

PREM 19/255

PART 1

M.T

CONFIDENTIAL FILING

Correspondence with Sir Lawrence Kadroore on
UK / Chinese Trade.
Contracts for Castle Peak A & B Power Stations
Guangdong Nuclear Power Plant

HONG KONG

MAY 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
Part 1 Ends							
PREM 19/255							

PART 1 ends:-

Ch/Esc to S/S and 31/12/80

PART 2 begins:-

S/S Energy to S/S and 5/1/80



Treasury Chambers, Parliament Street, SW1P 3AG
 . 01-233 3000

31 December 1980

The Rt. Hon. Sir Keith Joseph Bt MP
 Secretary of State for Industry

John Kerr

GUANGDONG NUCLEAR PROJECT

You wrote to Peter Carrington on 19 December, and in his reply of 23 December Ian Gilmour has agreed to your proposed strategy for securing business for EGC from the above project.

I agree with all that has been said, but there is an important point arising from the final paragraph of Ian Gilmour's letter which should in my view be clarified urgently while approaches are being made to the French.

In paragraph 8 of the paper by officials there is reference to a Chinese suggestion of an injection of equity from the United Kingdom. If this would be satisfied by a GEC involvement there is no issue of policy for the Government. But I understand from my officials that there has been a suggestion that the powers in section 8 of the 1972 Industry Act might be used to acquire a Government share-holding. John Biffen wrote to you on 1 October and pointed out that a new equity involvement overseas would run counter to our privatisation policy at home and that there was the obvious public expenditure question of where the money would come from. If the proposal was that the AEA should be the vehicle for an injection of public equity there would be very similar problems. He further referred to the financial implications in the event of nuclear accident.

In agreeing to the approaches you propose I must ask that officials should prepare a note on the question of 'equity from the UK' before anything is said to the Chinese on this aspect. The first question I should like to see resolved is whether GEC themselves are prepared to take a sufficient equity stake to satisfy the Chinese. If there is any suggestion of a public share-holding I should like to know whether

/this would



this would be confined to the construction company or would extend to the operation of the station, and whether such an injection would involve HMG (or the AEA) in further financial liabilities in the event of a nuclear accident. As John Biffen said in his letter we need to consider as soon as possible whether we could envisage any direct HMG involvement. There is a major point of export policy at stake. We need to define how far we are prepared to involve the Government or public sector bodies to secure particular export contracts.

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

GEOFFREY HOWE

5 JAN 1981

1981 JAN 5

Prime Minister



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 to us. They will be having the individual with the nuclear plant. Please call them. Marshall should depend on it.
Kear, Reiter, M.B.

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.

/This

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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



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FILE

RH

China

10 DOWNING STREET

From the Private Secretary

22 December, 1980

Guangdong Nuclear Power Station Project

The Prime Minister has seen the Secretary of State for Industry's letter of 19 December to the Foreign and Commonwealth Secretary on this subject. She has stressed that it is of the highest importance that we should not lose this contract. She wishes to be kept in close touch with developments.

I am sending copies of this letter to Roderic Lyne (Foreign and Commonwealth Office), Stuart Hampson (Department of Trade), Julian West (Department of Energy) and John Wiggins (HM Treasury).

M. O'D. B. ALEXANDER

I Ellison, Esq
Department of Industry

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10 DOWNING STREET

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TO NOTE?
TO FILE?

Hand Kay

THE PRIME MINISTER

19 December 1980

Dear Sir Lawrence,

Thank you for your letter of 1 December.

It is always a pleasure to receive good news from you on your exciting projects. The decision of the Exxon Corporation to participate with you on the Castle Peak B station augurs well for a continued successful relationship between the UK, Exxon and China Light and Power Company Ltd.

The Guangdong nuclear power station project continues to offer important prospects for co-operation between the UK, Hong Kong and the Peoples Republic of China. We will have to maintain the closest possible co-ordination if we are to build on the foundation which your hard work and that of Mr. Stones has established.

I know you will continue to maintain a close dialogue with officials in the Department of Industry on both these projects. You may be assured that I and my Ministerial colleagues will follow developments with the closest possible interest. I think we can all be proud of the progress we have achieved together so far.

Yours sincerely
Margaret Thatcher

Sir Lawrence Kadoorie, C.B.E., J.P.

HS



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

19 December 1980

The Rt Hon The Lord Carrington
KCMG, MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

*See Peter, We must not
lose out on this. To note that
this is planned
with...
②*

GUANGDONG NUCLEAR POWER STATION PROJECT

In my letter of 22 September I asked you to probe Chinese attitudes on this important project during your intended visit to Peking. In the event, you expressed the Government's general interest and support for the project to the Chinese Foreign Minister, Huang Hua during his visit to London in early October. Our Ambassador to Peking reinforced those statements in various discussions with Chinese Ministers.

2. However, in mid-October the French President reached an agreement in principle with Chinese leaders that France would supply the first nuclear stations to the PRC on advantageous financial terms. So far as we can gather, no final decisions have yet been taken but the advantages of working with the UK on a project supplying power to Hong Kong are recognised by the Guangdong authorities and probably also by the Chinese Government and the French. Our position rests largely on a presumption by other parties that the Hong Kong connection ensures our participation. The immediate fear is that French pressure for an all-French package will persuade the Chinese to take a decision which excludes a substantial UK share. An early initiative to the French is very desirable in order to forestall an all-French package. Our Ambassador to Peking, the Governor of Hong Kong, Sir Lawrence Kadoorie, Lord Weinstock and Whitehall officials all support this.

3. I am therefore seeking your agreement and those of colleagues to approaches being made in the first instance at official level to the appropriate French officials. These should parallel and give a steer to commercial discussions between GEC and Framatome (the French nuclear supplier). GEC have already been invited by Framatome to further discussions on 23 December. At the same time we should not close the door on a possible partnership with Westinghouse of America. Though unlikely to be preferred by the Chinese it would offer greater



benefits to British industry than a collaboration with the French. In the meantime our Ambassador in Peking should firmly restate our interest, seek further information about the likely Chinese choice of a supplier, and (depending on the response), indicate our willingness and ability to work ... with either the French or the Americans. The attached paper from officials has been agreed between Departments and sets out the arguments for this course of action.

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

Lawson.

Kear.



GUANGDONG NUCLEAR POWER STATION PROJECT

Background

1 Since early 1980 China Light and Power Co Ltd (whose Chairman is Sir Lawrence Kadoorie) and the Guangdong Electricity Company of the People's Republic of China have been conducting a joint study on the feasibility of constructing and operating a nuclear power station in Guangdong, part of the output of which would be sold to Hong Kong. Ministers approved in February a continuing UK industrial and official involvement in the study, and gave their support in general terms subsequently to the Chinese and to CLP. Ministers have also agreed that since China is a Nuclear Weapons State we should not seek to insist upon the application of safeguards, but that we should seek assurances that equipment and materials will not be diverted to military use nor re-exported without prior consultation and will receive adequate physical protection.

2 In his letter of 1 December to the Prime Minister, Sir Lawrence Kadoorie noted that the joint feasibility study on this project was completed. The study which was formally given to the Chinese on 11 December, concludes that it is feasible for the Guangdong Electricity Company (KEC) and China Light and Power Company Limited (CLP) jointly to construct and operate a 2 x 900 MW PWR station some 30 miles north-east of Hong Kong, the foreign exchange cost of which would be met from electricity sales to Hong Kong.

3 There can be no certainty that the Chinese will proceed with the project. The recent suspension of a number of capital construction projects and announcement of a more rigorous policy of retrenchment suggests that they will approach it with caution. We must nevertheless work on the assumption that the project will go ahead. In that event it would offer the prospect of substantial commercial benefits to UK industry. It would also lead to further close relations between the UK, Hong Kong and the People's Republic of China (PRC) in a period when reassurance over the future of Hong Kong will be important given the expiry in 1997 of the lease on

/the ...



the New Territories. While the UK can supply the bulk of the necessary plant and equipment, we cannot supply the heart of the station - the pressurised water reactor and the remainder of the nuclear steam supply system - representing about 15% of the total project cost. A partnership with a PWR manufacturer - Framatome (French) or Westinghouse (American) are the front runners - would therefore be necessary. Neither would be constrained by their Governments' non-proliferation policies. The French position is similar to our own and while there are some doubts about the US Government's attitude to the sale of nuclear equipment direct from the United States, Westinghouse would be able to supply from one of their licencees outside the USA. Both have indicated their willingness to work with the UK in this way. Although the final decision rests with the Chinese the UK's chances of maximising its own share of the contract will be helped if we can present a well-prepared package to them in good time.

Purpose of Paper

4 This paper concentrates on the implications for the UK of collaboration with either PWR supplier, analyses the arguments for and against a partnership with either Framatome or Westinghouse and seeks Ministerial authority for the next steps.

The UK Position

5 The UK provided technical support to CLP from Dr Walter Marshall (Chairman Designate of UKAEA) and partly as a result of his efforts now has the possibility of gaining a major share of the project. CLP favour a substantial UK involvement in the project. Both the French and the American companies currently appear to perceive the UK as being the front runners to win a major share. The Government of Hong Kong, naturally, supports the UK's interest as UK participation would be arguably the best way to meet its requirement for safety and continuing of supply of electricity.

6 The UK's negotiating position is based upon the need for the nuclear power station to be partly financed by the sale of electricity



to Hong Kong. This in turn would require the Government of Hong Kong to be able to assure itself as to the safety of the reactor, the continuity of supply and costs of electricity to be purchased before allowing CLP to enter into an off-take agreement. However our position is less strong than it appears. The decisions to proceed and on the choice of reactor will be taken by the PRC or Guangdong Authorities. As CLP have prepared the feasibility study jointly with KEC it would be difficult for them to reject a competitor's commercially sound and technically competent package which excluded UK participation. Equally the Government of Hong Kong would find it difficult to object to CLP purchasing power from such a source providing they were satisfied as to the safety of the station as it might affect Hong Kong and its reliability as a source of electricity supply.

7 Thus the Hong Kong connection, while helpful, does not of itself guarantee UK participation. Equally GEC have limited relevant technical experience from which to offer high speed 900 MW turbine generators, but do have considerable experience of low speed 900 MW sets in Korea. Neither does the UK have any experience in building or operating complete PWR nuclear stations. Both Framatome and Westinghouse have the ability to offer complete stations based on proven designs. The French appear to have established a favoured position in Peking following an agreement in principle reached during the visit of the French President that France would be the preferred supplier of China's first nuclear station.

8 Despite these drawbacks there is still a good prospect that the UK can obtain a central role in this project. The French and Americans probably over-value our influence in Hong Kong and we should be able to build on any misconceptions to argue that a major role for the UK would be a precondition of approval. Secondly the UK does have a considerable breadth of expertise in organising and regulating a nuclear industry and in supplying it with components. In the immediate future we must be careful to avoid conflicts with the needs of the UK nuclear programme, but on a realistic timescale for the Guangdong Project, it appears possible for the UK to arrange

/for ...



for the provision of the required expertise. Furthermore it has been suggested by the Chinese that an injection of equity from the UK would secure some influence. However, the precise meaning which the Chinese attach to "equity" is uncertain and needs to be explored with them. There are political constraints which Ministers will also need to consider. Equity should in any event not be offered until it is clear what is necessary to secure our commercial interests, and only then as a final step in securing them. Consideration will also have to be given to the arrangements for sharing liabilities in the event of a nuclear accident.

9 It could also prove desirable to select one of the two potential partners in preference to the other and present a joint collaborative package to the Chinese. In doing so it would be prudent to keep alternative options open, particularly with regard to the other potential supplier, since the final decision rests with the Chinese.

Arguments for and against an Anglo-French or Anglo-US package

11 The arguments for and against a partnership with either Framatome or Westinghouse depend on the likely benefits to the UK of association with either party. These benefits cannot be exactly forecast since they will depend on negotiations with the partner and with the Chinese. The minimum we should be looking for from either partner is:

Supply of hardware other than the nuclear island	£200m
10% of the nuclear island (hardware but no system)	£ 20m
Project design, planning, quality assurance, specialist remuneration, project management, spares training and insurance	£ 50m
Share of transmission costs	£100m
	<hr/>
Total	£370m
	<hr/>

/12 ...

Framatome

12 The arguments for a partnership with Framatome are:

(i) The French have established a favoured position in Peking and, if rejected by the UK, have the ability to offer a complete nuclear station without UK input.

(ii) An Anglo-French project would be 'communautaire' and could have wider implications for industrial co-operation.

(iii) Both GEC and CLP favour Framatome.

13 The arguments against such a partnership are:

(i) We could not expect to win any more than about £370m since Framatome would expect to supply much of the ancillary equipment of the nuclear island.

(ii) The possibility of securing even a small proportion of the fuel supply contract - say £50m - is not rated highly by BNFL.

(iii) GEC have no experience with Framatome and past Anglo-French joint ventures have met with mixed success.

(iv) There are technical doubts about the adequacy of a French reactor in Chinese seismic conditions; Framatome has stated willingness to modify its designs where necessary in line with latest international standards. This aspect will need to be discussed with the French.

Westinghouse

14 Arguments for Westinghouse are:

(i) It may be possible to win an additional 10% of the hardware of the nuclear island, worth £20m.

/(ii) ...



(ii) There is a much greater possibility of winning a substantial part of the fuel supply contract, and possibly all of it, worth £200m (particularly because of Chinese doubts about US non-proliferation policies).

(iii) GEC have a relationship with Westinghouse; the chance of gaining information relevant to the UK programme from the Guangdong project would be greater with Westinghouse than with Framatome.

(iv) Westinghouse would be willing (unlike Framatome) to work under the overall control of the NNC backed by Bechtel as architect engineers; the UK would thus have far greater control over management of the project.

(v) Much work has already been done on the safety of the Westinghouse design in the context of the UK programme.

15 The arguments against Westinghouse are:

(i) The Americans have achieved no special position comparable to the French; indeed the Chinese may continue to have some doubts about the new Administration's attitude towards China and this could affect their willingness to contemplate any US contribution to the Project.

(ii) A decision to go all out for an Anglo-US joint project would undoubtedly stimulate the French to produce an all-French package which, given the Chinese political commitment to President Giscard, might result in the UK losing all chance of any input.

Analysis

16 Given the apparent strength of the French position, an Anglo-American partnership might involve greater risks. The French are reported to have been asked for a total package but are also

/reported ...



reported to be willing to establish an Anglo/French collaborative venture provided the UK Government initiates early discussions. To delay an official approach to Paris could therefore result in a further erosion of our position and a strengthening of that of the French.

17 The Governor of Hong Kong, our Ambassador in Peking, Sir Lawrence Kadoorie, CLP and GEC all favour an early initiative with the French. Nevertheless, because co-operation with Westinghouse would bring greater rewards and because a satisfactory partnership may not be established with the French, it would not be prudent to take a firm decision in favour of the French at this stage. To keep the Westinghouse option open would in any event strengthen our negotiating position with the French, and would give time for further discussions at industrial level with Westinghouse (in view of the change of US administration the time is not right for governmental discussions).

18 The objectives of an approach to the French would be to convince them that we were seriously considering the possibility of an Anglo-French package, to establish the degree of French interest, and to forestall any early all-French bid. Detailed contractual and technical discussions could then take place between GEC and Framatome with a view to maximising UK participation in a possible Anglo/French partnership. Neither set of discussions should, at this stage, commit us finally to a partnership with the French.

19 We need also to act with the Chinese in order to remove any doubts which they may have about the UK Government's interest in the project. But an approach to the Chinese now indicating the UK's choice of partner would seem premature, and in the case of an Anglo-French package would effectively rule out the Westinghouse option. In any case, the PRC are unlikely to reach final conclusions on the nuclear project feasibility study for some months and therefore final decisions do not have to be made yet. The need now is to reaffirm our strong interest in the project; to explore Chinese

/intentions ...



intentions further and to indicate our willingness and ability to work with either supplier.

20 Conclusions

- (a) the UK is reasonably well-placed to win a significant share of the hardware and associated orders, but cannot afford to be complacent;
- (b) the financial benefits to the UK could be significantly greater in a partnership with Westinghouse; there would also be benefits to the UK nuclear industry;
- (c) the French are, however, well-placed - they have obtained a Chinese political commitment, they appear to have offered an attractive financial package, and they have an established technical base;
- (d) the choice may therefore become one between a partnership bringing less financial benefit to the UK but a more assured opportunity of winning at least a proportion of the project; and a partnership where if everything went well the UK would stand to win up to £225m more in orders, but might well not succeed.

Recommendations

21 Against this background, officials recommend that:

- (i) discussion should now be initiated with the French, on a government-to-government basis in parallel with discussions continuing between GEC and Framatome;
- (ii) the possibility of a partnership with the American company Westinghouse should be kept open - as a bargaining counter with the French, in recognition of the several advantages which such an arrangement would have for UK

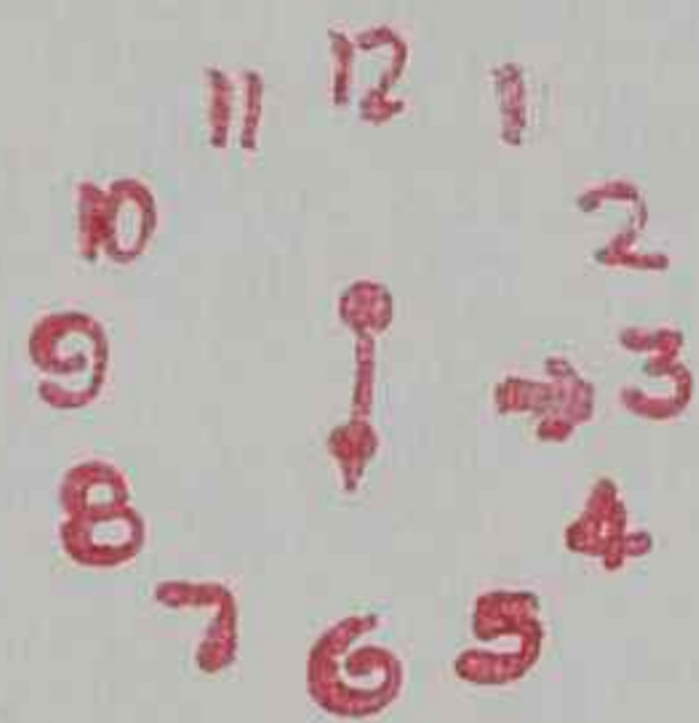
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interests, and in recognition of the fact that the Chinese will make the final decision on participation:

(iii) the Ambassador in Peking should re-state our commitment to the project, sound out the Chinese on their likely choice of PWR supplier and depending on the answer to this, stress our ability to collaborate with the French while pointing out that we retain strong links with the Americans.

19 DEC 1980





Secretary of State for Industry

H Kay
 DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
 SWITCHBOARD 01-212 7676

18 December 1980

Michael Alexander Esq
 Private Secretary to the
 Prime Minister
 10 Downing Street
 London SW1

Type for signature
 as amended.

Amel

Dear Michael

LETTER FROM SIR LAWRENCE KADOORIE

In your letter to me of 9 December you noted that the Prime Minister welcomed the comments in Sir Lawrence Kadoorie's letter of 1 December. You asked for a draft reply for her to sign along the lines proposed in my letter to you of 5 December. I attach a draft.

...

2 My letter to you of 5 December briefly set out the background of the two projects referred to in Sir Lawrence's letter. You should also know that my Secretary of State will this week be circulating a paper from officials on the current state of play on the Guangdong nuclear power station project. As we enter the next phase on this project, the closest possible co-ordination will be necessary between Hong Kong, Peking and UK interests if we are to secure the major commercial and political benefits that could result from UK participation in this significant project.

3 I am copying this to Roderick Lyne, Richard Tolkien, Nick McInnes and Julian West.

Yours sincerely
 Catherine Bell
 CATHERINE BELL
 Private Secretary



DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO SIR LAWRENCE KADOORIE

Thank you for your letter of 1 December.

It is always a pleasure to receive good news from you on your exciting projects. The decision of the Exxon Corporation to participate with you on the Castle Peak B station augers well for a continued successful relationship between the UK, Exxon and China Light and Power Company Ltd.

The Guangdong nuclear power station project continues to offer important prospects for co-operation between the UK, Hong Kong and the Peoples Republic of China. We will have to maintain the closest possible co-ordination if we are to build on the *foundation* base established through the *insight and hard work of yourself* and *Mr Stones* *which you* *has established.*

I know you will continue to maintain a close dialogue with officials in the Department of Industry on both these projects. *and* You may be assured that I and my ministerial colleagues *will follow* *Developments with* ~~will maintain~~ the closest possible interest. ~~in developments.~~ I think we can all be proud of the progress we have achieved together so far.

~~May I return the Season's Greetings to you and your wife.~~



19 DEC 1980

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VLB

H Kauf

9 December 1980

Letter from Sir Lawrence Kadoorie

The Prime Minister has seen your letter to me of 5 December and the enclosed letter to her from Sir Lawrence Kadoorie. She welcomes the comments in Sir Lawrence's letter and agrees that you should draft a reply for her on the lines you propose.

I am sending copies of this letter to Roderic Lyne (FCO), Richard Tolkien (HM Treasury), Nicholas McInnes (Department of Trade) and Julian West (Department of Energy).

MICHAEL ALEXANDER

Mrs. Catherine Bell~~o~~,
Department of Industry.

21



Secretary of State for Industry

Return to No 10
 DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
 SWITCHBOARD 01-212 7676

5 December 1980

Michael Alexander Esq
 Private Secretary to the
 Prime Minister
 10 Downing Street
 London SW1

Prime Minister *PM has seen*

*On the face of it, good news
 indeed.*

Dear Michael

Am

LETTER FROM SIR LAWRENCE KADOORIE

... Sir Lawrence Kadoorie has asked this Department to forward the attached letter to the Prime Minister. It refers to two major power plant opportunities in Hong Kong and the neighbouring Chinese province of Guangdong.

