the project, GEC consider flexibility must be the keynote to our strategy. Dr Marshall agrees with this, even though he favours an Anglo/American approach.

9 If you and the other colleagues to whom I am copying this letter agree with this general recommendation I suggest we would seek to offer reassurance to CLP that the Government's position remains one of holding open both options until such time as the Chinese provide a clear indication of their preference. The best way of doing this might be for you to write to Lord Kadoorie on the lines of the attached draft.

10 I am copying this minute to Peter Carrington, Geoffrey Howe, John Biffen and Nigel Lawson, and in view of his interest, to Michael Jopling.

PJ

P J

8 February 1982

Department of Industry

GUANGDONG NUCLEAR POWER STATION PROJECT

Background

1 In 1980 China Light and Power Company Limited (CLP) and the Guangdong Electricity Company (GEC) of the People's Republic of China (PRC) conducted a joint study on the feasibility of constructing and operating a nuclear power station in Guangdong, part of the output of which would be sold to Hong Kong. Ministers approved a continuing UK industrial and official involvement in the study, and gave their support in general terms subsequently to the Chinese and to CLP. Ministers have also agreed that since China is a Nuclear Weapons State we should not seek to insist upon the application of safeguards, but that we should seek assurances that equipment and materials will not be diverted to military use nor re-exported without prior consultation and will receive adequate physical protection.

2 The study was formally given to the Chinese in December 1980 and is now under consideration in Peking. The study concluded that it is feasible for the Guangdong Electricity Company and CLP jointly to construct and operate a 2 X 900 MW PWR station some 30 miles north-east of Hong Kong. The total cost of the project is estimated at £2,000m; the foreign exchange costs would be met from electricity sales to Hong Kong. This project is being weighed by the Chinese against the alternative possibility of developing hydro-electricity in other areas of China.

3 There can be no certainty that the Chinese will proceed with the project. The suspension of a number of capital construction projects and announcement of a more rigorous policy of retrenchment suggests that they will approach it with caution. We must nevertheless work on the assumption that the project will go ahead. In that event it would offer the prospect of substantial commercial benefits to UK industry. It would also lead to further co-operation between

the UK, Hong Kong and the People's Republic of China (PRC) in a period when re-assurance over the future of Hong Kong will be important given the expiry in 1997 of the lease on the New Territories. While the UK can supply the bulk of the necessary plant and equipment, we cannot supply the heart of the station - the pressurised water reactor and the remainder of the nuclear steam supply system - representing about 15% of the total project cost. A partnership with a PWR manufacturer - Framatome (French) or Westinghouse (American) are the front runners - would therefore be necessary. GEC are the favoured supplier for the conventional island; they have made it clear that technically they would be able to co-operate with either the French or Americans.

4 The French position on non-proliferation is similar to our own and while there are some doubts about the US Government's attitude to the sale of nuclear equipment direct from the United States, Westinghouse would be able to supply from one of their licencees outside the USA. Both Framatome and Westinghouse have indicated their willingness to work with the UK in this way.

The UK Position

5 The UK provided technical support to CLP from Dr Walter Marshall (Chairman of UKAEA) and partly as a result of his efforts the UK has the possibility of gaining a major share of the project. CLP favour a substantial UK involvement in the project. Both the French and the American companies currently appear to perceive the UK as being the front runners to win a major share. The Government of Hong Kong, naturally, supports the UK's interest as UK participation would be arguably the best way to meet its requirement for safety and continuity of supply of electricity.

6 The UK's negotiating position is based upon the need for the nuclear power

station to be partly financed by the sale of electricity to Hong Kong. This in turn would require the Government of Hong Kong to be able to assure itself as to the safety of the reactor, the continuity of supply, and costs of electricity to be purchased, before allowing CLP to enter into an off-take agreement.

However our position is less strong than it appears. The decisions to proceed and on the choice of reactor will be taken by the PRC. ^{Chinese Govt.} As CLP have prepared the feasibility study jointly with GPC it would be difficult for them to reject a competitor's commercially sound and technically competent package which excluded UK participation. Equally the Government of Hong Kong would find it difficult to object to CLP purchasing power from such a source providing they were satisfied as to the safety of the station as it might affect Hong Kong and its reliability as a source of electricity supply.

7 Thus the Hong Kong connection, while helpful, does not of itself guarantee UK participation. Equally GEC have limited relevant technical experience from which to offer high speed 900 MW turbine generators, but do have considerable experience of low speed 900 MW sets in Korea. Neither does the UK have any experience in building or operating complete PWR nuclear stations. Both Framatome and Westinghouse have the ability to offer complete stations based on proven designs. Following a visit of President Giscard d'Estaing, the French appeared to have established a favoured position in Peking having secured an agreement in principle that France would be the preferred supplier of China's first nuclear station. However with the passing of time the strength of this commitment to the French has become less certain.

