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79SECRETARY OF STATE FOR TRADE AND INDUSTRYEgyptian Projects: Considerations for the Prime Minister's Visit

1. Norman Tebbit wrote to me on 9 August about the commercial and industrial aspects of the Prime Minister's visit to Egypt in two weeks' time. Our two Departments have differed on which project should be given priority by the Prime Minister; I am now writing to propose an approach which takes account of the various interests involved and should I hope allow us to resolve this issue quickly and without the need for a meeting, so that briefing for the Prime Minister can be completed.
2. I understand the attractiveness to British industry of the Ain Moussa coal-fired power station, which Norman Tebbit advocates. I recognise that there is a significant opportunity here for Anglo-Japanese cooperation. It is certainly important that we should use the Prime Minister's visit to ensure that the Anglo-Japanese consortium's bid gets proper consideration by the Egyptians when the time comes, and is not brushed aside by sharp practice on the part of our competitors. But for the reasons set out below I do not agree that we should use this occasion to make a pre-emptive offer or indication of soft credit to back up the bid.
3. Norman accepted that the focus of interest in Egypt during the Prime Minister's visit will be the Cairo Wastewater Scheme which, unlike Ain Moussa, is already well under way, is well-known in Egypt and generally expected to produce considerable benefits when it is completed. The Egyptians

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will inevitably be asking questions about our intentions over funding the next phase - not least because, as Lord Selsdon and others keep pointing out, the full benefits of the first phase will not be realised until Phase II is complete. From a purely technical point of view it would probably be sensible to start construction work on Phase II about two years hence (though the administrative constraints may well stretch this a bit). But funding for Phase II would naturally have to be settled well in advance. If there were a hiatus, this would be bound to increase costs, and British contractors already mobilised in Cairo for Phase I could stand to lose business as a result of any gap. Much of the planning and design work for Phase II has already been completed, so that I see no need for a new feasibility study. It follows that if the Prime Minister offered such a study, as Norman proposed, this would be likely to lead on to all sorts of more awkward questions about our readiness to finance the substantive work in the second phase through aid and credit. It would be politically counter-productive if she then had to evade these questions.

4. In the circumstances, I believe that the Prime Minister should handle the issue by indicating, in general but non-committal terms, that we shall consider in due course what further support we might be able to provide in response to any Egyptian request for help with Phase II when the time comes. This would then still leave us with all to play for.

5. Keeping open in this way the possibility of soft credit for Phase II of the Cairo Wastewater Scheme in itself suggests caution over a specific offer of such assistance for Ain Moussa - both because the contrast would be uncomfortably obvious, and because the two could not simultaneously be accommodated within the agreed credit limits. But I wonder if this really matters. In the Egyptians' eyes, Ain Moussa is still some way off. It

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is not on their current shopping list with the Japanese; we are not sure yet of the firmness or the size of Japan's willingness to contribute; and we do not know yet whether the Egyptians will insist on international tender, as their legislation and their normal (though not invariable) practice would require. On past experience it could be two or three years, or more, before work could start. There is no clear prospect of Ain Moussa merely filling an interim gap before the next phase of the Wastewater scheme.

6. Janet Young has already set out briefly the wider considerations emphasised by Tim Raison to Paul Channon about Egypt's economic policies, and especially its policies on power tariffs. These, too, make me very reluctant to sanction a specific soft credit offer in support of Ain Moussa, especially now. The large subsidies given on oil sold to the power sector and other consumer items directly enhance the country's mounting budtetary, balance of payments and debt problems. It cannot make much sense for us to help to push the Egyptians now into an expensive investment with doubtful economics, which will make no early positive impact on their foreign exchange position, and increase the risk of precipitating a payments crisis. this is also particularly important when we are trying to get the message of sound economic management much more widely across to governments in Africa.

7. I propose therefore that instead of making a specific offer of support for Ain Moussa, the Prime Minister should be asked to make clear to the Egyptians the importance we attach to British industry being given a full opportunity to compete with others in all public sector contracts, including those in the power sector, and specifically including Ain Moussa when the time comes. This would underline our interest in the project at the highest level, and would make it very difficult for the Egyptians to allow our competitors to steal a march on us. If the Egyptians reply that this will depend on the availability of soft credit

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the Prime Minister could reply that this issue would of course have to be settled at the time.

8. I hope you will agree when you have had a chance to look at the subject that this approach offers the best way of pursuing all the British interests involved in these matters.

9. I am copying this minute to the Prime Minister, the Chancellor of the Exchequer and the Secretary of State for Defence.

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
5 September 1985

Relations: Egypt  
11/80



The Joint Secretary would reply that this issue would be covered  
here to be included in the line.

2. I hope you will agree when you have had a chance to look  
at the attached copy of a proposed release that you will  
be satisfied with the British interests involved in this matter.

3. I am sorry to hear of the death of the late Sir  
Charles of the Embassy and the Secretary of State for  
Ireland.

W

(SIGNED)

Foreign and Commonwealth Office  
London, W1A 0AD



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cc DC  
PC



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From The Minister of State

20 August 1985

NBM

Dear Norman,

EGYPTIAN PROJECTS: CONSIDERATIONS FOR THE PRIME MINISTER'S VISIT

In Geoffrey Howe's absence, I am writing to give an interim reply to your letter of 9 August about the Ain Moussa power project in Egypt. We shall show him your letter on his return, and he will send you a substantive reply as soon as possible thereafter, after receiving advice from the ODA and the Diplomatic Wing here. As you know, Tim Raison and Paul Channon discussed the outstanding difficulties, and were not able to reach agreement.

