

SECRET

CONFIDENTIAL FILING

Contracts for Castle Peak A + B
Power Stations : Guangdong Nuclear
Power Plant arising from correspondence
with Lord Kadoorie

HONG KONG

PT 1: MAY 1979

PT 4: JANUARY 1986

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
17.1.86							
21.1.86							
18.7.86							
28.7.86							
31.7.86							
30.4.87							
7.8.87							
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8.9.92							

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SUBJECT
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Filed on:

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

8 September 1992

Dear Richard,

HONG KONG: CALL ON THE PRIME MINISTER BY LORD KADOORIE

I was grateful to the DTI for the brief which they provided for the Prime Minister's meeting with Lord Kadoorie. He remains alert and astute.

Lord Kadoorie said that his main messages were:

- (i) we had to look at the global picture. Nothing was in a self contained box. France, Germany and the United States all were keen to do business in Hong Kong but mainly because they saw it as the route to China. We would have competition from Siemens over Black Point and also from the Americans - working through the Japanese;
- (ii) the Chinese still felt some rancour for what they regarded as their second-class treatment over the last 150 years. They were a curious mixture. In some ways they were the most conceited people Lord Kadoorie had ever met. They believed the Middle Kingdom was at the heart of the world. They could not forget that they had been in silk while we were still in woad. Lord Kadoorie likened China to a piece of toast. The external crust was capitalist. The centre was still very poor - but there was no starvation;
- (iii) the Chinese had learned from the Russian experience that you should not allow discipline to be dispersed. Their situation was helped by their greater homogeneity, e.g. the common language and script. The fact that the Japanese shared a script with the Chinese did incidentally given them some advantage in their dealings;

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- (iv) there was a danger of exaggerating the importance of detailed issues such as the number of elected seats on LEGCO. Those were not unimportant but they were secondary. We should be looking at the relations between England and China over a long period and should see things in perspective. Lord Kadoorie added that of course that view reflected prejudice and wishful thinking on his part.

Lord Kadoorie said that in the old days it had been possible for people like him to do business without outside interference. His company had saved 4-5% by consistently buying from General Electric. There was mutual trust between them. But today LEGCO insisted on knowing what was going on. They had to be satisfied that no-one was lining their own pockets. The Prime Minister intervened to say how much importance we attached to GEC succeeding in their bid for the Black Point power station project.

The Prime Minister spoke about the closeness of his relationship with Mr. Patten. Lord Kadoorie said that Mr. Patten had made an excellent start. When Lord Kadoorie met him he had proved a very good listener and had asked all the right questions. He wanted to work with the Chinese which was essential. Hong Kong had avoided local troubles because of her full employment, but we were about to enter a teasing period. The Chinese were making difficulties over the airport because of their fears over LEGCO. They had no basic problem over the airport and it would go ahead but it was being used as a pawn in negotiations. Lord Kadoorie, again saying he was no doubt out of date and prejudiced, expressed some scepticism about democracy. Hong Kong had got on perfectly well without it in the past. Petitions were all too easily come by. The view of the business community was that constitutional development was something of a nuisance. Extraneous interests had been allowed to take up too important a place. We had to recognise that China would determine the future of Hong Kong, but she had the same basic aims and objectives as ourselves. The Chinese government was not an irresponsible government. It had, after all, kept a quarter of the world's population fed. Even Tiananmen Square had to be seen in perspective. The Chinese government's inability to receive President Gorbachev in Tiananmen Square and in the Hall of the People had involved an enormous loss of face for them, hence their violent reaction.

Lord Kadoorie said there had been a great return to confidence in Hong Kong. No-one was talking about 1997 as they had been in the recent past. About 65% of the population wanted to carry on as before. Thirty-five per cent supported the political parties but the popularity of the parties was declining.

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- 3 -

I am copying this letter to Peter Smith (Department of Trade and Industry) and to Melanie Leech (Cabinet Office).

*Yours,
Stephen*

J. S. WALL

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

RESTRICTED

The Rt. Hon. Michael Heseltine MP
President of the Board of Trade



cc RB
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b-up

J S Wall Esq
Private Secretary to
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4 September 1992

Prime Minister

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4/9

Dear Stephen

CALL ON THE PRIME MINISTER BY LORD KADOORIE, CHAIRMAN OF CHINA LIGHT AND POWER ON 7 SEPTEMBER 1992

Thank you for your letter of 1 September about the Prime Minister's meeting with Lord Kadoorie on Monday 7 September.

In addition to his call on the Prime Minister, Lord Kadoorie met Mr Goodlad on 2 September and is due to meet Mr Hurd on 9 September and Mr Needham on 10 September. The Prime Minister last met Lord Kadoorie on 21 May 1991, and his son Michael on 27 January 1992.

record attached

Lord Kadoorie is Chairman of China Light and Power (CLP), one of the two (private) Hong Kong power utilities. CLP, which was set up in 1900 in Canton in China, provides power to peninsular Hong Kong (and China) while Hong Kong Electric supplies to Hong Kong Island. Lord Kadoorie has always been fiercely pro-British with the result that the company has over the years purchased largely from the UK (purchases from GEC alone have totalled more than £1 billion). His life peerage, bestowed in the 1981 Birthday Honours, was the first peerage for a Hong Kong citizen. He remains an important and influential figure in Hong Kong business and society. This is graphically emphasised by the fact that the "Far Eastern Economic Review" recently devoted its front cover and its main story to Lord Kadoorie and CLP. Although 93 years old and physically rather frail he is very alert mentally and continues to take an active role in the running of CLP. His family also have other major business interests in Hong Kong, China and elsewhere, including property, hotels and travel. Lord Kadoorie's visit to the UK comes at the end of a month's stay in Geneva. He is returning directly to Hong Kong on 11 September.

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the department for Enterprise



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2. HK.



At this meeting, Lord Kadoorie will probably wish to concentrate on general developments in Hong Kong and its relationship with China. The Prime Minister will be broadly familiar with the topics outlined below.

NEW GOVERNOR

Mr Patten has been in post for over three months and the Prime Minister could ask Lord Kadoorie whether the business community shares the generally very positive reaction within Hong Kong to his style and approach.

NEW AIRPORT

Contacts continue with the Chinese on the financing arrangements for the new airport, but no progress has yet been made. The Prime Minister might say that we are confident the issues can be resolved once the Chinese address them on their merits (ie without linkage to political issues): the cost to Government of the airport has not risen since we negotiated the Memorandum of Understanding.

HONG KONG CONSTITUTIONAL DEVELOPMENT

The Prime Minister might say that Mr Patten will be outlining his approach when he addresses the Legislative Council on 7 October. He wants to broaden participation in public affairs, but is determined to maintain a strong, executive-led Government, which will pay due attention to the business community and to the requirements of Hong Kong's continuing prosperity and stability.

GOVERNOR'S VISIT TO CHINA

The governor will visit China in mid-October. The Prime Minister might wish to reassure Lord Kadoorie that Mr Patten attaches importance to building up a sound working relationship with the Chinese.

BLACK POINT POWER PROJECT, HONG KONG

It would be helpful if the Prime Minister could give his support to GEC Alsthom who are bidding for the £1 billion Black Point project. He may also wish to enquire about the progress of the subsidiary contracts for the transmission lines and switchyard equipment.

CLP are planning to build a further 6000MW of generating capacity (gas-fired combined cycle and coal-fired) at Black Point. As with CLP's other power stations, Black Point will be a joint venture with Exxon. The first phase is for 4 x 680MW gas-fired combined cycle units which has a potential UK content (should the Anglo-French combine, GEC Alsthom, be awarded the project) of £500 million.

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The competition has now been narrowed down to GEC Alsthom and Siemens of Germany. Formal tenders were submitted in July by both groups. Contract award is expected this November. Because GEC designed and built the earlier thermal power stations for CLP, the GEC Alsthom bid may have the edge over Siemens.

The Prime Minister will also recall that it was with his assistance that agreement to a commitment of ECGD cover was secured. This an important factor as both CLP and Exxon place great importance on the financing arrangements.

EXPLOSION AT CASTLE PEAK

The Prime Minister may wish to know that there was a fatal explosion in the hydrogen plant at CLP's Castle Peak station on 28 August. GEC Alsthom have given full and rapid customer support, but are not being held responsible for the accident.

Lord Kadoorie will not be accompanied by anyone else. However, as you agreed David Hall, Head of our Project and Export Policy Department, will attend.

This briefing has been compiled in conjunction with FCO, and I am copying this letter to Stephen Smith there.

Yours

KEITH LOADER
Private Secretary

PE9077

HONG KONG: CASTLE PEAK PT 4



COMPASSION





10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

1 September 1992

Dear Keith,

VISIT OF LORD KADOORIE, 1-11 SEPTEMBER

Please refer to my letter of 5 August about a possible call on the Prime Minister by Lord Kadoorie, the Chairman of China Light and Power.

The Prime Minister would be happy to see Lord Kadoorie at 1545 on Monday 7 September.

I should be grateful for a single brief for the meeting from the DTI, cleared as necessary with other Departments. I should be grateful if this could reach me by lunchtime this Friday, 4 September.

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

Yours,
Stephen
(J. S. WALL)

Keith Loader, Esq.,
Department of Trade and Industry.



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 August 1992

VISIT OF LORD KADOORIE 1 - 11 SEPTEMBER

Thank you for your letter of 31 July asking if the Prime Minister could receive Lord Kadoorie during his visit to the UK from 1 - 11 September.

The timing is not ideal from the Prime Minister's point of view and I shall have to revert at the end of this month. Lord Kadoorie should not in the meantime be lead to think that a meeting might be possible.

I am copying this letter to Stephen Smith (Foreign and Commonwealth Office).

J S WALL

Keith Loader Esq
Department of Trade and Industry

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The Rt. Hon. Michael Heseltine MP
President of the Board of Trade



Secretary of State
**Department of
Trade and Industry**

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J S Wall Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

31 July 1992

Dear Stephen

I am writing to ask if the Prime Minister would be prepared to have a short meeting with Lord Kadoorie, the Chairman of China Light and Power (CLP), the Hong Kong utility. Lord Kadoorie will be visiting the UK from 1 - 11 September. You will recall that the Prime Minister last met Lord Kadoorie on 21 May 1991 when they covered the political aspects of China/Hong Kong relations. More recently, on 27 January this year, he met Sir William Stones (CLP), Mr Michael Clancy (Exxon Energy) and Mr Michael Kadoorie, Lord Kadoorie's son, to discuss the Black Point power project.

CLP are planning to build a 4 x 600MW gas-fired combined cycle power station at Black Point in the New Territories, the first tranche of a projected 6000-8000MW in additional generating capacity. CLP are currently conducting parallel bidding from a short-list of two comprising, GEC Alsthom of UK/France, in consortium with General Electric of the USA, and Siemens of Germany. Bids are due in by 31 July with the contract award scheduled for November 1992. Babcock Energy of the UK have been included by both parties for the supply of the boilers.

The GEC Alsthom bid has a UK content of about £500m out of a total of £1bn. ECGD have offered them (and separately Babcock for their bid with Siemens) a commitment to provide cover for this project. (You will recall your letter of 24 February to Martin Stanley indicating the Prime Minister's wish to help GEC Alsthom through the provision of ECGD cover.) This is an important factor as the financial package may well decide the contract award.

Meeting Lord Kadoorie would provide the Prime Minister with the opportunity to emphasise his support for the GEC Alsthom package at a crucial time between submission of tenders and award of contract.

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the department for Enterprise





Although Lord Kadoorie is now 93 years old, and in a rather frail condition, he is still very alert mentally. It is possible that this may be his last trip to the UK, at least in his capacity as Chairman of CLP as he plans to hand over the reins to his son, Michael.

The President of the Board of Trade and the Minister for Trade have agreed to meet Lord Kadoorie at 15:00 on 10 September.

I am copying this letter to Simon Gass (FCO).

Yours

A handwritten signature in black ink, appearing to read 'K. Loader', with a horizontal line underneath.

KEITH LOADER
Private Secretary

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MONMOUTH COUNTY



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SIR ELLY KADOORIE & SONS LIMITED

DIRECTORS:

SIR SIDNEY GORDON, C.B.E. J.P. (*Chairman*)
THE RT. HON. THE LORD KADOORIE, C.B.E., J.P., K.St.J. (A).
Commandeur de la Legion d'Honneur,
Commandeur de l'Ordre de la Couronne,
Officier de l'Ordre de Leopold.
SIR HORACE KADOORIE, C.B.E., J.P.
Chevalier de la Legion d'Honneur,
Officier de l'Ordre de Leopold.
The Hon. MICHAEL D. KADOORIE
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嘉道理父子有限公司

17th February 1992

The Rt Hon. John Major, MP
Prime Minister
10 Downing Street
London
England

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Dear Prime Minister.