8 Despite these drawbacks there is still a good prospect that the UK can obtain a central role in this project. The French and Americans probably over-value our influence in Hong Kong. Secondly the UK does have a considerable

breadth of expertise in organising and regulating a nuclear industry and in supplying it with components. On a realistic timescale for the Guangdong Project it appears possible for the UK to arrange for the provision of the required expertise.

9 It could also prove desirable to select one of the two potential partners in preference to the other and present a joint collaborative package to the Chinese. In doing so, it will be prudent to keep alternative options open, particularly with regard to the other potential supplier, since the final decision rests with the Chinese.

ARGUMENTS FOR AND AGAINST AN ANGLO-FRENCH OR ANGLO-US PACKAGE

A

FRAMATOME

The arguments for a partnership with Framatome are:

- (1) Through the initiative taken by President Giscard d'Estaing in 1980 the French established a strong position in Peking and the recent statements to visiting British Ministers suggest that the French remain the favoured nuclear partner;
- (2) CLP - and Lord Kadoorie in particular - favour a partnership with the French because they believe this has the best chance of success;
- (3) GEC consider the French are more likely to obtain the nuclear island, for the reasons set out above;
- (4) The French are likely to be able to offer more competitive financial terms than the Americans. It is clear that this would weigh heavily with the Chinese;
- (5) A good deal of preparatory work on this option has been completed: an agreement between GEC and Framatome to work together on the project has been drafted but not signed;
- (6) Working with Framatome is likely to raise less problems on apportioning liability for the plant's performance and safety; Framatome are expected to be willing to accept liability for the whole nuclear island. Westinghouse have said that they are willing to accept a similar liability but it remains to be seen whether

they can work out the details of the necessary contractual relationship with their UK licensee, the National Nuclear Corporation (NNC);

The arguments against such a partnership are:-

- (1) It is clear that there are factions within China - certainly at provincial and possibly also at national government level - which favour a partnership with the Americans on the grounds that they are likely to be able to offer more advanced technology and greater technology transfer to China;
- (2) We could not expect to win more than approximately £300m of the total value of the contract since Framatome would expect to supply virtually all the nuclear island equipment;
- (3) The possibility of securing even a small proportion of the fuel supply contract - say £50m - is not rated highly by British Nuclear Fuels Limited;
- (4) GEC have no practical experience of working with Framatome, and past Anglo-French industrial ventures have met with mixed success;
- (5) We would be expected to match the financial terms offered by the French which may involve conceding more favourable credit terms than an Anglo/American package;
- (6) While the granting of approval of the Sizewell PWR is a public issue it would be unhelpful for HMG to appear to cast doubts on the adequacy of the Westinghouse / NNC design.

CONFIDENTIAL

WESTINGHOUSE

The arguments for a partnership with Westinghouse are:-

- (1) This might raise the total value of goods and services supplied to perhaps as much as £500m for the turbine generators plus the balance of the nuclear island which could be supplied from UK sources;
- (2) British Nuclear Fuels Limited would probably win a major share of contracts for the supply of fuel to the plant in its first 15 years, worth perhaps \$250m, and there is some chance of their supplying the first fuel charge.
- (3) Westinghouse are likely to be able to offer more advanced technology than Framatome;
- (4) GEC have already worked with Westinghouse on building PWRs in Korea;
- (5) This option would strengthen our existing involvement with Westinghouse on the UK domestic nuclear programme and would encourage a greater transfer of PWR technology to the UK. This is of great importance to Dr. Marshall.
- (6) The prospect of supplying components of the nuclear island for both Sizewell and Guangdong would offer a more worthwhile market for UK manufacturers;

The arguments against Westinghouse are:-

- (1) The Americans have achieved no special position with the Chinese

CONFIDENTIAL

on the Guangdong project comparable to the French - though Westinghouse have recently signed an agreement with the Chinese to work together on the development of turbines;

- (2) This option may not prove viable because of the difficulties of the relationship between NNC and Westinghouse. In the context of American policy on non-proliferation the use of Westinghouse's technology would require formal approval from the State Department, as would any supply of components from the US. Serious problems would be unlikely if NNC were in a position to assume full responsibility for the nuclear island, with Westinghouse's involvement limited to that of licensor. But NNC cannot carry such a responsibility, particularly because it has insufficient capitalisation to shoulder more than a very minor share of the liabilities involved. Substantial and direct Westinghouse involvement could, however, raise problems with the State Department. Thus it may be necessary to present the NNC rather than Westinghouse as the main agency supplying PWR technology to China. But, in practice, in their contractual relationship, Westinghouse would have to assume the role of main contractor, with NNC as their sub-contractor.
- (3) CLP are strongly opposed to such a package and are adamant they would not recommend it to their colleagues in the Guangdong Power Company. Although Dr Marshall considers that one of the Korean PWR stations built by GEC and Westinghouse could be presented to the Chinese as a reference plant to support the viability of this option, CLP are likely to consider it unproven,

particularly since NNC will carry the responsibility of adapting the Korean plant designs to the Chinese site. Lord Kadoorie has specifically warned Lord Weinstock that he is anxious to avoid such a "hybrid proposal under the guise of a British package" being submitted to the Chinese;