2 The first is for an extension to the Castle Peak power station in Hong Kong. The current "A" station of 4x350MW is worth some £300m at current prices to GEC, Babcock Power and their sub contractors. The "B" station is projected to be of 4x660MW with a current value of £500m. As such it would be the largest power export contract ever awarded to the UK. The offer to enter a negotiated contract rather than engage in international competition is therefore of considerable significance. It will however require the UK to offer a package at least as attractive as that offered on the A station. This Department has to submit that package by the end of January. Within this very tight timescale my Secretary of State will be seeking the views of colleagues on the content of the total UK offer, probably in EX committee.

3 The second project is one on which Sir Lawrence has spoken previously to the Prime Minister and other Ministers. It is for a 2x900MW PWR nuclear station to be constructed in the Guangdong Province of the Peoples Republic of China on a joint basis between China Light and Power Co Ltd and the Guangdong Electricity Co. Potential UK hardware and possible fuel supply contracts could exceed £600m at current prices though it will be necessary to seek a nuclear island partner from either France or America. The French are already strong contenders for this contract. On this project also my Secretary of State would propose to seek the views of colleagues before

/the ...



the UK became committed to support the project in anything other than the general terms contemplated at present.

4 If the Prime Minister agrees, we will draft a response which looks forward to the prospect of continued successful co-operation on major projects. I am copying this to Roderick Lyne, Richard Tolkien, Nick McInnes and Julian West.

*Yours sincerely
Catherine Bell*

CATHERINE BELL
Private Secretary

Cables: "Kadoorie" Hong Kong
Telephone: 5-249221
Telex: 73427



*St. George's Building
Hong Kong*

December 1, 1980

The Rt. Hon. Mrs. Margaret Thatcher, M.P.
Prime Minister
10 Downing Street
London S.W. 1
ENGLAND

Dear Prime Minister,

It gives me much pleasure to be able to write you again to give you good news.

We have just been informed by our associates, Esso Eastern, that the Board of EXXON has decided to participate in the development of our new 'B' power station at Tap Shek Kok.

This means that, subject to conditions being no less favourable than when we placed our order for 'A' station, we will be able to negotiate with British suppliers, through your Department of Industry, without the need to call for international tenders. I sincerely hope that this will result in a very substantial order for British industry.

Of more importance perhaps, in the light of its implications on the future of Hong Kong and of Sino-British relations, is the fact we have just completed a joint feasibility report with the Guangdong Authorities on the practicability of building a nuclear power station in Guangdong Province to supply power to both that province and Hong Kong.

I am glad to say that through personal contacts, and the close relationship developed by Mr. W.F. Stones of China Light & Power Company Ltd., with Mr. Chen Gang, Deputy General Manager of the Guangdong Power Company, we have placed the UK in a very favourable position should they wish to participate in this project which is of particular interest to the Chinese since it will be China's first nuclear power station. Here again, your officials have been kept fully in the picture.

With Season's Greetings and best wishes,

Sincerely yours,

Lawrence Kadoorie



CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

28 October 1980

hm
ms
Prime Minister

This is the project you have discussed
with Sir L. Kadarone.

Dear Sir,

ms
- 28/10

Guangdong Nuclear Power Station Project

The Secretary of State for Industry wrote to the Foreign and Commonwealth Secretary on 22 September about the Guangdong project.

Because of the postponement of Lord Carrington's visit to China, he could not explore Chinese attitudes to this project, as suggested in Sir Keith Joseph's letter. However, Lord Carrington was able to mention it briefly to the Chinese Foreign Minister when he was here on 1 October and the Prime Minister touched on it in her conversation with Huang Hua. Huang confirmed that the Chinese government were aware of the contacts which had taken place and supported the idea of exploratory discussions. But he was clearly not briefed on the details.

We therefore asked HM Ambassador to take the matter up in Peking. The instructions sent to him took account of the points made by Mr Biffen in his letter of 1 October to Sir Keith. Sir Percy Cradock had an opportunity to raise the question with Premier Zhao Ziyang on 12 October and subsequently went into more detail with a senior official. I enclose copies of the Ambassador's reporting telegrams.

These discussions yielded about as much as we could reasonably have expected at this early stage. We have registered our firm interest in the project. While emphasising that they intend to rely primarily on coal and hydro-electric power, the Peking authorities have confirmed that nuclear power has a place in their plans and that Guangdong is regarded as a suitable area for it. They have also made it clear that they approve of the continuation of discussions between Guangdong and China Light and Power in Hong Kong.

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There are of course still many unanswered questions. Lord Carrington agrees with Mr Biffen that Ministers may need to discuss some of the issues in due course. A new factor is the agreement reported to have been reached during President Giscard's visit to Peking for the French to supply two nuclear reactors to China. The details, including the sites and the financing arrangements, remain to be settled; no contracts have yet been signed. But the French have the advantage of being able to offer a complete package and could well mount a strong bid for the whole of the Guangdong project. Assuming the project goes ahead, we shall need to consider how best to use the Hong Kong connection to secure significant British participation.

I am sending copies of this letter to Michael Alexander (No 10), John Wiggins (Treasury), Stuart Hampson (Department of Trade) and Julian West (Department of Energy).

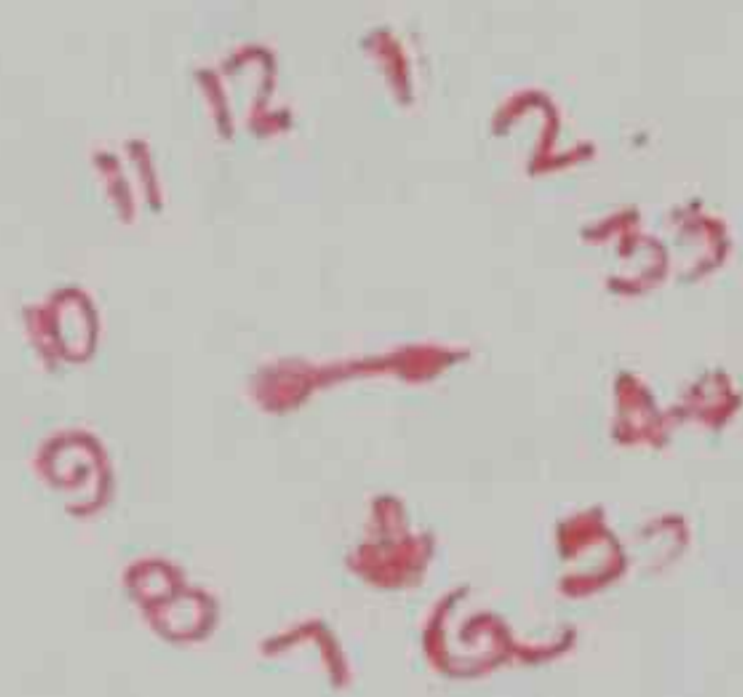
Yours ever

Roderic Lyne

(R M J Lyne)
Private Secretary

I K C Ellison Esq
PS/Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

28 OCT 1980





PA.

China

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Industry
123 Victoria Street
London SW1

1 October 1980

Dear Keith,

GUANGDONG NUCLEAR POWER STATION

Your letter of 22 September to Peter Carrington has come to me in the Chancellor's absence abroad. I have also seen Norman Lamont's letter of 26 September.

I do of course recognise the potential significance of this project for relations between the United Kingdom and China. But the note by officials attached to your letter demonstrates that there are major policy issues surrounding some of the points the Chinese may make. Since I understand that Peter Carrington's visit to Hong Kong and China has been postponed I wonder whether it will be possible to discuss some of these issues before he talks to the Chinese.

The point of immediate concern to me is the possibility of an equity stake involving the British Government. I do not think that the note of 'Points to Make' adequately explains the stance of the present Government. I do not of course dispute that Peter Carrington should listen to what the Chinese say, and offer to consider what they say. But I think that it is essential to take a noncommittal line.

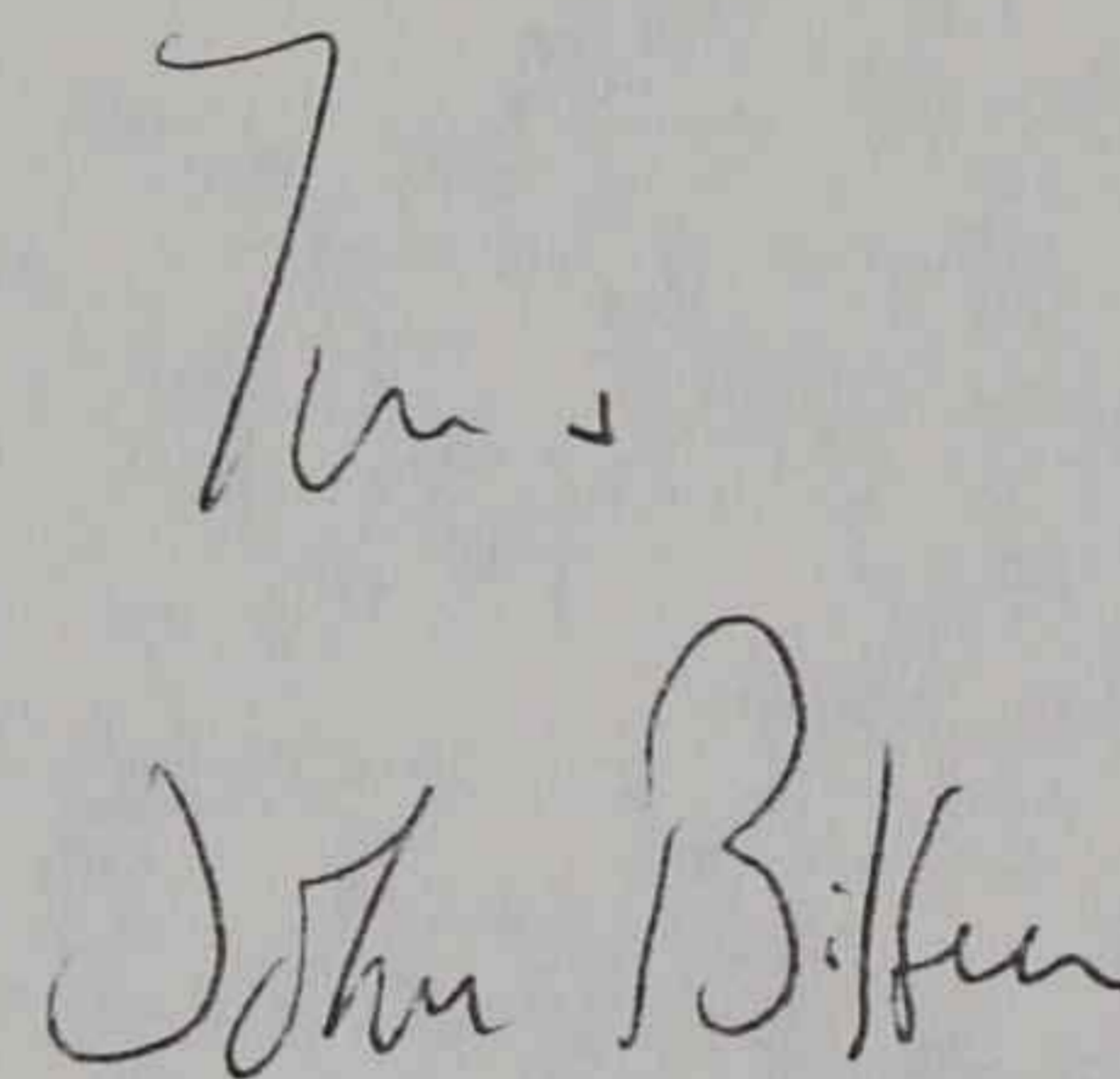
I do not think that the note agreed by officials explains with sufficient weight how unusual such an equity investment would be, and the statement that the Government is a shareholder or owner of many industries in the UK strikes me as misleading. Our domestic policy is of course to disentangle ourselves from Government shareholdings and ownership wherever possible, and a new equity involvement overseas could surely be seen as a move in the opposite direction. If we make such a move in one case surely there would be pressure to make a similar move in other export contracts of national significance.

There is also the obvious public expenditure point. I understand that section 8 of the 1972 Industry Act would provide the necessary powers for such a stake. But you do not of course have any financial provision for it.

I hope therefore that it goes without saying that we should need to consider any such proposal from the Chinese with extreme care. I must add that such an equity stake could also be the thin end of a very expensive wedge. The question of sharing risks in the event of a nuclear accident serves to show how very expensive direct Government involvement in the contract could be, whether it took the form of an equity stake or not.

I suggest therefore that we need to consider as soon as possible whether we could envisage any direct HMG involvement with the Chinese Government. One of the aspects which we would need to consider particularly carefully would be the potential public expenditure implications, which could go much wider than your industry programme.

I am sending copies of this letter to the Prime Minister, Peter Carrington, John Nott and David Howell.



JOHN BIFFEN

11 12 1
2 3 4
5 6 7
8 9 10

- 11 OCT 1980



DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ

Direct Line 01-211 3390
Switchboard 01-211 3000

From the
Parliamentary Secretary

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street SW1E 6RB

China
pa
Hand

26 September 1980

Dear Sir Keith

GUANGDONG NUCLEAR POWER STATION PROJECT

I have seen your letter to Peter Carrington, copied to David Howell here who is currently visiting South America. I am replying, as I understand it would help FCO in preparing Lord Carrington's brief for his visit to China.

I agree that it would be useful to obtain first-hand knowledge of the attitude of the Chinese Government to the proposed project. I also think the brief is right to allude to the several major issues which would need to be resolved before the UK could agree to support the project.

I know your officials have been alerted to the issues which are of concern to my Department (in particular the issues of safety, liabilities and the role of the NNC), and I hope that the Foreign Secretary's visit will open the way to quick progress in resolving them.

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

Andrew Freun

11
NORMAN LAMONT

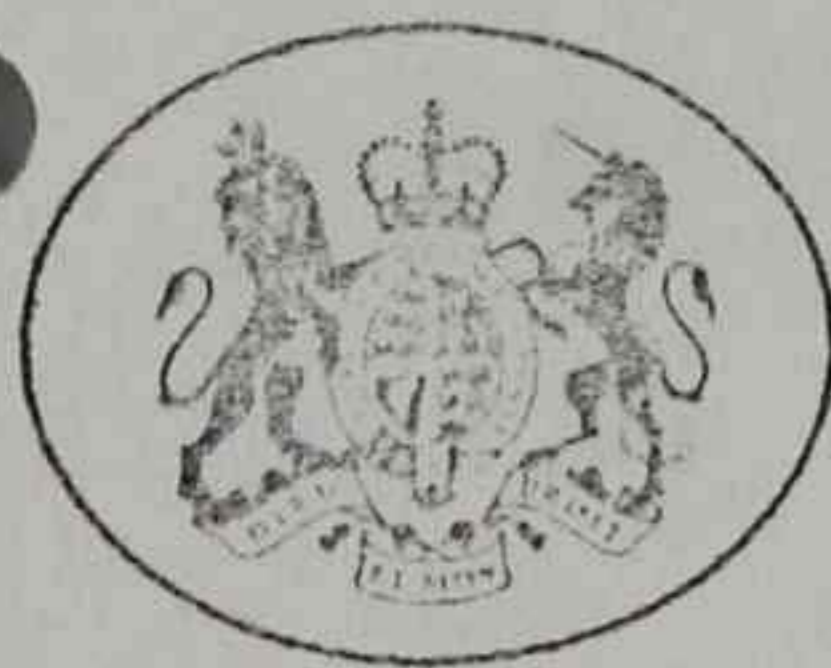
(Draft approved by Mr Lamont and letter signed in his absence abroad by Private Secretary)



27 SEP 1980

NBPM

MAA



DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RB
 TELEPHONE DIRECT LINE 01-212 3301
 SWITCHBOARD 01-212 7676

Secretary of State for Industry

22 September 1980

The Rt Hon The Lord Carrington
 KCMG MC
 Secretary of State for Foreign
 and Commonwealth Affairs
 Foreign and Commonwealth Office
 Downing Street
 London SW1A 2AL

John Peter

GUANGDONG NUCLEAR POWER STATION PROJECT

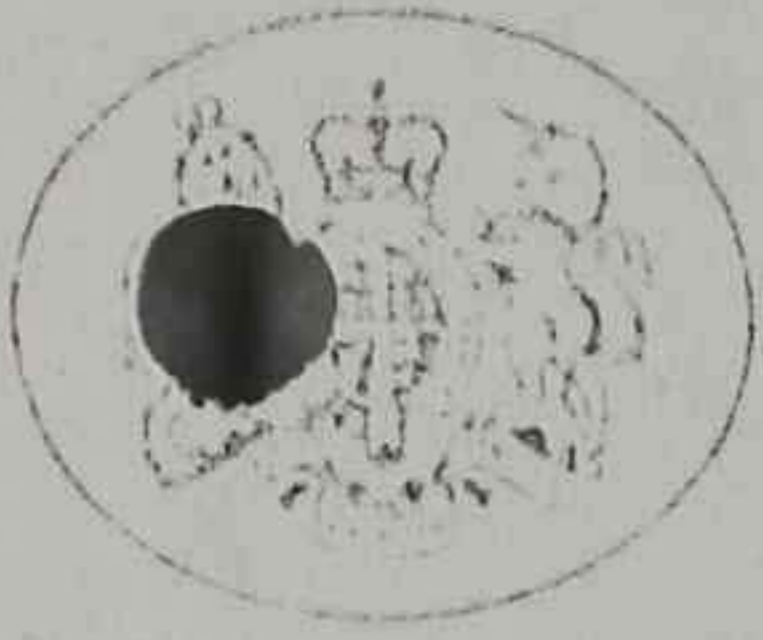
During your forthcoming visit to Peking, it would be helpful if you could probe Chinese attitudes on this important project. You are in any event liable to be asked about our attitude both in China and Hong Kong.

... 2 Officials have prepared the attached short report and speaking note which show that you can generally be very positive on a project which could have considerable political significance in relation to the future of Hong Kong as well as commercial benefits to UK manufacturing industry. As you know, the UK has had some success in selling power plant to China Light and Power in Hong Kong and we intend to pursue an even larger order over the coming months. The possible sale of nuclear plant to a joint venture consisting of CLP and their Chinese neighbours in Guangdong would consolidate our position.

3 I am copying this letter to Geoffrey Howe, John Nott and David Howell, since their officials along with those here agreed the attachments. I am also copying this to the Prime Minister as she expressed her interest in the project when she last saw Sir Lawrence Kadoorie during his recent visit to the UK.

Yoniva

Kerr



GUANGDONG NUCLEAR PROJECT

POINTS TO MAKE

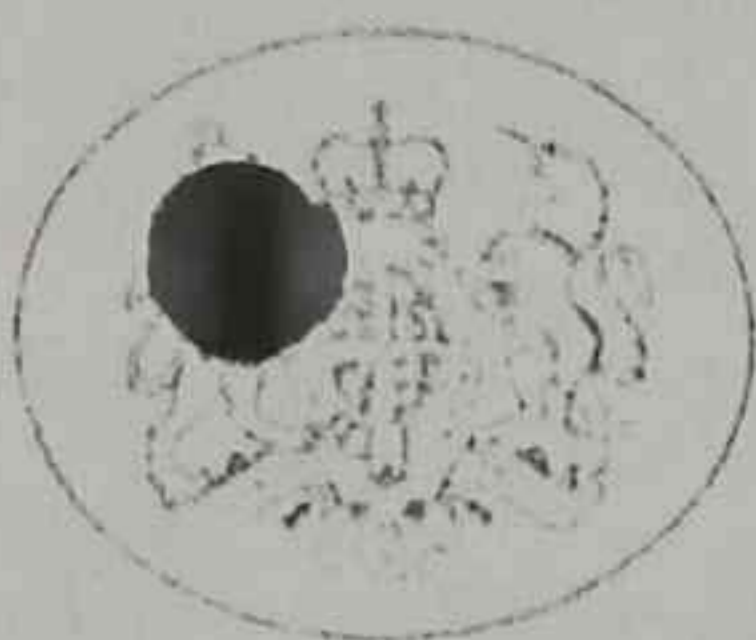
1 British government have followed with close attention discussions in Guangdong. See project as one of immense significance to UK/Hong Kong/China relations. First nuclear power station in China: a most important example of cooperation between Guangdong and Hong Kong: and potentially largest ever commercial deal in China involving British interests.

2 On British/Hong Kong side negotiations have been conducted principally by China Light and Power (Kadoorie) with technical assistance and expertise provided by Dr Walter Marshall in a personal capacity supported by a team from UKAEA. Understand that Guangdong negotiators have sought closer identification with project on part of British and Hong Kong governments. If Guangdong authorities are seeking reassurance of British and Hong Kong governments' attitude can assure that this is very positive in expectation of major benefits to UK industry.

3 Ministerial colleagues will wish to know if Chinese government (Peking) attaches same priority to project as Guangdong authorities. Would therefore welcome statement of Chinese attitude.

4 Depending on answer to 3 above. Glad to find China shares UK view of project's importance. Many technical, safety, commerce, financial questions. Suggest team of British officials visit Peking and Guangdong soon to follow up. Meanwhile will report to Cabinet.

5 If asked about equity investment by the British and Hong Kong governments An unusual suggestion. The British government (while a shareholder or owner of many industries in UK) does not normally invest overseas. Nevertheless prepared to consider proposal if Chinese really attach important to it and in view of project's significance.



