



PRIME MINISTER

GUANGDONG NUCLEAR PROJECT

Also attached is an account by Sir Robert Armstrong of his conversation with Sir Walter Marshall. Do you agree with the

strategy set out by Mr Jenkins in paragraphs 11-15 of this minute?

*Must be under  
Li Peng. Am late  
to find what  
U.S. Co-op.  
The French will be  
to get the whole  
project*

*JH  
29/10*

Your Private Secretary's letter of 20 October asked for a report on our aims and tactics on this project.

2 This minute makes recommendations on the line we should take on the project at the Anglo-French summit.

3 The Chinese have requested further talks with the UK in November; decisions on the financing terms we should offer cannot be taken yet.

Chinese Request for Further Discussion

4 Vice-Minister Li Peng, of the Ministry of Water Conservancy and Electric Power, has indicated that he would like to come to London for further discussions with the UK Government in November, provided that we have something more to offer than in Guangzhou in July. He also plans to visit France on the same trip and will receive there proposals from both Framatome and Alstom. I believe we must welcome this opportunity for further discussions, but we need to establish quickly where we stand on collaborating with a nuclear partner.





Nuclear Partner

5 Reports through CLP suggest that some Chinese officials - at least at provincial level - still favour Westinghouse, largely because they believe their technology is more advanced than the French. Nevertheless, your discussions both in Peking and Guangzhou indicated clearly a strong preference for an Anglo-French proposal, reiterating Premier Zhao's comments to Humphrey Atkins in January. The Premier's remarks must presumably be given greater weight than any countervailing views in Guangzhou. Moreover, there is little hope of movement in the State Department's position on nuclear exports to China before the end of the year at the earliest. And first indications are that a Westinghouse/NNC nuclear island could not compete on price with Framatome.

6 At the same time there are strong arguments for seeking French support for GEC and Framatome entering into an agreement between themselves (which would exclude Alstom) to present a joint bid:

- a) Premier Zhao's remarks combined with Lord Kadoorie's long standing support for a GEC/Framatome solution indicate a strong customer preference;
- b) GEC's preference has always been for an agreement of this kind with Framatome; Lord Weinstock has recently





expressed this view to my officials, Lord Kadoorie and Sir Walter Marshall;

?  
• c) co-operation with the French would reduce ECGD's financial exposure to about £1000m from £4000m for an Anglo-American proposal. The absolute cost of any concessions on financial terms would be reduced. And perhaps most important, we would avoid being played off by the customer against the French on Finance terms;

d) we could try to secure UK participation in the fuel supply through negotiation with the French; if we negotiate with the Chinese for the conventional island business only, British Nuclear Fuels Limited will have little opportunity to secure contracts which could establish them in the international PWR fuel market;

e) if the French were to supply the nuclear island they would carry the primary responsibility for securing non-proliferation assurances - though the UK could also be involved in negotiating assurances if we supply fuel. Present indications are that, unlike the Americans, the French would be satisfied with a statement from the Chinese - which the Chinese are willing to give - that the station would be used only for peaceful purposes.





7 Officials renewed informal discussions with French officials on 20 October. The French said that the Chinese have asked for separate bids from Alsthom and Framatome. Exclusive GEC/Framatome co-operation could not be contemplated unless the Chinese specifically requested such a bid. Although the French were concerned about the implications of price and credit competition for the conventional island business, they maintained that they were responding to the requests of the customer. And it would be difficult for the French Government publicly to indicate any willingness to exclude Alsthom: Alsthom have a substantial plant at Belfort in the electoral area which M Chevenement represented until recently. However, in discussion with my officials and GEC, Framatome have said that they would prefer to work with GEC.

8 Despite this negative response at official level, I consider we should press the advantages of a GEC/Framatome exclusivity agreement to our opposite numbers at the Anglo-French summit, since the arguments for Anglo-French co-operation are very strong. However, it is still possible that US policy on nuclear exports to China could change rapidly for wider political reasons. To discard the Anglo/American option would deprive UK industry of an important chance of using the project to build up its PWR capacity and experience and of obtaining a foothold in export markets: only if we are able to secure an exclusive agreement with the French should we close the door on the American option.





### Financial Terms

9 The French have offered standard consensus terms: 11% over 15 years for the nuclear island and 10% over 10 years for the conventional island. We have offered 10% over 15 years, with a provision for local costs up to 15% of the UK content, on the conventional island. Both these offers are subject to satisfactory guarantees from the Bank of China.