- (4) Moreover, messages received through CLP suggest that at least some of the Chinese authorities whose views will be influential in any major decision are strongly opposed to an Anglo/American package. It has been suggested that the Head of the Nuclear Bureau intends to indicate his opposition to such a proposal to the Embassy in Peking.
- (5) Even those factions within China which favour an Anglo/American package appear to want to buy the main components of the nuclear island direct from the United States rather than from manufacturers in the UK working under a Westinghouse License.
- (6) Pursuing an alternative option with the Americans may encourage the French to make an all French pre-emptive bid with the French turbine company, Alsthom, supplying the conventional island.

PRIME MINISTER

Guangdong Nuclear Power Project

You saw the papers over the weekend. *Since then, the Chief Secretary has minuted (attached).*

You will now wish to write to Lord Kadoorie. I attach two alternative letters:-

- a) The first follows the draft recommended by the Secretary of State for Industry (and from your reaction to the papers, I think you may well want to sign this one).
- b) The second is similar but is designed to be a little more welcome to Lord Kadoorie by being rather more positive on the UK/French package.

Would you kindly sign one of these.

A. J. C. 22/2

22 February, 1982



PRIME MINISTER

GUANGDONG NUCLEAR PROJECT

I have seen Patrick Jenkin's minute to you of 8 February. ^{TPM}

2. I have no reason to quarrel with Patrick's judgement that the best course is to keep both options open. In the circumstances I agree that it would be wise for you to write to Lord Kadoorie as Patrick Jenkin proposes.

3. Since Peter Carrington mentioned the financing aspects, I ought to sound one note of warning. The normal export credit terms which we would expect to have to provide for a project of this sort would require a subsidy of 25-30% of the export content. The eventual cost to exporting Governments of this project could well be higher: if, as is all too likely in this sort of case, the Chinese succeed in playing one competitor off against another to provide extra concessions such as longer repayment terms, finance for local costs and capitalisation of pre-commissioning interest, this could take the subsidy element to 40% or even more. I think therefore that our posture towards this project ought to be as non-committal as possible until we are clearer about the cost. This consideration reinforces Patrick Jenkin's arguments for avoiding too firm a commitment to either option.

4. It is perhaps worth adding that moves are currently afoot within OECD which could lead eventually to an agreement among the power-plant exporting countries to reduce the subsidy element in export credit for nuclear and conventional power plant.

Whether this agreement can get off the ground in time for the Guangdong nuclear project is problematical. It could of course reduce the economic cost of supporting GEC's bid.

I am copying to recipients of the earlier correspondence.

L.B.

LEON BRITTAN

22. 2. 82 ?



Faint, illegible text, possibly bleed-through from the reverse side of the page.

27 FEB 1953



PRIME MINISTER

I am reluctant to do the U.S. option. ①
The French would try to take the whole contract and our experience with them on collaborative projects has not been good.

GUANGDONG NUCLEAR POWER PROJECT

Further - resolution of the political problem with the U.S. could lead to a contract in which they would get a bigger share of the available work.
I am sorry to present you with such a complex set of papers, but this is an important project which will cost some £2 billion and from which British industry could benefit to the tune of between £300 million and well over £500 million.

The procedural problem is: how do we reply to Lord Kadoorie's approach to the Chief Whip (Flag A) arguing that we should go for a UK/French package rather than a UK/US package?

The substantive problem is: do we keep open both options or put all our money on the UK/French package?

The Secretary of State for Industry's minute of 8 February (Flag B) argues that for the time being we should continue to hold open both options and recommends that you should write to Lord Kadoorie on the lines of the draft at Flag C.

The Foreign and Commonwealth Secretary's minute (Flag D) supports this approach as does the Energy Secretary's minute of 18 February (Flag E).

But there is a difficulty. Mr. Jenkin's minute states confidently (paragraph 8) that GEC endorse his views. Lord Weinstock has told Sir Robert Armstrong (Flag F) that GEC's views are in fact quite different, namely that we should "follow Kadoorie" (though we need not completely disengage from Westinghouse). The Cabinet Secretary would prefer that we do not reveal this private conversation to the Department of Industry.

We thus have GEC and Lord Kadoorie urging one course of action and the three Ministers concerned urging that we keep both options open.

