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PRIME MINISTER

GUANGDONG NUCLEAR PROJECT

Sino-British Collaboration

Prime Minister

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CCP

No immediate action. The advice is that we should sit tight for now, but may eventually have to make some more concessions to clinch it.

CDP 20/xii

Since I last wrote to colleagues on this project, GEC have had a team in Peking for nearly six weeks in intensive negotiations with the Joint Venture Company - the combined Chinese and China Light and Power Joint Venture who will eventually own the power station - over the contract price and related commercial terms. GEC have made some progress in dampening down Chinese expectations. But having reduced their price by a further 2%, making a total price cut of 20%, formally at the negotiating table the Chinese have not abated their demands.

2 Meanwhile, at his request, Vice Premier Li Peng, who seems to have taken the project under personal responsibility, visited Paris at the end of last week. I invited him to come to London afterwards, but he was not able to accept, and we understand that his tour of Eastern Europe and Russia means he is unlikely to return to Peking much before Christmas. While in Paris, he met M. Fabius and Mme. Cresson, and signed an agreement with the latter, for ratification in due course by a Letter of Intent, under which the remaining price difference in both the Framatome



and EdF contracts were split 50:50 between the French and the Chinese. We understand this probably involved total price concessions by the French of a further some £30 million, and there were other detailed points settled, such as the escalation factor.

3 The Chinese have continued to press points on finance, and Mme. Cresson agreed to send a team of senior French officials to Peking on 18 December for a final round. The Chinese are particularly pressing the French on premium and bank fees. Chinese demands will be for a substantial reduction, under their normal procedures of perhaps 50%, and the French expect to have to give something in both these areas. While this progress on the French front shows that the Chinese mean business, the terms on which they settled will inevitably bring further pressure on GEC on price and on us on financing. On the commercial front, there have been informal contacts between the heads of the GEC and Chinese negotiating teams in Paris, and the latter has said that he has both authority to settle with GEC before Christmas and is ready to countenance some manoeuvre to allow the price gap to be reduced to a bridgeable range. Inevitably this will involve further concessions from GEC.

4 On the financial issues, the concessionality limit for the total support of 25%, which was agreed at EX on 29 February 1984 has effectively been reached, subject to marginal variations



resulting from changes in price and conditions. On the ECGD premium, we had developed an approach whereby the sum of French premium and fees was broadly comparable to the ECGD premium on our side, since our banks gave away their fees at a very early stage. If the French make concessions on premium which go further than ours, it will be extremely difficult for us not to at least match. We had discussions with French officials prior to their departure to stiffen their line, and officials from my Department and ECGD will be in Peking to keep in close touch with the French during their final negotiations.

5 The effective conclusion of the French negotiations poses us a range of options. But to take a political initiative now would be bound to carry the implication that we might be prepared to intervene in the commercial negotiations in a manner comparable to the French. We have repeatedly indicated that the French position, with all their commercial parties effectively under State control, not to mention their banks, is not analagous with the UK. But this is unlikely to deter Chinese expectations. It is noteworthy, moreover, that the initiative for the visit to Paris came from Li Peng, and our view is that we should not take any special steps until we have a better indication of how far the French have gone, and how the GEC commercial negotiations go following the informal contacts in Paris. If we are to secure the project, I would not rule out having to make some further concession, otherwise the French, who have played straight with



us so far, may feel at liberty to seek to obtain the contract for the turbine generators for the project for their national supplier, Alsthom. This would have wide and serious implications.

6 Meanwhile, we shall be keeping a close eye on developments.

7 I am copying this minute to EX colleagues.

L.B.

L B

19 December 1985

Department of Trade & Industry