I write to thank you for receiving our group on the recent visit to London in connection with the selection of a supplier for the new power station to be built at Black Point. In the event that Britain proves successful in obtaining this contract, your stated support for the project is much appreciated.

During our visit, I was happy to hear of your impending meeting with Premier Li Peng in New York, who has been a friend of the family for a number of years and a great supporter of our joint developments in China. I am sure you are aware that, in many ways, Hong Kong is a shop window for China, and indeed the present power station at Castle Peak has been much admired by the Chinese authorities, in addition to offering opportunities for training many personnel from the Guangdong power generating station.

Thank you again for setting aside time for our meeting.

Your sincerely
Michael D. Kadoorie

Michael D. Kadoorie.

HONG KONG: Castle Peak Power Station PE 2

SIR FLY KAPOORIE & SONS LIMITED

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Sir William Stones, O.B.E.
Managing Director

China Light & Power Company, Limited
147 Argyle Street, Kowloon, Hong Kong
Tel. 7606386 7606239
Telex 44488 Light HK
Fax 852-7604448

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14th February, 1992

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The Rt Hon John Major MP
Prime Minister
10 Downing Street
London
England

Dear Prime Minister,

I thank you for seeing my colleagues and I on Monday, 27th January and for the opportunity to discuss our new Combined Cycle Gas Turbine Power Station, which is to be constructed in Hong Kong.

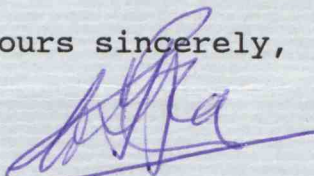
Black Point Power Station will, when completed in 1999, have a combined cycle installed capacity of 2400 MW, making it one of the largest plants of its kind in the world. Assuming we are as successful with this power station as we have been with our existing Castle Peak 'A' and 'B' Power Station, it will become a model for similar power stations to be developed in China, if further gas fields are discovered in that country.

We were pleased to obtain your support for the project in the event that GE/GEC Alstom were successful in winning the order for the equipment.

I hope your meeting with Prime Minister Li Peng was successful and will lead to further business opportunities for UK. As you know, we have been working with Prime Minister Li Peng on power station projects, such as Daya Bay, since 1979.

Thank you once again for sparing the time to see us.

Yours sincerely,



William Stones
Managing Director

**SUBJECT
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Filed on:



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

27 January 1992

Dear Stephen,

HONG KONG: GEC AND CHINA LIGHT AND POWER COMPANY

Thank you for the briefing, sent by Cliff Wilson on 24 January, for the Prime Minister's meeting with Lord Prior, Sir William Stones, Michael Kadoorie and Mr. Michael Clancy which took place this afternoon.

Sir William Stones described the extent of co-operation between China Light and Power and the Chinese Government. Sir William Stones had been to Peking two months ago and had been given dinner by Li Peng. The Chinese Government was very anxious to conclude an agreement on the exploitation of their natural gas resources.

Mr. Clancy described the background to the Power Station project at Black Point. The Prime Minister asked whether there would be a process of tender or whether there would be direct negotiations with the companies. Mr Clancy said the number of possible suppliers was not very large. They were GEC/Alstom, General Electric in the USA (who might well form a consortium with GEC/Alstom) and Siemens of Germany. In the end the contract would probably either go to GEC/Alstom in consortium with GE America or Siemens of Germany. He thought there would probably be negotiations with both companies to a certain point but that there would be a settlement with one at a fairly early stage and the ensuing negotiations would be with that company alone. The functional specification should be submitted by April and an assessment would be made within a few months. A decision was needed by the end of the year. The project needed to be operational by 1996. It was, of course, linked with the need to develop the Offshore Gas Project with the Chinese. It was very helpful that the Hong Kong Government had been so understanding about the negotiation of a new scheme of control ahead of the due date.

The Prime Minister said that the project was a very exciting one. He described his discussions with the Chinese Government in September. We wanted the Chinese to be in no doubt about our commitment to Hong Kong going beyond 1997. This project was a good example of that. GEC was one of our great companies with a remarkable record as a great innovator. They had the

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Government's full support. The Prime Minister assumed that CLP/Exxon would look at the technical expertise of the bid and at the overall package. He could not commit himself today to the last dot and comma but the British Government's commitment and belief in the Hong Kong market were self-evident. We were encouraging people to invest through the 1997 period. The Government would look, with GEC, to see how a proper package could be presented.

Mr. Kadoorie said that the CLP were anxious to promote the image of Hong Kong but this was not helped by the constant press focus on 1997. The Prime Minister said that we, too, were doing our bit to bolster confidence particularly by encouraging investment through 1997. We had also taken legislative steps to try to keep the brightest and best people in Hong Kong. We were talking about security and confidence not just up to 1997 but after 1997. In terms of political and emotional ties we had a greater stake in Hong Kong than anyone else. The connection was too big to be abandoned.

In a discussion of the Hong Kong economy, Mr. Clancy said that despite inflation, Hong Kong's competitive position was holding because the labour base had been shifted to the Mainland where wage costs were low. Sir William Stones said that, as Chairman of the Hong Kong Employers' Federation, he was very conscious of the need in Hong Kong to bring in people who were prepared to do basic tasks. But LEGCO took some convincing of this. He thought that the Chinese Premier had confidence in what CLP were trying to do.

The Prime Minister said that he had discussed commercial issues with Li Peng in September. If there was anything on commercial/industrial matters that he could usefully say to Li Peng in New York he hoped Sir William Stones would let him know before Thursday. Our general policy was that isolation of China was not sensible. He had held this view since his time as Foreign Secretary when he had been the first Western foreign minister to talk to the Chinese Government after Tiananmen Square. Since his own visit to Peking there had been other British ministerial visits and there would be more.

Lord Prior commented that when he had seen Li Peng last March the latter had commented warmly on the letter he had had from the Prime Minister. He had been told subsequently that that was meant as a clear signal of appreciation.

Follow-Up

The Prime Minister hopes that we will be able to put together a good package of ECGD cover for the Black Point Project. He believes the project is of great commercial significance and that, both politically and economically, we should be unwise to allow German industry, in the form of Siemens, to gain a foothold in the Hong Kong market when GEC have a technically superior bid and are only likely to fall down if the financing is inadequate. He notes that the risk is likely to be spread because of the international nature of the GEC consortium.

The Prime Minister would be grateful to be kept in touch with progress on this project.

I am copying this letter to Cliff Wilson (Minister for Trade's Office), Jeremy Heywood (H M Treasury), Nicholas Holgate (Chief Secretary's Office), Simon Gass (Foreign and Commonwealth Office) and John Neilson (Department of Energy).

Jaw.

Stephen

J. S. WALL

Stephen Speed, Esq.,
Department of Trade and Industry



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27 January 1992

Dear Stephen,

CALL ON THE PRIME MINISTER BY LORD PRIOR OF GEC,
SIR WILLIAM STONES AND THE HON MICHAEL KADOORIE,
RESPECTIVELY MANAGING DIRECTOR AND DIRECTOR OF CHINA LIGHT
AND POWER (HONG KONG), AND MR MICHAEL CLANCY, CHAIRMAN OF
EXXON ENERGY (HONG KONG), ON 27 JANUARY

I attach additional briefing for this call to bring the
Prime Minister up to date on the delegation's calls in
Germany and France.

Yours sincerely,
Cliff Wilson

CLIFF WILSON
Assistant Private Secretary

Enc.

Additional Briefing

1. The visit of the CLP/Exxon directors as guests of GEC Alstom is part of a European/American tour. The delegates first visited Germany, where they had discussions with Siemens and the German export credit agency, Hermes. Reports on these discussions indicate that a very positive attitude was shown to the delegation's financial wish list.
2. GEC Alstom picked the delegation up in Berlin last week to view the company operations in France. The Prime Minister will wish to know that the delegation was well received by the French Government; Sir William Stones had an audience with the Prime Minister, Mme Edith Cresson, and calls were made by the delegation on the Minister of Industry, M. Dominique Strauss-Kahn, and both DREE and COFACE. Reports on these meetings indicate a positive response to the delegation's enquiries.
3. Following the UK visit, the delegation leaves for the USA on this Wednesday, for discussion with Exim Bank and GEC Alstom's commercial partner, General Electric.
4. The tour is proceeding well, although there is reported friction between Sir William Stones and Michael Clancy. This is not unusual, but was not helped by Mme Cresson only seeing Sir William. This is a joint CLP/Exxon delegation and the position of Mr Clancy should not be underplayed. On the other hand, Sir William's position as leader of the delegation should not be undermined. Some delicacy will be required.



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10 DOWNING STREET

Lord Priors brief for the
meeting is the best one
to read for clarity. It is
too clear a CESD cover but

the D-Li lines on CESD are too
non-committal. I will try to
extract something a little more
forthcoming.

R. P. P.

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The Hon. Tim Sainsbury MP
Minister for Trade

cc PC
B'up

Stephen Wall Esq
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the Prime Minister
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24 January 1992

Dear Stephen,

**CALL ON THE PRIME MINISTER BY LORD PRIOR OF GEC,
SIR WILLIAM STONES AND THE HON MICHAEL KADOORIE,
RESPECTIVELY MANAGING DIRECTOR AND DIRECTOR OF CHINA LIGHT
AND POWER (HONG KONG) AND MR MICHAEL CLANCY, CHAIRMAN OF
EXXON ENERGY (HONG KONG) ON 27 JANUARY 1992**

Lord Prior will be escorting the delegation which will be interested in discussing the Black Point Power Project in Hong Kong. They will have seen the Energy Secretary prior to meeting the Prime Minister, and will be seeing the Secretary of State for Energy again that evening for a GEC Alstom hosted dinner. They will be meeting the Secretary of State for Trade and Industry at 17.30 on 28 January (without a GEC Alstom presence).

Sir William Stones is Managing Director of China Light and Power (CLP), one of two private electricity utility companies in Hong Kong. CLP supply electricity to the peninsular side of Hong Kong and also to China. Set up in 1900 in Canton in China, the company has assets valued at HK\$20.7 billion (£1.48 billion). Sir William has been largely instrumental in UK power sector companies winning orders from CLP for projects in Hong Kong (eg Castle Peak 'A' and 'B') and China (Daya Bay) worth well over £1 billion. He was awarded the OBE in 1980 and a knighthood in the 1990 Birthday Honours for his role in helping to place orders with UK firms. Although he is actively pro-British and will be highly influential in the placement of the Black Point contract, he will have to take into account the views of Exxon Energy (particularly Mr Clancy) who are CLP's majority partners in this project.



Stephen Wall Esq

January 1992

Mr Michael Clancy is Chairman and Chief Executive of Exxon Energy (Hong Kong), a subsidiary of the Exxon Corporation of the USA, which controls Exxon's power business investments in Hong Kong and China. He is also a Director of CLP. Exxon Energy has a sixty per cent controlling interest in the three (peninsular) Hong Kong generating companies that are operated by CLP. Black Point will also fall into this category. Because of Exxon Energy's controlling interest in the Black Point project, Mr Clancy too will have a powerful influence over the award of the project. An Irish-American, Mr Clancy does not have the same fondness for the UK as the Kadoories and Sir William Stones and will therefore need to be convinced of the advantages of using British suppliers.

The Prime Minister will recall meeting Sir William and Mr Clancy at a reception given by the Senior Trade Commissioner during his visit to Hong Kong in July last year.

The Hon Michael Kadoorie is Lord Kadoorie's only son and will inherit CLP, along with his father's other commercial interests. As Lord Kadoorie is 92 this may not be too far into the future. (The Prime Minister will recall seeing an intellectually spry but physically frail Lord Kadoorie on 21 May 1991). Mr Kadoorie has not previously been much involved in the power generation side preferring to concentrate on the Kadoorie interests in the hotel operations. He is an earnest and sincere man with an attention to detail. His reports back to his father will undoubtedly have a heavy bearing on the outcome of this project. Mr Kadoorie's wife gave birth to their first son (they have two daughters) on 13 January 1992 in London. The Prime Minister may wish to offer his congratulations.