/ The procedural

The procedural problem is reasonably easy to solve. We merely need to make your letter to Lord Kadoorie rather warmer in its reference to the UK/French approach. The substantive problem is more difficult. The Secretary of State for Energy wants us to approach the State Department quickly in order to bring the UK/Westinghouse option as quickly as possible to a state of readiness for negotiation. But if we do this, it can only be a matter of time before GEC and Lord Kadoorie get to hear of it and they may well think that we are still pursuing both options with equal vigour. I am inclined to think that it would be best to ask the Ministers concerned to reflect once again on whether it is really in our interests to keep both options equally open.

Do you agree that I should minute on the lines of the attached draft?

A. J. C. ¹⁹/₂

19 February 1982

CONFIDENTIAL

DRAFT LETTER FROM THE PRIME MINISTER TO LORD KADOORIE

On his return from Hong Kong Michael Jopling told me of his conversation with you about the Guangdong nuclear power project, and he mentioned in particular your unease about the Anglo/American package advocated by the Atomic Energy Authority. I attach special importance to your personal views on this project, and in view of your reported concern I asked for a full assessment of the present situation.

I am very conscious of your consistent advocacy of an Anglo/French approach and I myself believe that the arguments in favour of working with Framatome remain very strong. However, I think you will agree that so far we have had conflicting signals from the Chinese in Peking and Canton about when they intend to go forward with this project, and no definitive statement of their preference as regards a nuclear island supplier. In these circumstances I believe that it would be wrong for the UK to dismiss the prospect of working with Westinghouse. I know you have reservations about this option, and fear it may be rejected by the Chinese as unproven. I fully endorse your views that the UK's first priority must be to meet the requirements of the customer. I would not under any circumstances ask you to associate yourself with a proposal which disregards these. However, in view of the continuing uncertainties in the situation, I consider it worthwhile for GEC and Westinghouse together to seek to develop a credible alternative proposal. Until Chinese intentions are clearer I believe that flexibility must be the keynote in our strategy.

/ I hope

I hope this will help to clarify the UK position. I shall continue to follow developments on the project with interest, and look forward to my visit to Hong Kong later in the year.

X

Not sent
AD 22/2

DRAFT LETTER FROM JOHN COLES TO PRIVATE SECRETARY, DEPT OF INDUSTRY

The Prime Minister has considered your Secretary of State's minute of 8 February about the Guangdong nuclear power project, and the subsequent minutes by the Foreign and Commonwealth Secretary and the Secretary of State for Energy.

She is inclined to doubt whether a posture of keeping both options open is likely to reassure Lord Kadoorie or to impress the Chinese. In the present situation the inside track seems to belong to the Guangdong Provincial Government (GPG) and China Light and Power (CLP). It does not seem very likely that the United Kingdom will have any stake in the project except through CLP. Lord Kadoorie is clearly set on the Anglo-French option and it would seem best to make it very clear in the letter to him that that is our preferred option.

On that basis, the second paragraph of the letter would need to be reworded, perhaps on the following lines:

"I am very conscious of your consistent advocacy of an Anglo-French approach, and our strong hope and preference is that we shall be able to work out such an approach with you and with Framatome, on a basis which will be acceptable to the Chinese. But the signals coming out of China are not all clear and consistent. If they were to show an interest in a station based on a Westinghouse reactor we should not want - and I hope you would not want us - to be

/ completely

completely excluded from participating in the project. It may well be that it is very unlikely that the Chinese would opt for Westinghouse, but so long as that seemed a possibility, it would be difficult for me to ask our people here to abandon their discussions with Westinghouse. I can assure you, however, that our strong preference would be to work with you and Framatome on the development of a project which would meet the requirements of the Guangdong Provincial Government."

The Prime Minister believes that a letter on these lines would be more reassuring for Lord Kadoorie and, unless your Secretary of State has any further comment, she proposes to despatch such a letter in the next few days. But she would also be grateful if your Secretary of State, together with the Secretary of State for Energy and the Foreign and Commonwealth Secretary, could give further thought to the question of whether, if in practice we work equally hard at both options in the coming months, we do not run the risk of alienating Lord Kadoorie whose good will seems essential to our chances of success.

E

01 211 6402

Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

18 February 1982

Dear Secretary of State

GUANGDONG NUCLEAR PROJECT

7 PM '82

Thank you for copying to me your minute of 8 February to the Prime Minister. I have also seen Peter Carrington's minute.

I support your general recommendation and your suggestion that it would be useful for the Prime Minister to write to Lord Kadoorie in the terms you have drafted.

I note that there are some reservations by officials on the timing of an approach to the State Department to seek clearance for NNC to supply Westinghouse PWR technology to China. In view of the UK's interest in bringing the UK/Westinghouse option as quickly as possible to a state of readiness for negotiation, I hope you will agree that the approach should be made soon. A firm expression of the State Department's view would enable both NNC and Westinghouse to commit resources to negotiations with greater confidence.