10 My officials believe that some improvement in our financing offer - principally capitalisation of pre-commissioning interest - will be necessary, eventually, if the project is to go forward. But until we have sounded the French, I do not believe we can decide what we should say to the Chinese in November. Depending on French moves, we may need a collective discussion of the financing issues on the project shortly after the Summit. (A background note on the financing issues is attached.)

### Recommendations

11 There are very strong advantages in reaching an exclusive agreement with the French: we should pursue this vigorously at the Anglo/French summit.

12 If we can secure an exclusive agreement with the French we should inform the State Department, Westinghouse and the National Nuclear Corporation of the UK's change of policy.





13 If we cannot secure an agreement with the French we should inform Westinghouse and NNC of the views expressed to you in China, but make no move beyond this so that the door remains open on the Anglo/American option.

14 If we cannot reach agreement with the French, we should negotiate direct with the Chinese for the conventional island only.

✓ 15 We should formally invite Li Peng to visit the UK. In the light of French moves, officials should prepare a paper on financing terms for Ministerial consideration before discussions with the Chinese begin.

16 Given the continuing uncertainties surrounding the project I do not think we can take our strategy further at present. Much depends on the French.

17 I am copying this minute to Francis Pym, Geoffrey Howe, Nigel Lawson, Arthur Cockfield, Leon Brittan and Sir Robert Armstrong.

PJ

P J

29 October 1982

Department of Industry

ENC





## BACKGROUND NOTE

1 Constraining our negotiating position on finance is pressure to extend the Consensus to cover nuclear plant. The Americans - perhaps as a delaying tactic since they are not able to take a commercial interest in the project at present - are pressing hard for agreement to charge premium interest rates over long repayment periods for nuclear plant, while opposing any other concessionary measures. This pressure will increase the difficulty of offering financial concessions of any kind in the future.

2 Nevertheless, some improvement in our offer will be necessary if the project is to go forward. Recently revised assessments of the feasibility of the project confirm that at current Consensus interest rates capitalisation of pre-commissioning interest or increased investment by the Chinese Government would be vital to make the project viable, given the eight to nine year construction period when no revenue would be earned. The Chinese have so far refused to provide further equity investment.

3 Although at present they have no mandate to capitalise, French officials have indicated that they would be prepared to concede at least some degree of capitalisation - though not local cost cover - in the course of detailed negotiations. Within Whitehall, Treasury and ECGD officials are strongly opposed to capitalisation. Department of Industry officials, however, believe that it will be necessary to concede capitalisation eventually, but in return for comprehensive guarantees for the foreign loans and agreement on a satisfactory financial structure for the operating company. At a discount rate of  $12\frac{1}{2}\%$  capitalisation would raise the subsidy level on the ECGD financing from about 16% for our present terms to 26%

4 We should also need to be satisfied about the general viability of the project, and the undertakings from the Hong Kong authorities regarding long term off-take arrangements before we give irrevocable commitments to the Chinese.

5 If we can secure an exclusive agreement with the French my officials believe that it may be possible to hold concessions on financing terms to capitalisation and to meet further financing pressure by pushing the customer to put more equity into the project. If however, we cannot reach agreement with the French, we will undoubtedly be pressed to make further concessions, principally an input of aid. This could prove costly, would excite strong criticism in the Consensus and could in the end be matched by the French.

6 These difficult financing issues will need Ministerial





consideration at an appropriate stage - possibly in the next few weeks depending on French moves. The financial and political costs of making concessions will need to be weighed against the industrial and commercial importance of the project and its wider importance for our bilateral relations with China and the future of Hong Kong.





COMPTON

29 OCT 1982





Sub



10 DOWNING STREET

*From the Private Secretary*

SIR ROBERT ARMSTRONG

GUANGDONG NUCLEAR POWER PROJECT

Thank you for your minute of 27 October. I have this morning written to Jonathan Spencer, conveying the Prime Minister's comments on the minute of 29 October by the Secretary of State for Industry and giving an account of the discussion which took place at yesterday's briefing meeting for the Anglo/French Summit. That letter has of course been copied to you. My impression is that we now have a policy for the immediate future and that, subject to your views, there is no need at the moment for the Cabinet Office to prepare recommendations to Ministers.

A. J. COLES

2 November 1982



CONFIDENTIAL

TMP.



cc FLO  
KMT  
D/N  
DOT  
C&O  
CO

10 DOWNING STREET

From the Private Secretary

2 November 1982

*Dear Jonathan,*

GUANGDONG NUCLEAR POWER PROJECT

The Prime Minister has seen Mr. Jenkin's minute of 29 October on this subject.