6 /If pressed/

Nuclear non-proliferation

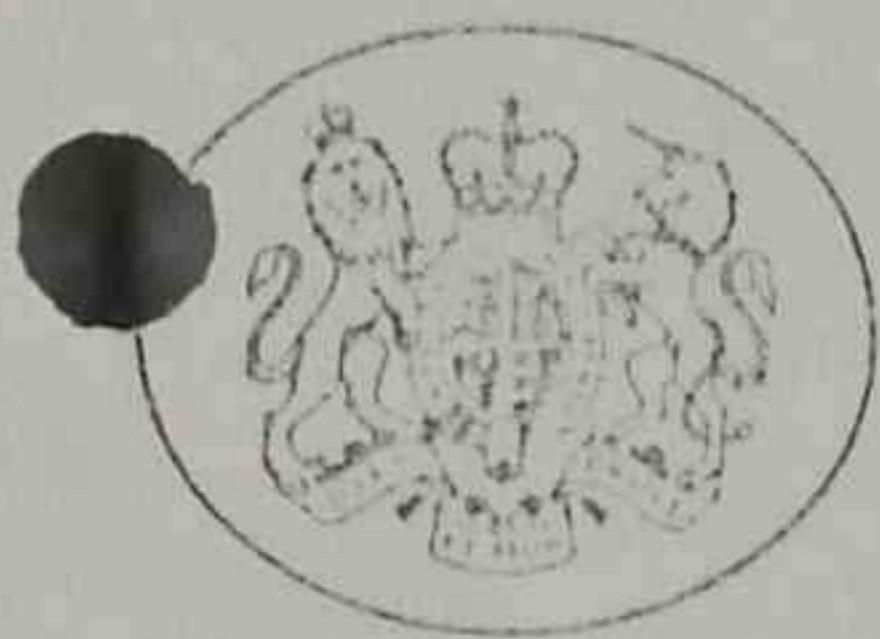
"This will be primarily a matter for the government of the supplier of the nuclear reactor. We would of course wish to take part in any discussions on this subject, but we would not expect more restrictive conditions than would be likely to be required by other governments."

Accident liability

"We recognise that this raises important questions which will need to be discussed at a later stage between our two governments."

Credit facilities

"The wide range of facilities provided by HMG will be available in support of UK contenders for this prospective contract. These will ensure that the terms on offer from the UK will be at least as favourable as those available elsewhere."



PAPER FOR MINISTERS ON THE GUANGDONG NUCLEAR POWER PROJECT

INTRODUCTION

The Secretary of State for Industry informed colleagues on 25 October 1979 and 18 February 1980 about prospects for UK involvement in a nuclear power station to be built as a joint venture between China Light and Power Limited (CLP) and the Guangdong Electricity Company (KEC); about half of the output is to be sold to CLP to finance the venture. Ministers agreed then that:

- a continuing UK industrial and official involvement in the project was justified;
- technical support should be provided to CLP for the feasibility study;
- the UK would not insist on nuclear inspection safeguards but would seek general assurances on the peaceful application of nuclear technology and fuel.

As Sir Lawrence Kadoorie reported to the Prime Minister, Secretary of State for Industry and the Lord Privy Seal during his recent visit, prospects of a favourable outcome on the project have improved. The Governor of Hong Kong also believes this. There have however been no direct contact between EMC officials and those responsible for the project in Guangdong and no firm evidence that the central leadership in Peking approve of the project. Two good opportunities to probe Chinese intentions now exist: a middle ranking member of the Guangdong Provincial Government who has been closely involved in the project is to visit the UK from 18 September; and the Foreign Secretary will be able to sound out Chinese leaders in Peking.

COMMERCIAL ISSUES

The feasibility study should be completed at the end of October. It is likely to conclude in favour of 2 x 900 MW PWR with associated pump storage and transmission schemes (valued at US \$4000M) with the UK as preferred supplier of the non-nuclear hardware (valued at about US \$1300M). As such the project would be the largest Sino British venture at least since the Revolution. Additionally contracts for the transmission network (US \$500M) and fuel services from BNFL are possible, while the prestige project could open up wider trade possibilities in South China and the area generally with enormous potential benefits to UK industry.

Our aim is for GEC to obtain a major contract but they need a nuclear partner. GEC would want this partner to assume contractual responsibility for the whole nuclear island. There are three contenders: KWU (Germany), Framatome and Westinghouse; KWU is acceptable technically, but its commercial practice has been to offer turnkey contracts, which could well be unacceptable to the Chinese. Framatome designs would require technical changes to bring them more into line with expected future requirements on safety, but they are more likely to be disposed to assume responsibility for the whole nuclear island. To lock them into a partnership with GEC would forestall a pre-emptive bid by the French - who were earlier negotiating to sell such a PWR to China - would



be "communautaire" and could lead to joint ventures elsewhere, such as Korea. The third contender, Westinghouse, is preferred from the technical and safety point of view, but prefers to sell only a part of the nuclear hardware. Officials will consider the choice of nuclear partner best suited to satisfy the apparently conflicting technical, safety and commercial objectives.

POLITICAL BENEFITS

With the New Territories lease due to expire in 1997, the increased economic interdependence between Guangdong and Hong Kong would contribute to Hong Kong's stability and business confidence and help to reassure investors about the territory's future status.

With HMG's support of the CLP study known to the Chinese, to attempt to disengage now would only be adversely interpreted and so weaken the credibility of the UK and Hong Kong Governments, and the position of Sir Lawrence Kadoorie. Apart from the nuclear prospect, Sir Lawrence's good will is critical to secure a negotiated contract for the 4 x 660 MW Castle Peak B Station, decisions on which are expected early next year.

ISSUES TO BE FACED

The main issues to be faced are:

The Credit Package

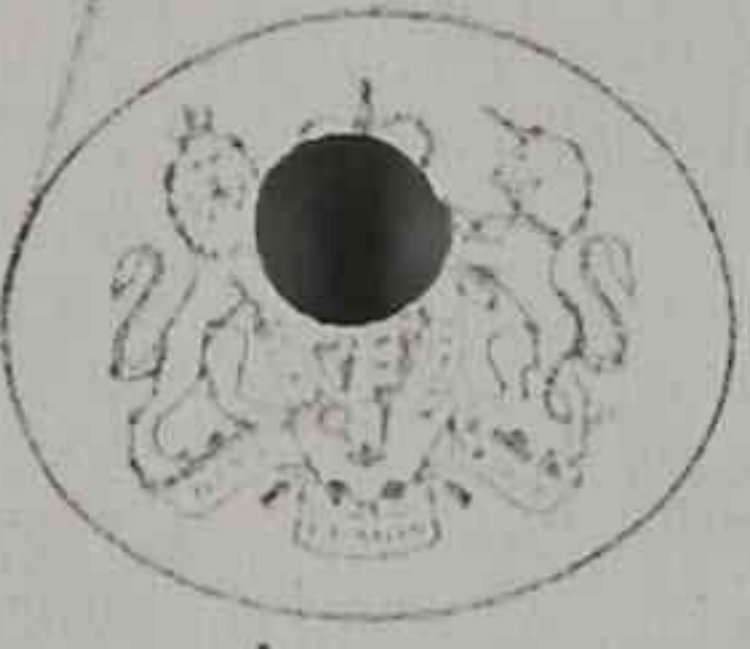
The finance package will have a crucial effect on the project's capability to be self-financing. Under OECD rules, ECGD could agree support for a 90% loan repayable over 12 years, but ab initio would propose an 85% loan over 10 years - the terms that EEC members are proposing for power stations, both conventional and nuclear. The actual terms will depend upon those proposed by the nuclear island partner, or upon the cash flow projections on the viability of the project. The security of ECGD loans to CLP will also need to be safeguarded.

Equity Involvement

We have been told by CLP that the Guangdong authorities may seek direct HMG and Hong Kong Government equity involvement probably because it would ensure political and moral commitment.

Liabilities

Most of the risks associated with the Guangdong project can be covered by commercial insurance. HMG may have to accept some financial responsibility in the event of a major nuclear accident: the Guangdong project is essentially a joint venture and the PRC might insist on shared liability as part of the price for preferring equipment and other supplies from the UK. If this price has to be paid we should negotiate an agreement with the PRC whereby:



- (a) IMG would meet the cost of technical direction of the cleaning up operation;
- (b) the company operating the station should have strict liability in respect of third party damage up to an agreed limit;
- (c) the PRC Government should accept all residual liability for damage within the PRC: responsibility for Hong Kong should rest with the Hong Kong/UK Governments. (The latter would require legislation)".

Non-Proliferation

Ministers have agreed the following approach:

- (a) No requirement for IAEA safeguards (since the PRC is a Nuclear Weapon Station);
- (b) But we should seek assurances of physical protection, no diversion from peaceful use, and no retransfer without agreement.

Non-proliferation conditions may prove to be a key factor in establishing Chinese preference between the US and France. The French have obtained President Carter's approval to their supplying on similar conditions a French built PWR based on a Westinghouse design. But the US position on direct supply to the PRC would be different. It seems likely that even if IAEA safeguards were not required bilateral US safeguards would be.

Safety Issues

The Governor of Hong Kong wishes to be assured that the station will be constructed and operated in accordance with UK safety standards. KFC appears ready to pay close attention to these and has suggested informally that the UK should help China establish a safety authority. The NII would be the most appropriate authority to do this and to offer advice to the Governor but its resources are fully committed to the UK nuclear programme. Consideration must therefore be given to the means by which the UK can meet these needs.

NRC Participation

The NRC could also offer valuable expertise to either customer or contractor. Involvement of NRC may be seen by the Chinese as a desirable expression of UK support. The extent of the NRC role will however be constrained by commitments to the UK nuclear programme and the choice of nuclear reactor partner.

CXGB Role

Experienced operating staff from the CXGB and the nuclear supplying country will be needed during the initial operation of the station to make good the lack of CLP and KFC expertise. Possible calls on these resources will need to be clarified.



CONCLUSION

The immediate steps are:

- To use the visit of the Guangdong official to probe Chinese thinking further, in order to establish direct contact with the Guangdong authorities;
- To use the visit of the Foreign Secretary to try to ascertain the Peking Government's attitude.

In addition:

- Action will continue at official level to resolve the outstanding issues;
- Depending upon the outcome of the Foreign Secretary's visit, officials will hold early discussions with the Chinese;
- On the issues requiring decisions, officials will report to Ministers consistent with the timescale of the project.

23 SEP 1980





cc ind
fco

Hong Kong vb

10 DOWNING STREET

THE PRIME MINISTER

6 August 1980

Dear Sir Lawrence

Thank you for your letter of 30 July. It was a great pleasure to see you again. I found your views on the political and economic significance of the Guangdong power station project of great interest.

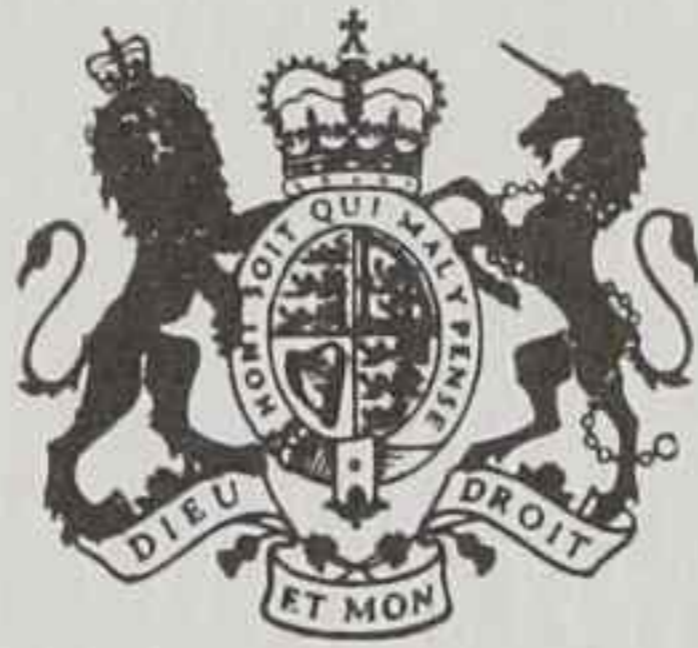
As I said, I would be prepared to write to you on this most important project but we decided that now was not the most appropriate time. I know, though, that you are keeping in close touch with officials in the Department of Industry.

Yours sincerely

MT

Sir Lawrence Kadoorie, C.B.E., J.P.

jfh



10 DOWNING STREET

PRIME MINISTER

Here is a thank-you letter
from Sir Lawrence Kadoorie.

The Department of Industry
advise that a substantive
letter to Sir Lawrence would
be premature. Would you like
to acknowledge as in the
attached draft?

MA

5 August 1980



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

4 August 1980

Caroline Stephens
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Caroline

SIR LAWRENCE KADOORIE

Following his meeting with the Prime Minister on 30 July
Sir Lawrence called on officials here on 31 July and left
... with us the enclosed letter, with a request that it be
forwarded to the Prime Minister.

We would expect that the Prime Minister would wish to
respond but would advise against a substantive reply at this
... stage. A draft is enclosed.

Yours sincerely

Catherine Bell

CATHERINE BELL
Private Secretary



DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO

Sir Lawrence Kadoorie
c/o The Connaught Hotel
Carlos Place
London W1Y 6AL

Thank you for your letter of 30 July. It was a great pleasure to see you again. I found your views on the political and economic significance of the Guangdong power station project of great interest.

As I said, I would be prepared to write to you on this most important project but we decided that now was not the most appropriate time. I know, though, that you are keeping in close touch with officials in the Department of Industry.

- 5 AUG 1980





Tel: 01-499 7070
Chataigne, London, W.1.

Sir Lawrence Kadoorie, CBE, LL. D.
c/o Sir Elly Kadoorie & Sons,
St. George's Building, Hong Kong.
Tel: 5-249221 Telex: 73427

The Connaught,
Carlos Place,
London, W1Y 6AL

30/7/80.

Dear Prime Minister,

Once again my apologies for misunderstanding the time of our appointment this morning, and my very sincere thanks for your courtesy and kindness in putting me so quickly at ease.

I am much encouraged by your vision and understanding of the straws in the wind, which point to a smooth transition in UK/HongKong/China relations into the next century.

Though interpretation of Chinese thinking is difficult, rarely is there



Tel: 01-499 7070
Chataigne, London, W.1.

2.

The Connaught,
Carlos Place,
London, W1Y 6AL

a hint without a pre-conceived intention.

I shall not fail to keep the
Department of Industry in the picture
and assure you of my full co-operation.

With Kindest regards,

Sincerely Yours,

Lawrence Kadoorie:

Lawrence Kadoorie.

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JFH
Hanging

10 DOWNING STREET

From the Private Secretary

30 July 1980

Dear Ian,

Call by Sir Lawrence Kadoorie

Sir Lawrence Kadoorie called on the Prime Minister this morning as arranged. Virtually all the discussion was about the Guangdong Project. Sir Lawrence assured the Prime Minister that the points he was putting to her would be familiar to the Department of Industry. I shall therefore not record them in any detail in this letter.

The main point which Sir Lawrence wished to convey was that, in his view, the Guangdong Project, apart from being of great commercial importance, had now acquired considerable political significance. He thought that it had become a pivotal element in the relationship between Hong Kong and the Chinese Peoples Republic. As evidence, he cited the wish of the authorities in Peking to have HMG involved in the contract; the fact that the proposed contract would run well into the next century and long after the lease on the New Territories expired; and the general tone, particularly recently, of the conversations between his representatives and the Chinese. Sir Lawrence read to the Prime Minister the enclosed record of an informal discussion which had taken place recently in Hong Kong between Mr. W.F. Stones and Mr. Chen Gang of the Guangdong Provincial Government. Sir Lawrence stressed the inevitable uncertainties involved in dealing with the Chinese. No-one could be altogether certain of their motives. But he was 70 per cent sure that the Chinese authorities now saw the Guangdong Project as a symbol of the continuing relationship between the Peoples Republic and Hong Kong and, at one remove, the United Kingdom. It was important that HMG should respond appropriately.

The Prime Minister said that she was keenly interested in what Sir Lawrence had said. So far as she was concerned, this was an opportunity that we must not let slip. The project would be good for Hong Kong, and good for the United Kingdom. She thought that the Chinese might well see the project as an earnest both of their own and of Britain's faith in the future of Hong Kong. They might also see it as a way to project the excellent political relations between China and the United Kingdom into the commercial sphere. The Prime Minister

/said that she

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said that she recognised that in present circumstances it was often important for it to be seen that British tenders for large contracts were supported at the highest political level. She would therefore be willing to write a letter demonstrating her interest in the project if Sir Lawrence Kadoorie thought this would be useful.

Sir Lawrence thought that it would be premature for the Prime Minister to put anything in writing at this juncture. However, he was interested to learn that the Foreign and Commonwealth Secretary would be visiting Hong Kong and Peking at the end of September. Although the visit was taking place a little earlier than was ideal from his point of view, he thought that it might well be useful if Lord Carrington were to mention the project while he was in Peking. Sir Lawrence said that he would keep in close touch with the Department of Industry about this.

As he was leaving, Sir Lawrence told me that he would probably change his own holiday plans in order to be in Hong Kong during the Foreign and Commonwealth Secretary's visit. He might also arrange to go on to Peking. I have given Sir Lawrence the details of Lord Carrington's trip to the Far East.

I am sending copies of this letter and its enclosure to Paul Lever (Foreign and Commonwealth Office) and Stuart Hampson (Department of Trade).

Yours sincerely

Richard Alexander

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

Points raised during an Informal Discussion
between Mr. W.F. Stones and Mr. Chen Gang
at a Dinner Party in Hong Kong
on 22nd July, 1980

Knowing that a nuclear project was being planned for Guangdong Province, many foreign countries have approached the Chinese Government on this matter. For example, the French Consul General in Hong Kong paid a visit to a Vice Governor of Guangdong Province for discussions on this project. At the same time, the French Embassy Trade Attache in Peking contacted the Ministry of Electric Power, to enquire how French firms could participate in this project. When the Ministry informed him that the French Equipment originally quoted for the Sunan Nuclear Project was too expensive and that the financial terms were not all that attractive, the Trade Attache said that they were prepared to lower the price and to offer 85% loan at 3% interest and no interest at all for the remaining 15% which could be paid back in cash in stages.

A Swiss and German consortium employing some 10 to 20 experts, had worked out a scheme, based on the German nuclear project in Brazil, and offered a package to KEC. The repayment of the loans was to have been covered by the export of minerals and loans would be at 6% interest.

Hitachi's office in Guangdong had also contacted KEC to make enquiries on their possible participation and suggested that they could supply the whole plant including NSSS.

However, as there was not enough time and rather apprehensive about the "favourable" terms of payment, KEC did not follow up on these various offers.

The French, Japanese and possibly the Americans, have made great strides in their trade with China, in step with advances made in the political sphere. This has, however, not happened in the case of the UK in spite of the excellent political relationship between China and the UK. In other words, there is a great imbalance between the political relationship and the trade relationship of the two countries (UK and China). The nuclear project in Guangdong offered an opportunity where such a situation could be remedied.

So far, the French have sold China an entire automobile plant, chemical plant, generating equipment, etc. The Japanese, in addition to all the mining equipment, railway lines and port facilities, have sold China the largest steel plant at Baoji with an annual capacity of 10 million tons of steel.

Since Hong Kong is a piece of Chinese territory under British jurisdiction, the well-being of the place is of concern to both China and Britain. If the British Government came in by way of Hong Kong and supported the first nuclear project in China, in addition to all the economical advantages, a matter of great political significance would have been created which may affect Hong Kong's position and its future.

W.F. Stones

23.7.1980

MEETING WITH SIR LAWRENCE KADOORIE

NOTE OF A MEETING HELD IN ROOM 11.01 ASHDOWN HOUSE AT 11.30 am
on 28 JULY 1980

Present

Secretary of State
Sir Lawrence Kadoorie

Mr Manzie
Mr Brown

1 The purpose of the meeting was to enable Sir Lawrence to report further to the Secretary of State on progress on the proposed Guangdong Power Station, following his earlier meeting with the Secretary of State on 30 April 1980.

2 Sir Lawrence said that negotiations with the Chinese had progressed rapidly since he last met the Secretary of State. However in the course of the official negotiations Sir Lawrence had been puzzled by the enthusiasm of the Chinese for the capitalist concept of setting up a company in which the China Light and Power Company (CLP) would have a substantial shareholding. To Sir Lawrence this seemed an absurd concept for the Chinese to embrace. He had voiced his doubts first of all to the Chinese at a management meeting discussing the project. The reaction of the Chinese at this meeting had been one of dismay; the Chinese interpreted Sir Lawrence's comments as doubts about the position of the Chinese Government. However, subsequent to the management meeting, Sir Lawrence had been invited by the Chinese to a private meeting with Mr Chen Gang. At this meeting it had become evident that the principal motivation of the Chinese in pursuing the project was to seek to cement the existing relationship between the People's Republic of China and Hong Kong. Sir Lawrence read out the minutes of this private meeting to the Secretary of State and left a copy with him; these are attached at Annex A to this note. Sir Lawrence said that the minutes made plain that the Chinese were anxious for the British to be involved in Chinese economic development in order to encourage the maintenance of the status quo when the lease for the New Territories came up for renewal in 1997.

3 In response, the Secretary of State said that the story Sir Lawrence told was indeed a fascinating one; this was a remarkable example of "ping pong" diplomacy. Sir Lawrence said that he understood the Chinese wanted him to speak to the British Government about the project; he was 60%-70% sure that there was more behind it than the purely economic argument.

4 The Secretary of State asked whether the Foreign Office had been brought into the picture. Sir Lawrence explained that he would be seeing the Lord Privy Seal that afternoon to convey to him the latest position on Guangdong. Sir Lawrence explained that he was really seeking advice on how to handle the information conveyed to him at the private meeting he had had with Mr Chen Gang.

/Mr Manzie ...

Mr Manzie said that the Foreign Office would offer advice on this, and that he would be discussing the details of the project and its industrial implications with Sir Lawrence later that week. Sir Lawrence commented that this was the first foreign contract of any size which the UK was likely to complete with the Communist Government.

5 The Secretary of State said that Sir Lawrence's developing story was a very impressive one. He asked whether there was anything that he needed to do at present. Mr Manzie explained that the implications of the Guangdong project were currently being considered by officials and that papers would come to Ministers in due course. The Secretary of State also asked Sir Lawrence whether he had as much access as he wanted to the relevant people in Whitehall. Sir Lawrence said that he had and was particularly pleased that he would have an opportunity to convey the latest developments to the Prime Minister on the following day.

