



10 DOWNING STREET

THE PRIME MINISTER

24  
29 March 1982

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King

Dear Lord Kadoorie,

Thank you for your letter of 4 March about the Guangdong project.

I do understand the fears you express about the kind of Anglo-American package proposed by the Atomic Energy Authority. However I can do no more than repeat my earlier message to you that the UK stands ready to meet the needs of the customer. Securing the conventional island for the UK - if possible through a negotiated contract - remains our first objective. On the question of a nuclear island vendor we await a signal from the Chinese. I can assure you that during their current visit to the UK the delegation from the Guangdong Power Company and the CLP will not be lobbied on the choice of nuclear island vendor, from whatever quarter. I shall look forward to hearing the outcome of the visit in due course.

I was very glad to have your news on the successful commissioning of the first units at Castle Peak A. This is certainly a very remarkable achievement and I hope you will give my warmest congratulations to all those who have worked so very hard to achieve it.

Every good wish,  
Yours sincerely,

MT

~~The Rt. Hon.~~ The Lord Kadoorie, C.B.E., J.P.

WB  
No. 10 does not recognise Lord K's Rt. Hon. He should be addressed as amended. 29/3

JMP



*At Kay*

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

*Secretary of State for Industry*

19 March 1982

J Coles Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

*Type letter pl.*

*Dear John,*

*MR 26/3*

GUANGDONG POWER PROJECT

In my letter of 11 March, enclosing Lord Kadoorie's reply of 4 March to the Prime Minister's letter of 26 February, I undertook to provide advice and a draft reply.

2 As was to be expected, Lord Kadoorie remains uneasy about the UK's policy on this project. His response contains no new points but the Prime Minister may wish to note officials' comments.

3 We are conscious that the Feasibility Study carried out jointly by the Guangdong Power Company and the China Light & Power Company envisaged separate nuclear and conventional islands. However, we consider that it would be unwise to regard the assumptions and conclusions of the Feasibility Study as binding. Rather, the Feasibility Study may well prove to be simply the starting point for further discussions. In other words we cannot be sure that a "package deal" will not eventually emerge. In paragraph 4 of his letter Lord Kadoorie mentions that China Light & Power are advocating a negotiating strategy along the lines of that adopted for the Castle Peak power station. It is certainly our aim to try to secure a negotiated contract along the lines of the Hong Kong power stations. However, as yet it is by no means clear whether the Chinese will be willing to adopt this approach.

4 In paragraphs 5 and 6 of his letter, Lord Kadoorie points to the well established position of the French in the Chinese market and the dangers of an all-French bid for the whole power station. In evaluating the advantages of various options on this project, officials here have always attached great importance to the strong position of France in the Chinese market. But the Chinese are likely to perceive an all-French bid as less attractive to the Hong Kong interests in the project than a proposal which draws in UK manufacturers. And we cannot afford to accept without question Lord Kadoorie's assumption that putting in an Anglo-French bid would necessarily preclude an all-French bid. At present the French appear to be reluctant to take discussions with the UK further, for whatever reasons.

5 In paragraphs 7 and 8 of his letter, Lord Kadoorie suggests



that the National Nuclear Corporation (NNC) may have encouraged differences of views on a nuclear island vendor among the Chinese. Officials suggest that the situation is probably much less straightforward. There appear to be some groups within China who are anxious to foster competition for the nuclear island, and others who positively favour American technology. However, in the course of the current visit to the UK by the Guangdong Power Company and the China Light & Power Company discussion will focus on the ability of GEC to provide the appropriate technology for the conventional island. If questions are raised by the Chinese on the nuclear island, all involved in the visit have been briefed to take the line that we await an indication of the customer's preference. The Prime Minister can assure Lord Kadoorie that the Anglo-American option will not be pressed by the NNC.

6 To set the current visit to the UK in perspective, the Prime Minister may wish to note that the Guangdong Power Company have invited an NNC led mission to visit Guangdong after Easter to explore the possibilities of providing a Westinghouse reactor. The NNC have been circumspect in entering into any commitment on the timing of such a visit. It will clearly be necessary to review this proposal in the light of the outcome of the current visit to the UK and the response to the approach which will shortly be made to the State Department of Washington to seek clearance under the Non-Proliferation Act for the NNC as a Westinghouse Licensee to supply PWR technology to China. Ministers' views will be sought on this proposed further visit to China in due course.