Sir William Stones is known to be interested in raising the issues of Hong Kong-China relations and the future of Hong Kong. It would be helpful if the Prime Minister asked Sir William for his views.

It would be helpful if the Prime Minister could raise the UK's strong continuing interest in CLP's capital expenditure programme. Mrs Thatcher opened Castle Peak A station for which GEC provided the turbine generators and Babcock the boilers. The same companies also supplied the B station which became operational 13 months ahead of schedule. This showpiece has helped British companies sell into China.



Stephen Wall Esq

January 1992

Lord Kadoorie and Sir William Stones were the driving force behind the joint venture with the Chinese to build a nuclear power station at Daya Bay some 50km north of Hong Kong. GEC obtained the contract for the turbine generators - the French providing the nuclear reactors. CLP has an agreement to buy power from Daya Bay, though it is at present a net exporter of power to China. The GEC Alsthom turbine contract is essentially on schedule and GEC Alsthom are well regarded, although there are serious delays on the erection of the nuclear reactors being carried out by the Chinese.

CLP is now giving thought to its next power station known as Black Point. The CLP/Exxon delegation visited Siemens in Germany en route to the UK for high level talks with GEC Alsthom. The opportunities here are good and the potential contract is for the supply of generating capacity worth around £1 billion. With such a large project value, any substantial financial package that ECGD could assist in putting together would have to be tailor made and would almost certainly require collective Ministerial consideration. This might well involve treating it exceptionally outside ECGD's normal constraints recognising ECGD's already large existing commitments on Hong Kong. CLP's performance with ECGD on the earlier power station loans has been exemplary and both parties are keen to continue the relationship.

It is important that the delegation leaves on a positive note rather than with the thought of difficulties to be overcome in the future. There are, however, real difficulties. Demand for cover on Hong Kong is very large, not least in respect of the Port and Airport Development Scheme (PADS). If, therefore, the Prime Minister is asked to make a commitment in respect of ECGD cover he may wish to simply say that ECGD has only recently received a detailed application which will be given serious consideration.

The Prime Minister might state that he hopes experience with UK suppliers will lead CLP to continue to work closely with them. In addition to GEC Alsthom, there are a number of UK companies that hope to be involved in the total project (in such areas as the boiler package, transmission lines, switchgear and consultancies). |||



4

Stephen Wall Esq

January 1992

As there are new developments on this project almost daily we shall keep you briefed on any factors worthy of note that arise before the Prime Minister's meeting.

I append some additional background briefing prepared for the visit.

As we have agreed, David Hall, the Head of our Projects and Export Policy Division, will be attending the meeting.

I am copying this letter to Simon Gass at the FCO, John Neilson at Energy and Nicholas Holgate at the Treasury.

Yours sincerely,
Cliff Wilson

CLIFF WILSON
Assistant Private Secretary

Enc.

BRIEFING FOR VISIT TO THE UK OF DELEGATION FROM CHINA LIGHT AND POWER AND EXXON ENERGY

Black Point

BACKGROUND:

1. Sir William Stones, Mr Michael Clancy and the Hon. Michael Kadoorie are visiting the UK as guests of GEC Alsthom who are attempting to secure the contract for the Black Point project in Hong Kong.
2. Sir William is Managing Director and Mr Kadoorie a Director of China Light and Power (CLP), one of the two Hong Kong power utilities. CLP provides power to peninsular Hong Kong (and China) while Hong Kong Electric supplies to Hong Kong Island. Mr Clancy is Chairman of Exxon Energy (Hong Kong), a subsidiary of the Exxon Group of the USA, which has a 60% holding in CLP's Hong Kong based power stations. Biographical details on each are attached at Annex A.
3. CLP are planning to build a further 6000MW of generating capacity (gas-fired combined cycle and coal-fired) at Black Point. CLP are under pressure from within Hong Kong, and also from Exxon, to seek bids that are internationally competitive in order to demonstrate that they have obtained the best price possible. CLP are currently conducting parallel discussions with the two front runners, GEC Alsthom of UK/France and Siemens of Germany. It is not yet clear whether CLP will then proceed to enter into a negotiated contract with the preferred contractor or will seek formal tenders from both groups. Because GEC designed and built the earlier coal-fired thermal power stations for CLP at Castle Peak 'A' and 'B' and at Tsing Yi, the GEC Alsthom bid is considered to be in a strong position.
4. Both Sir William Stones and Mr Clancy will exert great influence on the award of the project because of the key positions they hold; the latter because of Exxon's majority holding in the proposed Black Point power station and their close involvement in the project now that the gas option has been confirmed. Mr Kadoorie, too, will be highly influential because of the message he brings back to his father, Lord Kadoorie, the Chairman of CLP. Moreover, as the sole heir to Lord Kadoorie, who is now 92, he could inherit the company in the near future. The CLP/Exxon delegation is visiting Siemens in Germany prior to its arrival in the UK.
5. CLP intend to place an order for the first phase of 4 x 680MW gas-fired combined cycle units in 1992. Negotiations with the Chinese authorities for gas supplies from the Hainan fields have been successful and agreement on both price and volumes to be taken has been reached. The Heads of Agreement are expected to be signed at the end of February, but this is dependent upon Exxon being satisfied that there are sufficient reserves of gas. As CLP will be

opting for combined cycle first, the UK is likely to face stronger competition because no company has a previous track record of building such equipment for CLP.

6. There is a substantial UK content in both the GEC Alsthom and the Siemens bids. As they presently stand, the GEC Alsthom package, amounting to £1 billion, would entail the French arm of the company supplying the gas turbines (in conjunction with General Electric of the USA), with their French subsidiary, Stein, the boilers. (GEC Alsthom have indicated that they are willing to provide Babcock with about £10M of work in the UK under licence from Stein). The UK arm of GEC Alsthom would provide the balance of plant which would realise a UK content of about £500M. In the competing bid Siemens have approached Babcock International about the supply of the boilers which, including balance of plant, would amount to a UK content of £350M. There is an outside chance that CLP may decide upon a natural circulation boiler. In this event the involvement of Stein or Babcock could be significantly reduced. From the UK angle the best result would be a GEC Alsthom success but with the inclusion of Babcock boilers in preference to those from Stein. As Babcock have also successfully supplied boilers for earlier CLP power stations it is possible that CLP may insist upon their inclusion in the forthcoming contract award.

7. Both GEC Alsthom and Siemens are seen by CLP to have a number of strengths and weaknesses. CLP prefer to work with those companies they know which is advantageous to GEC Alsthom because of CLP's familiarity with GEC personnel and products from previous projects. Coupled with this is CLP's belief that ECGD understand the company, the scheme of control and other operating factors better than the French or German Export Credit Agencies. This again gives Britain, and British companies, an advantage provided ECGD are supportive. The Frame 9F gas turbine technology that GEC Alsthom propose to use has been developed jointly by General Electric of the USA and the European Gas Turbine Company, a subsidiary of GEC Alsthom. CLP/Exxon are known to have some doubts about the Frame 9F technology as it has not yet been proven in the field. However, the recent award to GEC Alsthom of two very large projects in the UK and the Netherlands, which will both utilise Frame 9F technology, should give CLP/Exxon the confidence to also use these turbines.

8. CLP see the strength in Siemens having a single in-house technology and plant supply, with the exception of the boilers. Siemens, in addition, have already supplied equipment of this type which gives them an advantage over GEC Alsthom. On the negative side, Siemens are not thought to be as committed as GEC Alsthom to CLP and their way of working; lack German government support; have a full order book which may affect their ability to deliver; and have only limited support from Hermes, the German Export Credit Agency.

9. There are also multi-million pound contracts to be gained by Balfour Beatty (transmission equipment), NEI (transformer and switchyard equipment), Mouchel (construction consultancy) and RMJM (architects). GEC Alsthom face possible UK competition from John Brown and NEI, although neither are viewed as serious contenders.

Financing

10. CLP and Exxon place very great importance on the financing arrangements, and on securing both commitment and flexibility early on. There is now no question of HMG's giving the kind of assistance that was used for Castle Peak B, but the UK still has some important potential advantages, in particular ECGD's experience of dealing with CLP and its willingness to accept successive schemes of control as security. The Chinese have recently agreed to the present scheme of control being extended for a further 15 years from October 1993. Discussions have been held between DTI/ECGD and DREE/COFACE of France and also with Exim Bank of the US. These largely concerned providing background on CLP, the scheme of control and the likely security package for Black Point. Although CLP would be pushing for a 15 year loan period it was unlikely that anything above 12 years would be offered in order to comply with OECD rules. CLP was also reported to be looking for capitalisation of interest but this is likely to be resisted. In addition, the UK's understanding of, and influence over, the future financial and political regime for Hong Kong is judged to be important. At a technical level, it should be possible to negotiate an acceptable package.

ECGD Cover (Not for Disclosure)

11. Hong Kong is ECGD's largest market. Current exposure and commitments are in the region of £2 billion. In addition exposure and commitments on China are in excess of £1.5bn. Together these markets account for about 15% of ECGD's global exposure.

12. Treasury are concerned about this concentration of risk and would prefer to see the two countries treated as one for risk assessment purposes. Ministers agreed in March 1991 however that while there is no unanimity of view in the financial markets they should continue to be separately assessed. The question may be returned to in the future.

13. Cover is subject to ECGD's normal Market Exposure Controls and budgetary constraints. Individual cases of over £100m and new commitments in any one financial year of over £200m require the approval of the Treasury chaired Export Guarantees Committee. Current levels of exposure, the sheer size of potential business with Hong Kong and concerns over concentration all serve to create difficulties notwithstanding ECGD's excellent experience of CLP.

14. It is not possible to commit ECGD cover at this stage. 111

Chinese Attitude

15. The Chinese authorities have indicated that a power station at Black Point would not attract the same problems as the Hong Kong Airport project (PADS). Guangdong province needs power very badly and is currently importing power from CLP (peak load 600-700MW in the summer). Despite its own power station building programme it still sees a need for increased take off of power from Hong Kong in the years ahead. Black Point would assist in this requirement.

DAYA BAY NUCLEAR POWER STATION: CHINA

16. Sir William Stones and Michael Kadoorie are Directors of the Hong Kong Nuclear Investment Company (HKNIC) which is involved in a joint venture with the Guangdong authorities for this project. As GEC Alsthom are performing well a mention of this project would help to remind the CLP/Exxon delegation of the merits of using GEC.

17. In September 1986 GEC won the £250M contract for the conventional island, with HMG support worth around £15M, to build a 2 x 990MW nuclear power station at Daya Bay, Guangdong Province, some 70kms from Hong Kong. This is a joint UK/France project which should become operational in 1993. The nuclear reactors are French while the turbines and much of the ancillary equipment are British. The Chinese have announced a delay in the commissioning of the first unit from October 1992 to June 1993. The problem is quite serious and is the result of poor quality of erection by the Chinese sub contractor on the nuclear island. The GEC supplied turbine generator to Unit 1 on the conventional island is essentially on schedule and has now been successfully run on the pre-operational boilers.

BIOGRAPHICAL DETAILS: SIR WILLIAM STONES

Sir W F Stones is the Managing Director of China Light and Power Company Limited, Chairman of Hong Kong Nuclear Investment Company Limited and Deputy Chairman of Guangdong Nuclear Power Joint Venture Company Limited.

A graduate in chemistry, he began his career with the Electricity Supply Industry of the United Kingdom in 1951, becoming Research Director in the North Eastern region of Central Electricity Generating Board in 1959. In 1965, he was appointed power station Manager at Ferrybridge Power Station, rising progressively to Group Manager, Director of Operational Planning, and finally Director of Generation and Deputy Director General.

He came to Hong Kong in 1975 on secondment from Central Electricity Generating Board to assist China Light and Power Company, Limited. In 1976, he resigned from the Generating Board to take up the position of Executive Director of China Light and Power Company Limited.

In 1980, Mr Stones was awarded an "OBE" for his services to Hong Kong.

On 22 March, 1986, Mr Stones was honoured "Commander in the Order of Leopold II" by His Royal Highness Prince Albert of Belgium for his contribution in the export of Belgian engineering and technological personnel and know-how.

He was knighted in the 1990 Birthday Honours list.

BIOGRAPHICAL DETAILS: MR MICHAEL KADOORIE

Born in Hong Kong 19 July 1941, the son of The Rt Hon the Lord and Lady Kadoorie, married Betty Tamayo (1984), two daughters, Natalie Lousie (3/2/1986) and Bettina Muriel (20/8/1987), and a son (13/1/1992).

