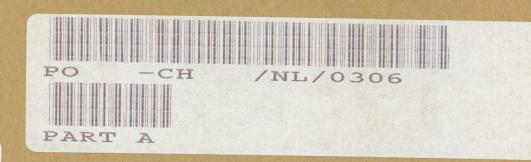
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(Circulate under cover and notify REGISTRY of movement)

Begins: 22/5/87. Ends: 1/9/87.



Chancellon's (Lawson) Papers:

BRITISH BIDS FOR THE YUEYANG POWER STATION IN CHINA

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YUEYANG POWER STATION : CHINA

PRIME MINISTER

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.

- 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.
- 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.
- 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 unequivocably 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



- 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.
- 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 Steeples

PP PAUL CHANNON

Approved by the Secretary of State and signed in his absence

22 May 1987

DW4CFP







10 DOWNING STREET LONDON SWIA 2AA

From the Private Secretary

27 May 1987

Der 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).

C D POWELL _

Paul Steeples, Esq.,
Department of Trade and Industry

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

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

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

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CC PS/SoS (Switchboard) 01-215 7877 PS/CDL

PS/MfT PS/Mr Atkins PS/SBH

Mr Alexander ODA Mr Dell Mr Stephens ECGD Mr Lansley FRM Mr Durie Ms Wilson IDU SEE Mr Cruickshank OT2 Mr Goodman SEE3 SEE

SEE

Mr Sedman Mr Lussey ECGD Ms Harvey Mr Palmer PEP3

Mr Berry IFA

> 28 August 1987

Dear Mr Powers.

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 negotiatons, 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.

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HILARY WARD

Private Secretary

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PRIME MINISTER

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Part Steeples

PP PAUL CHANNON

Approved by the Secretary of State and signed in his absence

22 May 1987

DW4CFP



10 DOWNING STREET

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C D POWELL _

Paul Steeples, Esq., Department of Trade and Industry

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10 DOWNING STREET LONDON SWIA 2AA

From the Private Secretary

1 September 1987

Don Hilam

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.

(C. D. POWELL)

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

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