As you set out Paul Channon's points in your letter, it would, I think, be fair to repeat in his absence those made by Tim Raison. They were:

- The Egyptian electricity sector was badly managed. Its tariffs were too low and demand was artificially high. This had distorting effects on the whole Egyptian economy. With a proper tariff structure, which could not of course be introduced immediately, there would be less need for new generating capacity. Investment in Ain Moussa might be a misuse of Egyptian as well as ODA resources.
- the Egyptian economy was in difficulties and the country's borrowing capacity would be increasingly constrained over the next few years. Priorities

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should therefore go to borrowing for projects which would provide a rapid economic return.

- with the International Monetary Fund and the World Bank we were trying to get across to African governments the need for improvement of their economic management. It would undermine their - and our - position if HMG were to support a large and uneconomic project in Egypt, the more so as the World Bank had been making a particular effort to persuade the Egyptians to put their electricity sector on a proper footing.
- there was no shortage of candidates for the use of ATP money in Egypt. Others could be of equal benefit to British industry and employment.

You also referred to the attitudes of other donors who you suggested showed disregard for World Bank susceptibilities. We know that the Americans and Canadians were recently willing to offer support for the Damanhour power station extension. But on checking through notifications since 1982 under the agreed international procedures we have not found much else: nothing from Italy or Spain; a reference to a power station in the French 1985 protocol; and two notifications from Belgium in 1984. If your Department has up-to-date and reliable information, we should be grateful if your officials could let ours know.

I am copying this letter to the Prime Minister, Nigel Lawson and Michael Heseltine.

*Yours etc*

*Baroness*

Baroness Young





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Secretary of State for Trade and Industry

*concern to note*

9 August 1985

The Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State for Foreign and  
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Foreign and Commonwealth Office  
Downing Street  
LONDON  
SW1A 2AH

*NBPM*

*D Geoffrey*

EGYPTIAN PROJECTS : CONSIDERATIONS FOR THE PRIME MINISTER'S VISIT

Our officials have been considering which projects might be the commercial and industrial focus of the Prime Minister's visit to Egypt and Jordan next month. I am now writing about Egypt.

2 We see the most promising project as the Ayoun Moussa coal-fired power station. Your officials are aware of the details, which have been circulated in a SCAT paper. For this, Egypt's first coal-fired project, an Anglo-Japanese consortium has presented proposals to the Egyptian Government whereby Japan would be the project leaders and would provide the bulk of the finances. The Japanese share would be £370 million and the UK share £150 million. The Japanese envisage providing soft finance and will require complementary financing from their UK partners (i.e. ATP terms). If the UK is unable to meet this requirement, the Japanese will look elsewhere; the Canadians and Australians are waiting in the wings.

3 However, we cannot proceed until we resolve the impasse we have reached with the ODA over the sanctioning of ATP support for power projects in Egypt. This has been the subject of correspondence and a meeting between Paul Channon and Timothy Raison. Paul also raised the issue with Richard Luce. ODA's position, I understand, derives from the economics of the Egyptian power sector and a desire not to undermine the World Bank's position on lending to that sector without progress on reducing Egyptian subsidies on electricity tariffs. The Egyptians have in fact moved in this direction but their overriding need to maintain political stability dictates a cautious approach.

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4 Our competitors have shown complete disregard for World Bank susceptibilities. Not only the Germans, French, Italians, Canadians and Spaniards, but even the USA have recently offered soft finance for power projects in Egypt. I, and I am sure British industry, would find it intolerable for the UK to adopt a purist approach to business in the power sector when there is clear evidence that others have no such qualms and are already stealing a march on us.

5 I recognise that export credit cover for Egypt is extremely tight and that the Export Guarantee Committee (EGC) has before it a recommendation for no increase. However, Ayoun Moussa could be accommodated if half of the existing £300 million reservation for defence business was to be reallocated for civil projects, as has been envisaged.

6 As you know, the Prime Minister is being asked to unveil a commemorative plaque to mark the joint UK-Egyptian contribution to the Cairo Wastewater Scheme. It is of course inevitable that she will be asked about British intentions towards funding the second phase of the scheme. We believe that because of lack of Egyptian resources and the large amount of difficult construction work ahead, it will be at least three or four years before Phase II could start. I therefore think it unwise to tie up credit at this stage - and thus block cover for other projects. I would suggest that while the Prime Minister might express interest in the future of the project by suggesting a UK-funded feasibility study to consider the scope of Phase II she should not give any commitment on aid and credit. Do you agree with this approach, which would enable us to pursue Ayoun Moussa in the interim?

7 I suggest that, provided the necessary credit cover can be reserved, we make ATP funds available for the Ayoun Moussa project. The Prime Minister could make an offer of UK support as part of an Anglo/Japanese consortium. Her offer would of course be conditional on the Japanese subsequently committing themselves to the project leadership and to finance. I hope that you can agree to this.

8 I am copying this letter to the Prime Minister, Nigel Lawson and Michael Heseltine.

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