7 Finally, Lord Kadoorie comments on the joint achievement of GEC and CLP in achieving "steam to set" on the first 2 units of the Castle Peak A power station in Hong Kong. The Prime Minister will wish to congratulate Lord Kadoorie on this achievement. (My Secretary of State is writing to congratulate Lord Weinstock).

8 More generally, however, our strong advice is that the Prime Minister should avoid further detailed exchanges about the project with Lord Kadoorie. Until the Chinese are prepared to give a firmer indication of their thinking on the principal issues - the timing of the project and the choice of nuclear vendor - further correspondence would be unproductive.

9 A short draft letter is attached.

10 I am copying this letter and enclosure to the private secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Secretaries of State for Trade and Energy.

*Yours ever,*

*Caroline*

CAROLINE VARLEY  
Private Secretary



DRAFT REPLY FROM THE PRIME MINISTER TO LORD KADOORIE

Thank you for your letter of 4 March about the Guangdong project.

I do understand the fears you express about the kind of Anglo-American package proposed by the Atomic Energy Authority. However I can do no more than repeat my earlier message to you that the UK stands ready to meet the needs of the customer. Securing the conventional island for the UK - if possible through a negotiated contract - remains our first objective. On the question of a nuclear island vendor we await a signal from the Chinese. I can assure you that during their current visit to the UK the delegation from the Guangdong Power Company and CLP will not be lobbied on the choice of nuclear island vendor, from whatever quarter. I shall look forward to hearing the outcome of the visit in due course.

I was very glad to have your news on the successful commissioning of the first units at Castle Peak A. This is certainly a very remarkable achievement and I hope you will give my warmest congratulations to all those who have worked so very hard to achieve it.



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PS/ *Secretary of State for Industry*

// March 1982

John Coles Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

Prime Minister

To be aware, pending  
advise.

*ms*

A.S.C. 11/3

p.a. 15/3

*Dear John,*

GUANGDONG POWER STATION

I enclose a reply from Lord Kadoorie to the Prime Minister's letter of the 26 February 1982, which was sent to us through the Diplomatic Bag.

2 Officials have a copy of the letter and are providing advice and draft reply for the Prime Minister which will be sent to you in due course.

*Yours ever,*

*Caroline*

CAROLINE VARLEY  
Private Secretary

Encl

No. 10 does not recognize this. See type on amended,

FROM: ~~The Rt. Hon.~~ The Lord Kadoorie, CBE, JP

*St. George's Building  
Hong Kong*

March 4, 1982

The Rt. Hon. Mrs. Margaret Thatcher, MP  
Prime Minister  
10 Downing Street  
London SW1  
ENGLAND

Dear Prime Minister,

Proposed Nuclear Power Project for Guangdong Province

- 1) Thank you for your letter dated February 26, 1982.
- 2) I appreciate your desire to retain flexibility. Perhaps, however, I should set out the reservations which I explained to Michael Jopling regarding the kind of Anglo/American package advocated by the Atomic Energy Authority.
- 3) The Feasibility Study carried out by China Light and Power/ Guangdong Power Company envisages separate nuclear and conventional islands and that, all things being equal, preference should be given to the United Kingdom for supply of the conventional island. It also suggests that the nuclear island in its entirety be supplied by either Westinghouse, Framatome or Kraftwerk Union. Nowhere in the study is there any mention of a package deal to include the supply of both the nuclear and conventional islands.
- 4) Now, though somewhat beyond the findings of the Feasibility Study, China Light and Power (CL&P) is advocating to Guangdong Power Company (GPC) a negotiating strategy along the lines of that adopted for the contract placed through the Department of Industry for Castle Peak Power Station.

We are convinced that this method of approach is in the best interests of the Chinese, the United Kingdom and Hong Kong.

- 5) After considerable personal effort both here and in Paris, I succeeded in persuading Electricite de France and Paribas (owners of Framatome, Alstom Atlantique and Creusot Loire) to accept, somewhat reluctantly, a joint Anglo/French approach - conditional on Framatome providing the nuclear island and General Electric Company (GEC) the conventional island. By following this course we eliminate Britain's strongest competitor, the French, from quoting for the conventional island.