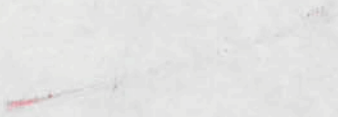
I am copying this letter to the recipients of yours.

Yours sincerely

David Limley

PP NIGEL LAWSON
(Approved by the Secretary of State
and signed in his absence)

3
18 FEB





Ref. A07556

MR COLES

Guangdong Nuclear Power Project

You drew my attention recently to the apparent inconsistency between Lord Weinstock's view, as reported in paragraph three of my minute of 16 February, and the statement in paragraph eight of the Secretary of State for Industry's minute of 8 February that GEC endorsed the view expressed in paragraph seven of that minute about continuing to pursue an Anglo-American package.

2. It seemed that the only way to resolve this discrepancy was to speak to Lord Weinstock, which I did this evening.

3. Lord Weinstock said that GEC had not endorsed and did not endorse that view. GEC's view was as conveyed by him to me and as reported in my minute of 16 February. His message was that we had to "follow Kadoorie". This did not mean that we should completely disengage from Westinghouse. That option could be kept on the back-burner. But, given that for us the only way into the project was via CLP and thus dependent on Lord Kadoorie, there did not appear to be very much of a future in an option which seemed to be no part of Lord Kadoorie's thinking.

4. I very much hope that in any dealings with the Department of Industry you will be able to protect the confidence of my dealings with Lord Weinstock in this matter.

A handwritten signature in dark ink, consisting of the letters 'R' and 'A' in a stylized, cursive font.

ROBERT ARMSTRONG

18 February 1982

DRAFT LETTER FROM THE PRIVATE SECRETARY/
PRIME MINISTER TO THE PRIVATE SECRETARY/
SECRETARY OF STATE FOR INDUSTRY

The Prime Minister has ^{considered} ~~now had a chance of studying~~
your Secretary of State's minute of 8 February about the
Guandong nuclear power project.

*and the subsequent
minutes by the Foreign
and Commonwealth Secretary
and the Secretary of State
for Energy.*

she is inclined to doubt
~~Her judgment of the balance of argument would be
rather different from your Secretary of State's.~~ She doubts
whether a posture of keeping both options open is likely to
reassure Lord Kadoorie, or to impress the Chinese. In
^{part} ~~the~~ situation we ~~have~~, the inside track seems to belong to
the Guandong Provincial Government (GPG) and China Light
and Power (CLP). It does not seem ~~to be~~ very likely that
the United Kingdom will have any stake in the project except
through CLP. Lord Kadoorie is clearly set on the Anglo-
French option. *and it would seem best to make it very clear*
~~We had better make it clear to~~
in the letter to him that that is our preferred option.
~~Lord Kadoorie that we are firmly committed to that option,
and put the Westinghouse option on a back burner.~~

On that basis, ~~the letter to be sent to Lord Kadoorie~~
would need to be ~~rather differently cast.~~ The second
^{of the letter} paragraph would need to be reworded, perhaps on the
following lines:

I am very conscious of your consistent advocacy
of an Anglo-French approach, and our strong
hope and preference is that we shall be able
to work out such an approach with you and
with Framatome, on a basis which will be
acceptable to the Chinese. But the signals
coming out of China are not all clear and
consistent. If they were to show an interest
in a station based on a Westinghouse reactor
we should not want - and I hope you would not
want us - to be completely excluded from
participating in the project. It may well be

that it is very unlikely that the Chinese would opt for Westinghouse, but so long as that seemed a possibility, it would be difficult for me to ask our people here to abandon their discussions with Westinghouse. I can assure you, however, that our strong preference would be to work with you and Framatome on the development of a project which would meet the requirements of the Guandong Provincial Government.

Since this is a matter of some importance the Vice President would be grateful if your Secretary of State would under the above formula and advise whether or not he bids it profitable.

Ref. A07515

MR. WHITMORE

7 PM with CAU?
— Before the weekend I sent you a copy of a letter from Lord Kadoorie to Lord Weinstock about the Guangdong nuclear power project, which had been forwarded to me by Sir Kenneth Bond (in Lord Weinstock's absence).

2. Lord Weinstock rang up yesterday to reinforce the message contained in Lord Kadoorie's letter.

3. His message was in effect that the key to this project is held by the China Light and Power Company (CLP) and Lord Kadoorie. CLP is dealing with the Chinese Provincial Government concerned, which has confidence in CLP and a well-established connection with it. Whether there is any British involvement in the project therefore depends entirely on CLP. There is no possibility of our providing the nuclear reactor; our stake can only be in the conventional equipment. Lord Kadoorie and CLP want to buy as much British as possible; but they also want to go to the French for the nuclear reactor. It is no good our supposing that CLP would accept an alternative deal involving the National Nuclear Corporation (NNC) and Westinghouse, of the kind which Dr. Marshall is trying to put together. If we do not go ahead in a joint project with the French doing the nuclear reactor, we shall have no involvement at all, and CLP will probably go to the French for the whole thing.