Educated at King George V School, Hong Kong; Le Rosey, Switzerland; Applegarth, United Kingdom.

Mr Kadoorie is Chairman and Director of the following companies:

Chairman: The Hong Kong & Shanghai Hotels Ltd
 Heliservices (Hong Kong) Ltd
 Rotair Ltd

Director: China Light & Power Co Ltd
 Castle Peak Power Co Ltd
 Connaught Insurance Co Ltd
 Harbour Centre Development Ltd
 Hong Kong Nuclear Investment Company Ltd
 International Trade & Investment (1989)
 Ltd
 Kadoorie McAulay Ltd
 Kowloon Electricity Supply Co Ltd
 Landcrest Ltd
 Lighthaven Investments Ltd
 Lombard Federal Insurance Co Ltd
 Manila Peninsula Hotel Inc
 Peninsula Group Management Co Ltd
 Peninsula International Ltd
 Peak Tramways Co Ltd
 Sir Elly Kadoorie & Sons Ltd
 St George's Building Ltd
 Rostik Ltd
 Schroders Asia Ltd
 Barta Ltd
 Golden SA Ltd
 Jura Company Ltd
 Kadoorie Estates Ltd

Mr Kadoorie's hobbies are world travel, flying, motor cars, boats, water and snow skiing, go-karting and photography.

Clubs: American Club, Hong Kong
 Annabel's, London
 Automobile Association, London
 Bentley Drivers' Club, London
 Eagle Ski Club, Gstaad
 Guild of Air Pilots & Air Navigators,
 London
 Hong Kong Aviation Club Ltd (Past
 President 1971/72)
 Hong Kong Club

Jewish Recreation Club
Motor Sports Club of Hong Kong
Photographic Society of Hong Kong
Singapore & Malaysia Vintage Car Register
Royal Hong Kong Jockey Club
Vintage Sports Car Club, Alfa Romeo
Section

Hon. Vice-Patron: The Community Chest of Hong Kong
Member: Synagogue "Ohel Leah" (Past Committee
Member)
Life Member: Royal Society for the Prevention of
Cruelty to Animals (Hong Kong)

BIOGRAPHICAL DETAILS: MICHAEL J CLANCY
Chairman and Chief Executive
Exxon Energy Limited
Hong Kong

Michael Clancy is Chairman and Chief Executive of Exxon Energy Limited a wholly owned subsidiary of Exxon Corporation.

He is a Chartered Accountant and has an M.Sc. in economics. He spent many years with Esso in Europe, mainly as a Divisional Director of Esso UK plc. In 1975, he was appointed Chairman and Chief Executive of Esso in Ireland, and in 1978, was transferred to New York as Assistant Controller of Exxon Corporation. In 1980 he moved to the Far East as the Finance Director of the Esso companies in Malaysia, and in 1983 took up his present position in Hong Kong.

Exxon Energy Limited controls Exxon's power business investments in Hong Kong and the People's Republic of China.

Mr Clancy is also Chairman of the three generating companies, Peninsula Electric Power Company, Kowloon Electricity Supply Co Ltd, and Cast Peak Power Co Ltd, in which Exxon has a sixty per cent controlling interest. These companies supply almost three quarters of the electricity consumed in Hong Kong, Kowloon and the New Territories. He is a director of China Light and Power Company Limited, Exxon's partner in the power business and Deputy Chairman of the Hong Kong Pumped Storage Development Co Ltd, an Exxon/China Light joint venture in Guangdong.

BIOGRAPHICAL DETAILS: MR PETER LITTLEWOOD

Mr Littlewood is 41 years old and has a first class honours degree in mechanical engineering from Cambridge.

He joined China Light & Power in the mid-1970s. He was Planning and Contracting manager of the Daya Bay project from 1986-1989. He is currently CLP's Project Manager on Black Point.

BIOGRAPHICAL DETAILS: MR LEONARD M RUBIN

Leonard Rubin is Finance Director of Exxon Energy Limited, Hong Kong. He studied Mathematics at Brown University and received an MBA in Finance from The Wharton School in Philadelphia.

Mr Rubin joined the Exxon organisation in 1975. He began his career with Exxon Corporation in New York and subsequently has held various positions within Exxon and its affiliated companies, in the strategic planning, finance and accounting areas. He moved to his present position in May, 1988.

Mr Rubin is a Director of the four Hong Kong power generation companies in which Exxon has an interest, as well as China Light and Power Company Limited.

BIOGRAPHICAL DETAILS: MR O M L RHYS

Mark Rhys, born 1941, after serving articles in London, qualified as a Chartered Accountant and joined Peat Marwick in Hong Kong in 1964.

In 1968 moved to a Shipping/Insurance Company in Hong Kong and after 10 years joined Hong Kong Bank.

After a short diversion to a bank in Dubai in 1986, returned to Hong Kong and worked as Managing Director of a deposit-taking company and as a fund manager before joining China Light & Power Co, Ltd in 1989.

Married, four children.

F.C.A, Fellow of the Chartered Institute of Bankers, Member of the Association of Corporate Treasurers.

BIOGRAPHICAL DETAILS: DAVID HO
Director of Business Development
Exxon Energy Limited

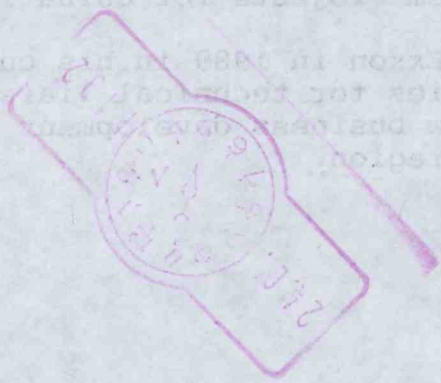
Mr Ho graduated from Columbia University - School of Engineering in New York City in 1974. He joined General Electric's (USA) Power System Sector upon graduation and received product training at GE's steam and gas turbine works from 1974 to 1977. From 1977 to 1985, he held various power plant project and sales assignments located in Korea, New York and Singapore. In 1985, Mr Ho was assigned as Manager for Steam Turbine Projects with GE China and promoted to Manager of Power System Projects for China in 1988.

Mr Ho joined Exxon in 1989 in his current position. He has responsibilities for technical liaison with China Light Power as well as new business development for Exxon Energy in the Asia Pacific region.

BIOSCIENCE DIVISION; DAVID RO
Director of Business Development
Exxon Energy Limited

He graduated from Columbia University - School of
Engineering in New York City in 1974. He joined General
Electric (USA) Power System Section upon graduation and
received graduate training at GE's steam and gas turbine work
from 1974 to 1977. From 1977 to 1985, he held various power
plant project and sales assignments located in Korea, New York
and Singapore. In 1985, he was assigned as Manager for
Steam Turbine Projects with China and promoted to Manager
of Power System Projects for China in 1988.

He joined Exxon in 1988 in his current position. He has
responsibility for technical liaison with China Light Power
as well as new business development for Exxon Energy in the
Asia Pacific region.



cc PC
Blyp

THE GENERAL ELECTRIC COMPANY, p.l.c.

1 STANHOPE GATE · LONDON W1A 1EH

071-493 8484

FROM THE CHAIRMAN
THE RT. HON. LORD PRIOR, PC

The Rt. Hon. John Major, MP,
Prime Minister,
10 Downing Street,
LONDON S.W.1.

24th January, 1992

Dear John

Further to my letter of 17th January, I now
enclose the briefing notes for the meeting with Sir William
Stones and Michael Kadoorie of the China Light and Power
Company Limited and Michael Clancy of Exxon Energy Limited,
Hong Kong. We look forward to seeing you at 5pm on 27th
January.

Enc.

Yours ever

▼
G E C A L S T H O M

**VISIT OF CHINA LIGHT & POWER COMPANY, LIMITED AND
EXXON ENERGY LIMITED - 23-24 JANUARY 1992**

China Light and Power ("CLP")

The Hon. Michael Kadoorie - Director
Sir William Stones - Chief Executive Officer
Mr Mark Rhys - Divisional Manager, Finance
Mr Peter Littlewood - Project Manager, Generation Projects

M David Hall, O-Ci

Exxon Energy Limited ("Exxon")

Mr Michael Clancy - President
Mr Len Rubin - Finance Director
Mr David Ho - Development Director

BACKGROUND

CLP and Exxon

CLP is the electricity utility in Hong Kong with responsibility for generating and supplying electricity to Kowloon and the New Territories. CLP also supplies power via a tie-line to Guangdong Province in Southern China. Exxon Energy Limited is a wholly owned subsidiary of Exxon Corporation of the USA.

CLP is a 25% investor in the Daya Bay nuclear power station in Guangdong Province being built by GEC ALSTHOM and Framatome. They are also an investor in the 1200MW Pumped Storage Power Station in Guangdong Province being built by CEGELEC. In both of these projects, CLP is in joint venture with Chinese entities. Exxon are also investors in the Pumped Storage Station.

Exxon has been a co-owner with CLP of each of the power stations built for CLP since 1964. These stations are at Hok Un, Tsing Yi and Castle Peak A and B (approximately 7000MW of generating capacity); all four stations were supplied by GEC. Exxon owns 60% of each of the generating companies which own the stations, and CLP 40%. CLP are responsible for operating the stations, and buy the total output of each station.

European Gas Turbine Company ("EGT")

EGT is a subsidiary of GEC ALSTHOM. It is 90% owned by GEC ALSTHOM and 10% by General Electric ("GE") of the USA. EGT manufactures a wide range of gas turbines with smaller machines manufactured in Lincoln and larger machines at Belfort in South-Eastern France.

New power station at Black Point

CLP and Exxon are in the final stages of development of a new station to be located at Black Point in the New Territories, some 3km from Castle Peak Power Station.

The new station will ultimately have a capacity of 6000MW, of which 2400MW is to be ordered this year and will be commissioned by 1999. Black Point will be a gas fired combined cycle station, using natural gas to be supplied by pipeline from an offshore field in the South China Sea, near to Hainan Island. Negotiations have been continuing for some time between CLP/Exxon and Atlantic Richfield (ARCO) the developers of the field and China National Offshore Oil Corporation (CNOOC).

We have been informed by CLP/Exxon that agreement in principle has now been reached on the terms and conditions for the supply of gas, including price, and the parties are in the process of finalising Heads of Agreement. This document would be followed by a full Gas Purchase Contract. The responsibility for building the pipeline lies with ARCO and CNOOC.

CURRENT STATUS OF PROJECT

Following a series of pre-qualification presentations over the last 18 months, involving all of the major power generation equipment manufacturers, CLP/Exxon have shortlisted GEC ALSTHOM (in consortium with GE) and Siemens of Germany, as qualified contractors.

The visit of Sir William Stones, Mr Kadoorie and Mr Clancy is the vital next stage in the progression of the project. We have been informed by CLP/Exxon that, following the visit they will decide on their contracting strategy for the project, i.e. whether they will seek competitive bids from GEC ALSTHOM and Siemens, or whether they will negotiate a contract exclusively with one of the parties. The last two major power stations at Castle Peak were negotiated exclusively with GEC, and our objective is to persuade CLP/Exxon to agree to repeat this process for Black Point.

THE GEC ALSTHOM PROPOSAL FOR BLACK POINT

GEC ALSTHOM will be bidding in consortium with General Electric of the USA. EGT and GE are the joint developers and co-manufacturers of the Frame 9F gas turbines which will form the basis of our combined cycle power station bid. This is the most advanced gas turbine currently offered by any manufacturer

with the highest output and greatest efficiency. It is the basis of our recent successes for combined cycle stations in the United Kingdom and the Netherlands. CLP/Exxon are very attracted by this technology. Based on their long association with GEC, they are also totally confident in our steam turbines. GEC ALSTHOM will be the overall project manager and will supply four of the eight gas turbines through EGT in Belfort, the steam turbines from Rugby and Belfort, the heat recovery steam generators from Stein Industrie in Paris (a GEC ALSTHOM company) and the balance of plant from the United Kingdom.

GE will supply from the USA four gas turbines and all of the generators.

