



Treasury Chambers, Parliament Street, SW1P 3AG
 . 01-233 3000

31 December 1980

The Rt. Hon. Sir Keith Joseph Bt MP
 Secretary of State for Industry

John Kerr

GUANGDONG NUCLEAR PROJECT

You wrote to Peter Carrington on 19 December, and in his reply of 23 December Ian Gilmour has agreed to your proposed strategy for securing business for EGC from the above project.

I agree with all that has been said, but there is an important point arising from the final paragraph of Ian Gilmour's letter which should in my view be clarified urgently while approaches are being made to the French.

In paragraph 8 of the paper by officials there is reference to a Chinese suggestion of an injection of equity from the United Kingdom. If this would be satisfied by a GEC involvement there is no issue of policy for the Government. But I understand from my officials that there has been a suggestion that the powers in section 8 of the 1972 Industry Act might be used to acquire a Government share-holding. John Biffen wrote to you on 1 October and pointed out that a new equity involvement overseas would run counter to our privatisation policy at home and that there was the obvious public expenditure question of where the money would come from. If the proposal was that the AEA should be the vehicle for an injection of public equity there would be very similar problems. He further referred to the financial implications in the event of nuclear accident.

In agreeing to the approaches you propose I must ask that officials should prepare a note on the question of 'equity from the UK' before anything is said to the Chinese on this aspect. The first question I should like to see resolved is whether GEC themselves are prepared to take a sufficient equity stake to satisfy the Chinese. If there is any suggestion of a public share-holding I should like to know whether

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this would be confined to the construction company or would extend to the operation of the station, and whether such an injection would involve HMG (or the AEA) in further financial liabilities in the event of a nuclear accident. As John Biffen said in his letter we need to consider as soon as possible whether we could envisage any direct HMG involvement. There is a major point of export policy at stake. We need to define how far we are prepared to involve the Government or public sector bodies to secure particular export contracts.

I am copying this letter to the Prime Minister, Ian Gilmour, John Nott and David Howell.

A handwritten signature, possibly "John Biffen", written in black ink.

GEOFFREY HOWE

A handwritten signature, possibly "John Biffen", written in black ink.

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China

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Industry
123 Victoria Street
London SW1

1 October 1980

Dear Keith,

GUANGDONG NUCLEAR POWER STATION

Your letter of 22 September to Peter Carrington has come to me in the Chancellor's absence abroad. I have also seen Norman Lamont's letter of 26 September.

I do of course recognise the potential significance of this project for relations between the United Kingdom and China. But the note by officials attached to your letter demonstrates that there are major policy issues surrounding some of the points the Chinese may make. Since I understand that Peter Carrington's visit to Hong Kong and China has been postponed I wonder whether it will be possible to discuss some of these issues before he talks to the Chinese.

The point of immediate concern to me is the possibility of an equity stake involving the British Government. I do not think that the note of 'Points to Make' adequately explains the stance of the present Government. I do not of course dispute that Peter Carrington should listen to what the Chinese say, and offer to consider what they say. But I think that it is essential to take a noncommittal line.

I do not think that the note agreed by officials explains with sufficient weight how unusual such an equity investment would be, and the statement that the Government is a shareholder or owner of many industries in the UK strikes me as misleading. Our domestic policy is of course to disentangle ourselves from Government shareholdings and ownership wherever possible, and a new equity involvement overseas could surely be seen as a move in the opposite direction. If we make such a move in one case surely there would be pressure to make a similar move in other export contracts of national significance.

There is also the obvious public expenditure point. I understand that section 8 of the 1972 Industry Act would provide the necessary powers for such a stake. But you do not of course have any financial provision for it.

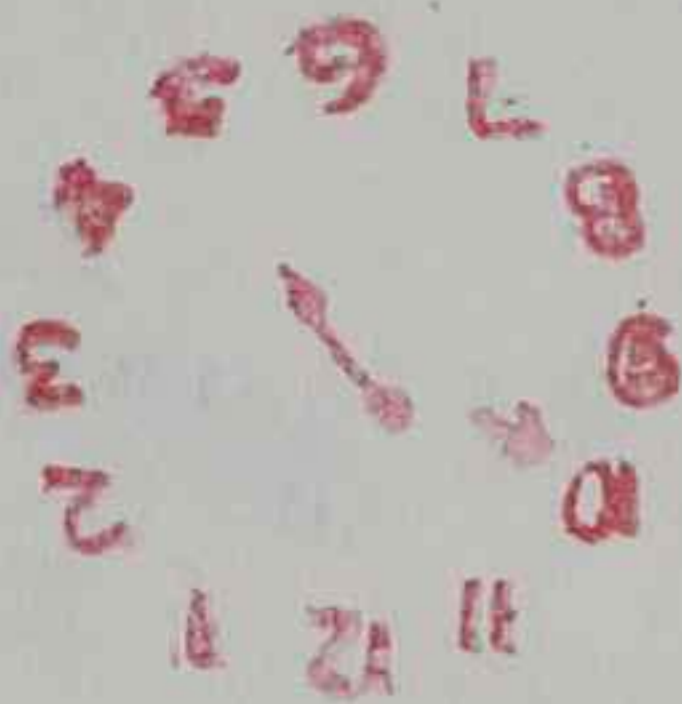
I hope therefore that it goes without saying that we should need to consider any such proposal from the Chinese with extreme care. I must add that such an equity stake could also be the thin end of a very expensive wedge. The question of sharing risks in the event of a nuclear accident serves to show how very expensive direct Government involvement in the contract could be, whether it took the form of an equity stake or not.

I suggest therefore that we need to consider as soon as possible whether we could envisage any direct HMG involvement with the Chinese Government. One of the aspects which we would need to consider particularly carefully would be the potential public expenditure implications, which could go much wider than your industry programme.

I am sending copies of this letter to the Prime Minister, Peter Carrington, John Nott and David Howell.

John Biffen

JOHN BIFFEN



- 11 OCT 1980