

PO-CH/NL/0306

PART A

Part A.

**CONFIDENTIAL**  
(Circulate under cover and  
notify REGISTRY of movement)

Begins: 22/5/87.  
Ends: 1/19/87.

  
PO -CH /NL/0306  
  
PART A

Chancellor's (Lawson) Papers:

BRITISH BIDS FOR THE  
YUEYANG POWER STATION IN  
CHINA  
*Yueyang Power Station, China*

DD'S : 25 Years

*Daniel Jones*

25/10/95

PO -CH /NL/0306  
PART A



CONFIDENTIAL

CH/EXCHEQUER	
REC.	27 <del>12</del> / 5 / 87
ACTION	CST
COPIES TO	

28

22/5/87

PRIME MINISTER

**YUEYANG POWER STATION : CHINA**

Negotiations have reached a critical stage on this project, which is the largest nominated for financing under our £300 million soft loan for China. I thought you and colleagues should be aware of where things now stand and of the stance I have decided to adopt towards the UK companies involved.

2 At the insistence of the Chinese, Ministers agreed last year (my minute to you of 11 August 1986 and your Private Secretary's reply of 18 August 1986) that either of two British bids for this coal-fired power station should be eligible for support under the soft loan arrangements, one from GEC and one from Balfour Beatty/NEI : up until then we had only been supporting BB/NEI.

3 Bids were submitted to the Chinese in November 1986. Negotiations continued with both bidders until 16 May. Then the Chinese suspended negotiations with GEC and asked BB/NEI to submit an improved offer by 26 May.

4 The GEC team came home immediately. The company has since told us they believe there is still a chance they may be recalled to the negotiating table and they have formally asked us to maintain our even-handed approach. The advice from the Embassy however is that HMG should now commit itself unequivocally and solely to support of BB/NEI. This advice is based in particular on their understanding that negotiations with GEC have been stopped rather than simply suspended; on the large gap between GEC's price and the customer's target; and on the fact that the even-handed approach was disadvantageous to the competitive bidders.

DW4CFP



CONFIDENTIAL

5 Our own assessment is that the time is now right to move to sole support of BB/NEI and I have decided to tell the companies that this is to be the line we will adopt.

6 Colleagues should also be aware it is by no means certain that even with out undivided support in our dealings with the Chinese BB/NEI will necessarily win the contract. It is, however, clear that if we continue to support both contenders, neither will win. The Chinese client - though not necessarily their foreign aid department - are also pressing for a complex change in the aid arrangements. If BB/NEI are unable to make a sufficiently reduced offer by 26 May the Chinese may move to international competitive bidding. Against this one must bear in mind that the Chinese are operating under tight time constraints and are conscious of the value of the soft loan terms. Whilst the issue is finely balanced the Post are not unhopeful that BB/NEI will be kept in the race. One cannot, however, rule out the possibility of bad news at a domestically sensitive juncture.

7 I am sending copies of this to Nigel Lawson, Geoffrey Howe, David Young, Chris Patten and Sir Robert Armstrong.

*Paul Steeles*

PP PAUL CHANNON

Approved by the Secretary of State and signed in his absence

22 May 1987

CONFIDENTIAL



CP

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

27 May 1987

Dear Paul,

**YUEYANG POWER STATION: CHINA**

The Prime Minister has noted without comment your Secretary of State's minute of 22 May proposing that the Government should now give sole support to the Balfour Beatty/NEI bid for the Yueyang Power Station.

I am sending a copy of this letter to Alex Allan (H M Treasury), Robert Culshaw (Foreign and Commonwealth Office), Mike Eland (Lord President's Office), Martin Dinham (Overseas Development Administration) and Trevor Woolley (Cabinet Office).

Yours sincerely,  
*Chris Powell*  
C D POWELL —

Paul Steeples, Esq.,  
Department of Trade and Industry

CONFIDENTIAL

CH/EXCHEQUER	
Date:	27/5/87
APPROVED BY:	CP
COPIES TO:	



DEPARTMENT OF TRADE AND INDUSTRY  
 1-19 VICTORIA STREET  
 LONDON SW1H 0ET 4417

Telephone (Direct dialling) 01-215

GTN 215

(Switchboard) 01-215 7877

From the Parliamentary Under Secretary of State  
 for Corporate and Consumer Affairs  
 The Hon Francis Maude MP

CC PS/SoS  
 PS/CDL  
 PS/MfT  
 PS/Mr Atkins  
 PS/SBH  
 Mr Dell  
 Mr Stephens ECGD  
 Mr Durie SEE  
 Mr Goodman SEE3  
 Mr Sedman ECGD  
 Mr Palmer PEP3  
 Mr Berry IFA

Mr Alexander ODA  
 Mr Lansley FRM  
 Ms Wilson IDU  
 Mr Cruickshank OT2  
 Mr Lussey SEE  
 Ms Harvey SEE

Charles Powell Esq  
 Private Secretary to the  
 Prime Minister  
 10 Downing Street  
 LONDON  
 SW1

28 August 1987

Dear Mr Powell,

**YUEYANG POWER STATION: CHINA**

... You will recall that Mr Channon minuted the Prime Minister on 22 May: I attach a copy of the correspondence for ease of reference.