6 In conclusion the Secretary of State said that he had been extremely interested to hear the latest developments from Sir Lawrence and would follow the project with interest.

Catherine Bell

CATHERINE BELL
PS/Secretary of State for Industry
Rm 11.01 Ashdown Ext 3301

4 August 1980

Circulation

PS/Ministers
PS/Secretary
Mr Manzie
Mr Bullock
Mr Benjamin
Mr Clark
Mr Havelock
Mr Mathrani

PS/Prime Minister
PS/Secretary of State
for Foreign &
Commonwealth Affairs
PS/Secretary of State
for Trade
PS/Secretary of State
for Energy

Points raised during an Informal Discussion
between Mr. W.F. Stones and Mr. Chen Gang
at a Dinner Party in Hong Kong
on 22nd July, 1980

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Hitachi's office in Guangdong had also contacted KEC to make enquiries on their possible participation and suggested that they could supply the whole plant including NSSS.

However, as there was not enough time and rather apprehensive about the "favourable" terms of payment, KEC did not follow up on these various offers.

The French, Japanese and possibly the Americans, have made great strides in their trade with China, in step with advances made in the political sphere. This has, however, not happened in the case of the UK in spite of the excellent political relationship between China and the UK. In other words, there is a great imbalance between the political relationship and the trade relationship of the two countries (UK and China). The nuclear project in Guangdong offered an opportunity where such a situation could be remedied.

So far, the French have sold China an entire automobile plant, chemical plant, generating equipment, etc. The Japanese, in addition to all the mining equipment, railway lines and port facilities, have sold China the largest steel plant at Baoji with an annual capacity of 10 million tons of steel.

Since Hong Kong is a piece of Chinese territory under British jurisdiction, the well-being of the place is of concern to both China and Britain. If the British Government came in by way of Hong Kong and supported the first nuclear project in China, in addition to all the economical advantages, a matter of great political significance would have been created which may affect Hong Kong's position and its future.

W.F. Stones

23.7.1980

- 5 AUG 1980





DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ *Secretary of State for Industry*

28 July 1980

Miss Caroline Stephens
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

Dear Caroline

On 18 July we confirmed that Sir Lawrence Kadoorie would be pleased to see the Prime Minister at 10.15 on Wednesday 30 July.

Sir Lawrence is seeing my Secretary of State on Monday 28 July at 11.30 and the Lord Privy Seal that afternoon at 3.00 pm.

... I now attach a brief for the Prime Minister's meeting which has been agreed by other relevant Departments and in particular includes a contribution from the FCO. I am copying this with the enclosures to the Private Secretaries to the Foreign Secretary, Lord Privy Seal and the Secretaries of State for Trade and Energy.

Yours sincerely
Catherine Bell
CATHERINE BELL
Private Secretary

... PS I also attach notes which Sir Lawrence has asked the Prime Minister to see before their meeting. The notes reinforce the political significance which Sir Lawrence sees attached to this project.



BRIEF FOR THE PRIME MINISTER'S MEETING WITH SIR LAWRENCE KADOORIE

BACKGROUND

1. As the Prime Minister is aware Sir Lawrence Kadoorie (SLK) is Chairman of China Light and Power (CLP) the utility supplying electricity to Kowloon and the New Territories of Hong Kong. In 1978 and 1979 he signed contracts with British manufacturers for the supply of a power station and transmission grid worth about £500M at current prices.
2. The Prime Minister's last meeting with SLK was on 13 August, 1979 when the discussion centred on UK/China trade and the prospects of signing major orders with his company. Following that meeting, the PM wrote to SLK reiterating HMG's support for his projects (copy attached).
3. SLK subsequently wrote to the PM on 25 February, 1980 telling her about the Guangdong project (see below) and she replied in general terms on 3 March 1980 (copy attached).

CURRENT POSITION

4. Castle Peak "A" Station

This £500M order comprised 4 x 350 MW boiler and turbo generator units, plus transmission lines. Negotiations were led by the Department of Industry. Progress on this project is overall very satisfactory, and is on schedule for commissioning of the first units in March 1982. The UK can be proud of its achievement on this major project.

Castle Peak "B" Station

A new station on an adjacent site, of 4 x 660 MW sets is under



consideration by CLP and Exxon and is worth about £700M. The Department of Industry are trying to arrange another negotiated contract and believes SLK is inclined to follow this route, but Exxon still remains undecided. A successful conclusion will require the type of commitments by HMG given for the "A" station. On the financial side, the support by ECGD of CLP's further borrowing requirements will involve a greater liability than any previously assumed in any one market. This concentration of risk is currently being considered by Departments in its widest context but no firm commitment of financial support can be given to SLK at this stage.

GUANGDONG PROJECT

5. This is the topic upon which SLK will probably concentrate. Following an agreement to install an electricity link between Kowloon and the Chinese Province of Guangdong the electricity utility (KEC) proposed a joint study with CLP into the feasibility of building a nuclear PWR power station in Guangdong to be financed through the sale of electricity to Hong Kong. CLP in turn, recognising its lack of nuclear expertise, approached HMG for technical support in carrying out the study. Ministers endorsed UK industrial and official involvement including the offer of UK technical support. Secretary of State for Industry wrote to SLK on 8 April, 1980 confirming support for his attempts to establish these links between Hong Kong and the Peoples Republic, and offering UK advice, including that from UKAEA.

6. The joint KEC/CLP studies are progressing very satisfactorily, and a favourable recommendation is anticipated before the end of the year. In parallel with the joint studies, an interdepartmental Whitehall team has been formed to deal with the commercial and potential aspects so as to further the possibility of UK hardware



sales. One aspect for consideration is the need to collaborate probably with the French or Westinghouse, as the UK does not have a total PWR capability. The choice of partner will largely be one for the commercial interests (probably GEC) to decide. There are however wider political and energy policy implications which would need to be considered.

7. A second complication is the need to agree non-proliferation conditions. This will be primarily a matter for the PWR supplier, but we will be involved as probable fuel suppliers and because of our overall position in the project. The Chinese have made it clear that they will not accept international inspection, but we think it likely that they will give acceptable assurances that material and equipment will not be diverted to military use.

8. The Prime Minister will be aware that the New Territories lease expires in 1997. It is too early to expect PRC to give any indication as to what their attitude would be towards a continued British administration in Hong Kong. However, they have already given oral assurances to investors in Hong Kong that they wish the economic status quo to be maintained. SLK believes that a number of substantial projects, including a PWR, would enable the Chinese to point to the benefits of maintaining the status quo. He firmly believes that the PRC, Hong Kong and UK form a 'tripod' where all parts are dependent on the other.

9. The development of projects which strengthen economic interdependence between Guangdong and Hong Kong should tend to contribute to mutual vested interest in Hong Kong's stability and thus should help to maintain business confidence in the territory. A major project such as a nuclear power station could well play an important role in reassuring investors about China's interest in maintaining Hong Kong's status, although it is unlikely that it will in itself provide a solution to the question of the future of Hong



Kong.

10. The project offers considerable commercial opportunities to our power plant industry. With total project costs estimated at US \$ 3500M, UK industry could secure a major share of the hardware, probably about \$ 1,000M. The question of finance is likely to be a key element in the joint venture. SLK may raise with the PM the possibility of UK support, including participation in equity and some responsibility for nuclear disaster liability. A Whitehall Committee is studying all aspects of the project and will be reporting to Ministers in due course.

11. This project is clearly one of great potential and commercial significance. It will need the most careful handling.

LINE TO TAKE

- | | |
|------------------------|---|
| 12. On Castle Peak "A" | Understand good progress is being made. Reaffirm HMG's commitment to ensuring the timely completion of this show-piece project. |
| On Castle Peak "B" | Reaffirm HMG's desire to see a negotiated contract with the UK but give no firm commitment of financial support. |
| On Guangdong | Assure SLK that HMG has very much in mind the long term interests of Hong Kong and of China/Hong Kong/UK relations and is keeping a close watch on developments: express interest in the Guangdong project; promise to consider what role HMG might play in bringing the project to fruition, to the mutual benefit of Hong Kong and the UK, including UK industry. |



331

10 DOWNING STREET

THE PRIME MINISTER

15 August 1979

Dear Sir Lawrence,

I enjoyed our discussion on 13 August and valued your analysis of the prospects for developing the China trade once more.

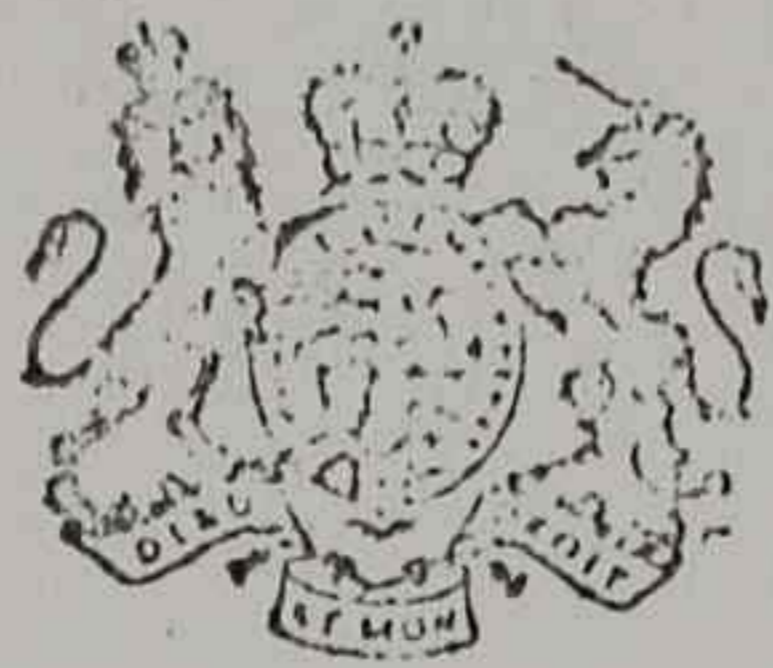
As you emphasised, Hong Kong has a major role as a show place for Western achievements and technology and as a gateway into China. This underlines the need to support large projects by the UK such as those in which China Light and Power are engaged.

As I told you, the British Government will maintain their commitment to support your efforts on the current and succeeding contracts and I hope you will convey this assurance to your KESCO partner, Exxon. The exciting prospects and opportunities which China offers us must be grasped. You have an inside track and I know you will not lose the initiative.

Kind regards,

Yours sincerely
Margaret Thatcher

Sir Lawrence Kadoorie, C.B.E., J.P.



Return to
M. Alexander

10 DOWNING STREET

3 March 1980

Dear Sir Lawrence,

It was a pleasure
to receive your letter of 25th Feb.
containing such good news. We all
owe such a lot to your never-failing
efforts and wonderful foresight.
Not only do they help our trade
but they have far-reaching and
beneficial political effects for the

Julius.

Warm personal regards,

Yours sincerely

Margaret Helton

CALL ON THE PRIME MINISTER BY SIR LAWRENCE KADOORIE : 30 JULY
UK/HONG KONG RELATIONS
POINTS TO MAKE (if raised)

NEW NATIONALITY LAW

1. Have agreed to third category of citizenship for Dependent Territories. There will be an opportunity after publication of White Paper for Hong Kong to comment.

OVERSEAS STUDENTS' FEES

2. We shall be monitoring the effects of the higher fees on student admissions, including those from Hong Kong.

ILLEGAL IMMIGRATION FROM CHINA

3. Concern about continuing high levels. Doing all we can to stem flow and urging Chinese to do same.

VIETNAMESE REFUGEES

4. Impressed by Hong Kong's humanitarian record. Intend to fulfil our commitment to take 10,000 refugees in 1980.

UK/HONG KONG AIR SERVICES

5. Glad that decision to license Cathay Pacific welcomed in Hong Kong.

CALL ON THE PRIME MINISTER BY SIR LAWRENCE KADOORIE : 30 JULY
UK/HONG KONG RELATIONS
ESSENTIAL FACTS

NEW NATIONALITY LAW

1. HMG have agreed to establish a separate category of citizenship for the dependent territories as a whole. The White Paper on a New British Nationality Law, due to be published about the end of July, suggests that the title should be 'Citizenship of the British Dependent Territories', but allows for the possibility of further discussion. Hong Kong, which is in any case unhappy about the abandonment of a unitary system of citizenship, has argued that the term 'British Subject' should be retained. The proposed changes are seen by some in Hong Kong as distancing the territory from the UK.

OVERSEAS STUDENTS' FEES

2. HMG's decision to raise the recommended level of tuition fees for overseas students has roused considerable feeling in Hong Kong, in view of the territory's special relationship with the UK. This is aggravated by the fact that students from the French overseas territories and from Gibraltar are classified as home students. At the close of the Adjournment Debate on this subject in the Commons on 10 July, Mr Rhodes Boyson, Minister of State for Education and Science, undertook to monitor in October 1980 the effect of the higher fees on student admissions, while giving no guarantee that the policy would be changed. He confirmed HMG's readiness to help Hong Kong in the development of its higher education system.

ILLEGAL IMMIGRATION FROM CHINA

3. Levels of illegal immigration have risen in the course of 1980 from an average of about 135 per day in January to over 300 per day in June and July. Present policy is that those who reach base, ie the urban areas of Hong Kong, are not repatriated. There is local pressure to change this.

/VIETNAMESE

VIETNAMESE REFUGEES IN HONG KONG

4. On 21 July there were still 38,721 Vietnamese refugees in Hong Kong. The rate of off-take from Hong Kong is the slowest of all countries of first asylum in the region, due largely to Hong Kong's humanitarian policy, which compares favourably with its South-East Asian neighbours. As a result, many resettlement countries give priority to refugees from elsewhere. The net off-take has been particularly slow in recent weeks due to an increase in the rate of arrivals.

UK/HONG KONG AIR SERVICES

5. Mr Nott's decision announced on 18 June to license all four applicants on the London to Hong Kong route (British Airways, the former sole carrier, British Caledonian, Cathay Pacific and Laker) has been generally welcomed in Hong Kong and has alleviated the resentment caused by the CAA's decision to license only British Caledonian in addition to British Airways. (The Hong Kong Air Transport Licensing Authority had earlier awarded a license to both BCal and Cathay Pacific.)

VISIT BY LORD CARRINGTON TO THE FAR EAST

5. The Secretary of State will be in Hong Kong from 26 to 28 September, as part of a visit to the Far East (China and Japan).
This has not yet been announced.

Foreign and Commonwealth Office

24 July 1980

SIR LAWRENCE KADOORIE CBE

Sir Lawrence Kadoorie was born in 1899 and is a member of the famous Shanghai family. Among many other business interests, he is chairman of the China Light and Power Company, one of the two privately-owned electricity generating companies in Hong Kong (the other is the Hong Kong Electric Company). He is an Anglophile who believes that the UK should seize the opportunities offered by its links with Hong Kong to promote trade with China, which he sees becoming a major world political and economic force. He and his brother, Horace Kadoorie, have for many years provided assistance and relief to farmers in the New Territories through the Kadoorie Agricultural Aid Association. He takes a great interest in jade and is reputed to have one of the finest collections in Hong Kong.



VISIT OF SIR LAWRENCE KADOORIE
MEETING WITH THE PRIME MINISTER ON 30 JULY 1980
SPEAKING NOTES

1) Though it is essential to preface any views expressed on China with the remark that it is extremely difficult to interpret the thinking of the Chinese, I have now come to believe that the Kwangtung Electric Company's (KEC) desire to have a nuclear Power Station built in China may have implications far beyond this primary object.

2) If ping pong diplomacy can bring about a rapprochement between the PRC and the United States, then why cannot a nuclear power station - jointly owned by the British and Hong Kong Governments and the PRC - be a major factor in solving the problem of PRC/British relations over the lease of the New Territories?

3) What has led me to believe that this could actually be the case is a noticeable change of attitude during recent executive committee meetings and, in particular, Mr Shih Chao-Hsiang's insistence that the PRC and KEC would welcome both British and Hong Kong Government participation in the project.

4) I shall not go into detail since I have passed records of all executive committee meetings to the Department of Industry so that the UK Government can give adequate consideration to the reasons which have led to my present conclusions.

5) However, I would particularly mention the close relationship that has developed between Mr W F Stones, CL and P's Chairman of the management committee meetings, and his opposite number, Mr Chen Gang, Deputy Chairman of the KEC, which has promoted unusually free and off-the-record conversations prior to executive committee meetings - also before, during and after management committee meetings.

6) In these conversations, Mr Chen Gang who, though not Chairman, is obviously the PRC's chief representative and the most influential member of the KEC board, has stressed, in the strongest terms, statements made to me by Mr Shih:

- i) That they fully understand that I, as Chairman of the China Light and Power Co Ltd, - which company is based in British administered territory, should be biased towards purchasing British plant and that they no longer consider my neutrality during negotiations to be important.
- ii) That top leaders of the PRC are actively interested in the project and it has been mentioned in conversations with Sir Murray MacLehose, Sir Jack Cater and Sir Philip Haddon-Cave.
- iii) That the KEC would welcome, and hope I will obtain, both UK and Hong Kong Government participation in the project:



Also there have been verbal hints,

- iv) That project of this magnitude on a joint venture basis in which the UK and Hong Kong Governments would participate has political overtones with the PRC.

NOTE:

The following extract from notes on management group meeting NO. 8 held from June 27-30, 1980, is relevant.

"..... He (Mr Chen Gang) would, however, reflect these ideas to the Guangdong provincial Government and the State Council with whom the final decision on the project lay. He mentioned that this project was known to the Chinese leaders including Chairman Hua Kuo Feng, Mr Deng Xiao Ping (Vice Premier), Mr Li Xian Nian (Vice Premier), Mr Hu Yao Bang (Party General Secretary), Mr Zhao Zi Yang (Vice Premier), and Mr Gu Mu (Vice Premier and Head of State Capital Construction Commission) and that he had been at meetings on the project at which more than ten Ministers were present".

7) My impressions, gained by long association with the Chinese, all indicate that the desire to build a nuclear power station on a joint venture basis may now well be part of a 'face saving' exercise to extend the status quo in the relationship between the PRC and Hong Kong even though this may not have been the original intention.

8) When I first had the pleasure of meeting you, I asked your cooperation over a large power station project for Hong Kong - cooperation, freely given, which has resulted in the placing of orders amounting to several hundred million pounds with British manufacturers. Today, my request is for your consideration of a project that has far greater implications. It could be the future of Hong Kong that we are talking about.

9) China's belief that Hong Kong can and does continue to provide an essential element in their four modernizations programme, and that it is very much in their interests to preserve the status quo of Hong Kong for a period beyond 1997, has become of greater importance both to the PRC and, in my opinion, also to the British Government, than the earlier concept of a project for the construction of a nuclear power station in Guangdong to supply electricity to Hong Kong and China.

10) My comments have so far dealt only with the historic and political aspects. It must, however, be obvious that there are very substantial benefits to be gained by UK industry and UK interests.

11) From the point of view of the UK Government, some of these benefits are:

- i) A demonstration of the expertise available through the United Kingdom in the field of nuclear science and technology:



- ii) Early experience with PWR design and operation prior to commissioning the UK's first PWR in the early 1990's:
- iii) A unique opportunity to re-establish Britain's premier position as a China trader by cementing UK/China relations.
- iv) Creation of employment in British industry.

12) To end on a commercial note, it is pleasing that financial studies already submitted to the Department of Industry show the project to be very profitable.



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-2123301
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Secretary of State for Industry

²¹
18 July 1980

Miss Caroline Stephens
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Caroline, ^{ed. 2.17.}

Thank you for your letter of 14 July offering an appointment for Sir Lawrence Kadoorie to see the Prime Minister at 10.15 on Wednesday 30 July. We have now heard from Sir Lawrence who is delighted to accept and I therefore confirm the appointment. A brief will be sent to you in due course.

2 Sir Lawrence has also accepted two other appointments which have been arranged for him on Monday 28 July. He will be seeing the Minister of State for Foreign Affairs (Mr Blaker) at 10.00 on that day, and my Secretary of State at 11.30.

Yours sincerely,
Iain

IAIN P MORRIS
Private Secretary

File

Hong Kong ^{OSC}



10 DOWNING STREET

From the Private Secretary

14 July 1980

B/F28-7-80

Thank you for your letter to Mike Pattison of 9 July about Sir Lawrence Kadoorie's visit to this country at the end of this month. The Prime Minister would very much appreciate a further word with Sir Lawrence and can I please offer him 1015 on Wednesday 30 July? Perhaps you would be kind enough to confirm that this would be convenient and supply us with a full brief to reach this office by close of play on Monday 28 July.

I am sending a copy of this letter to Malcolm Adams (Foreign and Commonwealth Office).

CAROLINE STEPHENS

Iain Morris, Esq.,
Department of Industry.

[Handwritten mark]



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Paul
① *Michael -*
to see

② *Caroline -*
pl arrange

9 July 1980

Mike Pattison Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Pl. Paul Morris

Dear Mike,

Yes

*Shall we arrange
a meeting, even
though you saw him
last August?*

VISIT OF SIR LAWRENCE KADOORIE

I am writing to let you know that Sir Lawrence Kadoorie will be visiting the United Kingdom again for the week beginning 28 July, and he has asked whether it would be possible to see the Prime Minister during that period.

In 1977, Sir Lawrence's company, China Light and Power, placed an order for a new power station with UK firms. Possible contracts for a further two power stations are currently being discussed with him by this Department. One will be situated in Hong Kong, but the other might be on the Chinese side of the border. It would be a major achievement for the UK to secure either contract, and could open the door to further orders in the future in China.

Sir Lawrence met the Prime Minister on a previous visit last August at which the Hong Kong contracts were discussed and he was assured that the new Government was anxious to support his efforts on such projects. A further meeting with him would provide an opportunity for the Prime Minister to hear first hand about general developments particularly in China/Hong Kong relationships and about the power station projects in particular. The Hong Kong and General Department, FCO, have given their support to this request for a meeting.

