

PREM 19/1532

PART 3

SECRET **C** MT

Confidential filing

Contracts for Castle Peak A+B  
Power Stations. Svaengdon  
Nuclear Power Plant arising  
from correspondence from LORD  
KADOORIE

HONG KONG

Part 1: May 1979

Part 3: Dec 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>6.12.82</del>		<del>23.8.81</del>					
<del>10.1.83</del>		<del>28.8.84</del>					
<del>14.1.83</del>		<del>30.8.84</del>					
<del>21.1.83</del>		<del>4.11.84</del>					
<del>28.1.83</del>		<del>19.11.84</del>					
<del>4.11.83</del>		<del>22.11.84</del>					
<del>15.11.83</del>		<del>27.11.84</del>					
<del>24.11.83</del>		<del>28.11.84</del>					
<del>4.12.83</del>		<del>21.12.84</del>					
<del>7.12.83</del>		<del>4.1.85</del>					
<del>13.12.83</del>		<del>10.1.85</del>					
<del>2.2.84</del>		<del>16.1.85</del>					
<del>24.2.84</del>		<del>6.3.85</del>					
<del>28.2.84</del>		<del>15.3.85</del>					
<del>30.3.84</del>		<del>14.6.85</del>					
<del>8/4/84</del>		<del>28.6.85</del>					
<del>13/4/84</del>		<del>27.8.85</del>					
<del>15.4</del>		<del>30.10.85</del>					
<del>8.5.84</del>		<del>4.11.85</del>					
<del>18.5.84</del>		<del>7.11.85</del>					
<del>29/5/84</del>		<del>8.11.85</del>					
<del>10.8.84</del>							

PREM 19/1532

PART THREE ends:-

30 DECEMBER '85

PART ~~TWO~~ 4 begins:-

1 JANUARY 1986



FILE



10 DOWNING STREET

BF 30.12.85.

TO WMA

See MS.DTI to PM 24/12.

We need to confirm  
in writing to M. Cocks  
that PM is content.

~~CDT~~. No need  
at all.

To note. You were aware  
that a report like this might  
come through.

You may wish to write  
to confirm the PM's agreement.

MCA 30/12



10 DOWNING STREET

Prime Minister

An answer is  
needed by tomorrow  
evening (Boxing Day)

Monica

25/12

Charles CD 30/12

The Duty Clerk passed the  
PM's decision to Mr. Cameron's office.

MCA 3/12

Mike Neilson - Esis office  
0582 281 42



DEPARTMENT OF TRADE AND INDUSTRY

Room

1 - 19 Victoria Street

London SW1H 0ET

Telephone:

(Direct dialling) 01 - 215 )

GTN01 - 215 ) 5144

(Switchboard) 01 - 215 7877

Matthew Cocks - 737 3622  
or 274 5448

Mark Addison

*With the Compliments of*

the Minister for

Trade's Office - 24/12/85

Mr Channon's minute  
and relevant past papers  
attached. I am contactable  
over Christmas via the  
DTI Duty Officer (215 7877)

CS 117

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migrated to  
chequers



PM content.  
FCS content.  
Told M. Cocks Prime Minister ①

PRIME MINISTER

26/12.  
11.00am  
A.M. duty clerk.  
Content that we should reduce the premium by £5.5m, to match the French position, on the basis that Treasury and FCO are content?

MEA 24/12

GUANGDONG NUCLEAR PROJECT

Addendum - The Economic Secretary is content with this proposal!  
Doby Clerk 24/12.

In Leon Brittan's absence, I am minuting you about this project. Events have moved on since Leon wrote to you on 19 December. The French have reduced their export credit premium by 45 per cent, halved their bank fees, and made some concessions on support for local costs. They have reached agreement with the Chinese and have signed MoUs covering the finance package as well as the Framatome and EdF contracts.

2 The pressure is now on the UK side. Following further movement GEC still face a price gap of £5 million. A political move may help them to settle for less than this. But in any event we must agree to re-open financial discussions if we are to win the contract, with the French in the wings ready to take over from GEC should we drop out. The Ambassador has suggested, and I agree, that he should see Vice Premier Li Peng to attempt to settle the price question on GEC's behalf, while indicating our preparedness, in the special circumstances of this project, to consider further moves on the financial package in the light of the French settlement. GEC would have to bear any remaining price concessions. The Chinese have set a deadline for agreement on price, if not on finance, of 31 December and we have to decide very quickly what we are prepared to do.

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3 The main problem is on premium, and I propose that our officials should be given a negotiating brief to make an offer that broadly matches the French position. This would entail a reduction of £5.5 million on the premium applicable to the present contractual position taking the concessionality of our offer from about 24 per cent to about 26 per cent, slightly over the 25 per cent limit that was agreed in February 1984 at EX. The eventual amount, and the concessionality of the premium reduction in the actual contract, will vary somewhat from this depending on the final terms of payment and scope of supply. However, I think the likely overshoot of the 25 per cent limit will not be large.

4 I would be grateful if you and colleagues could let me know that you are content with my proposal by noon on Friday 27 December to allow our Ambassador to see Vice Premier Li Peng on 28 December and thus meet the Chinese timescale.

5 I am copying this minute to Geoffrey Howe and Ian Stewart.

*Matthew Cocks*

for PAUL CHANNON

(approved by the Minister and signed in his absence)

24 DECEMBER 1985

M01AFQ

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AMBASSADOR'S REPORT OF 23 DEC

GRS 950  
CONFIDENTIAL

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FM PEKING

TO DESKBY 230900Z DTI

TELNO INDUS 329

OF 230747Z DECEMBER 85

INFO DESKBY 230900Z DTI (OTTER), INFO DESKBY 230900 FCO

INFO IMMEDIATE BTC HONG KONG

INFO PRIORITY PARIS

MY TELNO INDUS 327, PARAGRAPH 5, AND YOUR TELNO INDUS 330, PARAGRAPH 4: GUANGDONG NUCLEAR PROJECT

1. I THINK THAT WE ARE NOW GENUINELY AT A POINT OF CRISIS. A FLASE, OR ILL-TIMED, MOVE COULD PUT THE SUCCESSFUL OUTCOME TO GEC'S NEGOTIATIONS WITH THE JVC AT RISK.
2. A SERIOUS PROBLEM ARISES OVER TIMING. THE JVC'S POSITION, CONFIRMED IN A LETTER FROM PAN TO DAVIDSON THIS MORNING IS THAT, IF GEC CANNOT OFFER A PRICE REDUCTION OF POUNDS 10.4 MILLION (I.E. POUNDS 4.9 MILLION ON TOP OF THE REDUCTIONS OFFERED SINCE DAVIDSON RETURNED TO PEKING) NOW, A NEGOTIATION ON A NEW FOOTING (I.E. ITEM BY ITEM AND WITH THE BASE PRICE OF POUNDS 210 MILLION SUBJECT TO CHANGE) WILL HAVE TO BEGIN IN SHENZHEN, IN THE NEW YEAR. GEC'S POSITION, WHICH HAS BEEN MADE CLEAR TO THE JVC, IS THAT A NEGOTIATION IN SHENZHEN ON A NEW FOOTING IS NOT (REPEAT NOT) TO BE CONTEMPLATED AND THAT IT WILL BE VERY DIFFICULT INDEED FOR THEM TO BRIDGE THE REMAINING GAP BY OFFERING YET ANOTHER PRICE CUT. IN THIS SITUATION, SOMETHING WILL HAVE TO HAPPEN BEFORE THE NEW YEAR IF THE NEGOTIATION IS NOT TO FAIL.
3. IT IS POSSIBLE THAT PAN WILL APPROACH DAVIDSON WITH A FRESH PROPOSAL AFTER LI PENG'S RETURN FROM MOSCOW, WHICH IS STILL EXPECTED TODAY (23 DECEMBER). BUT IT IS MORE LIKELY THAT HE WILL NOT. IN ANY CASE, DAVIDSON IS NOT PARTICULARLY KEEN THAT IT SHOULD BE LEFT TO LI PENG TO CUT THE GORDIAN KNOT. HE DOES NOT THINK THAT THIS WOULD BE A GOOD STARTING POINT FOR COOPERATION IN THE FUTURE BETWEEN GEC AND THE JVC. DAVIDSON IS NOT PREPARED TO SEEK A FURTHER MEETING WITH PAN UNLESS THE LATTER INDICATES (E.G. THROUGH CATER) THAT HE IS READY TO NEGOTIATE: I.E. NOT JUST TO STAND PAT ON ITS POSITION AS DESCRIBED ABOVE.
4. I CAN THINK OF THREE POSSIBLE KINDS OF POLITICAL INITIATIVE:
  - (A) A FURTHER MESSAGE FROM THE PRIME MINISTER TO ZHAO ZIYANG OR FROM MR BRITTAN TO LI PENG SEMICOLON
  - (B) AN OFFER BY A SENIOR BRITISH MINISTER TO VISIT CHINA FOR EARLY DISCUSSIONS WITH LI PENG AND OTHER SENIOR CHINESE CONCERNED SEMICOLON AND

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(c)

(C) AN APPROACH BY ME TO LI PENG, ON INSTRUCTIONS, WITH SOMETHING TO SAY BOTH ABOUT THE POSITION OF THE BRITISH GOVERNMENT AND ABOUT GEC'S POSITION.

THERE COULD OF COURSE BE VARIOUS PERMUTATIONS AMONG THESE THREE COURSES.

5. I DO NOT THINK THAT EITHER (A) OR (C) WOULD BE USEFUL UNLESS SOMETHING NEW COULD BE SAID ABOUT THE FINANCIAL NEGOTIATION AND (REPEAT AND) ABOUT GEC'S POSITION. ON THE FINANCIAL NEGOTIATION, PENTECOST HAD A MEETING THIS MORNING WITH MADAME HUANG OF THE BANK OF CHINA. SHE TOLD HIM THAT THE BANK OF CHINA INTENDED TO INVITE THE BRITISH NEGOTIATING TEAM TO RETURN TO PEKING AS SOON AS GEC HAD REACHED AGREEMENT WITH THE JVC. SHE INDICATED, HOWEVER, THAT THE BANK OF CHINA WAS NOT EXPECTING A RESUMED NEGOTIATION TO BEGIN BEFORE THE NEW YEAR. ON THE SUBSTANCE, SHE SAID THAT THERE WERE THREE REMAINING ISSUES: THE PREMIUM SEMICOLON A GUARANTEE SEMICOLON AND THE INTEREST RATE. ON THE PREMIUM, SHE SAID THAT THE FRENCH, WHO HAD ALWAYS OFFERED A LOWER PREMIUM THAN THE BRITISH, HAD NOW CONCEDED A PREMIUM WHICH WAS LOWER STILL. ON A GUARANTEE, SHE SAID THAT THIS WAS A MATTER WHICH CONCERNED GOVERNMENTS AS WELL AS THE COMMERCIAL PARTIES. ON THE INTEREST RATE, SHE SAID THAT THE JVC STILL WANTED A DISCOUNT OF 0.35 PERCENT ON THE CONSENSUS RATE AT ANY LEVEL, BUT THAT THE BANK OF CHINA HAD DECIDED NOT TO PRESS FOR THIS. IN REPLY, PENTECOST POCKETED WHAT MADAME HUANG HAD SAID ABOUT THE INTEREST RATE AND SPOKE TO HIS BRIEF ON THE OTHER TWO ISSUES.

6. SO FAR AS GEC'S POSITION IS CONCERNED, I AM BOUND TO WONDER WHETHER

THERE IS NOTHING WHICH THE BRITISH GOVERNMENT COULD DO TO HELP. ON 21 DECEMBER, CATER AGAIN SPOKE TO MEE ABOUT THE FREE SERVICES WHICH THE CEGB HAD PROVIDED IN RESPECT OF CASTLE PEAK A. I KNOW THAT YOU HAVE HITHERTO RULED OUT ANY POSSIBILITY OF A SIMILAR AGREEMENT IN RESPECT OF DAYA BAYM BUT I DO THINK THAT GEC ARE AT A POINT WHERE THEY WOULD VERY MUCH WELCOME ANY HELP FROM THE BRITISH GOVERNMENT WHICH MIGHT ALLOW THEM TO CLOSE OR REDUCE THE REMAINING GAP.

7. THESE FACTORS MEAN THAT THERE ARE PROS AND CONS TO EVERY POSSIBLE COURSE OF ACTION. MY OWN PREFERENCE, WEIGHING THESE FACTORS AS BEST I CAN, AND GIVEN THE SEASON OF THE YEAR, IS THAT I SHOULD BE INSTRUCTED TO SEEK A MEETING WITH LI PENG SEVERAL DAYS BEFORE THE NEW YEAR SEMICOLON THAT, AT SUCH A MEETING, I SHOULD CONVEY TO HIM A MESSAGE FROM MR BRITTAN ABOUT THE FINANCIAL NEGOTIATION (SEE BELOW) SEMICOLON AND THAT I SHOULD ALSO BE AUTHORISED TO TELL HIM THAT GEC CANNOT CONTEMPLATE A NEGOTIATION ON A NEW FOOTING IN SHENZHEN. WHETHER I COULD OR SHOULD SAY MORE TO HIM ABOUT GEC'S POSITION WOULD DEPEND ON WHETHER GEC CAN IN THE MEAN-TIME THINK OF ANY NEW WAY OF BRIDGING THE GAP AND ON WHETHER THE BRITISH GOVERNMENT CAN DO ANYTHING TO HELP THEM OVER THIS.

<sup>-2-</sup>  
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18.

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8. ON THE FINANCIAL NEGOTIATION, I BELIEVE THAT I SHOULD AT THE MINIMUM BE AUTHORISED TO TELL LI PENG THAT THE BRITISH GOVERNMENT HAS TAKEN STOCK IN THE LIGHT OF THE SETTLEMENT REACHED BETWEEN THE FRENCH AND CHINESE GOVERNMENTS AND THAT BENJAMIN WOULD BE PREPARED TO RETURN TO PEKING AS SOON AS HE IS INVITED BY THE BANK OF CHINA TO DO THIS. IF I COULD ADD ANYTHING ENCOURAGING FOR THE CHINESE ON SUBSTANCE, THIS WOULD BE A VERY USEFUL BONUS.

9. I HAVE DISCUSSED THE TERMS OF THIS TELEGRAM WITH BOTH DAVIDSON AND ALTY. THEY ARE CONTENT. BUT DAVIDSON HAS ASKED ME TO ADD THAT, IN HIS BELIEF, BOTH THE CHINESE GOVERNMENT AND THE JVC WISH THE COMMERCIAL NEGOTIATION TO BE CONCLUDED BY THE END OF THIS YEAR. IN THE LIGHT OF THIS, AND GIVEN THAT THE IDEA OF A NEGOTIATION IN SHENZHEN ON A NEW FOOTING IS NOT ACCEPTABLE, HE BELIEVES THAT BOTH GEC AND THE BRITISH GOVERNMENT SHOULD THINK IN TERMS OF A TIMETABLE WHICH WOULD ALLOW GEC TO SIGN AN MOU WITH THE JVC BEFORE 1 JANUARY.

10. PENTECOST HAS LEFT PEKING. ALTY WILL BE LEAVING, BY LUFTHANSA, TO-NIGHT. HE IS RELEGRAPHING SEPARATELY ABOUT HIS TRAVEL PLANS AND ABOUT ADDITIONAL DETAILS THE FRENCH HAVE GIVEN HIM ON THEIR FINANCIAL PACKAGE. THESE REVEAL A PICTURE WHICH IS EVEN LESS EASY FOR US.

EVANS

GUANGDONG

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 MR WILSON

GUANGDONG NUCLEAR

- 3 -

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ERS 600  
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FM PEKING

TO DESKBY 230930Z DTI

TELNO INDUS 328

OF 230713Z DECEMBER 85

INFO IMMEDIATE PARIS, BTC HONG KONG

**CONFIDENTIAL**

OFFICIALS' REPORT (23 DEC)

ON FRENCH FINANCIAL

CONCESSIONS

FOR DOBBIE FROM ALTY

GUANGDONG NUCLEAR PROJECT

1. IN FURTHER DISCUSSION WITH THE FRENCH ON THE TERMS OF THEIR MOU, THE FOLLOWING DETAILS EMERGED:

A) PREMIUM: ON THE CONTRACT PREMIUM, THE FRENCH HAD TOLD THE CHINESE THAT THEY HAD ALREADY REDUCED THE DECLARED FIGURE OF 2.3 PERCENT OF CONTRACT PRICE TO JUST UNDER 1 PERCENT TO ASSIST FRAMATOME DURING THE PRICE NEGOTIATIONS. AS THE PRICES HAD BEEN AGREED BETWEEN MINISTERS, NO FURTHER DISCUSSION WAS NEEDED. THUS IN CHINESE EYES THE FRENCH HAVE REDUCED BOTH CONTRACT PREMIUM AND CREDIT PREMIUM (THOUGH THE FRENCH TOLD US THAT 1 PERCENT WAS IN FACT THE CORRECT FIGURE UNDER THEIR SYSTEM FOR CONTRACT PREMIUM.). THESE PREMIUM CONCESSIONS HAD BEEN MADE CONDITIONAL ON THEIR BEING EXCEPTIONAL FOR THE FRAMATOME AND EDF CONTRACTS FOR GUANGDONG (IE NOT CIVIL WORKS CONTRACTS OR, BY IMPLICATION, ANY OTHER PROJECT).

B) LOCAL COSTS: THE FRENCH HAD REFUSED TO COVER COSTS ALREADY INCURRED.

HOWEVER, THEY HAD AGREED TO COVER 200 M FF OF LOCAL COSTS CONNECTED WITH THE CIVIL WORKS FOR THE NUCLEAR ISLAND, PROVIDING THESE WERE CARRIED OUT UNDER A CONTRACT WITH A FRENCH COMPANY, OR CONSORTIUM LED BY A FRENCH COMPANY. THEY HAD ALSO AGREED TO COVER LOCAL COSTS OF THE ERECTION CONTRACT, PROVIDING AGAIN THIS WAS A CONTRACT WITH A FRENCH COMPANY (PROBABLY BUT NOT NECESSARILY FRAMATOME).

THERE WERE THEREFORE THREE ELEMENTS OF LOCALS COVERED: (1) GENUINE LOCALS IN FRAMATOME'S CONTRACT SEMICOLON (2) 200 M FF CIVIL WORKS SEMICOLON (3) LOCAL COSTS FOR THE ERECTION CONTRACT. ALTOGETHER THESE WOULD AMOUNT TO OVER 15 PERCENT OF FRAMATOME'S CONTRACT. THE FRENCH HAD TOLD THE CHINESE THAT THE CIVIL CONTRACTS AND FUEL CONTRACTS WOULD ATTRACT NORMAL OECD TERMS.

C) BALANCE OF PLANT: THE FRENCH HAD AGREED TO EXTEND THE PERIOD OF AVAILABILITY FOR B.O.P. ITEMS FROM 2 YEARS FROM CONTRACT SIGNATURE TO 4 YEARS.

D) REIMBURSIBLE ITEMS: A MINOR POINT RELATING TO THE EDF CONTRACT: THE CHINESE WISHED ITEMS SUCH AS AIRLINE TICKETS BROUGHT FOR ENGINEERS TO BE COVERED BY THE LOAN, BUT, AS SUCH ITEMS WERE UNPREDICTABLE, THEY DID NOT WISH TO MAKE A DOWN-PAYMENT. THE FRENCH HAD AGREED THAT SUCH ITEMS COULD BE INCLUDED IF NECESSARY IN THE B.O.P./CONTINGENCY ARRANGEMENTS. THIS ISSUE HAS NOT BEEN RAISED WITH GEC, NOR DOES IT APPLY TO THE FRAMATOME CONTRACT.

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VE-BANK

E. BANK FEES: THE FRENCH DID NOT KNOW WHAT REDUCTION HAD BEEN OFFERED BUT ESTIMATED IT AT 50 PERCENT.

2. THE FRENCH HAD SIGNED TWO DOCUMENTS WITH THE CHINESE: A SHORT ONE COVERING THE TWO POINTS MENTIONED BETWEEN MME CRESSON AND LI PENG (PREMIUM AND LOCALS) SEMICOLON AND ANOTHER WHICH ACTED AS A SUMMARY OF THE FINAL FINANCIAL OFFER.

3. COMMENT: THE FRENCH POSITION ON PREMIUM IS THUS MORE DIFFICULT THAN EARLIER THOUGHT, AS THE TOTAL REDUCTION UNCLUDES CONTRACT AND CREDIT ELEMENTS SEMICOLON I ESTIMATE TOTAL REDUCTION AS ABOUT 45 PERCENT, FROM 4.6 PERCENT OF LOAN VALUE TO ABOUT 2.6 PERCENT. WE CAN OF COURSE ARGUE THAT GEC'S CONTRACT PREMIUM HAS ALREADY BEEN REDUCED. I SHALL ASK GEC TO TELEX LATEST CONTRACT BREAKDOWN FIGURES TO RUGBY TODAY TO BE PASSED TO DTI TO PERMIT OUR PREMIUM CALCULATIONS TO BE DONE. PLEASE ALERT SURY KHATRI WHO HAS THE COMPUTER WITH HIM AT HOME (TEL 349 9868 OR 349 9580). PENTECOST AND I ARE RETURNING TODAY. I PROPOSE WE MEET DOBBIE AND BENJAMIN TOMORROW AT 11.30 AM IN BENJAMIN'S OFFICE. WE SHALL RING ON ARRIVAL IN LONDON TO CONFIRM.

4. PENTECOST AND SHEPHERD ALSO SAW MADAME HUANG OF BANK OF CHINA THIS MORNING. SHE SAID THAT INVITATIONS WOULD BE ISSUED TO THE GOVERNMENT TEAM TO RETURN, ONCE THE GEC/JVC NEGOTIATIONS HAD BEEN STTLED. ON FINANCIAL DEMANDS, SHE MENTIONED PREMIUM, WHICH SHE SAID WAS MOST CRITICAL SEMICOLON AGREEMENT TO BEAR FINANCE COSTS IF GEC EQUIPMENT WAS UNRELIABLE (WHICH SHE SAID WAS A CHINESE GOVERNMENT REQUIRMENT, NOT JUST A JVC POINT) SEMICOLON AND THE INTEREST RATE DIFFERENTIAL OF 0.35 PERCENT, WHICH SHE SAID WAS A JVC POINT BUT WHICH HMG COULD IGNORE AS FAR AS BOC WAS CONCERNED. PENTECOST WILL BE ABLE TO PROVIDE FURTHER DETAILS TOMORROW (HE HAS NOW LEFT PEKING).

EVANS

GUANGDONG

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MR WILSON

GUANGDONG NUCLEAR

REPEATED AS REQUESTED

-2-  
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TEXT OF LEON BRITTON'S  
~~DRAFT~~  
MINUTE OF 19 DECEMBER  
~~DRAFT~~ MINUTE TO THE PRIME MINISTER

GUANGDONG NUCLEAR PROJECT

Since I last wrote to colleagues on this project, GEC have had a team in Peking for nearly six weeks in intensive negotiations with the Joint Venture Company - the combined Chinese and China Light and Power Joint Venture who will eventually own the power station - over the contract price and related commercial terms. GEC have made some progress in dampening down Chinese expectations. But having reduced their price by a further 2%, making a total price cut of 20%, formally at the negotiating table the Chinese have not abated their demands.

2 Meanwhile, at his request, Vice Premier Li Peng, who seems to have taken the project under personal responsibility, visited Paris at the end of last week. I invited him to come on to London afterwards, but he was not able to accept, and we understand that his tour of Eastern Europe and Russia is not likely to return him to Peking much before Christmas. While in Paris, he met M. Fabius and Mme. Cresson, and signed an agreement with the latter, for ratification in due course by a Letter of Intent, under which the remaining price difference in both the Framatome and EdF contracts were split 50:50 between the French and the Chinese. We understand this probably involved total price concessions by the French of a further some £30 million, and there

were other detailed points settled, such as the escalation factor.

3 The Chinese have continued to press points on finance, and Mme Cresson agreed to send a team of senior French officials to Peking on 18 December for a final round. The Chinese are particularly pressing the French on premium and bank fees. Chinese demands will be for a substantial reduction, under their normal procedures of perhaps 50%, and the French expect to have to give something in both these areas. While this progress on the French front shows that the Chinese mean business, the terms on which they settled will inevitably bring further pressure on GEC on price and on us on financing. On the commercial front, there have been informal contacts between the heads of the GEC and Chinese negotiating teams in Paris, and the latter has said that he has both authority to settle with GEC before Christmas and is ready to countenance some manoeuvre to allow the price gap to be reduced to a bridgeable range. Inevitably this will involve further concessions from GEC.

4 On the financial issues, the concessionality limit for the total support of 25%, which was agreed at EX on 29 February 1984 has effectively been reached, subject to marginal variations resulting from changes in price and conditions. On the ECGD premium, we had evolved an approach whereby the sum of French premium and fees was



broadly comparable to the ECGD premium on our side, since our Banks gave away their fees at a very early stage. If the French make concessions on premium which go further than ours, it will be extremely difficult for us not to at least match. We had discussions with French officials prior to their departure to stiffen their line, and officials from my Department and ECGD will be in Peking to keep in close touch with the French during their final negotiations.

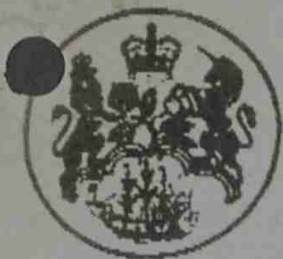
5 The effective conclusion of the French negotiations poses us a range of options. But to take a political initiative now would be bound to carry the implication that we might be prepared to intervene in the commercial negotiations in a manner comparable to the French. We have repeatedly indicated that the French position, with all their commercial parties effectively under State control, not to mention their Banks, is not analagous with the UK. But this is unlikely to deter Chinese expectations. It is noteworthy, moreover, that the initiative for the visit to Paris came from Li Peng, and our view is that we should not take any special steps until we have a better indication of how far the French have gone, and how the GEC commercial negotiatioos go following the informal contacts in Paris. If we are to secure the project, I would not rule out having to make some further concession, otherwise the French, who have played straight with us so far, may feel at liberty

to pursue the turbine island for their national supplier,  
Alstom. This would have wide and series implications.

6 Meanwhile, we shall be keeping a close eye on  
developments.

7 I am copying this report to EX colleagues.

China: Reels  
pk 3



PRIME MINISTER

Prime Minister ①

Content that we should reduce

the premium by £5.5m, to match

the French position, or the basis that

Treasury and FCO are content?

Yes

Phoned message to

Duty Clerk 11 a.m. 26/12/85

GUANGDONG NUCLEAR PROJECT

MEA 24/12

Addendum - The Economic Secretary is content with this proposal

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Duty Clerk 24/12

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for PAUL CHANNON

(approved by the Minister and signed in his absence)

24 DECEMBER 1985

M01AFQ

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to pursue the turbine island for their national supplier,  
Alstom. This would have wide and series implications.

6 Meanwhile, we shall be keeping a close eye on  
developments.

7 I am copying this report to EX colleagues.

REF 600  
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FM PEKING

OFFICIALS' REPORT (23 DEC)

TO DESKBY 230930Z DTI

TELNO INDUS 328

ON FRENCH FINANCIAL

OF 230713Z DECEMBER 85

INFO IMMEDIATE PARIS, BTC HONG KONG CONCESSIONS

FOR DOBBIE FROM ALTY

GUANGDONG NUCLEAR PROJECT

1. IN FURTHER DISCUSSION WITH THE FRENCH ON THE TERMS OF THEIR MOU, THE FOLLOWING DETAILS EMERGED:

A) PREMIUM: ON THE CONTRACT PREMIUM, THE FRENCH HAD TOLD THE CHINESE THAT THEY HAD ALREADY REDUCED THE DECLARED FIGURE OF 2.3 PERCENT OF CONTRACT PRICE TO JUST UNDER 1 PERCENT TO ASSIST FRAMATOME DURING THE PRICE NEGOTIATIONS. AS THE PRICES HAD BEEN AGREED BETWEEN MINISTERS, NO FURTHER DISCUSSION WAS NEEDED. THUS IN CHINESE EYES THE FRENCH HAVE REDUCED BOTH CONTRACT PREMIUM AND CREDIT PREMIUM (THOUGH THE FRENCH TOLD US THAT 1 PERCENT WAS IN FACT THE CORRECT FIGURE UNDER THEIR SYSTEM FOR CONTRACT PREMIUM.). THESE PREMIUM CONCESSIONS HAD BEEN MADE CONDITIONAL ON THEIR BEING EXCEPTIONAL FOR THE FRAMATOME AND EDF CONTRACTS FOR GUANGDONG (IE NOT CIVIL WORKS CONTRACTS OR, BY IMPLICATION, ANY OTHER PROJECT).

B) LOCAL COSTS: THE FRENCH HAD REFUSED TO COVER COSTS ALREADY INCURRED.

HOWEVER, THEY HAD AGREED TO COVER 200 M FF OF LOCAL COSTS CONNECTED WITH THE CIVIL WORKS FOR THE NUCLEAR ISLAND, PROVIDING THESE WERE CARRIED OUT UNDER A CONTRACT WITH A FRENCH COMPANY, OR CONSORTIUM LED BY A FRENCH COMPANY. THEY HAD ALSO AGREED TO COVER LOCAL COSTS OF THE ERECTION CONTRACT, PROVIDING AGAIN THIS WAS A CONTRACT WITH A FRENCH COMPANY (PROBABLY BUT NOT NECESSARILY FRAMATOME).

THERE WERE THEREFORE THREE ELEMENTS OF LOCALS COVERED: (1) GENUINE LOCALS IN FRAMATOME'S CONTRACT SEMICOLON (2) 200 M FF CIVIL WORKS SEMICOLON (3) LOCAL COSTS FOR THE ERECTION CONTRACT. ALTOGETHER THESE WOULD AMOUNT TO OVER 15 PERCENT OF FRAMATOME'S CONTRACT. THE FRENCH HAD TOLD THE CHINESE THAT THE CIVIL CONTRACTS AND FUEL CONTRACTS WOULD ATTRACT NORMAL OECD TERMS.

C) BALANCE OF PLANT: THE FRENCH HAD AGREED TO EXTEND THE PERIOD OF AVAILABILITY FOR B.O.P. ITEMS FROM 2 YEARS FROM CONTRACT SIGNATURE TO 4 YEARS.

D) REIMBURSIBLE ITEMS: A MINOR POINT RELATING TO THE EDF CONTRACT: THE CHINESE WISHED ITEMS SUCH AS AIRLINE TICKETS BROUGHT FOR ENGINEERS TO BE COVERED BY THE LOAN, BUT, AS SUCH ITEMS WERE UNPREDICTABLE, THEY DID NOT WISH TO MAKE A DOWN-PAYMENT. THE FRENCH HAD AGREED THAT SUCH ITEMS COULD BE INCLUDED IF NECESSARY IN THE B.O.P./CONTINGENCY ARRANGEMENTS. THIS ISSUE HAS NOT BEEN RAISED WITH GEC, NOR DOES IT APPLY TO THE FRAMATOME CONTRACT.

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VE-BANK

E. BANK FEES: THE FRENCH DID NOT KNOW WHAT REDUCTION HAD BEEN OFFERED BUT ESTIMATED IT AT 50 PERCENT.

2. THE FRENCH HAD SIGNED TWO DOCUMENTS WITH THE CHINESE: A SHORT ONE COVERING THE TWO POINTS MENTIONED BETWEEN MME GRESSON AND LI PENG (PREMIUM AND LOCALS) SEMICOLON AND ANOTHER WHICH ACTED AS A SUMMARY OF THE FINAL FINANCIAL OFFER.

3. COMMENT: THE FRENCH POSITION ON PREMIUM IS THUS MORE DIFFICULT THAN EARLIER THOUGHT, AS THE TOTAL REDUCTION UNCLUDES CONTRACT AND CREDIT ELEMENTS SEMICOLON I ESTIMATE TOTAL REDUCTION AS ABOUT 45 PERCENT, FROM 4.6 PERCENT OF LOAN VALUE TO ABOUT 2.6 PERCENT. WE CAN OF COURSE ARGUE THAT GEC'S CONTRACT PREMIUM HAS ALREADY BEEN REDUCED. I SHALL ASK GEC TO TELEX LATEST CONTRACT BREAKDOWN FIGURES TO RUGBY TODAY TO BE PASSED TO DTI TO PERMIT OUR PREMIUM CALCULATIONS TO BE DONE. PLEASE ALERT SURY KHATRI WHO HAS THE COMPUTER WITH HIM AT HOME (TEL 349 9868 OR 349 9580). PENTECOST AND I ARE RETURNING TODAY. I PROPOSE WE MEET DOBBIE AND BENJAMIN TOMORROW AT 11.30 AM IN BENJAMIN'S OFFICE. WE SHALL RING ON ARRIVAL IN LONDON TO CONFIRM.

4. PENTECOST AND SHEPHERD ALSO SAW MADAME HUANG OF BANK OF CHINA THIS MORNING. SHE SAID THAT INVITATIONS WOULD BE ISSUED TO THE GOVERNMENT TEAM TO RETURN, ONCE THE GEC/JVC NEGOTIATIONS HAD BEEN STILED. ON FINANCIAL DEMANDS, SHE MENTIONED PREMIUM, WHICH SHE SAID WAS MOST CRITICAL SEMICOLON AGREEMENT TO BEAR FINANCE COSTS IF GEC EQUIPMENT WAS UNRELIABLE (WHICH SHE SAID WAS A CHINESE GOVERNMENT REQUIRMENT, NOT JUST A JVC POINT) SEMICOLON AND THE INTEREST RATE DIFFERENTIAL OF 0.35 PERCENT, WHICH SHE SAID WAS A JVC POINT BUT WHICH HMG COULD IGNORE AS FAR AS BOC WAS CONCERNED. PENTECOST WILL BE ABLE TO PROVIDE FURTHER DETAILS TOMORROW (HE HAS NOW LEFT PEKING).

EVANS

GUANGDONG

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AMBASSADOR'S REPORT OF 23 DEC

GRS 950  
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FM PEKING

TO DESKBY 230900Z DTI

TELNO INDUS 329

OF 230747Z DECEMBER 85

INFO DESKEY 230900Z DTI (OTTER), INFO DESKBY 230900 FCO

INFO IMMEDIATE BTC HONG KONG

INFO PRIORITY PARIS

MY TELNO INDUS 327, PARAGRAPH 5, AND YOUR TELNO INDUS 330, PARAGRAPH 4: GUANGDONG NUCLEAR PROJECT

1. I THINK THAT WE ARE NOW GENUINELY AT A POINT OF CRISIS. A FLASE, OR ILL-TIMED, MOVE COULD PUT THE SUCCESSFUL OUTCOME TO GEC'S NEGOTIATIONS WITH THE JVC AT RISK.

2. A SERIOUS PROBLEM ARISES OVER TIMING. THE JVC'S POSITION, CONFIRMED IN A LETTER FROM PAN TO DAVIDSON THIS MORNING IS THAT, IF GEC CANNOT OFFER A PRICE REDUCTION OF POUNDS 10.4 MILLION (I.E. POUNDS 4.9 MILLION ON TOP OF THE REDUCTIONS OFFERED SINCE DAVIDSON RETURNED TO PEKING) NOW, A NEGOTIATION ON A NEW FOOTING (I.E. ITEM BY ITEM AND WITH THE BASE PRICE OF POUNDS 210 MILLION SUBJECT TO CHANGE) WILL HAVE TO BEGIN IN SHENZHEN, IN THE NEW YEAR. GEC'S POSITION, WHICH HAS BEEN MADE CLEAR TO THE JVC, IS THAT A NEGOTIATION IN SHENZHEN ON A NEW FOOTING IS NOT (REPEAT NOT) TO BE CONTEMPLATED AND THAT IT WILL BE VERY DIFFICULT INDEED FOR THEM TO BRIDGE THE REMAINING GAP BY OFFERING YET ANOTHER PRICE CUT. IN THIS SITUATION, SOMETHING WILL HAVE TO HAPPEN BEFORE THE NEW YEAR IF THE NEGOTIATION IS NOT TO FAIL.

3. IT IS POSSIBLE THAT PAN WILL APPROACH DAVIDSON WITH A FRESH PROPOSAL AFTER LI PENG'S RETURN FROM MOSCOW, WHICH IS STILL EXPECTED TODAY (23 DECEMBER). BUT IT IS MORE LIKELY THAT HE WILL NOT. IN ANY CASE, DAVIDSON IS NOT PARTICULARLY KEEN THAT IT SHOULD BE LEFT TO LI PENG TO CUT THE GORDIAN KNOT. HE DOES NOT THINK THAT THIS WOULD BE A GOOD STARTING POINT FOR COOPERATION IN THE FUTURE BETWEEN GEC AND THE JVC. DAVIDSON IS NOT PREPARED TO SEEK A FURTHER MEETING WITH PAN UNLESS THE LATTER INDICATES (E.G. THROUGH CATER) THAT HE IS READY TO NEGOTIATE; I.E. NOT JUST TO STAND PAT ON ITS POSITION AS DESCRIBED ABOVE.

4. I CAN THINK OF THREE POSSIBLE KINDS OF POLITICAL INITIATIVE:

(A) A FURTHER MESSAGE FROM THE PRIME MINISTER TO ZHAO ZIYANG OR FROM MR BRITTON TO LI PENG SEMICOLON

(B) AN OFFER BY A SENIOR BRITISH MINISTER TO VISIT CHINA FOR EARLY DISCUSSIONS WITH LI PENG AND OTHER SENIOR CHINESE CONCERNED SEMICOLON AND

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(c)

(C) AN APPROACH BY ME TO LI PENG, ON INSTRUCTIONS, WITH SOMETHING TO SAY BOTH ABOUT THE POSITION OF THE BRITISH GOVERNMENT AND ABOUT GEC'S POSITION.

THERE COULD OF COURSE BE VARIOUS PERMUTATIONS AMONG THESE THREE COURSES.

5. I DO NOT THINK THAT EITHER (A) OR (C) WOULD BE USEFUL UNLESS SOMETHING NEW COULD BE SAID ABOUT THE FINANCIAL NEGOTIATION AND (REPEAT AND) ABOUT GEC'S POSITION. ON THE FINANCIAL NEGOTIATION, PENTECOST HAD A MEETING THIS MORNING WITH MADAME HUANG OF THE BANK OF CHINA. SHE TOLD HIM THAT THE BANK OF CHINA INTENDED TO INVITE THE BRITISH NEGOTIATING TEAM TO RETURN TO PEKING AS SOON AS GEC HAD REACHED AGREEMENT WITH THE JVC. SHE INDICATED, HOWEVER, THAT THE BANK OF CHINA WAS NOT EXPECTING A RESUMED NEGOTIATION TO BEGIN BEFORE THE NEW YEAR. ON THE SUBSTANCE, SHE SAID THAT THERE WERE THREE REMAINING ISSUES: THE PREMIUM SEMICOLON A GUARANTEE SEMICOLON AND THE INTEREST RATE. ON THE PREMIUM, SHE SAID THAT THE FRENCH, WHO HAD ALWAYS OFFERED A LOWER PREMIUM THAN THE BRITISH, HAD NOW CONCEDED A PREMIUM WHICH WAS LOWER STILL. ON A GUARANTEE, SHE SAID THAT THIS WAS A MATTER WHICH CONCERNED GOVERNMENTS AS WELL AS THE COMMERCIAL PARTIES. ON THE INTEREST RATE, SHE SAID THAT THE JVC STILL WANTED A DISCOUNT OF 0.35 PERCENT ON THE CONSENSUS RATE AT ANY LEVEL, BUT THAT THE BANK OF CHINA HAD DECIDED NOT TO PRESS FOR THIS. IN REPLY, PENTECOST POCKETED WHAT MADAME HUANG HAD SAID ABOUT THE INTEREST RATE AND SPOKE TO HIS BRIEF ON THE OTHER TWO ISSUES.

6. SO FAR AS GEC'S POSITION IS CONCERNED, I AM BOUND TO WONDER WHETHER THERE IS NOTHING WHICH THE BRITISH GOVERNMENT COULD DO TO HELP. ON 21 DECEMBER, CATER AGAIN SPOKE TO MEE ABOUT THE FREE SERVICES WHICH THE CEGB HAD PROVIDED IN RESPECT OF CASTLE PEAK A. I KNOW THAT YOU HAVE HITHERTO RULED OUT ANY POSSIBILITY OF A SIMILAR AGREEMENT IN RESPECT OF DAYA BAYM BUT I DO THINK THAT GEC ARE AT A POINT WHERE THEY WOULD VERY MUCH WELCOME ANY HELP FROM THE BRITISH GOVERNMENT WHICH MIGHT ALLOW THEM TO CLOSE OR REDUCE THE REMAINING GAP.

7. THESE FACTORS MEAN THAT THERE ARE PROS AND CONS TO EVERY POSSIBLE COURSE OF ACTION. MY OWN PREFERENCE, WEIGHING THESE FACTORS AS BEST I CAN, AND GIVEN THE SEASON OF THE YEAR, IS THAT I SHOULD BE INSTRUCTED TO SEEK A MEETING WITH LI PENG SEVERAL DAYS BEFORE THE NEW YEAR SEMICOLON THAT, AT SUCH A MEETING, I SHOULD CONVEY TO HIM A MESSAGE FROM MR BRITTAN ABOUT THE FINANCIAL NEGOTIATION (SEE BELOW) SEMICOLON AND THAT I SHOULD ALSO BE AUTHORISED TO TELL HIM THAT GEC CANNOT CONTEMPLATE A NEGOTIATION ON A NEW FOOTING IN SHENZHEN. WHETHER I COULD OR SHOULD SAY MORE TO HIM ABOUT GEC'S POSITION WOULD DEPEND ON WHETHER GEC CAN IN THE MEANTIME THINK OF ANY NEW WAY OF BRIDGING THE GAP AND ON WHETHER THE BRITISH GOVERNMENT CAN DO ANYTHING TO HELP THEM OVER THIS.

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18.

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8. ON THE FINANCIAL NEGOTIATION, I BELIEVE THAT I SHOULD AT THE MINIMUM BE AUTHORISED TO TELL LI PENG THAT THE BRITISH GOVERNMENT HAS TAKEN STOCK IN THE LIGHT OF THE SETTLEMENT REACHED BETWEEN THE FRENCH AND CHINESE GOVERNMENTS AND THAT BENJAMIN WOULD BE PREPARED TO RETURN TO PEKING AS SOON AS HE IS INVITED BY THE BANK OF CHINA TO DO THIS. IF I COULD ADD ANYTHING ENCOURAGING FOR THE CHINESE ON SUBSTANCE, THIS WOULD BE A VERY USEFUL BONUS.

9. I HAVE DISCUSSED THE TERMS OF THIS TELEGRAM WITH BOTH DAVIDSON AND ALTY. THEY ARE CONTENT. BUT DAVIDSON HAS ASKED ME TO ADD THAT, IN HIS BELIEF, BOTH THE CHINESE GOVERNMENT AND THE JVC WISH THE COMMERCIAL NEGOTIATION TO BE CONCLUDED BY THE END OF THIS YEAR. IN THE LIGHT OF THIS, AND GIVEN THAT THE IDEA OF A NEGOTIATION IN SHENZHEN ON A NEW FOOTING IS NOT ACCEPTABLE, HE BELIEVES THAT BOTH GEC AND THE BRITISH GOVERNMENT SHOULD THINK IN TERMS OF A TIMETABLE WHICH WOULD ALLOW GEC TO SIGN AN MOU WITH THE JVC BEFORE 1 JANUARY.

10. PENTECOST HAS LEFT PEKING. ALTY WILL BE LEAVING, BY LUFTHANSA, TO-NIGHT. HE IS RELEGRAPHING SEPARATELY ABOUT HIS TRAVEL PLANS AND ABOUT ADDITIONAL DETAILS THE FRENCH HAVE GIVEN HIM ON THEIR FINANCIAL PACKAGE. THESE REVEAL A PICTURE WHICH IS EVEN LESS EASY FOR US.

EVANS

GUANGDONG

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JU3

PRIME MINISTER

GUANGDONG NUCLEAR PROJECT

Since I last wrote to colleagues on this project, GEC have had a team in Peking for nearly six weeks in intensive negotiations with the Joint Venture Company - the combined Chinese and China Light and Power Joint Venture who will eventually own the power station - over the contract price and related commercial terms. GEC have made some progress in dampening down Chinese expectations. But having reduced their price by a further 2%, making a total price cut of 20%, formally at the negotiating table the Chinese have not abated their demands.

2 Meanwhile, at his request, Vice Premier Li Peng, who seems to have taken the project under personal responsibility, visited Paris at the end of last week. I invited him to come to London afterwards, but he was not able to accept, and we understand that his tour of Eastern Europe and Russia means he is unlikely to return to Peking much before Christmas. While in Paris, he met M. Fabius and Mme. Cresson, and signed an agreement with the latter, for ratification in due course by a Letter of Intent, under which the remaining price difference in both the Framatome

Prime Minister

No immediate action. The advice is that we should sit tight for now, but may eventually have to make some more concessions to clinch it.

CDD 20/xii



and EdF contracts were split 50:50 between the French and the Chinese. We understand this probably involved total price concessions by the French of a further some £30 million, and there were other detailed points settled, such as the escalation factor.

3 The Chinese have continued to press points on finance, and Mme. Cresson agreed to send a team of senior French officials to Peking on 18 December for a final round. The Chinese are particularly pressing the French on premium and bank fees. Chinese demands will be for a substantial reduction, under their normal procedures of perhaps 50%, and the French expect to have to give something in both these areas. While this progress on the French front shows that the Chinese mean business, the terms on which they settled will inevitably bring further pressure on GEC on price and on us on financing. On the commercial front, there have been informal contacts between the heads of the GEC and Chinese negotiating teams in Paris, and the latter has said that he has both authority to settle with GEC before Christmas and is ready to countenance some manoeuvre to allow the price gap to be reduced to a bridgeable range. Inevitably this will involve further concessions from GEC.

4 On the financial issues, the concessionality limit for the total support of 25%, which was agreed at EX on 29 February 1984 has effectively been reached, subject to marginal variations





resulting from changes in price and conditions. On the ECGD premium, we had developed an approach whereby the sum of French premium and fees was broadly comparable to the ECGD premium on our side, since our banks gave away their fees at a very early stage. If the French make concessions on premium which go further than ours, it will be extremely difficult for us not to at least match. We had discussions with French officials prior to their departure to stiffen their line, and officials from my Department and ECGD will be in Peking to keep in close touch with the French during their final negotiations.

5 The effective conclusion of the French negotiations poses us a range of options. But to take a political initiative now would be bound to carry the implication that we might be prepared to intervene in the commercial negotiations in a manner comparable to the French. We have repeatedly indicated that the French position, with all their commercial parties effectively under State control, not to mention their banks, is not analagous with the UK. But this is unlikely to deter Chinese expectations. It is noteworthy, moreover, that the initiative for the visit to Paris came from Li Peng, and our view is that we should not take any special steps until we have a better indication of how far the French have gone, and how the GEC commercial negotiations go following the informal contacts in Paris. If we are to secure the project, I would not rule out having to make some further concession, otherwise the French, who have played straight with



us so far, may feel at liberty to seek to obtain the contract for the turbine generators for the project for their national supplier, Alsthom. This would have wide and serious implications.

6 Meanwhile, we shall be keeping a close eye on developments.

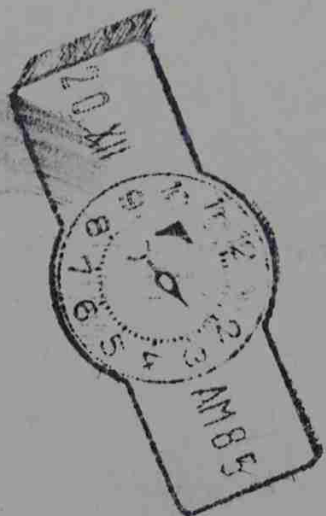
7 I am copying this minute to EX colleagues.

L.B.

L B

19 December 1985

Department of Trade & Industry



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294

GUANGDONG NUCLEAR PROJECT

SEE MIPT. MESSAGE APPROVED BY PRIME MINISTER READS AS FOLLOWS:

QUOTE SINCE WE DISCUSSED THE CURRENT NEGOTIATIONS ON THE GUANGDONG NUCLEAR PROJECT IN NEW YORK, I HAVE RECEIVED YOUR VERY HELPFUL MESSAGE, DELIVERED BY YOUR AMBASSADOR TO GEOFFREY HOWE ON 30 OCTOBER.

BOTH SIDES NOW SEEM TO HAVE A BETTER UNDERSTANDING OF EACH OTHER'S POSITION. WE CONTINUE TO REGARD THE PROJECT AS IMPORTANT ON BOTH POLITICAL AND ECONOMIC GROUNDS. AND I AM PLEASED THAT. WITH MOVEMENT ON BOTH SIDES. THE NEGOTIATIONS WITH THE BANK OF CHINA HAVE LED TO THE BEST FINANCING TERMS THAT WE AND THE FRENCH GOVERNMENT CAN DEFEND INTERNATIONALLY. THE BANK OF CHINA NOW HAS THE FINAL FINANCIAL OFFER.

I FULLY AGREE WITH YOUR VIEW THAT DIFFERENCES ON PRICE LED TO THE RECENT PAUSE IN NEGOTIATIONS. WE HAVE HELD DISCUSSIONS WITH GEC DURING THIS PAUSE. AND I AM PLEASED TO SAY THAT THE COMPANY WILL BE RETURNING TO PEKING TO RESUME NEGOTIATIONS ON 11 NOVEMBER. IF THESE ARE TO BE SUCCESSFUL, HOWEVER. THERE

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4168 - 1

WILL NEED TO BE A FLEXIBLE APPROACH ON BOTH SIDES. WITH OUR ENCOURAGEMENT. GEC HAVE ALREADY GONE A VERY LONG WAY TO MEET THE JOINT VENTURE COMPANY'S POSITION. AS A RESULT OF THE PRICE CUTS THEY HAVE MADE. THE RETURN TO GEC IS NOW MINIMAL COMPARED WITH THE SUBSTANTIAL COMMITMENTS THEY WILL HAVE TO CARRY OUT. THEY ARE UNDERSTANDABLY CONCERNED THAT FURTHER DEMANDS MIGHT BE PLACED UPON THEM EVEN IF THEY WERE TO MAKE THE FURTHER PRICE REDUCTION REQUIRED BY THE JVC. IT IS OBVIOUSLY NECESSARY FOR GEC TO BE AWARE OF ALL THE JVC'S REQUESTS TO ALLOW NEGOTIATIONS TO PROCEED ON A REASONABLE BASIS.

I WAS REASSURED BY VICE PREMIER LI PENG'S RESPONSE TO LEON BRITTAN'S LETTER, WHICH HE HAS REPORTED TO ME, THAT THE CHINESE GOVERNMENT WOULD USE ITS INFLUENCE TO MODERATE THE JOINT VENTURE COMPANY'S DEMANDS. I CAN ASSURE YOU THAT GEC WILL APPROACH THE FORTHCOMING NEGOTIATIONS IN A SERIOUS AND SINCERE WAY. I BELIEVE OUR CONTACTS HAVE BEEN HELPFUL IN MAINTAINING THE MOMENTUM OF NEGOTIATIONS, AND THAT WE SHOULD BOTH CONTINUE TO MONITOR CLOSELY THE PROGRESS OF NEGOTIATIONS IN THE INTERESTS OF AN EARLY SUCCESSFUL CONCLUSION. UNQUOTE.

NONE

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PRIME MINISTER'S  
PERSONAL MESSAGE



cc: FCO  
D77

SERIAL No. T208A/85

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Subject: *cc Ops  
masters*

THE PRIME MINISTER

7 November 1985

*My dear Premier,*

Since we discussed the current negotiations on the Guangdong Nuclear Project in New York, I have received your very helpful message, delivered by your Ambassador to Geoffrey Howe on 30 October.

Both sides now seem to have a better understanding of each other's position. We continue to regard the project as important on both political and economic grounds, and I am pleased that, with movement on both sides, the negotiations with the Bank of China have led to the best financing terms that we and the French Government can defend internationally. The Bank of China now has the final financial offer.