At that time, the Secretary of State wished to inform the Prime Minister that, in view of the situation in Beijing, we should go along with the Chinese client's wish to change from supporting two competing UK bidders to sole support for Balfour Beatty/NEI.

The Chinese client has now altered his position again, and recommended negotiations with GEC. They have asked HMG to "allow them to treat both parties on an equal footing".

We have consistently taken the view that we should respond positively to the customer's demands, and that it would be counterproductive to attempt to coerce him into an uncongenial choice. Given the new Chinese position, therefore, in view of my Minister, we have little option but to accede to their request.

The Chinese claim that going back to a competitive process will accelerate a successful conclusion to negotiations, though we must have some scepticism, we see no alternative but to agree to revert to supporting both UK parties as equally as practicable.

I am sending copies of this letter to the private secretaries to Nigel Lawson, Geoffrey Howe, Normal Fowler, Chris Patten and Sir Robert Armstrong.

Yours sincerely,

*Hilary Ward*

HILARY WARD  
 Private Secretary

RH2BXR

CH/EXCHEQUER	
REC.	02 SEP 1987
ACTION	CST
COPIES TO	

CONFIDENTIAL



PRIME MINISTER

## YUEYANG POWER STATION : CHINA

Negotiations have reached a critical stage on this project, which is the largest nominated for financing under our £300 million soft loan for China. I thought you and colleagues should be aware of where things now stand and of the stance I have decided to adopt towards the UK companies involved.

2 At the insistence of the Chinese, Ministers agreed last year (my minute to you of 11 August 1986 and your Private Secretary's reply of 18 August 1986) that either of two British bids for this coal-fired power station should be eligible for support under the soft loan arrangements, one from GEC and one from Balfour Beatty/NEI : up until then we had only been supporting BB/NEI.

3 Bids were submitted to the Chinese in November 1986. Negotiations continued with both bidders until 16 May. Then the Chinese suspended negotiations with GEC and asked BB/NEI to submit an improved offer by 26 May.

4 The GEC team came home immediately. The company has since told us they believe there is still a chance they may be recalled to the negotiating table and they have formally asked us to maintain our even-handed approach. The advice from the Embassy however is that HMG should now commit itself unequivocally and solely to support of BB/NEI. This advice is based in particular on their understanding that negotiations with GEC have been stopped rather than simply suspended; on the large gap between GEC's price and the customer's target; and on the fact that the even-handed approach was disadvantageous to the competitive bidders.

DW4CFP



CONFIDENTIAL

5 Our own assessment is that the time is now right to move to sole support of BB/NEI and I have decided to tell the companies that this is to be the line we will adopt.

6 Colleagues should also be aware it is by no means certain that even with out undivided support in our dealings with the Chinese BB/NEI will necessarily win the contract. It is, however, clear that if we continue to support both contenders, neither will win. The Chinese client - though not necessarily their foreign aid department - are also pressing for a complex change in the aid arrangements. If BB/NEI are unable to make a sufficiently reduced offer by 26 May the Chinese may move to international competitive bidding. Against this one must bear in mind that the Chinese are operating under tight time constraints and are conscious of the value of the soft loan terms. Whilst the issue is finely balanced the Post are not unhopeful that BB/NEI will be kept in the race. One cannot, however, rule out the possibility of bad news at a domestically sensitive juncture.

7 I am sending copies of this to Nigel Lawson, Geoffrey Howe, David Young, Chris Patten and Sir Robert Armstrong.

*Paul Steeles*

PP PAUL CHANNON

Approved by the Secretary of State and signed in his absence

22 May 1987





10 DOWNING STREET  
LONDON SW1A 2AA

Dear Paul,

**YUEYANG POWER STATION: CHINA**

The Prime Minister has noted without comment your Secretary of State's minute of 22 May proposing that the Government should now give sole support to the Balfour Beatty/NEI bid for the Yueyang Power Station.

I am sending a copy of this letter to Alex Allan (H M Treasury), Robert Culshaw (Foreign and Commonwealth Office), Mike Eland (Lord President's Office), Martin Dinham (Overseas Development Administration) and Trevor Woolley (Cabinet Office).

*yours sincerely,*  
*Chris Powell*  
C D POWELL —

Paul Steeples, Esq.,  
Department of Trade and Industry

CONFIDENTIAL

CONFIDENTIAL



*Papers  
Need  
copy*

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

1 September 1987

*Dear Hilary,*

**YUEYANG POWER STATION: CHINA**

Thank you for your letter of 28 August about the Chinese Government's wish that we should revert to supporting both United Kingdom bidders for the Yueyang Power Station. I am sure that the Prime Minister would agree that we should accede to the Chinese Government's request.

I am copying this letter to the recipients of yours.

*Yours sincerely,  
C. D. Powell*

(C. D. POWELL)

Hilary Ward, Esq.,  
Office of the Honourable Francis Maude,  
Department of Trade and Industry.

CONFIDENTIAL

<b>CH/EXCHEQUER</b>	
REC.	01 SEP 1987
ACTION	CST