Yours sincerely,

Iain P. Morris

IAIN P MORRIS
Private Secretary

Hong Kong

NOTE OF A MEETING HELD AT
IN ROOM 11.01 ASHDOWN HOUSE

AM ON WEDNESDAY 30 APRIL 1980

Present:

Secretary of State
Mr Manzie
Mr Benjamin
Mr Havelock

Sir Lawrence Kadoorie

R
K
9/15

1 Sir Lawrence Kadoorie said that he had seen the Secretary of State for Trade the previous day. He also thanked the Secretary of State for his letter of late April, promising to provide the specialists needed for the Guangdong Power Station feasibility study. Sir Lawrence said that the involvement of China Light and Power (CLP) in the Guangdong project had arisen through their contacts with an American firm of nuclear consultants. The firm had decided that the US market in this field was saturated and had explored the possibility of entering the Chinese market, but he had been told that the Chinese Government would only deal with them if CLP were involved. The idea was that CLP would take half the output of the power station to be built in Guangdong Province and, thereby, the project would earn sufficient foreign exchange to pay for itself. The main reason for the project seemed to be prestige rather than economics. In his view a coal fired station would probably proved to be more economic.

2 CLP had decided that it was better for them to be involved in the feasibility study and that there was a 40% chance that the power station would eventually be built. If the UK could get in on the first stage then it would have the opportunity to write the specification which would give it an advantage but contracts for plant would, of course, have to be awarded on a competitive basis. The study group was very fortunate in having Dr Walter Marshall of the AEA to help it. In fact, the Chinese felt they could trust the UK to carry out an impartial study because they had no PWR of their own. The idea would be for CLP to run the power station for the first 15 years, until the outstanding loan had been paid off, thus giving investors confidence, whilst training the Chinese eventually to take over.

3 Sir Lawrence went on to discuss the difficult situation arising out of the CAA's refusal of a licence to Cathay Pacific to operate the London-Hong Kong route. The Guangdong project had the strength of standing on three legs: the UK, China and Hong Kong all had a genuine interest. If therefore, Cathay Pacific could be put on the same sort of footing he believed that there would be much more of an incentive for

/the ...

the UK to grant them a route. In other words, he suggested that the Chinese Government might take a stake in Cathay Pacific and that the airline could use its three new Boeing 747's to operate a service between Peking, Hong Kong and London. He had told the Secretary of State for Trade about this.

4 The Secretary of State concluded by saying that he was more than ever impressed by Sir Lawrence's vitality and fertility of ideas. He asked whether there was anything else that he ought to do. Sir Lawrence replied that there was nothing at the present time, he just wanted access to the Secretary of State if things should go wrong. In his view it was more important that he should keep in touch with the Department because unless the Guangdong project had the expertise of the Government behind it the UK would not get the business. He said that the study group had another meeting with the Guangdong provincial authorities on 26 May. He also said that he wanted to impress on the Secretary of State the depth of feeling in Hong Kong about Cathay Pacific, although stressing that he had no interest in the company. He also asked the Secretary of State to pass on to the Prime Minister his best wishes.

Peter Stredder.

PETER STREDDER
PS/Secretary of State for Industry
Rm 11.01 Ashdown Ext 3301

7 May 1980

Circulation:

PS/Ministers
PS/Secretary
Mr Manzie
Mr Bullock
Mr Benjamin
Mr Clark
Mr Havelock
Mr Mathrani

PS/Prime Minister
PS/SoS for Foreign and
Commonwealth Affairs
PS/SoS for Trade

1 2 3 4 5 6 7 8 9 10 11 12
MAY 1980

9 MAY 1980

CONFIDENTIAL

01 211 6402

Sir Keith Joseph
Secretary of State
for Industry
Ashdown House
123 Victoria Street
LONDON SW1

China
NRPA
Rus
14 March 1980

See Keith

GUANGDONG NUCLEAR POWER STATION, PEOPLE'S REPUBLIC OF CHINA

In your letter to Peter Carrington of 18 February, you sought agreement to the UK continuing a close involvement with the Guangdong nuclear power project in the hope of obtaining power plant orders worth up to £380 million.

I was aware at the time of Chairman Hua's visit last October that the UK nuclear and power plant industries had been exploring the possibility of Guangdong purchasing a nuclear power station and that the latter had expressed interest in both the Magnox and the PWR. The officials' paper enclosed with your letter shows however that there is now a clear preference for the PWR. For this reason and others mentioned in the paper, there can be no certainty that the UK will secure orders for even part of the project, since we shall be dependent on a satisfactory collaboration with a PWR supplier country. Nevertheless, given the potential value of the work to the UK, I share your view that we should continue our efforts at both industrial and official level to obtain for this country as much of the business as possible.

I agree with the recommended line set out in the paper, subject to the following points being taken into account:

(a) Non-proliferation assurances: the wording of paragraph 13(a) should be understood as meaning that we would in due course need assurances from the Chinese on physical protection arrangements and retransfers; also that any equipment or materials supplied from the UK would not be diverted to a military use.

(b) UK technical support: I would have no objection to the UK offering its experience and advice on nuclear technology and safety aspects, providing such assistance can be made available without affecting the level of effort required to fulfil the UK's own nuclear programme;

(c) nuclear collaboration: Care must be taken to ensure that Governmental exploratory moves towards collaboration with China do not go far until we have some assurance that satisfactory collaboration on the industrial level is also possible.

I am sending copies of this letter to the Prime Minister, Peter Carrington, John Nott, and Sir Robert Armstrong.

Yours ever

Daws

D A R HOWELL



CONFIDENTIAL

China

NBA

Phu

FCS/80/58

SECRETARY OF STATE FOR INDUSTRY

Guandong Nuclear Power Station: People's Republic of China

I agree that the project referred to in your letter of 18 February is worth pursuing along the lines suggested by officials. I am generally content with the recommendations on the handling of the safeguards issue, but we shall want to look carefully at the instructions to HM Ambassador at Peking arising out of paragraph 13 of the detailed note. The Indians will be worried if we sell a reactor to China without the usual IAEA safeguards which we know the Chinese would not accept, but at this stage we can meet any Indian concern with the response that we have not even started serious discussions with the Chinese on the non-proliferation aspects. We should in any case seek to encourage the Chinese to take a more active interest on proliferation questions, particularly in Asia.

It is clearly for the government rather than industry to discuss non-proliferation questions with the Chinese. As regards ensuring that our interests are taken into account in the commercial negotiations, it is important that China Light and Power (CLP) and the Chinese accept that this must be done (especially if we think we are contributing financially). But I think we should be flexible over how it should be done, and prepared to take account of the views both of the CLP and the Chinese on the nature of the proposed project, which could make overt British Government participation difficult. I agree that a Ministerial meeting is probably unnecessary.

I am copying this minute to the recipients of yours.

C

(CARRINGTON)

Foreign and Commonwealth Office

14 March 1980

CONFIDENTIAL

14 MAR 1980





China

From the Secretary of State

The Rt Hon Sir Keith Joseph Bt MP
 Secretary of State for Industry
 Department of Industry
 Ashdown House
 123 Victoria Street
 London, SW1E 6RB

12 March 1980

CF These should be copies of the PAs recent
 exchange of letters with Sir L. Kadoorie on
 this file.

Am 12/3

Dear Keith

GUANGDONG NUCLEAR POWER STATION, PEOPLE'S REPUBLIC OF CHINA

Thank you for copying to me your letter of 18 February to the
 Foreign Secretary.

While I have no illusions about the difficulties of securing such
 a project for the UK, I agree that it is worth pursuing along the
 lines suggested in the paper by officials. Success would be
 valuable both for the direct business it would bring and, perhaps
 more importantly, as a valuable demonstration of the UK's capacity
 for project management and major contracting work.

I am, of course, sensitive to the non-proliferation issue. But
 I would not wish the UK to lose the contract to a competitor because
 of the relative stringency of our terms. I hope therefore that
 in the final analysis we would not insist on stronger terms than
 those already indicated by the French.

I am copying this letter to the Prime Minister, Lord Carrington,
 David Howell and Sir Robert Armstrong.

Yours ever
 John

PS. I spoke at length to Kadoorie about this
 project recently. I will report to you orally on what he said.

JOHN NOTT

12 MAR 1980



Hong Kong

file

ELL



10 DOWNING STREET

From the Private Secretary

3 March 1980

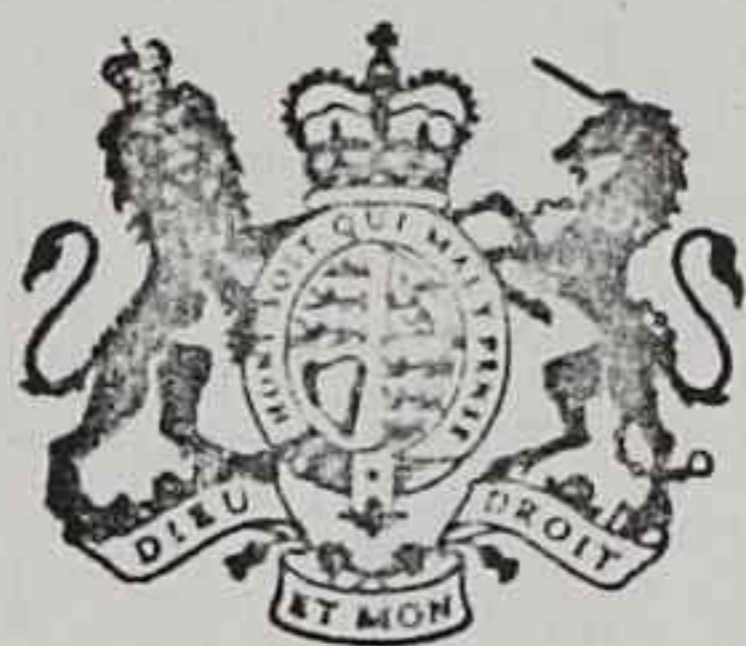
I enclose copies of an exchange of correspondence between the Prime Minister and Sir Lawrence Kadoorie about the developing contacts between the China Light and Power distribution system and the Kwangtung Electricity Company. I understand from Sir Lawrence's letter that you are already fully in the picture about this.

I am sending a copy of this letter and its enclosures to Roderic Lyne (Foreign and Commonwealth Office).

M. O'D. B. ALEXANDER

Ian K C Ellison Esq
Department of Industry

WHB



Return to
M. Alexander

10 DOWNING STREET

3 March 1980

Dear Sir Lawrence,

It was a pleasure to receive your letter of 25th Feb. containing such good news. We all owe such a lot to your never-failing efforts and wonderful foresight. Not only do they help our trade but they have far-reaching and beneficial political effects for the

future.

Warm personal regards.

Yours sincerely

Margaret Kettle

Cables: "Kadoorie" Hong Kong
Telephone: 5-249221
Telex: 73427



St. George's Building
Hong Kong

February 25, 1980

(2)

The Rt. Hon. Mrs. Margaret Thatcher, M. P.
Prime Minister
10 Downing Street
London SW1
ENGLAND

Prime Minister

I shall ask the Dept. of ~~Industry~~ ^{Industry}

for a draft acc.

Back to me after receipt
of PM's letter.

Paul

Dear Prime Minister,

I take the liberty of writing this letter, first to convey my best wishes, secondly to inform you of an interesting sequel to the recent contracts which, largely due to your assistance, we have been able to place with suppliers of British plant and material for our new Power Stations in Hong Kong.

Interconnection between the China Light & Power distribution system and the Guangdong network, official visits to our generating stations, and our offer to train Kwangtung Electricity Company staff on similar equipment have been the catalyst in initiating a 'great leap forward' in Sino-British relations.

The KEC, with the full approval of the Peking authorities, have approached us with a view to forming a joint venture to investigate the feasibility of constructing and operating a nuclear power station and this we have agreed to do.

Their proposal, coming at a time when the UK is studying the full implications of pressure water reactor technology on an international basis, is of particular interest.

It means that CL&P, given the necessary support, can open the door to the UK to provide China with the expertise and advice they require to build their first nuclear power station - a matter of face and considerable importance when one considers the enormous potential for the supply of generating plant required by China to further their Modernisation Programme.

(2)/.....

cc China, May 79, Sino-British Relations

*St. George's Building
Hong Kong*

(2)

February 25, 1980

Meetings held so far with the senior officials of the KEC have been satisfactory and have engendered a climate of goodwill and mutual confidence, the implications of which are a good augury for Hong Kong. Minutes of these meetings are sent to the UK Department of Industry and to the Hong Kong Government so that they may be kept fully posted.

In conclusion may I, on the occasion of this Chinese New Year, say 'Kung Hei Fat Choy'. May it be a year of peace and happiness for us all.

Sincerely yours,

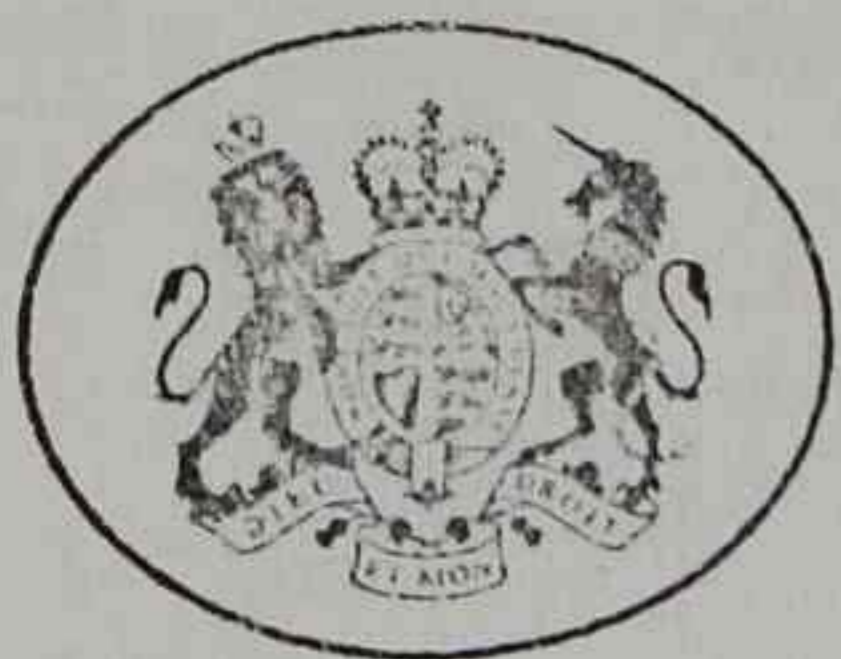


Lawrence Kadoorie

LK/mw



29 FEB 1980



Secretary of State for Industry

China

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

18 February 1980

The Rt Hon the Lord Carrington KCMG MC
Secretary of State for
Foreign and Commonwealth Affairs
HM Diplomatic Service Foreign and
Commonwealth Office
Downing Street
London SW1A 2AL

NBPA yet

1 hour 15/2

Dear Peter,

GUANGDONG NUCLEAR POWER-STATION, PEOPLE'S REPUBLIC OF CHINA

On 25 October last year at the time of Chairman Hua's visit, I informed you and colleagues of possible UK involvement in the construction of a nuclear power-station in the Chinese Province of Guangdong. Under the proposal a joint venture for the construction and operation of the station would be established between Guangdong Electricity Company and the China Light and Power Company of Hong Kong (CLP), with Hong Kong taking about half of the station's output.

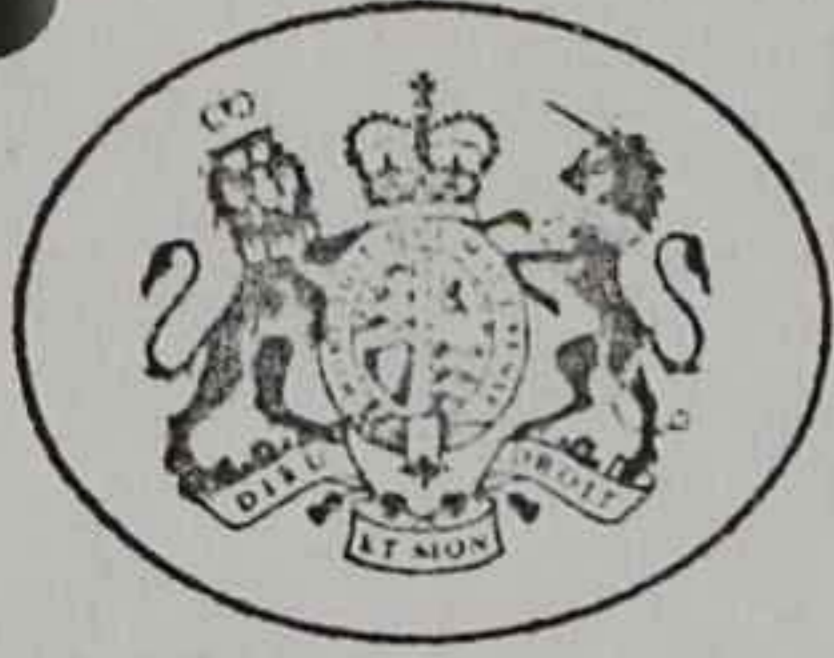
Since then officials have been reviewing developments, keeping closely in touch with both CLP and the Hong Kong authorities.

... The attached report, which reflects the views of UK Departments as well as the Hong Kong authorities, proposes that the UK should continue its close involvement in the project and recommends a line to take with the Chinese on the issue of nuclear safeguards.

Although there must be some uncertainty as to whether the project will even receive assent from Peking, it offers the potential for £380m worth of export business to our power-plant manufacturers in a situation where the Hong Kong connection should be an important asset. I consider it is, therefore, worth pursuing along the lines set out in the report by officials, provided you are content with the recommendations on how the issue of nuclear safeguards should be handled.

If you agree the line proposed, I doubt if a Ministerial meeting is necessary.

/I ...



I am copying this letter and the report to the Prime Minister, John Nott, David Howell, and Sir Robert Armstrong.

Leam

Kew



GUANGDONG NUCLEAR POWER PROJECT

PURPOSE OF PAPER

1 The Secretary of State for Industry informed the Prime Minister and Ministerial colleagues on 25 October 1979 of talks between the Southern China Province of Guangdong and the UK nuclear and power plant industries about the possible sale of a nuclear power station to China. This paper which has been agreed between the Departments concerned (DOI, FCO, DOT and DEh):-

- (a) outlines progress since then in discussions with the Guangdong Provincial Authorities;
- (b) draws the attention of Ministers to the principal issues of foreign and industrial policy that are involved; and
- (c) seeks Ministerial endorsement of the UK's continued involvement in the project and approval of the line to take with the Chinese on the issue of nuclear safeguards.

BACKGROUND

2 Guangdong Province, with its rate of growth spurred by its being adjacent to Hong Kong, foresees a substantial growth in electricity demand. It is considering the possibility of constructing a nuclear PWR station, initially of 1400MW, the cost of which would be offset largely by the sale of electricity to Hong Kong; this is clearly a key factor in the Chinese decision to consider a project of such magnitude. The value of the imported hardware might be some \$465m at current prices with a potential UK manufacturing element of about 80% as we do not yet have the ability to supply a PWR nuclear steam supply system, the heart of the nuclear island.

3 Earlier talks between the Chinese and the UK nuclear and power plant industries have recently been followed up by discussions between KEC (the Guangdong Electricity Company) and China Light and Power (CLP) whose Chairman is Sir Lawrence Macdonie.



4 There are at present two main reasons why the deal may not materialise. Firstly, Peking, who would have the final decision on a project of this importance, may eventually decide not to proceed at all with a venture which is currently being pursued at the initiative of Guangdong. Peking's current attitude is one of caution, although they are willing to look at the results of a feasibility study. Secondly, there can be no certainty that the Hong Kong connexion will ensure the level of benefit to UK industry indicated above: the Chinese could award the whole of the contract to one of our competitors, and the French have been particularly active. Consideration of the issues involved should take account of these possibilities.

5 The major issues which need to be considered are those of nuclear proliferation and foreign policy; the relationship between China and Hong Kong; and industrial policy including nuclear co-operation with countries who are potential suppliers of FWR nuclear steam supply systems.

NUCLEAR PROLIFERATION AND FOREIGN POLICY CONSIDERATIONS

6 Successful negotiation of the contract would reflect the importance of, and potential for, commercial co-operation between China, the UK and Hong Kong; and increase China's interest in Hong Kong's stability and prosperity. It is, however, apparent that the Chinese will not take commercial discussions much further until they have a firm indication of the non-proliferation terms and conditions we will seek. They have stated that they will not accept inspection of the nuclear installation and the French have already assured the Chinese that they would require no more than an undertaking not to divert from civil to military purposes any nuclear materials and equipment supplied.

7 In looking at the problem, we must consider:-

- (a) our long-term policy towards the Chinese on this issue; and
- (b) short-term tactical considerations



The Longer Term

8 There is no requirement under the Non-Proliferation Treaty (NPT) for Nuclear Weapons States (NWS) to accept safeguards on their civil nuclear facilities; nor any obligation on a supplier country to insist on an NWS accepting safeguards, although for a number of reasons we should not ask for less in the way of assurances than have the French. The acquisition of a PWR is however unlikely to add to China's already extensive weapons capability.

9 On the other hand there are wider foreign policy considerations and in particular the possible effect on India of any sale of an un-safeguarded nuclear reactor to China. The security concerns of China, India and Pakistan interlock. India remains deeply suspicious of China's military intentions and is not reconciled to China's status as a NWS. A hostile reaction can therefore be expected from India to the sale of an unsafeguarded nuclear reactor to China whatever the logic of the case. This would be likely to make even more difficult the task of winning Indian acceptance of international non-proliferation arrangements including safeguards on all her own programmes. But, since the French have already agreed to supply nuclear equipment to China on the basis described above, for us to insist on stiffer terms would merely jeopardise the prime commercial objective without reducing the risk that India will cite Western nuclear sales to China to justify an unhelpful attitude on her part.

10 Criticism can also be expected from the USSR. In normal circumstances they would be unlikely to press very hard but in the present situation they can be expected to take every opportunity of seeking to gain advantage with the Indians and extending their influence in the sub-Continent.