I fully agree with your view that differences on price led to the recent pause in negotiations. We have held discussions with GEC during this pause, and I am pleased to say that the company will be returning to Peking to resume negotiations on 11 November. If these are to be successful, however, there will need to be a flexible approach on both sides. With our encouragement, GEC have already gone a very long way to meet the Joint Venture Company's position. As a result of the price cuts they have made, the return to GEC is now minimal compared with the substantial commitments they will have to carry out. They are understandably concerned that further demands might be placed upon them even if they were to make the further price reduction required by the JVC. It is obviously necessary for GEC to be aware of all the

*057*

- 2 -

JVC's requests to allow negotiations to proceed on a reasonable basis.

I was reassured by Vice Premier Li Peng's response to Leon Brittan's letter, which he has reported to me, that the Chinese Government would use its influence to moderate the Joint Venture Company's demands. I can assure you that GEC will approach the forthcoming negotiations in a serious and sincere way. I believe our contacts have been helpful in maintaining the momentum of negotiations, and that we should both continue to monitor closely the progress of negotiations in the interests of an early successful conclusion.

With best wishes,

Yours sincerely  
Margaret Thatcher

---

His Excellency Mr. Zhao Ziyang

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VC



bc PC

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*From the Private Secretary*

7 November 1985

GUANGDONG NUCLEAR PROJECT

Thank you for your letter of 7 November enclosing a draft message from the Prime Minister to Premier Zhao. The Prime Minister has approved the message with one small amendment and I enclose a copy. You will no doubt wish to have the text telegraphed to our Embassy in Peking for delivery.

I am copying this letter to Peter Ricketts (Foreign and Commonwealth Office) together with the signed original for despatch by bag.

(CHARLES POWELL)

Michael Gilbertson, Esq.,  
Department of Trade and Industry.

ea





JU542

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

7 November 1985

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

Charles Powell Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

Dear Charles,

GUANGDONG NUCLEAR PROJECT

The Prime Minister undertook at her meeting with Premier Zhao in New York on 24 October to let the Premier have a statement of the UK position on the Guangdong negotiations. I attach a draft for this purpose.

Since GEC's negotiations with the Chinese broke off on 24 October there has been a flurry of messages at political level from the Chinese. The Prime Minister's message is intended to pick up the positive elements in these and put the Chinese on notice that we expect the price negotiations, which are due to restart on 11 November, to be carried on in a more constructive way by the Chinese side than they have been to date. The message also underlines my Secretary of State's earlier statement to Vice Premier Li Peng that our financial offer is the best we can defend internationally and will not be improved further, in the face of attempts by the Chinese and their Hong Kong partners to press for better terms.

Following meetings with GEC and French officials yesterday, our assessment is that difficult negotiations on price still lie ahead. GEC are prepared to make some further moves towards the Chinese, but the Chinese will have to show some flexibility if an agreement is to be reached. The French appear if anything even more determined to resist further concessions. Their position, as supplier of the key component, the nuclear steam supply system, on which they are offering to transfer technology, is stronger than that of the UK. It may well be necessary for the Prime Minister to intervene again with Premier Zhao, and her message leaves the way open for this.

Prime Minister  
Agree attached  
message to Zhao Ziyang?  
It is deliberately rather  
general, as the Company  
want to keep the maximum  
flexibility.  
attached CDP7/Ki



I should be grateful if you could let me know as soon as the Prime Minister has approved the draft message, as we are anxious to get it to the Chinese in advance of negotiations restarting on 11 November. If you let me have the signed text, we shall also arrange for this to be delivered via the Embassy in due course.

I am copying this letter to Peter Ricketts (FCO).

*Yours ever,  
Michael*

MICHAEL GILBERTSON  
Private Secretary

Enc

His Excellency Mr Zhao Ziyang  
Premier of the State Council of the People's Republic of China *CM*

*Please refer to Mr's signature*

Since we discussed the current negotiations on the Guangdong Nuclear Project in New York, I have received your very helpful message, delivered by your Ambassador to Geoffrey Howe on 30 October.

Both sides now seem to have a better understanding of each other's <sup>position</sup>. We continue to regard the project as important on both political and economic grounds, and I am pleased that, with movement on both sides, the negotiations with the Bank of China have led to the best financing terms that we and the French Government can defend internationally. The Bank of China now has the final financial offer.

I fully agree with your view that differences on price led to the recent pause in negotiations. We have held discussions with GEC during this pause, and I am pleased to say that the company will be returning to Peking to resume negotiations on 11 November. If these are to be successful, however, there will need to be a flexible approach on both sides. With our encouragement, GEC have already gone a very long way to meet the Joint Venture Company's position. As a result of the price cuts they have made, the return to GEC is now minimal compared with the substantial commitments they will have to carry out. They are understandably concerned that further demands might be placed upon them even if they were to make the further price reduction required by the JVC. It is obviously necessary for GEC to be aware of all the JVC's requests to allow negotiations to proceed on a reasonable basis.

I was reassured by Vice Premier Li Peng's response to Leon Brittan's letter, which he has reported to me, that the Chinese Government would use its influence to moderate the Joint Venture Company's demands. I can assure you that GEC will approach the forthcoming negotiations in a serious and sincere way. I believe our contacts have been helpful in maintaining the momentum of negotiations, and that we should both continue to monitor closely the progress of negotiations in the interests of an early successful conclusion.

*will bear witness.*



10 DOWNING STREET

*From the Private Secretary*

4 November 1985

I enclose copies of an exchange of correspondence between the Prime Minister and Lord Weinstock on Guandong.

I am copying this letter and enclosure to Peter Ricketts (Foreign and Commonwealth Office).

(Charles Powell)

John Mogg, Esq.,  
Department of Trade and Industry.

ECU

hie

BM



cc FCO

10 DOWNING STREET

THE PRIME MINISTER

4 November 1985

Dear Arnold.

Thank you for your letter of 30 October about the Guandong negotiations. I was sorry to hear they had reached such a difficult point but hope they can still be brought through to a successful conclusion. I shall be sending Premier Zhao Ziyang a full statement of our position shortly. I know that the Department of Trade and Industry are consulting your people about this.

I shall pass on your kind words about the help you have received from DTI staff. I was very pleased to hear of this.

Yours sincerely  
Margaret

The Lord Weinstock

EU

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**CONFIDENTIAL**

FM PEKING

TO DESKBY 020900Z DTI

TELNO INDUS 255

OF 020345Z NOVEMBER 85

INFO IMMEDIATE PARIS, HONG KONG, BTC HONG KONG, JAKARTA (FOR ADAMS)

FOR DTI DUTY OFFICER, TO PASS TO ALTY WEE4

YOUR TELNO INDUS 266 : GUANGDONG NUCLEAR PROJECT

1. VICE-PREMIER LI PENG RECEIVED ME AND DAVIES AT 9.00 AM ON 2 NOVEMBER FOR 30 MINUTES. AFTER INITIAL COURTESIES HE MADE FOUR POINTS.
2. FIRST, HE ASKED ME TO THANK MR BRITTAN FOR HIS MESSAGE, AND TO APOLOGISE FOR THE DELAYED ANSWER CAUSED BY HIS OWN VISIT TO KOREA AND THEN BY THE NEED FOR THE CHINESE SIDE TO DISCUSS MATTERS FURTHER. HE HOPED THAT MR BRITTAN WOULD UNDERSTAND.
3. SECONDLY, HE EMPHASISED THAT THE CHINESE GOVERNMENT WOULD CONTINUE TO GIVE POSITIVE SUPPORT TO THE CONSTRUCTION OF THE NUCLEAR POWER STATION IN GUANGDONG AND TO COOPERATION WITH CLP. THEY HOPED THAT THE JOINT SUPPLY OF EQUIPMENT BY FRANCE AND BRITAIN WOULD BE SUCCESSFUL ON THE BASIS OF MUTUAL BENEFIT. BOTH THE UNITED STATES AND JAPAN HAD SIGNED NUCLEAR COOPERATION AGREEMENTS WITH CHINA SO THAT FIRMS FROM THE TWO COUNTRIES WERE NOW VERY ACTIVE IN SEEKING BUSINESS. THE CHINESE HOWEVER WISHED TO GIVE PARTICULAR CONSIDERATION TO THEIR OLD FRIENDS, WHERE OTHER CONDITIONS WERE EQUAL. THE TERMS OFFERED BY THE AMERICANS AND JAPANESE MIGHT BE MORE ADVANTAGEOUS IN CERTAIN RESPECTS, BUT THE CHINESE ALWAYS PROCEEDED AS OLD FRIENDS SO LONG AS TERMS OFFERED COULD BE ACCOMMODATED. ANOTHER REASON WHY THE CHINESE SUPPORTED THE PROJECT WAS THAT THEY BELIEVED THAT IT WOULD BE CONDUCTIVE TO THE JOINT CHINESE AND BRITISH EFFORTS TO PRESERVE THE STABILITY AND PROSPERITY OF HONG KONG.
4. THIRDLY, AS TO THE NEGOTIATIONS THEMSELVES, THE MAJOR PROBLEM NOW RELATED TO PRICE. THE FIRST STAGE OF THE NEGOTIATIONS HAD BEEN QUITE FRUITFUL. BOTH GEC AND THE BRITISH GOVERNMENT HAD MADE CERTAIN EFFORTS, GEC CUTTING ITS MARGIN AND THE BRITISH GOVERNMENT OFFERING FAVOURABLE LOAN CONDITIONS. HOWEVER, FRANKLY SPEAKING, THE TERMS SO FAR OFFERED BY THE BRITISH SIDE WERE STILL A FAIR WAY FROM BEING ACCEPTABLE TO THE JVC. ACCORDING TO THE JVC THE REASON FOR THE REMAINING GAP WAS THAT THE ORIGINAL PRICE OFFERED BY GEC WAS FAR TOO HIGH BY COMPARISON TO INTERNATIONAL PRICES. IT MUST HOWEVER BE ACKNOWLEDGED THAT THE GAP HAD ALREADY BEEN SUBSTANTIALLY NARROWED. HE SUGGESTED THAT THE CHINESE AND BRITISH GOVERNMENTS SHOULD CONTINUE TO EXERT INFLUENCE ON THE JVC AND GEC TO GET THEM TO NARROW THEIR DIFFERENCES. IT WAS NOT HOWEVER FOR THE GOVERNMENTS TO DECIDE THE FINAL TERMS. ALL THEY COULD DO WAS TO EXERT INFLUENCE. THE CHINESE GOVERNMENT COULD EXERT INFLUENCE ON THE CHINESE CHAIRMAN OF THE JVC TO LOWER HIS DEMANDS

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/ AND -

AND TO ASK THE JVC TO TAKE UPON ITSELF MORE RISKS. THE BRITISH GOVERNMENT COULD EXERT INFLUENCE IN TWO QUARTERS : FIRST, ON GEC TO CUT ITS PRICE FURTHER: AND SECOND, ON THE HONG KONG COMPONENT OF THE JVC TO MAKE THEM ACCEPT THE IDEA OF LOWERING THEIR DEMANDS AND TAKING MORE RISK.

5. FOURTHLY, AFTER EFFORTS BY THE TWO GOVERNMENTS, THE JVC AND GEC COULD CONTINUE NEGOTIATIONS AND, IN COOPERATION WITH THE FRENCH COMPANIES, PROCEED TO CONTRACT SIGNATURE. GENERALLY SPEAKING, THE CHINESE WERE OPTIMISTIC ABOUT THE PROJECT, AND HE HIMSELF WAS OPTIMISTIC. ALTHOUGH THERE WERE MANY RUMOURS IN THE PRESS THAT THE TWO COMPANIES (JVC AND GEC) HAD SUSPENDED THE NEGOTIATIONS, SOME SAYING THAT THE NEGOTIATIONS HAD BROKEN DOWN, SOME SAYING THAT THE JVC WERE LOOKING FOR NEW PARTNERS, SUCH REPORTS COULD NOT BE HELPED. HE THOUGHT THAT WITH COOPERATIVE EFFORTS PROGRESS WAS POSSIBLE AND HE REPEATED THAT HE WAS OPTIMISTIC. HE ASKED THAT THESE FOUR POINTS SHOULD BE CONVEYED TO MR BRITTAN.

6. THANKING HIM FOR RECEIVING ME, I UNDERTOOK TO CONVEY HIS MESSAGE TO MR BRITTAN IMMEDIATELY. SPEAKING PERSONALLY, I WAS ENCOURAGED BY THE VICE-PREMIER'S REMARKS AND I THOUGHT THAT THE BRITISH GOVERNMENT WOULD ALSO BE ENCOURAGED. AS TO THE PRESS, THE EMBASSY HAD RECEIVED MANY PRESS ENQUIRIES AND WE HAD CONSISTENTLY TAKEN THE LINE THAT THERE HAD BEEN A PAUSE IN THE NEGOTIATIONS AND NO BREAKDOWN. I THEN SPOKE AS INSTRUCTED IN YOUR TUR, DRAWING FULLY ON POINTS A TO D AND POINT F, EMPHASISING THAT I WAS SPEAKING ON INSTRUCTIONS

7. LI PENG THANKED ME. HE SAID THAT HE HAD NOT REFERRED TO GEC'S DEPARTURE FROM PEKING IN HIS REMARKS. NOT SURPRISINGLY THE JVC HAD A DIFFERENT VIEW ABOUT GEC'S DEPARTURE. SO FAR AS THE CHINESE GOVERNMENT WAS CONCERNED THEY DID NOT ATTACH TOO MUCH IMPORTANCE TO THIS. IT COULD BE EXPLAINED AS A RESULT OF ONE SIDE DECLARING THAT THE NEGOTIATIONS WERE CONCLUDED, OR AS A DECISION BY ONE SIDE SIMPLY TO LEAVE. THIS DID NOT MATTER MUCH. WE SHOULD NOW ADOPT A POSITIVE APPROACH AND LOOK TO THE FUTURE. SPEAKING PERSONALLY, HE WISHED TO ADD THAT HE HAD FOLLOWED THE TALKS IN NEW YORK BETWEEN THE TWO PREMIERS VERY CLOSELY AND HE KNEW THAT THE CHINESE AMBASSADOR HAD MET SIR GEOFFREY HOWE AND HAD REPORTED FULLY ON THIS. THE BURDEN OF WHAT LI PENG WISHED TO SAY WAS THAT BOTH SIDES SHOULD NOW MAKE FURTHER EFFORTS. THE CHINESE SIDE WOULD DO SO AND HE HOPED THAT THE BRITISH WOULD. HE BELIEVED THAT THERE WOULD THEN BE A SUCCESSFUL OUTCOME.

-2-  
CONFIDENTIAL

18.1



8. I ENQUIRED, BEFORE DEPARTURE, TO WHOM I SHOULD PASS THE MESSAGE FROM THE PRIME MINISTER SINCE PREMIER ZHAO WOULD NOT BE IN PEKING NEXT WEEK. LI PENG SAID THAT I SHOULD PASS IT TO HIM AND HE WOULD MAKE A REPORT TO THE PREMIER.

EVANS

GUANGDONG

LIMITED

FED

NED

TRED

HKD

PUSD (MR CROWLEY)

WED

SIR W HARDING

MR DAUNT

MR WILSON

[COPIES SENT TO NO 10 DOWNING STREET]

ADDITIONAL DISTRIBUTION

GUANGDONG NUCLEAR

COPIES TO

DTI / ASHDOWN HSE.

-3-  
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20  
Personal

THE GENERAL ELECTRIC COMPANY, pl.c.

1 STANHOPE GATE · LONDON W1A 1EH

01-493 8484

30 October, 1985

Dear Margaret,

You will probably have heard that the Guangdong negotiations did not reach the hoped for successful conclusion at the recent protracted meetings in Beijing. It is not possible to know at the moment whether the whole thing has been in vain, or whether it can still be pulled off.

But I thought it right to record that the people from the DOTI were as helpful and as positive as it was possible to hope for, and if it turns out all to have been for nothing, it will not have been through lack of support from them.

Yours sincerely,

Arnold

Mt. Hon. Margaret Thatcher, P.C., M.P.

REGISTERED IN ENGLAND NO. 67307 · REGISTERED OFFICE: 1 STANHOPE GATE, LONDON

Guano ~~Dono~~

HONG KONG

PT 3

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Foreign and Commonwealth Office

London SW1A 2AH

30 October 1985

Dear Charles,

Guangdong Nuclear Project

mb  
 Prime Minister  
 Officials are working on  
 a letter to Zhao Ziyang. But  
 GEC are proving difficult & it  
 may take 2/3 days. C.D.P.

As I mentioned to you on the telephone, we arranged for the Chinese Ambassador to call this morning on the Foreign Secretary to take delivery of an oral message from Premier Zhao Ziyang to the Prime Minister.

The text of the message was as follows:

"I learned that difficulties have arisen on the price question in the Sino-British talks concerning the nuclear power plant. During the October 23-24 talks, the GEC delegation said that they could reduce the price by 18% at the most. Thus, the talks ran into difficulties. The Chinese side had tried to persuade the GEC delegation to stay on in Beijing so that the talks could continue. However, both the GEC and the loan delegations left Beijing on the afternoon of 24 October. In my view, the break-off of the talks resulted from differences on price. The Chinese side is willing to continue the talks and will give preferential consideration to the British side when terms offered for the plant are similar.

It is hoped that the Prime Minister will further exert influence so that the British delegation will continue the talks and further reduce the price".

Mr Benjamin, who led the DTI delegation in Peking, was present at the meeting. DTI will be submitting advice to the Prime Minister next week on a suitable message to send Premier Zhao taking account of this latest message and of representations made by the Chinese to the French Government and the feedback from both British and French commercial interests.

I am copying this letter to Michael Gilbertson (DTI).

Yours ever,

Peter Ricketts

(P F Ricketts)

C D Powell Esq  
 10 Downing Street



DEPARTMENT OF TRADE AND INDUSTRY  
 1-19 VICTORIA STREET  
 LONDON SW1H 0ET 5422  
 TELEPHONE DIRECT LINE 01-215  
 SWITCHBOARD 01-215 7877

cup

PS/

Secretary of State for Trade and Industry

28 October 1985

Charles Powell Esq  
 Private Secretary to the  
 Prime Minister  
 10 Downing Street  
 LONDON  
 SW1

CDI  
 29/10

Dear Charles,

GUANGDONG NUCLEAR PROJECT : MEETING WITH CHINESE AMBASSADOR

I understand the Chinese Ambassador has asked to see the Prime Minister to hand over a message from Premier Zhao on this project.

2 We would recommend that the Prime Minister should agree to an early meeting with the Ambassador, or that if diary reasons make this impossible an appointment be made with one of her Private Secretaries. We would advise that a representative from the DTI attend the meeting.

3 We are currently drafting the statement promised by the Prime Minister to Premier Zhao. This will represent a valuable opportunity to influence negotiations at the highest level, and the timing of its delivery needs careful judgement. It would be best to see what Premier Zhao's own message is before delivering ours. In addition, we ought to incorporate GEC's considered view of our own way forward, together with latest news of the French position, which now seems to be developing into a statement similar to GEC's. Madame Cresson is seeing the Chinese Ambassador in Peking this evening. Our present thinking is to seek if possible to make common cause with the French in arguing in the statement that the price negotiations should stop focussing on arguments about percentage reductions and turn to some of the technical issues which affect project cost, such as additional options the Chinese have requested but which GEC regard as unnecessary. This would mean that even if a price dispute remained at the end of negotiations, GEC would at least know that they did not have subsequent technical negotiations to go through with the prospect of additional Chinese demands. We are checking Premier Zhao's movements with the Post in Beijing, as he is currently still travelling abroad and it would be better to deliver the message to him in Beijing where he can act upon it immediately.

JF4ALB



4 I attach a short brief for the meeting with the Chinese Ambassador.

5 I am sending a copy of this letter to Peter Ricketts (FCO).

*Yours ever,  
Michael*

MICHAEL GILBERTSON  
Private Secretary

JF4ALB

CONFIDENTIAL**GUANGDONG NUCLEAR PROJECT: BACKGROUND**

1 The Prime Minister is aware that negotiations on this project have recently been taking place in Beijing. She raised their progress when she saw Premier Zhao in New York.

2 The British negotiating teams from GEC and DTI/ECGD have now returned to the UK. The French Government team has also returned, as has Electricite de France, the proposed project manager. The nuclear supplier, Framatome, is still in Beijing, but appear to have reached stalemate with the Chinese.

3 The chief problem is price. There remains a price gap of about 2% in the case of both GEC and Framatome. The gap for EdF is still much wider, at about 30%. GEC, with support from Government funds, have made very large concessions to meet the Chinese position. At the beginning of negotiations the JVC demanded a reduction of over 25%. GEC had to move to a 17% reduction before the JVC were prepared to drop this to 20%. GEC then offered a further 1% but the JVC refused to budge.

4 Our position is that the 18% offered by GEC, plus an exceptional reduction in the interest rate for the export credit loans from 9.85% to 9.5% more than meets the Chinese demand for a cut of 20% in total.

5 Even if GEC were able to find the £6m needed to bridge the 2% gap, they are concerned that it would be tactically wrong to do so now. There are still a number of technical issues to be discussed which affect the price, and GEC are worried that they will be pressed to make further price concessions in these negotiations if they yield the 2% now.

6 We are continuing to receive a number of inputs from Paris, Peking and GEC and we shall be submitting shortly a note with proposals for taking the project forward.

MEE 4

October 1985

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**MEETING WITH CHINESE AMBASSADOR: GUANGDONG NUCLEAR PROJECT**

Line to Take

1 Both GEC and British Government approached the recent negotiations in Peking in a serious and constructive spirit.

2 The financial negotiations between HMG and the Bank of China made good progress and resulted in an exceptional financial package being offered to the Chinese. The terms of our final offer are the best ECGD have ever supported, and the best granted for any nuclear power station.

3 However, British Government was disturbed at the manner in which the commercial negotiations between GEC and the Guangdong Nuclear Power Joint Venture Company (JVC) were handled. Until the very end of the negotiations the JVC showed no flexibility in moving from their demand for a 25% price cut, whilst GEC, with our support, gave successive price reductions totalling 18%. JVC concession still amounts to only 5%.

4 Prime Minister will be letting Premier Zhao have a statement on UK position. However Ambassador should understand that both HMG and GEC have made their maximum efforts to meet the Chinese position. GEC's price cuts plus the 9.5% interest rate more than meets the 20% reduction requested by JVC. Chinese should now allow negotiations on technical aspects to proceed without preconditions.

5 Defensive. GEC not uncompetitive: GEC submitted a note showing how their original price was lower than guideline price submitted to JVC by Electricite de France.

6 GEC did not wish to break off negotiations but in face of JVC's inflexible attitude they could see no point in prolonging present round. GEC still wish to reach mutually acceptable solution.

MEE 4

October 1985



PRIME MINISTER

REQUEST FOR A MEETING BY LORD KADOORIE

Mr Prior has telephoned to ask that you should see Lord Kadoorie about the Guangdong contract. This request for a meeting follows one earlier this month, which in the event was not pressed.

Mr Prior told me of "political moves" on Guangdong. Apparently the British and French Ambassadors have been called in to see the Chinese Vice Minister. He went on to say that Lord Kadoorie is seeing Madame Cresson and that you had expressed a willingness to Lord Kadoorie to see him whenever he wanted.

DTI confirmed that the British and French Ambassadors were call in by the Chinese Government in an effort to persuade the two Governments to bring pressure to bear on the contractors to reduce prices. The Department do not regard this as a crisis in the negotiations, but predictable Chinese tactics to try to reduce prices. They also say that the Chinese have written to Mr Heath in an attempt to enlist his support to get prices reduced. Mr Lamont has offered Mr Heath advice on how to reply to the Chinese letter.

Recommendation

DTI see no reason for you to see Lord Kadoorie at this stage. I agree. Your diary is extremely crowded, especially in the period to the end of the first week in September which Mr Prior has suggested.

Shall I therefore telephone Mr Prior and say that in view of your already crowded diary, you are very sorry that it is not possible to see Lord Kadoorie on this occasion?

N.L.W.

27.8.85.

MJ2AYS

*Mrs Rydes. CR. allowed  
In Mr Poynter's absence, I passed  
this to Mrs Secretary.*

*N.L.W.  
30.8*

*Would have to  
wait & until I return  
from Scotland  
no*

ce R



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DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET 5422

TELEPHONE DIRECT LINE 01-215  
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

23 July 1985

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

NBN

CDP

23/7.

D Peter.

GUANGDONG NUCLEAR

Thank you for your letter of 28 June about the use of savings from alternative funding. We discussed the issues further on 8 July. I am writing to record what we agreed and to report on the result of the recent round of negotiations with the Chinese.

2 On alternative funding, we agreed that, in order to preserve the principle that some of the savings should accrue to the Exchequer, officials should not be permitted to use the full 5 per cent headroom in negotiations. However it should be left to the negotiators to decide, in the light of the pressures on them at the negotiating table, what proportion of the 5 per cent should be kept back. This seems to me a practical outcome and I was grateful for your helpful approach to the problem.

3 In the event the recent negotiations with the Chinese were inconclusive. Although initial progress was made in technical and commercial negotiations with GEC, discussion foundered on several key items with significant price implications. In preliminary discussion on price itself, GEC offered a price reduction of about 5 per cent but the Chinese refused to budge from their opening position that GEC must reduce their price by over 25 per cent. In view of the lack of progress at commercial level, the pressure on officials negotiating the financial terms was less severe than had been feared. The UK team made some improvements to our financial offer, as had previously been agreed with the French, but the main financial negotiations must be regarded as still to come. GEC are obviously frustrated at the rate of progress of negotiations and dismayed at the quite unrealistic demands being made by the Chinese on price. The Chinese were due to hold a similar set of

JF5AAE



negotiations with Electricite de France immediately following those with GEC, and are likely to hold an internal review before proceeding to further negotiations. There is therefore likely to be a period of several weeks before we get further signs of Chinese intentions. Meanwhile we shall be considering with GEC what our strategy should be in seeking to secure a contract on acceptable terms.

4 Finally, the OECD Consensus interest rate review on 15 July did not lead to any change in the Consensus interest rates which will apply for the next six months. Our negotiators maintained the line that the current consensus rate for China of 9.85 per cent should apply to the project. However, we have previously agreed with the French that if necessary, in response to Chinese demands for an interest rate lower than 9.5 per cent, we could revert at the end of negotiations to the 9.5 per cent interest rate which accompanied GEC and Framatone's original bid. In view of these points I propose, for the purposes of calculating concessionality on the project that we continue to employ the discount rates we have used to date, which are based on the 9.5 per cent Consensus rate, and which underpin the 25 per cent concessionality limit agreed by EX.

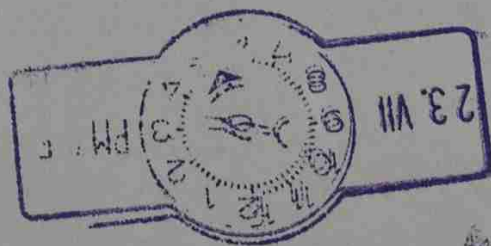
5 I am sending a copy of this letter to EX colleagues, to Peter Walker and Douglas Hurd, and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Norman Tebbit', with a horizontal line underneath the name.

NORMAN TEBBIT

JF5AAE

HONG KONG : Castle Peak : Pt 3 .



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WSPN  
M

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Tebbit MP  
Secretary of State for Trade and Industry  
Department of Trade and Industry  
1 - 19 Victoria Street  
London  
SW1E 6RB

28 June 1985

*Dear Secretary of State,*

GUANGDONG NUCLEAR PROJECT

Thank you for your letter of 14 June about the need to increase the concessions that may be made to secure the contract for the conventional island of the Guangdong Nuclear Project for GEC. I have also seen Geoffrey Howe's letter of 24 June.

I have given this very careful thought and accept inevitably with some regret your judgment that some further concessions will be necessary to secure this business though they must be kept to a minimum. The increase in interest rates since we considered this project in EX last year means that the current assessment of the forecast of the subsidies then possible within the 25 per cent ceiling is about 32 per cent now, almost a third of the value to the UK of the exports.

Fortunately the innovative work of GEC and their advisers has produced the possibility that savings on the cost of financing concessions for this project can be achieved and that such savings could therefore be made available to pay for some additional concessions. However as you accept, the savings likely to be realised cannot be predicted with any certainty. Indeed two developments since you wrote underline the uncertainty of the predictions of savings that can be achieved. The first is the decision of the Chinese-nominated Syndicate to submit their own funding proposals. These are similar to Citicorp's ideas, but it is not yet certain that they will not be more expensive. Being the nominated lenders, they are in a strong negotiating position.

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Secondly, there are difficulties over the application of the Banking Act which will, hopefully, be soluble but there can be no certainty about this. These two points suggest strongly that the margin for safety over the downside risks in your proposal is inadequate. Furthermore you envisage that all the expected savings should be available to finance concessions in support of this project. One of the objectives of the search for alternative funding mechanisms was to reduce the public expenditure cost of interest support and in the light of this, you have offered savings in this year's PES from the use of these mechanisms. It would be wholly consistent with this therefore for some of the savings likely to be achieved to go to the benefit of the Exchequer.

In these circumstances it is a fine judgment what savings to assume in assessing the scope for additional concessions. I think that the best that can be justified is to assume a cost of funds of 0.625 per cent over LIBOR. This would enable an additional 2½ percentage points of concessions to be made within the agreed 25 per cent subsidy ceiling. I hope that you can accept this and that the negotiators in China next week will be able to achieve a deal within these parameters after so many years' endeavour.

I note that the area where a further concession is most likely to be needed is over the cost of ECGD's premium and if a concession is made here the cost will have to be borne on public expenditure as ECGD must receive their full premium. It will be most important to ensure that if a concession is made here it is not apparent that exceptional treatment has been given. It is important that neither the Chinese nor any UK exporter or bank gains the impression that ECGD's premium is in any way negotiable. Any pressure to reduce the cost of ECGD's premia generally would be very expensive. This consideration will presumably restrict the scope for large reductions in the charge made for the premium.

I am sending copies of this letter to the Prime Minister and other members of EX, and to Peter Walker and Douglas Hurd and to Sir Robert Armstrong.

*Yours sincerely,*  
*Paul Taylor*

PETER REES

*(Approved by the Chief Secretary  
 and signed in his absence)*

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FCS/85/190CHIEF SECRETARY, HM TREASURYGuangdong Nuclear Project

1. I am grateful to Norman Tebbit for copying to me his letter to you of 14 June.
2. Although the financial details are complex, the essential point is simple: it would be very damaging if GEC were to lose the contract. In the aftermath of the recent successful visit by the Chinese Premier Zhao Ziyang, it is important that we should continue to build on our efforts to develop relations with China, particularly on the economic front. Much of the current momentum would be lost if, after several years in the attempt, GEC were unsuccessful with such a major and well-publicised contract as the Guangdong Nuclear Project. The credibility of British bids for China business would be reduced and there would inevitably be a loss of heart amongst companies considering whether to explore the China market. As a result we could expect to fall further behind our competitors in China. This would be particularly unfortunate at a time when our political relations with China are developing so well and provide an excellent opportunity for exploiting growing Chinese interest in commercial contacts with the Western world.
3. For these reasons, I welcome Norman Tebbit's imaginative and flexible financial proposals for giving GEC the best possible chance in their bid for the Guangdong contract, and hope that you will be able to agree to them.

/4.

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NBA 17  
 I please let  
 me see again  
 with Chief Sec's  
 response J.  
 COT

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4. I am copying this minute to the Prime Minister, other members of EX, and to Peter Walker and Douglas Hurd.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

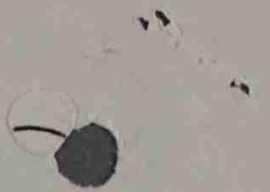
(GEOFFREY HOWE)

Foreign and Commonwealth Office  
24 June 1985

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HONG KONG  
Grang King  
PB





JU681

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

14 June 1985

CONFIDENTIAL

The Rt Hon Peter Rees QC MP  
Chief Secretary  
HM Treasury  
Parliament Street  
London SW1P 3AG

D. Peter.

GUANGDONG NUCLEAR PROJECT

Final financial and price negotiations with the Chinese on the Guangdong nuclear project are now expected within the next month. My recent discussions with Premier Zhao have left me in no doubt that they will be very tough. Chinese financial demands have increased since we considered our negotiating position at EX last year. Moreover, we are now vulnerable in the area of credit premium, where our premium charge is significantly higher than the French. The competitive pressures on GEC have also increased, as the Germans have now put in a bid for the whole station. The German firm KWU has signed a Memorandum of Understanding for the supply of nuclear stations to China. The French remain willing to co-ordinate their position with us, but have made clear that they will not do so to the point of losing the project.

Against this background, it is unlikely that the concessions envisaged last year by EX are now sufficient to win the project. But a way has emerged in which we could go further to meet Chinese demands without increasing the overall cost to Government. As you are aware, GEC took the initiative in exploring alternative funding mechanisms in order to cut the cost to Government of individual financial concessions. This has resulted in proposals for capital market funding which are now being discussed with the banking group for the project. Officials in our two Departments have agreed that under proposals for floating rate capital market funding a financial offer equivalent to the present negotiating limit of 25% concessionality would cost only about 20% concessionality. These

CF  
Please let me see  
when we have  
Chief Secretary;  
revised  
OOO



calculations are explained in more detail in the Annex attached to this letter. We could therefore, if necessary, make further concessions to the Chinese within the 25% negotiating limit agreed by EX. As credit premium is an area where we are particularly vulnerable, I propose that the interest make-up savings produced by these proposals should be regarded as available to allow us to reduce the premium payable by the Chinese to the same level as that of the French, whilst ensuring that ECGD receives its normal premium income. This proposal may raise Government Accounting problems which officials will need to address urgently.

GEC have, with our support, now been pursuing this project for the last five years. The Chinese do at last seem ready to clinch a deal. Following the signature of the Hong Kong agreement and, more recently, Premier Zhao's visit, we have a window of opportunity which may not last for long. To lose the contract now to the French or Germans would seriously dent our credibility at home and abroad.

I hope you and colleagues can therefore agree to the following proposals, which would give our negotiators a better chance of concluding a deal in the forthcoming negotiations at no extra cost to Government:-

a that we should seek to fund this project through alternative funding proposals based on the use of the capital market; and

b that the interest make-up savings arising should be available for use in negotiation, within the 25% limit, and may be used if necessary to match French premium levels, provided any Government Accounting problems can be surmounted.

I am copying this letter to the Prime Minister and other members of EX Committee, and to Peter Walker and Douglas Hurd. Given the imminence of final negotiations, perhaps we could meet to discuss urgently if you see any difficulty in my proposals.

*J. Norman*

NORMAN TEBBIT

CONFIDENTIAL

GUANGDONG NUCLEAR PROJECT - EFFECT OF ALTERNATIVE FUNDING PROPOSALS ON CONCESSIONALITY LEVELS

1 The main purpose of adopting alternative funding arrangements for the Guangdong project is to reduce the cost to Government of interest-make-up support for whatever financial package is eventually offered to the Chinese. This note, which has been agreed by Treasury, Bank of England, DTI and ECGD officials, explains the approach which has been adopted to reflecting the lower anticipated costs of support in the framework for calculating concessionality previously agreed for this project.

2 One of the attractive features of the alternative funding proposals which have been developed is that they permit greater flexibility in choosing between various funding instruments throughout the loan period. Underpinning the alternatives would be a committed short-term loan facility provided by the banking syndicate. This could stand on its own and as such would be the most expensive of the alternative funding options, though still somewhat cheaper than the present system. The intention would be to use less expensive instruments as far as possible. Some of these instruments are more dependent on suitable market conditions than others and the estimated cost of these alternatives varies. In general, the less costly a funding instrument, the more sensitive it is likely to be to market conditions, so the less certain we can be in advance of being able to implement it and achieve its cost savings. However, it would be possible to fall back on the more expensive alternatives. In attempting to quantify the costs of support under the alternative funding proposals we are therefore faced with a number of different options, each with different estimated costs and a different likelihood of being usable. The principle we have adopted in seeking to estimate likely support costs and thus calculate concessionality is to produce an average cost figure, where we judge the probability of being able to fund at lower cost is broadly equal to the probability that funding costs will be higher.

Types of Funding and Associated Costs

3 The most important distinction between the types of funding instrument which could be used is between floating interest rate and fixed interest rate funding. The costs of floating rate possibilities

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are much easier to compare with the traditional Fixed Rate Export Finance (FREF) scheme, under which the banks fund the loans on a floating rate basis and are recompensed through an interest equalisation mechanism for any difference between the fixed interest rate paid by the borrower and their own floating cost of funds. In the case of sterling FREF loans, this floating cost of funds is equal to LIBOR plus an agreed onlending margin, currently 0.875%. The new proposals involve a greater emphasis on specific fees rather than the margins associated with the traditional financing mechanism and it would probably be necessary for the interest make-up arrangements explicitly to cover this cost. However, cost savings over the traditional route would arise because the combination of any margin and fees payable would be lower than the 0.875% margin payable under traditional FREF arrangements. The fee/margin structure for the various alternatives presently under consideration is complicated, but can be expressed as an all-in margin on funds, which may be compared with the traditional 0.875%. At worst (and based on the banks' original fee proposals which it is hoped could be reduced in negotiation), this effective margin could be up to 0.80%, but if market conditions allowed the use of floating rate capital market funding it could be much lower, about 0.33%. The lower the margin, the less the interest make-up required compared with the traditional method.

4 Fixed rate funding could be put in place through the issue in the capital market of an ECGD guaranteed bond carrying a fixed rate of return to investors. In this case, because funds would be raised and lent to the customer at fixed rates, the interest-make-up costs over the life of the project would be largely crystallised - unlike the present system where they will vary from year to year as short-term interest rates vary. The cost of subsequent interest-make-up would depend on long-term rates prevailing when the fixed rate bond was issued; and it may be possible to lock into a fixed rate that would produce lower interest make-up costs than currently projected under the methodology used for concessionality calculations (in which present long-term interest rates are assumed to be a proxy for the average of short-term interest rates over the life of the loan). Although the actual savings over floating rate funding would depend on the level of short-term interest rates after the bond had been issued, there could thus be savings compared with the concessionality levels as originally calculated. In deciding whether to issue a fixed rate bond, these

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Potential benefits would have to be weighed against the risk that early repayment of the ECGD loan by the Chinese might involve net reinvestment losses pending repayment to investors. ECGD will be giving further consideration to the acceptability of this risk, and the present paper does not attain any weighting to the possibility of cost savings from a fixed rate bond.

Assessing an "average" Cost

5 We have therefore determined an "average" cost by reference to the floating rate mechanisms which can be put in place. On the basis of the various fee structures associated with the alternative funding mechanisms, we have calculated a notional "bank margin" which is directly comparable with the 0.875% margin in the present concessionality calculations. As explained above, the margin chosen equates to a point in floating rate funding where the probability of our being able to fund at lower cost equals the probability that we will have to fund at higher cost. This cannot be a precise calculation. In practice it will depend on a number of factors such as the size of the loan, the fees eventually negotiated and market conditions at the time. There is also a risk that we may not be able ultimately to put alternative funding in place because of objections from the Chinese or the banking syndicate. We have therefore taken as the starting point the margin derived from the fees quoted by Citicorp and Samuel Montagu for what is thought to be the cheapest floating rate source of funds (ie a Floating Rate Note guaranteed by ECGD) which seems the most likely instrument to be employed for at least the early part of the life of the loan. In order to reflect the uncertainties above we have increased this margin by 15% to produce a margin of 0.38%. This still provides scope for considerable savings and would mean that a financial offer costing the equivalent of the negotiating limit of 25% would now cost some 20%.

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H/K Guangzhou



Phone him  
tomorrow

**10 DOWNING STREET**

1950

message from Norman  
Brice - DTI . 212 6820  
letter from PM to  
Lord Kadoorie 6/3.

He wonders why last  
sentence was deleted  
from the draft reply?

Lord Kadoorie has  
requested further meeting  
with PM [DTI have  
not yet put this <sup>approach</sup> in  
writing]

Because it is very  
diff - to get word  
into PM's diary - JB

14/3.



CR?



file

vc

cc: DT

10 DOWNING STREET

THE PRIME MINISTER

6 March 1985

*Dear Lord Kadoorie,*

Thank you for your letter of 13 February and the notes of your meetings with Chairman Deng Xiao Ping and Premier Zhao Zhi Yang. It was indeed a rare honour to have met them and demonstrates clearly Chinese recognition of your efforts on behalf of the Guangdong nuclear power station project.

The comments by Chairman Deng and Premier Zhao about the importance of the project to both China and Hong Kong are a good sign of Chinese intentions. Let us hope that contracts will be awarded soon and that GEC and British industry generally will be successful.

*Yours sincerely*

*Raymond Barber*

The Lord Kadoorie, C.B.E., J.P.

*KD*



*NOT CF - by G.P.'s.*

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET  
TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

JF7702

PS/ Secretary of State for Trade and Industry

4 March 1985

Charles Powell Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

*Dear Charles,*

GUANGDONG NUCLEAR PROJECT

LETTER TO THE PRIME MINISTER FROM LORD KADOORIE

You wrote to Peter Ricketts (FCO) on 18 February about a letter of 13 February to the Prime Minister from Lord Kadoorie. I have agreed with Peter Ricketts that we would submit the draft reply. Lord Kadoorie enclosed his notes of meetings with the Chairman and Prime Minister of the People's Republic of China whom he met at the signing ceremony for the China/Hong Kong Joint Venture Agreement on this project.

... 2 I attach a short draft reply acknowledging receipt of the meeting notes, recognising Lord Kadoorie's favoured reputation with the Chinese Government and hoping that orders for Guangdong will be placed soon.

3 Lord Kadoorie mentions that he will be visiting the UK again in April. He has regularly called upon the Prime Minister during his trips to London, and they last met in Hong Kong when the Prime Minister was returning from Beijing. As we would expect to recommend to the Prime Minister in due course that she should again meet Lord Kadoorie briefly, there would be advantage in considering



the question at this stage, and, if the Prime Minister were willing in principle to see him, replying accordingly. The draft letter therefore contains a short final paragraph referring to this possibility, for inclusion if the Prime Minister agrees a meeting.

Yours sincerely,

Maureen Dodsworth.

MAUREEN DODSWORTH  
Private Secretary

Encl

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO:

The Lord Kadoorie CBE JP  
St George's Building  
HONG KONG

Thank you for your letter of 13 February and the notes of your meetings with Chairman Deng Xiao Ping and Premier Zhao Zhi Yang. It was indeed a rare honour to have met these two gentlemen and demonstrates clearly Chinese recognition of your efforts on behalf of the Guangdong nuclear power station project.

The comments by Chairman Deng and Premier Zhao about the importance of the project to both China and Hong Kong are a good sign of Chinese intentions. Let us hope that contracts will be awarded soon and that GEC and British industry generally will be successful.

[I very much hope we shall be able to see one another again during your visit here in April.]



Lord KADOORIE



4/3 ✓

10 DOWNING STREET

*From the Private Secretary*

18 February 1985

I enclose a copy of a letter to the Prime Minister from Lord Kadoorie. I should be grateful for a draft reply.

I am copying this letter to Callum McCarthy (Department of Trade and Industry).

(CHARLES POWELL)

P.F. Ricketts, Esq.,  
Foreign and Commonwealth Office.

A handwritten signature in ink, appearing to be 'P.F. Ricketts'.

*Ack 18/2*

FROM: The Lord Kadoorie, CBE, JP

*Call "Kadoorie" Hong Kong  
Telephone 5-219221  
Telex 73427*



*St. George's Building  
Hong Kong*

February 13, 1985

*18*

The Rt. Hon. Margaret Thatcher, MP  
Prime Minister  
10 Downing Street  
London SW1  
ENGLAND

Dear Prime Minister,

This letter is written to convey best wishes and to tell you something about our recent visit to Beijing in connection with the signing of the Joint Venture Agreement to build China's first large Nuclear Power Station at Daya Bay, some 50 Kms. from Hong Kong.

Thinking it might be of interest I enclose copies of the record of our interviews with Premier Zhao Zhi Yang and Chairman Deng Xiaoping.

It was pleasing that during these interviews they reiterated the importance they both attached to this Joint Venture, emphasising that it was by far the largest and most important project yet signed with any Western power.

Chairman Deng particularly appreciated our knowledge of Chinese thinking, saying that we were willing to take the risk when others would not.

He was emphatic in stating that socialism in China was here to stay and China would not revert to capitalism since this would be to recognize the failure of socialism. This, however, did not mean that socialism could not learn from capitalism, but he recognized this would take time - consequently the twelve years followed by fifty years, negotiated over Hong Kong.

After that the threads would be so closely knit, and the cloth so tightly woven, that they could not be separated and future policy would be firmly established.

Six years of patience and concentrated effort have at least succeeded in creating an atmosphere of cooperation which, with further effort, offers British Industry an opportunity to regain the premier place it once occupied in pre-war China.

(2) / . . . . .

(2)

*St. George's Building  
Hong Kong*

February 13, 1985

Pressure of work and the many official visitors from China just prior to the Lunar New Year unfortunately prevent me from attending the debate in the House of Lords on 19th inst. This I much regret. However, all being well, I hope to be in England sometime in April.

With renewed good wishes,

Sincerely yours,

*Lawrence Kadoorie:*

Kadoorie

Notes of Meeting between  
Chairman Deng Xiao Ping and the  
HKNIC Delegation led by Lord Kadoorie

DATE

19th January, 1985

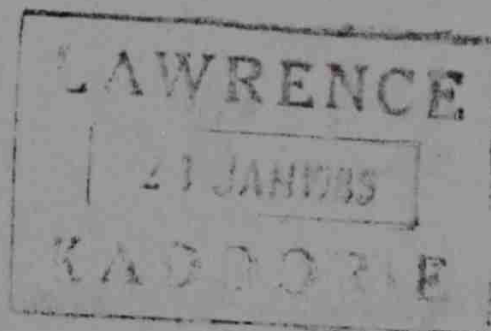
PLACE

Fujian Hall, Great Hall of the People

PRESENT AT THE RECEPTION

Hong Kong Delegation

Lord Kadoorie  
Lady Kadoorie  
Mr. & Mrs. P. Thompson  
Sir Sidney Gordon  
Mr. W.F. Stones  
Mr. M.D. Kadoorie  
Mr. R. McAulay  
Mr. P. Jacobs  
Mr. D. Blye  
Mr. D. Barrett  
Mr. S.K.L. Poon  
Dr. Y.B. Lee  
Mr. K. Chan  
Mr. N.L. Chang



Representatives of Government Department in China

Mr. Li Peng	Vice Premier
Madam Zhu Ling	Office Chief Representative Office of Guangdong Nuclear Power Station in Beijing
Mr. Huang Yi Chen	Deputy Director, State Planning Commission
Mr. Zhou Nan	Assistant Minister, Ministry of Foreign Affairs
Mr. Wang Quan Guo	Chairman, GNPJVC
Mr. Wei Yu Ming	Vice Minister, MOFERT
Mr. Zhao Qing Fu	Vice Minister, MWREP
Mr. Li Jian An	Vice Governor, Guangdong
Mr. Zhao Hung	Vice Minister, Ministry of Nuclear Industry
Mr. Zhen Hua	Deputy Director, Xinhua News Agency, H.K.
Mr. Zhou Xi Wu	Deputy Major, Shenzhen
Mr. Chen Zeng Qing	Director, Nuclear Steering Committee - State Council



- 2 -

1. Chairman Deng started by saying that Lord Kadoorie was 6 years older and looked healthier than himself. He asked whether Lord Kadoorie had subsequently visited Shanghai. Lord Kadoorie replied that he had been there again 7 years ago and was looking forward to going there at some future date. Chairman Deng suggested that he should visit Shanghai more often as he was born there. Lord Kadoorie replied that he was actually born in Hong Kong and went to Shanghai at an older age.

While on the topic of age, Lord Kadoorie added that the combined age of Chairman Deng and himself totalled 160 years of experience. Chairman Deng replied that it was indeed so, adding that Lord Kadoorie really understood China.

2. Chairman Deng said that in the preceding period at the time of Sino British discussions, Hong Kong experienced some turbulence but Lord Kadoorie and his company adopted a friendly and positive attitude towards China. For this, he wished to thank Lord Kadoorie and the friends in his company. Lord Kadoorie said it had been a great pleasure to be useful to China and to continue the co-operation which he and his company had had with China in the past. Chairman Deng said that China Light together with the Guangdong Power Co. were co-operating in a project which was the largest joint venture between China and an external investor. This is simply an extraordinary event he emphasised. Lord Kadoorie said it was an honour for him and his company to act as the link in a chain between the past and the future and to be useful to China and Hong Kong. Chairman Deng said that not only was the project in question the largest joint venture, it also contributed to the prosperity and stability of Hong Kong by boosting the confidence of the people there. This was a point which was especially important. He said the joint venture agreement exercised its usefulness not only during the 7-year construction period but would continue to do so after 1997. It had the effect of linking the economies of Hong Kong and the mainland even more closely. Although he very seldom met delegations of this nature, he was very pleased to see Lord Kadoorie and to congratulate him and his delegation for their work. Chairman Deng added that although he had met other people such

- 3 -

as Mr. Y.K. Pao, those meetings took place in relation to things which were different. Lord Kadoorie thanked Chairman Deng and expressed appreciation on behalf of his wife and the delegation for the reception. Chairman Deng replied that the person really to be thanked was Lord Kadoorie himself. At a time when others were afraid to take risks, he had the courage to expose himself, taking a lead which would contribute to attracting Hong Kong and foreign investment into China. Chairman Deng said that the Open Door Policy was a long term policy of the country. Some people were concerned that China will one day change course. Chairman Deng said he would emphasise that there will be no change in this policy. There will be no change before 1997 and it will continue to remain so for another 50 years following 1997. Some Japanese friends had asked him about this matter. He had replied that the time period of 50 years was no flippant decision. It had been arrived at after considering China's future development and her current status.

China has charted for itself a development plan to quadruple its GNP by the end of this century. This plan was formulated in 1980 when the average per capita income in the country was US\$250 per year; a very poor country indeed. When this figure is quadruple by the end of this century, the average per capita income would be US\$1,000 per year; a very small figure for the friends from Hong Kong, but represented great aspirations for China. At that time, China would have become rather well off and life in the country would be quite comfortable but still not rich. By the end of this first great aspirations, the productive capability of the country would have been relatively developed and the GNP would amount to US\$1,000 billion; not a big figure compared to some developed countries.

It would not be the most backward but would still remain a backward economy. What is therefore needed is a real development plan which will take another 50 years in the next century to realise, enabling China to get close to the living standards of the developed countries. In order to quadruple the GNP what is needed is to inject vigour into the economy inside the country and to open the door even

- 4 -

wider to economies outside. The open door policy therefore cannot change during this century and will continue to be maintained for another 50 years thereafter. This was the basis on which the 50 years had been determined.

What would happen after 50 years, say in 60 years' time, Chairman Deng posed the question and proceeded to elucidate. The economies of China and the foreign countries would have become closer and tied up by thousand and one links. Could such ties be then broken, he asked. There was yet another point as to why China had declared that the open door policy cannot change. Some people inside and outside of China say that the open door policy will lead to capitalism. If that was to happen, then China would have failed in its open door policy. By opening the door, certain aspects associated with capitalism would find their way into China. However, the Socialist economy would have developed much faster as a result of this open door policy, creating a situation where the socialist economy is always dominant. Taking the Guangdong J.V. as an example, 75% was socialist.

Lord Kadoorie said he was very happy to co-operate with Socialist China and although China was poor in money, in brains she was very rich. Chairman Deng replied that he believed in this statement. Lord Kadoorie said he was very glad to see the opportunity where socialism and capitalism were working together, where both sides tried to understand each other for the benefit of the country and the world. This he said had been his policy from the beginning. Lord Kadoorie added that he did not talk about different ideologies, but had thought more about benefits to the country and to the world. He would continue along this route and assured Chairman Deng of his co-operation and the satisfactory completion of the work begun together by two sides.

Chairman Deng said that in another 7 years, Lord Kadoorie would have reached the age of 93 and he himself 87. He suggested that they should hold a celebration party on that occasion using it as a model of the open door policy. The timing had already begun following the signing of the J.V. agreement the day before.

