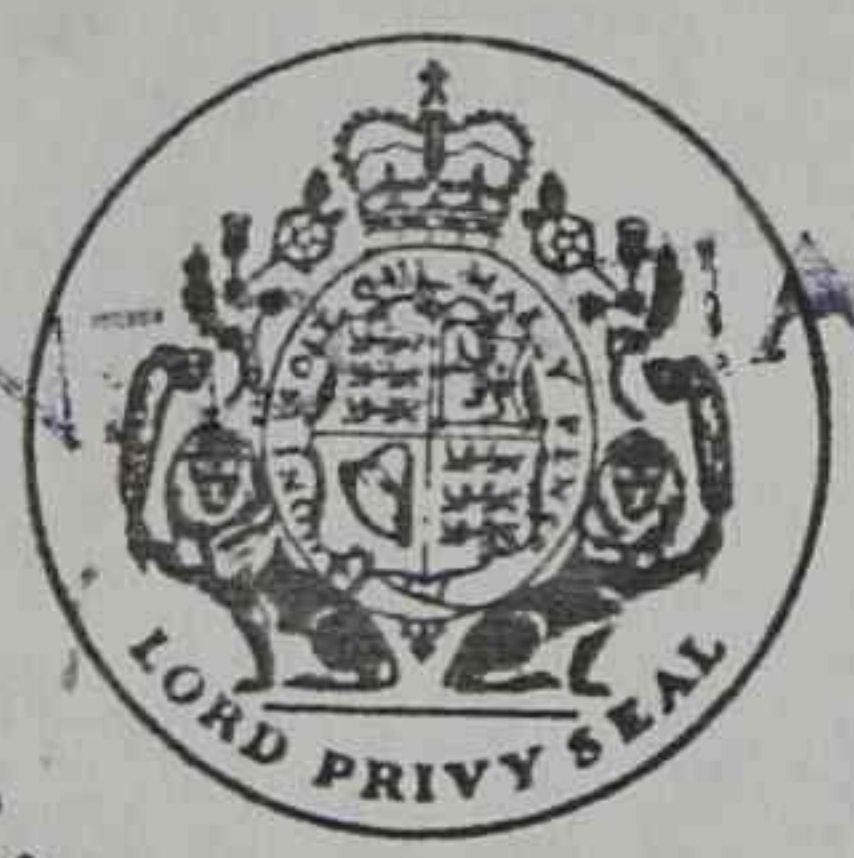


Prime Minister



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The Lord Privy Seal has agreed that we should now quickly approach the French, but he wishes to keep other options open. MAF 29/

Foreign and Commonwealth Office
LONDON SW1

23 December 1980

Handwritten notes:
I understand that the French feel the nuclear issue is very important. They will be having the individual with them. Please call them. Marshall about. By the way, depend on it. Mr. Reith, MB.

Handwritten initials: MB

GUANGDONG NUCLEAR PROJECT

Thank you for your letter of 19 December to Peter Carrington enclosing a paper about the Guangdong nuclear project.

I have looked at the arguments carefully and have sought further advice, in particular on the conclusions and recommendations, from our Ambassador in Peking and from the Governor and British Trade Commissioner in Hong Kong.

I conclude that - as recommended in the paper - it is now essential to proceed to early and substantive discussions with the French. I therefore agree with you that this course must be our best bet. The risks associated with it are considerably less than those associated with the American option. In particular the French have a political commitment from the Chinese and we need to move swiftly to pre-empt a possible all-French bid. And in dealing with the Chinese on this major project I believe that it is essential to take the

/fullest

The Right Honourable
Sir Keith Joseph Bt
Secretary of State
Department of Industry
London SW1

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fullest possible account of the advice of our Ambassador and of those most closely involved in the project in Hong Kong, namely Sir Lawrence Kadoorie and his team. Their combined view is that the French option provides us with much the best chance of a worthwhile share of the contract.

I recognise (though I am bound to say HM Ambassador Peking and those in Hong Kong disagree) that there are nevertheless good arguments for not dismissing the American option entirely. I understand that this course is favoured by the Department of Energy and Dr Walter Marshall. I recognise that there may indeed be very good arguments on commercial as well as nuclear policy grounds why an American partnership would suit us best. It is therefore right, as the paper proposes, to keep the possibility open. But we must recognise that we have no power to dictate to the Chinese, for instance on nuclear safety issues. The principal argument for not closing the American option is therefore in my view because we do not know what the Chinese will decide. We should need to be much clearer about the way Chinese thinking was developing before doing so. We cannot expect any very speedy decisions from them on a project of this magnitude. This is their first venture into the field and there is abundant evidence of differences of opinion among policy-makers both in Peking and Guangdong.

A further point is that in the new climate of austerity there is a risk that the Chinese may eventually decide not to go ahead at all. In these circumstances the financial terms assume an even greater importance. It is crucial too to make a coherent offer at the earliest stage possible.

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This implies a decision to attempt to assemble an Anglo-French package - with the maximum negotiable UK content - to present to the Chinese as soon as possible.

I agree that HM Ambassador Peking will need to speak to the Chinese again, and at the highest practicable level. For this purpose he will need very full instructions. There can be no advantage in simply putting our interest in participation on record again. The Chinese will expect something more substantive. The best moment for such an approach might be after the first round of government level talks with the French. I note that GEC are meeting Framatome this week.

I am copying this letter to the Prime Minister, Geoffrey Howe, John Nott and David Howell.

your ✓
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29 DEC 1980

