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

PRIME MINISTER

GUANGDONG NUCLEAR PROJECT - SHARING FINANCIAL SACRIFICES  
WITH GEC

I have seen Norman Tebbit's minute to you of 10 August in which he reports on the outcome of the discussion with GEC on ways of sharing the burden of the very high subsidy cost of supporting GEC's bid for work on this project.

2. I agree with Norman that the proposed arrangement is probably the best that can be achieved, although the maximum contribution from GEC will be small compared with the very high cost to the Government of increasing the rate of subsidy from 15 per cent to the maximum of 25 per cent agreed by EX Committee last February. GEC should nevertheless be able to earn a reasonable profit, while possibly producing a small offset to the cost of the subsidies needed to secure this business. The arrangement may also serve as a disincentive to GEC to press for the maximum use of the concessions permitted within the subsidy limit of 25 per cent.

3. I do not, however, accept that we should rule out the possibility of seeking similar agreements in other cases - indeed to do so would imply that we were discriminating against GEC. We sought this arrangement because of the particularly large amount of subsidy that was being offered in support of this project and I think that we should retain the option to seek similar arrangements where, exceptionally, large subsidies (ie significantly in excess of the thresholds on subsidies established under the Guidelines on Subsidies and Risks) are sought to secure an export. Such cases will, I trust, be very rare indeed, but if and when

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they do occur the very large amounts of subsidy involved justify exceptional treatment to ensure that the taxpayer is not put in a position of making inordinate sacrifices to preserve an exporter's margins.

4. I am sending copies of this minute to members of EX, to Jim Prior and Peter Walker and to Sir Robert Armstrong.

*Judith Simpson*

N.L.

22 August 1984

*approved by the Chancellor  
& signed on his behalf*

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