South Africa

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon the Lord Cockfield
Secretary of State
Department of Trade
1 Victoria Street
London SW1H OET

7 April 1982

N.B. P.M.

Dear Arthur,

John Biffen wrote to me on 1 April about the interest rate to be charged on the credits supporting the sale by GEC of turbines to the South African Electricity Supply Commission for Section D.

GEC have won this business on the basis of an offer, made without prior approval, of the old Consensus rate of 8½% for this power station and now seek retrospective ratification for these terms. This clearly puts you in an awkward position since to concede these terms you will need to seek a derogation under the Consensus rules. I am sure you would accept that the UK should always seek to avoid making derogations because it is strongly in our national interest to maintain effective Consensus discipline. However, I note that you do not expect any difficulties about this derogation since it arises from ESCOM's decision to place two orders from the same round of tenders, which were submitted before the increase in Consensus rates. I draw some comfort from the fact that the changes in the credit terms compared with those offered for Station C go some way towards offsetting the extra subsidy cost of holding the old Consensus rate of 8½%.

Accordingly, I am reluctantly prepared to agree that you may support an interest rate of 8½% for the turbines GEC are to supply for Station D. I must however record my concern about the way in which GEC have apparently proceeded without securing official approval for the financing terms and thus have effectively presented us with a fait accompli. I trust this will not be allowed to happen again. If it does I would not be able to take the same view of it.

I strongly endorse your conclusion that current Consensus interest rates should be applied for other contracts for Station D which are expected to be subject to open competition.

I am sending copies of this letter to No. 10, Francis Pym, Patrick Jenkin and Norman Tebbit

Yours ever,

LEON BRITTAN

7 APR 1982