- 5 -

3. In answer to Chairman Deng's question as to whether Lord Kadoorie had anything else to say, Lord Kadoorie said that China was following a very sound financial policy by not borrowing excessively. He hoped that his company and China would create the wealth together. Unlike many other countries which borrowed heavily and lived beyond their means, China was building from the root upwards and not from top to bottom.

Chairman Deng replied that China only did things which were within her capabilities, but China's potentials had not been tapped. Even so, China was in a position to repay the loans which she was borrowing. He said that in co-operating with foreign capital, it should be made certain that they did not lose money.

Of course China also hoped that the foreign investor did not make excessive profit. It should be such that the parties involved were able to share the profit in a fair manner. Only by this would other investors be encouraged to come into China. When one talked about the continuation of the open door policy, this particular aspect formed an integral part of that policy.

Chairman Deng said it will not work if only one party were to be benefited.

In a similar way, when negotiations took place in connection with the question of Hong Kong between China and the U.K., the interests of China, U.K. and the people of Hong Kong were taken into consideration. On this basis an agreement was reached.

Chairman Deng said that there remained now the question of Taiwan. He said one could say that the terms offered to Taiwan were broader than those available to Hong Kong, in that Taiwan is allowed to keep its troops. Similarly, the solution for Taiwan cannot be one which benefited only one side. The interests of Taiwan and those of the foreign investors with economic ties with Taiwan would be looked after, or else it would not work.

- 6 -

Lord Kadoorie said that Hong Kong is a son of China and so is Taiwan which is a brother to Hong Kong. He added that both the brothers will return to the father.

Chairman Deng said he believed this, adding that he looked forward to meeting Lord Kadoorie again in 7 years' time.

nlc:1636A

24th January, 1985

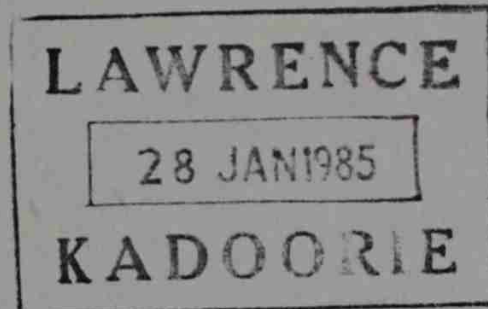
Notes of meeting between  
Premier Zhao Zhi Yang and the HKNIC Delegation led by Lord Kadoorie

DATE

18th January, 1985

PLACE

Zi Guang Ge  
Zhong Nan Hai  
Seat of the Central Government

PRESENT AT THE RECEPTIONHong Kong Delegation

Lord & Lady Kadoorie  
Sir & Lady Gordon  
Mr. & Mrs. P. Thompson  
Mr. & Mrs. W.F. Stones  
Sir S.Y. Chung  
Mr. & Mrs. M.D. Kadoorie  
Mr. & Mrs. R. McAulay  
Mr. P. Jacobs  
Mr. D. Blye  
Mr. D. Barrett  
Mr. & Mrs. S.K.L. Poon  
Dr. & Mrs. Y.B. Lee  
Mr. Kenneth Chan  
Mr. N.L. Chang

Representative of Government Departments in China

Mr. Li Peng	Vice Premier
Madame Zhu Ling	Office Chief Representative Office of Guangdong Nuclear Power Station in Beijing
Mr. Huang Yi Chen	Deputy Director, State Planning Commission
Mr. Zhou Nan	Assistant Minister, Ministry of Foreign Affairs
Mr. Wang Quan Guo	Chairman, GNPJVC
Mr. Wei Yu Ming	Vice Minister, MOFERT
Mr. Lin Zong Tang	Vice Minister, State Economic Commission
Mr. Zhao Qing Fu	Vice Minister, MWREP
Mr. Peng Shi Lu	Vice Minister, MWREP
Mr. Li Jian An	Vice Governor, Guangdong
Mr. Zhao Hung	Vice Minister, Ministry of Nuclear Industry
Mr. Zhen Hua	Deputy Director, Xinhua News Agency, H.K.
Mr. Zhou Xi Wu	Deputy Mayor, Shenzhen
Mr. Chen Gang	General Manager GPC, Deputy Chairman GNPJVC
Mr. Pan Yan Sheng	Director of Nuclear Bureau, MWREP General Manager GNPJVC
Mr. Shen Jian Sheng	Chief Engineer, GPC Deputy General Manager, GNPJVC
Mr. Chen Zeng Qing	Director, Nuclear Steering Committee The State Council
Mr. Lo An Ren	Deputy Director, Nuclear Steering Committee The State Council

- 2 -

1. Premier Zhao said that the Guangdong Nuclear Power Station was a very meaningful project. Not long ago, a satisfactory solution had just been reached between the U.K. and China on the question of Hong Kong which was now being followed by this major co-operation. The signing of the Joint Venture Agreement was very significant. It signalled the bright prospects ahead and the wide scope for future development.

Premier Zhao thanked Lord Kadoorie, Mr. Stones and Sir Sidney for their constructive work during the negotiations which was conducted in a positive spirit. This had enabled agreement to be reached on the nuclear joint venture.

2. Lord Kadoorie said that it was an honour for his wife and colleagues to be in Beijing and to be received by the Premier. Personally, he was very pleased because of the long association between the Kadoorie family and China. It gave him an opportunity to follow in the footsteps of his father who came to China over 100 years ago. He sincerely hoped that this association would lead to great co-operation and that he and his family would become the bridge between the western world and the great country of China.

3. Lord Kadoorie added that the nuclear project was of great significance because it brought in new technologies and new ideas and was the forerunner of many more. It was hard work which were at times difficult that had brought the project to its present state. He said it was difficult to make some people in Europe and the U.S. to understand the change that was taking place in the region and the need and desire of those people who had been long in the area to co-operate fully with China. He hoped that the little contribution he was able to make would bring satisfaction, happiness and prosperity to all.

- 3 -

4. Premier Zhao thanked Lord Kadoorie for the kind words. He said China attached great importance to the co-operation on the project for the following reasons :

- (a) This was the biggest joint venture following the initiation of the open door policy in China.
- (b) This was the first nuclear power station in China of the 1,000MW category. Through this project China wished to acquire construction and management experience.
- (c) It symbolised co-operation between Hong Kong and China which was especially important. Although this was only one project in many, it was very meaningful in relation to China's Four Modernisation programme. It also had great significance for Hong Kong.
- (d) CLP is a very influential company in Hong Kong and Lord Kadoorie well known all around the world. By entering into a joint venture with China, Lord Kadoorie would have set the pace and inspired others in the West as well as those in Hong Kong to co-operate with China and invest there.

Premier Zhao said Lord Kadoorie had taken a big lead for others to follow. He said work relating to the project had proceeded smoothly in the past and he hoped that similar spirit will guide all work on the project in the future. This would result in a power station that is both economical and safe.

5. Premier Zhao once again expressed his pleasure in making Lord Kadoorie's acquaintance and in meeting all the new friends. He wished Lord Kadoorie a pleasant time in China and hoped that the weather in Beijing did not prove too cold.



- 4 -

6. Lord Kadoorie thanked Premier Zhao for his kind words. He said that when he first arrived in Beijing, the sun was shining and although the weather was cold, amongst friends, he felt very warm. Lord Kadoorie said he regarded the project as the first link in a chain, the chain which the Kadoorie family had started a long time ago. He said he believed it would be long and extend well into the future. It was his privilege to have had an understanding of China and he hoped that the co-operation on the project will lead to better understanding between China and the West. Towards this end Lord Kadoorie said he and his company will provide its fullest co-operation.

nlc:1640A

26th January, 1985

008/104

CONFIDENTIAL



*CND*  
 NBRM  
 CDD  
 17/1

Treasury Chambers, Parliament Street, SW1P 3AG

Norman Lamont MP  
 Minister of State for Industry  
 Department of Trade and Industry  
 1 - 19 Victoria Street  
 London  
 SW1H 0ET

16 January 1985

*Dear Minister***GUANGDONG NUCLEAR PROJECT**

Thank you for your letter of 10 January about the interest rate to be charged for the Guangdong project now that the period of availability of the 9½ per cent interest rate has expired without any formal commitment from the Chinese to the project or to GEC. I have also seen Geoffrey Howe's comments.

I realise that the Consensus does not apply to this project and that the French fear competition from the American or Germans if there were any hiatus in negotiations on this project. However, there is no evidence that either country would be prepared to offer interest rates below the prevailing Consensus rate and therefore no justification on those grounds for continuing to hold the 9½ per cent rate offered earlier against the current Consensus rate of 9.85 per cent. Nor can it any longer be plausibly argued that the 9½ per cent rate would be technically available for other projects. I hope therefore that you will continue to press the French, as the Prime Minister did at the Summit, to increase the rate offered for this project to 9.85 per cent.

You also suggest maintaining the interest rate assumptions on which the 25 per cent subsidy ceiling was set by EX Committee last February and with them the same scope for concessions on top of the 9½ per cent rate. The 25 per cent ceiling was itself well in excess of the normal maximum subsidy of 11.3 per cent. At current (averaged) interest rates, a 9½ per cent rate, and the same concessions could take the subsidy on this project to 27 per cent (and higher still if today's interest rates were to be maintained).

The project is already a heavily subsidised one. I am therefore reluctant to agree further concessions. However,

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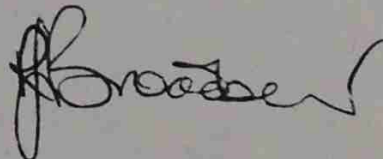
I recognise that if the French decide to hold the rate, you will have no alternative but to follow them. As a last resort therefore I am prepared to agree that you may hold the 9½ per cent if necessary to match the French. The availability of this offer should be strictly limited: certainly less than the 6 months to the next Consensus revision and linked to a tight but realistic timetable for the completion of the negotiations on this project. I also agree that for the purposes of comparing the subsidy agreed for this project with the 25 per cent ceiling you should continue to use the rates used for the EX discussion. If agreement cannot be reached with the Chinese soon and present interest rate trends are maintained, we will need to look at the total amount of subsidy that can be given in support of this project. I suggest that this should be done when the interest rate to be charged to the Chinese is next considered i.e. at the end of the timetable above if the 9½ per cent rate is held or in July if the rate is increased to 9.85 per cent.

You mention the possibility that you may need to reduce ECGD's premium for this project. ECGD has already gone a long way in this respect by upgrading China to Grade A. Further concessions would be difficult to justify.

The proposed bond issue to raise the finance for this project may provide a means of reducing the subsidy cost on this project and should be explored further. However, the extent of any savings will depend on conditions in the bond markets at the time the Chinese enter into commitments on this project. The possibility of such savings cannot therefore be used to justify improvements in the terms offered to the Chinese in advance but may serve to reduce the high level of Exchequer subsidy, and the costs to GEC under the burden sharing agreement.

I am sending copies of this letter to the Prime Minister, other EX colleagues, Peter Walker and Douglas Hurd.

*Yours sincerely*



for PETER REES

*[Approved by the Chief Secretary]*

CONFIDENTIAL

HONG  
KONG  
Castle Peak  
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FCS/85/6

CHIEF SECRETARY

*120*  
*Admit review*  
*of Chief Sec.*  
*HR*

Guangdong Nuclear Project

1. I support the proposals in Norman Lamont's letter to you of 10 January about this important project.
  
2. The fact that the joint venture agreement is due for signature on 18 January makes it much more likely that the negotiations on this project can be completed reasonably soon. It would be extremely damaging to our prospects of expanding our trade with China if we were not to match the French in extending the 9.5% interest rate beyond 15 January.
  
3. I am copying this letter to the Prime Minister, our EX colleagues, Peter Walker and Douglas Hurd.

GEOFFREY HOWE

Foreign and Commonwealth Office

14 January, 1985



From the Minister of State for Industry

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5186  
GTN 215)  
(Switchboard) 215 7877

Norman Lamont MP

**CONFIDENTIAL**

The Rt Hon Peter Rees QC MP  
Chief Secretary  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1

*Await review  
of proposals  
CB 10/1*

10 January 1985

*Norman Lamont*

**GUANGDONG NUCLEAR PROJECT**

I am writing in Paul Channon's absence abroad with proposals for maintaining our negotiating position on this project after the expiry of our present financial offer in support of GEC's bid on 15 January.

Since Paul Channon last reported to colleagues on 20 November, there have been numerous discussions at both Ministerial and official level with the French in order to emphasise the importance of coordination on financing terms generally, and specifically to discuss what should happen to the 9.5% interest rate currently on offer to the Chinese after 15 January. Last month, both the French and ourselves met a Bank of China delegation from Beijing who were seeking an extension of the 9.5% interest rate beyond 15 January. The Bank of China delegation also repeated their detailed requests for financial concessions, including full capitalisation of interest during the construction period. A request for favourable credit terms was also made by Premier Zhao to the Prime Minister during her visit to Beijing.

At the Anglo French Summit, French Ministers agreed on the importance of coordination, but were not prepared to commit themselves to change the interest rate in line with the Consensus after 15 January. At official level we have pressed the French hard to be ready to increase the rate as necessary to Consensus levels. We secured French agreement that we should both resist the Bank of China's pressure during their visit in December for immediate agreement to extend the interest rate, and instead we both sought from the Chinese as firm a statement as possible by

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15 January of commitment to the GEC and Framatome contracts, including an authoritative timescale for the completion of negotiations. Although previous timescales have proved unrealistic, the joint venture agreement which will establish the customer is due to be signed on 18 January, and this will remove a major cause of delay.

We have still to receive the Bank of China's response to our request. However, both we and the French recognise that it will fall short of the binding commitment which would normally be required under the Consensus. But it has become increasingly clear that, as we suspected, the French will nonetheless be unwilling to alter the interest rate. Their concerns, as expressed to us, are based primarily on their unwillingness to do anything at this late stage which could give the Chinese the opportunity to open the Framatome bid to competition. Even now, we understand from GEC that the Chinese have requested a bid from the German manufacturer, KWU.

As Paul Channon's minute of 20 November explained there are no international credit constraints on this project. The French are not breaking international obligations by extending the rate. We have already recognised that in pursuing this project we are ultimately dependent on the concessions the French are prepared to make. We shall continue to seek to secure French agreement to as robust a line as we can with the Chinese. But it would be unrealistic to expect the Chinese to accept a higher interest <sup>rate</sup> from us in support of GEC than they are being offered by the French. Reluctantly, therefore, I see no option but to match the French in extending the 9.5% interest rate which appears to be their firm intention. However, we would seek to agree with the French the imposition of as tough conditions as we can on the extension.

We need to assess the implications of an extension for the 25% negotiating limit set by colleagues last February on Government support for the project and the profit sharing agreement with GEC. A number of initiatives are being taken to try and minimise the cost to Government of supporting this project: GEC are exploring the possibility of financing the loan through a bond issue, which could significantly reduce the interest make-up support required. DTI officials have asked Midland Bank to consider taking part of the risk on the loan in the event that it proves necessary to reduce the credit premium paid by the Chinese. If these steps can reduce the cost to public funds of the project, they are in principle to be welcomed. However neither is certain and the bond issue in particular depends on market conditions at the time of contract signature.

A realistic framework within which officials can hope to secure the project continues therefore to be required. To date we have agreed

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to roll forward the assumptions about commercial interest rates on which the 25% negotiating limit was based last February and much the most practical course would be to retain this framework and with it the 25% limit. The alternative would be to revise the calculations of commercial interest rates from 15 January. However, although rates have fallen since the Summer, they have not returned to February 1984 levels. Because the building block for imputed subsidy calculations is the gap between the rate offered to the customer and the assumed commercial rate, the effect of revising upwards the commercial rate would be to reduce officials' negotiating flexibility within the 25% limit. Chinese demands have certainly not reduced, and I see little point in sending our negotiators to the table with less room for manoeuvre than we agreed last February. But to maintain negotiating room would require an increase in the imputed subsidy limit.

The strongest practical argument in favour of continuing the present limit with the present commercial rates is that if we change it we shall have to amend the terms of the burdensharing agreement with GEC, who will seek every opportunity to minimise the impact of the agreement upon them. But more generally, for the purposes of controlling our negotiating position on complex projects of this type, where negotiations can last for months if not years, it does not make sense to follow the short term vagaries of commercial interest rate movements. If we had done so over the last year, to maintain the same negotiating flexibility we would have to increase our negotiating limit from 25% to 36% in July, bring it down to 32% in October, and reduce it further, probably to about 29-30% in January 1985. Against this background, the timing of a choice of commercial interest rate on which to base a negotiating limit must be arbitrary; what is more important is a stable framework within which the best possible negotiating strategy can be worked out in consultation with the French.

To summarise, I hope you and colleagues can agree:

- (a) that we should be prepared to match the French in extending the 9.5% interest rate beyond 15 January;
- (b) that we should continue after that date with the 25% negotiating limit and the same framework of commercial interest and discount rates as were agreed last February, at least as long as we need to hold the 9.5% interest rate.

I am copying this letter to the Prime Minister, other EX colleagues, Peter Walker and Douglas Hurd.

NORMAN LAMONT

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HONG KONG  
Crazy Amy  
PT3

410 JAN 1985

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TO IMMEDIATE D T I

TELEGRAM NUMBER INDUS 1 OF 4 JANUARY

INFO PRIORITY F C O, PEKING AND PARIS.

GUANGDONG NUCLEAR PROJECT : EXCO DECISION

AS GENERALLY EXPECTED THE EXECUTIVE COUNCIL ON 3 JANUARY GAVE ITS APPROVAL TO THE PROPOSED ARRANGEMENTS FOR THE NUCLEAR PROJECT. ON THIS BASIS HKG ANNOUNCED THAT IT QUOTE HAD NO OBJECTION UNQUOTE TO HKNIC ENTERING INTO THE JOINT VENTURE WITH GNIC TO BUILD AND OPERATE THE STATION AND HAD NO OBJECTIONS TO HKNIC TAKING POWER FROM THE STATION IN ACCORDANCE WITH THE DRAFT CONTRACTS AGREED BY THE TWO PARTNERS.

2. THE EXCO DEBATE WAS LENGTHY (3 HOURS) AND, ACCORDING TO ECONOMIC SERVICES BRANCH, WAS A TOUGH SESSION WITH A NUMBER OF EXCO MEMBERS RAISING PROBLEM AREAS (SOME PREDICTABLE, E.G. ON SAFETY AND ON THE PRINCIPLE OF HONG KONG BEING RELIANT ON EXTERNAL PLANT, SOME LESS SO). THERE IS SOME RELIEF ON THE PART OF ECONOMIC SERVICES BRANCH THAT AGREEMENT WAS GIVEN WITHOUT THE NEED FOR ANY FORM OF RE-SUBMISSION AND THAT THEREFORE THE WAY IS NOW CLEAR FOR THE FORMAL ESTABLISHMENT OF THE JOINT VENTURE COMPANY ACCORDING TO TIMETABLE.

3. IN ANNOUNCING THE EXCO DECISION HKG HAVE NOT GONE BEYOND THE FORMULA IN PARAGRAPH 1. IN DEALING WITH PRESS ENQUIRIES THEY ARE NOT BEING DRAWN ON THE DETAILS OF THE AGREEMENTS ON THE BASIS THAT THESE ARE STILL IN DRAFT UNTIL THE SIGNATURE OF THE JV CONTRACTS BY THE TWO PARTNERS.

ADAMS

[ COPIES SENT TO NO 10 DOWNING ST ]

GUANGDONG  
LIMITED  
FED  
NED  
TRED  
HKD  
PUSD(MR CROWLEY)  
SIR W HARDING  
MR WESTON  
MR WILSON

ADDITIONAL DISTN.  
GUANGDONG NUCLEAR

CONFIDENTIAL



10 DOWNING STREET

From the Principal Private Secretary

21 DECEMBER 1984

Subject  
 A. T. ...  
 and  
 Henry Kadoorie  
 ...  
 PE.

Dear Lea,

PRIME MINISTER'S MEETING WITH LORD KADOORIE

THE PRIME MINISTER HELD A SHORT MEETING WITH LORD KADOORIE AT GOVERNMENT HOUSE, HONG KONG, AT 1645 ON THURSDAY 20 DECEMBER. SIR SIDNEY GORDON, VICE-CHAIRMAN OF CHINA LIGHT AND POWER, AND MR. CHRISTIAN ADAMS, BRITISH TRADE COMMISSIONER IN HONG KONG, WERE PRESENT.

LORD KADOORIE SAID THAT HE HAD WANTED TO REPORT TO THE PRIME MINISTER ON THE BACKGROUND TO THE DIFFICULTIES WHICH HAD ARISEN IN THE NEGOTIATIONS OVER THE GUANGDONG NUCLEAR PROJECT. NEGOTIATIONS HAD PROCEEDED SMOOTHLY FOR 4 YEARS AND THERE HAD BEEN NO OBJECTION FROM HIS ASSOCIATES IN EXXON. HOWEVER, DIFFICULTIES HAD ARISEN WHICH HE ASSOCIATED WITH MR. JACK BENNETT, VICE-PRESIDENT OF EXXON, WHO HAD POINTED OUT THAT CHINA LIGHT AND POWER NEEDED EXXON'S PERMISSION TO ENTER INTO AN AGREEMENT WITH THE CHINESE GOVERNMENT AND HAD ARGUED THAT THE POSITION OF EXXON MIGHT BE DAMAGED BY SUCH AN AGREEMENT. THE DIFFICULTIES HAD BEEN OVERCOME AT SOME COST TO THE CREDIBILITY OF CLP WITH THE CHINESE. LORD KADOORIE HAD BEEN PERSONALLY DISTRESSED BY THESE DIFFICULTIES BECAUSE HE FELT THAT THEY INPUGNED THE GOOD FAITH IN WHICH HE HAD BEEN DEALING WITH THE CHINESE GOVERNMENT. HE NOW WAS 90 PER CENT CERTAIN THAT THE NEGOTIATIONS WOULD PROCEED TO A SUCCESSFUL CONCLUSION AND WOULD PROVIDE A UNIQUE OPPORTUNITY FOR BRITAIN TO SUPPLY TURBINES WHICH WERE UNPRECEDENTED IN TERMS OF THEIR COMBINATION OF SIZE AND SPEED. EXXON WERE STILL THREATENING TO WRITE TO THE CHINESE GOVERNMENT ABOUT THEIR WORRIES, BUT HE THOUGHT THAT THIS COULD BE AVERTED. SIR SIDNEY GORDON ADDED THAT HE WAS EVEN MORE

COMMERCIAL IN CONFIDENCE

-2-

CONFIDENT OF THE OUTCOME THAN LORD KADOORIE. PROVIDED THAT EXCO GAVE THEIR APPROVAL ON 3 JANUARY, HE BELIEVED THAT THE AGREEMENT COULD BE SIGNED BY 18 JANUARY.

LORD KADOORIE SAID THAT THE EFFECT ON THE HONG KONG AGREEMENT ON NATIONALITY QUESTIONS WAS MAKING IT DIFFICULT TO RETAIN KEY PERSONNEL IN HONG KONG. HE REFERRED PARTICULARLY TO ONE OF CLP'S KEY NEGOTIATORS ON THE GUANGDONG PROJECT, DR. Y. B. LEE, WHO HAD BEEN OFFERED A POSITION IN AN AUSTRALIAN UNIVERSITY: HE DID NOT WISH TO TAKE THIS UP ON HIS OWN ACCOUNT BUT MIGHT BE OBLIGED TO IN THE INTERESTS OF HIS FAMILY. HOWEVER, LORD KADOORIE HOPED THAT, WITH THE HELP OF LORD RHODES, IT WOULD BE POSSIBLE TO SECURE A BRITISH PASSPORT FOR DR. Y. B. LEE AS AN EXCEPTION TO THE GENERAL ARRANGEMENTS. MORE GENERALLY, LORD KADOORIE SAID THAT HE BELIEVED THAT THE DEPARTURE OF KEY MIDDLE-RANKING PERSONNEL FROM HONG KONG WOULD BE TEMPORARY, BUT HE STRESSED THAT SUCH PEOPLE FELT THE NEED OF SOME FALL-BACK IN CASE THINGS WENT WRONG IN HONG KONG.

THE PRIME MINISTER THANKED LORD KADOORIE FOR COMING TO CALL ON HER. SHE SAID THAT SHE HOPED THAT THE NEGOTIATIONS OVER THE GUANGDONG POWER STATION WOULD BE BROUGHT TO AN EARLY CONCLUSION THE PRESENT TIME WAS A FAVOURABLE ONE FOR SECURING A GOOD SHARE OF THE CONTRACT FOR BRITAIN. LORD KADOORIE CONCLUDED BY EMPHASISING THE CONFIDENTIALITY OF WHAT HE HAD TOLD THE PRIME MINISTER ABOUT HIS FEELINGS ABOUT EXXON;

I AM COPYING THIS LETTER TO MICHAEL REIDY (DEPARTMENT OF ENERGY) AND CALLUM MCCARTHY (DEPARTMENT OF TRADE AND INDUSTRY).

*Your eva,*

*Robin Butler*

LEN APLEYARD ESQ  
FOREIGN AND COMMONWEALTH OFFICE

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PM/84/175

PRIME MINISTER

CPC

NBPM  
AM  
28/11Guangdong Nuclear Project

1. I have seen Paul Channon's minute of 20 November proposing that we should take the opportunity of the forthcoming Anglo-French summit to re-emphasise to the French the importance of maintaining a common front in the face of Chinese demands on financing. I have also seen Peter Rees's minute of 22 November.

2. I fully agree with Paul Channon's recommendation. We have included the appropriate points to make in your briefing for the summit. The Chancellor, Geoffrey Pattie (DTI) and I will also be briefed to speak accordingly to our French counterparts.

3. I also agree with Peter Rees that we should at no stage adopt a supine attitude towards the French, and implicitly, the Chinese on financing. The Chinese do indeed appear committed to the project, and the French must realise the potential cost to themselves of pricing GEC out of it. However, in the event of circumstances departing from this logic, we must not overlook the foreign policy dimension.

4. This has two aspects. Firstly, cancellation of the project (particularly if it could be alleged that this was due to lack of interest on the part of HMG) would have a damaging effect on confidence in Hong Kong. In fact cancellation seems most unlikely at present. But we should

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do what we can to guard against both cancellation and blame being attributed to us. Secondly, and perhaps more important, if GEC were to withdraw in favour of the French, their trading reputation worldwide and particularly in China (at a time when we are working hard to increase British exports to China) would clearly suffer. This would be highly undesirable. I therefore welcome Paul Channon's decision to upgrade China's ECGD rating. This will help us to remain competitive.

5. There will be a good opportunity to give a boost to GEC's efforts to win this contract when you are in Peking next month.

6. I am sending copies of this minute to Paul Channon, other EX colleagues, Peter Walker and Sir Robert Armstrong.



(GEOFFREY HOWE)

Foreign and Commonwealth Office

28 November 1984

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HK: Guangdong : Pt 3



28 NOV 1984

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*file*

*SAH*



10 DOWNING STREET

*CC HMTT*

*FCO*

*Energy*

*CO*

*CC NO, BI, PC ✓*

*From the Private Secretary*

27 November, 1984

*Dear Steve,*

Guangdong Nuclear Project

The Prime Minister has noted Mr. Channon's minute of 20 November and the Chief Secretary's supporting comment in his minute of 22 November.

She agrees to raise the matter with President Mitterrand and emphasise the importance of resisting Chinese demands on financing.

I am copying this letter to Private Secretaries to the members of EX, to the Private Secretary to the Secretary of State for Energy and to Richard Hatfield (Cabinet Office).

*Yours sincerely,*  
*Charles Powell*  
C. D. POWELL

Steve Nicklen, Esq.,  
Department of Trade and Industry

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*SS*



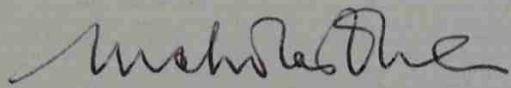
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MR POWELL

23 November 1984

GUANGDONG NUCLEAR PROJECT

It seems sensible, as Paul Channon suggests, to encourage President Mitterrand not to escalate a credit war on this project. An argument which might be used to reinforce this point is that softer credit terms will be very expensive. The French hope to sell other nuclear stations to the Chinese. If they concede more on Guangdong, the Chinese will try to hold them to these terms on the later business, too.



NICHOLAS OWEN

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Left



FROM: CHIEF SECRETARY  
DATE: 22 November 1984

PRIME MINISTER

**GUANGDONG NUCLEAR PROJECT**

I have seen Paul Channon's minute of 20 November in which he proposes that we should use the forthcoming Anglo-French Summit to re-emphasise to the French the importance of standing together in the face of Chinese demands on financing terms for the Guangdong Project.

2 I entirely agree. If we are unsuccessful in this and the French continue to make concessions, the cost to us of pursuing this business will be very high indeed. The first issue to come up with the French is the interest rate to be charged if agreement with the Chinese is not reached by 15 January. I reluctantly agreed in September to match the French and hold until January the interest rate of 9.5 per cent despite the increase in interest rates in general and the Consensus rate (now 10.7 per cent) in particular. If the contract were signed on the basis of an interest rate of 9.5 per cent it would involve a subsidy equal to 36 per cent of the value of the UK exports, well outside the 25 per cent ceiling agreed by EX. At the time, the French said that they would increase the rate charged in line with the Consensus if agreement had not been reached with the Chinese by January. We must hold them to this. It will only be by increasing the interest rate charged that there will be any prospect of bringing the subsidy cost of this project back within the agreed ceiling. Even if this is settled satisfactorily, there still remains the question of how we respond to the reduction in the French premium which will give rise to considerable difficulties of principle as well as cost.

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3 The French are our partners but could do the whole project themselves. They have said that while they will co-ordinate negotiating strategy with us, they will not in the end risk losing the project by rejecting Chinese demands. But that should not mean adopting a supine attitude towards them. GEC's tender has favourably impressed the Chinese. There is no other competitor for this project and the Chinese are unlikely to walk away from it if their demands are not all met. They will not get such favourable terms for any alternative nuclear power station because of the recent nuclear sector agreement. And for them to cancel the Guangdong project would imply a lack of confidence in the future economic growth of Hong Kong.

4 Neither is it in the French interest to push the financing terms beyond our reach to secure the turbine order for themselves. Equally favourable and costly terms will also have to apply to the larger nuclear island at Guangdong and probably for the whole of the other planned Chinese nuclear power station that is also excluded from the terms of the nuclear sector agreement. The marginal cost to the French of securing the extra work on the Guangdong turbines by pricing us out of the market will therefore be enormous. We should therefore take a robust line with the French on financing terms for Guangdong.

5 I am sending copies of this minute to Paul Channon, other colleagues on EX, Peter Walker and to Sir Robert Armstrong.



PETER REES

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*File*  
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10 DOWNING STREET

*cc Master**Subject*  
*D89*  
*bc: Sir P. Cradock*  
*From the Private Secretary*

22 November 1984

PRIME MINISTER'S MEETING WITH THE GOVERNOR OF GUANGDONG PROVINCE, LIANG LINGGUANG

The Governor of Guangdong Province called on the Prime Minister yesterday afternoon. He was accompanied by the Chinese Ambassador. Sir Percy Cradock was also present.

The Prime Minister recalled with pleasure her visit to Canton in 1982 during which she had met the Governor, then Mayor of Canton. She would be going to Peking shortly to sign the Hong Kong Agreement. She was pleased to hear that Liang Lingguang would soon visit Hong Kong.

Liang Lingguang thanked the Prime Minister for the invitation to him to visit the UK. He had first been invited in 1980 but had not been able to come then. He was very satisfied with the arrangements which had been made for him and the hospitality shown. He was learning a great deal about the contribution which Britain could make to China's modernisation. He noted that growth in Guangdong Province was particularly rapid, averaging 10.2% a year since 1980.

The Prime Minister asked about progress with the Special Economic Zones. Liang Lingguang said that three of them were in his Province of Guangdong. The Shenzhen SEZ, near to Hong Kong, was developing fastest. Its population had risen from 20,000 to 300,000. There had been a substantial increase in investment, including foreign investment. The Prime Minister commented on Guangdong's particular success in attracting foreign companies. She had recently met Jing Shuping who had given her a detailed account of the contacts being developed with the oil industry, GEC, and computer companies. There was also the extremely important Guangdong Nuclear Project. She hoped that, once the Hong Kong Agreement was signed, a new chapter would be opened in Britain's relations with China with particularly close political and commercial relations.

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*JSG ADW*  
*SS*

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Liang Lingguang confirmed that there were good contacts with BP, Ferranti and ICL. He had paid a most interesting visit to a BP platform in the North Sea. On a wider scale, he was very pleased by how relations between Britain and China had developed since he had last met the Prime Minister.

The Prime Minister asked Liang Lingguang to tell Deng and Zhao Ziyang how much she was looking forward to meeting them in December. Deng's deceptively simple concept of one country, two systems, had been the key which had unlocked agreement on Hong Kong. Liang Lingguang said that he was sure that the Prime Minister would be most welcome. When Deng had visited Shenzhen he had confirmed that the policy of SEZ's was correct and had decided to extend measures to attract investment to fourteen other cities and to Hainan Island. He agreed with the Prime Minister that signature of the Hong Kong Agreement would be a stimulus to the development of the SEZ's to which Hong Kong had a great deal to offer.

Charles Powell

Peter Ricketts, Esq.,  
Foreign and Commonwealth Office.

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PRIME MINISTER

GUANGDONG NUCLEAR PROJECT

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*mb*

*CEBT CCNO (2)*  
 Prime Minister  
 For once the Treasury  
 & DTI agree: you  
 should urge President  
 Mitterand at the summit  
 not to get into a  
 credit war over  
 Guangdong. *CDP 23/4i*

This minute reports developments since colleagues considered the project at EX in February, in view of the forthcoming Anglo-French summit on 29/30 November and your planned visit to China and Hong Kong in December. It proposes that we should use the Anglo-French summit to re-emphasise to the French the importance of standing together in the face of Chinese demands on financing.

2. In the course of negotiations, GEC's contract value estimated in March to be worth £322 million in current prices has come under pressure. Balance of plant items not directly associated with the nuclear or conventional island have been separated into a third package, to be procured with technical advice from the French electricity utility. Under pressure from Norman Tebbit the French have said they will try and retain UK involvement in this third package, but the outcome is uncertain. The Chinese have also pressed to maximise local manufacture. Together these pressures could reduce GEC's contract value by £50-£100 million.

3. In September, the French told us that they had decided to up-grade China from a category C to a category A country under their export credit premium system. Previously UK and French premia had been roughly comparable although ECGD categorised China as a B country under its own system. The French move created a large gap in French and UK premium charges, and increased Chinese pressure for a reduction in ECGD premium. I have now accepted a recommendation from ECGD's Advisory Council that China should be up-graded from Category B to Category A. Because of the very different criteria and methods of calculation of French and UK premium, this narrows but does not close the gap



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with the French. On the present financial offer UK premium would be reduced from about £35m to £28m, compared with French premium of about £19.5m, assuming for the purpose of comparison identical contracts. We shall have to consider carefully our tactics in employing the change to our best advantage. The Chinese may well still seek to close the gap completely. To meet this from public funds would, of course, add to the imputed subsidy. As a contingency, I have asked my officials to explore ways in which the private sector could be brought in, but our aim would be to hold firm at an A grading.

4. More generally, the timetable for negotiations has slipped continually throughout the year. Further commercial and technical negotiations have taken place, but there have not been any Government to Government negotiations on financing terms. In part, the slowness of the Chinese bureaucracy is to blame. But also, China Light and Power (CLP) deferred signature of the joint venture and electricity purchase arrangements until differences on the project with their major shareholder, Exxon, were resolved. CLP are now ready to sign, and progress should accelerate. But it is unrealistic to expect negotiations to be concluded before 15 January 1985, when the present French and UK financing offers will expire.

5. The project is formally excluded from consensus arrangements. There is thus no international constraint on the terms that can be offered, although we have attempted to impose a consensus framework on the terms of our offer. The French clearly attach great political importance to securing nuclear business in China: French officials have stated that whilst willing to co-ordinate a negotiating strategy with us, they will not in the end reject Chinese demands if this means the loss of the project. Political considerations may also have entered their decision to regrade China. The next test of French will is likely to be on 15 January, when we cannot be sure that they will agree to raise interest rates as much as we would like. This could cause difficulties in operating within the 25 per cent negotiating limit agreed at EX last February.



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6. Our dilemma is that if we want to stay in the project we are ultimately dependent on what the French are prepared to concede. They have already gone further on premium that we can match within ECGD's normal grading system. But time is moving on; the joint venture problem has been resolved and we are entering the final stretch. It would be difficult enough to withdraw now and will become progressively more so. That is not a course I recommend. However, in continuing to pursue the industrial, commercial and political benefits this project offers, we must do all we can to counteract the risk that the French may bid up stakes when it has become virtually impossible to leave the table.

Recommendation

7. At the Anglo-French summit we should therefore take every opportunity - including your discussions with President Mitterand - to underline the need for a realistic negotiating strategy to resist Chinese demands for undue concessions. In particular we should seek to secure French agreement that no financing concessions of any kind should be offered to the Chinese without prior Anglo-French consultation.

8. I hope colleagues will be prepared to support this line. If, despite our efforts, the French prove uncooperative or premium remains a sticking point, I may have to come back to colleagues again.

9. I am copying this minute to colleagues on EX, Peter Walker and to Sir Robert Armstrong.

*J. Nutter*

*for*

PAUL CHANNON

20 November 1984



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Foreign and Commonwealth Office

London SW1A 2AH

19 November 1984

*Dear Charles,*

Visit by Governor of Guangdong Province, Call on the  
Prime Minister

The Governor of Guangdong Province of the People's Republic of China is visiting the UK from 15-28 November as the guest of the Foreign and Commonwealth Office. The Prime Minister has agreed to receive the Governor for a short courtesy call at 4.30 pm on 21 November. I enclose briefing in the form of Points to Make, Essential Facts and a Personality Note on the Governor.

*Yours ever,  
Peter Ricketts*

(P F Ricketts)  
Private Secretary

C D Powell Esq  
10 Downing Street

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Prime Minister  
He will have the Chinese  
Ambassador. Sir Percy will attend.  
You might mention your

CALL BY GOVERNOR OF GUANGDONG ON THE PRIME MINISTER, 4.30PM ON  
POINTS TO MAKE 21 NOVEMBER 1984

talk last  
week with

1. In September 1982 when we first met you were Mayor of Canton. Congratulations on new responsibilities since 1983. Appropriate that second meeting should follow initialling of Joint Declaration on Hong Kong.

Mr. Jing  
Shuping  
CDP  
20/xi

2. Confident future will see stronger ties between UK and Guangdong. And between Hong Kong and Guangdong. Already good collaborative ventures and improved communications. Agreement on Hong Kong will allow territory to play still greater role in trade and investment.

3. Long-standing Hong Kong/Guangdong links over food, water and immigration matters. Now extensive network of official contacts and fruitful cooperation over a wide range of practical subjects. Further links such as Hong Kong-Canton super highway will have multiplier effect on development of dynamic Pearl River delta region.

4. UK industry can play important role, particularly in projects linking Guangdong and Hong Kong. Guangdong Nuclear a prime example. HMG has every confidence in GEC. Hope negotiations can be brought to a satisfactory conclusion very quickly. BP and other UK companies playing major role in search for offshore oil. Dunlop involved in tyre factory modernisation project. Well aware of close cooperation between Guangdong and Cable and Wireless in telecommunications. I was present in Canton when Cable and Wireless signed letter of intent on offshore telecommunications in September 1982 and in July 1983 when final contract signed in London.

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## ESSENTIAL FACTS

1. Governor Liang is visiting the UK from 15-28 November on a COI Category I visit as the guest of the Foreign and Commonwealth Office. The programme concentrates on power generation, North Sea Oil (including a visit on 19 November to the Magnus oil field), computers and telecommunications. By the time of the call he will have had discussions with GEC and Ferranti. Mr Channon will host a dinner for the delegation on 21 November and Mr Luce a lunch on 26 November.
2. The importance of Guangdong to the UK is primarily that by land and sea it surrounds Hong Kong. Largely owing to its strong economic links with the territory it has become one of China's most economically developed provinces. It includes three Special Economic Zones (SEZ) established in 1979 to attract foreign investment. Shenzhen, adjoining Hong Kong, is the largest. Special efforts are also now being made to attract investment to other cities in the province and to Hainan Island. The province thus symbolises for the Chinese leadership the benefits to China's modernisation of a stable and prosperous Hong Kong and of the "open door" economic policy.
3. There is an extensive network of official contacts between the Hong Kong Government and Guangdong. Some (eg water supplies) date from the 1960s. Border liaison arrangements work well with increasing cooperation between police and customs authorities. A number of working groups were set up in 1982 to oversee development and improvement of communications between Hong Kong and the Shenzhen SEZ. Results include construction of two new bridges and the opening of additional ferry services.
4. The Guangdong Nuclear Project currently offers the best hope for an early major contract for Britain in China. But UK companies are also bidding for contracts in bridge construction for the proposed 'super highway' to link Canton and Hong Kong (Cleveland Redpath) and an aluminium smelter on Hainan Island.

/Dunlop

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Dunlop have a cooperative venture for tyre manufacture (which the Prime Minister discussed with Liang on 27 September 1982) and RAIR (a small computer company in association with Ferranti) have signed a joint venture agreement with the Guangdong authorities in the field of computers and semi-conductors. Cable and Wireless have several contacts in the telecommunications field including a joint venture in offshore oil telecommunications at whose signature the Prime Minister was present. British Airports International (BAI) hope to participate in the feasibility study for the design, construction and management of a proposed airport in Shenzhen by means of a joint venture agreement with the Chinese.

Far Eastern Department  
Foreign and Commonwealth Office  
19 November 1984

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## LIANG LINGGUANG: PERSONALITY NOTE

Governor Liang was born in Fujian Province in 1916. He had a senior middle school education, following which he spent most of his career in the provincial administration in Fujian. In 1978 he was transferred to Peking as Minister of Light Industry. This was at the time one of the most rapidly expanding sectors of the Chinese Economy.

His experience as Minister may well have influenced his return to provincial-level administration in Canton, which was being developed as part of the special economic policy for Guangdong province. In 1981 he became Mayor of Canton and in the following year was appointed a member of the Central Committee of the Chinese Communist Party. He became Governor of Guangdong Province in 1983.

In 1981, Liang led a friendship delegation to the United States, and to the Philippines in 1982. He visited Macao in 1983 and has also travelled to Japan. He visited France immediately before his current UK visit and, before his return to Guangdong, will visit Hong Kong at the invitation of the Hong Kong Government. He also visited Hong Kong in 1981 as Mayor of Canton.

Form of address: "Your Excellency".

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de v  
cpc

10 DOWNING STREET

*From the Private Secretary*

1 November 1984

Governor of Guangdong

Thank you for your letter of 31 October about the visit by the Governor of Guangdong.

The Prime Minister would be ready to see him for a brief courtesy call. I suggest 1000 on Tuesday 20 November.

(C.D. POWELL)

P.F. Ricketts, Esq.,  
Foreign and Commonwealth Office.

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RESTRICTED

*epc*  
*(c)*



Foreign and Commonwealth Office

London SW1A 2AH

*Prime Minister*

31 October, 1984

*You are not being  
pressed to see him,  
only given an opportunity*

*Dear Charles, if you want to.  
Agree to brief courtesy call?*

*CDP  
31/10 Yes  
ms*

Governor of Guangdong

The Governor of the Chinese province of Guangdong, Liang Lingquang, will be here as a guest of HMG from 15-28 November. He has requested a call on the Prime Minister.

There is no overriding political case for a meeting. The Governor's rank and importance within China would not automatically merit it: on formal grounds, a meeting with the Foreign Secretary would be more appropriate. On the other hand reasons for special treatment might be:

- (a) the symbolic importance of the rapid economic progress which Guangdong is making by virtue of its close links with Hong Kong, as a manifestation of the benefits to China of a stable and prosperous Hong Kong;
- (b) the close personal interest which the Prime Minister has taken in the Guangdong Nuclear Project. The Governor's visit is likely to coincide with final contract negotiations between GEC and the Chinese; and
- (c) the Prime Minister met the Governor during her visit to China in September 1982 (Governor Liang was at that time Mayor of Canton).

If the Prime Minister does not wish to meet Governor Liang, we shall of course arrange a call on Sir Geoffrey Howe.

*Yr ever,  
Peter Ricketts*

(P F Ricketts)  
Private Secretary

C D Powell Esq  
10 Downing Street

RESTRICTED

*PCNO  
PC*

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*see memo No - 3rd copy  
MSB/M  
AT  
12/9*

Treasury Chambers, Parliament Street, SW1P 3AG

6 September 1984

Rt Hon Paul Channon MP  
Minister for Trade  
Department of Trade and Industry  
1 Victoria Street  
LONDON  
SW1E 6RB

*Now ATTACHED  
BELOW*

*requested 6/9 & 11/9  
all request if required*

**GUANGDONG NUCLEAR PROJECT**

Thank you for your letter of 3 September in which you sought agreement to hold the offer of a fixed rate 9.5 per cent for this project until 15 January 1985 without any reduction in the scope for the concessions on the financing terms implicit in the EX Committee's decision of last February to limit the ceiling on subsidies in support of this project to 25 per cent.

2 World interest rates have increased since last February and these increases have been reflected in the Consensus rates. The effect therefore of your proposal to hold the old Consensus rate of 9.5 per cent until January 1985 is to increase the subsidy payable in support of this project to about 36 per cent, an increase in the NPV of the subsidies from some £73 million to about £105 million.

3 The justification for allowing the old Consensus rate of 9.5 per cent to run until next January is very weak. I note however that the French who are our partners and potential competitors for this business are prepared to hold the rate until January. This is probably partly in acknowledgement of the expectation of the Chinese that the 9.5 per cent rate will apply to this project and partly to impose leverage upon the Chinese to conclude negotiations by threatening to increase the interest rate if negotiations are not completed by next January. There will, we understand, be no reduction in the scope for further concessions on financing terms from the French, and I accept that if we cannot do likewise, GEC will be placed in an impossible position which could well lose them the business to their French competitors.

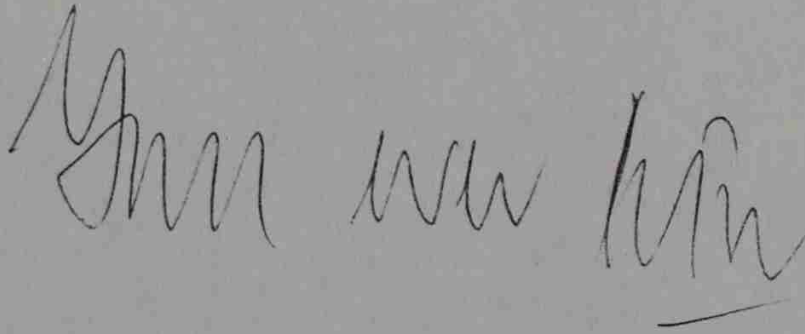
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4 Subject therefore to the views of other members of EX I am prepared exceptionally and very reluctantly, to agree that you may match the French and hold the 9.5 per cent rate until 15 January as you propose. We must nevertheless bear in mind that this will mean a subsidy of up to about 36 per cent. However, I agree that for the practical purposes of costing the various concessions that might be offered in the process of negotiations within the subsidy ceiling of 25 per cent and of the burden sharing arrangements with GEC, you should continue to use the February interest rates set out in the EX paper, even although they are no longer appropriate for current subsidy calculations. However, if the sale is not concluded by 15 January, the new Consensus rate will have to apply as the French propose. The cost of the subsidy which will have to be constrained within the ceiling of 25 per cent will have to be calculated on the basis of new market rates. The arrangements for this will have to be considered nearer the time.

5 I am sending copies of this letter to the members of EX and to Richard Luce; and to Sir Robert Armstrong.



PETER REES

CONFIDENTIAL

A-K Guangdong Pt 3

SEP 11 1984

6 SEP 1984

J434

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5144

GTN 215)

(Switchboard) 215 7877

From the Minister for Trade

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

3 SEPTEMBER 1984

*Peter Rees*

## GUANGDONG NUCLEAR PROJECT

I am writing to you urgently about a technical problem arising from the general increase in interest rates and their impact on the calculations of cost on this project, which would undermine our negotiating position with the Chinese as well as the profit sharing agreement that we have agreed with GEC, as set out in Norman Tebbit's minute of 10 August to the Prime Minister.

At EX on 29 February, colleagues agreed that we should seek to secure this project within an overall imputed subsidy ceiling of 25% of the NPV of the UK content of GEC's bid for the conventional island. This ceiling was drawn up to enable the negotiators to have flexibility to put forward a financing offer which matched the French bid for the nuclear island, but also with some provision for concessions to be made in negotiation, if necessary, on capitalisation of pre-commissioning interests and some extension of the construction period.

Detailed discussions with GEC on negotiating strategy on price and financing terms have been taken forward on this basis, as has the agreement recently concluded on profit sharing. Similarly, detailed discussions with the French on a common negotiating strategy have been on this basis.

Technical and commercial negotiations between the Chinese, and the two main suppliers - Framatome and GEC - have largely been concluded. However, final negotiations, including financial terms, have been delayed until September, in part because of the difficulty in concluding the terms for the sale of electricity to Hong Kong and the formal establishment of the joint venture between the Chinese and the China Light and Power Company in Hong Kong.



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In the meantime, the long-term commercial interest rate for sterling assumed for imputed subsidy estimates has risen from 11.9% in March to 13%, while the corresponding dollar rate has risen from 12.7% to 14.4%. Thus the imputed subsidy costs now work out higher, though in practice no concessions of any kind have been made to the customer. On revised interest rate assumptions, the financial offer now on the table would represent an imputed subsidy of 21% for a sterling loan (compared to the March calculation of 15%). And we should, to comply with the calculation mechanism, now withdraw our alternative offer of a loan in US dollars - which would work out at an imputed subsidy of 28%. These figures illustrate the sharp changes which result from short term fluctuations in interest rates, projected over the long loan horizon of such projects.

Revising interest rate assumptions now would also undermine the basis of the understanding we have reached with GFC on profit sharing. We have tried on GEC informally the consequences of the scope for concessions being reduced under the arrangements agreed, and they have responded that this would invalidate the deal since we would be expecting a profit concession for no negotiating advantage - rather, indeed, for a change which would effectively reduce the prospect of winning. These arrangements would therefore undoubtedly collapse.

More crucial, however, is the consequence that we should leave ourselves with no negotiating manoeuvre with the Chinese before negotiations begin, since there are few options that could be regarded as meaningful within a percentage margin of 4%. The irony is that the French, as well as being our partners in these proposals, are also the principal beneficiaries should we fail to gain the turbine order, since they already have before the Chinese proposals for at least another nuclear station beyond Guangdong with Alsthom providing the conventional island. Whilst the French have been impeccable in working jointly with us, no-one would be more delighted than they if we effectively opted out of negotiations and gave the Chinese the opportunity for choosing Alsthom.

In the normal course of negotiations, the French have already intimated to the Chinese that of the currency options, they would prefer US dollars. Whilst we would try to dissuade the Chinese from pursuing this option in the case of GEC, it would clearly weaken our position to formally withdraw such an option entirely before negotiations began.



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More immediately, in practical negotiating terms, the French have suggested to us that the sensible course is for us jointly to declare to the Chinese that the current consensus rate of 9½% will finally run out on 15 January, when it will definitely have to rise to 10.7%: this would be a sensible tactic to deploy, since it puts the Chinese on clear notice that there is to be a change unless a deal is struck by then. On the other hand, juggling with the current mathematics would suggest that if we wished to retain negotiating latitude on other provisions, this could only be done by raising the interest rate to 10.7% now - this in itself would be counter-productive viz a viz the French - or allow the existing rate to run on, with no negotiating latitude. The former would appear very odd to the Chinese, who are fully familiar with consensus arrangements from dealings with many suppliers, and ECGD have already extended the rate to 15 January for many exporters.

For us now to withdraw the US dollar option, or institute a higher basic ECGD interest rate when the French are doing neither, would make it extremely difficult to stay at the negotiating table, leave alone devise a common negotiating strategy with the French. We should, therefore, have given the French the opportunity of securing a complete nuclear station in China on the basis of Hong Kong's demand, which we could otherwise have expected to lead to further coal-fired capacity orders.