RTA

ROBERT ARMSTRONG

16th February, 1982

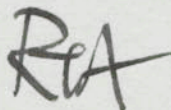
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PRIME MINISTER

At Lord Weinstock's request (he is out of the country) Sir Kenneth Bond has sent me a copy of a letter which Lord Weinstock has received from Lord Kadoorie about the Guangdong nuclear power project. Lord Kadoorie is saying, roughly speaking, that, if we abandon the partnership with the French and go for Dr. Marshall's proposals for a joint project with the United States, we are in danger of losing the whole thing.

2. You will want to see this as background to the minute recently sent to you by the Secretary of State for Industry on this subject.



ROBERT ARMSTRONG

12th February, 1982

CONFIDENTIAL

THE GENERAL ELECTRIC COMPANY LIMITED
1 STANHOPE GATE · LONDON W1A 1EH
01-498 8484.

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CABINET OFFICE
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9 FEB 1982
FILING INSTRUCTIONS
FILE No

9th February, 1982

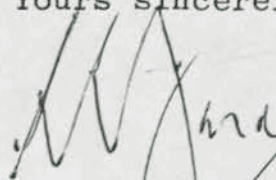
cc- Mr Ibbes
Mr Gregson
Mr Moore
Mr Wade-Gery
Mr Facer.

Dear Sir Robert,

Lord Weinstock is at present abroad. In his absence I am enclosing a copy of a letter he has received from Lord Kadoorie expressing strong views about the Guangdong nuclear power project which, I feel, the Prime Minister would wish to see.

Lord Kadoorie has been a very good friend of Britain, especially over recent years, and I believe it would be sensible to give considerable weight to his advice and not to irk him.

Yours sincerely,



Sir Kenneth Bond
Deputy Managing Director

Sir Robert Armstrong, KCB, CVO,
Cabinet Office,
70 Whitehall,
LONDON, SW1A 2AS.

SIR ELLY KADOORIE & SONS

FOUNDER

SIR ELLY KADOORIE, K.B.E.,
Commandeur de la Legion d'Honneur.

PARTNERS

The Rt. Hon. THE LORD KADOORIE, C.B.E., J.P.,
Chev. Leg. Hon., Officier de l'Ordre de Leopold.
HORACE KADOORIE, C.B.E., J.P.,
Chev. Leg. Hon., Officier de l'Ordre de Leopold.

ST. GEORGE'S BUILDING
HONG KONG

Cables: "KADOORIE", Hong Kong

Telephone: 5-249221

Telex: 73427

CONFIDENTIAL

REF.....

cc. Mr. R.J. Davidson,
GEC T.G's, Rugby

January 29, 1982

The Rt. Hon. the Lord Weinstock
The General Electric Co. Ltd.
1 Stanhope Gate
London W1A 1EH
ENGLAND

Dear Arnold,

Proposed Guangdong Nuclear Power Project

Further to my letter of December 23, 1981, I will not hide from you that I am concerned at the turn of events.

In consequence, I am sending you herewith copy of my Private and Confidential Memorandum of today's date, which sets out our point of view.

Bill Stones has been in touch with Bob Davidson who can give you further information.

'Kung Hei Fat Choy' - A Very Happy Chinese New Year.

Sincerely yours,



Encl: Memo dated January 29, 1982

SUBJECT: GUANGDONG NUCLEAR PROJECT

- 1) It is essential we do not lose sight of the primary object why we have been giving, and are giving, consideration to this project.
- 2) Of basic importance is the effect a joint venture between China Light & Power (CLP) and the Guangdong Power Company (GPC) would have on Hong Kong's future.
- 3) In the post-war period there has never been a project of this size, and with such political implications, between China and any Western power.
- 4) Unique to this project are the following:-
 - a) If built, this power station would be the first large, commercially owned and operated nuclear generating station in China.
 - b) The joint venture would provide for the power station to be paid for in foreign currency from the sale of the electricity it would produce, and would eventually revert to the GPC.
 - c) Joint construction and operation of the power station over a minimum period of ten years, or possibly until all international loans raised for its construction had been repaid, would provide the Chinese with knowledge and expertise which they do not yet have and which will be invaluable to them for the development of their Four Modernizations Programme.
 - d) The financial arrangements to raise international loans of the size required, and the conditions attached to those loans, will set the pattern for the management and control systems necessary for other projects of equal importance.
- 5) We must bear in mind the 'three pillars' upon which the foundation of Hong Kong's future rests:
 - a) The continuing beneficial interest to China
 - b) The continuing beneficial interest of the United Kingdom
 - c) The need to better the living conditions and future prospects of Hong Kong's younger generation.

