

HL

Hong Kong

6 December 1982

Guangdong Nuclear Project

The Prime Minister has noted the contents of your Secretary of State's minute of 2 December.

JOHN COLES

Jonathan Spencer, Esq.,
Department of Industry.

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CONFIDENTIAL

JH 415



PRIME MINISTER

Prime Minister

All 2/12

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GUANGDONG NUCLEAR PROJECT

This minute reports on the main points discussed during Li Peng's visit to the UK last week. I was grateful for your and Geoffrey Howe's agreement that we might indicate to Li Peng a willingness to offer capitalisation of pre-commissioning interest instead of local cost support: in the context of the negotiations, however, I decided it was not necessary to improve our credit terms at this stage.

2 The Chinese focussed exclusively on proposals based on French nuclear technology. When asked for his view on the American option in the light of the State Department's position, Li Peng said that he considered it dead.

3 The Chinese tested on us the French proposal that France should take the lead on the whole project, offering GEC some disparate sub-contracts. I made it quite plain to Li Peng that this proposal was not acceptable. UK Government support for the project, including using our influence in Hong Kong, depended on GEC being awarded the whole conventional island contract, though GEC would be content to supply the conventional island to



Framatome, with Framatome as lead contractor. I believe the Chinese took this message fully on board. However, they continue to be concerned about the risks of taking GEC's first 900 MW high speed set rather than Alsthom's twenty fourth low speed set.

4 As expected the Chinese asked both for aid and for capitalisation of pre-commissioning interest. My officials explained that aid could not be given because of the understanding among the western countries that aid should not be offered on nuclear projects. We understand from the Chinese that the French have refused to offer aid as such, and the Chinese appeared to accept our refusal. On capitalisation, in view of Chinese proposals for further Government to Government discussions in Peking next year, and a clear unwillingness to commit the conventional island contract to GEC at present, I decided that we should make no further formal enhancement of our credit terms at this stage. I simply indicated to the Chinese that capitalisation was for consideration, but decisions would depend on the shape of the total project, and principally the awarding of the conventional island project to GEC.

5 The Chinese raised again the size of CLP's proposed equity holding. Li Peng accepted that CLP could not shoulder the liabilities consequent upon the 40% holding originally envisaged but pressed that Hong Kong interests should together take a 25%



holding, in line with Chinese joint equity law. If a 25% Hong Kong equity stake could be secured, together with a satisfactory off take agreement, the Bank of China would be willing to consider a comprehensive guarantee for the foreign loans.

6 The Chinese are clearly anxious to make progress on Hong Kong's participation in the project, and we welcomed this constructive proposal, but my officials did impress on the Minister that it would not be easy to raise the Hong Kong equity stake China was seeking.

7 A number of further meetings are to be held in the early part of next year: further technical discussions with GEC in Peking, in parallel with discussions in Hong Kong on the off-take agreement and CLP's role in the project in which representatives of the Chinese, UK and Hong Kong Governments will participate; to be followed by further high level Government to Government discussions in Peking. In preparation, my officials will be holding discussions with Mr Stones of CLP here next week. And when I visit Peking in January I shall reaffirm the UK's policy on this project and seek to accelerate decisions.

8 My appraisal is that Li Peng and his colleagues are in no doubt about the circumstances in which the UK Government is willing to support this project. I believe we must now make this point as plainly to the French as we have to the Chinese. My officials understand that the French are still proceeding with plans to present an all French bid in Peking, offering GEC a



number of disparate sub-contracts. I shall be writing to
M. Chevenement about this. I also intend to pick up
M. Chevenement and M. Jobert's comments at the Summit on the UK
going beyond the spirit of Consensus, since we now understand
that the French have matched the UK's credit offer and -
according to the Chinese - have agreed to give further
consideration to full capitalisation and some means of softening
the interest rate on their export credits.

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

PJ

P J

2 December 1982

Department of Industry