I would accordingly hope that you could agree that we stick to the basis agreed in March as a stable negotiating base until 15 January. The Chinese will appreciate the importance of this date if both we and the French identify it as the point for a rise in the Consensus rate, and we would in any event need to review the position then if the Chinese have not signed. But we would look ridiculous if we had opted out on the basis of short-term fluctuations in interest rates, which themselves could fall as sharply in the shorter term.

Perhaps, if you have any queries, we could go over this with our officials present. In view of the implications on the Hong Kong and China scene, I am copying this to Richard Luce.

PS/SCS  
 PS/Mr Baker  
 PS/Mr Butcher  
 PS/Sir Brian Hayes  
 PS/Sir A. Lawton  
 PS/SEC ECGD  
 Mr Mountfield  
 Mr Roberts  
 Mr Kemp ECGD  
 Mr Hingay MEG  
 Mr Benjamin DE P  
 Dr Dobbin MEG  
 Mr Boyce IOU  
 Mr Sedman ECGD  
 Mr Robinson IOU  
 Mr Parsons ECGD

PAUL CHANNON

~~CC 100~~

NBPM  
↓

Prime Minister

GUANGDONG NUCLEAR PROJECT  
SHARING FINANCIAL SACRIFICES WITH GEC

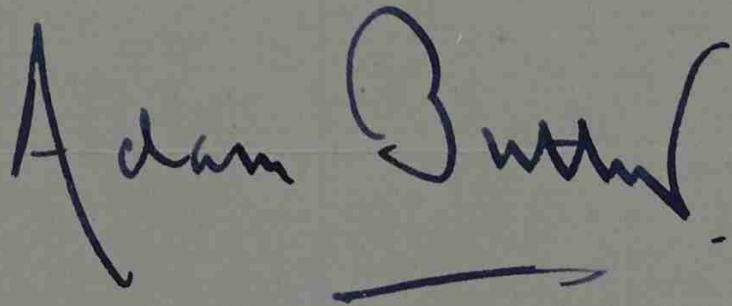
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In Jim Prior's absence I am replying to the note which Norman Tebbit sent to you on 10 August about the profit-sharing arrangement agreed in principle between DTI and GEC on the Guangdong Nuclear Project.

I am content to accept Norman's judgement that this is the best arrangement we are likely to be able to secure given the advanced stage of the company's negotiations.

The offer-in-principle of IDB grant was, of course, made on the understanding that DTI would ensure by the closest possible scrutiny of the project that Government's contribution as a whole would be no more than the minimum necessary to enable GEC to win the contract and I see the proposed profit-sharing arrangement serving as a useful long-stop in this exercise.

I am copying this memo to members of EX and to Peter Walker.



ADAM BUTLER

30 August 1984

Huy Kay A 3  
Castle Peak

CONFIDENTIAL

FILE

R M



EX Cttee: FCO ✓  
 HMT ✓  
 (DTI) ✓  
 CO ✓

10 DOWNING STREET

*From the Private Secretary*

28 August, 1984

GUANGDONG NUCLEAR PROJECT

The Prime Minister has now seen your Secretary of State's minute of 10 August about proposals for sharing financial sacrifices in the Guangdong Nuclear Project with GEC. She has also seen the Chancellor's minute of 22 August on the same subject.

The Prime Minister agrees with the proposals set out in your Secretary of State's minute for a profit sharing agreement with GEC. She further agrees that such arrangements should be regarded as exceptional although like the Chancellor she would not wish to rule them out altogether provided that they were overwhelmingly justified by circumstances.

I am sending a copy of this letter to the Private Secretaries to the members of EX and to Graham Sandiford (Northern Ireland Office) and Michael Reidy (Department of Energy).

(Timothy Flesher)

C. McCarthy, Esq.,  
 Department of Trade and Industry.

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~~CCND~~  
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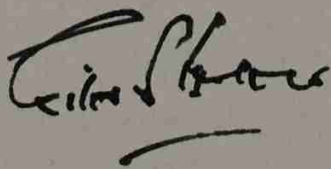
PRIME MINISTER

GUANGDONG NUCLEAR PROJECT

*with TF*  
Peter Walker has asked me to comment on Norman Tebbit's minute of 10<sup>th</sup> August to you on this project. I would be content to see the formula which he suggests adopted as an exceptional arrangement. However I do not believe we should regard it is exceptional to have involvement by Government in exports of major nuclear facilities. Indeed our international treaty obligations make some involvement inevitable on large projects.

It is arguable that GEC would not be in such a good position to obtain a contract without a great deal of political and financial support from the Government. However I believe we should be prepared where appropriate to give political backing to the export efforts of the nuclear industry. Certainly I am happy to continue to do what I can in this important field.

Copies of this letter go to Members of EX Committee and to Jim Prior.



GILES SHAW

Parliamentary Under Secretary  
of State for Energy

23 August 1984

Hong Kong Pt 3

Castle Peak

PRIME MINISTERGUANGDONG NUCLEAR PROJECT

Attached at Flag A is a minute from Mr. Tebbit which proposes, following the approval of financial support for this project by EX, a profit-sharing agreement with GEC under which they would give up half of any profit above the reference level of 3 per cent of contract value.

Mr. Tebbit considers that this is the best deal that we can get from GEC and asks colleagues to agree to proceed on that basis. The Chancellor, Flag B, agrees with this approach.

Mr. Tebbit also believes that we should regard this arrangement as wholly exceptional. He does not want to be drawn as closely into companies' legitimate pursuit of profitable business as a matter of course. The Chancellor agrees that such cases should be very rare but does not want to rule them out altogether.

Agree:

- (i) subject to other colleagues, to Mr. Tebbit's proposals for profit sharing with GEC; and
- (ii) that, combining Mr. Tebbit's views with those of the Chancellor, such arrangements should be extremely rare and would need to be overwhelmingly justified?

Yes

Yes not

JD

23 August 1984

315.23

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B

ak

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

PRIME MINISTER

GUANGDONG NUCLEAR PROJECT - SHARING FINANCIAL SACRIFICES  
WITH GEC

I have seen Norman Tebbit's minute to you of 10 August in which he reports on the outcome of the discussion with GEC on ways of sharing the burden of the very high subsidy cost of supporting GEC's bid for work on this project.

2. I agree with Norman that the proposed arrangement is probably the best that can be achieved, although the maximum contribution from GEC will be small compared with the very high cost to the Government of increasing the rate of subsidy from 15 per cent to the maximum of 25 per cent agreed by EX Committee last February. GEC should nevertheless be able to earn a reasonable profit, while possibly producing a small offset to the cost of the subsidies needed to secure this business. The arrangement may also serve as a disincentive to GEC to press for the maximum use of the concessions permitted within the subsidy limit of 25 per cent.

3. I do not, however, accept that we should rule out the possibility of seeking similar agreements in other cases - indeed to do so would imply that we were discriminating against GEC. We sought this arrangement because of the particularly large amount of subsidy that was being offered in support of this project and I think that we should retain the option to seek similar arrangements where, exceptionally, large subsidies (ie significantly in excess of the thresholds on subsidies established under the Guidelines on Subsidies and Risks) are sought to secure an export. Such cases will, I trust, be very rare indeed, but if and when

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they do occur the very large amounts of subsidy involved justify exceptional treatment to ensure that the taxpayer is not put in a position of making inordinate sacrifices to preserve an exporter's margins.

4. I am sending copies of this minute to members of EX, to Jim Prior and Peter Walker and to Sir Robert Armstrong.

*Judith Simpson*

N.L.

22 August 1984

*approved by the Chancellor  
& signed on his behalf*

Howe Howe: Quay Song P17

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*Answer  
Challenges*

PRIME MINISTER

GUANGDONG NUCLEAR PROJECT

SHARING FINANCIAL SACRIFICES WITH GEC

When we approved financial support for this project following EX on 29 February, we agreed that we should seek to ensure that HMG was not put in a position of making sacrifices to preserve GEC's margins. GEC have now agreed to enter into a profit sharing agreement with Government on this project, and to a post-contract review of contingencies.

2 GEC argued that competitive pressures would exercise their own disciplines on the margins eventually secured; that the project was long term and high risk; that our approval represented belated Government interference in their legitimate business; and that, in any event, the Government derived a revenue return from any profits that they eventually secure. This reaction, looking beyond the particular case, does raise genuine and major issues about our relations with industry.

3 Nevertheless, under our pressure and given the extent to which they are already committed to this project, GEC



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have reluctantly accepted a formula to share profit, on a sliding scale related to the Government's financial support. The details are set out in the attached annex. Essentially, if, at the end of negotiations, we are pressed to the maximum level of concessionality agreed at EX on 29 February of 25 per cent, GEC in turn would give up half of any profit above the reference level of 3 per cent of contract value. Applied to the £270m base bid price they put forward on 15 March, the formula would bite on any margin in excess of £8.1m, well below GEC's profit target of £14.4m. In addition, it has been agreed that the actual use of the contingency margin will be audited when the contract has been completed and any short-fall shared.

4 I do not believe we can effectively press GEC any further, and I hope colleagues will feel able to agree urgently that we should proceed on this basis, given the advanced state of negotiations. However, I consider that we should regard this as a wholly exceptional arrangement. Good as my officials are, I would need many more and require them to be far more interventionist if this exercise became a common practice. A number of GEC's concerns are genuine: we are in danger of being drawn into wide ranging intervention in companies' legitimate pursuit of profitable business, of a complex character.





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Moreover, under a new sectoral agreement for nuclear power plant shortly to be brought in under the Consensus, all future projects will need to have higher interest rates and more rigorous constraints on financial support.

5 I am copying this minute and attachment to members of EX and to Jim Prior and Peter Walker.

NT

N T

10 August 1984

Encl

Department of Trade and Industry

CONFIDENTIAL



PROFIT SHARING AND CONTINGENCY ARRANGEMENTS WITH GEC ON THE  
GUANGDONG NUCLEAR PROJECT

A. Profit Sharing

The principle is that GEC would share the profit, in excess of 3% of their contract value, on a sliding scale related to financial support from HMG. The following exemplify this relationship:

	<u>Financial Support</u> <u>from HMG (1)</u>	<u>Contribution</u> <u>from GEC (2)</u>
PRESENT POSITION:	Financial support for export credit terms accompanying GEC's bid on 15 March 1984 equivalent to 15% concessionality for a sterling loan.	GEC are not required to share profit with HMG.
POSSIBLE POSITION AT CONCLUSION OF FINANCIAL NEGOTIATIONS WITH THE CUSTOMER:	(a) Financial support given by HMG equivalent to 20% concessionality.  (b) Financial support given by HMG equivalent to 25% concessionality (ie maximum level of support authorised).	GEC give up 25% of any profit or negotiating margin retained, in excess of 3% of the contract value.  GEC give up 50% of any profit or negotiating margin retained, in excess of 3% of the contract value.

(1) Includes export credit support and any grants given by the Department of Trade and Industry under the Support for Innovation Scheme or by the Northern Ireland Industrial Development Board in support of the project, up to a limit on concessionality of 25%.

(2) GEC's bid on 15 March 1984 was constructed on a base price of £270m, including a negotiating margin of £6m and a profit target of £14.4m, respectively 2.2% and 5.3% of the base price (the base price excluded freight and insurance costs, variation orders, the cost of supervising the erection of plant and ECGD premium costs). The contract value may be subject to considerable change in the course of negotiation as changes are negotiated in GEC's scope of supply.



B. Contingency

In view of the fact that the use of contingency margins can only be determined in the light of events, it has been agreed that contingencies should be audited following completion of the contract and any surplus on contingency would be shared equally between HMG and GEC.

CDND



Treasury Chambers, Parliament Street, SW1P 3AG

*File*  
*Mr. Turnbull*  
*to see.*

Stephen Nicklen Esq  
PS/Minister for Trade  
Department of Trade and Industry  
1-19 Victoria Street  
LONDON

29 May 1984

A.P.C.  $\frac{29}{5}$

*Dear Steve,*

Thank you for your letter of 18 May regarding the terms which may be offered to NEI in support of their contract for the conventional part of a nuclear power station in Taiwan.

The Chief Secretary notes that officials from all interested departments agree that the previous offer of support including an interest rate of  $7\frac{3}{4}\%$  should be maintained, even though this involves higher subsidy costs than would support at the current Consensus rate of 10.7% (not  $9\frac{1}{2}\%$  as you say in your letter). The Chief Secretary agrees that it would be right to continue to offer the lower interest rate for a further six months. He understands that, as compensation for the additional public expenditure cost, NEI will not receive SFI funds in respect of this contract.

I am copying this letter to the Private Secretaries to other EX members.

*Yours Sincerely,*  
*Paul Gieve*  
JOHN GIEVE  
Private Secretary to the  
Chief Secretary

Army King A3

Castle Park

J904 010



DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

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GTN 215 5.144

(Switchboard) 215 7877

From the Minister for Trade

John Gieve Esq  
Private Secretary to the  
Rt Hon Peter Rees QC MP  
Chief Secretary  
HM Treasury  
Whitehall  
SW1

18 May 1984

Dear John

In May 1982, NEI secured a contract for the conventional part of a nuclear power station in Taiwan. The contract for the nuclear island was awarded to an American company. However, later in 1982, the contract was suspended as the consequence of a deterioration in the Taiwan economy. The Taiwanese are now showing interest in reactivating the project, and the Minister in charge has called for plans for its early implementation. NEI believe that, if new tenders are called for, there is the serious risk that they will lose to the Americans. They have, therefore, sought the continuation of Government support to enable them to persuade the Taiwanese to ratify their original contract.

The support given by HMG included an interest rate of 7 $\frac{3}{4}$ %, which was the going Consensus rate when the original contract was signed. Since then, of course, rates have risen and the current rate is 9 $\frac{1}{2}$ %. ECGD has allowed a number of extensions of the 7 $\frac{3}{4}$ % rate, the last of which expired at the end of last month.

My Minister believes that we could defend maintaining the original interest rate, because under Consensus rules this is governed by the date a contract is signed, and we have legal advice that the arrangements entered into between the NEI and Taipower constituted a valid contract, even though it has never become effective. The main problem is the risk of causing serious difficulty in our relations with the Chinese authorities, especially in the context of our negotiations on the Guangdong project, which are currently programmed to take place in July and August. If the Chinese were to get into their heads, or choose to pretend for negotiating purposes that they believed, that we had one law for Taiwan and another for them, this could cause very awkward repercussions. We should, however, be able to point out that the 7 $\frac{3}{4}$ % rate was available only because the contract was signed in May 1982, and also that the overall concessionality of

J905



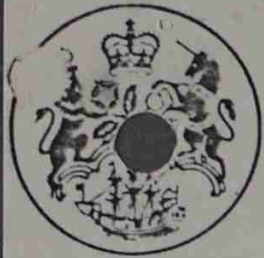
the credit terms we were allowing to the Taiwanese (subsidy of approximately 23%) was not markedly different from that we expect eventually to have to concede for Guangdong. On the other hand, if we refused to maintain the 7½% for Taiwan and as a result lost the business to the Americans, we should face accusations from NEI that they had been treated unfairly by comparison with GEC.

On balance, my Minister has decided to accept an agreed recommendation from officials in all Departments concerned that it would be right to maintain the availability of the 7½% interest rate for the NEI contract with Taiwan, provided the contract is ratified and made effective within the next 6 months without the Taiwanese calling for new bids. If the Taiwanese did open the business to competition, we could not of course defend maintaining the 7½% rate, nor would there be any advantage in doing so since competitors would obviously match us.

I am copying this letter to the Private Secretaries to other EX members, in view of the relevance to the Guangdong project, which they have already considered.

*Yours ever  
Steve.*

STEPHEN NICKLEN  
Private Secretary to the  
Minister for Trade (PAUL CHANNON)



DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

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GTN 215

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JF6528

Secretary of State for Trade and Industry

15 May 1984

*cc Hong Kong: Future P+14.*

RESTRICTED

John Coles Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

*A.S.C. 15/5  
h.a.*

*Dear Sir*

HONG KONG

My Secretary of State had a short courtesy meeting with Lord Kadoorie of China Light and Power on 10 May. Since most of what Lord Kadoorie said related to his view of the future of Hong Kong, I thought you might find it useful to have a copy of the enclosed meeting note.

2 I am sending a copy of this letter and the enclosure to Peter Ricketts in the Foreign and Commonwealth Office.

*Yours ever,  
Ruth*

RUTH THOMPSON  
Private Secretary

Encl



Reference .....

JF6516

RESTRICTED

MR BENJAMIN

cc PS/Minister for Trade  
 PS/Mr Baker  
 PS/Sir Anthony Rawlinson  
 Mr Roberts  
 Mr Corley OT4  
 Dr Dobbie MEE4  
 Mr Hall OT4/2

SECRETARY OF STATE'S MEETING WITH LORD KADOORIE,  
 10 MAY 1984

You and Dr Dobbie were present when the Secretary of State met Lord Kadoorie for what was essentially a courtesy call.

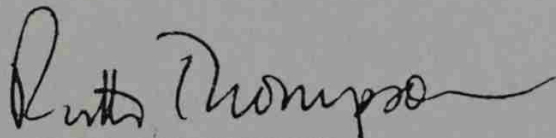
2 Most of the conversation centred on Lord Kadoorie's concerns about the future of Hong Kong. He said the publicity which was being attached to the current unofficials' visit was unfortunate, but very understandable. He warned that there was some anti-UK feeling about in Hong Kong. He was personally optimistic that the arrangement outlined by the Foreign Secretary would bear fruit: if any sort of co-existence between socialism and capitalism were to be possible, Hong Kong was the best available place to try this. Lord Kadoorie raised again the point he had made to the Prime Minister (John Coles' letter of 8 May to Peter Ricketts). Businessmen were, in particular, concerned about what was proposed. Lord Kadoorie said he had a "half-baked" suggestion to make: would it not be possible to make arrangements for temporary dual passports, which did not grant the right of residence in Britain, but did allow the holder right of access, to British Embassy and Consular officials in third countries. In particular, there was going to be a problem for Hong Kong citizens, originally of British descent but without any present British relations, who were likely not to receive passports from China. Lord Kadoorie believed that HMG should make some gesture in order to keep the goodwill of Hong Kong; this was just such a possibility. The Secretary of State replied that the problem of nationality was a particularly difficult one, which the Prime Minister, the Foreign Secretary and the Home Secretary had been grappling with. However, the Government had to take account of fears at home as well as the possible difficulties for Hong Kong citizens.

3 On the Guangdong project, Lord Kadoorie believed that provided the project went forward slowly, it would

Reference.....

succeed. The Chinese were, however, putting pressure on for quick decisions. Lord Kadoorie stressed the importance of his MD's excellent relationship with the Chinese Vice-Minister, Peng Shi-Lu in the talks. Lord Kadoorie said he still believed that the UK ought to demonstrate its backing for our producers in this brand-new prototype plant: he would have preferred a token investment from HMG (of, say, £25m). On the details of the talks, there was a difference between the Hong Kong and the Chinese sides on the amount of offtake from the plant; Hong Kong did not feel it could guarantee to take a total of 70 per cent of production, even though this projection of need was based on very conservative estimates of future growth rates, and was very likely to be needed. Somehow or other, this final point of difference would have to be resolved.

4 The Secretary of State thanked Lord Kadoorie for calling on him, and reiterated his hope that the Guangdong project would be successful.



RUTH THOMPSON  
PS/Secretary of State for Trade & Industry  
Room 803, 1 Victoria Street  
215 5422

11 May 1984

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file

BM

SUBJECT  
cc Master

bc Sir P. Gaddock

10 DOWNING STREET

From the Private Secretary

8 May 1984

Hong Kong: Call by Lord Kadoorie

Lord Kadoorie called on the Prime Minister this morning.

In response to a question from the Prime Minister he stated that the Castle Peak project was progressing very well. It was a good flag for British industry. It had greatly impressed the Chinese who now appreciated more generally that they could not carry out their development plans without British and Western help.

He remained optimistic about the future of relations with China. We could not cut off one quarter of the world's population. The Chinese realised more than ever that the implementation of the "Four Modernisations" depended on Western help. They would have to rely on Western assistance for a minimum of fifteen years and for perhaps as long as thirty years.

The Chinese regarded the Guangdong Nuclear Power Station Project as the most important project in China today. They had complimented Lord Kadoorie on his foresight and had promised that his efforts would not be forgotten. The nuclear project was important not only for the Four Modernisations but also for the future of Hong Kong.

There had been an implication that he had delayed negotiations on the Guangdong Project under instructions from HMG, pending the progress of negotiations on Hong Kong. He had corrected that impression.

The Chinese had asked him to take 70% of the total output of the project. He had said that he would do his utmost to achieve this but he could not enter into an unlimited liability. The Head of the Bank of China who was present had nodded agreement with this proposition but it was less clear whether others understood.

With regard to Hong Kong, he was concerned about the deterioration in relations between the general Hong Kong public and the United Kingdom. He had recently been advised to remove from a speech a reference to a particular matter being "also in the interests of Britain" on the grounds that this was not a good note to strike in Hong Kong nowadays.

/ He appreciated

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- 2 -

He appreciated that the negotiations over Hong Kong were very difficult but he did not think it impossible to arrive at a satisfactory result. The main worry amongst important Chinese in Hong Kong was the type of passport they would hold in the future. They understood that they would receive Chinese passports but were not at all clear whether these would be honoured and whether they would be able to leave Hong Kong freely. These people needed a piece of paper which would be recognised by Embassies and Consulates the world over and enable them to travel freely. He wondered whether there could be a form of dual nationality for a temporary period.

He had not expected the Chinese to agree to continuing British administration in Hong Kong. The task now was to try to find the highest common factor between a socialist government and a capitalist government. If such an arrangement could be worked out in any place in the world, that place was Hong Kong.

Personally he remained optimistic about the future. So did his son with whom he had recently been in touch.

The Prime Minister said that Hong Kong remained one of our most worrying problems. We had to try to lock the Chinese into detailed commitments on the future administration of Hong Kong. Lord Kadoorie agreed but said that it would also be necessary to demonstrate to the Chinese how these arrangements would benefit them. The passport problem was the worst one. He recalled that after the War, the Soviet Consulate in Shanghai had given Russian passports to a number of white Russians. This did not permit entry into the Soviet Union unless endorsed with a special visa, but it did confer protection in third countries.

Lord Kadoorie then referred to the recent visit of President Reagan to China. His understanding was that a protocol was signed on nuclear matters. He believed that the American Department of State and Defence Department had agreed to appeal to the President to appeal to Congress to allow China to receive full information on nuclear matters. Since then Westinghouse had offered China six nuclear power stations, subject to Congressional approval.

I am copying this letter to Callum McCarthy (Department of Trade and Industry).

A. J. COLES

Peter Ricketts, Esq.,  
Foreign and Commonwealth Office

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

May. 8th. 1984. London, WIY 6AL

ADL  $\frac{5}{5}$

Memorandum.

1. Li Pang stressed the importance of the project, not only in connection with Chinese Four Modernisation Program but also in relation to the future of HK.
2. Describe last meeting with Li Pang and how it was designed to impress.
3. Unfortunate deterioration in relationship between people of HK. and UK.  
Difficulties in engaging and retaining good Chinese technical staff.  
Not too late to correct if only gesture could be made re passports.  
Possibility of Dual Nationality on temporary basis over (5.year )transition period.



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

2.

The Connaught,  
Carlos Place,  
London, W1Y 6AL

4. Aim now must be to find HCF between  
Socialism and Capitalism.  
Difficult but not impossible.
5. UK most knowledgable country on China.  
China, through HK link and HK experience  
most knowledgeable on Western capitalism.
6. We must not forget that the vast majority of  
Chinese have no interest whatever in  
Western civilisation or contacts.  
This means the West is more than ever  
dependent on the Government in Power  
for their relationship with the country.  
My impression is that the policies of  
the present Chinese government have a  
60/70. per cent chance of holding into



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

3.

The Connaught,  
Carlos Place,  
London, W1Y 6AL

6. Contd. the next century.

( 15 to 30 years.)

7. UK business must show trust if they  
wish to be trusted.

I must stress the somewhat extraordinary  
relationship CL&P and WFS in particular  
have succeeded<sup>e</sup> in building up in this  
respect.

Kadoorie.



DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422  
GTN 215 .....  
(Switchboard) 215 7877

JF6461

PS/ Secretary of State for Trade and Industry

4 May 1984

John Coles Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

*Dear John,*

LORD KADOORIE'S MEETING WITH THE PRIME MINISTER :  
TUESDAY, 10 MAY 1984

GUANGDONG NUCLEAR PROJECT

Thank you for copying to me your letter of 1 May to Peter Ricketts.

... 2 I enclose a self-contained brief, which my Secretary of State has not been able to see, on the Guangdong Nuclear project for this meeting. I understand the FCO are briefing separately on political aspects of Hong Kong, and I am copying this letter to Peter Ricketts.

*Yours ever*

*Colin McCarthy*

M C McCARTHY  
Private Secretary

Encl



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PRIME MINISTER'S MEETING WITH LORD KADOORIE, CHAIRMAN OF CHINA LIGHT AND POWER COMPANY, HONG KONG : 10.00AM, TUESDAY 8 MAY

GUANGDONG NUCLEAR POWER PROJECT

OBJECTIVE

The meeting is at Lord Kadoorie's request. He wishes to tell the Prime Minister about progress on the Guangdong project. (Lord Kadoorie is also meeting Mr Tebbit on 10 May).

The Prime Minister will wish to reaffirm to Lord Kadoorie HMG's continued support for the project; to sound out his views on possible competition to GEC's bid; and to explore the timetable for agreement on contracts for equipment, the setting up of the joint venture company, and the purchase of electricity by Hong Kong.

LINE TO TAKE

- (i) HMG continues to attach great importance to this project and the opportunity it offers to strengthen economic links between the PRC, Hong Kong and the UK. We have every confidence in GEC's capabilities and competitiveness.
- (ii) HMG is fully committed to working in partnership with the French on this project. But we know that some Chinese would have preferred an all French project. How are French negotiations progressing?
- (iii) Noted with interest nuclear co-operation agreement signed on President Reagan's visit to China. How does Lord Kadoorie interpret this move?
- (iv) How are discussions progressing on formation of the joint venture company between the Guangdong and Hong Kong nuclear investment companies? And on the purchase of electricity by Hong Kong?

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2



## DEFENSIVE

## UK Financing Terms

- (i) Officials will take note of all preliminary views. But we shall not come to this question until detailed negotiations.

Provision of Part of ECGD Loan in Hong Kong Dollars

- (ii) The Bank of China, who will act as borrower have not expressed interest in Hong Kong dollars.

## HMG Investment in Hong Kong Nuclear Investment Company

- (iii) We considered this request carefully, but could not agree to this proposal which was contrary to our own domestic policies.

Departure from DTI of Deputy Secretary Responsible for Guangdong Project,  
Mr A G Manzie

- (iv) Mr Manzie's move to the PSA does not indicate any change in HMG's commitment. Mr Christopher Benjamin, who has extensive experience in negotiating large capital export projects will take, will take up the Guangdong responsibilities.

## ESSENTIAL FACTS

1 On 15 March GEC entered their bid price for the turbine island at £364m. As agreed by Ministers, the financing terms offered matched the French opening offer for the nuclear island: the UK offered a sterling loan of 85% of the UK content of the GEC contract, plus a further 15% to be used at the customer's option to cover either local costs or partial capitalisation of pre-commissioning interest; the consensus interest rate of 9½%; and a repayment term of 15 years from commissioning on the plant. GEC are scheduled to negotiate a letter of intent by 15 August.

2 Both the Chinese and China Light and Power (CLP) have pressed already for a lower price and enhanced loan terms. It would be premature to discuss these further in advance of the detailed negotiations scheduled to take place in Hong Kong this summer. However one political point Lord Kadoorie might raise with the Prime Minister is his repeated request that ECGD should offer part of the loan in Hong Kong dollars, as an expression

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3



of confidence in the currency. But the Bank of China, who will act as borrower, have not sought Hong Kong dollars. Formally, ECGD will respond only to requests from the Bank of China. The Bank of China will on-lend to the Guangdong joint venture company, and could itself offer Hong Kong dollars to the joint venture if it so wished. HM Treasury are strongly opposed to ECGD carrying the exposure risk of Hong Kong dollars.

3 The Prime Minister may wish to explore potential competition to GEC from the French and the Americans. There are no new developments on the French position; the French are due to conclude a letter of intent for the nuclear island by 15 July. The Americans have signed a nuclear agreement during President Reagan's visit to Peking which may open the door to exports of civil plant. The text of the agreement will not be made public until it is put before Congress on 13 June.

4 On the Hong Kong aspects of the project, Lord Kadoorie still regrets HMG's refusal to invest in the Hong Kong Nuclear Investment Company, the Hong Kong partner in the joint venture company which will own the power station. The Prime Minister wrote to Lord Kadoorie on 1 December declining his request.

FLAG A

5 On the establishment of the joint venture company and the conclusion of the agreement on Hong Kong's purchase of electricity, there has been hard bargaining on both sides. Chinese Vice Premier Li Peng met Lord Kadoorie on 9 April to press for more rapid progress. This underlines the political and economic importance the PRC attaches to the project. Agreement is now expected in June.

6 Mr Manzie, the DTI Deputy Secretary with responsibility for this project, left the Department on 1 May to head the PSA. Should Lord Kadoorie raise any disquiet about this the Prime Minister may wish to indicate that this move does not reflect any change in HMG's commitment to the project. Mr Benjamin, the Under Secretary who heads DTI's Project and Export Policy Division, has very wide experience in project negotiations.

Department of Trade and Industry  
3 May 1984

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PERSONAL & CONFIDENTIAL



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

The Connaught,  
Carlos Place,  
London, W1Y 6AL

4th May, 1984

Dear Prime Minister,

In order to save your time I enclose a copy of the minutes of a meeting I had with Mr. Li Peng, Vice Premier of the People's Republic of China.

I shall be referring to the issues raised in this note when we meet, to which I am very much looking forward.

Yours sincerely,

The Rt.Hon. Margaret Thatcher, M.P.,  
No.10 Downing Street,  
London, W.1.

Keel 13/4/84

GUANGDONG NUCLEAR POWER STATION PROJECT

Notes of Meeting held on 9/4/84 in Shenzhen

Enclosure '9'  
to Day HK-1  
Apr 17/84

(TpLK. 2/84)

Present :

CLP

PRC

Lord Kadoorie  
Chairman  
China Light & Power

Mr. Li Peng  
Vice Premier

Sir Sidney Gordon  
Deputy Chairman  
China Light & Power

Mr. Xu Jia Tun  
Director  
Xinhua News Agency  
H.K.

Mr. Michael Kadoorie  
Director  
China Light & Power

Mr. Peng Shi-lu  
Vice Minister  
MWREP

Mr. W.F. Stones  
Managing Director  
China Light & Power

Mr. Lin Zhong Tang  
Deputy Director  
State Economic Commission

Mr. S.K.L. Poon  
Divisional Manager  
Planning & Systems

Mr. Jin De Qing  
President  
Bank of China

Dr. Y.B. Lee  
Corporate Planning Manager

Mr. Yang Xing Rong  
Director  
Jiang Su Province Power  
Supply Bureau

Mr. N.L. Chang  
China Liaison Officer

Mr. Pan Yen Sheng  
Director  
Guangdong Nuclear Power  
Preparatory Office

Mr. Zhan Yun Long  
Deputy Director  
Guangdong Nuclear Power  
Preparatory Office

Mr. Shen Jian Sheng  
Deputy Director  
Guangdong Nuclear Power  
Preparatory Office

1. The meeting commenced by Vice Premier Li Peng and Lord Kadoorie introducing members of their team to each other.
2. Lord Kadoorie stressed the long association between the Kadoorie family and China. He said that members taking part in the meeting had known each other for a long time and had laid a sound foundation for a common understanding between the two sides. CLP shared the desire to speed up the nuclear project but in so doing, it was necessary to exercise care in order to avoid making expensive mistakes. The nuclear power station was the largest J.V. project between China and foreign investors and he was most anxious to see that it would be successful. Other investors in U.K. and Europe were also keen on forming Joint Venture's with China and that they were looking at CLP in formulating the ground rules for future projects. Lord Kadoorie said he understood the importance of the nuclear project to China in its Four Modernisation Programme and CLP would do its best to assist in this aspiration.
3. Vice Premier Li Peng said that China attached great importance to the Guangdong Nuclear Project. In relation to the policy of opening up China to the world outside, the Government wished to make the nuclear project an example of this process. He said that China is somewhat late in using nuclear power generation, but nevertheless, work had already begun and a competition between the Guangdong and Jiangsu nuclear projects would be taking place in completing the first commercial nuclear power station in China.
4. Looking at the Guangdong Nuclear Project from a broader point of view, Vice Premier Li Peng said that major concessions had been made by the Chinese Government which were conducive to the success of the nuclear project. These included major decisions being taken in relation to preferential taxation rates being granted to the J.V. and 100% guarantee to the loans being given by the Bank of China. It was in the context of economic development of Guangdong and in the contribution to the prosperity and stability of Hong Kong, that the Chinese Government had consistently given support to this project. China hoped to see the nuclear project succeed.

- 2 -

5. The Vice Premier then invited Mr. Lin Zhong Tang to express his views on the nuclear project. (Mr. Li Peng added that Mr. Lin was a very well-known engineer who had participated in the design and construction of the 10,000 ton hydraulic press in Shanghai in the 1960's and was now responsible for the technical and economic aspects of the nuclear project in the State Economic Commission).
6. Mr. Lin said that in relation to the purchase of equipment, an important aspect of the Chinese Government's policy is to combine the importation of equipment with the transfer of technology.

With regard to the Conventional Island for the Guangdong Nuclear Project, there was considerable difference of views and from a technical point of view, China had taken a decision to develop its technology based on the 1500 r.p.m. machines. For the importation of equipment therefore, priority would have been given to similar equipment. When the question of importation of GEC machine for the Conventional Island arose, there was considerable disagreement on the matter and the majority of the technical people, including himself, rejected the 3,000 r.p.m. machine in favour of the 1500 rpm one. However, in view of Sino-U.K. co-operation and the broader issues of strategy, the Government made a decision to use the GEC machines. This was a very major concession.

Mr. Lin said, personally, he hoped that the Guangdong Project would proceed smoothly and that the technical issues, once passed, would not become an issue again.

7. Mr. Jin De Qing, President of the Bank of China was then requested to give his views.

Mr. Jin said that the Bank of China had been doing a lot of preparatory work associated with the nuclear project.

- 3 -

Prior to accepting the responsibility of arranging finance for the Guangdong Project, it would be necessary for the Bank to study the financial viability of the project, to see whether the loans could be repaid and whether it would be possible to shorten the construction period of the power station.

Mr. Jin said personally he hoped that the Project would succeed and that the Bank of China could be of assistance.

With regard to the selection of the 'Lead Bank' associated with the ECGD loan, Mr. Jin said he understood that CLP had a long working relationship with some banks in London. However, the choice had to be made on a competitive basis and he requested CLP for neutrality and non-interference on the matter.

On the question of price of electricity and quantity of re-sale, Mr. Jin requested an undertaking from CLP, which would make the nuclear project feasible.

8. In answer to the points raised by Mr. Lin and Mr. Jin, Lord Kadoorie said that

(a) He had emphasised to Framatome and EDF that technology transfer was an important aspect of this project. He believed that agreements would be signed not only for the transfer of technology but also for assistance in establishing the licensing procedures in China.

(b) He fully appreciated the reservations in China with regard to the plant offered by GEC. However, he had full confidence in Mr. Stones who would not have accepted such a proposal unless he was convinced that such a machine was both reliable and safe. Furthermore, the reputation of the British Electrical Industry was behind this project and any failure would mean that there would be no more market for them anywhere else.



- 4 -

9. With regard to the point raised by Mr. Jin on the question of the lead bank, Sir Sidney said that although CLP knew many Bankers in London, it had no connection with any of them. He said that as an investor in a Hong Kong Merchant Bank, Lord Kadoorie was the Chairman of Schroders & Chartered, but this did not have any connection with the banks in London.

On the choice of the lead bank, Sir Sidney said that although the loans were guaranteed by the Bank of China, it was the J.V. which would repay the loans. It was therefore necessary for the J.V. to be involved in the discussions. What was good for the Bank of China would not necessarily be good to the J.V. He added that HKNIC did not wish to influence choice of the lead bank. But as a member of the J.V., it wished to see that the choice would be good for the project.

10. On the quantity of electricity to be purchased by Hong Kong, Lord Kadoorie and Sir Sidney said that the projections made in connection with the nuclear power station were based on a conservative average load growth of 6.5% p.a. while actual figures for the last 10 years had been in excess of 10%. There would be no difficulty if no unforeseen events were to occur in Hong Kong.

Lord Kadoorie said he hoped that discussions on Hong Kong's future would proceed smoothly so that his reservations in respect of load growth would be resolved and the question of flexible off-take would not exist.

11. On the price of electricity, Mr. Stones said it was clear that nuclear electricity would be cheaper than that generated from coal. The nuclear project would not have been considered had this not been the case. The question under discussion at present was the formulation of a mechanism which would distribute the risks fairly to the J.V. partners (in the ratio of their equity shares) in the event of coal price not escalating as anticipated and nuclear electricity turning out to be more expensive.

- 5 -

Sir Sidney added that CLP was a controlled company operating under laws laid down by the Hong Kong Government which would not allow the purchase of electricity at a price higher than that generated from coal.

12. Vice Minister Peng Shi-lu said the the J.V. partners were co-operating well and although some problems still remained, these were being overcome one by one.

In entering into any business venture, he added, risks had to be accepted by both partners. Referring to the possibility of the average annual load growth not reaching 6.5%, Mr. Peng stated that this represented a small part of the total risk compared to the much bigger risk taken by China in the purchase of the turbine generator from GEC. In the event of full/reliable generation not being achieved, the repayment of loans would become impossible.

Mr. Peng added that the price of electricity would also be affected by the length of the construction period. A delay of one year would mean an additional cost of US\$400 million resulting in an increase of 0.5 US¢ per Kwhr of electricity.

13. Responding to Lord Kadoorie's concern in respect of the proposed coal fired power station in Shenzhen, Vice Premier Li Peng said that the Chinese Government had no plans for building such a power station. In any event, financial support from the Bank of China would be necessary and the Bank of China was not aware of such a project. He said that as a Special Economic Zone, Shenzhen had been given special rights which were not available to others in the country. He felt that the capacity of the proposed power station was far in excess of what the city needed and concluded that the plans had not been prepared by knowledgeable engineers.

- 6 -

14. Mr. Xu Jia Tun of New China News Agency said that he was well aware of Lord Kadoorie's name in Hong Kong. If the two sides were to succeed in their co-operation in the construction of the nuclear power station, then in addition to strengthening the ties between China and the U.K., it would also contribute to the stability and prosperity of Hong Kong. Mr. Xu expressed the hope that Lord Kadoorie would take the lead in promoting this trend.
15. Mr. Xu said that there were people in Hong Kong who were unable to see very far. Having had the opportunity of listening to Lord Kadoorie, he was impressed by Lord Kadoorie's long-term vision, his friendly feelings towards China and his offer of co-operation in China's Four Modernisation programme. Like Mr. Hammar of Occidental Petroleum who is sympathetic and helpful to China, Mr. Xu said he considered Lord Kadoorie a friend of China. He felt that the problems which remained in the nuclear project could be resolved in the spirit of give and take as expressed by Mr. Li Peng. He further added that if the nuclear project turned out to be a success, substantial benefits to the Kadoorie family, both direct and indirect, would accrue.
16. Mr. Xu said that Hong Kong will continue to have a very bright future and that there was no place in S.E. Asia or in the Asian Pacific region which could replace Hong Kong's role. Combined with the development of China, there will be yet another golden age in Hong Kong. All these benefits will of course only go to those who have foresight.
- He said that following success in the nuclear project, other areas of co-operation could be entered into with the Kadoorie family.
17. Lord Kadoorie expressed an interest in agricultural co-operation and mentioned the regular exchange of visits between Guangdong and the Kadoorie farms.

- 7 -

18. Vice Premier Li stated that differences still remained to be resolved. The central question remaining in the Project was the 100% guarantee which the Bank of China was expected to undertake. He said although it was permissible in a socialist country for the Government to give guidance to the Bank of China, the latter was nevertheless an independent enterprise which was answerable to its own Board of Directors as to the economic viability of any project.

Mr. Li Peng added that the two sides had already spent considerable time on the subject and it was his recommendation that the understanding recorded in the memorandum signed by Mr. Manzie and himself, as a result of discussions in March 1983 in Hong Kong and Beijing, be followed. He recalled that both the Hong Kong Government's views and CLP were represented in the formulation of the said memorandum.

Mr. Li Peng said that the central consideration of the memorandum was the price of electricity. The document had been prepared with a view to being fair to all parties concerned. The views of the Hong Kong Government on the price of electricity had been expressed in that document as had those of the Chinese Government.

Mr. Li Peng said that 5 major concessions had been made by the Chinese Government which included pegging of the price of nuclear electricity to that of fossil-fired coal generation for the first five years, to be followed by 15 years during which the price would be determined by cost of generation plus 10% profit. He stated that this was fair and reasonable to both parties.

19. The Vice Premier thanked Lord Kadoorie and his colleagues for accepting his invitation and coming to Shenzhen to meet him.

Lord Kadoorie thanked the Vice Premier for the invitation and expressed a wish to open the nuclear power station jointly with the Vice Premier.

- 8 -

20. In a conversation during the luncheon banquet, Vice Premier Li Peng expressed a desire to cooperate closely with the Kadoorie family. He said that the cooperation will span from Lord Kadoorie, who he was sure would live to be a hundred, to Mr. Michael Kadoorie and continue long after that.

ybl:nlc

13th April, 1984

1283A

CHINA LIGHT & POWER CO., LTD.  
PRESS CUTTING OF PUBLIC AFFAIRS BRANCH

*Enclosure 'H' to Day HK-1  
dated April 17/84  
(Tup 4c. 2/84)*

NEWSPAPER

H. K. STANDARD

8147 (1/84)

DATE

12/4/84

PROMINENCY	<input type="checkbox"/> IMPORTANT	<input checked="" type="checkbox"/> ORDINARY	<input type="checkbox"/> FRONT PAGE	<input type="checkbox"/> BACK PAGE	<input type="checkbox"/> INSIDE PAGE
TO :			CIRCULATE TO	INITIAL	DATE
Separate copies sent to  Mr. D. Barrett Corporate Planning Manager China Liaison Officer  for information			1	MANAGING DIRECTOR	<i>seen</i>
			2	Divisional Manager (Planning & Systems)	
			3	Company Secretary	
			4	PUBLIC AFFAIRS BRANCH	

REMARKS

SUGGESTED ACTION

# UK using China Light as trump card — claim

*Please send copy to SS& LK.*

THE British government is believed by some industrial circles here to have persuaded China Light and Power Company to make a decision which, they hope, will provide last-minute trump cards for the British side in negotiations with China on the future of Hongkong.

China-watchers claim that Lord Kadoorie, chairman of China Light and Power Company, wrote a letter earlier this year at the request of the British government, informing Mr Peng Shilu, China's Vice Minister of Water Resources and Electric Power, that CLP could not proceed with negotiations for a joint venture to interconnect the systems of China Light and Guangdong Electric until May at the earliest and, possibly, much later — a move that sources suggest could motivate China to postpone the Guangdong project for years and eventually build it alone.

China is understood to have interpreted Lord

## FORUM 1997

by  
**Sheila Dawes**  
in London

Kadoorie's letter as indicating that he could not give the go ahead until arrangements for the future of Hongkong had been finalised and a Sino-British agreement ratified by the British Parliament. One source claims China anticipates that ratification will be sought from parliament in June.

Britain has been preparing to finance the General Electric Company's expected deal to build part of the nuclear power station by extending its first £1 billion export credit loan.

If China's plans to set up a joint venture with Hongkong are not finalised, says sources, there will be no "customer" to award contracts. The GEC contract, worth US\$900 million, was expected to be awarded this spring.

It is now thought that a statement by Vice-Premier



LORD Kadoorie... could not give go ahead.

Li Peng made in February, that all major contracts for the Guangdong project would be awarded by the end of next year, was made as a direct result of Lord Kadoorie's letter.

•A spokesman for the Department of Trade told *The Standard* that no date had been set for awarding the

GEC contract and this was a matter for the customer.

Allegations by British industrial circles that "political rattlings" and "bluff and counter-bluff" situations linked with the Sino-British negotiations have detracted from their expensive efforts to win orders at Guangdong against fierce competition from French and American companies, have been circulating for the past year.

Sources maintain that negotiations to form a joint venture to own and operate the station have been interrupted twice and the delay used as a bargaining tactic by Britain at the Beijing talks.

An industrial source pointed out that several negotiations connected with Guangdong were running parallel to each other and it might well be that these needed to be completed before negotiations on the joint venture could begin.

He thought they were just about to begin.

And amid reports of high-powered exchanges between London and Beijing, the Hongkong Government was accused of stalling and "dragging its heels" before it issued a franchise.

ISSUED BY P.A. BRANCH ON

12/4/84

7430

RESTRICTED

CEPC



Foreign and Commonwealth Office

London SW1A 2AH

4 May 1984

Dear John,

Hong Kong: Call by Lord Kadoorie

Your letter of 1 May asked for a short brief on subjects which Lord Kadoorie might be expected to raise with the Prime Minister when he calls on 8 May.

I enclose a brief on the future of Hong Kong and investment protection and promotion in China. The Department of Trade and Industry will be sending briefing on the Guangdong Nuclear Power Project separately to you; this will take account of the note which Lord Kadoorie delivered to No 10 this evening.

I am copying this letter to Callum McCarthy (Department of Trade and Industry).

Yours ever,  
Peter Ricketts(P F Ricketts)  
Private SecretaryA J Coles Esq  
10 Downing Street

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LORD KADOORIE'S CALL ON THE HOME MINISTER: 8 MAY 1984

## POINTS TO MAKE

## A. FUTURE OF HONG KONG

1. Sir Geoffrey Howe visited Peking 15-18 April. Held discussions with Chinese leaders, including Deng Xiaoping, on all aspects of future of Hong Kong. Progress made, but some difficult issues still remain.
2. Sir Geoffrey also visited Hong Kong and made statement on 20 April about our approach in negotiations. Confirmed that it is no longer realistic to think of agreement providing for continued British administration after 1997.
3. Our impression is that statement was received relatively calmly in Hong Kong, despite continuing underlying anxiety and concern. Believe that lifting of veil has been generally welcomed. Is this right?
4. Talks with Chinese continuing. Last round 27/28 April. 14th round on 9/10 May.

## B. INVESTMENT PROTECTION AND PROMOTION IN CHINA

5. Regret we do not consider it feasible to negotiate a UK/China Investment Protection and Promotion Agreement (IPPA) that will extend to Hong Kong. The Chinese view of the status of Hong Kong (as part of China) rules this out.

## C. ISSUE OF BRITISH PASSPORTS TO HONG KONG CITIZENS (DEFENSIVE)

6. Aware nationality is very sensitive issue in Hong Kong. Raised on many occasions by Unofficial members of EXCO. We are working for agreement which will encourage all Hong Kong people to continue to live and work in territory.

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LORD KADOORIE'S CALL ON THE PRIME MINISTER: 8 MAY 1984

## ESSENTIAL FACTS

## A. FUTURE OF HONG KONG

1. The Prime Minister is fully aware of the background to the subject. Lord Kadoorie is not privy to confidential information about the talks in Peking.

## B. INVESTMENT PROMOTION AND PROTECTION IN CHINA

2. Investment Promotion and Protection Agreements (IPPAs) are intended to stimulate flow of new investment between the two signatory states. They provide for the protection of existing and future investment under the law of the host country, for the payment of prompt, adequate and effective compensation in the event of expropriation; and for the independent settlement of investment disputes. We have 22 IPPAs, 16 of which have been ratified.

3. Mr Channon raised the possibility of concluding an IPPA during his visit to China in February and received a favourable response. Since then Lord Kadoorie has asked if a UK/China IPPA would be extended to cover Hong Kong investments in China. In most of our IPPAs there is an Article which provides for extension to Dependent Territories, but we have already agreed with the Hong Kong Government that it would be impossible to seek to apply this to Hong Kong in the context of a UK/China IPPA. The irreconcilable views of the British and Chinese Governments on the status of Hong Kong rule this out.

4. We have considered whether there is any other way to give a degree of protection to Hong Kong investment in China in the period up to 1997. Hong Kong take the view that there is not, and that there is no great pressure from local businessmen for this. They consider that the best protection for such investments is a viable project, satisfactory to both parties and covered by proper contractual arrangements.

Hong Kong Department  
May 1984

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*Atkinson*

10 DOWNING STREET

*From the Private Secretary*

1 May 1984

Hong Kong

I think you know that the Prime Minister has agreed to receive Lord Kadoorie on Tuesday, 8 May. I should be grateful if you could let me have by 7 May a short brief on subjects which Lord Kadoorie might be expected to raise with the Prime Minister.

I am copying this letter to Callum McCarthy (Department of Trade and Industry).

*AR*

Peter Ricketts, Esq.,  
Foreign and Commonwealth Office

*✓*

MR COLES

The Foreign Office rang today saying that they had heard that Lord Kadoorie is coming in to see the Prime Minister on Tuesday 8 May.

Do you require any briefing?

CR.

26 April 1984

2.19

CC PC  
SERV



WAPM

AT 18/4

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

18 April 1984

The Rt. Hon. Norman Tebbit MP  
Secretary of State for Trade and Industry

**GUANGDONG NUCLEAR POWER PROJECT**

You sent me a copy of your minute of 27 March to the Prime Minister about the Guangdong Nuclear Power project, which fulfilled the remit which EX on 29 February gave to you and Peter Rees to inquire further into the basis upon which GEC were bidding to supply equipment for the Guangdong Nuclear Power project. I have also seen the Prime Minister's comments as recorded in her Private Secretary's letter to yours of 30 March.

I hope that now GEC will be able to secure this sale at a subsidy no greater than 25 per cent as agreed by EX Committee. I note that you have undertaken that even within that figure concessions should only be made on the financing terms if they are matched by sacrifices from GEC, and that your officials and those from ECGD will consult my officials on this aspect of the financial negotiations.

Copies of this letter go to members of EX, the Secretaries of State for Northern Ireland and Energy and to Sir Robert Armstrong.

NIGEL LAWSON



*file*

10 DOWNING STREET

*From the Private Secretary*

8 April 1984

GUANGDONG NUCLEAR POWER STATION  
PROJECT: VISIT OF LORD KADOORIE

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Thank you for your letter of 4 April.

*BF* | The Prime Minister would be glad to see Lord Kadoorie at 1000 hours on Tuesday, 8 May.

I am copying this letter to Peter Ricketts (Foreign and Commonwealth Office).

A. J. COLES

Miss Ruth Thompson,  
Department of Trade and Industry.



JU144

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422  
GTN 215 .....  
(Switchboard) 215 7877

David Barclay Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

4 April 1984

Dear David,

GUANGDONG NUCLEAR POWER STATION PROJECT: VISIT OF LORD KADOORIE

Lord Kadoorie, the Chairman of the China Light and Power Company Limited of Hong Kong, will be visiting the UK between 2 and 12 May 1984, and has written to officials here asking whether he might call upon the Prime Minister. You may recall that the Prime Minister did agree to see Lord Kadoorie during his last visit to London in August 1983, but this had to be cancelled because of the Prime Minister's eye operation. The Prime Minister last met Lord Kadoorie in September 1982 when she performed the opening ceremony for the Castle Peak 'A' power station in Hong Kong.

2 Although we would not wish to encourage Lord Kadoorie to believe that the Prime Minister would be able to see him every time he is in London, we consider there are particularly strong reasons in favour of a meeting on this occasion, provided it can be accommodated in her diary:-

a the negotiations between the Chinese and the French for the nuclear island are scheduled for May. When Lord Kadoorie visits the UK he should know what the French have proposed and, indeed, whether they are also attempting to secure the conventional island contract;

b the negotiations with GEC are due to commence in the middle of May. A meeting would enable the Prime Minister to express HMG's support for the project;

c a meeting would enable the Prime Minister to discuss with Lord Kadoorie sentiments in Hong Kong about the progress of talks on the future of Hong Kong after 1997.