11 It should also be a UK objective to seek to draw the Chinese into wider international discussion of nuclear trade and non-proliferation in particular by encouraging China to join the IAEA. The Guangdong nuclear project perhaps provides us with an opportunity to do this.



Tactical Considerations

12 It will be several years before any contract is drawn up and ten years before any fuel has to be supplied. The UK therefore does not have to give any formal assurances at this time. It would in any case be for the country supplying the PWR nuclear island to have the prime responsibility for negotiating the non-proliferation conditions. This is unlikely to be the UK. On the other hand we need to give the Chinese some indication of our likely position now.

Action with the Chinese

13 We propose doing this by instructing HMA Peking to speak to the Chinese on the following lines, which takes into account the various considerations above:

- a) to indicate the assurances which we should definitely need; to take explicit note of China's position about inspection and to leave them with a fairly clear impression that we would not seek inspection without indicating that position formally at this stage - formal negotiations should come later when the commercial position is clearer;
- b) to explore the possibility of China playing a further role in international efforts to contain proliferation, including voluntary acceptance of safeguards.

HONG KONG CONSIDERATIONS

14 Hong Kong is already to some extent reliant on China for a proportion of its needs, notably food and water. A joint venture between organisations in Hong Kong and Guangdong on the supply of electricity would further co-operation between Hong Kong and the Southern China provinces which is important to China in the context of their modernisation programme. An advantage to the UK is that it would increase Chinese interest in maintaining the status quo in Hong Kong, helping to bolster business confidence in the territory and counter any uncertainty about Hong Kong's future arising from



the theoretical expiry of the lease on the New Territories in 1997.

15 The Hong Kong Government would be content to accept a proportion of their electricity supply from Guangdong, provided they do not become excessively dependent on China for such a vital resource. They are conducting a study to determine what proportion they could safely take. They also see some advantage in broadening the fuel base from which their electricity is produced. They are thus in principle sympathetic to the concept of a nuclear power station established in China on a joint venture basis supplying electricity to the territory, provided discussions do not end up by straining rather than improving political relations through uncertainty on the non-proliferation aspects.

16 The Hong Kong Government would require satisfactory agreements to be reached on security of electricity supply, tariff structure and safety and environmental issues. Electricity supply in Hong Kong is entirely in the hands of the private sector. The Hong Kong Government consider that they can adequately safeguard the interests of Hong Kong and also minimise any possible risk to Hong Kong/Guangdong relations by continuing to allow negotiations to be carried out by China Light and Power without direct Government involvement. Similarly, while they would like to see British equipment, they would prefer to leave the pursuit of this objective to China Light and Power. They are however keeping in close touch with China Light and Power about the negotiations.

UK INVOLVEMENT

17 CLP and KEC have established an executive Working Group with four sub-committees to investigate and report on: the method of joint development and financial analysis; site investigation and selection; the selection of nuclear reactors, turbo-generators and consultants; and the design, development and operation of the power system. Ministers need to consider whether we should leave such discussions to CLP or seek to provide technical support and even direct representation.



Technical Support to Hong Kong Government and CLP

18 Although CLP has over the past two years placed with the UK power plant and transmission industry orders worth about £500m and we have confidence in Sir Lawrence Kadoorie's efforts to secure a major UK hardware content in the station, issues such as nuclear safety could not be left entirely to the CLP team. Neither CLP nor the Hong Kong Government have any experience in nuclear technology and safety aspects.

19 It is therefore desirable for the UK to offer technical support to CLP and to the Hong Kong Government. The Nuclear Power Company have been engaged in parallel discussions with the Chinese. Their expertise and that of UKAEA, CEGB and Nuclear Installations Inspectorate could all be made available.

DIRECT REPRESENTATION

20 UK industry has recently secured about £500m worth of power plant orders from CLP and hopes with continued Government involvement and support to secure orders for at least a further £250m for a development of a Castle Peak 'B' power station with at least 2 x 660 MW units. The Guangdong nuclear station might possibly be substituted for a second 2 x 660 MW stage of the Castle Peak 'B' station - worth a further £200m. We thus want to be in a position to ensure that should the second stage of Castle Peak not proceed, UK manufacturers gain as recompense as much of the manufacturing content of the PWR station as possible.

21 Although the UK does not have much leverage and the Hong Kong connection is our major card, the fact that the Chinese have decided not to proceed with two power plant projects previously "earmarked" for the UK might at some stage be invoked to further UK participation in the Guangdong project as compensation. We would also wish to ensure that any CLP commitments would not prejudice the servicing of their existing debts to the UK. Keeping in touch with the negotiations and participating as and when necessary especially on the Executive Working Group would certainly be a way of looking after our interests. We have, as part of the



facilities available under the Overseas Projects Fund, offered CLP part of the cost of a feasibility study, the total cost of which would be shared with the Chinese. If accepted, this would secure UK participation on the Working Group.

NUCLEAR COLLABORATION

22 In the earlier discussions between NPC and the Guangdong authorities the latter expressed a preference for a Magnox reactor. There is now however a clear Chinese preference for a FWR. Four countries have the necessary FWR capability: Japan, America, Federal Republic of Germany and France. China has suggested she might seek direct offers from the last three countries and the UK. While the UK can supply about 30% of the hardware value of such a station, it does not currently have the capability to supply the nuclear steam supply system - the heart of the nuclear island - and it will therefore be necessary for the UK to enter a joint venture with another country but preferably maintaining the lead on the project.

23 Owing to the greater restrictions applying to direct exports of the Westinghouse FWR compared with sales by foreign licensees, the USA conditions of supply would probably be unacceptable to the Chinese; they could however, change with developments in the latest international situation. The French, on the other hand, have already established themselves as a potential FWR supplier to the Chinese and they are most likely to be the preferred choice. Moreover, the French have shown recent interest in collaborating with the UK on the FWR. The FGR is a possible partner and so in theory is Japan though the Chinese have shown no interest in the latter.



CONCLUSIONS

24 In spite of the difficulties of securing a major UK manufacturing involvement in a proposed PWR station in Guangdong, the project offers the potential for £380m worth of export business to the power plant industry and on that basis alone is worth pursuing. Although the UK's negotiating position is not particularly strong, the Hong Kong connection should appear of importance to the Chinese who have to satisfy both the Hong Kong Government and CLP before the project can proceed. Although there are limits to the willingness of the Hong Kong Government to press the argument for UK manufacturing involvement, CLP and its chairman Sir Lawrence Kadoorie are favourably disposed towards UK equipment and open to general influence on UK involvement. The UK might also exert direct political leverage at an appropriate stage in Peking where the final decisions on this project will be taken.

25 Though CLP are currently ill-equipped to proceed on feasibility studies into nuclear matters, the UK has technical support, particularly that of NPC, which should be made available to both CLP and the Hong Kong Government. Direct HMG involvement may from time to time also prove necessary to safeguard the UK's industrial and financial interests. In terms of foreign and nuclear policy there is no compelling reason for safeguards on any nuclear equipment or material we may sell to China. We should indicate our position to the Chinese, but in view of our concern about India we should stop short of a formal commitment not to seek inspection. We should explore the scope for drawing them more fully into international efforts to contain nuclear weapons proliferation.

RECOMMENDATIONS

26 We accordingly recommend that:

1. Ministers should endorse continuing UK industrial and official involvements in the nuclear project as set out in the paper.
2. Ministers should agree the UK's position on non-



proliferation assurances given in paragraph 13
above.

Department of Industry
15 February 1980



19 FEB 1980

Cables: "Kadoorie" Hong Kong
Telephone: 5-249221
Telex: 73427



Hong Kong
St. George's Building
Hong Kong

Geneva. 27/8/79. P4.9

H. S. Kadoorie 4/5

PPS

Dear Prime Minister,

Many thanks for your letter of 15th August received on our return from Salsburg.

I am sure it will prove most useful at this critical stage of KESCO's negotiations for the purchase of further British turbines.

Your personal assurance will do much to strengthen my hand in forthcoming discussions and is very sincerely appreciated.

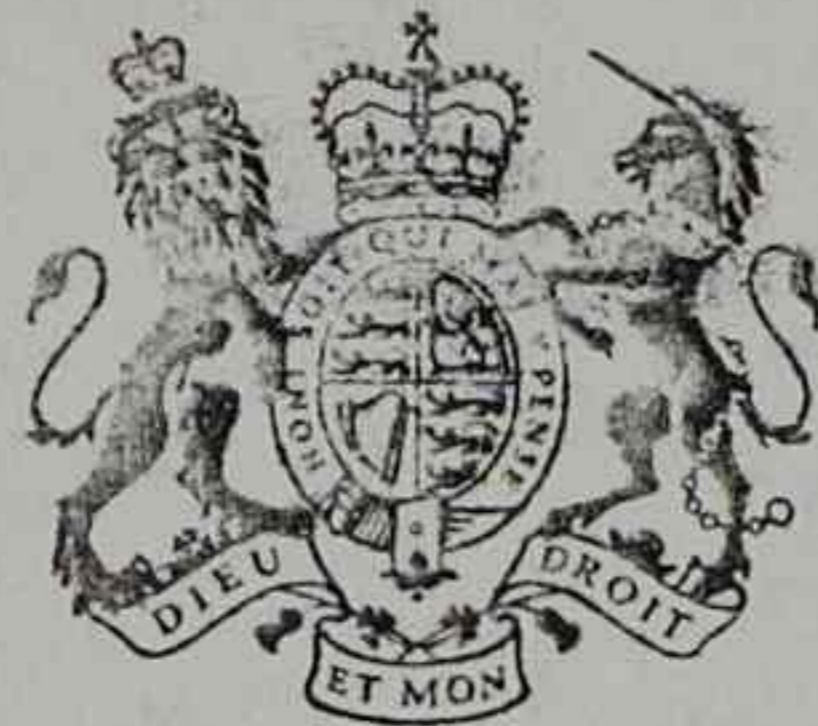
I hope you enjoyed a well-deserved rest during your brief holiday in Scotland.

With best wishes,

Sincerely Yours,

L. Kadoorie

Lawrence Kadoorie.



10 DOWNING STREET

From the Private Secretary

15 August 1979

SIR LAWRENCE KADOORIE

Thank you for your letter of 14 August, with which you enclosed the draft of a letter which the Prime Minister might send to Sir Lawrence Kadoorie, as agreed during her meeting with him on 13 August, for use as he sees fit during his forthcoming discussions in the United States with Exxon, CLP's partner in KESCO.

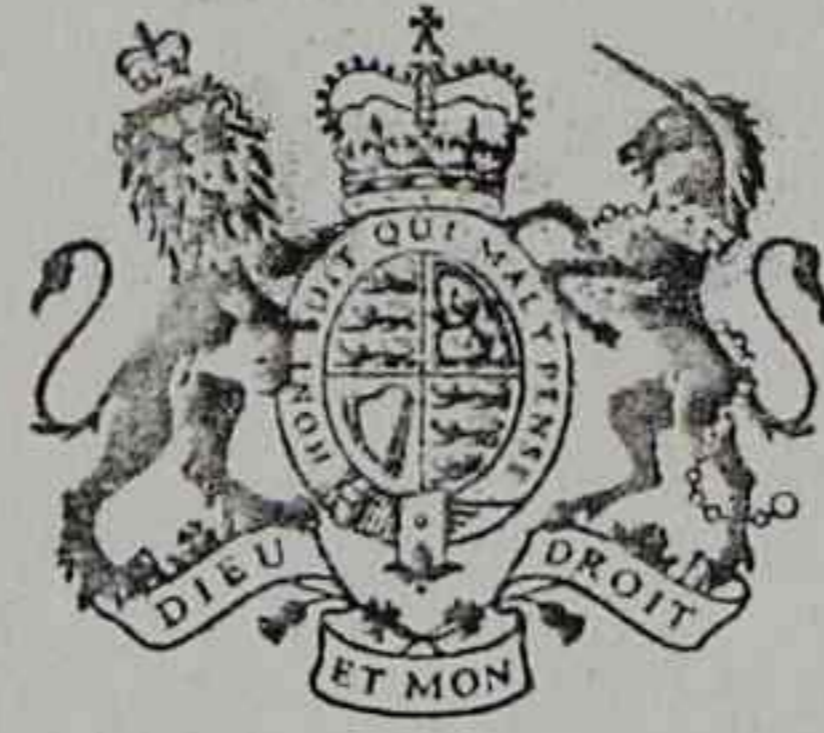
The Prime Minister has made a few minor amendments to the draft. I now enclose the signed original of her letter to Sir Lawrence and would be grateful if you could arrange for this to be delivered to him in Geneva (Sir Lawrence indicated to me that your Department would have a note of his whereabouts); it is, of course, important that the letter should reach Sir Lawrence before he departs for New York.

I am sending a copy of this letter and enclosure to Stephen Wall (FCO).

B. G. CARTLEDGE

Peter Mason, Esq.,
Department of Industry.

GB



10 DOWNING STREET

THE PRIME MINISTER

15 August 1979

I enjoyed our discussion on 13 August, and valued your analysis of the prospects for developing the China trade once more.

As you emphasised, Hong Kong has a major role as a show place for Western achievements and technology and as a gateway into China. This underlines the need to support large projects by the UK such as those in which China Light and Power are engaged.

As I told you, the British Government will maintain their commitment to support your efforts on the current and succeeding contracts and I hope you will convey this assurance to your KESCO partner, Exxon. The exciting prospects and opportunities which China offers us must be grasped. You have an inside track and I know you will not lose the initiative.

(signed) M.T.

Sir Lawrence Kadoorie, C.B.E., J.P.

289



3

10 DOWNING STREET

Prime Minister

Sh. Meera
Date
return to
Sh. Meera

You agreed to
send Sir Lawrence
Kadoorie a letter of
support. If you
are content with
his draft, I shall
arrange for it to be
delivered to him
in Geneva. Yrs
19/2

500



Hong Kong

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

PS / Secretary of State for Industry

14 August 1979

Draft approved.

P.A.

*John
13/8*

B G Cartledge Esq
Private Secretary to the Prime Minister
10 Downing Street
London SW1

Dear Bryan

Further to our telephone conversation yesterday, I attach a draft letter for the Prime Minister to send to Sir Lawrence Kadoorie which should meet, we think, the purposes which Sir Lawrence and the Prime Minister had in mind.

I am copying this letter to Stephen Wall.

Yours sincerely

Peter Mason

PETER MASON
Private Secretary



DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO SIR LAWRENCE
KADOORIE

^{enjoyed}
I thought our discussion on Monday 13 August was most useful. ^{and}
^{valued your analysis of the prospects for developing}
^{the China trade even more.}
As you emphasised, Hong Kong has a major role as a show place
for Western ^{achievements} developments and technology and ^{as} a gateway into China.
This ^{underscores} emphasises the need to support large projects by the UK
such as the ^{ones in which} ~~ones~~ that involve China Light and Power ^{as an example.}

As I told you,

^{British Government maintain}

^{their} So, as I have said before, the Department of Industry will continue
its commitment to support your efforts on the current and succeeding
contracts and I hope you will convey this assurance to your KESCO
partner, Exxon. The exciting prospects and opportunities which
China offers us ^{must} ~~need~~ to be grasped. You have an inside track and
I ^{know} ~~am~~ sure you will not lose the initiative.



14 AUG 1979

Faint, illegible text, likely bleed-through from the reverse side of the page.

CONFIDENTIAL

Cc Master VCS

FILE

BF



cc FCO

10 DOWNING STREET

From the Private Secretary

14 August 1979

Dear Peter,

Sir Lawrence Kadoorie

Thank you for sending me, with your letter of 9 August, briefing for the Prime Minister's meeting with Sir Lawrence Kadoorie yesterday. Sir Lawrence duly called at No. 10 at 1545; the following is a summary of the main points which arose during half an hour's discussion.

China's Trading Policy

Sir Lawrence Kadoorie told the Prime Minister that the economic situation in China had undergone a significant change in recent months. He himself had always discounted the euphoria which had accompanied China's re-entry on to the international stage and the inflated expectations of a trade bonanza. He had believed that the Chinese would soon take a realistic view of their trading capacities and so it had proved. The Chinese knew very well that they could only import what they could pay for; and, given China's shortage of foreign exchange, this meant that they could only buy from the West about as much as the West was willing to buy from China. China Light and Power had now established a sound base for the development of Hong Kong's trade with China, by reaching an agreement with the Chinese Government on the sale of electric power. Competition for the China trade was, however, intensifying, as a natural consequence of a more realistic appreciation of the size of the market.

On the political situation in China, Sir Lawrence Kadoorie said that Deng Xiaoping seemed to have strengthened his position with the appointment of three of his supporters from the younger generation of the Chinese leadership to Ministerial posts.

KESCO and GEC/Babcock

Sir Lawrence Kadoorie recalled that China Light and Power had so far placed orders with UK suppliers totalling £300 million, all by negotiated contract. A further major order, by CLP in partnership with Exxon, amounting to £100 million, was now under consideration. Sir Lawrence said that he wished to

/ negotiate

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- 2 -

negotiate this contract on the same basis as its predecessor but he had to persuade both Exxon, who in the aftermath of the Lockheed scandal were chary of negotiated contracts, and his shareholders and consumers, that there was a genuine case for negotiation rather than tender. Problems were already arising as a consequence of rumours in Hong Kong that CLP's main competitor had purchased equipment similar to that involved in the £300 million contract at a price 40 per cent lower than that negotiated with GEC. His answer to CLP's critics was that the contract had involved much more than hardware. He would, however, need more ammunition than this, not least with his Exxon partners. Sir Lawrence said that he would therefore welcome a clear expression of the British Government's backing for the new £100 million contract, which he could deploy during his forthcoming visit to the United States to meet both the Chairman of Exxon, in New York, and the executives of the company directly concerned with the contract, in Houston. The Prime Minister said that she would be very glad to help Sir Lawrence Kadoorie in this way; she would arrange for a letter to be drafted, in suitable terms, for her signature, which could be sent to Sir Lawrence in Geneva before his departure for the United States.

(When I spoke to you on the telephone yesterday evening, you kindly agreed to arrange for this letter to be drafted in time to reach me by 1700 this evening, so that the Prime Minister can sign it before her departure for Scotland tomorrow.)

Sir Lawrence Kadoorie also indicated to the Prime Minister that, in order to justify a negotiated contract, some improvement on the price would be necessary. He did not mention a figure but told me, after he had taken leave of the Prime Minister, that he thought it essential to secure a reduction of £5 million in the price at present quoted for GEC/Babcock's generating units.

Sir Lawrence Kadoorie left with the Prime Minister the speaking note which he had prepared for their discussion; I enclose a copy.

Refugees

Sir Lawrence Kadoorie told the Prime Minister that the flow of illegal immigrants across the border from mainland China had now ceased. Hong Kong's schools and hospitals, however, were already heavily overburdened by the combination of immigrants from the mainland and refugees from Vietnam. Sir Lawrence commented that the Vietnamese refugees were more adaptable and much better workers than the Chinese immigrants.

I am sending a copy of this letter and enclosure to Stephen Wall (FCO).

*Yours sincerely,
Peter Mason*

Peter Mason, Esq.,
Department of Industry.

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

PS/ Secretary of State for Industry

9 August 1979

Bryan Cartledge Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW 1

Prime Minister

*BM
10/4*

Dear Bryan

SIR LAWRENCE KADOORIE

... As requested by your letter of 20 July, I attach a brief for the Prime Minister's meeting with Sir Lawrence Kadoorie on Monday 13 August, together with an interesting article by Sir Lawrence which well illustrates his philosophy.

We suggest the meeting might cover two related topics:

- 1 Trade with China and the role of Hong Kong
- 2 The power projects currently being undertaken by Sir Lawrence's company, China Light and Power, in which UK companies are major suppliers.

... The Prime Minister will remember that Sir Lawrence wrote to her on 14 May 1979 congratulating her on the election result and that she replied on 11 June. I attach copies of the exchange.

Sir Lawrence will no doubt be looking for the continued goodwill of the new administration since both he and his partners Exxon see the Government's support and commitment as vital to the success of the projects. Negotiations for further orders are currently taking place and the Government's stance is therefore particularly sensitive at this time.

The Department intends to continue to support the efforts of UK industry to win the new orders and will monitor progress on any contracts that are awarded to see that the industry performs satisfactorily. The Prime Minister might therefore like to take the opportunity to reiterate the assurance she gave in her letter of 11 June that "I know the Department of Industry will continue their efforts in relation to the current and succeeding contracts", which was repeated by my Secretary of State when he saw Sir Lawrence on 1 August.

I am copying this letter to Stephen Wall(FCO).

*Yours sincerely
Peter Mason*

PETER MASON
Private Secretary



BRIEF FOR PRIME MINISTER'S MEETING WITH SIR LAWRENCE KADOORIE

BACKGROUND

1 Sir Lawrence Kadoorie is a remarkable octogenarian who is thought to be one of the world's richest men. An Anglophile and a great China watcher, he views Hong Kong as the "free zone of China under British management", as the great meeting-point of East and West and the most important show-place and entry route into China for UK industry.

2 He is a grand strategist and his philosophy is well summarised in the attached recent article. He sees China becoming a major world political and economic force with the UK uniquely able to influence developments and thinking and take advantage of future growth through its position in the Crown colony of Hong Kong. Success in Hong Kong on major projects such as the Mass Transit and the Castle Peak power station thus has a far wider significance and in his view justifies the wholehearted commitment by all parties including the UK Government.

CHINA AND HONG KONG

3 We generally agree with Sir Lawrence's assessment of the potential advantages which Hong Kong's position offers to the UK, in particular because of the importance which China attaches to finding export outlets for her domestic production. We have accordingly been doing what we can to encourage British companies to make the most of links with Hong Kong as an opening into China.

4 The main conclusions of the current reappraisal within China involving renewed emphasis on the importance of generating export earnings, eg through joint ventures and counter trade, will increase the scope for Hong Kong's business community to contribute. We will continue to encourage British companies to make the most of the unique opportunities offered by Hong Kong's position to develop a three-way industrial and trading partnership.

