

JH 293



Prime Minister
Agree with para. 7 and 8?

A.S.C. 17/11

PRIME MINISTER

GUANGDONG NUCLEAR PROJECT

In my minute of 29 October I undertook to recommend to you and to colleagues the line we should take in discussions with Vice Minister Li Peng of the Ministry of Water Conservancy and Electric Power, following our discussions with the French at the summit.

2 Following his visit to France, Li Peng will arrive in the UK for a week of industrial visits and discussions with Government on 19 November.

3 Many uncertainties remain on this project. Despite the fact that Premier Zhao reiterated to Lord Nelson at the beginning of November his statement to you in September, Mrs Qian, the Minister of Water Conservancy and Electric Power told Lord Nelson that the Chinese wanted open competition. A move in the American position remains a theoretical possibility but there is no sign of any change in the State Department's non-proliferation policy towards China. Undoubtedly, the present Chinese focus is on French nuclear capability.

4 You will remember that the discussions at the summit were inconclusive. Alstom's interests remain a major political



difficulty. I was unable to get a commitment from either M. Jobert or M. Chevenement to a joint Anglo/French project - which would carry with it the implication that they would exclude Alstom. You may recall that I told you that Jobert wrapped my knuckles because we had not reported developments to them immediately after your visit to Peking, and because, in his view, our terms for Guangdong went beyond the spirit of the Consensus. I believe Chevenement is more favourably inclined to a Framatome/GEC proposal, but before reaching a view on our proposals for collaboration the French will no doubt want to hear what Li Peng says in the current discussions in France.

5 Accordingly we shall have to focus on the conventional island in our discussions with Li Peng, though there may be an opportunity to underline again our interest in supplying fuel under the dual sourcing arrangements the Hong Kong Government are likely to seek.

6 This situation presents us with a dilemma on financing terms. Our present terms for the conventional island of 10% over 15 years with provision to cover local costs up to 15% of the UK content are significantly more attractive than the French offer of 10% over 10 years with no support for local costs. If we are eventually to do a deal with the French there is a strong argument to offer nothing more at present. If, however, we are in competition with the French it will be difficult to send Li Peng



away empty handed. My officials will be seeking to find out how the French talks have gone but it will not be easy to obtain accurate information.

7 On balance, on present information I believe we should make no further major concessions at this stage unless we need to respond to an improved French offer.

8 We might, however, invite the Chinese to indicate those areas in which they would find useful the expert technical services which the UK could supply. I have in mind the kind of technical help which was supported under the Industry Act to secure the Castle Peak projects. In response to Chinese reactions we could consider what modest measures of support might be possible: first estimates suggest that such services for the conventional island might cost £10m-£20m.

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

PJ

P J

17 November 1982

Department of Industry

H-K:
Contract for Casita
Peak Pt 2



F-
11/10/21

EXHIBIT (A)

CONFIDENTIAL



Henry Kay

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10 DOWNING STREET

From the Private Secretary

18 November, 1982.

Guangdong Nuclear Project

The Prime Minister has noted the minute of 17 November by the Secretary of State for Industry, and, subject to the views of the other recipients of the minute, agrees with the proposals in paragraphs 7 and 8 for the further handling of this matter.

I am sending copies of 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, HM Treasury), and Richard Hatfield (Cabinet Office).

A. J. COLES

Jonathan Spencer, Esq.,
Department of Industry.

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