3 If the Prime Minister were able to see Lord Kadoorie my Secretary of State would like to see him before he called on her. We have in mind the possibility of a meeting on 8, 9 or 10 May. When you are able to let me know the Prime Minister's response perhaps we could co-ordinate diary arrangements as appropriate.

4 I am sending a copy of this letter to the Private Secretary to Sir Geoffrey Howe.

*Yours ever,*

A handwritten signature in cursive script, appearing to read 'Ruth'.

RUTH THOMPSON  
Private Secretary

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FILE

DSG



cc: EX:

bc: Bob Young

FCO

HMT

DTI

+ recipients as below

10 DOWNING STREET

*From the Private Secretary*

30 March 1984

GUANGDONG NUCLEAR POWER PROJECT

The Prime Minister has seen your Secretary of State's minute of 27 March. She was very grateful for the informative note on the GEC contract, as a result of which it is now much easier to disentangle the various elements. She has noted that the GEC bid now looks more competitive and that negotiations will be taking place in June and July. She has commented that during the course of these negotiations officials should not overlook the analysis in the paper on GEC's allowance for contingencies, margins and overhead recovery.

I am copying this letter to the Private Secretaries to the members of EX and to Derek Hill (Northern Ireland Office), Michael Reidy (Department of Energy) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Callum McCarthy, Esq.,  
Department of Trade and Industry.

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JTC





10 DOWNING STREET

Prime Minister ①

Guandong

Although the E(X) meeting was chaotic, it has provided a considerable improvement in our understanding of the contract - vta credit due to the Policy Unit.

Agree 1 minute as at X?

AT

29/3

Yes

mb

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29 March 1984

MR TURNBULLGUANDONG NUCLEAR POWER PROJECT

DTI have fulfilled the EX remit admirably. The officials' paper enclosed by Norman Tebbit clarifies all the points which were unclear at EX:

- the value of the subsidy to which the Government is committing itself (£73 million in net present value terms, 25 per cent of the NPV of the contract)
- what it is hoped to secure with this subsidy: a contract priced at £322 million before GEC's allowance for inflation, of which the UK content is £317 million, including freight, insurance, ECGD cover (the manufacturing content, before profit and contingency, is £198 million)
- the job content, now estimated by DTI economists at 18,000-21,000 man-years, compared to the original estimate of 25,000
- the margins built into the contract.

GEC have reduced the overall cost of the contract by around £70 million (from £435 million to £366 million) by offering a fixed-price contract, and reducing the inflation provision by over £40 million. This is a welcome step (inconceivable had not inflation been mastered) which shows that GEC are prepared to carry risks to win this contract.

This has been a useful exercise. It has encouraged DTI to make a more objective estimate of the job content. We hope they will keep this up. We suspect that it has also made them more aware of GEC's room for manoeuvre on price. The paper makes clear (paragraph 10) that, apart from contingencies, profit and negotiating margin totalling £32 million, GEC have built into the price a margin of 8 per cent on purchases from other GEC companies of £35 million (worth £2.8 million) and provisions for full overhead cost recovery of over £50 million (paragraph 12). We would expect officials to take full account of these provisions when following Norman Tebbit's remit to ensure that HMG is not put in a position of making sacrifices to preserve GEC's margins.


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- 2 -

In reply, we suggest that the Prime Minister might:

- X
- (i) thank Norman Tebbit for the most informative note on the GEC bid;
  - (ii) note that GEC's revised bid looks considerably more competitive;
  - (iii) but venture the thought that, in the course of the negotiations, officials should not overlook the analysis of GEC's contingencies, margins and overhead recovery in securing the best deal for the taxpayer.
- 

  
NICHOLAS OWEN

**CONFIDENTIAL**



JH 111

cc fc  
✓ cc RY

PRIME MINISTER

GUANGDONG NUCLEAR POWER PROJECT

At EX on 29/February Peter Rees and I undertook to:

- a) prepare a revised estimate of the UK content of the GEC bid;
- b) examine the basis of the allowances for cost escalation and contingencies in the bid; and
- c) establish how many United Kingdom jobs would be maintained or created by the contract.

When we discussed this project GEC proposed a price structure in which provisions for escalation were to be agreed subsequently with the Chinese. However, at the beginning of March, in response to Chinese pressure, GEC decided to enter a fixed price. This decision has delayed completion of the work requested by EX.

... 2 The attached note has been agreed by officials in my Department, the Treasury and the No 10 Policy Unit. The



principal conclusions, summarised at paragraph 26 are:

- excluding GEC's inflation allowance, the contract is estimated to be worth £322m at today's prices (para 5);
- the UK content (which includes all goods and services for which payment accrues to the UK) is £317m at today's prices (para 5);
- GEC's inflation allowance of 20 per cent is reasonable for this contract, which will take at least 6½ years to complete (paras 7-9);
- GEC's profit and contingencies are pitched at a reasonable level, given the degree of risk associated with this project (para 11);
- the figure of 25,000 man years of work in the project in my memorandum to EX was based on estimates derived from GEC's own labour costings, extrapolated for subcontractors; an independent estimate by DTI economists suggests a somewhat lower figure of 18,000-21,000 man years (paras 21-25).

I believe these figures are reliable at this stage. However, I must warn that the final scope of GEC's supply has yet to be settled and the sub-contractors who will undertake the major part of the work have yet to be appointed.



3 At EX we agreed that officials should seek to secure the contract within an overall subsidy limit of 25 per cent of the UK content of GEC's bid. Following GEC's decision to offer a fixed price, we can now make a firmer estimate of the absolute cost of support. The standard methodology for measuring the rate of subsidy is to express the Net Present Value (NPV) of the subsidies expected to be paid as a result of the concessionary financing terms as a percentage of the NPV of the UK content of the contract. The maximum rate of subsidy on this project will be 25%. On the basis of the NPV of the contract which is £293 million (para 20) the NPV of the subsidy that may be paid to secure the project is about £73 million.

4 GEC have now put forward their initial bid, supported as we agreed by a financing offer which matches the French. We shall now have to see how the negotiations develop in June and July. The strength of the competition was stressed to Paul Channon when he visited Beijing earlier this month, and GEC will certainly come under pressure to reduce their price. Officials from DTI and ECGD will be present for financial negotiations and they will ensure that HMG is not put in the position of making sacrifices to preserve GEC's margins. They will keep Treasury officials informed.

5 I am copying this minute to the members of EX Committee, and to the Secretaries of State for Northern Ireland and Energy.

NT  
~~NT~~

27 March 1984

Department of Trade and Industry

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## GUANGDONG NUCLEAR POWER STATION : NOTE BY OFFICIALS

## INTRODUCTION

1. At discussions at EX on 29 February, the Secretary of State for Trade and Industry was asked, in consultation with the Chief Secretary:

- (a) to prepare a revised estimate of UK content of the GEC bid;
- (b) to examine further the basis of the allowances for cost escalation and contingencies in the bid;
- (c) to establish the number of UK jobs created or maintained by the contract.

This note, which has been agreed between DTI, Treasury and No 10 Policy Unit officials, responds to these three requests.

## UK CONTENT: GEC PRICE

2. The UK content is defined as that part of the contract for which payment accrues to the UK, either because the goods or services originate in the UK or, in the case of work outside the UK, where those responsible are themselves UK based. This is the definition of UK content used by ECGD in calculating the UK content of contracts they support.

3. The DTI Memorandum to EX referred to an approximate total contract value to the UK of £435m. This figure was built up from a base contract price of £287m with additional provisional figures for certain items which could not at that stage be precisely costed, such as cost escalation, freight and insurance, and change orders arising from variations to the contract which might be required by the customer during construction. The provisional figures would have been substituted by actual figures as these became known. In particular, the structure of the price envisaged a contract where provision for inflation would not have been built into the base price but, in agreement with the Chinese, would have been calculated during the construction period based on labour and material cost movements as demonstrated by indices relevant to the industrial sectors involved. The inflation figure included did not therefore need at that stage to be precisely quantified, but was used to build the price to a likely maximum level to enable ECGD to calculate their likely exposure and the premium they should charge. However following the completion of the examination of the prices quoted by sub-contractors, and of the allowance for inflation made in their bids, GEC are now in a position to judge with more confidence what allowance to quote to the Chinese for inflation. GEC have therefore now decided to offer a fixed price, in recognition that the Chinese would prefer a fixed price contract, where a specific allowance is made for inflation in advance of the start of the project. This simplifies the price structure and avoids any open ended commitment by the Chinese, though conversely it increases the risk for GEC.

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4. The analysis which follows is therefore based on GEC's revised fixed price bid. It is quite likely that, as GEC refine their price, for example as the result of discussions with their subcontractors, some of the base figures will change again. In the course of negotiation GEC also expect to have to give ground on price. But the current figure is the one which has been lodged with the Chinese in GEC's tender. The effect of any changes will be explained as necessary in the analysis which follows.

5. GEC's revised estimate of the total contract value is £366m. Annex A gives a breakdown of this figure and Annex B explains in detail its relationship to the previous price of £435m. GEC have told us that of this £366m about £4.8m currently represents goods from non-UK subcontractors and about £0.8 non-UK office costs at site, and packaging, shipping and erection costs. The remainder (£360m) is therefore regarded as UK content. These figures are cash figures ie they include GEC's allowance for inflation. The uninflated figure for the total contract value is £322m and for the present UK content of the bid is £317m. But as explained in paragraph 18 below it is the discounted value of the cash figure of £360m which is used to calculate the percentage subsidy limit.

6. Concern was expressed at the EX discussion that the figures for UK content included allowances for contingencies; GEC's profit target; export credit guarantees (ECGD premium); and administration and freight charges outside the UK. The allowance for contingencies and GEC's profit are themselves payments to GEC and thus to the UK. Whether or not they are set at reasonable levels is a separate question, addressed below, but they should be regarded as part of the UK content of the contract and are always accepted as such by ECGD. ECGD premium is also ultimately paid by the Chinese to the UK. Although payment does not go to GEC, it is a benefit received by the UK as a result of the contract won by GEC, and so is legitimately regarded as part of the UK content of the contract. Again ECGD would normally include this in their calculations of UK content. Erection supervisors would be GEC personnel in China. Their salaries would be paid into the UK. As for the costs of freight and insurance, the figures included in the GEC price are provisional. If freight and insurance are placed in the UK, the value of these services would count as part of the UK content; but if for example, the Chinese decided to use Chinese ships, it would not count as part of the UK content. It is also likely that the Chinese will seek to manufacture some items for the conventional island themselves. Any Chinese manufactured items would clearly not count as UK content. But GEC would be bound to notify ECGD if there were any reduction in UK content from its present level, and a reduction in UK content would restrict the financing concessions we could offer within the overall limit set by EX. The reasons for this are explained in paragraph 17 below.

## COST ESCALATION

7. As shown in Annex A GEC's current price makes allowance of £44m for inflation over the lifetime of the contract. This represents a cost increase of 20%. GEC have reached this figure by

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calculating an allowance for inflation on their projected cashflow on the project using price indices of 105 in year 1, 110 in year 2, 117 in year 3, 124 in year 4, 132 in year 5 and 140 in year 6. (equivalent to compound inflation rates of 5.0%, 4.8%, 6.4%, 6.0%, 6.5% and 6.1% respectively).

8. We have also discussed with GEC the cost escalation provisions made by their sub-contractors. A minority of these (representing about 25% by value of sub contract items) have so far offered a fixed price, the rest offering only a price to be adjusted for inflation at the time of purchase, according to different sectoral indices depending on the nature of the product. Nearly all those who have been prepared to offer fixed prices have asked for a greater inflation allowance than GEC have set themselves. GEC have calculated that if they had included equivalent inflation provisions, they would have had to propose an inflation allowance of 25.5%. GEC are also taking a risk with the manufacturers who have not quoted a fixed price that the various indexes will not rise at a higher rate than their own provision. GEC will certainly seek to reduce their sub-contractors prices, but they will of course themselves be subject to pressure from the Chinese to reduce the overall contract price.

9. The inflation assumptions used by GEC envisage a gradual rise in inflation over time. But in the absence of any guarantee or insurance against a higher rate of inflation, (Cost Escalation Cover is no longer available) GEC appear to have set their inflation estimate at a reasonable level, particularly when many of their sub-contractors are building in higher allowances. In now proposing a fixed price contract, GEC will be carrying the full financial risk on the project, including any difference between their own estimate for inflation and the actual outcome - a combination of their own experience of cost inflation and their payments to subcontractors. In these circumstances, we feel that it would be wrong to challenge their commercial judgement or impose upon them different figures.

CONTINGENCIES, NEGOTIATING MARGIN AND PROFIT

10. The contingencies, negotiating margin and profit figures for the contract are as follows:

	£m	£m (inflated)	% of base price
General contingency	7.2	8.6	3.2%
Specific engineering contingency	4.3	5.2	1.9%
Profit	14.4	17.3	6.4%
Negotiating margin	6.0		2.2%

These figures are extracted from Annex A. The specific engineering contingency covers uncertainties related to the supply of mechanical and electrical equipment by subcontractors and is

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included in the contract materials figure in Annex A. Other companies in the GEC group will supply materials to GEC (Turbine Generators) on an arms length basis. They have included profit at an average rate of about 8% in the £34.8m of goods they are supplying to GEC(TG). However, they have not included a general contingency in their price as they usually would if quoting to an external customer.

11. The private sector financial advisers seconded to the DTI's Industrial Development Unit believe GEC's profit and contingencies are reasonable for a project of this size and difficulty. However, because GEC has catered in its price for full recovery of overheads, they would not be surprised if GEC were prepared to concede part of their profit and contingencies when pressed. Setting the negotiating margin must be a commercial matter for GEC. However, it is expected that GEC will give up its negotiating margin well before negotiations are concluded.

OVERHEAD AND COST RECOVERY

12. In their opening price GEC have provided for full recovery of factory and administrative overheads on the contract at their normal recovery rates; and for full recovery of their development expenditure on the innovative features of the contract. Their price also includes provisions standard to all GEC (Turbine Generator) contracts to set aside a small percentage of manufacturing and development costs to provide for standard non contract-specific development work and maintenance or alterations arising for instance from malfunctioning equipment. In all, these overhead and cost recoveries total £52.5m.

FREIGHT AND INSURANCE, CHANGE ORDERS, SUPERVISION OF ERECTION

13. GEC's contract is free on board (fob) and the costs of freight and insurance, if required by the Chinese, would be additional to their base price. For the purpose of calculating ECGD's likely maximum exposure, GEC have included provisions for freight, insurance and change orders within the total of £366m. Of these the freight and insurance, if paid by GEC, would be a simple transfer of funds by them from the Chinese to the shippers and insurers, involving no profit for GEC. GEC's estimate of £25m is probably the maximum cost and is based on their experience on a wide range of power plant contracts. On any change orders - ie changes to the specification or additional orders during manufacture - GEC would expect to make a profit at a rate approximately equal to their profit on the contract as a whole. Individual change orders may either increase or decrease the overall project value, and the final net effect cannot be known until the completion of the contract. The Chinese will naturally seek to keep this additional cost as low as possible, and GEC believe on past experience that £25m is likely to be ample provision. The price quoted for erection supervisors will comprise

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payments to GEC staff who will be on site during the erection of the station. These staff will be paid at rates normally used by GEC on export contracts which will again include a profit element.

## ECGD PREMIUM

14. The figure for ECGD premium of £39.5m represents the premium payable on the loan terms which will be offered initially, plus a provision of £5m as a contingency against the increase in premium which would be necessary if concessions on financing terms have to be made in the course of negotiations. However, if in the end it proved necessary to offer the maximum degree of concessionality agreed by EX of 25 per cent, the ECGD premium would need to be increased further. For example, the increase which would be necessary to cover an extension of the construction period to 8½ years and full capitalisation of precommissioning interest would be approximately £15m. There would be a commensurate increase in ECGD's exposure.

## CALCULATION OF THE SUBSIDY

15. Ministers agreed at EX a subsidy limit of 25% of the revised value of the UK content of the GEC bid. The following section explains how this is calculated.

16. Under an international agreement, the Consensus, subsidy may be paid to support exports by reducing the interest rate paid on credit. The current Consensus interest rate for China is 9.5%. The subsidy payable is the difference between receipts from the Chinese at this rate and the cost of funds from commercial sources. The total amount of the subsidy paid will therefore depend on the size of the loan and the terms on which the credit is provided, such as the repayment period.

17. To enable comparison between one project and another subsidy payable on an export is expressed as a proportion of the value to the UK of the exports, ie the UK content as defined in paragraph 2 above. Foreign goods and services are excluded from the definition of the UK content although they may be part of the contract and covered by the credit. ECGD are usually prepared to offer a limited amount of cover for local costs (incurred in the customer's country) and third country costs. Any such foreign content will reduce the headroom to offer financing concessions within the 25% subsidy limit agreed by EX. For example, if the UK content were reduced from 100% to 95% of the value of a particular contract, the percentage concessionality of any given financing offer would automatically increase by a factor of 100:95. The 25% limit on subsidy in this case will thus provide GEC with every incentive to keep the foreign content to the minimum.

18. The subsidy expressed as a proportion of UK content therefore highlights what price has been paid by the Government to secure the benefit of the export, in this case a maximum of 25%, and what different concessions on the credit terms will cost. Since the export subsidy will be paid over the whole life of the loan, in this case 23 years, and because the benefits of the exports will also accrue over time as GEC are paid for work done, the flows of

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cash, both of the subsidy and the payments made to GEC, are discounted to produce a net present value both of the UK content of the contract and the subsidy. The payments made to GEC are detailed in Annex C, which gives the profile of the drawdown of the loan. The present drawdown profile reflects GEC's expectations of the rate at which work will proceed. The precise drawdown may be further revised in the course of negotiations with the Chinese on the construction period they ultimately set for the project, and the timing of delivery of equipment to site. A change in the drawdown profile would alter the amount of interest payable and it would be necessary to recalculate the subsidy (the relative costs of commercial and concessionary loans), based on the revised drawdown, to assess what loan terms may be offered within the 25% limit set by EX.\* Once the contract has been signed, any request by the Chinese to GEC for further changes in the drawdown profile could not take place without the agreement of ECGD. To calculate the subsidy in the Guangdong project a discount rate of 10.92% was used, reflecting the current view of relevant long term commercial interest rates. This is the normal method of measuring subsidy on export credit. However, since in this case other assistance is proposed to help secure this contract up to a maximum of £3.4 million from the Support for Innovation Scheme (SFI) and up to a further £1.5 million from the Northern Ireland Industrial Development Board, these payments are included along with the export credit subsidy in the calculation of total subsidy payable in support of this project.

19. The export credit subsidy therefore benefits both the exporter and the customer over the life of the contract. The customer through the cheap finance, and the exporter because the cheap finance has helped secure him the sale. The customer will not be aware of the 25% limit and for him to know how we value concessions in credit terms he would also have to know the market and discount rates we have used. He will rather be interested in the cost to him of the project as a whole, the credit being but one item. The Chinese will be guided in this part of the appraisal of their project by China Light and Power who are well experienced in this. They will also be able to compare the terms we offer with those offered by the French for their part of the project.

MAXIMUM SUBSIDY

20. Although this is a negotiated contract, the fact that the French could supply the conventional island and the reductions sought in negotiation by the Chinese will maintain downward pressure on GEC's price, and therefore on the overall size of the subsidy. It is therefore unlikely that the total contract figure of £366m will be exceeded. If exceptionally, the contract figure were to be significantly exceeded, GEC would need to apply to ECGD for guarantees in excess of £366m and ECGD would in turn have to consult the Treasury. Accordingly we believe there is no danger of any uncontrolled increase in the size of the concessionary loan offered for this project. On the basis of the calculations described above, the likely maximum UK content expressed in net present value terms is £293m and the likely maximum subsidy is therefore £73m in npv terms.

\* A longer draw-down would limit the financing concessions available within the 25% limit.

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## JOBS MAINTAINED OR CREATED BY THE PROJECT

21. The total of 25,000 man years of work associated with the project quoted in the DTI Memorandum to EX was based on GEC's appraisal of the detailed contract specification and their long experience of major power station projects. GEC (Turbine Generators) estimated that the factory loadings within their own plants for their scope of supply would require 2.3 million direct productive hours. GEC also estimated that 3 million productive hours of engineering design and R&D effort would be necessary. Applying GEC's standard ratios of direct to indirect labour and productive to clocked hours the total GEC in-house effort was estimated at 7,050 man years.

22. GEC (Turbine Generators) are responsible for 30% of the work on the project. If all the subcontractors work at the same rates as GEC, work on the overall project would be 23,500 man years. Although GEC have no details of productivity levels of their subcontractors it is reasonable to assume that some at least of the smaller ones are more labour intensive, though other subcontracted activities such as basic steelmaking are no doubt more capital intensive. Accordingly it does not appear unreasonable to assume that a broad estimate of the work likely to be generated by the project can be extrapolated from GEC's own estimates of the man hours of work they themselves would undertake.

23. Another approach is to examine the relation between UK labour costs and the UK contract value. The total labour costs in a contract represent the sum of the labour costs at each point in the manufacturing chain, from the production of metals from low cost ores to semi finished materials such as forgings to the finished turbine. In a contract such as this a high proportion of the cost of all materials and services will represent UK labour costs, though adjustments must be made for the proportion of costs attributable to return on capital and the proportion attributable to imported materials.

24. DTI economists have conducted an analysis on these lines for this project. In the case of GEC's own costs, the economists have drawn on the information gathered by the private sector financial advisors seconded to the Department in the course of examining GEC's contract price. However, it should be borne in mind that the detailed pattern of subcontracting has yet to be determined, and that wage rates for subcontractors could only be estimated, as could the proportion of the costs of materials and subcontractors costs representing return on capital and imported materials. Inevitably, therefore this analysis is also an estimate, although prepared by a different method from that adopted by GEC.

25. The result of this exercise is a figure of 21,000 man years. This figure may include some over-estimation of the employment content of overhead costs, freight and insurance and change orders, and supervision of erection (and the decisions the Chinese eventually take on these latter items will of course affect UK employment generated by the contract). However, in the absence of further information, it is not possible to quantify the degree of over-estimation, though it is unlikely to be more than 2,000 to 3,000 man years of work. This method therefore estimates the man years of work associated with the project as not less than 18,000 and possibly as high as 21,000.

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## CONCLUSIONS

26. The principal conclusions of this analysis are:-

- (a) The estimated maximum cash value of the contract is £366m. Of this UK content is estimated at £360m.
- (b) The value of the contract, excluding GEC's allowance for inflation, is £322m. Estimated UK content is £317m.
- (c) The value of the UK content of the contract, discounted for subsidy purposes, is £293m.
- (d) Accordingly, within the subsidy limit of 25% of the UK content of GEC's bid agreed by EX, the maximum value of the subsidy which could be offered would be £73m in net present value terms.
- (e) GEC have made an allowance of 20% for inflation. This seems reasonable, given the project's extended construction period. The profit and contingencies included in their bid are set at reasonable levels for a project of this size, although it is likely GEC will have to give ground on these in negotiations with the Chinese.
- (f) GEC's decision to offer a fixed price contract increases their own risk but reduces the uncertainty about the size of the project to be supported. Given negotiating pressure on all aspects of the price, it is unlikely that the total contract value for which concessionary financing is required will exceed the present estimate of £366m.
- (g) Only broad estimates of the man years of work generated by the project can be made at this stage in the project when the scope of supply has yet to be settled and subcontractors appointed. GEC's estimate of the man years of work created or maintained by the project based on their own labour costings and extrapolated to their subcontractors is 23,500. An independent assessment by DTI economists based on the likely UK labour content in the GEC contract produces a figure of 18,000-21,000 man years.

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ANNEX A

GEC TURBINE GENERATORS LIMITED - GUANGDONG NUCLEAR POWER STATION  
FIXED CONTRACT PRICE

	GEC Group Costs £m	Non-GEC Group Costs £m	Total £m
Manufacturing costs	26.2	15.9	42.1
Contract development expenditure	14.5	-	14.5
Contract materials (note 1)	34.8	76.1	110.9
Recoveries of costs:			
- standard development	3.4	-	3.4
- Maintenance and complaints provision	6.3	-	6.3
- commercial and administration	8.3	-	8.3
Packaging, shipping and erection	2.2	0.4	2.6
Bonds and unfair calling	-	4.3	4.3
Spares (provisional sum) (note 2)	1.0	2.0	3.0
Local office costs (at site)	3.0	-	3.0
	<hr/>	<hr/>	<hr/>
	99.7	98.7	198.4
General contingency			7.2
Profit			14.4
			<hr/>
			220.0
Inflation allowance			44.0*
			<hr/>
			264.0
Negotiating margin			6.0*
			<hr/>
BASE PRICE			270.0
Freight and insurance			25.0
Change orders			25.0
Supervision of erection			6.9*
ECGD premium			39.5*
			<hr/>
TOTAL (note 3)			366.4
			<hr/> <hr/>

Notes:

1. The GEC Group figure for contract materials of £34.8m represents the involvement of GEC group companies other than GEC (Turbine Generators) in the contract.

2. The total of £3m has been split notionally pro-rata to the contract materials split as the exact division between GEC and non-GEC is not presently available.

3. This total represents the likely maximum value of the contract (see paragraph 5 of the paper).

\*indicates items changed from GEC's previous price structure. See Annex B for detailed explanation of changes.

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Annex B

RECONCILIATION OF GEC'S ORIGINAL PRICE OF £435m AND PRESENT PRICE OF £366m

The difference between these two prices arises primarily from GEC's decision to change the structure of their quote from a base price, to which would be added inflation calculated during the life of the contract according to agreed indices, to a fixed price including inflation. The size of the ECGD premium has also decreased; this is discussed in detail below. There has not been any change in the underlying manufacturing costs.

The items which have altered are asterisked at Annex A. The reconciliation of these alterations may be considered numerically as follows:-

	£m	£m
Original contract price		435.0
Inflation allowance		
- original provision	85.0	
- revised estimate	(44.0)	
- decrease in allowance		(41.0)
ECGD premium		
- original worst case estimate	62.0	
- revised estimate	(39.5)	
- decrease in premium		(22.5)
Erection supervisors		
- original provision	10.0	
- revised fixed price	(6.9)	
- decrease in price		(3.1)
Firming of negotiating margin		1.0
Roundings included in previous price		(3.0)
Revised total contract price		----- 366.4 -----

The reason for the difference in the allowance for inflation is that the £85m was a figure included by GEC for the purposes of indicating to ECGD the likely maximum contract value, before they were able to assess the inflation provisions made by their own subcontractors. This figure of £85m was provisional. If the contract had gone ahead on the basis of GEC's original price structure, this figure would have been substituted by inflation figures calculated by reference to an agreed series of sectoral price indices. In a contract of that structure, GEC would not have needed to make a detailed estimate for inflation before putting forward their bid. Now they have decided to offer a fixed price, GEC have had to make a judgement in advance of what allowance



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should be made for inflation over the life of their contract, taking account of the inflation provisions their sub contractors have made and what the Chinese might be expected to accept. Their inflation allowance of £44m is of course considerably lower than the provisional sum of £85m, but, as explained above, this does not of itself mean that the earlier figure would have allowed GEC to make extra profits.

The ECGD premium has been reduced for two reasons. The first is the reduction in the estimated total value of the contract. The second is that GEC have been able to calculate, in consultation with ECGD, the premium which would be payable on their initial bid, now that the export credit financing terms which will accompany the offer have been settled. The previous premium figure of £62m was an estimate of the maximum figure likely to be payable on the contract if major concessions were given on financing terms in the course of negotiation. The revised figure of £39.5m is composed of a premium of £34.5m which would be payable on the opening financing offer plus a provision of £5m as a contingency against the increase in premium payable if concessions have to be made on financing terms. However if it were eventually to prove necessary to offer, say, a construction period of 8½ years and full capitalisation of pre-commissioning interest a larger increase in premium would be necessary. But this is unlikely to exceed the £39.5m built into GEC's present estimate of the total contract value by more than a further £15m.

In reaching final decisions on their opening price, GEC have also decided to increase their negotiating margin from £5m to £6m. The negotiating margin must be a matter for GEC's commercial judgement, and we would not seek to challenge this.

Finally, GEC have also decided to offer a firm price for the supervision of erection, and have reduced the provision of £10m to a fixed price of £6.9m.

## GUANGDONG PROJECT: DRAWDOWN

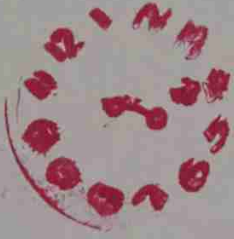
## PROFILE OF LOAN

Months from Start of contract	Amount Drawdown (£m)	Percentage Drawdown	Cumulative Percentage
6	16.1	4.4%	4.4%
12	30.4	8.3%	12.7%
18	52.3	14.3%	27.0%
24	63.3	17.3%	44.3%
30	68.8	18.8%	63.1%
36	52.3	14.3%	77.4%
42	43.2	11.8%	89.2%
48	26.3	7.2%	96.4%
54	6.9	1.9%	98.3%
60	2.6	0.7%	99.0%
66	1.5	0.4%	99.4%
72	1.1	0.3%	99.7%
78	1.1	0.3%	100.0%
	<hr/> 366 <hr/>		

The drawdown profile represents the drawings by GEC on the ECGD supported loan. The Bank of China is the borrower, but in practice payments are made direct to GEC by the UK banks which will form the syndicate to put up the loan.

HONG KONG: Castle Peak.  
A 3

18 FEB 1984



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P. 01235

PRIME MINISTERGuangdong Nuclear Power Station

(EX(84)3)

## BACKGROUND

The People's Republic of China are proposing to build a nuclear power station of the pressurised water reactor (PWR) type to supply electricity both to the Guangdong province and to Hong Kong. In March 1983, a memorandum of understanding was signed with the Chinese government naming General Electric (GEC) as supplier of the conventional turbine "island" for the power station subject to the Chinese being satisfied on price, financing and certain other matters. A similar memorandum was signed in May 1983 naming the French company Framatome as suppliers of the nuclear "island".

2. There has for some time been an understanding between the UK and French governments, most recently confirmed at the Anglo-French Summit on 20 October 1983, that they will co-operate as partners on the Guangdong project. But behind the scenes, Electricité de France, who have been appointed as overall architect engineers for the project, have been manoeuvring on behalf of Alstom Atlantique, Framatome's usual partner, to open up the possibility of their taking over the contract for the conventional turbine, for example, by raising doubts about the new GEC design and pointing to Alstom's good record with an established turbine. The French government must be aware of their activities. GEC thus remains the front-runner: but there is a potential competitor in the background.

3. General Electric (GEC) are required to bid on 15 March for the conventional turbine contract, worth about                     

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£435 million. The Government is able to support the bid in two ways: by giving financial assistance to GEC which will enable them to price more competitively, and through the export financing terms made available to China.

Concessions can be offered on export credit in the form of an interest rate below commercial levels; no repayment of principal, till the power station is commissioned; capitalisation of interest payments due as the loan is drawn down prior to commissioning; and support for local costs.

4. In preliminary negotiations, the Government authorised an export credit package for either a sterling or dollar loan as at item 1 in the annex to the memorandum EX(84)3. The total level of concessionality was 15 per cent for a sterling loan and 19 per cent for a dollar loan. On 26 November 1982 (your Private Secretary's minute to the Private Secretary: Secretary of State for Industry), you agreed that the form of the package but not the terms might be changed as at item 2 in the annex. But, it did not prove necessary to make that offer to the Chinese; and our outstanding offer is as at item 1.

5. The French have also offered concessionary export credit terms on the nuclear "island"; their formal bid submitted on 15 February broadly matches the most recent UK offer for the conventional island in terms of total concessionality. China has however been pressing the French for improvements to that offer, such as making the loan available in French francs. China is also pressing the UK to make a better opening offer on 15 March on export credit for the conventional turbine, given GEC's lack of experience on PWR technology.

6. In his memorandum, the Secretary of State for Trade and Industry seeks the Committee's agreement:

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- that the UK should match the opening French offer on both the form and terms of export credit concessions attached to the GEC bid;
- that in subsequent negotiations, he should be authorised to offer further concessions up to a total of 30 per cent of UK contract price;
- that, within the limit, financial assistance up to £4.4 million should be given to GEC through:
  - a. a 33 1/3 per cent (the maximum) grant for the development costs under the Support for Investment (SFI) Programme, amounting to £3.4 million;
  - b. £1 million from the Northern Ireland Development Board (NIDB) for project work at Larne (if the Board and the Secretary of State for Northern Ireland so decide).

## MAIN ISSUES

7. The Sub-Committee will wish to consider:
  - i. what should be the opening offer to China on the export credit terms;
  - ii. whether domestic financial assistance should be made available to GEC so as to improve the competitiveness of their bid;
  - iii. how far the Government should be prepared to go in offering further concessions on the export credit terms for the GEC contract.

Opening offer

8. It seems unlikely that there will be disagreement over the opening offer. Mr Tebbit is asking only that, in order to

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bring our offer into line with the French offer on the nuclear island, we should give the Chinese the choice between support for local costs and capitalisation of interest payments, ie the choice between Item 1(a) and Item 2(a) in the Annex. You already authorised this in November 1982.

Domestic financial assistance to GEC

9. It also seems unlikely that there will be objection to the proposal to improve the offer in due course by about 1 per cent by providing support to GEC of £3.4 million under the SFI programme and, subject to the views of the NIDB and Mr Prior, £1 million in respect of project work at Larne. We understand that the Chancellor of the Exchequer is attracted to this course. There are advantages in terms of containing total public expenditure if support for this project is channelled through cash-limited programmes like the SFI, rather than through the open-ended export credits programme. However the Treasury are anxious that a successful company such as GEC should be seen to help win the project; consequently they will seek assurances that any Government assistance goes, so far as possible, to reduce the bid price rather than increase GEC's profits.

Negotiating limit

10. The contentious issue is therefore the limit to be set on further improvements to the offer. Mr Tebbit proposes an overall limit of 30 per cent, ie a subsidy around £130 million. You will wish to establish clearly that this is (as his paragraph 14 suggests) intended to include the 1 per cent domestic financial assistance to GEC; his paragraph 12 implies an offer on the lines of item 5(b) in the Annex amounting to 30.56 per cent with an additional 1 per cent making 31.56 per cent in all.

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11. The Chancellor of the Exchequer will argue that the level of concessionality on offer (14-19 per cent) is already excessive, in relation to the export credit threshold (11.25 per cent) agreed earlier between departments for general lending to China. He is likely to propose that the limit on concessionality should be no higher than 22 per cent, and that this should be regarded as the final limit which should not be exceeded in any circumstances.

12. The Committee will want to weigh the extent of the proposed subsidy against the political and economic benefits of the project. Although it would be realistic to provide some room for further negotiation, it may be tactically unwise at this stage to give the negotiators leeway to move from an opening offer with a subsidy in the range 14 to 19 per cent, to an offer of 30 per cent subsidy. The right course at this stage might therefore be to fix a provisional limit (including the domestic support for GEC) at a considerably lower figure than 30 per cent - either at 22 per cent, which the Chancellor may propose, or perhaps 25 per cent. The negotiators should then make every effort to settle within that limit, although it would, as always, be open to Mr Tebbit to come back to the Committee if some further marginal improvement appeared to be necessary to conclude the negotiations.

#### Contacts with the French

13. Whatever may be decided about the negotiating limit, the Committee may feel that there would be advantage in putting diplomatic pressure on the French not to escalate export credit subsidies to the Chinese and to hold to the established understanding on the sharing of the Guangdong project. It might be left to the Foreign and Commonwealth Secretary and the Secretary of State for Trade and Industry to consider how this might best be done.

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## HANDLING

14. You will wish to invite the Secretary of State for Trade and Industry to introduce his paper. The Chancellor of the Exchequer will wish to comment. The Foreign and Commonwealth Secretary may wish to express a view on the political considerations. The Secretary of State for Northern Ireland may wish to comment on the importance of the project for employment in Northern Ireland.

## CONCLUSIONS

15. You will wish the Sub-Committee to reach conclusions on the following:

- i. whether the opening offer on export credit for the conventional turbine "island" should match, in its terms and form, that offered by the French on the nuclear "island";
- ii. whether domestic support totalling £4.4 million should be made available to GEC, subject to the necessary approval within Northern Ireland;
- iii. what upper limit (inclusive of domestic support) should be placed on the total level of support for the project;
- iv. whether diplomatic pressure should be brought to bear on the French to discourage bidding-up of the export credit terms.

*PLG*  
P L GREGSON

28 February 1984

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CONFIDENTIALPRIME MINISTERGUANGDONG NUCLEAR POWER STATION

EX Committee is invited to agree to increasing support for GEC's bid up to 30% of the value of the conventional island.

How much support is worth giving?

As a means of protecting particular jobs, this form of support is probably the most expensive of any that we give. There is less than £200 million worth of UK manufacturing output in this project, measured at today's prices. This is equivalent to about 12,500 man years of work (half that which is claimed in the DTI paper). The level of support already agreed (22%) would imply a subsidy of £5,000 per job-year. The 30% level of support which is proposed would imply a subsidy of £7,000 per job-year, averaged over all the manufacturing jobs involved. Averaged over the 40% of the work reckoned to be undertaken in the Assisted Areas, these costs rise to £12,500 and £17,000 respectively. Many of these jobs would survive anyway so the cost per job year maintained is much higher. Regional policy, on average, involves a subsidy per job year of around £2,000-£3,000 for each additional job generated. Therefore, insofar as this project is regarded as a contribution to regional policy, it is many times more expensive than regional grants. Moreover, regional grants will already have been paid in respect to the capacity involved.

The review of regional policy has concluded that the cost per job of that policy is much too high. Surely, then, we do not wish to increase the costs of this project, which are already several times greater, and in addition to, regional support.

Looking beyond the project, the business which GEC hopes to secure as a result of its establishing a reference plant involving high-speed 1000 MW sets, could conceivably make this investment worthwhile in industrial terms. However, the likelihood is that GEC will seek subsidies for this additional business too. This is the land of the never-never: what we buy with our subsidy is the opportunity to win more orders with more subsidies. There will always be a justification - a new market, a more advanced technology, intensified competition, industrial capacity at risk.

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- 2 -

Is there a need to make more concessions at all?

Understandably, the DTI paper overplays the case for concessions - our own technology is "weak", the French may try to ditch us as a partner; "the Hong Kong card has already been played". As to technology, it is true that we do not have a proven, high-speed 1,000 megawatt set, but neither has Alsthom Atlantique, Framatom's alternative partner. (The two competitors with established, large high-speed sets - KWU and Brown Boveri - are not in contention for this project). It would be the French, not us, who would look bad if the cooperative arrangement collapsed. Moreover it is not clear why the Chinese would wish to disappoint us at this particular delicate stage in our negotiations.

GEC's room for manoeuvre on price.

Since GEC sees this project as a strategic one to win, their willingness to negotiate on price ought surely to reflect this. GEC has the liquid assets (well over £1,000 million) to take a long view. The DTI paper comments that the GEC price is "competitive" and that it is not seeking "an excessive profit, undue recovery of overheads or reasonable contingencies".

4.4  
GEC states that their profit is £14 million on the basic contract price of £287m. A further £16m is allowed for contingencies and negotiation. DTI's financial staff judge these to be reasonable. Our conservative assessment is that £10m of this is in fact profit for GEC. In addition, GEC could press its suppliers to trim their margins. But even without doing this, GEC could, without difficulty, reduce its bid by £4m and still have £20m profit. It has the room for manoeuvre to offer most of the packages in the Annex to the paper with the support already committed by the Government, which at 22% of project cost is already double the normal rate for China (11%).

#### RECOMMENDATIONS

GEC are taking the Government for a ride. There is no case for any additional aid. The Government should stand on its commitment, offer GEC export financing worth £75m plus support of £4.4m (together worth 22% of the contract as it stands now), and leave it to GEC to negotiate with their own (considerable) resources.

*Nicholas Owen*  
NICHOLAS OWEN  
28 February 1984

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JF5793

*Bf*  
 Avail Treasury to agree  
 and then S.U.

*A.S.C. 24/2.*

PRIME MINISTER

## GUANGDONG NUCLEAR POWER PROJECT

GEC are due to submit a formal bid for the conventional island of this power station on 15 March. I have circulated to colleagues an EX paper setting out my proposals on the financial support we should give to GEC's bid. Officials agree that our opening bid should match the terms offered by the French for the nuclear island. Officials are also agreed on the concept of setting an overall limit on the concessionality of the financial support we should make available, within which negotiations would take place. However my officials have not been able to reach agreement with the Treasury on where the limit should be set.

2 I hope that you and colleagues will feel able to support my proposal that the limit should be set at 30 per cent. However, if we cannot reach agreement on this one unresolved question, a meeting of EX has been arranged for 29 February. I am copying this letter to colleagues on EX, and in view of their interest in this project, to Jim Prior and Peter Walker who also received copies of the paper.

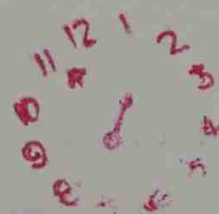
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24 February 1984

Department of Trade &amp; Industry

H-12: Georgia Nuclear Power  
Plant: A-3

24 JAN 1984





10 DOWNING STREET

THE PRIME MINISTER

2 February 1984

Dear Harvey

Many thanks for your letter of 27 January.

It was kind of you to send me a copy of the Report on your visit to China, and kinder still to offer to come and discuss it with me.

I am myself off on my travels today - to Hungary. But I shall try to find time to read your Report when I return, and if, having done so, there is anything which I think we need to discuss I will, of course, be in touch with you.

Yours ever  
Margaret

The Rt. Hon. The Lord Rhodes, K.G., D.F.C., D.L.

LPO

SADDLEWORTH 4500



CRIBBSTONES  
DELPH  
NEAR OLDHAM  
OL3 5BZ

THE LORD RHODES, K.G., D.F.C., P.C., D.L.

27th January, 1984.

R30/1

Dear Margaret,

Further to my letter of the 7th December, I have pleasure in enclosing a Report by the Delegation I led to China in October last year.

If, after reading it, you would like me to come to 10 Downing Street to discuss it I should be very honoured to do so.

With best wishes for your success in 1984,

I am,  
Yours sincerely,

*James*

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

Hay key : Castle Peak A3

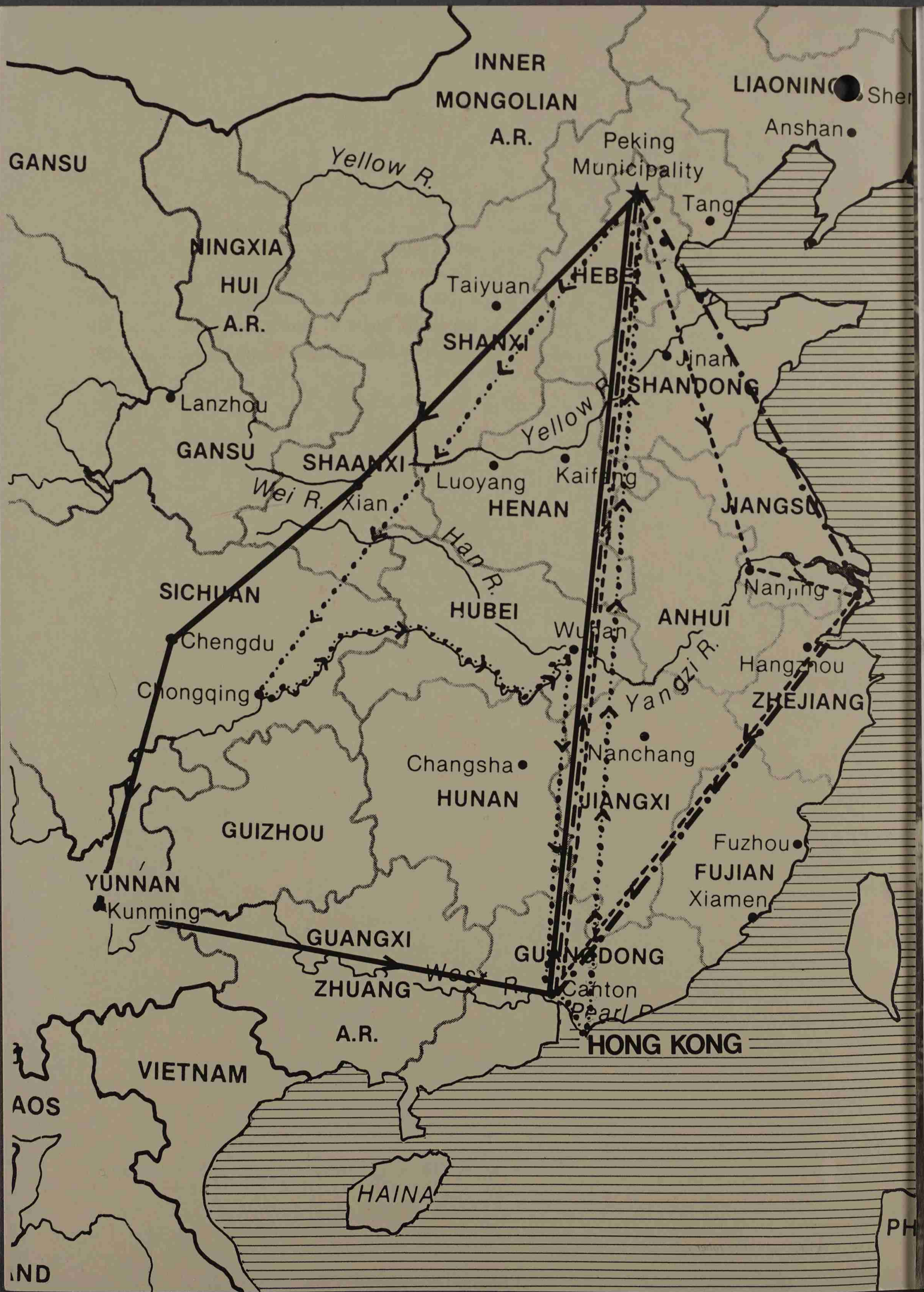




# Report on the Visit to China

by Lord Rhodes' Fourth Parliamentary Delegation  
2 - 14 October 1983



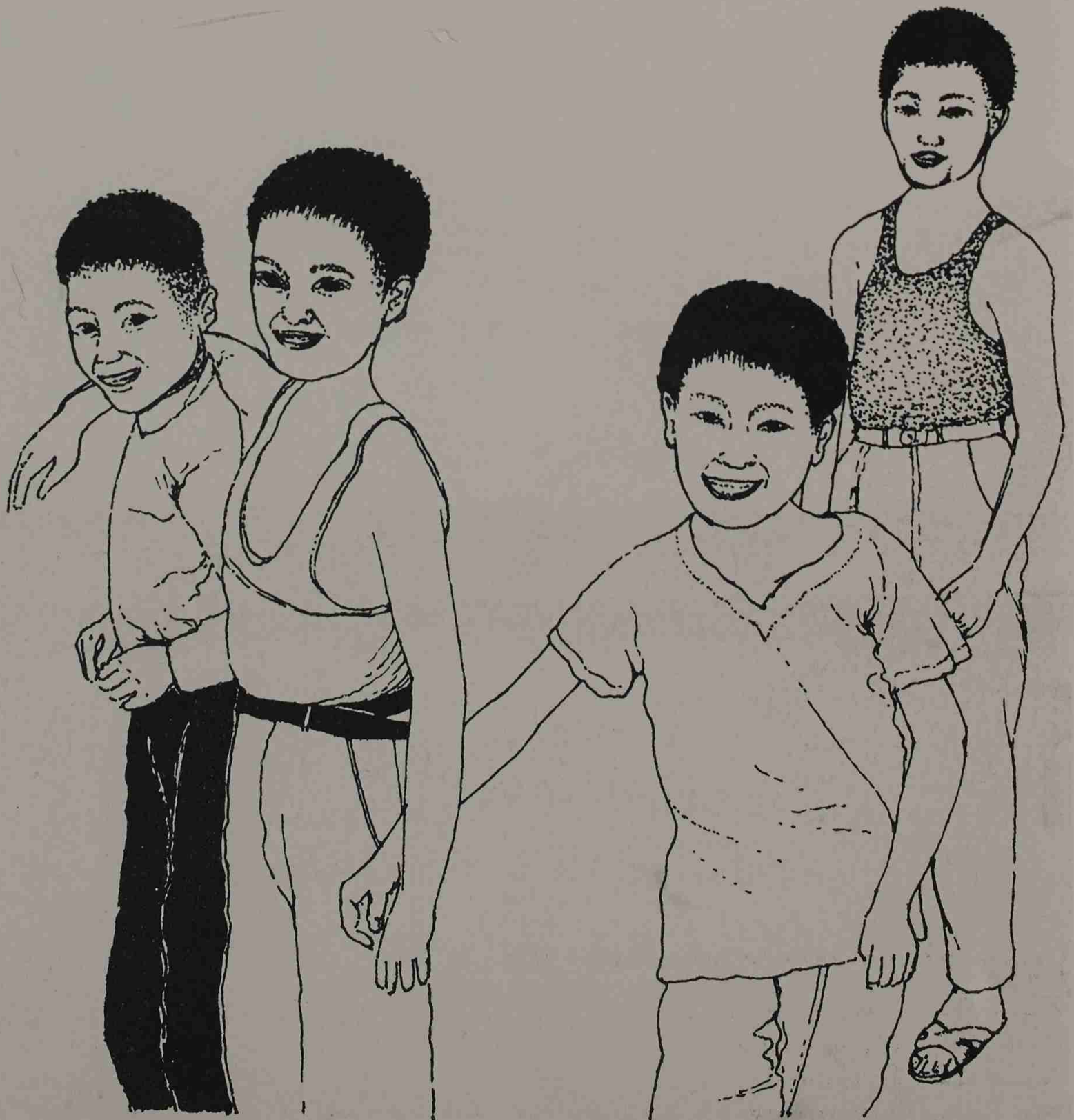


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*The routes of the visits to China by Parliamentary delegations led by Lord Rhodes*

- 21 May - 8 June 1978.
- . - . - . 9 - 25 October 1979.
- 14 - 30 April 1981.
- 2 - 14 October 1983.



# Members of the Delegation

The Rt. Hon. the Lord Rhodes KG DFC PC DL

The Rt. Hon. the Baroness Llewelyn-Davies  
of Hastoe.

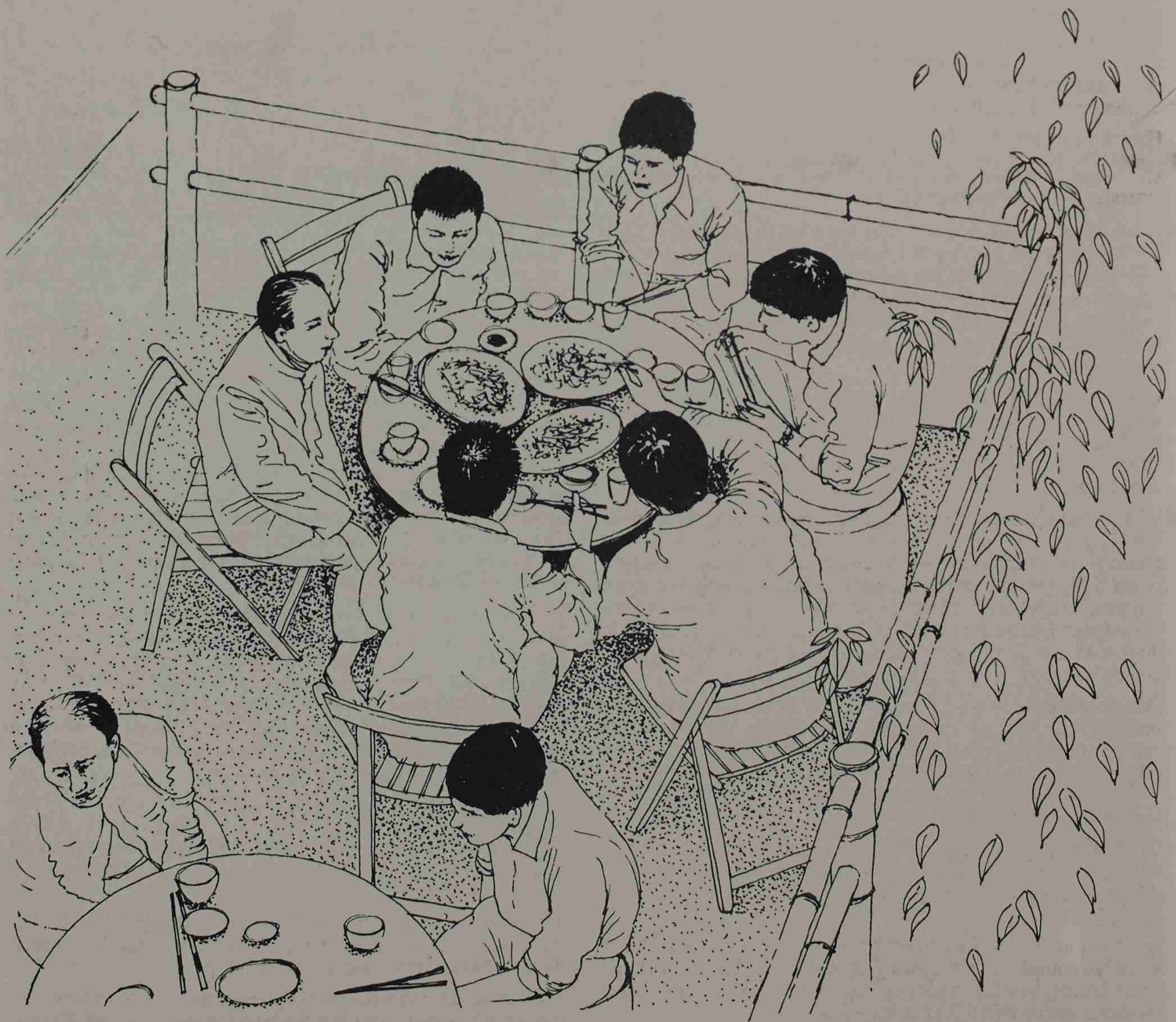
Mr William R. Benyon JP DL MP.