The approximate cost of the total GEC ALSTHOM scope for this project is £800m. The above division of scope of supply produces the following approximate proportions to be supplied from each country :

UK	45% - 55%
France	30% - 40%
USA	20% - 25%

Winning this contract will bring benefits to British industry as a whole. There were some 7,000 subcontractors involved in the earlier Castle Peak Stations. The equipment FOB price on Castle Peak A (1978 value) was £161.8m and Castle Peak B (in 1981) £490.4m, and the GEC ALSTHOM supply contract value for the Daya Bay Station was £257m (1986 prices).

FINANCING

CLP/Exxon have made it clear that financing is a key element in their decision making. The structure of financing for the projects will follow the pattern established for all previous projects. In view of ECGD's long experience of dealing with CLP/Exxon and their security arrangements, we believe that financing is a key factor in our argument for a negotiated contract.

A portion of the project cost will be funded by equity provided by CLP and Exxon. The balance will be funded by loans which it is proposed would be provided by export credits from the United Kingdom, France and the USA, and by commercial bank loans. The arrangement has proved extremely successful for previous projects supported by ECGD, with an exemplary repayment record.

ECGD, DREE/COFACE and US Eximbank have had discussions concerning collaboration to provide a common approach to the export credits.

TIMING AND PROGRAMME

CLP/Exxon will issue their Request for Tender in April 1992 and intend to award the contract by November 1992.

The programme for the project is as follows :

- January 1996 600MW
- April 1997 600Mw
- April 1998 600MW
- April 1999 600MW

LORD KADOORIE AND SIR WILLIAM STONES

Lord Kadoorie and Sir William are long established friends of GEC and their support and advice has been invaluable to our earlier successes in Hong Kong.

Michael Kadoorie is his father's representative on the visit but is himself a Director of CLP, and the largest single shareholder. He is also Chairman of the Peninsula Hotels Group. His wife Betty recently gave birth to a son in London. Mr and Mrs Kadoorie already have two daughters.

POINTS TO MAKE

- 1 Total confidence in GEC ALSTHOM and EGT. They performed well in the past, and will do so again. ✓
- 2 There is a great advantage in negotiation. The closer contacts between all parties, which are possible in a negotiation with one contractor, ensure the optimum package for all concerned. ✓
- 3 CLP/Exxon can be sure that the requisite financial guarantees will be available from ECGD. (7)
- 4 HMG is fully supportive of GEC ALSTHOM, and will use whatever influence is necessary to ensure success. ✓

23 January 1992

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CESP

THE GENERAL ELECTRIC COMPANY, p.l.c.
1 STANHOPE GATE · LONDON W1A 1EH
071-493 8484

FROM THE CHAIRMAN
THE RT. HON. LORD PRIOR, PC

The Rt. Hon. John Major, MP,
Prime Minister,
10 Downing Street,
LONDON S.W.1.

John Major
PM

JFK

17/1

17th January, 1992

Dear John

You have very kindly agreed to see a delegation from China Light & Power at 5pm on Monday, 27th January. I am arranging for a brief to be sent to you shortly, but I thought I should let you know who will be coming with me.

The Hon. Michael Kadoorie
Sir William Stones

Director, China Light & Power
Chief Executive Officer,
China Light & Power
President, Exxon Energy Ltd.
Hong Kong

Mr. Michael Clancy

Yours
John



epc

SN

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

20 December 1991

Dear Stephen,

CHINA LIGHT AND POWER

Thank you for your letter of 16 December about a visit to Britain by Sir William Stones and Mr. Michael Clancy of the Hong Kong China Light & Power Company.

X// Lord Prior had already approached the Prime Minister about a meeting. The Prime Minister has agreed to see Sir William Stones and Mr. Clancy at 1700 on Monday 27 January for half an hour. I understand that Mr. Kadoorie may also be with them. I should be grateful for a brief to reach me by 12 noon on Friday 24 January.

I am copying this letter to John Neilson (Department of Energy) and Simon Gass (Foreign and Commonwealth Office).

John,
Stephen
(J. S. WALL)

Stephen Speed, Esq.,
Department of Trade and Industry.

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 May 1991

Dear Richard,

**CALL ON THE PRIME MINISTER BY LORD KADOORIE:
GOVERNOR OF HONG KONG**

I have written separately to the Department of Trade and Industry about Lord Kadoorie's call on the Prime Minister this morning. At the end of the conversation Lord Kadoorie said that he wanted to say a word about the Governor of Hong Kong. He had known David Wilson for many years. He was in a very difficult position. It was now the policy to introduce democracy into Hong Kong. But there was no tradition of democracy there. The Governor was therefore subject to conflicting pressures. On the one hand people wanted democracy while on the other they called for the strong leadership they had always known. The Governor was caught in the crossfire. He was doing a very good job.

The Prime Minister said he was very grateful to Lord Kadoorie for what he had said.

Jaw,

J. S. WALL

Richard Gozney, Esq.,
Foreign and Commonwealth Office

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Mtg Record

Subject
"Master"

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 May 1991

Dear David,

CALL ON THE PRIME MINISTER BY LORD KADOORIE,
CHAIRMAN OF CHINA LIGHT & POWER CO. (HONG KONG)
ON 21 MAY 1991

Thank you for your letter of 17 May and for the briefing for Lord Kadoorie's call on the Prime Minister.

Lord Kadoorie called on the Prime Minister this morning. As you had described him, he was physically frail but mentally spry. Lord Kadoorie did most of the talking partly because he is deaf and obviously finds it easier to speak rather than to listen. He did rather disarmingly suggest that there were anyway three ages of man: the age of the bullock (full of vim and vigour); the age of the monkey (when you played around) and the age of the parrot (when you could do nothing but talk). He reckoned that he had reached the third age.

Lord Kadoorie spoke philosophically rather than operationally. China represented one quarter of the world's population and Hong Kong represented a neutral point of contact between East and West. There was a 70 per cent chance of that continuing. For the next 15 to 20 years China would require our expertise and knowledge. Hong Kong should, however, be careful not to become too conceited. There were some who were tempted to think of Hong Kong as a country. It was not. It was a zone of China. We should therefore take a business approach to Hong Kong and treat it as a joint venture. We should not simply tell the Chinese that, although they were taking over Hong Kong in 1997, until then it was ours and nothing to do with them. We should not try to dictate to the Chinese. The Chinese were unsure about how to handle Hong Kong though they never hesitated to have strong opinions about what they could do even if in practice they could not do it. Everything was a matter of face.

Later in the conversation Lord Kadoorie said that the Chinese did not know which way the cat would jump in Hong Kong. The Prime Minister asked how the people of Hong Kong would react in 1997. Lord Kadoorie said that 70 per cent of the population would continue very much as now and Hong Kong would simply slide over into its new position. 1993, however, would be a watershed year and possibly more difficult. The 30 per cent downside was mostly due to local people who liked to hear the sound of their own voices and tended to show off about how they could dictate to

RESTRICTED

China. This was unrealistic especially as 99 people out of 100 in Hong Kong were Chinese.

Lord Kadoorie drew attention to the uncertainties surrounding the leadership in China. The old men were still in charge and their potential successors were nervously waiting to see what would happen when they died. He repeated that the close business relationship between Hong Kong and China might offer some lessons and cited the extent of international participation in the Daya Bay nuclear power station project as an example of how the Chinese had adjusted to the modern world. There was real opportunity for Europe if Europe still wanted to take its place in the Far East. The Chinese disliked the Japanese but they were pragmatic people and would take help where they could find it. If Europe did not seize the opportunities of the next 10 to 15 years then China would simply be Japanised and the opportunity would not occur again. From his discussions with senior Frenchmen, Lord Kadoorie believed that the French were well seized of this issue.

I am copying this letter to Simon Gass (Foreign and Commonwealth Office).

J. S. Wall
J. S. Wall

J. S. WALL

David Melville, Esq.,
Department of Trade and Industry

PRIME MINISTER

CALL BY LORD KADOORIE

Lord Kadoorie, Chairman of China Light and Power, is calling on you tomorrow.

Lord Kadoorie is nearly 92, physically frail but active and lucid. He has been a Life Peer since 1981 (the first such Peerage offered to a Hong Kong citizen).

Lord Kadoorie remains influential in Hong Kong. We are arranging a photo-call. I think it will be good for confidence if your photograph with him were to appear in the Hong Kong press.

Lord Kadoorie has been out of Hong Kong for a month and returns there next week. He will want to discuss the political situation in Hong Kong and relations with China. You may want to tap his wisdom and advice on this. You may want to assure him that we are seeking to handle relations with China in the run up to 1997 in a sensitive way which acknowledges that Hong Kong reverts to China in 1997 but which preserves our authority and responsibility in accordance with the Joint Declaration in the meantime.

Airport

Lord Kadoorie may ask about the talks on the airport which are going on in Peking at the moment. The talks have been uphill work. The first day (18 May) was relatively easy, with China prepared to decouple general questions of consultation from other disagreements with us over the airport. Yesterday, the Chinese hardened their position insisting on "solutions through consultation" on the airport and other issues. Today, Andrew Burns has been able to tell the Chinese that the Governor would be prepared to write a covering note to the main text of any understanding we reach with the Chinese on the airport saying that a solution has been reached through consultation, i.e. the note would be descriptive and retrospective. It would not have

wider application and would not promise future consultation. The Chinese have reacted reasonably well to this suggestion but tomorrow they may well try to put the squeeze on us again.

In talking to Lord Kadoorie, I suggest you say no more than that the talks are proving as difficult as we always knew they would, that the situation is not hopeless and that we will of course try to reach agreement but avoiding giving the Chinese anything that would amount to an effective veto between now and 1997.

Democracy

Lord Kadoorie may express concern about the trend towards democracy in Hong Kong. The first direct elections to the Legislative Council will take place in 1991. Eighteen of the 60 seats will be directly elected in 1991 rising to 20 by 1995. Through a combination of directly elected and indirectly elected seats the Legislative Council to be elected in September 1991 will, for the first time, have an elected majority.

If Lord Kadoorie does express concern you may wish to say that in introducing democracy we have responded to a clearly expressed political wish both in Hong Kong and in this country. We have had to strike a balance between entrenching democracy before 1997 on the one hand and creating a scheme that the Chinese would simply overturn on the other. The fact that we were able to reach agreement with the Chinese means that the system now in place should endure beyond 1997.

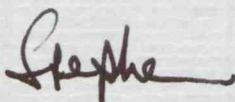
Power

Chinese Light and Power has assets valued at £1.32 billion. CLP has built the largest power station in South East Asia, supplying power both to Hong Kong and to Guangdong Province in Southern China. CLP are also involved in a joint venture with the Guangdong Power Corporation, building a nuclear power station in Guangdong. CLP and Exxon are now planning a new power station at Black Point in Hong Kong. This too would supply power both to Hong Kong and mainland China.

CLP had a good relationship with ECGD over the years but you will want to avoid giving any commitment on future cover (particularly

for the Black Point project).

CLP's financial operations are governed by a "scheme to control" negotiated with the Hong Kong Government. The existing agreement is now being renegotiated. It is entirely a matter for the Hong Kong Government.



J S WALL

20 May 1991

c:\foreign\kadoorie (kw)



The Rt. Hon. Peter Lilley MP

CLP
Blup.

Stephen Wall Esq
Private Secretary to
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Our ref PE5241

Your ref

Date 17 May 1991

Dear Stephen

CALL ON THE PRIME MINISTER BY LORD KADOORIE, CHAIRMAN OF CHINA LIGHT & POWER CO. (HONG KONG) ON 21 MAY 1991

Lord Kadoorie will probably wish to concentrate on Hong Kong's future, bringing in the power and project dimension later in the discussion. He will have seen the Foreign Secretary immediately before he sees the Prime Minister, and will see the Secretary of State for Trade and Industry at 2.30 on 22 May.

Lord Kadoorie is Chairman of China Light & Power (CLP), one of two private electricity supply companies in Hong Kong. Set up in 1900 in Canton in China the company now has assets valued at HK\$17.8 billion (£1.32 billion). Lord Kadoorie has always been fiercely pro-British and the company has over the years purchased largely from the UK (purchases from GEC have totalled more than £1 billion over the last 15 years). His life peerage was bestowed upon him in the 1981 Birthday Honours. This was first peerage conferred on a Hong Kong citizen. He remains an important and influential figure in Hong Kong's society. Apart from CLP, Lord Kadoorie's family have other major business interests in Hong Kong including property, hotels and travel.