5 The relationship between China and Hong Kong was personally strengthened earlier this year when the China Light and Power Co successfully established a power link across the border. CLP now supplies a modest but consistent amount of electricity to neighbouring Kwantung Province and Chinese technicians are being and will be trained on UK equipment at CLP's main power station.

Vietnamese Refugees in Hong Kong

6 Since the Geneva conference in July, the numbers of Vietnamese boat refugees arriving in Hong Kong have fallen considerably: less than 500 arrived in the first week of August. The British Government played an important role in achieving this improvement, by calling for the Geneva conference and by bringing international pressure to bear on the Vietnamese Government to modify their policies. The refugee problem however continues to be an acute one for Hong Kong, with over 66,000 refugees still in the territory. The British decision to accept a further 10,000 Vietnamese refugees from Hong Kong



was greatly welcomed there. We are continuing our efforts to persuade other recipient countries to take more refugees from the territory.

Immigration from China

7 In the first five months of 1979, 36,000 illegal immigrants were detained while attempting to enter Hong Kong from China, and were repatriated. A combination of diplomatic representations by the British Government to the Chinese authorities, and increased border vigilance (made possible by reinforcements from the UK) has succeeded in bringing the influx down to manageable proportions since the end of June: fewer than 300 were repatriated in the first week of August. The Chinese Government have also responded to requests to reduce the rate of arrival of legal immigrants, though the numbers are still higher than we would wish. We are continuing to monitor the numbers and shall renew our representations to the Chinese Government if the totals do not continue to fall to an acceptable level.

THE UK AND CHINA LIGHT AND POWER

8 In 1977 Sir Lawrence approached HMG for a negotiated contract for the supply of equipment for a new power station at Castle Peak in the New Territories of Hong Kong. Having had experience of GEC equipment but with limited management resources available to CLP against a short time-scale within which to build a new power station, Sir Lawrence wished to take advantage of all the facilities the UK could offer rather than go to competitive international tender. The UK power plant industry was unlikely to have been unsuccessful had this tender procedure been adopted because the Japanese would probably have used the project as a "loss leader" to establish themselves in CLP on the doorstep of China.

9 Equally however the UK industry by itself lacked the capability to put together a total package of the type Sir Lawrence was after. The Department of Industry therefore put together a "UK Ltd" package bringing together expertise in civil design, turbines, boiler and associated manufacturing expertise from the UK industry, the financial expertise of the merchant banking community backed by ECGD and the unique expertise of the nationalised supply industry, CEGB, through its international consultancy arm, British Electricity International.

10 The UK Government presence was, and continues to be vital in persuading CLP's partner, Esso Eastern, to accept a negotiated contract. The business ethics of Exxon - the parent company of Esso Eastern - would in the era of post-Lockheed scandal require an open international tender rather than a closed negotiated contract. The involvement of the UK Government however is seen as ensuring the probity of the deal, ensuring fair and honest conditions and price are adhered to, as well as providing a degree of leverage and monitoring of the project's progress which would not otherwise be available to external buyers. The joint Exxon-CLP holding company, known as KESCO, was promised DoI involvement and support by the previous Administration.

CONTRACTS NEGOTIATED

11 As a result of the package approach KESCO signed a contract in March 1978 worth approximately £120m with GEC Turbine Generators with Babcock & Wilcox as



the major sub-contractor. Under the contract the UK industry will supply two 350 MW generating sets with dual fired boilers and associated equipment for the new KESCO station at Castle Peak.

12 Secondly, Balfour Beatty (part of the BICC Group) was awarded a contract in March 1979 worth about £100m for the design, supply and erection of a 400 KV transmission system to distribute power from Castle Peak station through the New Territories.

13 Thirdly GEC Gas Turbines Ltd have recently secured an order for two gas turbines for Castle Peak with an option on two further machines (value about £20m)

14 Finally negotiations have just begun for two more 350 MW generating sets and associated equipment for Castle Peak for installation in 1984 and 1985. A negotiating team has recently returned from Hong Kong and we believe that success should be achieved by around the end of this year. The decision rests very largely with Sir Lawrence Kadoorie and his Exxon partners and the continued good-will of the Government is seen as vital by all parties. The value of the potential contracts is about £75m.

15 Since all the prices quoted above are at 1977 levels, the total value of orders placed with UK industry or at present under negotiation totals at current day prices at least £400m. Such orders have been of great value to a sector of the UK manufacturing industry which has faced substantial difficulties, as the CPRS report of 1976 noted.

Hong Kong: Sir Lawrence Kadoorie Interviews Himself

Sir Lawrence Kadoorie, partner in Sir Elly Kadoorie & Sons, chairman of Sir Elly Kadoorie Containment Ltd., and chairman of China Light & Power Co., is one of the architects of the modern Hong Kong economy. He is frequently sought out by visiting businessmen, diplomats and scholars for his advice on the future of Hong Kong and its relations with China. Recently, *The Asian Wall Street Journal* asked Sir Lawrence to interview himself on the questions most often raised. What follows is a transcript of that interview.

Q: You are a citizen of Hong Kong and an old China hand. I have often heard you say, "Hong Kong's foundations stand on three legs."

A: What exactly do you mean by this?

A: There are three factors requisite to Hong Kong's continued existence. They are:

- I) Hong Kong's relations with China and Guangdong (Kwangtung) province in particular;
- II) Hong Kong's relations with the United Kingdom; and
- III) Hong Kong's ability to meet the requirements of and provide employment for a younger, better-educated and more sophisticated generation.

This city state is somewhat of an anachronism. Logically it should not exist as a political entity but illogically, the international need for the services it renders is essential to the future relationship between East and West.

Q: Can you elaborate?

A: To understand the Hong Kong of today, and the importance of continued strong and friendly ties to China, one must look into the past. In Britain's view the 29 square miles of Hong Kong was ceded to it in perpetuity by China in the Treaty of Nanjing in 1842. A further 3 1/2 square miles of the Kowloon peninsula on the mainland was also ceded as a colony in the Convention of Peking in 1860. In 1898 an additional 365 square miles of the mainland and some 230 odd contiguous islands constituting the New Territories were leased by China to the United Kingdom for a period of 99 years.

Thus, according to the British, the UK owns the island of Hong Kong and the Kowloon peninsula while China owns the remainder of the Colony but will not exercise effective sovereignty over it until the New Territories lease expires on July 1, 1997.

In China's view, the status of this city state is quite different. The agreements under which the island and the peninsula were ceded to the British were unequal treaties extorted by force from a weakened China incapable of defending its territory.

Q: Has this ever been made clear by China?

A: China's position was strongly stated in the United Nations in March 1972 when Huang Hua, then China's Permanent Representative to the United Nations (but presently Minister for Foreign Affairs) wrote a letter to the General Assembly's Special Committee on Granting of Independence to Colonial Countries and People, in which he stated categorically:

Hong Kong and Macau are part of Chinese territory occupied by the British and Portuguese authorities. The settlement of the Questions of Hong Kong and Macau is entirely within China's sovereign right and does not at all fall under the ordinary category of "Colonial Territories..." The United Nations has no right to discuss these questions.

For the above reasons, the Chinese delegation is opposed to including Hong Kong and Macau in the list of Colonial Territories covered by the Declaration and requests that the erroneous wording that Hong Kong and Macau fall under the category of so-called "Colonial Territories" be immediately removed from the documents of the Special Committee and all other United Nations documents.

In a recent interview with French journalists, Assistant Foreign Minister Song Zhiqiang in answering questions on Hong Kong and Macau said "A solution to these problems will come later. There are still 18 more years before the Hong Kong lease expires. We have 18 years to settle the problem and we are not hurried. The British government is attending to the matter. Not long ago, the governor of Hong Kong visited China. We told him Hong Kong was a part of Chinese territory and at the expiration of the lease we would settle the problem in an adequate manner." He added that investors meanwhile need not worry: they won't ever lose their money.

Q: How do you regard the Hong Kong of today?

A: For all intents and purposes, Hong Kong has become the free zone of China under British management. It is a neutral point of contact between East and West. It enables China to regulate the flow of expertise required to fuel its Four Modernizations program.

Q: What is China's Four Modernizations program?

A: At the Fifth Meeting of the National People's Congress held in Peking in March 1978 the main topic was to make China a modern and powerful socialist country before the end of this century.

Chairman Hua Guofeng (Hua Kuo-feng) outlined the "Four Modernizations," an ambitious 18-year economic program involving agriculture, industry, science and technology, and defense.

In announcing the plans for a big leap in China's production, he said that the task set in the plan and the envisaged development "are gigantic, but the job can be done."

Q: What was the effect of his announcement on Hong Kong?

A: The immediate effect was to bring many people to our shores. Looking back but a short while we can see that when China opened its door a crack it was flooded by Western governments and entrepreneurial businessmen all of whom wished to take advantage of this potentially enormous market.

Unlimited credits were offered and projects of astronomical magnitude were discussed as if they could be brought to fruition within a short space of time.

Now the euphoria has passed, China is beginning to take a realistic view. The effects of an overdose of Western contact are being assessed and the discipline necessary to maintain order is being strengthened.

Indirectly the advent of many financial institutions and other conglomerates opening offices in Hong Kong resulted in a shortage of office space and residential accommodation and added to the severe inflation caused by too much money being spent too rapidly.

Q: How do you regard China's decision to review its Four Modernizations program?

A: Chairman Hua Guofeng's decision to review the Four Modernizations indicated a much greater degree of uncertainty and disorder in the Chinese economy than had previously been believed.

At the opening session of the National People's Congress, Vice Premier Li Xian-nian (Li Hsien-nien) attributed this to the disharmony in industrial investments which, he said, had seriously affected the economy. He went so far as to say that at least one hundred million people are not having sufficient to eat.

Chairman Hua painted a grey picture of the current situation, with agriculture unable to meet the demands of a growing population and industry turning out insufficient and poor-quality goods of a limited variety.

He advocated a system of clearly defined job responsibility and the principle of "to each according to his work," and he indicated that the time had come for serious efforts to be made to modernize China and give its people the higher living standards they deserved.

As a result, emphasis has been placed on a readjustment program designed to improve labor production. Industrial enterprises that have been inefficient or have incurred losses will be reorganized or closed down.

There is a growing realization that the Chinese economic adjustment reflects the basically pragmatic and constructive approach of her leadership toward financial management.

Q: How will this affect Hong Kong?

A: This change of attitude has added to Hong Kong's importance in regard to the economy of China.

Here, we realized from the beginning that the immediate attainment of the goal set by the Four Modernizations was completely unrealistic. China did not have unlimited foreign exchange and development would be limited to the country's ability to pay for what it purchased.

China wishes to earn as much hard currency as possible from Hong Kong and to take advantage of this city state's facilities for trade, investment and modern technology.

In this context, Hong Kong's ability to remain as a major source of foreign exchange earnings to China continues to be basic and in all likelihood its most important contribution.

As Hong Kong gradually becomes integrated commercially with neighboring Guangdong province, the growth of local industries may slow down. But the merging of interests will strengthen the link with China, thus increasing the security of this city state as the free zone of China under British management.

This is not one-way traffic. China's recent purchases and its development of land in Hong Kong create additional investor confidence emphasizing this point of view.

Q: How will China's rethinking affect its Western contacts?

A: Senior Chinese ministers have admitted that they have been overambitious in their plans to buy major industrial projects from abroad. In consequence, vast development projects, such as a steel mill and other facilities worth US\$10 billion to be supplied by Japan, and two nuclear power plants in Shanghai to be provided by France, have been delayed. This seems to be setting a general pattern.

Plans for developing heavy industry, which originally was selected as the engine of maximum modernization, have been cut down to a more realistic size. Agriculture and light industry will now enjoy greater importance in development planning. Successful modernization of China's agriculture and industry, however, hinges on political stability and that remains the great uncertainty in the nation's future.

Practical considerations are still foremost in Chinese thinking. Thus, foreign companies can no longer claim that they will develop a complete oil field or steelworks. Instead, they must work slowly through the initial stages, handing over to the Chinese a mass of their expertise in an initially low-priced but costly design study in the hope that this will earn them favorable treatment later when important contracts are awarded.

Q: How do you measure China's ability to pay?

A: From its change of attitude it has become clear that China realizes the dangers of over-extension and of endeavoring to proceed too rapidly with the modernization program which, up to now, has been alien to its population.

Chinese Vice-Premier and Economic Spokesman, Yu Qiuli, reportedly went out of his way to stress that the Chinese were "very sensitive to the importance of maintaining credit-worthiness." Mr. Yu also said that China would take on only those financial obligations it could meet punctually in its modernization scheme.

China intends to cut her coat according to the cloth and the measure of that cloth will be barter and compensatory deals.

Q: How do you view compensatory deals?

A: There is nothing new in barter or compensatory deals. Much of the trade involving Eastern European and developing countries takes place without any exchange of money.

The following are but a few examples:

- 1) PepsiCo Inc.'s agreement to sell cola concentrate and some expertise to the Soviet Union and, in exchange, to buy vodka which the American company sells through its own distributor in the U.S.;
- 2) Ford Motor's deal to exchange \$6 million worth of cars for an equivalent value of sheepskins from Uruguay;
- 3) Cadbury Schweppes' purchase of Bulgarian tinned fruit and vegetables under a license agreement to make soft drinks in that country.

It is estimated that about 400 compensatory trade agreements are being negotiated with the Chinese. Most are concentrated in the Southern provinces of Guangdong and Fujian (Fukien) and around Shanghai.

Q: Insofar as Hong Kong is concerned, how do you assess Hong Kong's relations with Guangdong province?

A: Progress so far, while moderate in terms of achievement, has been considerable if measured in terms of past performance. Since the change in China's policy, a far better relationship has existed between Hong Kong and the Guangdong authorities.

There is now a through train service between Kowloon and Canton, a daily air service between the two cities, operated by the Civil Aviation Administration of China, a hovercraft service operated by the Hong Kong-based Hong Kong & Yau-mat Ferry Co.) from Hong Kong to Whampoa (the port of Canton), and it is reported that a 200 km. four-lane highway is to link Kowloon with Canton by 1982. In addition a regular supply of electricity from China Light & Power Co. to the Guangdong Electric Co. was successfully negotiated and connected early this year. Last but not least, Sir Murray MacLehose received an invitation to visit Peking in his official capacity as Governor of Hong Kong.

Q: Do you think that the (Hong Kong) government is doing enough to meet the needs of Hong Kong's population?

A: Well, now you are referring to the "Third Leg" which is, of course, of particular importance to Hong Kong's younger generation. In no place in the world has the government done so much to improve the lot of its people. This does not mean that we are living in Utopia far from it. However, what has been achieved in the post-war period is remarkable.

From a devastated colony said to have been the most looted city in the world, Hong Kong has risen like a phoenix from the ashes to become a prosperous industrial center boasting of no unemployment and that with a population of over five million people. What is more, Hong Kong continues to fill its traditional role, providing asylum for hundreds of thousands of refugees, the majority of whom will have to be absorbed into our economy.

Q: How would you assess the import of Sir Murray's visit to Peking?

A: Sir Murray's visit to China strengthens the "Second Leg." It climaxed a period of steadily improving relations between Hong Kong and China extending over the previous 12 months. The significance of this invitation to His Excellency in his official position as "Governor of Hong Kong" should not be overlooked as it indicates consent to Hong Kong's status by the Chinese.

Every honor was accorded Sir Murray (as a representative of Hong Kong's government) and it is of note that the usual propaganda speeches were dispensed with. Instead, discussions were concentrated on the mutual needs of Hong Kong and China - the contributions that Hong Kong could make to China's modernization policies, the importance of maintaining investments and confidence in Hong Kong and increased investment in China. In discussing the future, the Governor was asked by Senior Vice-Premier Deng Xiaoping (Teng Hsiao-ping) to tell investors in Hong Kong "to put their hearts at ease."

What is so often forgotten is the magnitude of China and that its people represent one-quarter of the world's population. Today that mass enjoys a bicycle economy which cannot be converted into the Rolls Royce economy of Hong Kong overnight. The Chinese understand that the benefits derived from Western expertise can only thrive in an atmosphere as yet foreign to their people as a whole.

The reservoir of Western knowledge is here but by mutual agreement, its flow into China will be regulated by what the country can digest.

Q: Can you elaborate on Hong Kong's junction?

A: We are a neutral point of contact, a fluid flywheel taking up the stresses between East and West. Here, China can condone a standard of living that is far beyond anything it can achieve within the next few years.

Within its borders, China cannot allow discriminatory practices that could disrupt the discipline that forms the base of its success. Yet its leaders realize that the shop window and service station offered to them by Hong Kong is of considerable value to their progress.

Euphoria is not called for, rather an understanding of the facts, such as we see them, common sense and a willingness to take calculated risks.

Q: How important is Hong Kong to the United Kingdom?

A: Britain enjoys a unique position in this part of the world. As manager of China's free zone in this area, it controls an important gateway to that country. And it is in a position to provide facilities that are invaluable, particularly at this time.

Of all Western powers, the UK is best placed to assist through joint ventures and a merging of industrial development that will be to mutual benefit and add to the security of Hong Kong's special status.

There is no doubt that China intends to use to the fullest advantage the facilities and expertise of the West that are concentrated in this area.

British business interest in China has emerged very strongly over the last two years. British bank credits worth HK\$5.64 billion (\$1.2 billion) announced in December 1978 to finance the smaller trade contracts with China at low interest rates are the first of their kind from a Western country. Appreciation of Hong Kong as the base from which to conduct commercial relations with Peking has increased accordingly.

Perhaps the most spectacular of the past year's financial arrangements has been the conclusion of a three-cornered deal involving Great Britain, Hong Kong and China. Under its terms the British will sell mining equipment to China. The Chinese will mine coal, which they will then sell to China Light & Power Co. The coal will be used to power a new facility (purchased from British suppliers) that China Light is building, at a cost of HK\$1.8 billion, to generate electricity. The surplus of that facility's output will be sold to power-starved Canton.

Hong Kong has had and will continue to have an important role to play in cementing the United Kingdom's relations with China.

Q: How do you see the future of China, and in particular the future in Hong Kong?

A: There are essentially two possible courses of development for China that would determine Hong Kong's future status:

- 1) that China will continue for the remainder of the century to be united under a politically strong and economically effective government;
- 2) that, as repeatedly in the past, the tendencies toward provincial and local autonomy will reassert themselves while the central administration would be too weakened by partisan rivalries and economic difficulties to enforce its authority.

No one can predict the future with any degree of certainty but China's history is based on 2000 years of culture, and tradition dies hard.

Respect for learning, the happy teacher-student relationship, the relaxed discipline of youth, honor shown to the older generation and the healthy, smiling faces of the children noticeable throughout the country, all augur well for the future.

If Mr. Deng is able to hold the country to its present course over the next five years, I feel confident the impetus created will be such as to enable China's modernization program to continue under its own momentum.

Should his efforts fail and China be split into warring factions, this great country will lose its international relationships, its prestige as a member of the atomic club of nations and its credibility as a world power.

I cannot see this happening. I believe China's Four Modernizations program has a 70% chance of success.

Q: How do you justify your faith in the future?

A: Whatever the interpretation placed on China's relationship with this city state - whether it is a special area in China or a special area of China - makes little difference.

A milestone in the development of Hong Kong's education system was achieved in 1978 with the introduction of nine years free schooling for every child. In September of the same year tuition fees were abolished for all Form 1-3 secondary school pupils occupying places in the public sector. This abolition of fees will cost the government an estimated HK\$39.1 million in the 1978-79 financial year and the cost is likely to rise to HK\$73.3 million in 1982-3. It is intended to make junior secondary education not only universal and free in the public sector, but also compulsory.

Post secondary education is available at 4 technical institutes, 3 colleges of education, 3 teacher training colleges, a teachers training technical college, 2 universities and a polytechnic. It should be noted too that with the purchase of the latest in modern machinery we are importing expertise as yet unknown in this area. As a consequence, our universities, polytechnic and other technical schools, both public and private, are providing training at correspondingly more sophisticated and specialized levels.

Of particular note is China Light & Power's complete power station simulator which, like similar training facilities, will provide the opportunity for Hong Kong's younger generation - and those of our neighbors - to attain higher positions in the increasing industrial development.

The government and numerous voluntary agencies provide a wealth of recreational opportunities both within the urban area and in the countryside.

Parallel with the development of these recreational facilities and programs there has been a rapid development of Hong Kong's cultural scene. The Hong Kong Arts Festival has now become a major event, not only on the Asian cultural calendar, but throughout the world, where it now ranks among the leading festivals of its kind.

Unfortunately, the recent invasion of legal and illegal immigrants from over the border will inevitably reduce a standard of living which the Hong Kong government has been doing its best to improve. There will be more children in already over-crowded schools and more hospital beds in already over-crowded wards.

In addition to this we have the added burden of the Vietnamese refugees - arriving at the rate of about one thousand a day. What is happening in Vietnam is a tragedy of major proportions. We are hopeful that the conscience of the Vietnamese government will be touched and that they will stop this frightful traffic in human misery. But, in the meantime, the government and the country find it necessary to land and house the off-loaded refugees in camps and detention areas, and factory buildings.

If the Vietnamese government continues with its present plan to export a million ethnic Chinese, we can only hope that help from overseas, particularly from the wealthy Western nations, plus Hong Kong's well-known resilience, will prevent this problem from becoming one of major proportions for Hong Kong.

Q: How do you justify your faith in the future?

A: Whatever the interpretation placed on China's relationship with this city state - whether it is a special area in China or a special area of China - makes little difference.

With a population of approximately five million Chinese and a minority of some 40,000 non-Chinese, Hong Kong's unique value as a neutral point of contact between East and West, its integrating effect and the fact that it does, and will continue, to perform functions which China itself cannot perform for ideological or other reasons, leads me to believe that the future holds a real possibility of merging interests to mutual benefit.

Hong Kong's relationship both with the United Kingdom and with China has never been better, and Hong Kong's efforts to better the lot of its younger generation has taken priority in the eyes of the government and the community.