Mrs. Thatcher minuted that she was content that Vice-Minister Li Peng should be invited to London in November. She commented further that she was loath to give up the idea of Anglo/US co-operation on this project since she feared that the French aim would be to obtain the whole project for themselves.

There was some discussion of this matter at yesterday's briefing meeting for the Anglo/French Summit. The Prime Minister reiterated her concern that the French would try to secure the whole project. Your Secretary of State pointed out that if we could reach agreement with the French on pursuing the project jointly, we should avoid competitive bidding between the United Kingdom and France. The French now said that they had been asked to tender separately for both the nuclear and conventional work. If we were to preserve the possibility of obtaining work for British industry, we should have to fight very hard. He therefore recommended that at the Anglo/French Summit we should take the line that the project presented an opportunity for constructive Anglo/French partnership and we should agree how to frame a joint project. This approach would not necessarily rule out the American option. We should not exclude this possibility unless and until we had arrived at a satisfactory arrangement with the French. The Prime Minister indicated that she was content to speak accordingly in Paris.

I am copying this letter to John Holmes (Foreign and Commonwealth Office), John Kerr (HM Treasury), Julian West (Department of Energy), John Rhodes (Department of Trade), John Gieve (Chief Secretary's Office) and Richard Hatfield (Cabinet Office).

*Your own  
bl bla.*

Jonathan Spencer, Esq.,  
Department of Industry.

CONFIDENTIAL

*HL*





Ref. A09872

MR COLES

---

Guangdong Nuclear Power Project

---

I now attach a copy of a letter which I have received from Sir Walter Marshall following my meeting with him on 22 October.

2. You will see that he has persuaded himself that the Chinese would have interpreted what the Prime Minister said about this matter in Canton as implying support for the Anglo-American project.

3. I am beginning to wonder whether, when you have the answer to your letter of 20 October to the Department of Industry, it might be worthwhile the Prime Minister inviting the Cabinet Office to pull this all together and prepare recommendations to Ministers as to how best to proceed.

RA

ROBERT ARMSTRONG

27 October 1982



STRICTLY PERSONAL

CABINET OFFICE
A 9412...
25 OCT 1982
FILING INSTRUCTIONS
FILE No. ....

CENTRAL ELECTRICITY GENERATING BOARD

*Sudbury House, 15 Newgate Street, London EC1A 7AU. Telephone 01 248 1202*

*From the Chairman  
Sir Walter Marshall, CBE, FRS*

25 October 1982

Sir Robert Armstrong, KCB  
Secretary of the Cabinet  
The Cabinet Office  
London SW1

Dear Sir Robert

I have now had a chance to reflect upon our conversation on Thursday night and I would like to offer you an interpretation of the conversations.

In the first conversation, Walter Marshall was referred to in very glowing and flattering terms - not just in terms of "high regard" but also "long standing friendship". This would have very special significance for the Chinese who put enormous weight on friendships which have survived years. They would therefore have interpreted this conversation as a very dramatic and wholehearted endorsement of everything I said when I was last in Guangdong. They would not feel it necessary to look for more. They would look upon this as a very strong endorsement of an Anglo/American concept.

However, of course they do not want to throw away the French concept until the last minute (if then) and they are not going to commit themselves to any formal Government decision until they know exactly what they are committing themselves to and until they know that the US State Department will behave sensibly. They would therefore brief their Prime Minister to mention the French concept just to keep us on our toes and the way he did that is to my mind very significant indeed. He did not say "I favour the French proposal". He did not say "We are considering the French proposal". He said "I understand the Guangdong people are giving their main concern to the French proposal". This, I believe, is designed to place the French proposal on record as a competitor to us but primarily to indicate that the decisions have been delegated to Guangdong and that we can rely on the recent conversations I have had with the Guangdong people.

Cont'd ...



Sir Robert Armstrong, KCB

2

25 October 1982

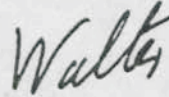
I think, therefore, I can reconcile my understanding of the conversation with the conversations you were kind enough to describe to me. Of course I cannot prove I am correct and I do not know I am correct but may I suggest we work on this as a possibility.

However, I recognise the force of the counter argument that (i) the Chinese must be nervous about the US State Department and could well have shifted their position since I talked to them - and (ii) they, the Chinese, were supposed to make their preference clear and did not do so.

I discovered on Friday that the Chinese have given a half promise to send a further message to me at the end of next week. That may be helpful. I shall keep in touch.

What a difficult, confusing matter this is!

Yours sincerely

A handwritten signature in cursive script, appearing to read 'W Marshall'.

W Marshall