In order to satisfy condition 5(b) above, it is necessary for the project to have a substantial British content and the way to achieve this has been very carefully considered.
- 6) A first nuclear power station in China will create substantial international interest, since it will play an important part in fixing the rules and regulations which will apply to future installations of this kind and consequently in the nature of plant to be supplied.
- 7) With this in mind considerable international competition for this 'prize' must be anticipated.

- 8) The feasibility study carried out by GPC/CLP has advocated competition but has provided - that all things equal - the United Kingdom will be given priority.
- 9) With the primary object of Hong Kong's future in view it, therefore, behoves us to devise a strategy so designed as to give the United Kingdom the advantage of supplying plant which can be manufactured in the United Kingdom.
- 10) The feasibility study also provides for reliable and proven equipment. Since the United Kingdom does not produce any PWR's they can only qualify in this category to the extent of the conventional island.
- 11) On the other hand, several nations - the French, the Germans, the Swedes and the Americans (indirectly) - can all qualify for a total package to include both the conventional and nuclear islands. (Of these nations, the French have, over the past several years - thanks to the efforts of Giscard d'Estaing followed by Mitterand, established themselves as being in the lead.)
- 12) It becomes obvious, therefore, that the chances of the United Kingdom obtaining any part of this project will be enhanced by anything that can be done to eliminate competition.
- 13) With this in mind and, after protracted and difficult negotiations in which GEC, the UK Department of Industry, GEC and Electricite de France have all been involved, LK has persuaded the French (the leading competitor for a complete package) to hold off making a total package deal - on the assurance that they can quote for the nuclear island and balance of plant leaving the conventional island to the United Kingdom. My understanding was that this was last confirmed to them in Paris by Mr. A.G. Manzie of the Department of Industry (DOI).
- 14) At this stage of the game we are informed that "GPG* wishes to discuss with NNC delegation the supply by NNC of American nuclear island equipment for Guangdong Nuclear Power Station by NNC, despite any other views expressed by any other departments within the People's Republic of China."
- 15) This information is completely contradictory to CLP's understanding of the wishes of the Guangdong Power Company.
- 16) At the last Executive Meeting held between GPC and CLP on January 15, 1982, it was clearly stated by GPC that under no circumstances would they consider a hybrid package with the consequent danger of complications and problems which could arise from divided authority.
- 16) They (GPC) would insist on full responsibility for the nuclear island and balance of plant being carried by the suppliers of that plant - just as they would insist all items within the conventional island would have to be carried by the supplier of that island.
- 18) GPC have further indicated that after studying the negotiating procedures used by China Light in regard to Tap Shek Kok, that they were convinced this would be the best method to follow and they have asked, and it has been agreed, that Mr. Stones of CLP be permitted to proceed to Peking to explain this procedure in detail to the authorities there.

* Guangdong Provincial Government (GPG)

- 19) CLP's strategy, therefore, if adopted, would guarantee:
- a) to the purchaser - a fair price for the plant he is buying
 - b) to UK industry - the advantage of priority in offering the conventional island.
- 20) It is, of course, not for CLP to instruct British industry as to how they should endeavour to participate in this project, but in the interests of Hong Kong's future, it is very much CLP's concern to strengthen the foundation upon which that future rests.
- 21) CLP has, therefore, used their best endeavours over the past two years in this respect and has warned the UK authorities of the grave danger they run in interfering with the tried procedures we have devised here in Hong Kong, with knowledge gained over many years, in how to deal with problems involving British/Hong Kong/China relations.
- 22) In this memorandum I repeat this warning and would further state that if the United Kingdom does decide to offer a hybrid package, GEC, the DOI and LK are in honour bound to inform the French accordingly before this takes place and before they find this out for themselves.
- 23) The result of making such an offer would be, in my opinion, to open up the whole question of supply to a number of competitors who are in a far better position to offer an attractive and proven package deal and, as a result, the UK will get no part in the award of the contract.

