CONFIDENTIAL

FILE DSG

cc: EX:
FCO
HMT
DTI
+ recipients as below

bc: Bob Young

10 DOWNING STREET

From the Private Secretary

30 March 1984

GUANGDONG NUCLEAR POWER PROJECT

The Prime Minister has seen your Secretary of State's minute of 27 March. She was very grateful for the informative note on the GEC contract, as a result of which it is now much easier to disentangle the various elements. She has noted that the GEC bid now looks more competitive and that negotiations will be taking place in June and July. She has commented that during the course of these negotiations officials should not overlook the analysis in the paper on GEC's allowance for contingencies, margins and overhead recovery.

I am copying this letter to the Private Secretaries to the members of EX and to Derek Hill (Northern Ireland Office), Michael Reidy (Department of Energy) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Callum McCarthy, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

10 DOWNING STREET

①

Prime Minister

Guandong

Although the E(X) meeting was chaotic, it has produced a considerable improvement in our understanding of the contract – with credit due to the Policy Unit.

Agree I minute as at X?

AT
29/3

Yes

MT

CONFIDENTIAL

29 March 1984

MR TURNBULL

GUANDONG NUCLEAR POWER PROJECT

DTI have fulfilled the EX remit admirably. The officials' paper enclosed by Norman Tebbit clarifies all the points which were unclear at EX:

- the value of the subsidy to which the Government is committing itself (£73 million in net present value terms, 25 per cent of the NPV of the contract)
- what it is hoped to secure with this subsidy: a contract priced at £322 million before GEC's allowance for inflation, of which the UK content is £317 million, including freight, insurance, ECGD cover (the manufacturing content, before profit and contingency, is £198 million)
- the job content, now estimated by DTI economists at 18,000-21,000 man-years, compared to the original estimate of 25,000
- the margins built into the contract.

GEC have reduced the overall cost of the contract by around £70 million (from £435 million to £366 million) by offering a fixed-price contract, and reducing the inflation provision by over £40 million. This is a welcome step (inconceivable had not inflation been mastered) which shows that GEC are prepared to carry risks to win this contract.

This has been a useful exercise. It has encouraged DTI to make a more objective estimate of the job content. We hope they will keep this up. We suspect that it has also made them more aware of GEC's room for manoeuvre on price. The paper makes clear (paragraph 10) that, apart from contingencies, profit and negotiating margin totalling £32 million, GEC have built into the price a margin of 8 per cent on purchases from other GEC companies of £35 million (worth £2.8 million) and provisions for full overhead cost recovery of over £50 million (paragraph 12). We would expect officials to take full account of these provisions when following Norman Tebbit's remit to ensure that HMG is not put in a position of making sacrifices to preserve GEC's margins.

CONFIDENTIAL

In reply, we suggest that the Prime Minister might:

(i) thank Norman Tebbit for the most informative note on the GEC bid;

(ii) note that GEC's revised bid looks considerably more competitive;

(iii) but venture the thought that, in the course of the negotiations, officials should not overlook the analysis of GEC's contingencies, margins and overhead recovery in securing the best deal for the taxpayer.

Nicholas Owen

NICHOLAS OWEN