Lord Kadoorie, approaching 92 and somewhat frail, remains active, lucid and committed to Hong Kong. His visit to Britain last year was the first his doctors had allowed for two years. His health nevertheless remains remarkably good for his age and he visits the UK after a month's stay in Geneva, which will have refreshed him. He returns to Hong Kong on 29 May 1991.

dti

the department for Enterprise



Recycled Paper

The political situation

Lord Kadoorie has been a regular visitor to 10 Downing Street where he has discussed his views on the political situation in Hong Kong. The Prime Minister should seek Lord Kadoorie's views on the future of Hong Kong and how he sees the present business climate there.

At his last meeting with Mrs Thatcher in July 1990 he stated that the political situation was troubled. Hong Kong had prospered most under a benevolent oligarchy and the business community was uneasy about the trend towards democracy. The Prime Minister might like to ask whether this is still the case, and how Lord Kadoorie thinks the September elections to Leg Co will turn out. On the citizenship issue, Lord Kadoorie said that China Light & Power (CLP) were losing key engineers and managers in pursuit of passports. He welcomed the British Government's decision on passports for the 50,000; it was a pity that the Chinese saw this move as an attempt to establish a Trojan horse in Hong Kong after 1997.

Lord Kadoorie has indicated that on this occasion too he would like to discuss the current political situation in Hong Kong. In particular he would like to stress the large differences in dealing with the Chinese on a political level as opposed to a commercial level. He considers that joint venture companies with the Chinese are an important commercial device to help overcome the potential problems of 1997.

The Prime Minister may wish to ask Lord Kadoorie about current Sino-British relations over Hong Kong. Lord Kadoorie may also raise the question of Chinese support for the new airport which dominated Mr Hurd's recent visit to Peking. While the visit and the official level talks which followed it managed to narrow the differences between the two sides, differences remain on the financial aspects of the project and on the question of consultation. A further round of talks is currently being held in Peking (18-22 May).

On consultation, the Prime Minister will wish to explain that Britain and China need to cooperate on the implementation of the Joint Declaration if we are to achieve a smooth transition in 1997. But the Hong Kong Government must be able to fulfil their duty to govern effectively - the task of taking decisions must rest with them. It would be useful to seek Lord Kadoorie's view on what Hong Kong opinion would consider to be the right balance between the two.

Lord Kadoorie may refer to the fact that his company, China Light and Power Co Ltd is currently re-negotiating its Scheme of Control Agreement with the Hong Kong Government. The Prime Minister should restrict himself to saying that the re-negotiation is a matter for the Hong Kong Government.





the department for Enterprise

Power

It will be helpful if the Prime Minister could raise the UK's strong continuing interest in CLP's capital expenditure programme. Mrs Thatcher opened Castle Peak A station for which GEC provided the turbine generators and Babcock the boilers. The same companies also supplied the B station which became operational 13 months ahead of schedule. This showpiece has helped British companies sell into China.

Lord Kadoorie was the driving force behind the joint venture with the Chinese to build a nuclear power station at Daya Bay some 50km north of Hong Kong. GEC obtained the contract for the turbine generators - the French providing the nuclear reactors. CLP has an agreement to buy power from Daya Bay, though it is in fact a net exporter of power to China. The project is progressing well and Lord Kadoorie is very proud of this achievement.

CLP is now giving thought to its next power station known as Black Point. A high level delegation from CLP visited the UK last month and talked with major suppliers and senior officials at DTI and ECGD with a call on the Minister for Trade. The opportunities here are good and the potential contract is for the supply of up to 5,300MW of generating capacity worth over £1,200m. With such a large project value, any substantial financial package that ECGD could assist in putting together would have to be tailor made. It might have to be treated exceptionally outside ECGD's normal limits recognising ECGD's already large existing commitments on Hong Kong. CLP's performance with ECGD on the earlier power station loans has been exemplary and both parties are keen to continue the relationship.

The Prime Minister might state that he hopes experience with UK suppliers will lead Lord Kadoorie to continue to work closely with them.

I append some additional background briefing prepared for the visit.

I would be grateful to know how the meeting goes, so I can brief the SoS for his meeting with Lord Kadoorie on 22 May.

I am copying this letter to Simon Gass in the FCO.

DAVID MELVILLE
Assistant Private Secretary



Recycled Paper

Background

1. Lord Kadoorie visited the UK just under a year ago after an enforced absence of nearly 2 years due to ill health. Prior to this illness he came on a regular 6 month basis.
2. On his last visit he saw the Secretary of State for Trade and Industry and the Prime Minister. Topics raised included the future of Hong Kong, the availability of passports for professional people from the territory and the next large power project at Black Point in Hong Kong. He remains an important and influential figure in Hong Kong's society. Apart from the private power utility company, China Light & Power, of which he is the Chairman, Lord Kadoorie's family also has other major business interest in Hong Kong, in property, hotels and travel.
3. Lord Kadoorie's pro-British stance at China Light & Power (CLP) has helped UK companies win orders well over £1bn for plant and equipment since the 1970s. Castle Peak (located in Hong Kong), which is the largest power station in South East Asia, is a showpiece for British engineering, with GEC turbines and Babcock boilers. Castle Peak has undoubtedly served as an important reference site and influenced the Chinese in their purchase of power stations. Lord Kadoorie was also the driving force in the joint venture between CLP and the Guangdong power corporation to build the nuclear power station at Daya Bay, Guangdong province, near Hong Kong. This uses French nuclear reactors but British (GEC) turbine generators and much British ancillary equipment. The Department of Trade and Industry was heavily involved with winning the contracts for both Castle Peak and Daya Bay, for which ECGD provided substantial support.

Castle Peak Power Station

4. Castle Peak B station was awarded as a negotiated contract worth £550m at 1981 prices. The contract was supported with £13m of assistance under the Industrial Development Act, and with export credits covered by ECGD. These credits, like those for previous stations, were secured on a "scheme of control" approved by the Hong Kong government which governs the financial operations of CLP and the individual operating companies (which are jointly owned by CLP and Exxon). The present scheme of control expires in 1993 and discussions have begun on a successor which will endure through 1997.

Daya Bay Nuclear Power Station

5. The Project and Export Policy Division within the Department of Trade and Industry, at the request of CLP and the Chinese government, maintains a watching brief over the building of Daya Bay. The project is currently on schedule. The first 990MW unit is expected to be completed late in 1992 and the second unit in 1993. There have been problems with

the contract particularly with the performance of some of GEC's sub-contractors. These have been satisfactorily resolved and relations between GEC Alsthom and the client are now excellent.

The Black Point Project

6. CLP and Exxon are at an advanced stage in planning a new power station at Black Point. A delegation of senior officials from both companies led by Mr Steven Poon, director, general manager and chief operation officer of CLP visited the UK at the end of last month. They met with NEI, GEC Alsthom (GECA), and Babcock International and senior officials at DTI and ECGD. A call was made on Mr Sainsbury, Minister for Trade. Feedback from the company indicates that the visit was regarded as successful.

7. Like the Castle Peak stations, Black Point will be on land partially reclaimed from the sea. The site is intended ultimately to have a capacity of 5300MW, comprising a mixture of coal-fired and combined cycle gas-fired plant. Ordering will be in two phases, one for two units (1300-1400MW) of coal-fired plant and the other for four units (2700-2800MW) of combined cycle plant.

8. CLP intend to place an order for the first phase in 1992, and are due to decide by June whether this will be coal-fired or combined cycle. The main determining factor will be the progress of negotiations with the Chinese authorities for gas supplies from the Hainan fields.

9. If CLP decide to order the coal-fired plant first, their experience with previous stations makes a negotiated contract with GECA a real possibility, but this will be very dependent on financing (see below). This contract would have a value of around £600m. The UK element will depend on where GECA choose to carry out work, and especially on where they procure the boiler. If this were to go to Babcock again, UK content would probably be in the range £450-510m. The principal challenger is GECA's French subsidiary Stein, in which case the UK content would be £300-360m. GECA will not decide until CLP have opted firmly for coal-firing and expressed their own preferences. Technical doubts have been raised on both boilers; the DTI is trying to help Babcock convince CLP about their offering.

10. If CLP opt for combined cycle first, the UK is likely to face stronger competition because no company has a previous track record of building such equipment for CLP. John Brown Engineering are currently building a 3 x 100MW simple cycle gas turbine station for CLP on Lantau Island, with gas turbines supplied from the States; the company has no experience of large combined cycle plant but is currently developing this capability to manufacture it. NEI in association with ABB Gas Turbines could bid the contract as could GEC Alsthom with the French arm of the company supplying

the gas turbines. The likely UK content would be £600-700m, and the tender would be expected to go out to international competitive bidding.

Financing

11. CLP and Exxon place very great importance on the financing arrangements, and on securing both commitment and flexibility early on. There is now no question of HMG's giving the kind of assistance that was used for Castle Peak B, but the UK still has some important potential advantages, in particular ECGD's experience of dealing with CLP and its willingness to accept successive schemes of control as security. In addition, the UK's understanding of and influence over the future financial and political regime for Hong Kong is judged to be important. At a technical level, it should be possible to negotiate an acceptable package.

ECGD Cover

12. Hong Kong is ECGD's largest risk market and current commitments and exposure are in the region of £2.25 billion. In addition exposure and commitments on China are in excess of £1.4 billion.

13. Treasury have been pressing - unsuccessfully so far - for China and Hong Kong exposure to be combined - together they represent over 20% of ECGD's medium and long term exposure. They have retreated on this, not least because of the symbolic importance of continuing to treat the two territories separately, but may return to it in the future.

14. ECGD's experience with CLP has been very good but the sheer size of the commitment involved here, plus the existing exposure, and that the principal repayments will all become payable after 1997, all serve to create difficulties. In addition ECGD's security has been on the basis of "project financing" rather than Government guarantees.

15. It is clearly not possible at this stage to commit ECGD cover of any kind or size.

Chinese Attitude

16. The Chinese authorities have indicated that a power station at Black Point would not attract the same problems as the Hong Kong Airport project (PADS). Guangdong province needs power very badly and is currently importing power from CLP (peak load 600-700MW in the summer). Despite its own power station building programme it still sees a need for increased take off of power from Hong Kong in the years ahead. Black Point would assist in this requirement.

Background

The Political Situation

Sino-British Relations over Hong Kong

Reference A: Written PQ on 15 April about the Foreign Secretary's visit to Hong Kong and China on 1-10 April

Franchises (defensive)

1. Lord Kadoorie's family own directly or indirectly some 34% of China Light and Power Co Ltd (CLP), one of the major power companies in Hong Kong. The Scheme of Control Agreement between CLP and Hong Kong Government is due for renewal from 1993. A re-negotiation is underway.

2. We have recently agreed with the Chinese (at their insistence) to keep them informed about major franchises which will extend beyond 1997. The CLP re-negotiation falls within this category and we have been keeping the Chinese informed of progress. We have had no indication to date that the Chinese have any difficulties with a renewal.

Development of representative government in Hong Kong

Reference B: Chart showing composition of LegCo (1970-2007)

The Electoral System

3. For a variety of reasons, constitutional development in Hong Kong has been slow. When the Joint Declaration was signed in 1984, there was no elected element of any kind in the legislature. All members were either appointed by the Governor or were officials. It was only in 1985 that an indirectly elected element was introduced into the

Legislative Council for the first time with the creation of functional constituencies (representing professional groups). In February 1988, the Hong Kong Government announced in a White Paper that the first direct elections to the Legislative Council would take place in 1991 and that 10 out of a total of 56 seats would be directly elected. In the early part of 1989 and following the incident of Tiananmen Square in June 1989, there were calls in Hong Kong for a faster pace of democratisation. OMELCO proposed that in 1991 one third of the seats should be directly elected and that by 1997 half should be directly elected. These proposals went well beyond the then draft of the Basic Law, Hong Kong's post-1997 constitution, which provided for 27% to be directly elected by 1997.

4. In late 1989 HMG entered into protracted and difficult discussions with the Chinese to persuade them to increase the number of directly elected seats in the Basic Law. On 16 February 1990 the Secretary of State announced that agreement had been reached with the Chinese for there to be 20 directly elected seats out of 60 (33%) in 1997, rising to 24 seats (40%) in 1999 and 30 seats (50%) in 2003. This paved the way for the introduction of 18 directly elected seats in 1991 and 20 in 1995.

5. The detailed arrangements for the 1991 LegCo elections were announced on 21 March 1990. The major changes included an increase in the number of functional constituency seats from 14 to 21, a reduction in the number of officials from 10 to 3 and in the number of appointed members from 20 to 17, and the appointment of a Deputy President. This means that for the first time in its history the Legislative Council to be elected in September 1991 will have an elected majority.

