



From the Secretary of State

Rt Hon Leon Brittan QC MP  
Chief Secretary  
H M Treasury  
Parliament Street  
London SW1

April 1982

Dear Leon,

The South African Electricity Supply Commission, ESCOM, has been ordering a series of new power stations. Tenders for the third of these, known as Station C, were called for last Autumn. At that time the site had not been decided. Bids were submitted before the 16 November deadline under the Consensus, and therefore the old rates of interest applied. Our own credit offer, which was in line with our main competitors, was for repayment over  $8\frac{1}{2}$  years at  $8\frac{1}{2}\%$  interest.

GEC put in a bid for the turbines (6 x 660MW), at a value of £220m of UK work. Following a lengthy evaluation, the South Africans have now decided to award the contract for turbo-generators for Station C to the German firm, Kraftwerk Union. However, they found the competitive GEC bid so close that they have indicated their readiness to award a second order, labelled Station D, at the same time, provided the same credit terms are available. It was always known that the South Africans intended to place an order for a fourth power station in the near future, but it was assumed that they would require a fresh round of tenders. They now propose, if this can be achieved, to make a formal announcement of the award of both contracts, Station C and Station D, together early this month.

Station D will be commissioned one year later than Station C, but the technical specification is identical, and apart from some minor adjustments in price, which GEC do not expect to have any difficulty negotiating with the South Africans, the details of the order will be the same as they would have been for Station C. GEC are naturally concerned not to lose the opportunity opened up by the ESCOM's expressed intention to run the two orders together - indeed, GEC have an outline letter of intent already. From our standpoint, the contract would involve 2,675 man-years of employment in their own plants, with orders worth £60m, and some

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*From the Secretary of State*

10,000 man-years of work for sub-contractors, peaking over the next two years. In addition, this order would be a valuable reference for "dry cooled" power-generation, for which UK industry is not noted since our power stations are water-cooled. It is therefore an extremely important order more generally, particularly since GEC have already committed a lot of resources in pursuing this job.

There will be no problem in making ECGD cover available for Station D on the same terms as would have been available for Station C, except as regards the rate of interest. As our notification of the case at the time the original tenders were made was tied to Station C, technically we cannot claim a prior commitment for Station D. It will therefore be necessary to report the case internationally as a derogation under the Consensus. However, in view of the fact that our tender was submitted before 16 November 1981, was accepted by the South Africans before 15 May 1982, and is not in competition with any other country but results from a South African decision to place 2 orders from the same round of tenders, I am advised that it should not prove too contentious internationally.

The subsidy cost for Station D will, of course, depend upon the course of market interest rates over the period of the credit. However, there is no reason to suppose that it will be any greater than the cost we were prepared to accept for Station C; indeed, it will probably be less, because GEC are not now asking for capitalisation of interest. If we refuse to maintain the interest rate quoted for Station C, the South Africans will probably decide to call for a further round of tenders for Station D, with no certainty that GEC will win.

Taking account of the importance of the order from an industry and employment point of view, I hope you will agree that, in the circumstances explained, it would be foolish for us to risk losing the order by taking the purist position that our pre-November 1981 tender applied only to Station C and is not available for a second virtually identical order which the South Africans are willing to place. If the position had been reversed, and we have been awarded Station C, it is difficult to believe that our competitors would have refused an offer of the kind the South Africans are now making to us.



*From the Secretary of State*

I understand that Station D is the last order likely to be placed by the South Africans in this field for some years at least.

There are other British suppliers interested in the supply of other items for Station D, notably Babcock & Wilcox for boilers. If any of them were to be made the same offer as GEC, it would clearly be difficult to deny them equal treatment; however, at the present time this is not the case and I do not consider that we should allow the pre-November 1981 rate of interest to be applied to bids for Station D that are subject to open competition, since then other Consensus participants could justly accuse us of leading a credit race.

I understand that your officials have reservations about agreeing to support GEC in the way proposed, on the grounds that GEC had earlier been told that the 8½% rate could not be maintained for Station D. Although this is true, I think that, given the way things have developed, it would be cutting off our nose to spite our face to refuse the attractive offer that has now been placed before us. I hope you can agree: if not, perhaps we could discuss at EX Committee.

In 1980, South Africa was our 13th largest overseas market and our visible exports to that country last year, valued at between £1,200-1, 300m, have probably maintained perhaps even improved on that position. However, the South African economy has rapidly turned around from boom to recession and the depressed gold price is principally responsible for a massive balance of payments deficit. Coupled with recently introduced fiscal measures to damp down imports, our bread and butter exports to South Africa over the next two or three years may be expected to decline. Against that background, this prospective ESCOM business assumes a much greater relative importance than would have been the case a year ago.

I am copying this to No 10, Peter Carrington, Geoffrey Howe, Patrick Jenkin and Norman Tebbit.

*John Biffen*

JOHN BIFFEN





RECEIVED  
MAY 21 1962

I understand that station D is the last one in the line.  
 Although in this field for some years at least  
 I have not had any contact with the  
 There are other public agencies in the area  
 D. I would like to know if it is of your view to be made the  
 most after as 200 D would clearly be difficult to find from such a distance  
 however at the present time this is not the case and so the possibility that it  
 should also be the case in the future is not ruled out.  
 Station D has the advantage of open access to the other stations in the  
 field which means as of having a direct line  
 to the other stations in the field.  
 I understand that you think the possibility of having a direct line to  
 the other stations in the field is a possibility that should be considered.  
 The fact that you have mentioned that you would like to know if it is of your view  
 to have the situation after that has been discussed with the other stations in the  
 area if not, perhaps we could discuss it at a later date.

In 1960, I think we had a meeting in the field and discussed the  
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