The three legs supporting Hong Kong stand firm. They are built on a foundation of self-interest and cooperation to mutual advantage and there is no reason to believe that this will not continue. Today our decisions must be based on realism and taking calculated risks.

The Hong Kong of tomorrow will offer our children as much challenge as the Hong Kong of today offers us and as much opportunity as the Hong Kong of yesterday offered our parents. Those who can stay the course will be well rewarded.

NOTES FOR A MEETING WITH MRS. MARGARET THATCHER,
PRIME MINISTER, ON 13TH AUGUST, 1979, IN LONDON

- 1) KESCO, a company owned as to 60% by Exxon and 40% by China Light & Power Company, is negotiating, through the Department of Industry, a package deal with GEC/Babcock for the purchase of two additional generating units (Nos. 3 and 4) and ancillaries to be installed in the Company's new power station at Tap Shek Kok, Kowloon, Hong Kong.
- 2) The value of this order exceeds £100 million.
- 3) As Chairman of a public utility, it is almost impossible for me to place an order on a negotiated basis unless I am able to state at the Company's Annual General Meeting that the purchase price has been certified by a neutral party to be competitive.
- 4) Fortunately, so far this condition has been fulfilled and in less than two years the China Light & Power Company has been able to negotiate orders for over £300 million with British suppliers.
- 5) I believe some progress is being made in the present round of negotiations between KESCO and GEC/Babcock, but the problem still remains, and, as in the case of Units 1 and 2, assistance from Government is absolutely necessary to ensure the competitiveness of the British package.
- 6) When last we met you were kind enough to assure me of your personal interest in this project.
- 7) My request, today, goes far beyond any attempt to squeeze the last penny out of our suppliers. What is at stake may well be the future of Sino-British trade. Our decision to negotiate the original contract with the U.K. Government and the fact that we were able to utilise the expertise available in Britain's nationalised industries virtually opened China's doors to British industry. The outcome of the present negotiations for the next two turbines are of vital importance in keeping that door open. Carefully handled, I believe the U.K. can regain its former position as the leading trader in the China market.
- 8) What I am asking for, in the long-term interests of Hong Kong and the U.K., is confidence in the future, some vision and imagination, the ability to take calculated risks, and an understanding that China, with a quarter of the world's population, is destined in the next century to become the world's most influential nation.



Other points:

China Light & Power has demonstrated to British suppliers that they must be prepared to design to the requirements of the overseas (China) market, and has provided an invaluable showcase for their equipment.

RE I V E D I N

12 J U N 1979

SECRETARY OF STATE
FOR INDUSTRY'S OFFICE



10 DOWNING STREET

Foreign Office

THE PRIME MINISTER

11 June 1979

Thank you for your letter of 14 May and your personal congratulations.

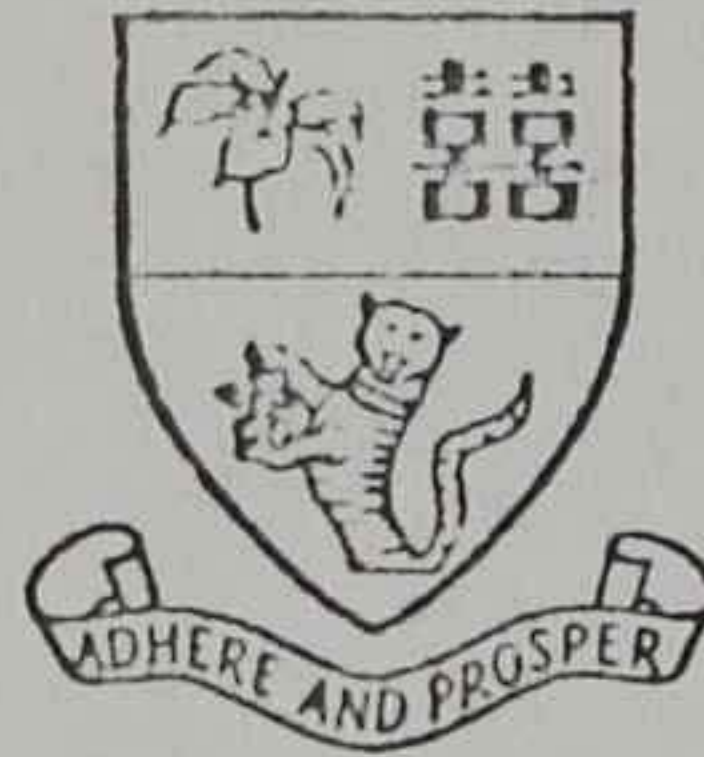
I do indeed recall our meeting last August and I am pleased that you have subsequently placed such substantial orders with this country. I hope we may see British industry increasingly successful in trade with Hong Kong and I know that the Department of Industry will continue their efforts in relation to the current and succeeding contracts.

The personal commitment you have made to Sino-British relations is one which is well recognised and I am delighted to have achieved the important breakthrough in supplying electricity to China. We obviously would like to see Sino-British trade flourish and are grateful for the assistance you are giving in this respect. I look forward to a further discussion with you perhaps when you next visit the United Kingdom.

(signed) M.T.

Sir Lawrence Kadoorie, CBE, JP.

Cables: "Kadoorie" Hong Kong
Telephone: 5-249221
Telex: 73427



St. George's Building
Hong Kong

May 14, 1979

The Rt. Hon. Mrs. Margaret Thatcher, M.P.
Prime Minister
10 Downing Street
London S. W. 1
ENGLAND

Dear Prime Minister,

My sincere congratulations to you on your success in the recent General Election.

Perhaps you may recall our interview last August during which I mentioned that we had been able to open the door to a new era of British Trade with China. In retrospect it is pleasing to note that, since then, our Company alone has placed orders in the United Kingdom amounting to almost £400 Million and that further projects of equal magnitude are now under consideration.

We are most appreciative of the co-ordinating role played by your Department of Industry which was essential to the successful negotiation of these contracts.

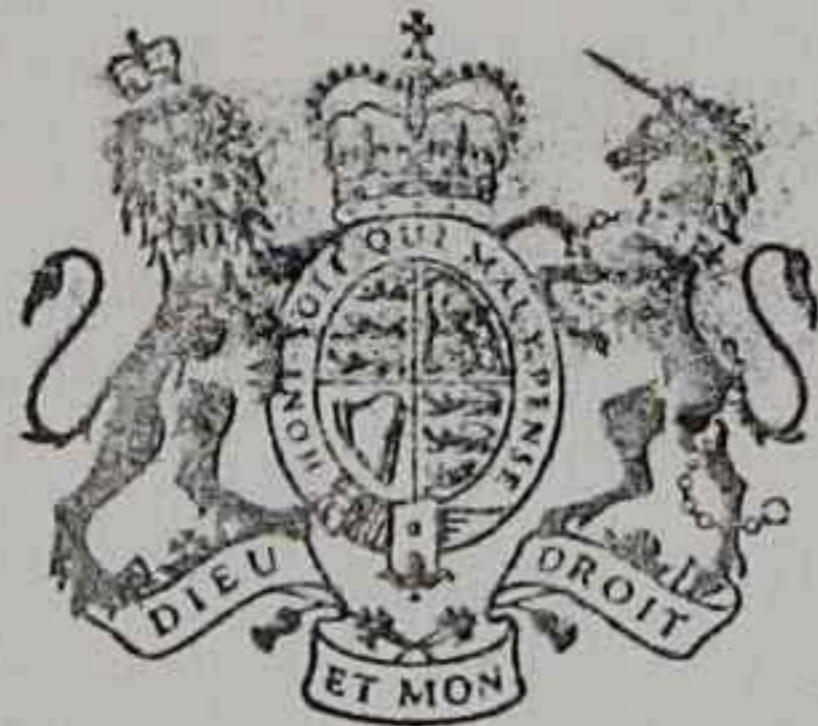
It is of good augury that last month when, after years of effort, I succeeded in achieving interconnection of our Power supply with that of Kwangtung Province, the Chinese Authorities assured me of their complete co-operation.

I am indeed happy to know that we can rely on your continued personal interest which I believe to be vital to the success of Sino-British relations.

With all good wishes,

Yours sincerely,

Lawrence Kadoorie



10 DOWNING STREET

From the Private Secretary

20 July 1979

~~BF 9/8/79~~

Sir Lawrence Kadoorie

Thank you for your letter of 13 July, letting me know that Sir Lawrence Kadoorie had offered to re-arrange his programme in August in order to be in London at a time when the Prime Minister might be able to receive him.

The Prime Minister has seen your letter and would be very glad if Sir Lawrence were able to call on her at No.10 on Monday, 13 August at 1545. I should be grateful if you would arrange for Sir Lawrence to be informed and if you would confirm as soon as possible that he will be able to call at the time suggested.

I should also be grateful if briefing for the Prime Minister's talk with Sir Lawrence Kadoorie could reach me by 1700 on Thursday, 9 August.

I am sending a copy of this letter to Stephen Wall (Foreign and Commonwealth Office).

B. G. CARTLEDGE

Andrew Duguid, Esq.,
Department of Industry.

QB

x 2760

PRIME MINISTER

Mr Carewedge |
How about August
13 at 15.45-16.15.
No 10.
ef. 18/7.

Sir Lawrence Kadoorie

Sir Lawrence Kadoorie originally intended to visit London during the first week of August, partly in order to call on you. He has been told that you will be in Lusaka at that time, and has accordingly changed his plans in order to make himself available while you are in London.

Sir Lawrence is, as you know, a very key figure in our trade with Hong Kong, especially in the field of power generation, and the Department of Industry consider that continuing contact with him at the highest level is essential if we are to win still further major contracts from the China Light and Power Company.

Could you agree to see Sir Lawrence on Wednesday, 29 August, at 1130?

But *couldn't I do it before I go away -*
Yes not. *holding?*

18 July, 1979.



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/Secretary of State for Industry

13 July 1979

Bryan Cartledge Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW 1

Dear Bryan,

You wrote to me on 5 July in reply to my letter of the 4th, explaining that the Prime Minister was unable to see Sir Lawrence Kadoorie during the period he proposed, since this coincided with the Commonwealth Heads of Government Meeting in Lusaka. As you requested we passed on this message to Sir Lawrence in Hong Kong, with the Prime Minister's hope that a meeting might be possible next time.

Sir Lawrence has responded by saying that he would very much like to see the Prime Minister later in the Summer, and that he will make himself available for this purpose any time between 30 July and 4 September, excepting 21-26 August inclusive.

Sir Lawrence's particular reason for wishing to see the Prime Minister during this period is that he is thereafter in the Autumn visiting New York and Houston for important discussions with Exxon. Exxon and Sir Lawrence Kadoorie's company, China Light and Power, are together, through a joint company (KESCO), purchasing the first two units of the new Castle Peak power station in Hong Kong from the UK through the special package led by this Department.

KESCO is now opening negotiations in Hong Kong on the UK offer for the third and fourth Units, of value to the UK £75 million; and it is already clear that Exxon are particularly emphatic about the need for the UK Government's continued interest in the project. If Sir Lawrence were unable to see the Prime Minister before going, he would feel vulnerable on this point in the States.

Officials from this Department can confirm from first-hand experience the strength of Exxon's opinions in this matter. It is our view that if Sir Lawrence were not to see the Prime Minister this might be interpreted by Exxon, however unreasonably, as a diminution of the Government's interest in the project, and could harm the UK's prospects of winning the next two units.

4
/We ...



We hope the Prime Minister can therefore meet Sir Lawrence during this extended period; we should again notify Sir Lawrence directly.

My Secretary of State will himself be seeing Sir Lawrence on 1 August, after which full briefing would be provided.

Yours sincerely,

Andrew

ANDREW DUGUID
Private Secretary

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17 JUL 1978

FILE

VUB

Hong Kong

5 July 1979

You wrote to Clive Whitmore on 4 July about the forthcoming visit to the U.K. of Sir Lawrence Kadoorie.

Unfortunately, the period of Sir Lawrence's visit (28 July to 8 August) coincides exactly with the Commonwealth Heads of Government Meeting in Lusaka, which the Prime Minister naturally proposes to attend. I should therefore be grateful if you would arrange for Sir Lawrence to be told that the Prime Minister very much regrets that she will be unable to see him on this occasion but hopes that a meeting may be possible when next he comes to London.

B. G. CARTLEDGE

Andrew Duguid, Esq.,
Department of Industry.

SDP



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

Clive Whitmore Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

7 July 1979

Dear Clive,

In her letter of 11 June to Sir Lawrence Kadoorie the Prime Minister stated that she looked forward to a further discussion with Sir Lawrence perhaps when he was next to visit the UK.

Sir Lawrence will be in the UK between 28 July and 8 August, and has asked whether it would be possible to pay a courtesy call on the Prime Minister. We would advise her to see Sir Lawrence.

As the background to the previous correspondence explained, Sir Lawrence is a keen China watcher and his judgment on developments in China and Hong Kong are always valuable. As an ardent Anglophile he has helped British industry to secure important power plant projects in Hong Kong valued at several hundred million pounds. China Light and Power, of which he is Chairman, is also about to negotiate a possible further large power plant order. The Department of Industry will, as in the past, take a leading part in the negotiations. A meeting with Sir Lawrence would thus be both timely and politic.

If the Prime Minister agrees to a meeting, perhaps you would confirm a date and time. We will liaise direct with Sir Lawrence.

Yours sincerely,

Andrew

ANDREW DUGUID
Private Secretary

DEPARTMENT OF INDUSTRY
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111 VICTORIA STREET
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Department of Industry

- 5 JUL 1979





Hong Kong

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10 DOWNING STREET

THE PRIME MINISTER

11 June 1979

Dear Sir Lawrence.

Thank you for your letter of 14 May and your personal congratulations.

I do indeed recall our meeting last August and I am pleased that you have subsequently placed such substantial orders with this country. I hope we may see British industry increasingly successful in trade with Hong Kong and I know that the Department of Industry will continue their efforts in relation to the current and succeeding contracts.

The personal commitment you have made to Sino-British relations is one which is well recognised and I am delighted to have achieved the important breakthrough in supplying electricity to China. We obviously would like to see Sino-British trade flourish and are grateful for the assistance you are giving in this respect. I look forward to a further discussion with you perhaps when you next visit the United Kingdom.

Yours sincerely,
Margaret Thatcher

Sir Lawrence Kadoorie, CBE, JP.

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PS/ *Secretary of State for Industry*

Bryan Cartledge Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

7 June 1979

Dear Bryan

You requested advice and a draft reply to the letter of 14 May 1979 from Sir Lawrence Kadoorie.

Sir Lawrence is reputedly one of the ten richest men in the world. He comes from one of the Iraqi merchant families that played a major role in the growth of Shanghai into a major trading port before 1939. The Kadoorie family subsequently established itself in Hong Kong where among many other interests they are the controlling share holders in China Light and Power, (CLP) the electricity generating Company that supplies Kowloon and the New Territories.

Sir Lawrence has been a good friend to the UK. His own interests and the sincerity of his goodwill to us combine to make him one of our great China watchers with a eye to the long term wide-ranging issues of Sino British relations. In Hong Kong there is little doubt that without his influence CLP would have gone to international tender for the £120m Castle Peak power station and £100m transmission system. The UK would have been hard pressed to win such a contract in the market place. By approaching the UK Government direct he also inspired the Department of Industry to put together and concert action on a "UK Limited" package of design, manufacture and financial terms including monitoring, inspection and training by CEGB personnel, which otherwise might not have come about. The package approach is something our overseas competitors are generally rather better at but it can be vital in winning major export contracts. The Prime Minister will be aware of the state of the UK power plant industry and how vital exports are to its survival as a result of the recent discussions in E Committee.

CLP are at present negotiating for Gas Turbines from GEC and are considering the purchase of another 2 x 350 MW turbine generator sets to complete the Castle Peak power station. By supplying electricity over the border to China and through offering to train Chinese personnel at CLP, Sir Lawrence is actively encouraging the closer co-operation and mutual benefit which he sees as necessary to the maintenance of good Hong Kong/Chinese relations and indeed the very survival of Hong Kong's special position as (in his words) "the free zone of China under British Management" long term. His efforts might

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also further the prospects of GEC and NEI who are bidding for conventional power stations in China.

|| The Prime Minister should be aware that her predecessor received Sir Lawrence on more than one occasion and it would be helpful if she were prepared to meet him on one of his future visits to the UK.

*Yours sincerely,
Pete.*

PETER STREDDER
Private Secretary



DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO SIR LAWRENCE KADOORIE

Thank you for your letter of 14 May and your personal congratulations.

I do indeed recall our meeting last August and I am pleased that you have subsequently placed such substantial orders with this country. I hope we may see British industry increasingly successful in trade with Hong Kong and I know that the Department of Industry will continue their efforts in relation to the current and succeeding contracts.

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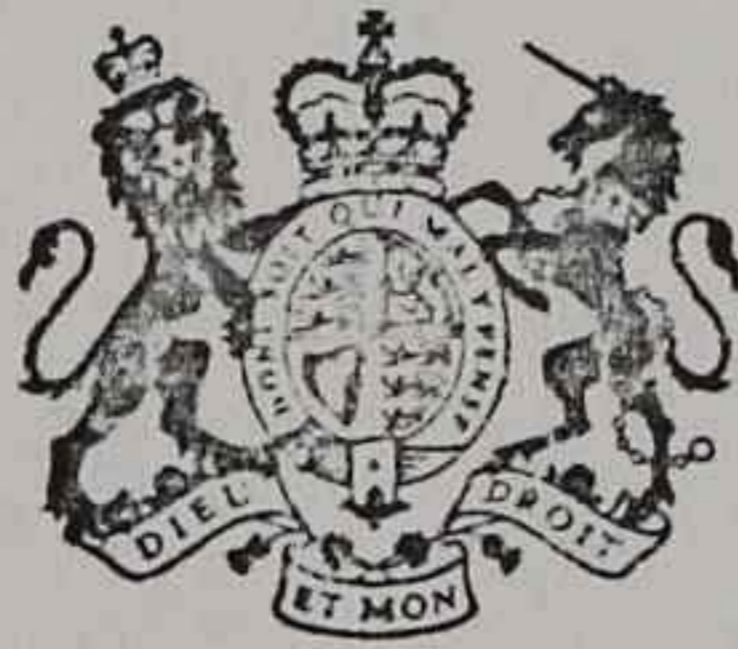
-7 JUN 1979



HONG KONG

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by 6/8/79

10 DOWNING STREET

From the Private Secretary

29 May 1979

I enclose a copy of a letter to the Prime Minister from Sir Lawrence Kadoorie, congratulating her on her appointment.

In view of Sir Lawrence Kadoorie's contacts with the previous Government, you may consider that it would be in the interests of the UK's trade with Hong Kong and with China if the Prime Minister were to send him a personal reply, which could contain some comments of substance on UK/Chinese trade. If so, I should be grateful for a draft: it would be helpful if this could reach me not later than 6 June.

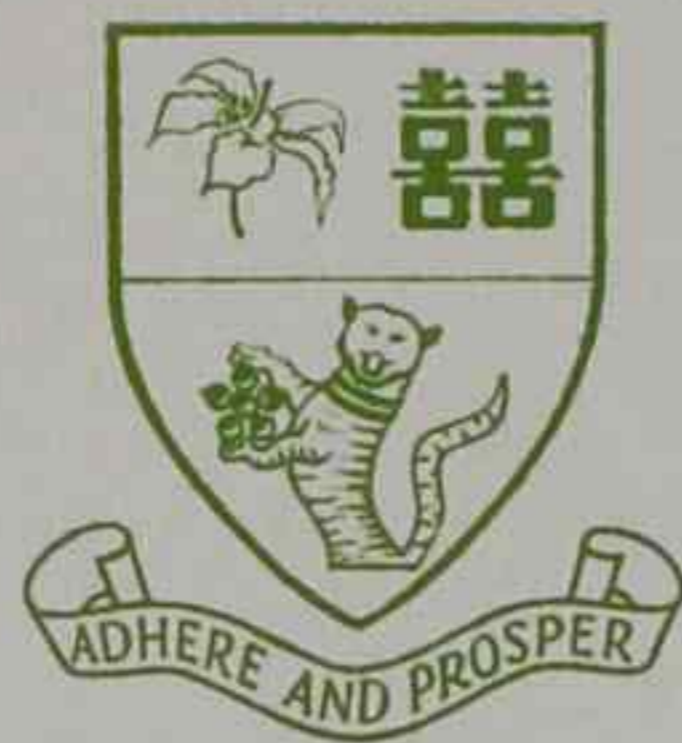
I am sending copies of this letter to Andrew Duguid (Department of Industry) and Stephen Wall (Foreign and Commonwealth Office).

B. G. CARTLEDGE

Tom Harris, Esq.,
Department of Trade.

A handwritten signature in dark ink, appearing to be 'B. G. Cartledge'.

020
Cables: "Kadoorie" Hong Kong
Telephone: 5-249221
Telex: 73427



St. George's Building
Hong Kong

May 14, 1979

The Rt. Hon. Mrs. Margaret Thatcher, M.P.
Prime Minister
10 Downing Street
London S. W. 1
ENGLAND

Dear Prime Minister,

My sincere congratulations to you on your success in the recent General Election.

Perhaps you may recall our interview last August during which I mentioned that we had been able to open the door to a new era of British Trade with China. In retrospect it is pleasing to note that, since then, our Company alone has placed orders in the United Kingdom amounting to almost £400 Million and that further projects of equal magnitude are now under consideration.

We are most appreciative of the co-ordinating role played by your Department of Industry which was essential to the successful negotiation of these contracts.

It is of good augury that last month when, after years of effort, I succeeded in achieving interconnection of our Power supply with that of Kwangtung Province, the Chinese Authorities assured me of their complete co-operation.

I am indeed happy to know that we can rely on your continued personal interest which I believe to be vital to the success of Sino-British relations.

With all good wishes,

Yours sincerely,

Lawrence Kadoorie

LK/mw

29 MAY 1979