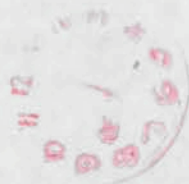


Kadoorie

LK/mw

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PM/82/8

PRIME MINISTERGuangdong Nuclear Project

1. I have seen Patrick Jenkin's minute to you of 8 February. This was agreed in draft by FCO officials.
2. In all the circumstances the proposal to pursue both French and American options vigorously seems to me still to represent the best course to promote our interests. I recognise that both Lord Kadoorie and HM Ambassador Peking have been arguing persuasively for a firm decision to go in now with the French; certainly Peter Rees and Humphrey Atkins were both told at senior Ministerial level in Peking that, all things being equal, the Chinese favoured an Anglo-French package. But as Patrick Jenkin points out, there are two strong arguments for not committing ourselves at this stage, both of which are based on very recent information - namely, French reluctance to commit themselves to us; and recent indications from those Chinese involved in the detailed consideration of the project at Provincial level that they intend to consider various nuclear partners including French and American before making up their minds. Indeed the Chinese Premier spoke of the Chinese wish for competitive bids when he saw Humphrey Atkins.
3. Since political factors play a considerable part in Chinese decision-making you might welcome a brief assessment of how we see the current standing of the French and Americans in Chinese estimation. The 'special position' into which the French appeared to have manoeuvred themselves under President Giscard has been eroded to some extent with the advent of President Mitterrand (and difficulties during the French Trade Minister's visit last autumn over the sentencing of the Chinese fiancée of a French diplomat). The Chinese are also upset at the resumption of French aid to Vietnam. But these are likely to be temporary setbacks.

/The



The commitment to the French option still seems strong among senior Ministers in Peking.

4. The Americans on the other hand are going through a very difficult patch with the Chinese as a result of differences over arms sales to Taiwan. The Taiwan issue is very emotive for the Chinese. A downgrading of relations still cannot be ruled out. This would obviously affect the acceptability of a US option to the Chinese. Nevertheless, since the timescale of the project is both uncertain and in any case lengthy, it is too early to say how far current Sino-US difficulties might affect the Chinese decision.

5. The overriding consideration may indeed turn out to be the well-known Chinese propensity for seeking the cheapest possible option and therefore their encouragement to the various interests - US, French and British - to put in competing bids. They are very worried about the cost of the commitment the nuclear project would represent. They are also by nature and by ideological conviction suspicious of exclusive offers by foreign capitalist enterprises. There are those who profess to believe that China has in the past been the victim of unscrupulous overseas business interests. The implications for us and for GEC are that although a negotiated contract may appear to offer the tidiest and possibly the most economic route for both the bidders and for the customer the Chinese may well reject such a proposal as limiting their freedom of manoeuvre. If that is so, we are clearly in no position to prevent their seeking competitive bids. The only effect of our closing one of our present options might be to push the Chinese into exploring the possibility of cooperation with other partners in an arrangement in which we would play no part. This strengthens me in the belief that for the present the line proposed by Patrick Jenkin is the right one. In any event, if the French do not wish to go firm, we can hardly do so.

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6. But clearly it will be necessary to handle Lord Kadoorie with some sensitivity; I agree that it would be helpful if you were to write to him in the terms suggested.

7. As Chinese intentions become clear we may of course have to work fast. The more preparatory work that can now be done by way of (a) contacts with both the Americans and the French, and (b) consideration of the financing problems, the better. I am very conscious that your visit to China in September may be a good opportunity to promote British participation further. We need to have a much clearer idea by then of the main factors (including finance, and likely UK share of the project) involved in the two principal options open to us. Officials should be instructed to pursue these points with all necessary speed.

8. I am copying this to the recipients of Patrick Jenkin's minute.

Carrington

(CARRINGTON)

Foreign and Commonwealth Office

CONFIDENTIAL

11 FEB 1982

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10 DOWNING STREET

John

The Private Office at Industry
have 'phoned through
an addition to the SOS's
draft reply to Lord Kadoorie

After the word 'customers'
at line 13, para 2 - add

'I would not under any
circumstances ask you to
associate yourself with
a proposal which
disregards these'.

Wes Ewing 19/2



DRAFT LETTER FROM THE PRIME MINISTER TO LORD KADOORIE

On his return from Hong Kong Michael Jopling told me of his conversation with you about the Guangdong nuclear power project, and he mentioned in particular your unease about the Anglo/American package advocated by the Atomic Energy Authority. I attach ~~es~~ special importance to your personal views on this project, and in view of your reported concern I asked for a full assessment of the present situation.

I am very conscious of your consistent advocacy of an Anglo/French approach, and I myself believe ^{that} the arguments in favour of working with Framatome remain very strong. However, I think you will agree that so far we have had conflicting signals from the Chinese in Peking and Canton about when they intend to go forward with this project, and no definitive statement of their preference ^{as regards} a nuclear island supplier. In these circumstances I believe that it would be wrong for the UK to dismiss the prospect of working with Westinghouse. I know you have reservations about this option, and fear it may be rejected by the Chinese as unproven. I fully endorse your views that the UK's first priority must be to meet the requirements of the customer. However, in view of the continuing uncertainties in the situation, I consider it worthwhile for GEC and Westinghouse together to seek to develop a credible alternative proposal. Until Chinese intentions are clearer I believe ^{that} flexibility must be the keynote in our strategy.

I hope this will help to clarify the UK position. I shall continue to follow developments on the project with interest, and look forward to my visit to Hong Kong later in the year.

see
attached
note
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8 FEB 1982

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