The Political Parties

6. Indigenous political parties are a very recent

phenomenon in Hong Kong. They have come into being in response to the prospect of the first direct elections to LegCo. In the past 18 months or so a number of small political groups have formed, amalgamated or dissolved, and it is not unusual for people to be members of more than one of these at the same time. The situation is likely to remain fairly fluid for some time to come.

7. Out of the various embryo parties and political groups two major groupings have emerged. They are the United Democrats of Hong Kong (UDHK), and the Liberal Democratic Federation (LDF). All these political groups are committed to democratic principles, but they have as yet few clearly defined policies. They are distinguished rather by their general attitude to certain key issues, such as the pace of democratisation and relations with China. Their initial membership comes mainly from different areas of the professional middle classes.

8. The United Democrats of Hong Kong, an amalgamation of various 'liberal' groups under the leadership of the lawyer Martin Lee, was established in April 1990. They tend to favour more radical policies, in particular a faster pace of democratisation, and are overtly critical of China on the issue of human rights. They are regarded as the "opposition" party, and at present appear to have more electoral support than their main rivals. Associated with the UDHK are a number of smaller groups, which maintain a separate identity but are prepared to make electoral agreements not to challenge each others candidates. They are The Association for Democracy and People's Livelihood (ADPL), established in 1986, which is active at the local, grass roots level; Meeting Point (MP) and the Hong Kong Affairs Society. The views of the Hong Kong Democratic Foundation (HKDF) are similar to those of UDHK, for example in advocating a faster pace of democratisation in Hong Kong. It represents professional and managerial interests, particularly among expatriates, and wants Hong Kong to be an

international city with equal rights for all residents. It did not perform well in this year's local elections, to District Boards (in March) and to the Municipal Councils (in May).

9. The Liberal Democratic Federation, established in November 1990, represents the business and professional establishment and is seen as being more supportive of the Hong Kong Government. It suffers from a lack of grass root organisational support, although a number of independent candidates share the LDF's outlook. LDF candidates have been slow in coming forward. This is partly because Hong Kong businessmen are reluctant to devote time to political activities rather than making money, partly because those who are already appointed members of ExCo and LegCo are afraid of losing their seats if they stand for elections, and partly because business interests are already represented through the functional constituencies.

10. There are other interest groups which have not formed political groupings or associations as such. These include: rural and New Territory interests, which find expression in a new political group, the Federation for the Stability of Hong Kong (FSHK), and in the Heung Yee Kuk, which represents the rural land owners. They are likely to make common cause with pro-China groups or even the conservative LDF in opposition to the UDHK. Some pro-China groups, such as the Federation of Trade Unions (FTU), fielded candidates in the March District Board elections, although they are more likely to support other candidates on an ad hoc basis with the purpose of blocking either pro-Taiwan sympathisers or the liberals.

11. Finally there are traditional groups such as the Civic Association and the Reform Club. They put up candidates for the District Board and Municipal Council elections but do not attempt to present themselves as modern political parties.

Mr. Lennox-Boyd: In accordance with the guidelines on the handling of representations by Members of Parliament in immigration cases, issued to Members on 14 December 1988, I have referred the question to the correspondence unit of the migration and visa department of the Foreign and Commonwealth Office. The hon. Member will receive a reply from the unit as soon as possible.

Mr. Rashad Mahmood

Mr. Madden: To ask the Secretary of State for Foreign and Commonwealth Affairs when a decision is to be made on the application made by Rashad Mahmood (Ref: IMM/82219) to the post in Islamabad to join his wife in the United Kingdom; and if he will make a statement.

Mr. Lennox-Boyd: In accordance with the guidelines on the handling of representations by Members of Parliament in immigration cases, issued to Members on 14 December 1988, I have referred the question to the correspondence unit of the migration and visa department of the Foreign and Commonwealth Office. The hon. Member will receive a reply from the unit as soon as possible.

SOVIET Solomon Smolyar

Mr. John Marshall: To ask the Secretary of State for Foreign and Commonwealth Affairs what representations have been made to the Soviet Government about their failure to grant an exit visa to Solomon Smolyar of Leningrad who has been offered treatment at the Rambam medical centre in Haifa.

Mr. Douglas Hogg: Mr. Smolyar's case is among those on which we regularly press the Soviet authorities, and has been raised again recently. We shall keep up the pressure until there is a satisfactory outcome.

ECU European Parliament

Mr. John Marshall: To ask the Secretary of State for Foreign and Commonwealth Affairs what estimate has been made of the cost of not having a single seat for the European Parliament.

Mr. Lennox-Boyd: We are not aware of any single official estimate.

Mr. John Marshall: To ask the Secretary of State for Foreign and Commonwealth Affairs when the Council of Ministers last discussed the seat of the European Parliament.

Mr. Lennox-Boyd: The Council of Ministers has not held a formal discussion of the European Parliament seat for some years. But the subject has been discussed informally at various times. Heads of Government briefly considered the European Parliament seat at the Dublin European Council last June.

HKD Hong Kong and China FED

Mr. Thorne: To ask the Secretary of State for Foreign and Commonwealth Affairs if he will make a statement on his visit to Hong Kong and China from 1 to 10 April.

Mr. Hurd: I paid an official visit to China from 3-8 April at the invitation of the Chinese Foreign Minister, and visited Hong Kong for a day at each end of that visit. This was the first visit by a Foreign Secretary to China since 1986.

In Peking I had two full sessions of talks with the Foreign Minister and met the Party General Secretary, the Premier, the chairman of the National People's Congress and the director of the Hong Kong and Macao Affairs Office. With the Foreign Minister, I covered major international issues of common concern, including the middle east, arms proliferation and Cambodia. We also discussed a number of bilateral matters, including commercial relations. I raised our concerns about human rights, including in Tibet, both with the Foreign Minister and with the General Secretary.

A central element in my discussions was Hong Kong. I told the Chinese that we wanted to intensify work on the practical issues which need to be resolved in order to ensure a smooth transition in 1997. In achieving this we need to respect two key principles. On the one hand, Britain, China and Hong Kong need to co-operate on the implementation of the joint declaration. On the other, the Hong Kong Government need to be able to fulfil their duty to govern effectively. Seeking the views of China on certain important matters, and paying close attention to those views where possible, is compatible with those principles, but the task of taking decisions rests with the Hong Kong Government.

The Chinese reaffirmed their support for the joint declaration and agreed that we should strengthen the work of the joint liaison group. We were unable to achieve a breakthrough on the question of Chinese support for the new airport in Hong Kong. It is an economic fact that private investment in such a project is unlikely to appear unless investors are confident that it has Chinese support.

HKD Hong Kong ESED

Mr. Tony Banks: To ask the Secretary of State for Foreign and Commonwealth Affairs what shark products in what quantities have been imported into Hong Kong in each of the last three years.

Mr. Lennox-Boyd [holding answer 25 March 1991]: The only shark product of significant quantity imported into Hong Kong is shark fin. The following quantities have been imported over the past three years:

	Tonnes
1988	3,738
1989	3,556
1990	3,838

Mr. Tony Banks: To ask the Secretary of State for Foreign and Commonwealth Affairs when he expects the Hong Kong authorities to make the next assessment of the total commercial ivory stock held within the colony.

Mr. Lennox-Boyd [holding answer 25 March 1991]: It is likely that the Hong Kong authorities will initiate the next assessment of the total commercial ivory stock held in Hong Kong towards the end of this year.

Mr. Tony Banks: To ask the Secretary of State for Foreign and Commonwealth Affairs if he will give details of the ivory exported from Hong Kong since 17 July 1990 in accordance with the CITES requirements.

Mr. Lennox-Boyd [holding answer 25 March 1991]: No commercial exports of ivory covered by CITES have been authorised since midnight on 17 July 1990 except for one pre-convention specimen, consisting of one antique piece weighing 0.1 kg.

COMPOSITION OF LEGCO

	1970	1973	1976	1979	1982	1985	1988	1991	1995 /7	1999	2003	2007
Elected by Electoral College	0	0	0	0	0	12	12	0	0	0	0	To be determined by the Legislative Council by two thirds vote and the consent of the Chief Executive ie could be 100% direct elections.
Elected by Functional Constituencies	0	0	0	0	0	12	14	21	30	30	30	
Appointed by Governor including - Officials	21 (8)	25 (10)	37 (15)	40 (16)	45 (18)	29 (7)	27 (7)	18* (0)	0	0	0	
Unofficials	(13)	(15)	(22)	(24)	(27)	(22)	(20)	(18)				
Ex-Officio	4	4	4	4	4	3	3	3	0	0	0	
Directly elected	0	0	0	0	0	0	0	18	20	24	30	
Elected by an Election Committee	0	0	0	0	0	0	0	0	10	6	0	
TOTAL	25	29	41	44	49	56	56	60	60	60	60	

* including one Deputy President

HONG KONG: Carthe beat pt 9





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(C21 Foreign / Kadoorie)

10 DOWNING STREET
LONDON SW1A 2AA

bc: PC

From the Private Secretary

2 April 1991

Sea Frohe

LORD KADOORIE

Thank you for your letter of 27 March recommending a meeting between Lord Kadoorie, Chairman of China Power and Light, and the Prime Minister.

changed to 1200 noon
S 27/4

The Prime Minister would be happy to see Lord Kadoorie at 1100 on Tuesday 21 May. May I take it that you will be in touch with Lord Kadoorie to tell him this.

I should be grateful if, in conjunction with the Foreign and Commonwealth Office, you could let me have briefing for the meeting. It would be helpful if this could reach me by Friday 17 May.

I am copying this letter to Christopher Prentice (Foreign and Commonwealth Office).

Jaw.
Steph
(J. S. WALL)

Stephen Speed, Esq.,
Department of Trade and Industry.

DTI



The Rt. Hon. Peter Lilley MP

Stephen Wall Esq
Private Secretary to
the Prime Minister
10 Downing Secretary
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Context

Direct line 071-215 5622
Our ref PE3287
Your ref
Date 27 March 1991

Prime Minister

Dear Stephen

LORD KADOORIE

You could do this at 1100 on 21 May. Agree?

I am writing to ask if the Prime Minister would be prepared to have a short meeting with Lord Kadoorie, Chairman of the major Hong Kong power utility China Light and Power (CLP), during his stay in London from 17-29 May. Lord Kadoorie called on Mrs Thatcher on 25 July last year. Sir Charles Powell's letter of 25 July recording this is attached.

Stephen
17/3

Lord Kadoorie's pro-British stance at CLP has helped UK companies win orders worth well over £1bn for plant and equipment since the 1970s. Castle Peak, which is the largest power station in South East Asia, is a showpiece for British engineering, with GEC turbines and Babcock boilers. Castle Peak has undoubtedly served as an important reference site and influenced the Chinese in their purchase of power stations.

Lord Kadoorie was the driving force in the joint venture between CLP and the Guangdong Power Corporation to build the nuclear power station at Daya Bay, Guangdong Province, near Hong Kong, which uses French nuclear reactors but British (GEC) turbine generators and much British ancillary equipment.

In the last eighteen months CLP have placed orders worth £24m with Hawker Siddeley and £50m with John Brown Engineering. China Light and Power are now making enquiries about their next large thermal power station in Hong Kong, for which tenders are expected to issue next year. This could be worth £1100m and

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the department for Enterprise

further stations are already being mentioned. GEC and Babcock International will face strong international competition in seeking a negotiated contract for this project.

Lord Kadoorie enjoyed a good relationship with Mrs Thatcher and it would be valuable if this could be continued with Mr Major. Lord Kadoorie is over 90 and rather fragile but his mind remains as good as ever. He still exerts considerable influence over CLP's decisions and a short meeting with the Prime Minister would give him great pleasure as well as encouraging his pro-British outlook.

Yours

David Mellor

SS
STEPHEN SPEED
Private Secretary

CONSERVATION



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373/27/7

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

25 July 1990

Dear Martin,

PRIME MINISTER'S MEETING WITH LORD KADOORIE

The Prime Minister had a talk this morning with Lord Kadoorie. He spoke with approval of the Government's policy on Hong Kong, while not hiding the continuing uncertainty in the colony. Hong Kong needed strong political leadership at local level. He was inclined to give the Chinese the benefit of the doubt about their intention to resume reform, and commented that a lot of people in Hong Kong had still to learn that they could not twist China's tail without provoking a reaction. He put the prospects of getting through to 1997 and beyond in good order at about 65%, while saying that many of his colleagues would put it rather higher.