(2)/.....

*St. George's Building  
Hong Kong*

The Rt. Hon. Mrs. Margaret Thatcher, MP

March 4, 1982

Page (2)

6) It must not be forgotten that the French have already offered the Chinese two complete nuclear stations on exceptionally favourable terms and that, after much debate, Beijing has agreed to allocate the first of these units to Guangdong Province.

7) If any UK organization, such as National Nuclear Corporation (NNC) puts forward an alternative at this time, it will leave the door wide open to France and others to offer a total package for both nuclear and conventional islands - a situation I have tried hard to avoid. In view of this I must tell you frankly that I am concerned at the effect on the Chinese of attempts by NNC, or their representative, to press on Chinese officials the merits of a NNC/Westinghouse/GEC alternative to my proposal. This has contributed to the differences of view amongst some Chinese to which you refer, including the emergence of the concept of competitive bids instead of my proposal for a negotiated contract which would at least ensure allocation of the conventional island to GEC.

8) It is important, particularly during this month's visit of a GPC/CL&P delegation to Britain, that advice different from that advocated by CL&P should not be pressed on the delegation by NNC. This would not be incompatible with the flexibility you wish, provided an Anglo/American alternative is kept in reserve - but completely in the background - for use with the Chinese only in the event of it being impossible to arrange a negotiated contract. Nothing should be said to them about it meanwhile.

9) I am aware of the differences of view held by certain of the Chinese Authorities and that the Department of Second Machine Building have even advocated delay on grounds that they could build the nuclear power station themselves.

10) China is unpredictable, but the really interested parties with whom we are in close contact, and with whom the final decision will rest, know that this is but wishful thinking. They are pressing for early action and expect some decision before the end of the year.

11) To end this letter on a more positive note, I am happy to tell you that "steam to set" at Castle Peak Power Station took place last Saturday, just three years eight months and twelve days since gaining access to the site - and that only four days later the turbine was synchronized to the transmission system.

(3).....

FROM: The Rt. Hon. the Lord Kadoorie, CBE, JP

*St. George's Building  
Hong Kong*

The Rt. Hon. Mrs. Margaret Thatcher, MP

March 4, 1982

Page (3)

12) I believe this constitutes a record of which Mr. Stones, his team and all concerned, can be proud - more especially when one considers that the site had to be completely reclaimed from the sea.

13) We are greatly looking forward to seeing you here in September and in conclusion I would like to record my thanks to you for your interest and assistance which has done so much to achieve this satisfactory result.

Sincerely yours,

*Kadoorie.*

Kadoorie



CONFIDENTIAL



*Jio*  
*Hong Kong*

10 DOWNING STREET

*From the Private Secretary*

26 February 1982

*Dear Jonathan,*

Guangdong Nuclear Power Project

The Prime Minister has now been able to consider your Secretary of State's minute of 8 February and the subsequent minutes by the Foreign and Commonwealth Secretary, the Secretary of State for Energy and the Chief Secretary to the Treasury.

The Prime Minister broadly agrees with the advice contained in these minutes. She takes the view that it would be wrong to close the option of a UK/US package. She believes that the French might then try to take the whole contract and has observed that our experience with them on collaborative projects has not been good. Furthermore, a resolution of the current political problems between the United States and China could lead to the Americans being preferred as contractors. In that case we should get a bigger share of the available work.

The Prime Minister has therefore written to Lord Kadoorie on the lines of the draft annexed to your Secretary of State's minute. I enclose a copy with this letter.

I am copying this letter and enclosure to the Private Secretaries to the Foreign and Commonwealth Secretary, the Secretary of State for Energy, the Chief Secretary to the Treasury and Sir Robert Armstrong.

*Jonathan*  
*Spencer*

Jonathan Spencer, Esq.,  
Department of Industry

CONFIDENTIAL

*lo*



FILE

cc: Industry, SW

10 DOWNING STREET

THE PRIME MINISTER

26 February 1982

Dear 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

BK

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. King regards,

Yours sincerely,

(sgd) MT

The Rt. Hon. The Lord Kadoorie, C.B.E., J.P.