Mr Roger E. Sims JP MP.

Accompanied by Miss Frances Wood  
British Library, Department of Oriental Manuscripts and  
Printed Books.

*The Temple of Heaven near Beijing.*





*Roger Sims and Bill Benyon on the Great Wall.*

## Introduction by The Rt. Hon. the Lord Rhodes KG DFC PC DL

This is an introduction to the Report of the Delegation of Parliamentarians which visited China in October 1983, in response to a fourth invitation from the Chinese Government.

First, we wish to thank the Chinese Ambassador, His Excellency Chen, and Xie Li, Secretary-General of the Chinese People's Institute for Foreign Affairs, who issued the invitation and made all the arrangements for a wonderful visit. What a joy it is, after five visits in five years, to have so many friends in China. They are a warm-hearted people.

We are indebted also to Sir Percy Cradock and Sir Edward Youde for their concern and good wishes, and to the Embassy staff, particularly Gerald Clarke, Charge d'Affaires during Sir Percy Cradock's visit to London.

I am deeply indebted to such companies as Cable & Wireless, BP, Courtaulds and ICI, and Lord Kadoorie of China Light & Power, and Jardine Matheson for the practical help they have given me and to British Vita for help in the printing of this, and all the other reports. I am also grateful to Jack Perry, London Export Corporation, and Percy Timberlake, 48 Group, for advice, to Isabel Dibden for her exquisite drawings which adorn this report, and Cathay Pacific for travel arrangements.

It was a smaller delegation than usual because we wished to concentrate more on meetings with Ministers and to pursue the progress made by British companies in large-scale joint ventures and projects in China. To this end, we interviewed Cable & Wireless, BP, Courtaulds and ICI, and discovered much progress since our last visit. ICI reported a doubled turnover in China. Cable & Wireless were on the point of signing a joint venture agreement with the Chinese (which has since been signed on 11 November, 1983). BP also had much to report.

Here let me say that the criticism we had heard that British companies are unadventurous does not apply to these companies. We found them very much on the ball, with first class men representing them in the Far East.

I had the good fortune to be accompanied once again by Lady Llewelyn-Davies and Frances Wood (British Library), who are now experts on travel in China and have a flair for interpreting the changes from one visit to another. Roger Sims and Bill Benyon, besides being delightful companions, proved to be first-class observers and were quick in assimilating a knowledge of the country.

China is a political laboratory, experimenting, cautious, afraid of making mistakes. Nothing decided until they are sure no-one will be blamed. Very little lateral communication between Ministries. China is like someone dipping a toe in the water to test the temperature.

All that doesn't mean that no progress is being made; far from it. The biggest obvious success of Deng's policies is in the countryside. Everywhere you go, new houses of brick or mud are being built. Private enterprise goes ahead. Peasants use more tractors. The production brigade of yesteryear is now out of date. No longer do the drum and bell call the peasant to work. No longer does a Revolutionary Committee exist in every factory, with tannoy systems blaring out propaganda.

Deng Xiaoping's new 'Responsibility System' means that peasants can cultivate their own fields. The only communal contribution they make is grain to the State and local expenses for schools, etc. In the towns there are more shops, well stocked with a lot more choice than formerly; more street stalls and more buyers.

One feature of Chinese street life that I shall always remember is the way in which people carry small, prized possessions whether it is a birdcage with a songbird in it or a lettuce in a basket, all are carried with pride of ownership.

But the question every would-be foreign investor asks is, "Can Deng Xiaoping and his two younger Lieutenants, Hu Yaobang and Zhao Zizang, succeed in their modernisation aims and still retain the dictatorship of the Communist Party?"

The big question confronting Japan and the Western powers eager



to play a part in China's vast modernisation programmes, is how much freedom can be given to the provinces without losing central control?

An interesting sidelight on this is the recent reshuffle of personnel on the 'People's Daily' when it appeared that liberalisation was growing too fast. It will be interesting to see what happens next.

When I went the first time in 1978, there were still many of Mao's little red books in sight, but none now. Instead, there is an attempt to fill this propaganda vacuum by the writings of Deng Xiaoping. His book of essays was published this year and copies were available in London, but in Chinese. I had it translated and found a pragmatic series of articles nothing like the mystical approach of Chairman Mao. I understand it is to be published in English for world-wide circulation (and one of the translators is the husband of the indefatigable Ms Xu of PIFA).

The pragmatic approach revealed in the 'Selected Works' makes it quite clear that Deng Xiaoping and his Central Government know full well that unless they can count on the enthusiasm of the regions and cities, their modernisation scheme will come unstuck. Hence the experiment of decentralisation which carried with it unfortunate experiences which the Chinese were quick to rectify. An example that they were faced with in this connection, was the saga of the bicycles.

### Bicycles

Last year statistics show that 24.6 million bicycles were produced, or 38% more than in 1981. But how many were good enough to ride is another story.

The popular brands of bicycle in China are 'Phoenix Everlasting' from Shanghai and the 'Flying Pigeon' from Tianjin. Always dependable and reasonably good looking.

Then came decentralisation and, hey-presto, every province and city went hell for leather into the bike-making business. Bicycles came onto the market with brand names no-one had ever heard of.

*Lady Llewelyn-Davies with Mme Wu Wenying, Minister for Textiles.*



But the Central Government controls the price of bicycles like everything else, so nobody wanted the duds and a black market started up for 'Phoenix Everlasting' and the 'Flying Pigeon'.

Then the new makers in the provinces tried to stop the Shanghai and Tianjin bicycles from being sold in their provinces. Shanghai and Tianjin retaliated by holding up shipment of products from abroad destined for the Inland Provinces. It was a hard lesson, but I believe well learnt.

### **Textiles**

Our hosts went to considerable trouble to get us an interview with Mme Wu Wenying, the Minister for Textiles. She put off other business to see us. She was also the principal guest at the banquet we gave and responded with pleasure, but without commitment, to an invitation to be the guest of the textile industry in Britain.

China claims to have the largest textile industry in the world. Her exports are world-wide and are beginning to cause apprehension in many world markets. She is fortunate in having indigenous raw material in rain and irrigation-grown cotton of medium staple. She is the main world producer of cashmere and is aiming to manufacture 85% of it into yarn and garments, again mainly for export. This is in addition to their legendary silk culture and the wonderful range of fabrics they make from it.

We were fortunate to have Lady Llewelyn-Davies with us for, as Chairman of the Lords Select Committee on the EEC, she was able to discuss the subject of quotas which arose many times.

The criticism that the products are not as elegant as those made in the West, is fast being disproved as China recognises the importance of design and welcomes top designers from abroad.

Naturally, decentralisation affected the textile industry because it is so massive. One of the salutary examples was the purchase of man-made fibres by the provinces directly from abroad, which led to the accumulation of stocks of fibres which they did not know how to use. But the Chinese learn quickly and now the Central Government is firmly in control again. The provinces are severely restricted and Chinatex is once again the main agent for purchases

from abroad. They are not likely to make the same mistake twice.

I was delighted to learn how highly regarded the firm of Courtaulds is in China. But it is not surprising as they have been trading with China for at least thirty years on a regular and developing basis, reflecting the wide range of products in the Group's range, mainly textiles, chemicals, plastics and packaging materials.

Despite fluctuations in the annual volumes (due mainly to general world market influences) they expect a steady growth in sales which, for 1983, stand at around £16 million.

### **Hong Kong**

At the return banquet I gave in Beijing to honour the Minister for Textiles, there were present two interesting men — one the ex-ambassador to Britain and the other a member of the Chinese negotiating team on Hong Kong.

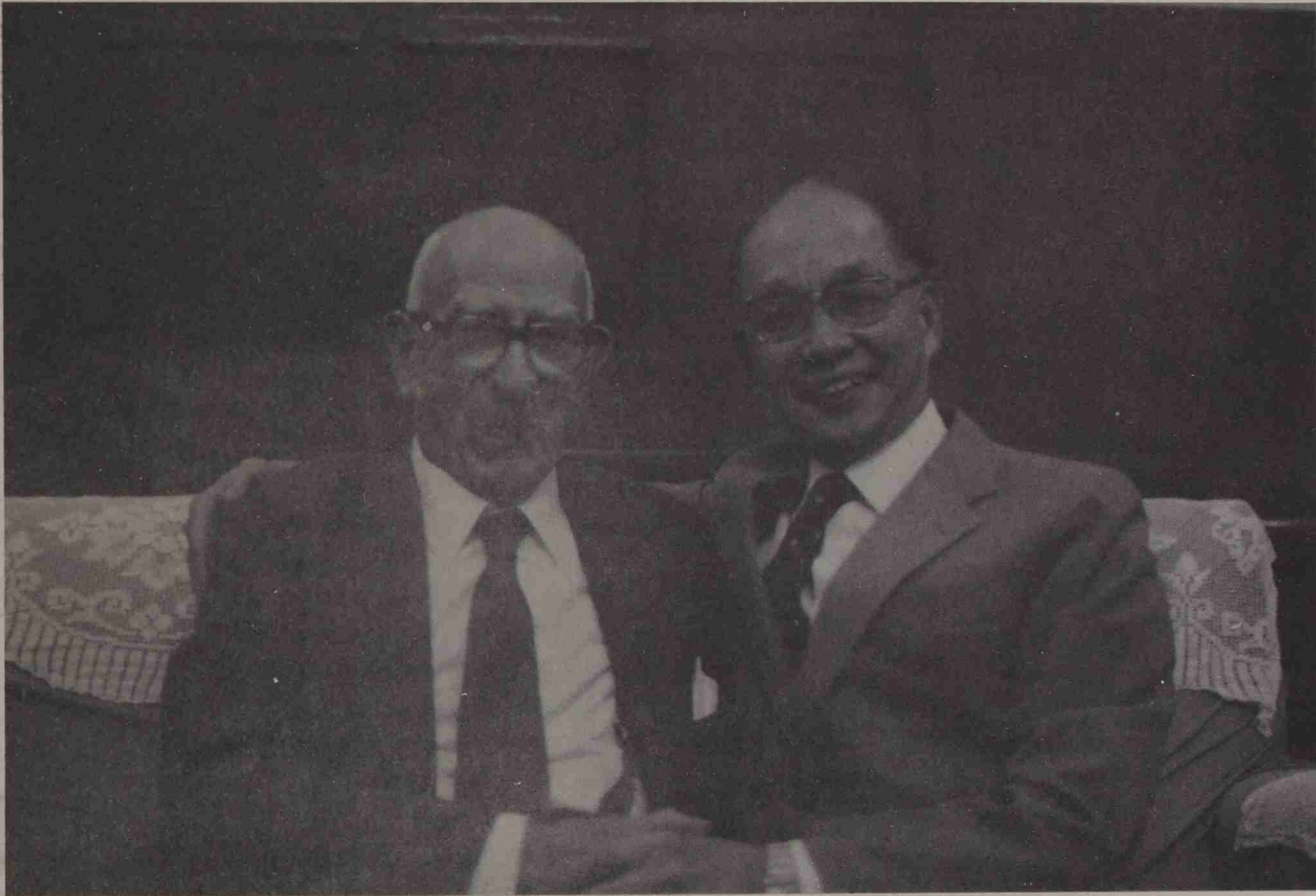
As soon as the chief guest signified her intention to leave at the end of the party, the two men took me on one side and asked me about the situation in Hong Kong.

I explained that the Hong Kong question was not on my terms of reference and that I had refrained from giving interviews because I believed the negotiators should be free to get on with their work without interference. I added that I would go so far as to say that I stood by what I had said in the House of Lords on 9 November, 1982. Where could they get a copy, they said; and if I had a copy with me could they have it? I had, and they took it.

Then they asked me had I any comments on the progress of the talks. I said I had, and that was that they should stop making acrimonious utterances before the negotiating teams met. The meeting on 19 October was more relaxed but the situation in Hong Kong is very volatile, but even this small glimmer of hope had a surprising stabilising effect. However, the smallest bit of bad news could easily tip the balance the other way.

I only hope that our efforts go some way to help our parliamentary



*Lord Rhodes with Ke Hua, ex-ambassador to Britain.*

colleagues to appreciate the risks and, likewise, the opportunities in that part of the world.

### **Shenzhen**

#### **Joint Ventures:**

In the view of the Chinese, the future of Hong Kong is firmly tied in with the future of the Special Economic Zone of Shenzhen, and anything that can be done to help investment through Hong Kong to Shenzhen, should be done.

In the hope that it might be of use to other would-be investors, we talked with the representatives of a large company on their experience in establishing a joint venture in Shenzhen.

They said that foreign companies generally were optimistic and felt they were on fairly safe ground in Shenzhen, although it was often the case that important details were left for the first board meeting of a joint venture to resolve. So a considerable degree of trust was essential.

They said they were finding Chinese law a problem, partly because it was still being written and new regulations appeared every week, and also because there were considerable differences in linguistic interpretation. For example, though the joint venture contracts include a clause which says they would be wound up "In accordance with the law relating to limited liability", such a law does not yet exist, nor is there a law relating to foreign exchange.

They reported that difficulties often arose as each stage of the negotiations began on a different basis. They felt this was because of lack of co-ordination and organisation rather than fundamental ill will.

Despite all these difficulties, great progress has been made.

#### **Cable & Wireless**

While in Beijing we were frequently told about the Cable & Wireless activities in Guangdong Province. Obviously the high level of co-operation this Company has achieved is well recognised at Ministerial and State Council level. The comments

were all complimentary and encouraging. The Far East Business Unit of Cable & Wireless had helped us to arrange a visit to Shenzhen, by far the largest of the Special Economic Zones, which borders Hong Kong. Our discussions with Vice Mayor Zhen Xipei and other municipal officials revealed the importance they attach to the Joint Venture with Cable & Wireless which will provide all the telephone services in the Zone for the next 20 years at least. This Joint Venture is quite remarkable in that it is the first instance of a foreign company being entrusted with the provision of any public service in PRC and the more so because of the very sensitive nature of the service involved.

We also learnt that the Oilfield Telecommunications Joint Venture recently set up by Cable & Wireless is already operating a new coastal radio station and several telephone exchanges. The Company has been able to capitalise on its excellent relations with PRC in a way which the Chinese appreciate as there are obvious benefits to the country. It is very significant that the timescales of both Joint Venture agreements extend beyond the 1997 date, uppermost in the minds of Hong Kong people at the moment and should be a salutary reminder that agreements can, and are, being signed for periods outside the Treaty date.

Our overall impression is that Cable & Wireless are doing credit to the UK and British industry in China. They deserve all the encouragement and help which our Government can provide.

#### **China Light & Power**

In the case of China Light & Power, who for years have championed the idea of co-operation with Guangdong Province, particularly in the matter of a Joint Venture for the generation of energy by nuclear power, a 2 x 900 MW pressurised water reactor, nuclear power station will be built and operated by a joint venture company formed by the Chinese state owned Guangdong Nuclear Power Investment Incorporated (GNPII) and the Hong Kong Nuclear Investment Company (HKNIC) led by China Light & Power Company of Hong Kong.

The equity share ratio between GNPII and HKNIC would be 75:25.

*Wuhan : a contrast in modes of transport.*

The power station will be located in the southern part of China in Daya Bay, some 70 kilometres north-east of Hong Kong Island, and will be built according to the safety standards of China and those of the International Atomic Energy Agency.

Feasibility study results indicate that the cost of nuclear electricity will be cheaper than coal-fired generation in the long-term.

The total capital expenditure of the project up to the dates of commissioning the reactors in 1991 and 1992 is estimated at US\$4,600 million.

In order to service the foreign loans, approximately 70% of the electricity produced will be sold to Hong Kong and the remaining 30% will be used within China.

Subject to satisfactory negotiations of the commercial and technical matters of this project, it is envisaged that Framatome of France will supply the two Nuclear Islands and GEC of the UK will provide the two conventional islands.

The Chinese who have been in continuous discussion with China Light & Power Company over the last four years have requested this company to assist them in the management of the project during construction, commissioning and in the early years of its operation.

Where expertise is not locally available, assistance from overseas consultants will be sought.

The Nuclear Power Station will be connected to the Hong Kong System by two 500 kV overhead lines.

#### **British Petroleum**

B.P. Explorations have been involved with the People's Republic of China since 1978 when development of offshore oil resources became a priority for the Chinese.

It is interesting to note that B.P. were the first foreign company to operate off shore China, when two test wells were drilled between

September 1980 and March 1981.

In May 1982 competitive bids were invited for exploration contracts in designated areas off China, and a year later the first awards were made to an international group headed by B.P. as operator.

Prior to licence award, B.P. Explorations' expenditure in China amounted to some £27 million. Commitments under the first phase of exploration covering five areas, run into several hundred millions of U.S. dollars, of which B.P.'s share is approximately half.

The Chinese terms are tough and the risks great, and they have a remarkable adroitness in using foreign funding and expertise. They claim to have limited their own share of expenditure on offshore oil to U.S. \$4 million.

One problem which looms up in the question of future Joint Ventures, is the oil support industries. It is reasonable to expect that China will wish to be in this to provide foreign exchange, technology and training. In fact, they have indicated this already.

It is therefore encouraging to note that British Companies are well established in Joint Ventures and that a gratifying proportion of B.P.'s contracts to date (some 70% by value) involve them.

I hope it is not being lost sight of in high places that the extent of this company's investment in exploration and development activities has prompted a particular awareness of China's place in the international scene, and its sensitiveness over the settling of territorial claims!

#### **British Vita PLC**

It was fortunate that on the outgoing 'plane, Duncan Lawton of British Vita PLC was setting out in search of a Joint Venture in China for British Vita.

Negotiations are currently in hand. On completion, Duncan Lawton would be happy to share information about his experience with any British company interested in Joint Ventures in China.

Here are his preliminary findings:



The coalescence between China, as a Communist State and capitalism, represented by international companies, is a truly remarkable phenomenon.

Other Communist countries have sought the technology of the West, but the tendency has been to buy this in the form of turn-key operations.

The Chinese have been much more subtle. They have invited the labour intensive industries of the West to produce in their country, offering them factory space, in many instances custom built, an abundance of labour, heat, light and power and transportation to rail heads, all at a very reasonable unit price or agreed figure per annum, guaranteed for a minimum of five years at a fixed level.

For their part, the Western manufacturing companies put in the plant, the senior management and guarantee the export of 90% of the production.

From the Western industrialist's point of view, it is extremely attractive in that in a world of rising prices, especially those appertaining to labour, he can guarantee his customer's continuity of supply at stabilised prices.

What do the Chinese get out of it?

Four fundamental things:

1. Employment for their vast labour force.
2. Foreign exchange in hard currencies since all the deals are done in American dollars.
3. The absorption of modern manufacturing techniques.
4. New technology — all free of cost.

### Wuhan

This is a big, blustering city which simply oozes vigour and enterprise. We were met by Mr Li, Vice-Chairman of the Standing Committee of the National People's Congress of Hubei Province who straightaway launched into a description of the city, its industries and institutions.

The subject of 'twinning' with Manchester was raised. They were emphatic in the advice they gave us as to how we could give the project a push and we are following this up.

They are 'twinned' with many cities around the world, including Uida (Japan), Pittsburgh (USA) and Duisburg (Germany). The 'twinning' goes on on a large scale.

There is more than meets the eye in this 'twinning' business because in the event of a reversal to more autonomy in the regions, to be connected with a municipality or a province where new enterprises spring up, would be a big advantage. Indeed, I have recently learned that a subsidiary of a Pittsburg firm has just won a contract for a steel rolling mill in Wuhan.

We had a long and interesting conversation with the President of Wuhan University, on the subject of the exchange of professors with Manchester University. The subject of students coming to Britain came up time and time again, especially when we had an interview with Mr Du Zhongyi, Director of the Bureau concerned with students studying abroad, of the Ministry of Education. When I expressed my concern as to how we can help to increase the number of students coming to the UK, he gave us a rundown on the number of students at higher education institutes in China and what they had done in the way of inviting visiting teachers, and he responded warmly to the idea that more British scientists might visit China to teach. The subjects they were mainly concerned about were engineering, business management, law and finance. He admitted that they were weak in these subjects and any help would be welcome.

I have been pursuing the matter of Chinese students coming to Britain, for some time past, but as the fees are the highest in the world, I felt that some scheme should be introduced which will enable more Chinese to study here. Presently our efforts may be better directed towards funding visiting professors and specialists to teach in China.

Here let me say I think the British Council has done a remarkable job in this connection and has used its limited resources astutely.

### Broadcasting

Friendship with China needs a powerful external broadcasting service. We felt the present service by the BBC External Service was poor and should be strengthened.

Since returning from China we have been assured that steps are now being taken to remedy this and that a new relay station is to be constructed in Hong Kong to serve the Far East. But that is what they said the last time we went.

I was very concerned about the timing as a start is only planned for 1985 and, as it will take three years to complete, the facility will not be on the air until 1988.

Another example of our lack of drive is the question of the Consul-General in Shanghai. An appointment was made long ago but no office has been established there yet. It is a pity that we have not got more determination to stay in that part of the world. A gesture is very much needed here.

To speed up the above projects would be evidence of our determination to stay in that part of the world.

### Chongqing

We experienced goodwill everywhere. One incident I love to recall took place in a park in Chongqing. I use a wheel chair if much walking is entailed, and the sight of an aged foreigner being wheeled is enough to set people giggling anyway.

On this occasion I came across a group of young people sitting in a circle playing a game. A man banged a gong whilst a rag was passed as quickly as possible from one to another. The moment the gong stopped the person holding the rag had to pay a penalty. It wasn't long before I tumbled to it that I was to have the rag sooner than later. It arrived alright in my lap when the gong stopped. Shrieks of laughter! Now what would the old man do?

The penalties seemed to embrace dancing, singing, reciting,

story-telling, etc. Fortunately mine was to sing, so I obliged with an abridged version of "Ilkla Moor 'bawt 'at". By this time the usual staring crowd had assembled. Shrieks of delight from everybody and, with much palaver, I was presented with a badge.

It appears I had been taking part in a break from the serious business of a Young Communist Association seminar, so I believe I have the distinction of being the only octogenarian to be made a member of the Young Communist movement. They said I was now under 30 and wished me long life.

Advise a fool and you make an enemy;  
advise a wise man and you make a friend. (*Proverbs*)

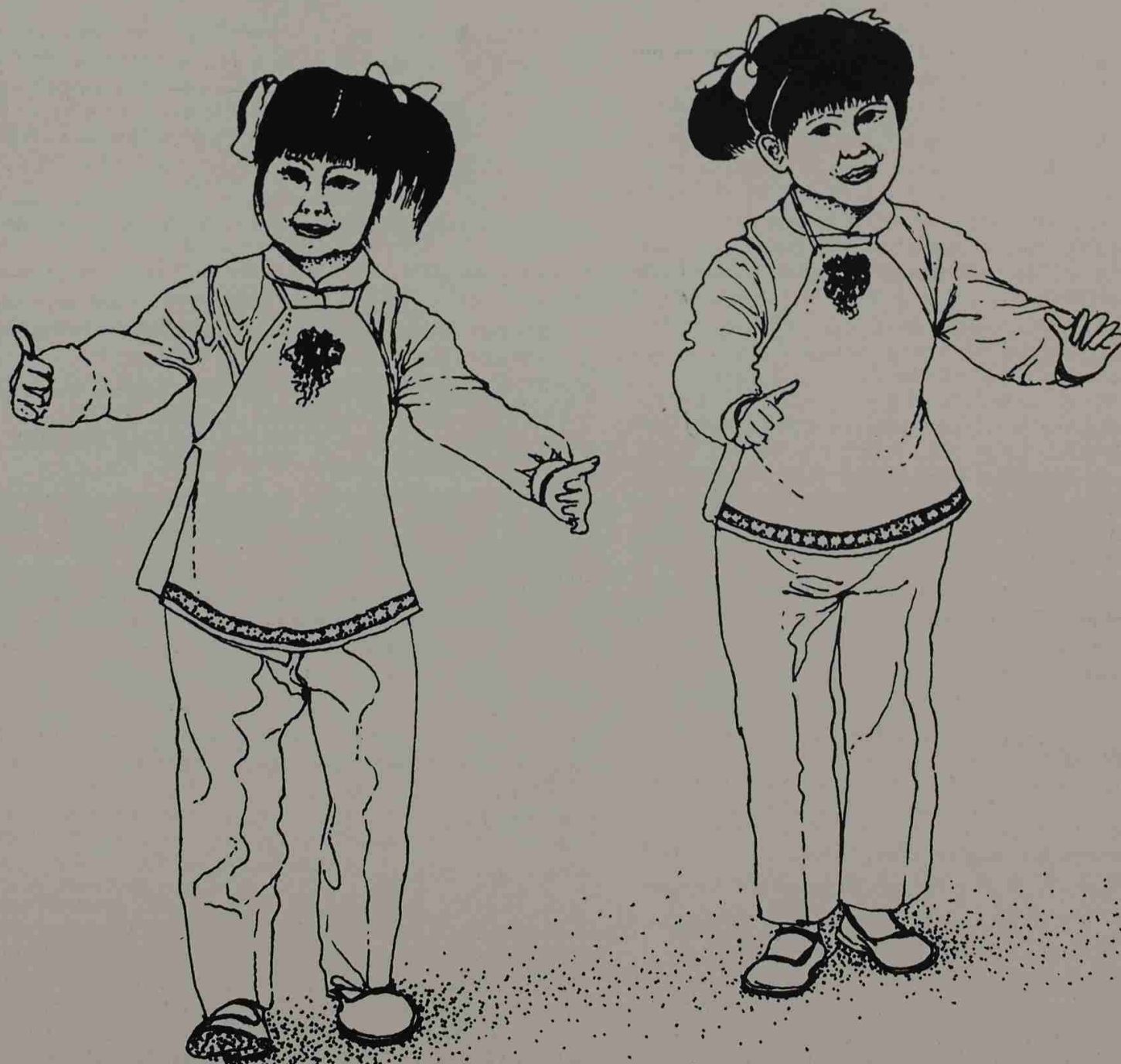
The Chinese reputation for integrity and honesty in commercial dealings has always been a high one. I remember that in 1967, at the time of the Cultural Revolution when bombs were going off in Hong Kong, I was asked by the Hong Kong Development Association to help them.

I went and made many speeches to various organisations, urging

them to carry on despite the bombs. At one meeting the topic of debts owed by Chinese merchants and tailors to the British wool industry was raised. The debt was estimated to be £3 million. A lot of money in those days. Jardine Mathesons, reading the future better than most, asked me if I would approach the wool men in Bradford to find out if Jardines could purchase the debts. This I promised so to do.

One Monday morning, I met the wool delegation. I told them what I'd been asked to do by Jardine Matheson. Nobody spoke for ages; then one grizzled old wool man broke the silence and said, "My grandfather sold worsteds to the Chinese and he always got paid. My father sold worsteds to the Chinese and he always got paid. I've been selling worsteds to China for 25 years and up to now I've always been paid. Tell Jardine Matheson, 'Thanks very much, but I think we shall get our money alright'." They did.

May I say, advisedly, it would be a pity if ever this reputation was sullied in any way. I hope that the Chinese will always maintain their integrity in their haste to reach their modernisations.



*At the Hot Springs, a young boy is fascinated by the Polaroid camera used by Lady Llewelyn-Davies.*

## Diary by Lady Llewelyn-Davies and Frances Wood

### 2 October: Hong Kong

The delegation arrived in the early morning and was instantly whisked off for lunch at the Kadourie house in Castle Peak with warm rain lashing the windows. Amongst the other guests were General Sir Edwin Bramall and Lady Bramall who were visiting the Gurkha regiments stationed in Hong Kong. We were specially delighted to see again Mr Horace Kadourie, who looked very well.

### 4 October: Hong Kong—Beijing

At Beijing airport, we were welcomed by Guo Youchang, Chief of the Western Europe Division of PIFA and Zhang Yuebang who had been the interpreter on the last three delegations led by Lord Rhodes, as well as Miss Xu Lin who was in charge of the organisation for the visit and who proved indefatigable as well as flexible.

### 5 October: Beijing

The two members of the delegation who had never been to China before were taken to the Forbidden City in the morning and joined the rest of the delegation for lunch with the acting Charge d'Affaires, Gerald Clark, at the British Embassy. Mr Clark gave us an introduction to the current state of relations between the central government and the provinces, the relative positions of trading countries, with Japan way out in the lead, and the existence of twinning arrangements with towns in the UK. He particularly briefed Lord Rhodes on the China Light & Power's proposed nuclear power station for the new economic zone of Shenzhen, stating that though HMG was not prepared to put money into the project directly, it was prepared to offer the full support of the ECDG with a bank loan at heavily subsidised rates.

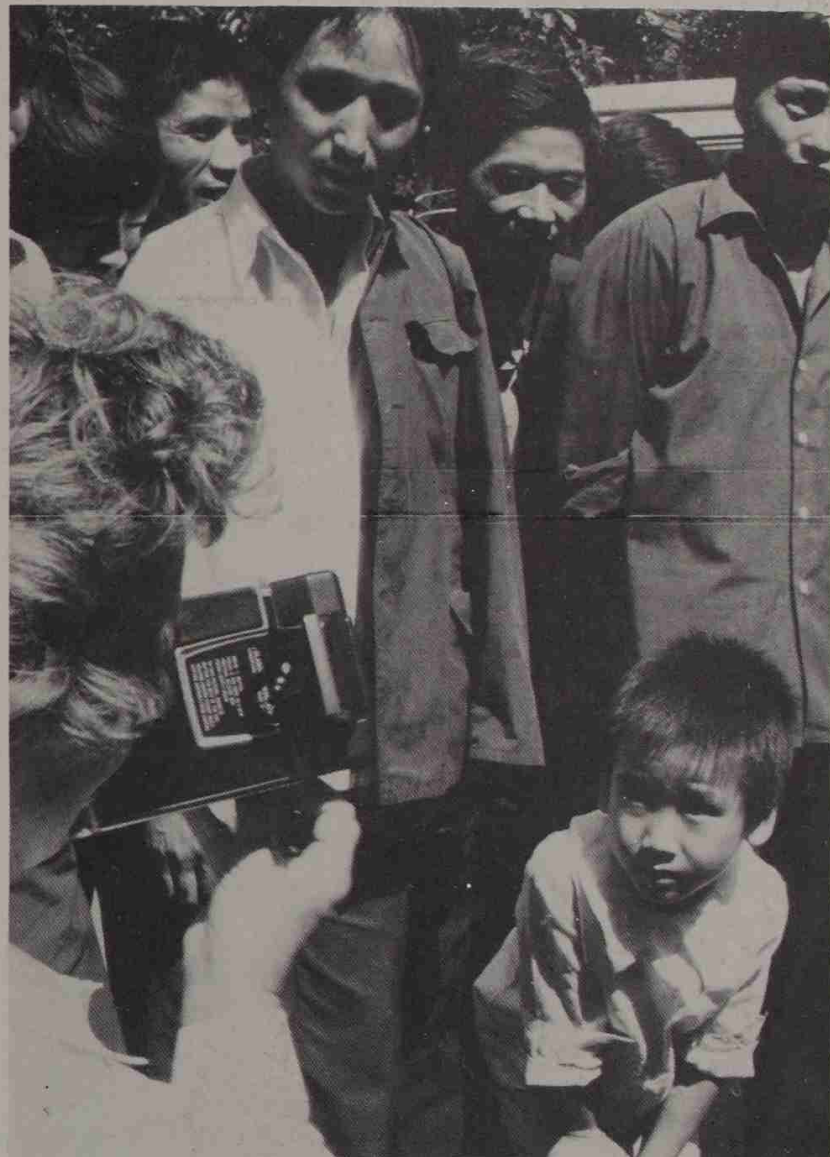
In the afternoon, Mr Benyon and Mr Sims were shown the Temple of Heaven before the delegation was invited to a banquet in the Xinqiao Hotel by Xie Li, Secretary-General of PIFA. Before the banquet, Xie Li briefed the delegation on the arrangements for the visit, and went on to give a most interesting account of the current economic position in China. He was proud to use 'foreign' data from such sources as the UN and the US Department of Agriculture which revealed that despite disastrous floods in Central China, agricultural yields were similar to last year's and the future for China's agriculture looked bright because of the new 'Responsibility System' which "suited the conditions in China". Under this system, which the last delegation had heard much about in Sichuan province in 1981, where it was being tested, individual households take responsibility for production, replacing the peasant teams and brigades of the previous decades. As 80% of the population live in the countryside, Xie Li felt that it was most important to solve problems in agricultural production.

In industry, energy and communications were still urgently in need of improvement. Foreign capital and advanced technology from Western Europe and Japan were being used and a good sign was that China had repaid a World Bank loan ahead of schedule, demonstrating the strength of the economic base.

Over the last year, however, heavy industry had developed too fast and this had led to an imbalance between light and heavy industrial development which ran contrary to the State plan to put more effort into light industry first. Part of the reason for a primary stress on light industry was that since farmers were getting richer through the 'Responsibility System', they required more light industrial goods.

Economic controls were being introduced to curb development outside the State plan, with taxes levied on construction.

Xie Li mentioned the recent drive against crime which, he said, fell within the context of a very low crime rate in general. Some foreign observers had suggested that a rise in the crime rate had followed China's new 'open-door' policy and was the result of contact with the West and Hong Kong, leading to such crimes as 'deceiving women' and 'selling antiques'. This should not be exaggerated.



Xie Li also mentioned the proposed China Light & Power nuclear station in the context of difficulties over Hong Kong which he hoped would be speedily resolved.

He touched on the difficulties of finding jobs for the tens of thousands of school-leavers who graduated every year and described those not yet employed as 'waiting for work' rather than unemployed. He said that there was one aspect of the huge population which was useful and that was the fact that there was a huge labour force for capital construction.

He mentioned the question of local autonomy versus central planning and told us the Chongqing had been added to the list of cities that could trade directly with foreign concerns without consulting the central authorities. Rather than concentrate on these individual possibilities, he stressed the interdependence of China's localities and the fact that if all the different resources, both human and natural, were added together, China was not a poor country.

Also present at the banquet were Luo Jiahuan who has recently returned from the Chinese Embassy in London to act as Counsellor of the Western European Department in the Ministry of Foreign Affairs and to take part in the Hong Kong talks, and Mr Guo Youchang from PIFA, whose excellent French was a great bonus.

### 6 October: Beijing

In the morning, the delegation again divided between those who went off early for a quick look at the Great Wall and those who had meetings. Lord Rhodes went first to the Ministry of Education to meet Du Zhongyi, Director of the Bureau concerned with students abroad to talk about the general problems of increasing the number of Chinese students in Britain. Mr Du stressed that the only barrier was the very high cost of sending students to the UK which was twice as much as the USA or Japan. He welcomed any initiative that would make it possible for more students to study in Britain, whether by exchange or by lowering fees. He also

*Teasing fibre for quilting — Chongqing.*

welcomed the idea that more specialists might come from Britain to teach in China. Foreign experts taught in China either on long-term contracts (by which the Chinese government paid a salary, their fares and travel expenses within China) or on shorter courses often arranged through exchange agreements. Any proposals should be sent to the Ministry of Education which would select the appropriate institution. Major areas in which the Chinese were weak and welcomed foreign experts were engineering and technology, business management, law and finance.

Mr Du explained that there was some re-organisation going on in China's educational system. The aim was to make primary education absolutely universal (at the moment the enrolment was 97% and there was some concern that the 'Responsibility System' meant that children were needed at home to help with agricultural production and sale of private produce) and to improve secondary education so that it would become universal in the cities, at least, and better attuned to the needs of industry through the creation of more vocational schools and courses.

Immediately after leaving the Ministry of Education, Lord Rhodes went to the Ministry of Textiles where he was welcomed by the Minister, Mme Wu Wenying. She had only been appointed Minister a few months ago but, like Lord Rhodes, had gone into a textile mill very early in life. She is a native of Changzhou, an ancient town in the Yangtse delta, and had been mayor of the city for some time. They discussed the visit of John Rhodes, Lord Rhodes' nephew, a design consultant to the International Wool Secretariat, who had visited China last year to advise on design and Mme Wu said the Ministry was planning to ask him back. She stressed the importance of market research in textile production and described how she sent people out into the markets to find out what people wanted. Over the recent National Day holiday, a best-seller had been lightweight wool, and this year a general favourite had been a lightweight blend of wool and polyester. Such mixtures were becoming extremely popular.

Lord Rhodes stressed the importance of developing expertise in

wool production. All sorts of factors influenced the annual production of wool such as weather and the natural conditions and vegetation. He said that design was also very important, for though the view world-wide was that Chinese textiles were of very high quality, the designs were rather behind.

On the question of relations with foreign buyers, Mme Wu said that the problem was under consideration by the State Council but that at the moment, all import and export of fibres and textiles had to go through the import-export corporation of the Ministry of Textiles.

Mme Wu thanked Lord Rhodes for his concern for the Chinese textile industry and hoped that he would continue to keep them informed of developments.

In the afternoon, the whole delegation went to the Ministry of Foreign Trade to meet Wang Bingqing and Huang Renquan of the number three bureau. The conversation was concentrated on the question of import controls and restrictions and the Ministry of Foreign Trade hoped very much that such restrictions would be lifted or relaxed in China's favour. Again, the question of direct purchase by foreign companies was raised and the Ministry spokesman explained that though textile materials were all handled by the Textile Ministry's import-export corporation, other arrangements were possible if the transfer of technology was involved. Provinces that required foreign technology could set up agreements directly with foreign firms to co-produce or repay through compensation trading or set up joint ventures.

As the British Acting Chargé had mentioned, Japan was the most successful trading partner because her technology was very advanced and prices extremely competitive. In this respect, West Germany was also successful in China.

It was also stressed that China had plenty to offer to foreign firms in the way of foodstuffs and raw materials, meats and tinned foods and light industrial products.

In the evening, thanks to the help of Clare Stubbs, William

*Typical countryside near Chongqing.*

Ehrman and Richard Fletcher-Cooke of the British Embassy, the delegation gave a banquet in the Cui hua lou. The guest of honour was Mme Wu Wenyng, Minister of Textiles and other guests included our old friend Ke Hua (until recently Ambassador to the UK), Huang Renquan, Luo Jiahuan, Guo Youchang and Jin Yuheng (Deputy division chief of the Foreign Affairs Bureau of the Ministry of Textiles) and Tony Tsang of Courtaulds office in Japan. It was a great success, particularly because Mme Wu was such a charming guest and able to communicate with Lord Rhodes in particular by miming various spinning techniques which they both knew from their early experiences in the mills. The presence of Ke Hua was also a great pleasure as we all (without intending any disrespect to his successor) miss him very much in London, where he was the most amusing and sharp-witted diplomat and did a great deal to further good relations between the two countries.

#### **7 October: Beijing—Chongqing**

The delegation left for Chongqing very very early in the morning and were lucky in that the plane left promptly (that of the previous day had been delayed until the afternoon, which would have been difficult to bear after getting up before 5am). Just as when the 1981 delegation flew into Chengdu, we were amazed by the beautiful green and soft vegetation of Sichuan, the hills sculpted into rice paddies and fluffy bamboo clumps on the hillsides. This rich green scenery made the ride into Chongqing absolutely delightful, although Mr Benyon was itching to find out more about crops and vegetation.

Arriving at the hotel in very good spirits after the drive through the countryside, we discovered that we had arrived in Chongqing minus one suitcase which cast a bit of a pall. A very peppery Sichuanese lunch was served before we set out to see Chongqing, a town set at the confluence of two rivers, the Yangtse and the Jialing. They were both very fast and full, loaded with red silt and it was clear that life in Chongqing must have been very inconvenient before the construction of the two major bridges that

link the different parts of the city.

Famous during the Anti-Japanese War, Chongqing has changed considerably from the descriptions given then by Theodore White and others. It was very seriously damaged by bombing and in re-building, most of the old stepped streets and wooden houses have disappeared, although we glimpsed some. One thing that has not changed is the incredible view of the meeting of the rivers which were still very high and fast-flowing after the summer floods, which badly affected Chongqing and the whole upper river area down to Wuhan in September this year. We watched a ferryboat being swept in a wide arc as it crossed from one bank to the other and realised that when we went down the river, we would sweep through the gorges at high speed on the rushing water.

In the evening Zhu Baoquan, Director of the Foreign Affairs Office of the city, gave us a banquet which was a culinary delight, especially to the three members of the delegation who enjoyed chilli peppers. Amongst the many fiery dishes were several fish courses, each one different for the fish came from different parts of the two rivers. Mr Zhu explained some of the implications of Chongqing's new status as a municipality (it has recently joined Beijing, Shanghai, Tianjin and Guangzhou as one of the cities that enjoys the equivalent status of a province, reporting directly to the State Council and enjoying more autonomy in its economic management as a consequence).

#### **8 October: Chongqing**

We drove out through the same marvellous scenery to the Beibei glass factory where very exclusive hand-cut glass is produced. The factory was set up in an area with a tradition of hand-made glass and uses raw materials from Sichuan province to produce its glass and lead crystal. Most of its production is exported to over twenty countries, including America, Canada and the UK.

Though the bulk of the production consists of tableware, there are a large number of huge cut-glass pieces produced, sometimes to order. We watched workers blowing and shaping all sorts of

Aboard the Yangtse ferry behind Lord Rhodes (seated) are left to right, Bill Benyon, Frances Wood, Lady Llewelyn Davies and Roger Sims.



glasses and then went to the cutting rooms where the most extraordinary pieces were being cut. Some were beautifully worked with peacocks which were reflected countless times in the many facets of the vases and one huge jar was being supported by two workers whilst a third cut down through the blue glass to the clear crystal below.

We crossed the Jialing river to the Beibei hot springs park for lunch and then wandered through the park looking at waterfalls of warm water and crossing large parties of primary schoolchildren. Lord Rhodes joined a group of children who were singing and gave such a spirited rendering of "On Ilka Moor 'bawt 'at" that he was rewarded with a membership badge of the Young Communist League (of which all members must be under 30).

### 9 October: Chongqing—Yangtse Gorges

In the early morning mist for which Chongqing is famous, we boarded a steamer to descend the Yangtse. The mist cleared slowly as we left and we could see the cable-cars crossing the river as well as the constant crossing of the ferries. The sun came out and stayed out all the time we were on the river (which is apparently very unusual). Settled into small, two-berth cabins and provided with breakfast, we prepared to enjoy the scenery. Though the first day is not supposed to be scenically spectacular, it was none the less enjoyable to watch the swollen red river rushing past low hills with small towns perched way up on the banks reached by long, long flights of stone steps which must have been even longer before the construction of the dam at Yichang and the summer floods. The other passengers in the first class section were a friendly group of Japanese ladies who did everything together, rushing *en masse* out of the lounge when there was something spectacular to photograph and all photographing it from the same spot, a banker and his wife from Singapore and a group from Guangzhou which included a retired doctor who wrote a short poem on the river which he presented to Lord Rhodes. Dr Xue's 14 character poem reads roughly as

follows:

The Yellow River has flowed since antiquity,  
The Pearl River is small,  
But the mighty Yangtse is the soul of China.

In the evening, the boat moored at the foot of the steep steps leading up to the small town of Wan Xian. Following the great horde of passengers from the lower deck, we stepped along single planks and duckboards to reach the shore and climb up to the market street high above the river where great crowds of people of all ages had gathered at dusk to sell oranges, baskets, cane and bamboo furniture and steamed buns to the boat passengers. We bought mandarin oranges and Mr Benyon carried them in a little yellow, black and red basket with a lid that Zhang helped him bargain for. The street was absolutely crammed with people carrying baskets and mats, a man with a puppy in one of his baskets and porters carrying loads down towards the jetty.

Back on board we watched the other passengers stagger across the duckboards with two chairs on their backs or little baskets stuffed with Sichuan pomeloes and mandarins.

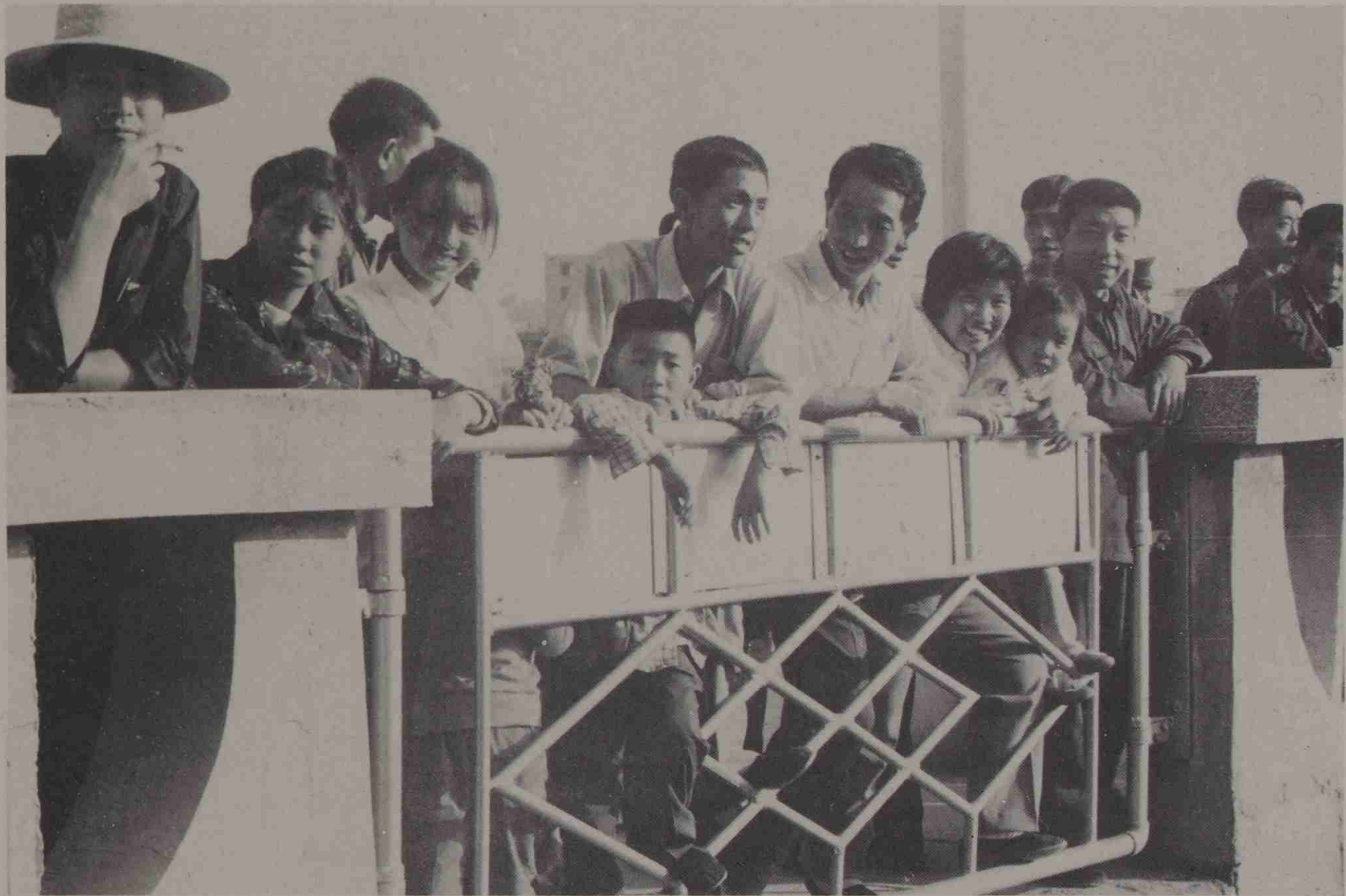
The next morning, after breakfast, the boat entered the first of the three gorges and the whole day was spent looking at the cliffs and waterfalls, watching small boats towed up-stream by tugs, or on one occasion, by trackers, and trying not to look at dead pigs that floated by until engulfed by the sinister brown whirlpools.

Late in the afternoon, the last of the gorges behind us, the scenery finally began to flatten as we approached the new Gezhouba dam at Yichang.

The first stage of construction now completed, the dam blocks the river completely and is already producing a considerable amount of electricity, although its output will be trebled by the time the third and last phase of construction is completed. Its newness and interest was apparent as we entered a lock, for both sides of the lock were lined with a crowd of people, young and old, men with babies sitting on the crossbars of their bicycles, small girls



*Approaching the Gezhouba Dam at Yichang, spectators line the locksidings to watch the boats*



waving, all watching as our boat sank lower and lower in the dock until all we could see above was rows of tiny heads. We sailed on into the lower part of the river where we could look back on the main barrage dam and finally, Lord Rhodes' party disembarked at Yichang jetty below the dam, leaving the Japanese ladies on board.

The jetty at Yichang is fortunately low, and the city is not perched at the top of a flight of steps but on a low bank so we and our luggage reached the waiting cars with ease. We were met by Wang Daogui, head of the Foreign Affairs Office of Yichang Prefecture who took us to the Peach Blossom Garden Hotel where we had one of the friendliest and most informal 'banquets' of the trip, with Wang Daogui and the Deputy-Director of the Prefecture (also a Mr Wang). They then put us on an overnight train to Wuhan. The train was crowded with an overseas Chinese group from Victoria in Canada and was almost unbearably hot when we left, only to get extremely cold early in the morning when we were grateful for the thick quilts.

### **11 October: Wuhan**

Not all of us slept terribly well and were glad to arrive in Wuhan and find baths and comfort (and Mr Benyon's long-lost suitcase) in the hotel. We stayed in the Hankou district of the city, having crossed the Yangtse from Wuchang and the Han river and the Hanyang district.

Wuhan, like Chongqing consists of several parts, divided by rivers which are now crossed by tremendous bridges, linking three cities into one. The rivers at Wuhan are slower and lower than at Chongqing and it lacks the drama of that city. The Hankou streets were very busy, quite reminiscent of the shopping areas of Shanghai, and the hotel was solid and comfortable with huge rooms and heavy balconies, again quite like the older buildings in Shanghai.

In the afternoon, Lady Llewelyn-Davies and Mr Sims went to the

Wuhan Medical College, Mr Benyon had a complicated afternoon on the telephone arranging one various routes back home and to Hong Kong, and Lord Rhodes was visited by members of the faculty of the Textile Engineering Institute, a new college that he had heard about from the textile Minister. The college was intended to serve the needs of the textile industry in five southern provinces (Guangdong, Guangxi, Hunan, Hubei and Henan) by providing textile engineers, managers and technicians, as well as carrying out research in local factories and the college's own laboratories. It had been founded in 1978 but was still very much under construction, both physically and as an institution. There were 400 students in four grades, though the target for 1990 was 2,000 plus some 24 post-graduates. As the areas covered were mainly cotton-producing, the concentration was on the technology associated with the development of the cotton textile industry (and we learnt that there was an equivalent wool college in Xi'an).

