

Romania



From the
Minister for Trade 's Office

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Prime Minister

A pity - but see

Small paragraph.

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M O B Alexander Esq
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5 January 1981

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Dear Michael,

My Minister thought that the Prime Minister should be informed of the outcome of Northern Engineering Industries Ltd's (NEI) \$394m (say £190m) bid to supply turbogenerators and other equipment for the proposed Cernavoda nuclear power station in Romania. She sent a personal message to President Ceausescu on 17 December 1979 in support of the company's offer.

The negotiations have been extremely protracted but it now seems almost certain that the order will go to US General Electric and its Italian associate Ansaldo. NEI look to have lost on price; they were reportedly/\$80m more expensive than their competitors and have felt unable to make any further major reduction. The Romanians did not lay down any detailed specifications of what was wanted but left each bidder to offer what it judged suitable to meet certain basic performance criteria. Most companies thus built up their offers from scratch while NEI, which initially had only a short time in which to submit a bid, prepared their quote on the basis of high-specification equipment previously supplied for a similar power station in Canada. There was thus no doubt about the quality of NEI's offer; the Government-backed financing package was attractive and, by the time negotiations were completed, their counter-trade proposals were probably better than their competitors'.

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It is disappointing to have lost this order despite the exceptional support the Government has given NEI. In addition to the Prime Minister's message, the Foreign Secretary raised the matter with President Ceausescu when he went to Romania in March. Mr Parkinson has been in contact with Romanian Ministers on several occasions and made NEI's bid a major topic during his visit to Romania in October. Officials from the Departments of Trade and Industry, ECGD and the British Embassy in Bucharest have been in continuing contact with the company as the negotiations proceeded. The matter was also pursued at the last meeting of the UK/Romania Joint Commission.



NEI were also given offers of very substantial financial help by the Government. Officially-backed credit, which would exceptionally have covered up to 20 years from the contract date, would have involved an interest subsidy now estimated at about £40m (assuming that the contract was financed in US dollars). The cover provided for foreign exchange fluctuations between tender and contract and for cost escalation would have cost ECGD about £20m and £15m respectively on current assumptions. Cost escalation cover was given at a concessionary premium rate and tender to contract cover extended at the original exchange rate beyond the normal term, despite criticism by the Public Accounts Committee of concessions under this scheme.

We are of course concerned to learn what lessons we can from the negotiations and their outcome; the Department will be continuing to look at these as further information about the apparently successful bid emerges. However, it seems pretty certain that the outcome has mainly followed from the way in which NEI originally formulated their offer which resulted in a much higher price than their rivals, and that no reasonable amount of Government support could make up for this basic lack of competitiveness. With some £300m worth of new orders now going to the company as part of the UK nuclear power programme, they may not be feeling too keenly the loss of the Romanian contract, which would not in itself have been very profitable.

I am copying this to the Private Secretaries to Mr Peter Blaker (FCO), Mr Nigel Lawson (Treasury) and Lord Trenchard DoI).

Yours sincerely,

Matthew Cruickshank

MATTHEW CRUICKSHANK
Private Secretary to the Minister
for Trade (CECIL PARKINSON)

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