

JH 423



PRIME MINISTER

Prime Minister

Content, subject to views of colleagues,
that we should proceed as in paragraphs
5 and 6.

A.J.C. $\frac{16}{4}$

Yes not

GUANGDONG POWER PROJECT

You may like to have a brief report of the recent visit to the UK by the delegation from the Guangdong Power Company (GPC) and the China Light and Power Company (CLP); and the next steps we contemplate in taking forward our options on this project.

2 The delegation, consisting of senior officials from both companies, visited the UK from 13-25 March, at the invitation of GEC. At the insistence of the Chinese, the visit focussed almost exclusively on the conventional island. There was no real clarification of Chinese thinking on the nuclear island vendor.

3 I am enclosing a note on the details of the visit. The general assessment is that it went well. GEC are now highly regarded by the Chinese in terms of their technical and manufacturing competence; and the discussions with officials on financing went as far as could reasonably be expected in terms of identifying the issues to be resolved.

4 In line with our desire to keep up momentum on the project I believe it essential that we prepare to respond positively to a

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Chinese invitation to send a delegation to Guangdong to discuss further financing for the conventional island.

5 On the Anglo/American option, officials are seeking the views of the State Department in Washington on whether clearance would be given for PWR technology to be transferred to China through the National Nuclear Corporation as Westinghouse's licensee. If the response is encouraging, Westinghouse, the National Nuclear Corporation and GEC will need to proceed to further detailed discussions. The next step would be to respond to an invitation which has been given by GPC to the National Nuclear Corporation (NNC) to lead a delegation to Guangdong to discuss the prospect for supplying an Anglo/American nuclear reactor. Provided a coherent and convincing package can be put together by Westinghouse, NNC and GEC, I consider an NNC led mission to Guangdong should take place, though its exact timing will be a matter for careful consideration.

6 In line with our general policy I also propose that discussions with the French should be renewed, both at official level in Government and at commercial level between GEC and Framatome. We need to clarify French thinking on the project and to define further the possible collaborative role for the UK including fuel supply and services in a French nuclear island.

7 Through these initiatives we should be able to make progress on both options before your visit to China in September. Indeed we shall make every effort to ensure your visit can be used to

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maximum advantage to spur decisions on the Chinese side, though I fear the track record on this project does not encourage us to expect rapid developments.

8 I am copying this minute to Francis Pym, Geoffrey Howe, Arthur Cockfield and Nigel Lawson.

PJ

P J

15 April 1982

Department of Industry

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NOTE ON THE VISIT TO THE UK BY THE DELEGATION FROM THE GUANGDONG POWER COMPANY AND THE CHINA LIGHT AND POWER COMPANY, 13-25 MARCH

1. The first week of the visit concentrated on GEC's technical and manufacturing capabilities and the UK's record in the power plant field. The programme included visits to GEC works, to CEGB power stations where GEC equipment is in operation, and to British Nuclear Fuels Limited. The second week concentrated on financial discussions with Government and with GEC's financial advisers, Schrodgers. Throughout the visit the delegation was accompanied by a representative of the Chinese Embassy, and representatives of the Bank of China attended the financial discussions.
2. The delegation appeared to have been impressed by the technical presentations and manufacturing facilities of GEC. Officials believe that the Chinese now accept that the large high speed turbines which GEC are offering would be suitable for the project.
3. In the financing discussions the delegation was pressed for clarification on the timing of the project, the choice of nuclear partner, and the proposed financial structure of the operating company. The Chinese gave no clear answer on timing. On the choice of nuclear partner, in formal discussions the Chinese reiterated that they were considering the options originally contemplated in the feasibility study for the project, namely Westinghouse, Framatome and KWU of West Germany. In informal discussions, however, the Chinese appeared to favour Framatome.
4. On the financial structure of the operating company, a number of critical questions were pressed, including responsibility for cost/time overruns. Officials also pressed the need for a 100% guarantee for both ECGD and commercial loans for the project. As anticipated, many of these issues appeared not to have been addressed by the Chinese and CLP despite their fundamental importance in terms of the viability of the project. The delegation said that they would need time to consider the points raised.
5. On the terms which ECGD might be prepared to offer to finance the purchase of equipment for a conventional island, the Chinese pressed the UK to put a specific offer on the table. It was explained that without answers to the major questions raised on the UK side it was difficult to be specific. Prevailing consensus terms were outlined - 85% of the UK element of the contract at an interest rate of 10% repayable over 10 years or perhaps slightly longer from the commissioning of the station. Officials also said the UK would be willing in principle to consider matching offers made by other countries for the conventional island supply, and to consider aligning terms with the nuclear island supplier when selected. At the request of the Chinese, Schrodgers also outlined the likely terms on which commercial loans might be secured.
6. It was suggested that a delegation from the UK including ECGD and Schrodgers should visit Guangdong to discuss these financing questions further. We await a formal invitation.
7. One further point of interest was that the Chinese asked what conditions including credit facilities, would be applied by HMG if they decided to buy nuclear fuel services for the proposed power plant from the UK. This would be very valuable business; officials indicated that the UK would probably be able to meet Chinese requirements. However the Chinese said that, as a nuclear weapons State, they



would not accept inspection of their nuclear facilities. The FCO will wish to look carefully at non-proliferation safeguards if we are able to agree a specific proposal on fuel with the Chinese.

Department of Industry
13 April 1982



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15 APR 1982

Hong Kong



Foreign and Commonwealth Office

London SW1A 2AH

26 April 1982

MR 26/4
P.A.

Dear John,

Guangdong Power Project

With reference to your letter of 19 April to Jonathan Spencer, Mr Pym agrees that Mr Jenkin should proceed as suggested in paragraphs 5 and 6 of his minute of 15 April to the Prime Minister.

I am copying this letter to Jonathan Spencer (Department of Industry), John Kerr, HM Treasury), John Rhodes (Department of Trade) and Julian West (Department of Energy).

Yours ever

J E Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

London 2002



26 JUL 2002





cc FCO
HMT
DOT
D/N

HL

10 DOWNING STREET

From the Private Secretary

19 April 1982

Guangdong Power Project

The Prime Minister has seen Mr. Jenkin's minute of 15 April and, subject to the views of colleagues, is content that he should proceed as he proposes in paragraphs 5 and 6.

I am copying this letter to John Holmes (Foreign and Commonwealth Office), John Kerr (H.M. Treasury), John Rhodes (Department of Trade) and Julian West (Department of Energy).

A. J. COLES

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Jonathan Spencer, Esq.,
Department of Industry.

JU



Secretary of State for Industry

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16 April 1982

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

Dear John

GUANGDONG POWER PROJECT

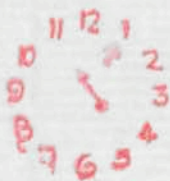
My Secretary of State minuted the Prime Minister on 15 April 1982 about the Guangdong power project. I would be grateful if you and recipients of this letter would classify their copy 'Confidential'. Please accept my apologies for any inconvenience caused.

2 I am copying this letter to the Private Secretaries to the Foreign Secretary, the Chancellor, and the Secretaries of State for Trade and Energy.

Yours Sincerely
K Benson

K BENSON
Private Secretary

16 APR 1982



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