In the evening, Mr Li, Vice-Chairman of the Standing Committee of the National People's Congress of Hubei Province, invited us to a banquet in the hotel with Xu Qun, director of the Hubei branch of the Chinese Association for Friendship with Foreign Countries. Apart from describing something of Wuhan's development from a pre-liberation commercial centre to today's industrial city, Mr Li and Mr Xu also discussed the question of 'twinning' (or sister cities as the Chinese call the idea). Wuhan is already twinned with Uida in Japan, Pittsburgh, USA and Duisberg, Germany and arrangements for twinning with Manchester were proceeding slowly. Xu Qun explained exactly how the next stage should proceed (and it is his organisation that is concerned with sistering or twinning). Having got that absolutely clear, names and addresses exchanged, we were able to relax and enjoy the meal.

### **12 October: Wuhan**

We visited the University which is 70 years old and thus one of the

*Shenzhen : a model of the new economic zone is explained to the delegation.*



oldest 'modern' universities in China. Parts of the campus were painted in rather odd colours which turned out to be undercoat, preparatory to a full re-painting ready for the 70th anniversary celebrations. The President of the University abandoned a meeting in the city to join us, which was very kind, and he talked about the various departments and their history and the current plans for the university which is one of China's ten 'key' universities, intended to play a big part in modernisation. Some of the faculties (like the Medical College) had been separated off in the early 1950s to form independent institutions, leaving behind a university with a full complement of faculties in the sciences and humanities and a large number of research institutes, including one on the Economics of the EEC. Wuhan had been designated as a special city in the Sino-French Cultural Agreement and received annual financial help from the French government. It is hoped that closer links may be forged between Manchester University and UMIST, after a visit later this year by Professor Isherwood of Manchester University which could facilitate exchanges of staff.

After lunch in a restaurant in a lakeside park, we got on a train for Guangzhou.

### **13 October: Guangzhou, Shenzhen and Hong Kong**

In the very early morning, we said goodbye to Mr Benyon who went straight on to Hong Kong, whilst the rest of the delegation, in a rather delicate state of health after another long night on a train, went to the new economic zone of Shenzhen, just beside Hong Kong. We were met by the indefatigable and wholly helpful PIFA representatives, who looked after us all over China. When we arrived, there was a typhoon in full swing which made transportation, sightseeing, and even seeing through the lashing rain, rather difficult. Cable & Wireless in Hong Kong who are involved in providing services for the off-shore oil-fields had helped to arrange a sumptuous lunch with one of the five Vice-Mayors of Shenzhen who explained the plans for the area which is to develop

in five and ten-year stages from a population of 250,000 in 1985 with a labour force of 40,000 and an annual productivity of 1.2 billion rmb to a population of 800,000 in the year 2000 with an annual productivity of 9.6 billion rmb. He explained that Shenzhen's economy differed from that of the rest of China where a planned economy operated and market research came second; in Shenzhen, the reverse principle operated. Plans for development include an international airport and highway and a considerable development to support and refine the production of the off-shore oil. So far, the major investors in Shenzhen come from Hong Kong and Japan.

We looked over the city from the top of the government building though much was obscured by cloud so a view of the planners' models and drawings was clarifying.

Cable & Wireless who had worked hard to arrange the visit, had planned to have a bus meet us at the border and take us into Hong Kong, but as the number 8 typhoon signal had been hoisted, the bus was not allowed to set out from Hong Kong. Fortunately, the local Foreign Affairs Office allowed us to keep the bus in which we had been visiting Shenzhen and so we set off. The driver was slightly unfamiliar with the border and the stages of construction, combined with driving rain, meant that we went round in a few circles, re-entering Chinese territory after our visas had been cancelled, but nobody seemed to mind and we continued the drive through the most dramatic storm and arrived safely in battered-down Hong Kong.

### **14 October: Hong Kong**

Despite the ankle-deep rain and winds that blew umbrellas inside-out, we enjoyed a very peaceful lunch with Lord and Lady Kadourie, whose kindness to us in Hong Kong was immeasurable. We discussed what we had learned about the proposed nuclear power station and the future of Hong Kong and the need for positive gestures of confidence there.

## ● Report by Lady Llewelyn-Davies

This was my third visit to China since 1979. In that time, short as it is, we have noticed great economic, political and social changes there.

On my first visit, it was apparent that the great struggle was to throw off the burdens imposed by the 'Cultural Revolution' on every aspect of Chinese life — intellectual, managerial and personal in the deepest sense. We felt everywhere the desperate need to build up again what had been destroyed in education, science, personal freedoms, the arts and the economy generally.

This year I was conscious of a growing sense of personal security, a much more open society and a more general awareness of how much had been lost in the ten wasted years. For a visitor, it is easiest to see the change in the countryside, among the peasants. The 'Responsibility System' is undoubtedly successful and very popular — and it is being undertaken in a sensibly flexible manner, with differences in application from province to province.

China is so huge and overwhelming, both in its physical characteristics and its political and economic complexities, that it is difficult to convey an overall picture of its people, its problems, and the different and ingenious ways in which she is trying to take her place in the modern world.

The three most outstanding events on this visit were, for me, our trip down the Yangtse gorges, our visit to Wuhan University, especially the chance Roger Sims and I had to go round the Medical College there, and our tour of the Shenzhen Economic Zone.

The wild beauty of the gorges has been described many times, and our photographs give some impression of the towering cliffs, tumbling water and whirlpools. But even here, wherever it is possible for men and women to walk, there are stretches of cultivation and activity: three or four orange trees planted in a tiny grove, terraced fields following the path of a mountain stream, the sails of a laden junk appearing round the cliff edge of a little bay. No land is ever wasted.

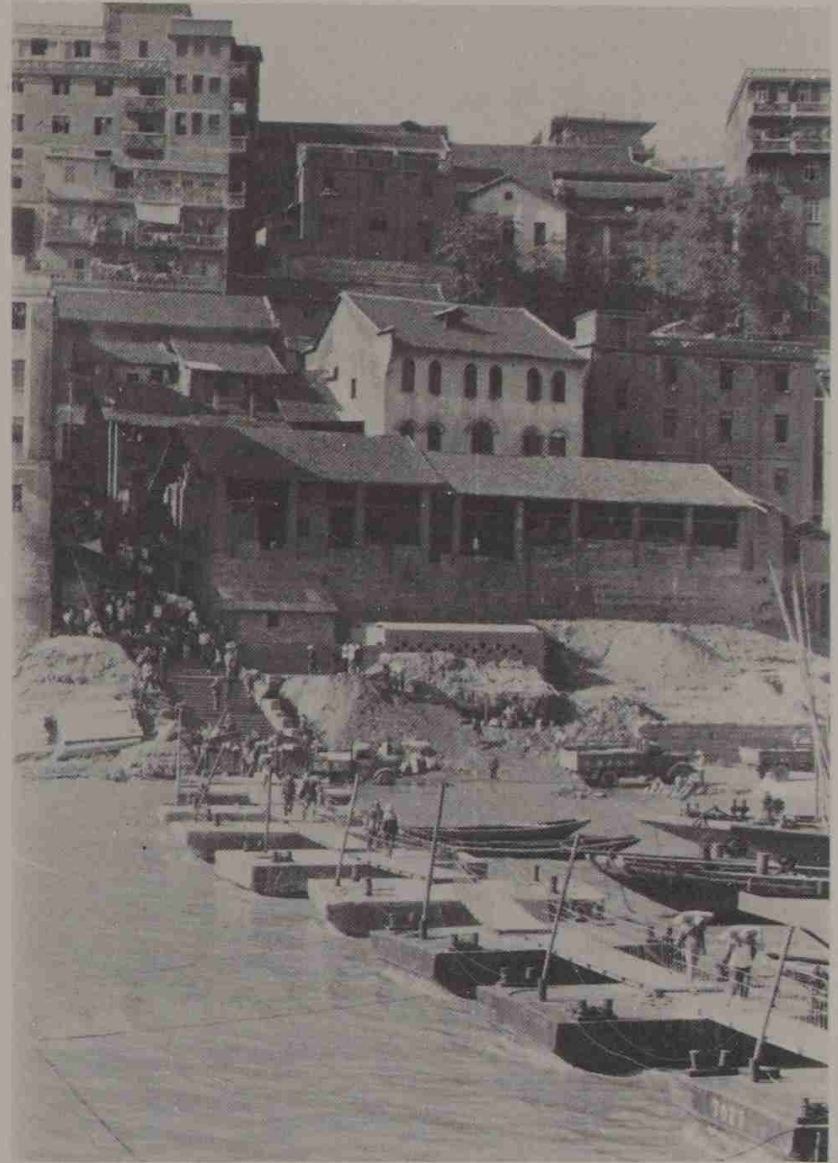
Further down river we passed the small town of Fengdu, a fascinating mixture of ugly modern warehouses and ancient walls with a large stone gate leading into the town inside. It was teeming with people, shouldering goods in traditional baskets on poles, selling vegetables in stalls pitched on the steep sides of hundreds of stone steps leading to the river.

Once again one is confronted with the overwhelming problem of China's over-population. Yet in the many thousands of miles we have travelled in China, we have never seen distressed old people, hungry mothers, children with swollen stomachs as are seen so sadly in Africa and India. Everywhere the Chinese seem happy and confident, immensely hard-working but sturdily fit.

One very welcome change is in their clothing. Chinese women are often really lovely, with very different physical characteristics in the various regions. In the past, their uniform grey or dark blue shapeless trouser suits were depressing, with only the most daring girls showing perhaps a glimpse of red scarf at the neck. Now many of them have more shapely clothes in much gayer colours, not only when walking with their families in the parks and streets, but working in the factories. Here is another sign of greater freedom and relaxation.

We left the Yangtse at the enormous project of the Gezhomba dam, which will eventually raise the level of the river more than 240 metres, thus improving navigation right back to Chongqing and providing great new sources of electric power. This is particularly important for China, because although she has immense reserves of coal, it is mostly located in the remote Guizhan and Yunnan provinces, with inadequate road, rail and port facilities.

Yichang itself has grown into a large town, with labour encouraged to settle there from many parts of China. I felt it badly needed some town planning as we know it here, with its straight rows of unrelieved grey blocks of housing. But the work is urgent and the magnificent scene of the gigantic construction site at night is astonishingly impressive. Our extremely alert and friendly



hosts responded at once to suggestions of improved planning for the future, and said they were already discussing this with their own local people, as well as with the central authorities.

Wuhan was delightful after a gruelling overnight train journey and joy was unconfined when Mr Benyon's lost suitcase was ceremoniously brought to the hotel. His good temper and patience while being without his belongings for five days had been truly remarkable.

Wuhan University itself was very impressive, one of the ten best in China. There are nearly 3,000 students and 1,800 members of faculties, only 60% of whom teach, as the key universities concentrate on research — this is one of their most pressing needs. President Liu Laoyou is only 40 years old, one of the youngest university presidents in the country. He is also the Director of the Advisory Commission of Wuhan City — we felt this a very healthy combination of functions and were greatly impressed by him. He explained that because of the 'Cultural Revolution', one of their greatest difficulties was the shortage of teachers of research between the ages of 25 and 40 to train research teams and research directors. They are arranging "shock training courses" and promoting 50 or 60 graduates to such courses. In addition, professors with outstanding scientific and technological qualifications are being sent abroad for advanced study, and will come back to direct research groups.

Once again we came up against the old problem of the much greater cost of sending students to the UK than to other countries, and regretted again the lost opportunities of our learning from them and their bringing back British skills and knowledge of our equipment and trading methods.

President Liu Laoyou showed us their well-stocked library and we noticed that large numbers of books had been donated by French and German institutions. As the Vice-President had asked questions about the EEC, I promised to send them the Reports by the House of Lords Select Committee on the EEC on appropriate subjects. We found much more awareness of the European Communities this year than in previous years and were glad to

*At Wuhan University : standing are Bill Benyon, Lady Llewelyn-Davies, Lord Rhodes, Dr Lui Dasyu, (University President) and two of his colleagues. In front are Frances Wood and Roger Sims*



learn on our return that China is now to receive some aid from the Community's programme of financial and technical assistance to non-associated developing countries.

Roger Sims and I had an absorbing separate visit to the Medical College and spent a fascinating afternoon with Vice-President Wu Zhongbi, the Professor of Pathology. The College is the Research centre for teaching general and municipal hospitals over a very large region and specialises in research for transplants, cardiovascular disease and hormones for family planning purposes. Mr Sims has described in his report the interesting new male contraceptive 'Gossipol' derived from cotton-seed oil. We gathered that it will be some years before they can be sure it will be safe for human use, though experiments with rats and monkeys are very promising. I asked the professor if at the end of their work they would be able to persuade the men to take it, and he smiled sadly and said he thought the women would be more co-operative.

I was rather surprised that cardiovascular research was so important, and he explained that since the liberation, malnutrition was no longer their great problem, but the incidence of coronary disease, due to a much richer diet, was serious. This was an unexpected light on how Chinese life has changed.

We saw many different experiments in progress by women as well as men graduates, and the professor explained that out of 30,000 applicants a year, only 100 are successful, so that the standard are very high. Both Western and traditional medicine is taught in Wu Han, but mainly Western, with training in traditional medicine after graduation. It was the first time I had seen one of the key universities and it was a most exhilarating experience.

Perhaps the most important part of our visit for China's future was our tour of Shenzhen, in one of the new Economic Zones, close to Canton and Hong Kong. We have described the area in the Diary and elsewhere, but I was specially impressed by the confidence and vigour of the men and women who are developing it. They have come from many different parts of China, are mainly young,

and have obviously been specially chosen for their various skills. The young official who described the present and future developments to us with clear models and plans had a technical training in town planning, public health, housing and some architecture, and was a pretty young woman with a delightful enthusiasm and a very clear mind.

It was difficult to understand entirely just how autonomous the region is and how much has to be referred back to central authority, but one felt that Shenzhen was full of forward-looking, perceptive and independent minded people. They will need help with managerial and technological skills — also I think with constructional know-how — but they gave us a feeling of great confidence.

China faces enormous political and economic problems, both internally and in her relations with the outside world. We heard far fewer diatribes against Russia than previously, though there is a basic distrust, and indeed fear. Her new more cordial relations with America seemed at a very embryonic stage, with hesitations and disagreements (as over Taiwan). But the policy of emerging into the great world seems to be considered successful and productive.

We were sad that we in the UK seem unadventurous and cautious compared with the Germans and French and of course the Japanese, though there are exceptions, as Lord Rhodes has found, and they are described in this Report.

I can never thank Lord Rhodes enough for making our journey possible and for giving us an example — at the age of 88! — of how to overcome physical and ideological obstacles with an infectious and superlatively informed enthusiasm.

## Report by William Benyon JP DL MP

Like most people visiting China for the first time I had preconceived ideas as to what I would find. I knew it was a vast country — a continent — containing a wide variety of terrain and climate. I knew its population was around one billion people, increasing rapidly, and this posed great obstacles to the elimination of poverty and social advance. I knew something of the political upheavals which had marked the post revolution period. But none of this prepared me for the reality. I am therefore very grateful indeed to Lord Rhodes for including me in his party for this his most recent visit to China.

Considering the short time available we managed to cover considerable distances and to see a wide variety of the countryside and the people of China.

What were my most abiding impressions? First the immensity of it all; every statistic took on a new dimension — whether it was the population of a city or the rice crop or the Yangtse River — it was all larger than life.

Secondly I found a happy people — I have travelled widely elsewhere and one can sense immediately the general mood. The crowds that thronged the streets, walking, or riding that multitude of bicycles with their ever-thrilling bells, were smiling and relaxed. Many approached us with halting English. The children in particular were a delight — happy chattering throngs dressed neatly and brightly with none of the drab uniformity I had half expected. In adults I saw no evidence of under-nourishment and all were adequately dressed — undoubtedly the greatest success of the post revolution regime has been the removal of the abject grinding poverty which previously existed and this is borne out so strongly in the life expectancy figures — 31 before the revolution and now 72 — no mean feat in such an immense population.

Thirdly, one cannot travel in China without being aware of the stirring of a mighty industrial giant. Building is going on everywhere, together with roads, sewers, electric power and communications. This was not confined to Beijing or the other large cities we visited, but was visible in the countryside as well. We were privileged to see the Gezhouba dam project on the Yangtse. Tremendous in size and conception, it will provide cheap electric power for a wide area. Cheap energy allied to relatively low paid labour is a potent industrial force for the future. This is like Japan in the immediate post-war era; all that holds it back is a system lacking in commercial initiative and shackled by an all-embracing centralised bureaucracy — but there is strong evidence that this is changing. Anyone who ignores the importance for the future both economically and politically of this 'modern' China is making a dangerous mistake.

Wherever we went we saw possibilities for British goods and services and I became increasingly concerned that with one or two notable exceptions we seem to be failing to take advantage of this enormous potential market. Our hosts were at pains to assure us of two things; first that they want to be as self-supporting as possible and secondly that when they did purchase overseas, they did not wish to be tied to any one particular country.

One remembers all too well how firms neglected the Japanese market in its early stage of development and then found it too late to establish themselves there in any strength. China has dusted itself down from the mistakes and disruption of the cultural revolution but that lost ten years takes some time to make up; this was brought home to me particularly in the universities where both studies and, more importantly, research have had to recover this lost time.

I was particularly impressed by the prosperity which is evident in the countryside. Eighty percent of China's people still work in the fields and we were very fortunate to visit Sichuan, the most fertile of China's provinces. New houses were being built and the farmers can now sell their surplus produce in free markets. Those that we saw were flourishing — produce of every kind piled on stalls and on the sidewalks — pigs and chickens were much in evidence, being brought to market in baskets either carried on poles or lashed to bicycles. Ducks and geese were there in large

numbers and enormous piles of fruit. This development is still in its infancy but undoubtedly is a major development.

Losing my suitcase for five days meant that I had to shop in Chongqing for a few bare necessities and I was impressed by the range of goods on offer — although on a personal note I failed completely to find a pair of trousers large enough for my relatively modest European waist. The shops were thronged with people who had money to spend. I could not help reflecting that food processing is still in its infancy. Most fresh food is sold locally with considerable wastage. Thus the potential for this development when it comes, will be enormous.

Tourism too is a developing industry in China. We were fortunate to visit such well known attractions as the Forbidden City and the Great Wall but these were rivalled by our journey down the Yangtse from Chongqing through the famous Gorges. There can be few such magnificent natural sights in the world as this enormous river plunges between sheer cliffs some 100 yards apart. As in the West, the conflict between conservation and the demands of a modern industrialised society is evident, and if anything more acute, due to pressure of population. Long may it remain unspoilt.

I suppose no-one who goes to China can fail to be staggered by the sheer numbers of people evident at every turn. China's population has doubled since the war and now is more than one billion. Nothing can stop it reaching 1,200 million and the potential increase thereafter is truly terrifying.

The regime is taking action which in Western terms seems draconian — one baby per family, no more. It is difficult to obtain evidence about the success of this policy, but certainly those with whom we discussed it, particularly in the cities, seem to think that it was being broadly observed. In the countryside the success rate is lower. If a family happens to have more than two babies the father suffers a reduction of salary or welfare benefits. There are also further sanctions in education. It will be interesting to see whether this form of coercion triumphs over the Chinese natural love of children.

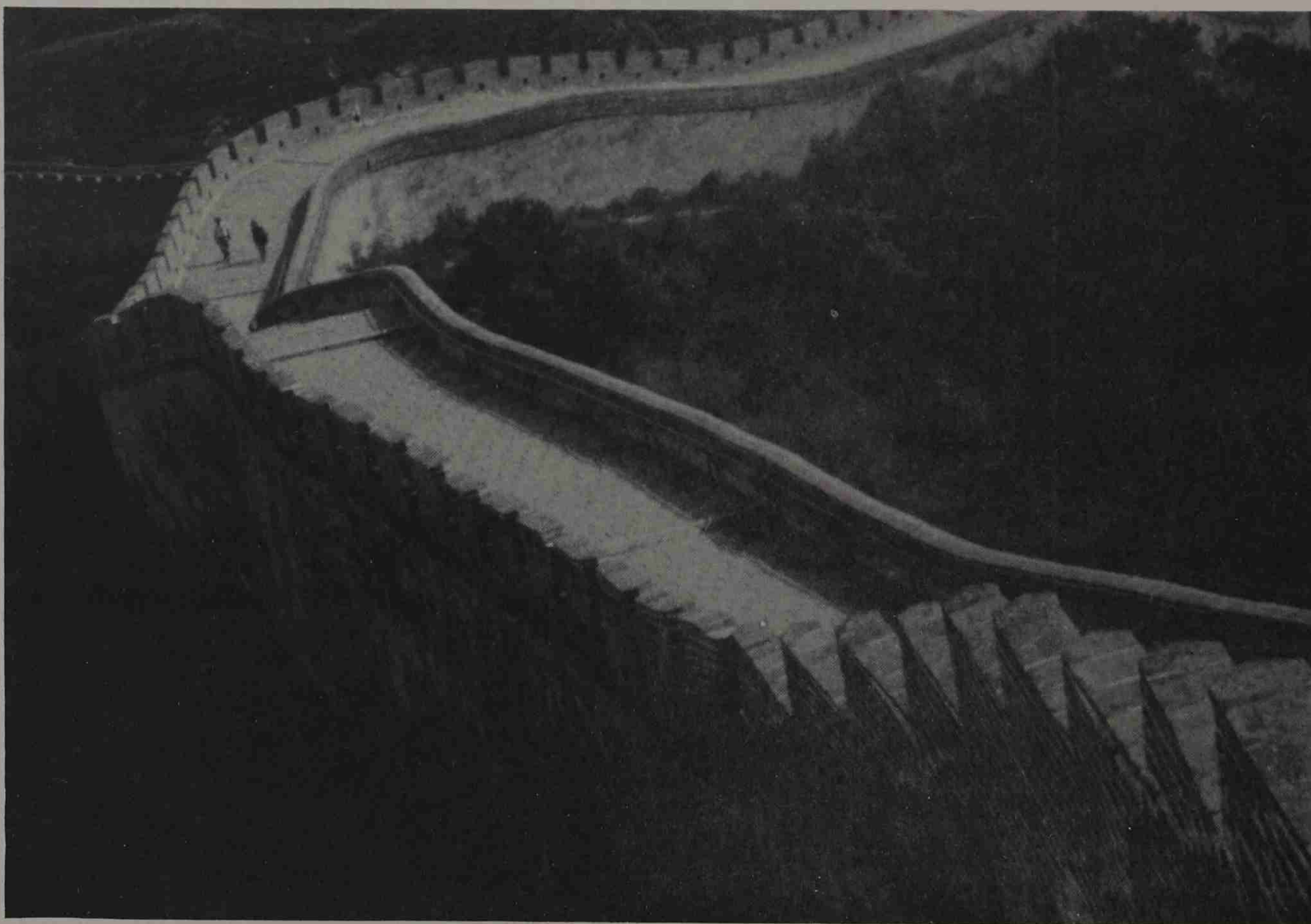
If China fails to control its population the prospects are very alarming. China is already short of food and imports some 15 million tons of food grains a year and a continuing increase in population could drive China into an aggressive commercial policy overseas which will create formidable tensions.

Throughout our visit I felt strongly that our two peoples have so much in common. We have much the same way of looking at problems, a similar sense of humour and the same emphasis on tact and politeness. For too long however, China has appeared to most Britons as a "difficult" country and market — to be avoided in favour of other states where the problems of language and political system are easier. Only a few of our countrymen, like Lord Rhodes, have taken the trouble to establish the frank and cordial relationships so vital for the future. Of course our visit was overshadowed by the problems of Hong Kong — it would be pointless to deny this — but nonetheless I believe it achieved a great deal.

I hope the future will see many more contacts at all levels and a far greater understanding in Britain of China's rapid economic development and her vital role as a world power.

*The spectacular gorges through which the Yangtse passes.*

*The Great Wall.*



## Report by Roger Sims JP MP

In the centre of what used to be known as Peking and is now called Beijing is the Forbidden City where, in the days of the dynasties, the Emperor lived surrounded only by his court. The ordinary people never entered the Forbidden City and they knew nothing of what went on behind its walls. Until this visit I knew little of what goes on in China today. Although I had been to Hong Kong twice, I was ignorant of the land across the frontier, nor could I visualise how the relatives of those hardworking Chinese entrepreneurs and traders, the epitome of free enterprise, lived under a Communist government. I was in for some surprises and many pleasures.

My overwhelming impression of the Chinese people was their sheer numbers. Cycling ten and more abreast in endless streams in the Beijing streets, crammed into dozens of buses, walking in masses along the streets, they seemed to go on for ever. And so it was in every town and village. In the countryside, too, there seemed to be people everywhere and I rarely saw a deserted road or a group of paddy fields without several workers in them. It brought home immediately one of China's biggest problems, that of controlling its population, believed to be in the order of 1,000 million. Faced with a situation where every improvement in food production was more than counteracted by the consumer demand of an increased population, China has resorted to drastic methods. Couples producing what is considered the ideal family of one are given various privileges and benefits in housing, schooling and so on. Should a second child appear, the advantages are withdrawn and a third child invokes penalties. At the same time there is an extensive birth control programme and I was impressed with the quality of staff and work done at the Family Planning Research Institute at Wuhan Medical College.

It was here that a possible new form of male contraceptive has been discovered and developed. It was noticed that the birth rate was much lower in a certain part of the country than anywhere else and that men there suffered from "heat fever". Investigation eventually revealed that the men enjoyed their food cooked in cotton seed oil which apparently contains an element with contraceptive properties. This has been isolated and 'Gossipol' produced — a development which could have enormous implications for China and many other countries.

Population limitation invariably came up in discussing China's problems with the various officials we met and it was amusing to see these middle-aged gentlemen reluctantly admit to being the fathers of five, six or seven children, with praise being given to our young interpreter who had one baby and had promised to stop there!

If the weight of numbers was my first impression of the Chinese people, friendliness was the second. Not only were we made most welcome by our official hosts, wherever we went, but the ordinary people in the street seemed genuinely pleased to see us, looked us up and down with an amiable curiosity and occasionally tried a hesitant "Hallo". There are some countries I have visited where being a foreigner in a crowd can be an unpleasant and sometimes frightening experience. This was certainly not the case in China where the atmosphere was never other than friendly.

I enjoy Chinese food and looked forward to sampling the authentic meals. I was not disappointed. In the course of the visit we enjoyed all sorts of dishes and I was surprised at the range of food available and the extent of regional variations. The magnificent banquets given by our hosts had as their centrepiece slices of fish, meat and vegetables arranged in a bird or animal pattern which were surrounded on the revolving table by a dozen or more different, exotic dishes. No sooner had one helped oneself from them than they were removed and replaced by others. All this washed down with endless quantities of beer, a sweet red wine and glasses of mao tai, the clear, fiery spirit in which innumerable toasts were drunk. It is considered courteous for at least one of the guests to empty his glass of mao tai completely when a toast is drunk and I seemed to be assigned this role. I think I can claim to have discharged it without disgracing

myself — or suffering any hangovers!

From the scenic point of view the highlight of the tour was certainly the boat trip through the Yangtse gorges, before and after which the banks of the river offered a variety of slopes, hills, inlets, villages and towns. But all over China, whether in the plains around Beijing and Wuhan or on the hills of Chunking, the people are trying to cultivate every inch of land, more often than not in terrace after terrace of most meticulously laid out paddy fields irrigated by systems which appear to defy the laws of gravity.

The man-made scenery, too, was most impressive. The Great Wall is indeed one of the wonders of the world. To build it today would be a colossal achievement. That it was constructed 2,000 years ago is a tribute to the world's oldest civilisation. One does not need to be an expert to appreciate the elaborate architecture and brilliant colours of the halls and buildings of the Forbidden City in Beijing and the grandeur of the Temple of Heaven. It was disappointing, though, to be taken to a building in similar style in Chunking, only to find that it was built in 1954 and was our hotel!

Amongst our fellow guests there were parties of foreign tourists to whom China has much to offer. Tourism is an industry which could certainly be developed and would provide China with much needed foreign exchange. The Government are well aware of this and of the need to provide adequate hotel accommodation of quality, an area in which they would welcome joint venture proposals. Indeed, the need for help in developing their agriculture and manufacturing industries, increasing their technology, extracting oil and gas and generally improving the lot of the people was a constant theme in all our discussions with Ministers and officials. Decades of war, civil war and revolution, plus the empty years of the 'Cultural Revolution' have left China, with its enormous population, way behind the developed world. Financial and technical aid in power and communication projects such as is already coming from the UK and Hong Kong is obviously welcome, but so would be help in setting up plants for the production of light industrial and consumer goods. Several British companies are already training young Chinese in this country. An extension of this and the provision by HM Government of scholarships to Chinese students, especially in technical subjects, could, for a modest outlay, yield tremendous benefits both in goodwill and, in due course, in purchases of British equipment.

My curiosity as to how the Chinese have adapted to Communism or, perhaps more accurately, how they have adapted Communism to suit China, was only partly satisfied and I left the country with many questions still unanswered. They have obviously realised that when Government is responsible, not only for the administrative matters to which we are accustomed, but also for the entire range of agriculture, communications, commerce and industry, central control is impracticable, particularly in a country the size of China. But whilst in some cases there is a degree of local autonomy on either a geographical or industry basis, in others Beijing has been reluctant to lessen its control. That the quality of local management is uneven is not perhaps surprising when those who occupy senior positions, may do so by virtue of their service to the Party rather than qualifications or experience. The introduction of incentive schemes in the countryside whereby, instead of handing over all their crops to the State, the peasants may retain for their own consumption or sell anything they produce over and above their quota has, not surprisingly, led to improved production but, we gathered that efforts to introduce similar schemes in factories have been less successful.

But for me the most astonishing thing I saw in China was the Special Economic Zone at Shenzhen near the Hong Kong border, for here the Chinese have not simply adapted Communism, they have turned it on its head. They are seeking to establish what is in effect a capitalist economy, encouraging businessmen from Hong Kong, Japan, Europe and North America to set up manufacturing plants, offering conditions similar to those which pertain in Hong Kong, but with the advantage of much cheaper (and admittedly

*Dr Wu Di-Rui and his staff at the Family Planning Research Institute, Wuhan Medical College.*



less efficient) labour. "In China we plan and market research is subsidiary," said the Deputy Mayor, a senior Party man sent to Shenzhen to help establish the SEZ. "Here the reverse is the case, market research will dictate planning." At present the SEZ has a population of 225,000 and 200 factories. By the year 2000 the plan is for there to be an 800,000 population and 1,500 factories. Whether these plans will come to fruition remains to be seen. Certainly the will and the enthusiasm are there, but are there the administrative, managerial and technical skills needed to realise them?

I left China with fascinating memories of its countryside, its culture, its food and above all its people. Driving into Hong Kong, I thought of the future of the colony, an issue which we carefully avoided discussing at official level in China, though it was never far from our minds. Of all the many problems to be solved before 1997, not least is the relationship between the two economic systems. The imposition of Communist methods in Hong Kong could be fatal to its prosperity. But what if mainland China moved towards the sort of economy which the Hong Kong Chinese have built up as, indeed, they are already doing in Shenzhen? What sort of China might our grandchildren see and where would its billion people stand as a world power?

Meanwhile, we must do all we can to foster greater understanding between China and the West, particularly the United Kingdom. There can be no better way of doing this than by the meeting of peoples at all levels. The great value of our visit was that we met Ministers, senior officials and ordinary men and women in China. We talked of how we could work together and trade with each other and, in doing so, not only did we learn something of each other's outlook and ways of life, but we got to know each other as people. That we found there is far more to unite than to divide us must augur well for the future.

*The ambassador's house at Beijing.*





## Report by Miss Frances Wood

Though the visit was characterised by alarms and excursions, in the end it was a great success. In order to learn from our experiences, as the Chinese would say, I will set down some of the lessons. We were not, perhaps, sufficiently explicit in our requests before we left. We listed people we wanted to see but did not necessarily explain what we wanted to discuss with them, because it seemed obvious to us. This was not altogether fair on our hosts, as we learned. It appears that in the recent (and continuing) drives to economise and modernise, the ministries in Beijing have retired a lot of excessively senior people and there are, in consequence, fewer officials to meet visitors. Those who remain would still prefer to have a list of questions in advance which we find quite difficult to accept, as it implies a lecture rather than a discussion. As a starting point, however, it is very useful for the Chinese who are not terribly comfortable with 'surprise attacks' even in the form of friendly visits. Despite a slow beginning, talks in Beijing were finally very rewarding, especially those with the Minister of Textiles, Mme Wu Wenying, who was not only an expert in her subject, but also very charming and responsive.

Many of the other alarms were the unavoidable results of travel, like losing a suitcase between Beijing and Chongqing, finding it again in Wuhan and arriving in Shenzhen at the same time as Typhoon Joe who altered the programme considerably.

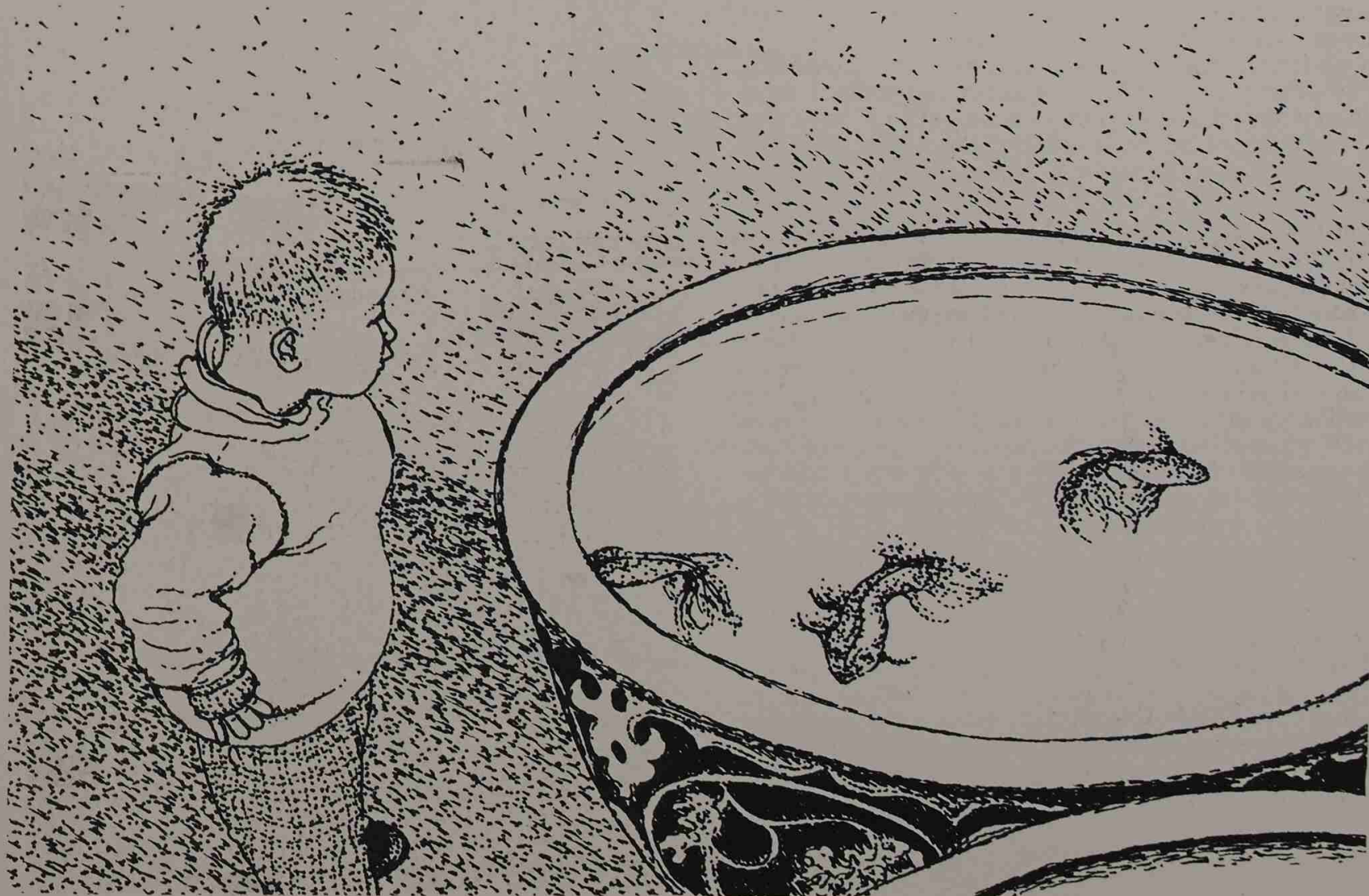
Of our excursions, the most memorable must be the trip down the Yangtse. The boat was comfortable, the food good, our fellow-passengers very accommodating, the scenery was terrific and the weather, unusually, beautiful. It was so sunny that my photographs are quite uncharacteristically clear (the Yangtse gorges are famous for mists, cloud and rain) and we all arrived in Yichang with sunburnt noses. Looking at the evening shift working on the Gezhouba dam at Yichang was memorable, like a Chinese woodcut with massive black cranes moving over a huge construction site which was dotted with brilliant pink and blue flares from acetylene welders. The supper we then sat down to before boarding the night train for Wuhan, was one of the

pleasantest we had. Our hosts were generous, the Yangtse had been gorgeous and the dam quite splendid, so the prevailing mood could not have been more jolly.

Another slight problem we encountered was that of visiting China in October. This is unquestionably the best month for weather, everywhere in China, but its consequent popularity stretches China's tourist and communications resources to just around breaking-point. It is difficult to decide whether the reliably comfortable weather makes up for the unreliability of the overfull planes, trains, hotels and overworked taxis.

Problems aside, the delegation, and Lord Rhodes in particular, went a long way in the clarification of specific problems. Many of these were problems encountered by British firms trading with China and elucidation will no doubt be of great use to them. It says a lot for Lord Rhodes' strength of character, which is now, I think, legendary in China, that he never abandoned a question until he had got a satisfactory answer and we know exactly where we stand on fibre imports, twinning towns, university exchanges and wool technology, and plenty more. I hope that these initiatives are pursued, either by letter or by further visits. In many cases, unsatisfactory answers at first were partly caused by the problem I raised earlier, that of a question sprung on a person. In China, it is a brave thing to take full responsibility, even for an answer to a question. If the question is posed in advance, one can attend a meeting with confidence for the question will have been answered by a committee or group. Such problems are hard to avoid in a 'planned' or 'socialist' economy and I await with interest the results of the widespread study of business management techniques. I think we saw something of effective individual enterprise management in the Chengdu mill in 1981 but it appears that since 1981, greater central authority has been reasserted as planning and policy are once again placed above individual enterprise.

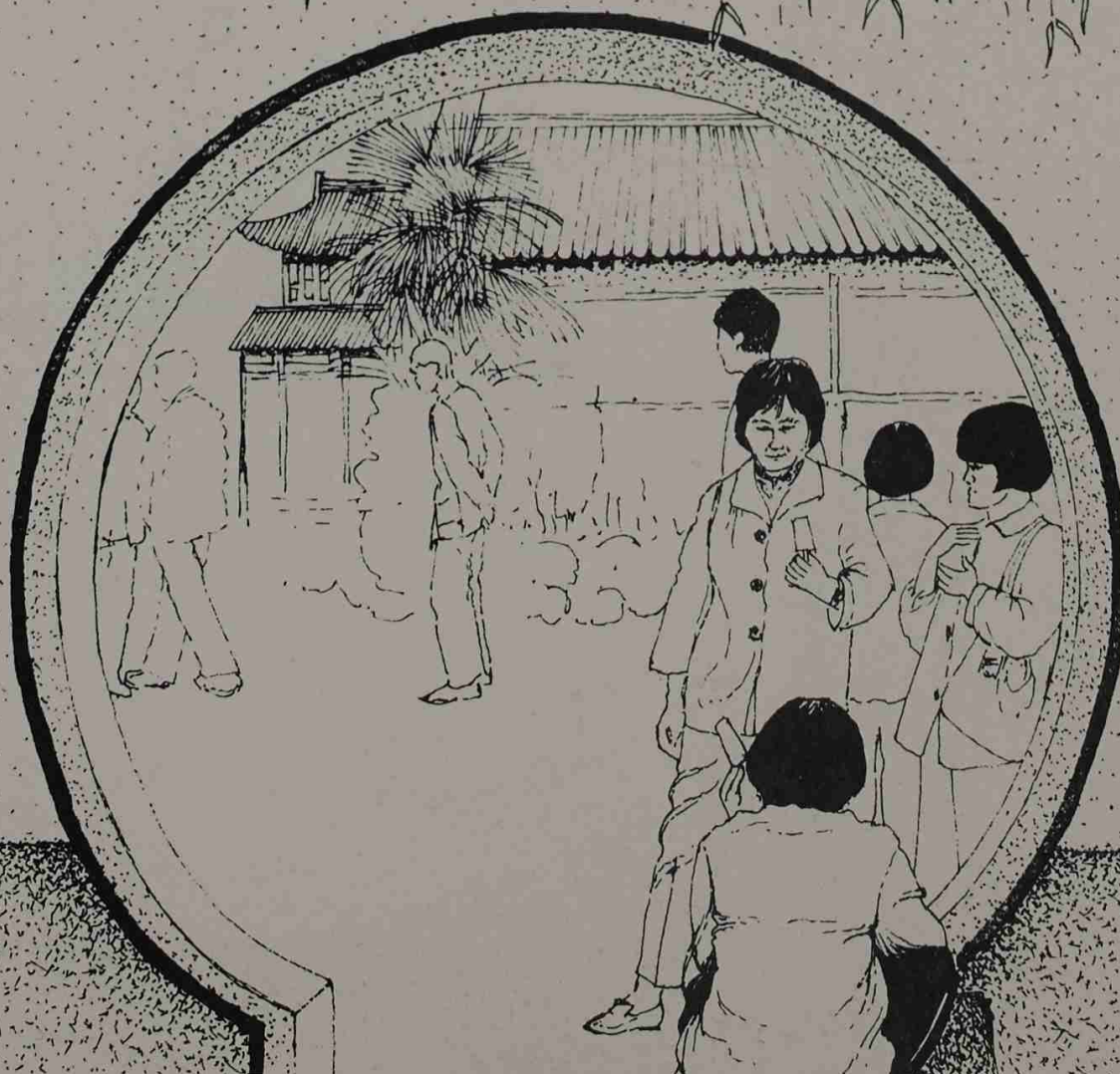
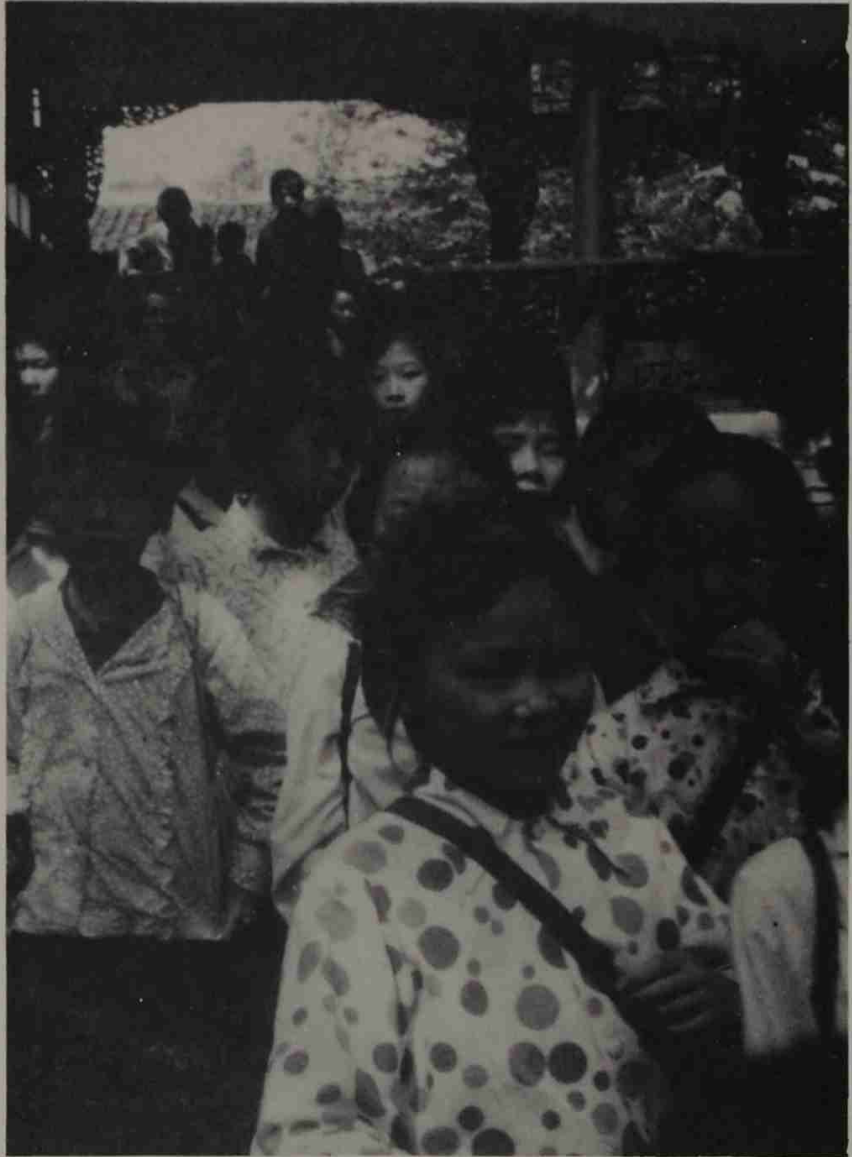
In some ways, China's internal lack of co-ordination is matched by ours and these factors combine to keep the UK low on the list of



*Children near the Hot Springs in Beibei Park.*

China's trading partners. We have a lot of young graduates in Chinese who could work in China for companies wanting to trade, we have a lot of experts in the Chinese economy and in business practice, but seem to duplicate experience rather than share it, conceal knowledge rather than spread it, just as happens within China, between ministries and between institutions.

I understand Lord Rhodes' aim in visiting China to be to break down unnecessary barriers to two-way trade where possible and to create a parliamentary lobby with experience of China and sympathy for China's interests. Each time we have been to China, he has made considerable progress on all these fronts and long may he continue to do so. As one of his 'Rhodes scholars', I am very grateful to him for the experience of visiting China with him, working in high places and laughing all the way down the Yangtse.







NJ  
CONFIDENTIAL

23 December 1983

Guangdong Nuclear Project

Thank you for your letter of 21 December reporting the current state of play on the Guangdong nuclear project.

The Prime Minister has noted this, and was grateful to be kept in touch.

David Barclay

Miss Ruth Thompson  
Department of Trade and Industry.

CONFIDENTIAL

*End*



JH 413

PS Secretary of State for Trade and Industry

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) £\$"" 5422  
GTN 215) .....  
(Switchboard) 215 7877

21 December 1983

D Barclay Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

Prime Minister.

To be aware.

A.S.C. 27/12.

Dear David,

## GUANGDONG NUCLEAR PROJECT

The Secretary of State thought the Prime Minister might be interested to know the current state of play on the Guangdong nuclear project

2 Officials from this Department held further discussions on the project in Hong Kong and Peking from 1-8 December. On equity, Lord Kadoorie was naturally disappointed that the British Government was not prepared to invest. Nevertheless, the China Light and Power Company (CLP) went forward on 5 December with the incorporation of the Hong Kong Nuclear Investment Company (HKNIC) with an initial nominal capital of £40m. It must now be for CLP and the Hong Kong Government to seek further equity investors in HKNIC, though officials will continue to investigate the possibility of commercial money from the City.

3 In discussions in Peking officials concluded an Agreement with the Ministry of Water Resources and Electric Power, building on the Memorandum signed in March. The Agreement sets a framework for negotiations to proceed now between HKNIC and the Guangdong Nuclear Investment Company on the setting up of the joint venture company and the arrangements for the purchase of electricity by Hong Kong; and further strengthens the position of GEC as potential supplier of the conventional island. No concessions were given on financing terms, despite pressure from the Chinese for capitalisation of pre-commissioning interest. Both the Chinese themselves and CLP indicated that the French are continuing to seek to secure the whole project, in spite of assurances to Mr Parkinson from M. Fabius on 26 September and to Mr Channon from M. Mexandeau on 20 October that they were committed to an Anglo-French venture. Officials will be taking this up with the French Ministry of Industry but, as Mr Peter Walker suggested, we will need to manoeuvre carefully to secure our share in this project. My Secretary of State expects to



consult colleagues in late February on the financing proposals  
which will accompany GEC's bid, which is to be submitted on 15  
March.

4 I am copying this letter to the private secretaries of the  
Chancellor of the Exchequer, and the Secretaries of State for  
Foreign and Commonwealth Affairs and for Energy.

*Yours ever,*

*Ruth*

RUTH THOMPSON  
Private Secretary

PPD. (4)  
R.1312

Cable "Kadoorie" Hong Kong  
Telephone 5-219221  
Telex 73127



St. George's Building  
Hong Kong

December 8, 1983

The Rt. Hon. Margaret Thatcher, MP  
Prime Minister  
10 Downing Street  
London SW1  
ENGLAND

Prime Minister.

A.S.C. 13/12

Dear Prime Minister,

Guangdong Nuclear Project

Many thanks for your letter of December 1, 1983, and the thought you have given to this matter. I regret a missed opportunity with long-term implications.

There are still many hurdles to surmount but you may rest assured we will do our best in the interests of Hong Kong and Sino-British trade.

With Season's Greetings and best wishes,

Sincerely yours,

*Lauren M. Katoori*

*mb*



Hong Kong,  
Guangdong,  
Pt 3

SADDLEWORTH 4500



CRIBBSTONES  
DELPH  
NEAR OLDHAM  
OL3 5BZ

THE LORD RHODES, K.G., D.F.C., P.C., D.L.

7th December, 1983.

*Dear David,*  
*attached*

Thank you very much for your courtesy in writing to me.

You obviously tried very hard but we shall just have to be patient and wait to see how things turn out.

As you know, I visited China again, at the invitation of the Chinese Government, in October - my fifth visit in five years. This time I had interviews with Ministers and with the Provincial Authorities in Wuhan and Shenzhen.

I am reasonably up-to-date in what is going on there and, if the Prime Minister would like to invite me to tell her about it for half-an-hour, I should be very pleased to come.

Yours sincerely,  
*Henry Rhodes*

*P.S. Please tell her from me that I  
admired her stand in Athens.*

David Barclay, Esq.,  
Private Secretary,  
10 Downing Street,  
London, SW1.

Hong Kong: Castle Peak/Guangdong A3



10-1983

3.21

CONFIDENTIAL



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

5 December 1983

M C McCarthy Esq  
Private Secretary to the  
Secretary of State for Trade and Industry

*nbpm*  
*DMB*  
*5/12*

*New Column,*

#### GUANGDONG NUCLEAR PROJECT

The Chancellor has seen your Secretary of State's minute of 29 November to the Prime Minister about the request from Lord Kadoorie that HMG should take an equity stake in the Hong Hong Nuclear Investment Company.

The Chancellor entirely agrees with the line Mr Tebbit advises the Prime Minister to take.

Mr Tebbit's minute recalls the Prime Minister's agreement a year ago to the offer of capitalisation pre-commissioning interest to secure the conventional island contract for GEC. This was then designed to bring UK credit terms for the conventional island into line with the offer made by the French for the nuclear island, but the offer was in fact never made to the Chinese. However, in considering whether to make it now, the Chancellor thinks it important to remember that the concession was then intended only as an alternative to an offer to finance local costs which had already been made, and which the Prime Minister envisaged would be withdrawn if the alternative concession were tabled.

Copies of this letter go to John Coles (No.10), Brian Fall (FCO), and Michael Reidy (Dept. of Energy).

*Yours ever,*  
*J O Kerr*

J O KERR  
Principal Private Secretary

Hong Kong,  
Castle Peak,  
A-3

DEC 1983  
12 1  
6 5 4 3 2 1

CONFIDENTIAL



10 DOWNING STREET

*From the Private Secretary*

1 December 1983

GUANGDONG NUCLEAR PROJECT

The Prime Minister was grateful for your Secretary of State's minute of 29 November about the Guangdong nuclear project. She has written in the terms proposed to Lord Kadoorie, and I enclose a copy of this reply.

The Prime Minister very much agrees with the views of the Governor of Hong Kong and our Ambassador in Peking, as recorded in paragraph 5 of your Secretary of State's minute.

For diary reasons it is unlikely to be possible for the Prime Minister to meet Lord Rhodes in the near future. We would propose, therefore, to acquaint him in writing with the Prime Minister's response to Lord Kadoorie.

I am sending copies of this letter to Peter Ricketts (FCO), Judith Simpson (HM Treasury) and John Neilson (Department of Energy).

MR. D. BARCLAY

Miss Ruth Thompson,  
Department of Trade and Industry.

CONFIDENTIAL



10 DOWNING STREET

THE PRIME MINISTER

1 December 1983

cc: DTI  
Fco  
HMT  
Energy

A

DSG

Dear Lord Kadoorie,

Thank you for your letter which Peter Walker delivered to me on his return from the Far East.

I continue to follow developments on the Guangdong project with great interest and I was pleased to hear from Peter Walker of the great progress which is now being made on the preparatory work. I know that the Hong Kong Government has looked carefully at the implications of the project for Hong Kong and I was pleased to note the positive view reached by the Executive Council on 8 November. I believe this marks an important step forward.

I have always agreed with your view that the project offers a unique opportunity to strengthen the ties between the PRC, Hong Kong and the UK. It was with this in mind that Norman Tebbit listened carefully to the arguments put forward by Lord Rhodes and Lord Maclehorse that the British Government should consider putting a modest amount of equity into the Hong Kong Nuclear Investment Company (HKNIC). Officials, too, bore in mind the political significance of the project in exploring views in Hong Kong on this issue in November.

/ Nevertheless

DSG

- 2 -

Nevertheless, after full consideration, I have concluded that putting equity into HKNIC is not the way in which the British Government should seek to support the project. I am sure you will appreciate that such a step would be quite contrary to our policy of reducing government shareholdings in the private sector wherever possible. And I believe that we can play a more useful and constructive role by providing a positive framework at Government level for detailed discussions between all the interested parties, and by supporting GEC's bid with attractive financing terms. Indeed, we have already made an important contribution in this way, and we shall continue to do so. Investing equity in the Hong Kong Nuclear Investment Company must be primarily for the private sector to take up. CLP will naturally wish to take a leading position but I understand that the Hong Kong Government would be willing to explore with you the possibility of encouraging the Hong Kong institutions to come in.

I hope you will understand that this does not reflect any diminishing of the importance which the British Government attaches to the project. While I must conclude that it would be inappropriate for the British Government to take an equity stake in HKNIC, I can assure you that we shall continue to do all that we can to support your efforts to bring the project to a successful conclusion.

Yours sincerely  
Margaret Thatcher

The Lord Kadoorie, C.B.E.





10 DOWNING STREET

*From the Private Secretary*

1 December, 1983.

Further to my letter of 15 November, I have now had an opportunity to seek the Prime Minister's view on your suggestion that she might meet yourself and Lord Kadoorie to discuss the Guangdong Nuclear Project. As you probably know, Lord Kadoorie wrote to the Prime Minister on this subject recently, and Mrs. Thatcher is also aware of the meeting with the Secretary of State for Trade and Industry which you attended together with Lord Maclehorse on 1 November.

Having considered the matter carefully, the Prime Minister's view is that putting equity into the HKNIC is not the way in which the British Government should seek to support this project. In the circumstances, and given the other very severe pressures on her diary, the Prime Minister does not feel that a meeting at this stage would be helpful.

As the Prime Minister explained in her reply to Lord Kadoorie, a copy of which I enclose, the Government view on equity financing does not in any way diminish the importance which it attaches to the Guangdong Project. The Government will continue to do all that it can to bring the project to a successful conclusion.

David Barclay

The Rt. Hon. Lord Rhodes, KG, DFC.



JH 249

PRIME MINISTER

CONFIDENTIAL

Prime MinisterAgree attached reply to Lord  
Kadoorie?If so, you may prefer to write  
similarly to Lord Rhodes, rather  
than offer a meeting. Agree?

GUANGDONG NUCLEAR PROJECT

With his letter of 23 November Peter Walker sent to me a copy of Lord Kadoorie's appeal to you that HMG should put up £25m as one quarter of the equity required for the Hong Kong Nuclear Investment Company (HKNIC). Your Private Secretary also wrote to me on 15 November about the request for a meeting you had received from Lord Rhodes.

DMS  
29/11

2 On 8 November, the Hong Kong Government (HKG) gave its approval for Hong Kong's participation in the project to subject to satisfactory fiscal and commercial conditions for the purchase of electricity; and invited China Light and Power (CLP) to form HKNIC. Formation of HKNIC is a necessary step towards establishing the joint venture company with the Chinese and the negotiation of the electricity off-take agreement. The Chinese are pressing hard for progress on both these fronts.

3 Despite its previous commitment to taking a leading role, CLP is at present refusing to contribute more than £20m to HKNIC and is pressing HMG and HKG to take holdings, both to show their confidence in the project, and as a gesture of political goodwill to the Chinese. HKG is reluctant to go further than a £20m loan to HKNIC.



4 Officials here have pressed GEC on whether they would be willing to take equity in HKNIC. However, GEC have strongly resisted the suggestion on the grounds that they have already committed exceptional resources to lengthy negotiations, they would not want to be both contractor and, in effect, purchaser, and that equity from GEC would not have the same political impact as equity from HMG.

5 The Governor of Hong Kong and the Embassy in Peking doubt whether HMG's participation in HKNIC would have any effect on China's basic position in the talks on the future of Hong Kong. However, Peking believe that failure to set up HKNIC at all, especially if this could be attributed to HMG, would run the risk of affecting the atmosphere of the talks.

6 I appreciate this downside risk, but whether or not such a concession is made at this stage, there will be further pressure from the Chinese and CLP for favourable financing terms. Moreover, investment would be quite contrary to our policy of reducing HMG's shareholding in the private sector, and would set an undesirable precedent for other overseas projects. Provided a satisfactory return is allowed on investment by HKG it may be possible to find UK private sector investors. I told Lords Rhodes and Maclehorse on 1 November that I could not support HMG equity and I see no reason to change my mind at this stage.

7 As Peter Walker mentions, there is still a danger that the French may try to obtain the whole project. We hope that judicious use of the Hong Kong card will enable us to maintain GEC's position but in the end it would not in practice be



possible for Hong Kong to refuse outright to buy electricity from  
an all French station. Accordingly, we shall need to give  
further consideration to financial support, when the GEC bid is  
submitted in March next year. As you agreed with Patrick Jenkin  
 in November 1982, we may need to offer capitalisation of  
pre-commissioning interest to secure the conventional island  
contract. And, as Peter Walker suggests, it may be useful to  
 offer CEGB services, as we did on the Castle Peak projects. But  
at this stage we should certainly give no more than a general  
indication of our willingness to take a positive position. ??

... 8 A draft reply to Lord Kadoorie is enclosed. In view of Lord  
 Kadoorie's strongly held views it would also be helpful, if your  
 diary permits, if you could give Lord Rhodes the same message in  
 person. However, we should avoid encouraging Lord Kadoorie to  
 travel to London for a meeting at which he would be offered  
 nothing new.

9 I am sending copies of this minute to Geoffrey Howe and Nigel  
 Lawson with the previous correspondence, and to Peter Walker.

NT  
 N T

29 November 1983

Department of Trade and Industry

JU65

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO

CONFIDENTIAL

Lord Kadoorie  
St Georges Building  
Hong Kong

Thank you for your letter which Peter Walker delivered to me on his return from the Far East.

I continue to follow developments on the Guangdong project with great interest and I was pleased to hear from Peter Walker of the great progress which is now being made on the preparatory work. I know that the Hong Kong Government has looked carefully at the implications of the project for Hong Kong and I was pleased to note the positive view reached by the Executive Council on 8 November. I believe this marks an important step forward.

I have always agreed with your view that the project offers a unique opportunity to strengthen the ties between the PRC, Hong Kong and the UK. It was with this in mind that Norman Tebbit listened carefully to the arguments put forward by Lord Rhodes and Lord Maclehole that the British Government should consider putting a modest amount of equity into the Hong Kong Nuclear Investment Company (HKNIC). Officials, too, bore in mind the political significance of the project in exploring views in Hong Kong on this issue in November.

Nevertheless, after full consideration, I have concluded that putting equity into HKNIC is not the way in which the British Government should seek to support the project. I am sure you will appreciate that such a step would be quite contrary to our policy of reducing government shareholdings in the private sector wherever possible. And I believe that we can play a more useful and constructive role by providing a positive framework at Government level for detailed discussions between all the interested parties, and by supporting GEC's bid with attractive

financing terms. Indeed, we have already made an important contribution in this way, and we shall continue to do so. Investing equity in the Hong Kong Nuclear Investment company must be primarily for the private sector to take up. CLP will naturally wish to take a leading position but I understand that the Hong Kong Government would be willing to explore with you the possibility of encouraging the Hong Kong institutions to come in.

I hope you will understand that this does not reflect any diminishing of the importance which the British Government attaches to the project. While I must conclude that it would be inappropriate for the British Government to take an equity stake in HKNIC, I can assure you that we shall continue to do all that we can to support your efforts to bring the project to a successful conclusion.

HONG KONG : Castle Peak  
Pt 3

22 JUL 1985  
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COMMERCIAL: IN CONFIDENCE

HU

CC FCO  
D/N

10 DOWNING STREET

*From the Private Secretary*

24 November 1983

The Secretary of State for Energy sent the Prime Minister a copy of his letter to your Secretary of State of 23 November. I enclose a further copy of Lord Kadoorie's letter to the Prime Minister, since I understand you may not have received the latest version of this.

I should be grateful if you could take account of the points made by Lord Kadoorie and by Mr. Walker in advice you are preparing for the Prime Minister on the approach from Lord Rhodes. I have acknowledged Lord Kadoorie's letter.

I am sending copies of this letter to Roger Bone (Foreign and Commonwealth Office) and Michael Reidy (Department of Energy).

David Barclay

Miss Ruth Thompson,  
Department of Trade and Industry.

COMMERCIAL: IN CONFIDENCE

RW



HL

24 November 1983

I am writing in the Prime Minister's absence at the Commonwealth Heads of Government Meeting in New Delhi to thank you for your recent letter about the nuclear power station project in Guangdong.

I will place your letter before the Prime Minister on her return, and she will let you have a reply as soon as possible.

David Barclay

The Lord Kadoorie, C.B.E.

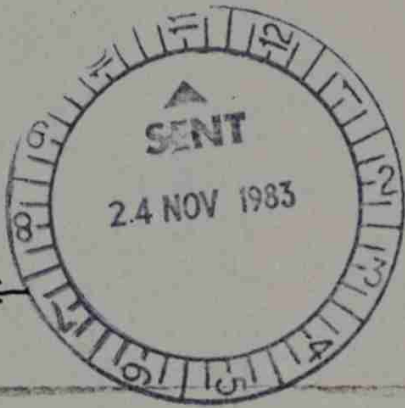
FUTURE OF HONG KONG ADVANCE COPIES 10

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PS  
PS/PUS  
PS/MR LUCE  
MR DONALD  
ED/HKD  
ED/FED

COPY TO:  
MR COLES, No. 10 DOWNING ST  
Mr Roberts, News D.



RESIDENT CLERK

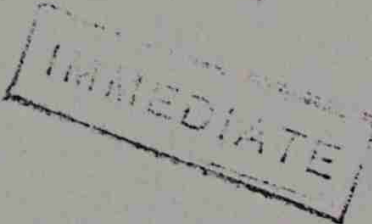
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ADVANCE COPY Pa  
Dms  
24/11

FROM PEKING 240922Z NOV 83

TO IMMEDIATE FCO



TELEGRAM NUMBER 1248 OF 24/11/83

REPEATED FOR INFO TO IMMEDIATE HONG KONG

attached  
?

YOUR TEL NO 1247: FUTURE OF HONG KONG: GUANGDONG NUCLEAR PROJECT

1. WE AGREE WITH THE ADVICE IN PARA 3 OF TUR. HMG'S EQUITY PARTICIPATION IN THE PROJECT WILL NOT MODIFY CHINA'S HARDLINE.
  2. THE ADVANTAGES LIE ELSEWHERE. HMG'S PARTICIPATION WILL GIVE SUBSTANCE TO OUR DECLARED MORAL COMMITMENT TO THE PEOPLE OF HONG KONG BEYOND 1997. CONFIDENCE IN HONG KONG ITSELF WILL BENEFIT.
  3. PARTICIPATION BY HMG WILL EASE THE PROBLEMS OF SETTING UP HKNIC, WHICH IS THE ESSENTIAL PRELIMINARY TO ESTABLISHING THE JOINT VENTURE COMPANY WITHOUT WHICH THE PROJECT WILL NOT RUN. FAILURE TO SET UP HKNIC, ESPECIALLY IF ATTRIBUTABLE TO HMG'S UNWILLINGNESS TO OFFER TANGIBLE SUPPORT, RUNS THE RISK OF DAMAGING CONFIDENCE IN HONG KONG, AND OF SOURING THE ATMOSPHERE OF THE TALKS.
- THE CHINESE WOULD ALMOST CERTAINLY QUESTION OUR SINCERITY IN SAYING (AS WE CONSTANTLY DO) THAT OUR AIM IS TO MAINTAIN THE PROSPERITY OF HONG KONG UP TO AND BEYOND 1997.
4. THE GOVERNOR MAY WISH TO DISCUSS THIS QUESTION FURTHER WITH THE AMBASSADOR WHO LEFT FOR HONG KONG BEFORE RECEIPT OF TUR.

CLARK

CCN PARA 1 WA PROJECT WILL NOT MODIFY

01 211 6402

The Rt Hon Norman Tebbit MP  
Secretary of State for Trade and Industry  
1 Victoria Street  
London  
SW1H 0ET

25 November 1983

I had a word with you the other day about conversations that took place when I visited the Castle Peak Power Station and was entertained by Lord Kadoorie.

Lord Kadoorie consulted me as to whether he should send a letter to the Prime Minister. He argued that the Prime Minister, when she visited Castle Peak, had made it clear to him that he should contact her whenever he felt that the British Government could be of help.

I discovered afterwards that, in fact, a draft of this letter had already been shown to Lord Rhodes and was in the possession of your Department and our Trade Commissionnaire in Hong Kong.

I also gather that you have made it clear to Lord Rhodes there was no way that the British Government could or would be putting equity into such a project.

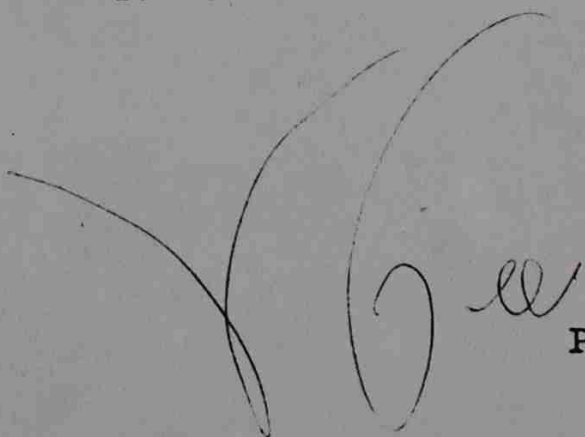
Obviously we do wish to retain a relationship which enables us to obtain a billion pounds worth of orders for the United Kingdom. Both on the trade and industry sides it must be a matter for you to decide what, if anything, can be done to secure these orders.

Perhaps due to my long background of fighting the French I have a nasty unease that, in spite of their understanding with GEC, the French may try to obtain all the orders. Certainly as far as my own Department is concerned, if we can be of any help in any arrangements you recommend to secure maximum orders for Britain we would want to do just that.

The main beneficiary from the orders would seem to be GEC. They may have ideas about how £25 million token support could be operated in such a way as to secure the orders that are required.

Can I also say that if you felt that in any of the arrangements you wish to pursue the CEEB could be of help, I would be only too happy to put to them any suggestions that you would like to make. I am copying this letter and the enclosure to the Prime Minister.

With best wishes.



PETER WALKER

Cable "Kadoone" Hong Kong  
Telephone 5-249221  
Telex 73427



St. George's Building  
Hong Kong  
24th Floor,  
2 Ice House Street, H.K.

The Rt. Hon. Margaret Thatcher, MP  
Prime Minister  
10 Downing Street  
London SW1  
ENGLAND

Dear Prime Minister,

- 1) This letter is written at a time when I believe that the UK and Hong Kong Governments' connection with the project to build a nuclear power station in Guangdong Province is very much in the balance.
- 2) We now know that the Chinese have definitely decided to proceed with or without British participation and that there are other nationals eagerly waiting in the wings in the hope of obtaining a major, if not the total share of this project.
- 3) Four years of concerted effort by CLP has placed the UK in the lead to supply the conventional island, worth approximately Sterling £ 1,000 million of export orders, but there are still important decisions to be taken and any slip now could mean the contract for the total plant would pass to others.
- 4) This anxiety is well founded, because the Chinese are still unhappy at the idea of purchasing untried prototype 950 MW turbines from GEC, who, as yet, have never made such plant.
- 5) The Chinese are anxious for CLP to cooperate in the design, engineering, commissioning and long term operation of this power station, but this in itself provides no guarantee that the conventional island will pass to the UK.
- 6) I consider it essential at this critical period, for the UK Government, to demonstrate its willingness to assist China towards achieving their Four Modernization Programme.

(Cont'd)/.....

*St. George's Building  
Hong Kong*

(Page 2)

- 7) In the case of the UK Government, this can best be done by their participation in the equity capital of HKNIC, a Hong Kong registered company capitalized at approximately Sterling £ 100 million, to be the party representing the 'foreign' investment in the joint venture.
- 8) I am well aware and fully support the policy you advocate regarding Government investment in the private sector.
- 9) In this instance, however, the stakes are high. We cannot ignore the magnitude of the project, its political implications and the possibility of obtaining Sterling £ 1,000 M of orders for the UK.
- 10) In Chinese terms, there is much 'face' to be gained by the UK making a comparatively minor investment of Sterling £25M of risk capital in HKNIC.
- 11) This would show the UK's confidence in GEC equipment and in the viability of the project. At the same time, this would reaffirm to the people of Hong Kong the continued interest of the UK Government in their welfare.
- 12) On our part, subject to further negotiation with the Hong Kong Government, my Board has agreed to purchase a 20 percent (approximately Sterling £20M) interest in HKNIC and to assist the Chinese to the best of our ability but I must stress that we have only done this with UK and Hong Kong long term interests in mind.

Sincerely yours,

*Lawrence Kadonji:*

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IMMEDIATE<sup>2394-1</sup>

David Barclay. No 10. Dpt.

DD 240030Z HONG KONG

GRS 278

SECRET

DESKBY 240030Z

FM FCO 231730Z NOV 83

TO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR)

TELEGRAM NUMBER 1247 OF 23 NOVEMBER

AND TO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)

GUANGDONG NUCLEAR PROJECT

1. DTI ARE DRAFNG REPLY TO KADOORIE'S LETTER TO THE PM REQUESTING THAT HMG TAKE POUNDS 25 MILLION EQUITY IN HKNIC. THEY PROPOSE TO TAKE LINE THAT ALTHOUGH HMG STRONGLY SUPPORTS PROJECT AND WILL HELP WHEREVER POSSIBLE IN OTHER WAYS, TAKING EQUITY WOULD BE INAPPROPRIATE, GIVEN HMG'S PRIVATISATION POLICY.
2. SUBMISSION TO DTI MINISTERS WILL CONTAIN ASSESSMENT OF POLITICAL ARGUMENTS FOR AND AGAINST PROPOSAL BASED ON MANZIE'S RECENT DISCUSSIONS IN HONG KONG AND PEKING TELNO INDUS 122. WE WOULD BE GRATEFUL FOR BOTH YOUR VIEWS ON PROPOSAL DESKBY 241100Z AND IN PARTICULAR FOR :-
  - (A) PEKING'S ADVICE AS TO WHETHER HMG'S PARTICIPATION IN HKNIC WOULD BE LIKELY TO LEAD TO ANY MODIFICATION OF PEKING'S HARD LINE ON THE TALKS ON THE FUTURE OF HONG KONG, RATHER THAN MERELY OF THEIR ATTITUDE TOWARDS GEC'S PARTICIPATION IN THE PROJECT.
  - (B) THE GOVERNOR'S ADVICE ON WHETHER APART FROM SATISFYING LORD KADOORIE THERE ARE WIDER POLITICAL GROUNDS FROM THE POINT OF VIEW OF THE HONG KONG GOVERNMENT FOR HMG'S PARTICIPATION.
3. OUR ADVICE AT OFFICIAL LEVEL TO THE DTI BEFORE MANZIE'S VISIT WAS THAT, WHILE EQUITY PARTICIPATION BY HMG COULD HELP TO CREATE A BETTER GENERAL ATMOSPHERE WITH THE CHINESE, WE DID NOT JUDGE THAT IT WOULD HAVE ANY EFFECT ON CHINA'S BASIC POSITION IN THE TALKS.  
 WE HAD IN MIND THAT THEY WOULD NOT AS A RESULT OF THIS BE LIKELY SUBSTANTIALLY TO IMPROVE THE SORT OF GUARANTEES WHICH

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2394 - 1

THEY WOULD OFFER FOR HONG KONG'S AUTONOMY.

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MR DONALD

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SECRET



10 DOWNING STREET

*From the Private Secretary*

15 November, 1983.

As you will know from our recent telephone conversation, Lord Rhodes is seeking a meeting with the Prime Minister to discuss the Guangdong Power Station project. He would propose to bring Lord Kadoorie with him.

When we spoke, you expressed some doubts about whether the Prime Minister should accede to this request. I have explained to Lord Rhodes that in any case a meeting will not be possible before December because of the Prime Minister's overseas commitments. Having now seen the note of the meeting between your Secretary of State, Lord Rhodes and others on 1 November, I think it would be helpful if you could kindly provide written advice, in consultation with the Foreign and Commonwealth Office.

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

David Barclay

Miss Ruth Thompson,  
Department of Trade and Industry.





10 DOWNING STREET

*From the Private Secretary*

15 November 1983

I promised to come back to you about your request for a meeting with the Prime Minister to discuss the Guangdong Power Station project, to which you said you would like to bring Lord Kadoorie.

As I explained when we spoke, the Prime Minister is about to depart for the Commonwealth Heads of Government Meeting at Delhi, after which she will attend the European Council at Athens. So I am afraid that any meeting could not take place until mid-December at the earliest. I will write to you again as soon as I have had an opportunity to put your request to the Prime Minister.

The Rt. Hon. Lord Rhodes, KG, DFC.

MR COLES

Lord Rhodes (04577-4500) - Who's Who entry attached - telephoned to ask whether he and Lord Kadoorie could come and see the Prime Minister about the Guangdong Power Station project. I explained that the diary was impossible until mid-December, but he seemed quite relaxed about timing. I promised to consult the Prime Minister and go back to him.

X I discovered that Lord Rhodes met Mr. Tebbit on this subject on 1 November with Lord MacLehose but without Lord Kadoorie. Having seen the note of this meeting (copy attached) it seems probably<sup>e</sup> that Lord Rhodes would want to use his interview to press the views so recently greeted with scepticism by Mr. Tebbit. Unfortunately, it also makes it more difficult to deflect his request by suggesting that he should see the Secretary of State instead.

Not surprisingly DTI advise against a meeting with the Prime Minister. I have not sought Foreign Office advice but will do so if you wish,

Agree we set out this background for the Prime Minister and leave it for her personal decision?

*DMS*

14 November 1983

Mr. Darby.

I think that we should seek the joint advice of the F./C.O. and the J.T.I. on whether the Prime Minister should receive them. The Guangdong project has well moved on a bit since 1 November. We need a letter.

A.S.C.  $\frac{14}{11}$

**RHODES**, Baron *et* 1964, of Saddleworth (Life Peer); **Hervey Rhodes**, KG 1972; PC 1969; DFC and Bar; DL; *b* 12 August 1895; *s* of John Eastwood and Elizabeth Ann Rhodes; *m* 1925, Ann Bradbury; two *d.* *Educ*: Greenfield, St Mary's Elementary Sch.; Huddersfield Technical College; evening classes. Woollen worker pre-1914; joined King's Own Royal Lancs, 1914, commissioned, seconded to Flying Corps (wounded, DFC and Bar). Discharged from Hospital, 1921. Commenced business as woollen manufacturer. Served on Local Authority. Chairman of Urban District Council, 1944-45. Chairman, Saddleworth War Charities. Commanded 36th West Riding Bn Home Guard. Contested Royton Division of Lancs, 1945; MP (Lab) Ashton-under-Lyne, 1945-64; PPS, Min. of Pensions, 1948; Parliamentary Secretary, Board of Trade, 1950-51, 1964-67. Led all-party Party delegns to China, 1978, 1979, 1981. Lord Lieutenant of Lancaster, 1968-71; DL Lancs, 1971. Freedom of Borough of Ashton-under-Lyne, 1965, and of Saddleworth, Yorks, 1966. KStJ 1968. Fellow, Huddersfield Polytechnic, 1976. Hon. DTech Bradford, 1966; Hon LLD Manchester, 1971. *Address*: Cribbstones, Delph, near Oldham, Lancs. *T*: Saddleworth 4500.

Reference.....

JF4725

MRS BELL

cc PS/Mr Baker  
PS/Mr Channon  
PS/Sir Brian Hayes  
PS/Sir Anthony Rawlinson  
Mr Roberts  
Mr Manzie  
Mr Mingay MEE  
Mr Corley OT4  
Dr Dobbie MEE

SECRETARY OF STATE'S MEETING WITH LORD RHODES AND OTHERS ON  
THE GUANGDONG NUCLEAR POWER STATION, 1 NOVEMBER 1983

You and Mr Manzie were present when Lord Rhodes, Lord Maclehorse, Mr Bill Benyon MP and Mr Roger Sims MP came to see the Secretary of State about the Guangdong nuclear power station.

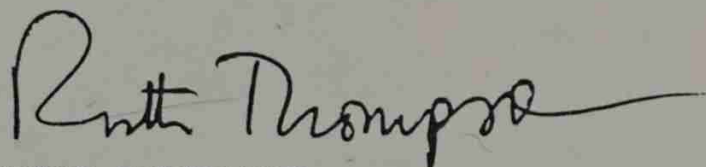
2 Lord Rhodes explained at length the talks he had had with Lord Kadoorie and Mr Stones of China Light and Power (and left a summary with Mr Manzie). He strongly believes that an injection of equity by HMG would push this unique project forward: there was need for a gesture. He stressed that the power station was a political, as well as a commercial, commitment. Lord Maclehorse said he was aware of the good work that the DTI had done on this project. He pointed out that it would be some time before any question of providing equity would arise; the Hong Kong Government had yet to agree to take the electricity that Guangdong would be producing. He urged the Secretary of State to keep an open mind on the question of HMG equity. He believed this could be crucial, both for the contract, and for political relations with China; he also suggested that it might help us in winning further contracts for additional power stations in China. He asked the Secretary of State to listen very carefully to local (Hong Kong) advice.

3 The Secretary of State said he fully recognized the importance of the project, and he knew that the Prime Minister herself took a close interest in it. He, too, believed that the importance of the project was both political and commercial. However, the Secretary of State said he was not convinced he could persuade his colleagues that they should take equity in this project, when the Government's overall policy was quite the reverse. The UK was already making important political gestures to the People's Republic of China on the future of Hong Kong, and on the commercial side there were a number of joint ventures

Reference.....

under consideration. The Secretary of State said that he would indeed listen most carefully to local advice on the matter of Government equity, but that he did not want to create any precedence for the future. Lord Macle hose thought that this would not be a risk, since the Guangdong project was unique in that it involved both the PRC and Hong Kong: the Secretary of State expressed doubts about whether the Chinese would make the same distinction between Hong Kong and the People's Republic.

4 The meeting ended with Lord Rhodes and his party reiterating their concern, and their belief that the only way to secure progress on the project was for HMG to offer some equity: the Secretary of State remained unconvinced, but thanked them for coming to put their point of view.



RUTH THOMPSON  
PS/Secretary of State for Trade & Industry  
Room 803, 1 Victoria Street  
215 5422

3

November 1983



c.c. to Tessa for 'EYE' List

*Handwritten initials*

10 DOWNING STREET

THE PRIME MINISTER

11 August 1983

*Dear Lord Kadoorie,*

Thank you for your letter which Cecil Parkinson passed on to me. I am very grateful for your good wishes. The eye is recovering well and I will be going on holiday to Switzerland tomorrow.

I too am sorry that we could not meet while you were in London last week and I hope we shall be able to do so soon. In the meantime, I will look at the notes which you provided about the Guangdong project with great interest.

*Every good wish*

*Yours sincerely*

The Lord Kadoorie, OBE, JP

*Raymond Walker*



DEPARTMENT OF TRADE AND INDUSTRY

Room 11.01 Ashdown House 123 Victoria Street SW1E 6RB  
Telex 8813148  
Telegrams Advantage London SW1  
Telephone Direct Line 01-212 3301  
Switchboard 01-212 7676

JF4163

PS/Secretary of State for Trade & Industry

5 August 1983

Tim Flesher Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

*Prime Minister*

*Dear Tim,*

*To note*

*JA*

*10/83*

As it has not been possible to fix a meeting between Lord Kadoori and the Prime Minister, I attach a letter and memorandum from Lord Kadoorie which he would like the Prime Minister to see in the absence of a meeting.

*Yours ever,*

*Caroline Varley*

CAROLINE VARLEY  
Private Secretary

Encls



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

The Connaught,  
Carlos Place,  
London, W1Y 6AL

4-8-83.

Dear Prime Minister,

It was indeed good of you to have agreed to see me this week and I am only sorry that your illness has prevented this from happening.

My wife & I would like to offer you our best wishes for a speedy and full recovery.

As it will not be possible to rearrange an appointment later, may I submit to you a copy of the memorandum I had prepared for our meeting. I have already discussed some of these points





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

2  
The Connaught,  
Carlos Place,  
London, W1Y 6AL

with Cecil Parkinson and his officials, but I know that you too take a keen interest in this project which I consider to be of considerable importance to Hongkong's future.

With renewed good wishes

Sincerely yours  
Kadooni

---

NOTES PREPARED FOR MEETING BETWEEN PRIME MINISTER AND  
LORD KADOORIE     AUGUST 1983

1.     That you have been able to find time to see me is very much appreciated, as it enables me to report on the progress of the joint venture project, suggested by the Chinese some three years ago, to build a Nuclear Power Station in China, to supply electricity to Hong Kong.
2.     Since I last spoke to you this project has received the approval of the Beijing Government where it has the full support of Mr. Li Peng, Deputy Prime Minister.     Mr. Peng Shi Lu who designed China's first Nuclear submarine has been placed in charge of the project.
3.     After numerous meetings in Guangzhou with their Chinese colleagues in the proposed joint venture, China Light & Power (CL&P) prepared a very detailed financial assessment which they submitted to the Hong Kong Government for consideration.     The latter has employed the merchant banking firm of Lazards to check on the viability of the project.
4.     CL&P and Guangdong Power Co.(GPC) have now entered "Phase II" of the feasibility study which will carry us up to the time when a definite decision must be taken as to whether the project will proceed as presently envisaged, who will participate and how the nuclear power station is to be built and operated.
5.     I am convinced that the power station will be built in Guangdong Province with or without British participation - there is plenty of evidence of international interest.

6. The Chinese are insistent that CL&P should take the lead during this formative period when such important matters as choice of plant, top management, architect-engineers/<sup>are decided</sup>and fully qualified persons must be engaged.
7. Unfortunately Mr. Peng Shi Lu (Deputy Minister, Ministry of Water Resources & Electric Power and Guangdong Province official) is impatient, does not seem to be cost conscious and is rather inclined to take suppliers at their word rather than asking for details. He accuses the Hong Kong Government of "dragging its feet". This causes embarrassment both to Government and CLP since the former cannot proceed until Exco has had time to consider the Lazard report and CL&P being a controlled utility company cannot move in this matter until officially informed that they are authorised to do so.
8. However as it is essential to let the Chinese know that the HKG and CL&P are very much interested in the project and if we are to retain any influence in the joint venture, I have taken upon myself to proceed with "Phase II" of the feasibility study as distinct from a commitment to the "project" itself.
9. It is here in the preparatory stage that I would request your support. The assistance of such specialist bodies as CEGB., AEA and the like is essential.
10. The Chinese have given a letter of intent to Framatome that they will be awarded the nuclear island and it is quite clear that they are anxious to award the conventional island to GEC. However not too surprisingly they have reservations regarding the purchase of prototype plant - GEC never having built a 950 mw. turbine and generator operating at 3000 rpm.

-3-

11. An illustration of China's desire to purchase the conventional island from the UK has been Mr. Li Peng's suggestion that the new Power Station should have one 950 mw. reactor and two x 475 mw. turbine generators, thus enabling GEC to provide well-proven rather than prototype plant. This, in spite of his having received technical advice that one complete 950 mw. unit was preferable.

12. I am glad to say that two days prior to my departure from Hong Kong I was informed that the Chinese had decided to give sympathetic consideration to a 950 mw. turbine and generator, thus reflecting their confidence in GEC.

13. Dealing with Mr. Peng Shi Lu and his colleagues has been difficult and at times frustrating: infinite patience is required. Fortunately the very special relationship built up by Mr. Stones, who has led the CL&P team over the past 4 years, and Mr. Chen Gang his opposite number in GPC, provides us with an advocate able to follow up in our absence.

14. In conclusion I would stress that did I not sincerely believe this project, coming as it has at a sensitive period in HK's history, to be of such lasting importance to Hong Kong's future and to the future of Sino-British relations, we would not have put in the time and effort necessary to bring it to this stage of development.

15. In the light of this, I and my colleagues on the Board consider it essential for the HK Government to become a substantial shareholder in Hong Kong Nuclear Investment Company (HKNIC) thus demonstrating to the Chinese in a practical way their full support for the project and the role it will play in China's 4 modernisation programme.

-4-

16. To my mind, if this project is successful it will place Sino-British trade in the forefront of western contacts with China but if a failure it could well set back Sino-British relations by some 50 years.



Hong Kong Ho HL  
PCO

10 DOWNING STREET

THE PRIME MINISTER

28 January 1983

PERSONAL

Dear Lord Kadousie,

Thank you so much for your letter of 31 December 1982 and for your kind New Year wishes.

I have been following very closely the proposal to construct a nuclear power station in Guangdong Province and I am much encouraged by the progress made so far; your own efforts, I know, have been unstinting. As you say, it is a project not only of considerable potential value to British industry but one which could do much for confidence in Hong Kong by further cementing the Hong Kong/UK/China triangle.

I am grateful to you also for your views on Hong Kong's future. Let me assure you first of all that in seeking to agree with Chinese leaders satisfactory arrangements for Hong Kong's future I have the well-being of the people of Hong Kong foremost in my mind. There is no question whatsoever of this Government 'washing its hands' of its responsibility for this or any other Dependent Territory.

You suggest that Britain might abrogate the treaties on the understanding that the present system of administration should continue with either side able to give 20 years notice of a desire for change. I would make two points. First, as I made clear in Hong Kong, and as I am sure you would agree, treaties cannot be abrogated unilaterally. Any changes must be by agreement. Secondly, I do not believe that such an arrangement could be considered without guarantees that Hong Kong's stability and prosperity would be maintained.

/ It is

- 2 -

It is too soon to forecast what form a final settlement will take and I do not intend to prejudge the outcome of our talks with the Chinese, but our aim is to reach an agreed, negotiated settlement. Let me assure you, however, that I rule out no possible settlement which is acceptable to the people of Hong Kong and to Parliament.

I also take note of your point about the importance of the question in the context of raising funds for the power station project. As I see it, the two issues interlock. We must find the right solution for Hong Kong's future in order to lay the basis for further co-operation with China e.g. on the lines of the Guangdong project. Equally, that project is itself of immense importance in encouraging confidence in Hong Kong and in giving China a further vested interest in the Territory's stability. I agree that we need a satisfactory outcome as soon as possible, without rushing matters.

Thank you again for taking the trouble to write. I am always pleased to have the benefit of your great experience. May I reciprocate your good wishes for 1983 very warmly.

Yours sincerely

Margaret Thatcher

---

The Lord Kadoorie, C.B.E.

S E C R E T

2

Hong Kong



Foreign and Commonwealth Office

London SW1A 2AH

21 January 1983

GR  
please type  
draft for PMS  
signature

Dear John,

Future of Hong Kong

Thank you for your letter of 14 January about Lord Kadoorie's letter of 31 December 1982 to the Prime Minister. I attach a revised draft reply which deals with Lord Kadoorie's main suggestion in rather more detail.

Yours ever  
John Holmes

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

S E C R E T



DSR 11 (Revised)

**DRAFT:** ~~memo~~/letter/telex/memo/despatch/note

**TYPE:** Draft/Final 1+

FROM:

Reference

PRIME MINISTER

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

Top Secret

Secret

Confidential

Restricted

Unclassified

LORD KADOORIE

Copies to:

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SUBJECT:

.....In Confidence

Thank you so much for your letter of 31 December 1982 and for your kind New Year wishes.

CAVEAT.....

I have been following very closely the proposal to construct a nuclear power station in Guangdong Province and I am much encouraged by the progress made so far; your own efforts, I know, have been unstinting. As you say, it is a project not only of considerable potential value to British industry but one which could do much for confidence in Hong Kong by further cementing the Hong Kong/UK/China triangle.

I am grateful to you also for your views on Hong Kong's future. Let me assure you first of all that in seeking to agree with Chinese leaders satisfactory arrangements for Hong Kong's future I have the well-being of the people of Hong Kong foremost in my mind. There is no question of whatsoever of this Government 'washing its hands' of its /responsibility

Enclosures—flag(s).....

responsibility for this or any other Dependent Territory.

~~You suggest that Britain might abrogate the treaties on the understanding that the present system of administration should continue with either side able to give 20 years notice of a desire for change. This is one of many permutations that various people have put forward. We also, of course, have our own ideas.~~ I would make two points, ~~here~~. Firstly, as I made clear in Hong Kong, treaties cannot be abrogated unilaterally. Any changes must be by agreement. Secondly, such an arrangement could not be considered without guarantees that Hong Kong's stability and prosperity would be maintained.

It is too soon to forecast what form a final settlement will take / <sup>and</sup> I do not intend to prejudge the outcome of our talks with the Chinese, but our aim is to reach an agreed, negotiated settlement. Let me assure you, however, that I rule out no possible settlement which is acceptable to the people of Hong Kong and to Parliament

I also take note of your point about the importance of the question in the context of raising funds for the power station project. As I see it, the two issues interlock. We must find the right solution for Hong Kong's future in order to lay the basis for

/further

and as I am sure you would agree,

DSR 11C

further cooperation with China eg on the lines of the Guangdong project. Equally, that project is itself of immense importance in encouraging confidence in Hong Kong and in giving China a further vested interest in the Territory's stability. I agree that we need a satisfactory outcome as soon as possible, without rushing matters.

Thank you again for taking the trouble to write. I am always pleased to have the benefit of your great experience.. May I reciprocate your good wishes for 1983 very warmly.

HONG-KONG! LORD KADOORIE: PE3.

21 JAN 1983

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5 6 7 8 9 10 11 12

HONG KONG



file No

10 DOWNING STREET

*From the Private Secretary*

14 January 1983

HONG KONG

Thank you for your letter of 10 January, with which you enclosed a draft reply for the Prime Minister to send to Lord Kadoorie in response to his letter of 31 December.

Mrs. Thatcher has asked whether, in the third paragraph of the draft, it would not be possible to go a little further to deal with the main suggestion made by Lord Kadoorie. Could you consider this and let me have further advice please.

A. J. COLES

John Holmes Esq  
Foreign and Commonwealth Office



10 DOWNING STREET

THE PRIME MINISTER

CONFIDENTIAL AND PERSONAL

*Dear Lord Kadooni,*

Thank you so much for your letter of 31 December and for your kind New Year wishes.

I have been following very closely the proposal to construct a nuclear power station in Guangdong Province and I am much encouraged by the progress made so far; your own efforts, I know, have been unstinting. As you say, it is a project not only of considerable potential value to British industry but one which could do much for confidence in Hong Kong by further cementing the Hong Kong/UK/China triangle.

I am grateful to you also for your views on a solution to the question of Hong Kong's future. As you know, talks with the Chinese have begun with a view to reaching an agreement for the future which will preserve Hong Kong's stability and prosperity. This must not merely meet the interests of the British and Chinese governments but also, of course, those of Hong Kong. We are determined to keep to this aim. I would not rule out any possible solution that was acceptable to the people of Hong Kong and to Parliament.

*Can we not go a little further than this to deal with the road?*

I also take note of your point about the importance of the question in the context of raising funds for the power station project. As I see it, the two issues interlock. We must find the right solution for Hong Kong's future in order to lay the basis

/for

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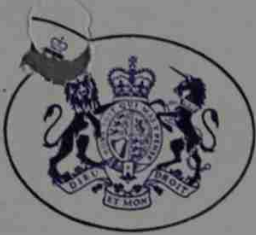
for further co-operation with China e.g. on the lines of the Guangdong project. Equally, that project is itself of immense importance in encouraging confidence in Hong Kong and in giving China a further vested interest in the Territory's stability. I agree that we need a satisfactory outcome as soon as possible, without rushing matters.

Thank you again for taking the trouble to write. I am always pleased to have the benefit of your great experience. May I reciprocate your good wishes for 1983 very warmly.

Yours sincerely  
Margaret Thatcher

The Lord Kadoorie, C.B.E.,

S E C R E T



Foreign and Commonwealth Office

London SW1A 2AH

10 January 1983

*Don't forget to type letters to this signature*  
*DT.*

Future of Hong Kong: Lord Kadoorie

Thank you for your letter of 4 January enclosing a copy of a letter dated 31 December 1982 from Lord Kadoorie to the Prime Minister.

The compromise idea suggested by Lord Kadoorie is, as the Prime Minister has indicated, not a new one. It is in effect a variation on the idea of a sovereignty/administration deal. The attached draft letter to Lord Kadoorie makes clear that no solution acceptable to Parliament and to the people of Hong Kong can be ruled out, but does not go into any detail.

*Yours over,*

(B J P Fall)  
Private Secretary

A J Coles Esq  
 10 Downing Street

S E C R E T



CONFIDENTIAL AND PERSONAL

DSR 11 (Revised)

**DRAFT:** minute/letter/teleletter/despatch/note

**TYPE:** Draft/Final 1+

**FROM:**  
Prime Minister

Reference

**DEPARTMENT:**

**TEL. NO:**

SECURITY CLASSIFICATION

**TO:**  
Lord Kadoorie

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

PRIVACY MARKING

**SUBJECT:**

.....In Confidence

Thank you so much for your letter of 31 December 1982 and for your kind New Year wishes.

CAVEAT.....

I have been following very closely the proposal to construct a nuclear power station in Guangdong Province and I am much encouraged by the progress made so far; your own efforts, I know, have been unstinting. As you say, it is a project not only of considerable potential value to British industry but one which could do much for confidence in Hong Kong by further cementing the Hong Kong/UK/China triangle.

I am grateful to you also for your views on a solution to the question of Hong Kong's future. As you know, talks with the Chinese have begun with a view to reaching an agreement for the future which will preserve Hong Kong's stability and prosperity. This must not merely meet the interests of the British and Chinese governments but also of course those of Hong Kong. We are determined to keep to this aim. I would not rule out any possible solution that was acceptable to the people of Hong Kong and to Parliament.

Enclosures—flag(s).....

/I also

CONFIDENTIAL AND PERSONAL

CONFIDENTIAL AND PERSONAL

Henry  
Future  
pt 4  
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I also take note of your point about the importance of the question in the context of raising funds for the power station project. As I see it, the two issues interlock. We must find the right solution for Hong Kong's future in order to lay the basis for further co-operation with China e.g. on the lines of the Guangdong project. Equally, that project is itself of immense importance in encouraging confidence in Hong Kong and in giving China a further vested interest in the Territory's stability. I agree that we need a satisfactory outcome as soon as possible, without rushing matters.

Thank you again for taking the trouble to write. I am always pleased to have the benefit of your great experience. May I reciprocate your good wishes for 1983 very warmly.

CONFIDENTIAL AND PERSONAL

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FILE

da

Hong Kong

Bf



10 DOWNING STREET

From the Private Secretary

4 January 1983

Hong Kong

I enclose a copy of a letter which the Prime Minister has received from Lord Kadoorie. The latter suggests, partly with the Guangdong nuclear power station project in mind, that a compromise solution to the problem of the future of Hong Kong could be found in a formula whereby the United Kingdom abrogated the "unequal treaties" but in all other respects the status quo should remain as at present (with both parties having the right to give 20 years notice of their desire to make any changes).

The Prime Minister believes that this is not a new idea but she would be grateful for a draft reply which she could send to Lord Kadoorie. Could this please reach me by 12 January.

A. J. COLES

John Holmes, Esq.,  
Foreign and Commonwealth Office.

CONFIDENTIAL

da

PRIVATE AND CONFIDENTIAL

Cable "Kadoorie" Hong Kong  
Telephone 5-21,9221  
Telex 73127



Prime Minister  
If you agree, I will ask the FCO  
for a draft reply to this suggestion.

St. George's Building

Yes - it is far from new.

WA  
2/12

December 31, 1982

The Rt. Hon. Margaret Thatcher, MP  
Prime Minister  
10 Downing Street  
London SW1  
ENGLAND

MT

R31

Dear Mrs. Thatcher,

- 1) It gives me much pleasure to report that the work we have done over the past three years in connection with the proposal that a nuclear power station be built in Guangdong Province to provide electricity to Hong Kong and that Province has not been in vain.
- 2) Besides its potential value to UK industry, the importance of this project lies in its ability to create and preserve bonds of friendship between the UK, Hong Kong and Chinese Governments by the transfer of technology so essential to the fulfilment of China's Four Modernizations Programme.
- 3) It has now been announced that the PRC have given definite approval for the project to proceed. Of course, this is but the beginning but it augurs well for that good understanding that is so necessary to the maintenance of Hong Kong's prosperity and its function as the free zone of China under British Management.
- 4) Today, we are at a cross-roads where opinions must be sought and views expressed by the people of Hong Kong, yet at the same time confidentiality is essential to those responsible for negotiating our future. In these circumstances, I feel diffident in expressing an opinion but, perhaps, being nearly as old as the New Territories' lease itself, you will excuse my doing so.
- 5) There is a body of opinion here who believe that those in Peking would prefer not to have to take definite decisions as to Hong Kong's future, always provided sufficient 'face' was given to China by the abrogation of the so-called unequal treaties.
- 6) There is also a strong feeling within certain sections of the Hong Kong Community that the UK would not be sorry to wash their hands of this, their last remaining Colony, thus leaving decisions in the hands of others.

(2) / .....

(2)

*St. George's Building  
Hong Kong*

The Rt. Hon. Margaret Thatcher, MP

December 31, 1982

7) It is against this background that a suggestion has been made which, to my mind, has sufficient merit as to be brought to your attention. Briefly, this is that the UK should abrogate the three so-called unequal treaties on the understanding that in all other respects the status quo should remain as at present, with either party giving the other say twenty years notice of their desire to make any changes.

8) Perhaps, it is presumptuous on my part to write this letter, but in doing so I have no desire to interfere in negotiations which are the province of others.

9) What prompts my remarks is that the decision to proceed with the nuclear power station will involve an expenditure estimated at some US\$6 billion, and that funds of this importance cannot possibly be raised in an atmosphere of open-ended uncertainty.

10) I believe the question of confidence in Hong Kong's future, which is so essential to the financial aspects of this project, would be satisfied if the Chinese were to agree to a suggestion along the lines indicated above. This, of course, is an unknown factor.

11) Any approach along the lines indicated would have to be entirely unofficial in the first instance with a view to ascertaining whether or not they would be given sympathetic consideration if advanced on an official basis.

12) On this, the last day of a momentous 1982, may I wish you and Mr. Thatcher a Very Happy New Year.

Sincerely yours,

*Kadoorie*

HL

Hong Kong

6 December 1982

Guangdong Nuclear Project

The Prime Minister has noted the contents of your Secretary of State's minute of 2 December.

JOHN COLES

Jonathan Spencer, Esq.,  
Department of Industry.

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CONFIDENTIAL

JH 415



PRIME MINISTER

Prime Minute

AM 2/12

(2)

## GUANGDONG NUCLEAR PROJECT

This minute reports on the main points discussed during Li Peng's visit to the UK last week. I was grateful for your and Geoffrey Howe's agreement that we might indicate to Li Peng a willingness to offer capitalisation of pre-commissioning interest instead of local cost support: in the context of the negotiations, however, I decided it was not necessary to improve our credit terms at this stage.

2 The Chinese focussed exclusively on proposals based on French nuclear technology. When asked for his view on the American option in the light of the State Department's position, Li Peng said that he considered it dead.

3 The Chinese tested on us the French proposal that France should take the lead on the whole project, offering GEC some disparate sub-contracts. I made it quite plain to Li Peng that this proposal was not acceptable. UK Government support for the project, including using our influence in Hong Kong, depended on GEC being awarded the whole conventional island contract, though GEC would be content to supply the conventional island to



Framatome, with Framatome as lead contractor. I believe the Chinese took this message fully on board. However, they continue to be concerned about the risks of taking GEC's first 900 MW high speed set rather than Alsthom's twenty fourth low speed set.

4 As expected the Chinese asked both for aid and for capitalisation of pre-commissioning interest. My officials explained that aid could not be given because of the understanding among the western countries that aid should not be offered on nuclear projects. We understand from the Chinese that the French have refused to offer aid as such, and the Chinese appeared to accept our refusal. On capitalisation, in view of Chinese proposals for further Government to Government discussions in Peking next year, and a clear unwillingness to commit the conventional island contract to GEC at present, I decided that we should make no further formal enhancement of our credit terms at this stage. I simply indicated to the Chinese that capitalisation was for consideration, but decisions would depend on the shape of the total project, and principally the awarding of the conventional island project to GEC.

5 The Chinese raised again the size of CLP's proposed equity holding. Li Peng accepted that CLP could not shoulder the liabilities consequent upon the 40% holding originally envisaged but pressed that Hong Kong interests should together take a 25%





holding, in line with Chinese joint equity law. If a 25% Hong Kong equity stake could be secured, together with a satisfactory off take agreement, the Bank of China would be willing to consider a comprehensive guarantee for the foreign loans.

6 The Chinese are clearly anxious to make progress on Hong Kong's participation in the project, and we welcomed this constructive proposal, but my officials did impress on the Minister that it would not be easy to raise the Hong Kong equity stake China was seeking.

7 A number of further meetings are to be held in the early part of next year: further technical discussions with GEC in Peking, in parallel with discussions in Hong Kong on the off-take agreement and CLP's role in the project in which representatives of the Chinese, UK and Hong Kong Governments will participate; to be followed by further high level Government to Government discussions in Peking. In preparation, my officials will be holding discussions with Mr Stones of CLP here next week. And when I visit Peking in January I shall reaffirm the UK's policy on this project and seek to accelerate decisions.

8 My appraisal is that Li Peng and his colleagues are in no doubt about the circumstances in which the UK Government is willing to support this project. I believe we must now make this point as plainly to the French as we have to the Chinese. My officials understand that the French are still proceeding with plans to present an all French bid in Peking, offering GEC a



number of disparate sub-contracts. I shall be writing to  
M. Chevenement about this. I also intend to pick up  
M. Chevenement and M. Jobert's comments at the Summit on the UK  
going beyond the spirit of Consensus, since we now understand  
that the French have matched the UK's credit offer and -  
according to the Chinese - have agreed to give further  
consideration to full capitalisation and some means of softening  
the interest rate on their export credits.

9 I am copying this minute to Francis Pym, Geoffrey Howe, Nigel  
Lawson, Arthur Cockfield, Leon Brittan and Sir Robert Armstrong.

PJ

P J

2 December 1982

Department of Industry

PART

2

ends:-

ATC to RTA 29/11/82

PART

3

begins:-

SS/DOJ to PM 2/12/82