The Prime Minister thanked Lord Kadoorie for the orders we had received from CLP in the past. Lord Kadoorie said that a new power station was being considered and he hoped this would lead to more orders for British industry. He understood that two further stations were being planned on the Chinese side, but the money was not available at present to finance them. The French had established a strong position in relation to both projects.

Lord Kadoorie said he was particularly exercised about one point relating to our nationality package, and that was the importance of not discriminating between British firms with headquarters in the UK and other firms - in practice no less British - which were based only in Hong Kong. He would be writing to Foreign Office Ministers about this and would send the Prime Minister a copy of his letter. The Prime Minister said she would discuss this with the Foreign Secretary.

I am copying this letter to Simon Gass (Foreign and Commonwealth Office).

Yours sincerely,

Charles Powell

Martin Stanley, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

K13/8

FROM: THE LORD KADOORIE, CBE, JP

Lawrence Kadoorie (2)

Cable "Kadoorie" Hong Kong
Telephone 52492291
Facsimile: (852) 8459133
Telex: 73427-KADOO



St. George's Building
Hong Kong

pa
13/8

August 8, 1990

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

mt

Dear Prime Minister,

Your finding time to see me during my recent visit to London was very much appreciated, many thanks.

This brief note is to let you know that the ground breaking ceremony for the new, small power station at Penny's Bay took place last week. The contract for the supply of the main gas turbine plant to be installed in this power station was awarded to John Brown Engineering Ltd., in June, 1990. Hopefully, there will be more to follow.

— With all good wishes,

Sincerely yours,

Lawrence Kadoorie
Kadoorie

CONFIDENTIAL



*File
a: kadoorie dtd
bc pc*

10 DOWNING STREET
LONDON SW1A 2AA

SUBJECT CC MASTER

From the Private Secretary

25 July 1990

PRIME MINISTER'S MEETING WITH LORD KADOORIE

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I am copying this letter to Simon Gass (Foreign and Commonwealth Office).

Charles Powell

Martin Stanley, Esq.,
Department of Trade and Industry.

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PRIME MINISTER

MEETING WITH LORD KADOORIE

You are to see Lord Kadoorie briefly tomorrow. He is now 91 and has travelled here for the first time in two years. He returns to Hong Kong on Friday.

You will want a general talk about Hong Kong's future (he is sceptical about greater democracy), and about relations with China. We probably shall not have learned much from Mr. Maude's visit by tomorrow.

You will also want to make a firm statement of UK interest in being involved in China Light and Power's next power station, to which CLP are now giving thought. Daya Bay is going well.

A fuller note by DTI is in the folder.

CDP

CDP

24 July 1990

jd c:\wpdocs\foreign\kadoorie

RESTRICTED

CCP
cc back-up

The Rt. Hon. Peter Lilley MP
Secretary of State for Trade and Industry

Charles Powell Esq
Private Secretary to
the Prime Minister
No 10 Downing Street
London
SW1

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Enquiries
071-215 5000

Telex 8811074/5 DTHQ G
Fax 071-222 2629

Direct line 071 215 5622
Our ref NP1AYR
Your ref
Date 23 July 1990

See Charles

CALL ON THE PRIME MINISTER BY LORD KADOORIE, CHAIRMAN OF CHINA LIGHT AND POWER CO (HONG KONG), 25 JULY

Lord Kadoorie will probably wish to concentrate on Hong Kong's future, bringing in the power and project dimension later in the discussion.

Lord Kadoorie, now aged 91 and somewhat frail, remains lucid and committed to Hong Kong. It is the first time for two years that his doctors have allowed him to travel and his visit to Geneva on his way to London has refreshed him. He returns to Hong Kong on 27 July.

The Political Situation

Lord Kadoorie focused on the political dimension when he saw my Secretary of State on 19 July. He said that it was important that Britain continued to give a clear lead in Hong Kong. The political situation was troubled. Hong Kong prospered most under a benevolent oligarchy and the business community were uneasy about the trend towards democracy. The Governor was receiving unjustified criticism and deserved every support in his difficult task.

On the citizenship issue Lord Kadoorie said that China Light and Power (CLP) were losing key engineers and managers in their pursuit of passports. He welcomed the British Government's decision on the 50,000; it was a pity that China saw this move as an attempt to establish a Trojan horse after 1997 in Hong Kong. Britain and Hong Kong should work to



restore relations with China to help overcome these suspicions. Another reason for doing so was Japan's determination to resume aid loans to China ahead of the West.

I assume that the Prime Minister will not require briefing on the issues above given her intimate knowledge of Hong Kong but she may wish to stress that we are making every effort to improve our relations so that we can cooperate more closely over Hong Kong. Mr Maude's visit to Peking from 24-27 July will be an important stage in that process. Mr Maude's objective will be to persuade the Chinese to adopt a more positive attitude and to refrain from public criticism of the Bill of Rights and the Nationality Bill.

Power

It would be helpful if the Prime Minister could raise the UK's strong continuing interest in CLP's capital expenditure programme. She will recall that in 1982 she opened Castle Peak A Station for which GEC provided the turbine generators and Babcock the boilers. The same companies also supplied the B Station which became operational 13 months ahead of schedule. This showpiece station has helped British companies sell into China.

Lord Kadoorie was the driving force behind the joint venture with the Chinese to build a nuclear power station at Daya Bay some 50km north of Hong Kong. GEC obtained the contract for the turbine generators - the French providing the nuclear reactors. The project is progressing well and Lord Kadoorie is very proud of this achievement.

CLP is now giving thought to its next major power station. The Prime Minister might state that she hopes experience with UK suppliers will lead Lord Kadoorie to continue to work closely with them. The opportunities here are good and the potential contract is for the supply of up to 5300 MW of generating capacity worth over £1,100 million.

I am copying this letter to Simon Gass in the FCO.

Zs wv

B. Slocock

BEN SLOCOCK
Private Secretary

dti

the department for Enterprise

cc/c

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

Charles Powell Esq
Private Secretary to
the Prime Minister
10 Downing Street
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can
2/7

Direct line 071 215 5623
Our ref PB1AOV
Your ref
Date 2 July 1990

See Charles

LORD KADOORIE - PROPOSED MEETING WITH THE PRIME MINISTER

Further to your letter of ~~20~~ June we have now received confirmation from Lord Kadoorie that he would be delighted to attend a meeting with the Prime Minister on Wednesday 25 July at 10.00 am.

Yours ever

Ben Slocock

BEN SLOCOCK
Private Secretary



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HONGKONG: Castle Peak Pt. 4.



CONSERVATION



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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

20 June 1990

Lord Kadoorie

Thank you for your letter of 18 June suggesting the Prime Minister should see Lord Kadoorie while he is here in late July. The Prime Minister would be ready to do so and we could offer 10.00 a.m. on Wednesday, 25 July.

(CHARLES POWELL)

Ben Slocock, Esq.,
Department of Trade and Industry.

EA

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dti

the department for Enterprise

ccfc
①

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

Prime Minister

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

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Enquiries
071-215 5000

Telex 8811074/5 DTHQ G
Fax 071-222 2629

Agree to see
him? He is still
very influential in
major commercial
decisions.

Yes
MS

Direct line 071 215 5622
Our ref PB4ANX
Your ref
Date 18 June 1990

See Charles

CLP 19/6

LORD KADOORIE

I am writing to ask if the Prime Minister would be prepared to have a short meeting with Lord Kadoorie, Chairman of the major Hong Kong power utility China Light and Power, during his stay in London from 12 to 27 July.

The Prime Minister will recall her meeting with Lord Kadoorie during his visit in September 1987, when among other things they discussed the future of Hong Kong and the availability of passports for professional people from the Colony. He remains an important and influential figure in Hong Kong society. Apart from China Light and Power (CLP), Lord Kadoorie's family also has other major business interests in Hong Kong, mainly property hotels and travel.

Lord Kadoorie's pro-British stance at CLP has helped UK companies win orders worth well over £1bn for plant and equipment since the 1970s. Castle Peak, which is the largest power station in South East Asia, is a showpiece for British engineering, with GEC turbines and Babcock boilers. Castle Peak has undoubtedly served as an important reference site and influenced the Chinese in their purchase of power stations. Lord Kadoorie was the driving force in the joint venture between CLP and the Guangdong Power Corporation to build the nuclear power station at Daya Bay, Guangdong Province, near Hong Kong, which uses French nuclear reactors but British (GEC) turbine generators and much British ancillary equipment.



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the department for Enterprise

In the last four months CLP have placed orders worth £24m with Hawker Siddeley and £50m with John Brown Engineering. China Light and Power are now making enquiries about their next large power station in Hong Kong, for which tenders are expected to issue next year. This could be worth £1100m and a second station is already being mentioned. GEC and Babcock International will face strong international competition in seeking a negotiated contract for this project.

Although now over 90 and not in the best of health (his doctors have not allowed him to travel for the last couple of years), Lord Kadoorie still exerts considerable influence over CLP's decisions. A short meeting with the Prime Minister would give him great pleasure and would encourage his pro-British outlook. Arrangements are being made for him to meet my Secretary of State during his visit. He will be staying at the Connaught Hotel, Mayfair: an appointment with the Prime Minister could be coordinated through the British Trade Commission, Hong Kong. We understand that he leaves for his visit to Europe at the beginning of July.

I am copying this letter to Simon Gass (FCO).

Yours ever

Ben Slocock

BEN SLOCOCK
Private Secretary





file DASABO

bc : pc

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

15 September 1987

PRIME MINISTER'S MEETING WITH LORD KADOORIE

The Prime Minister had a talk this morning with Lord Kadoorie. Lord Kadoorie's comments followed very closely the notes which he had sent in advance. Lord Kadoorie said that the Daya Bay project was proceeding well. The first concrete had been poured recently. China Light and Power had now been approached about the possibility of building two further coal-fired power stations in China, as described in his note. On this occasion, however, the Chinese might insist on a call for open tenders. He would be seeing Lord Weinstock and would urge GEC to make a major effort. There were also difficulties over the method of payment. He was considering a scheme for payment in coal. There was stiff competition from the Japanese.

Lord Kadoorie turned to the difficulty of retaining skilled middle-level Chinese staff in Hong Kong. These people were very worried about the possibility, after 1997, of having only a Chinese passport and perhaps having to wait ten years for a visa. They were therefore moving out of Hong Kong to countries such as Australia and Canada where they could easily acquire passports. It was very difficult to replace them. The French were considering a plan to offer French nationality to qualified engineers working on the nuclear project at Daya Bay, in order to retain their services. He wondered whether something similar could be done by the UK. The Prime Minister said that she was well aware of the problem, which caused her considerable anguish. The trouble was that any such move on our part would be interpreted by the Chinese Government as lack of faith in the Agreement and by people in Hong Kong as lack of confidence in the future. Anyway, we had no power to give such people citizenship unless they met the residence requirements. She would ponder the problem further but could not be optimistic about a solution.

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1.

Lord Kadoorie said that he had just held a meeting with the new Chairman of Exxon, Mr Rawl. They were both concerned about the risk of a predatory bid for China Light and Power. Although his company and Exxon between them controlled 55 per cent of the company, they had only 35 per cent of the voting rights. It was very important for Hong Kong and for its relations with China to avoid any disruption in the present pattern of co-operation. There was no immediate threat but it was a long-term worry. The two companies would now try to devise a system whereby they could be reasonably sure of preserving their control. Lord Kadoorie added that Exxon were keen to join China Light and Power in further non-nuclear projects in China in any but the nuclear field.

The Prime Minister would like the point about Mr Stones to be followed up.

I am copying this letter to Robert Culshaw (Foreign and Commonwealth Office) and Philip Mawer (Home Office).

C D POWELL

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Timothy Walker, Esq.
Department of Trade and Industry

DRAFT

MEETING WITH LORD KADOORIE CBE JP: 15 SEPTEMBER 1987

Discussion Points:

1 Daya Bay Nuclear Power Station: Delighted at the progress of the nuclear project, and the major effort made by China Light and Power (CLP), in conjunction with the Hong Kong Government, to allay local Hong Kong concerns and agitation. This seems to be settled-down, but very ready to liaise in the future.

2 Future projects: We look forward to the professional and friendly relations between CLP and UK companies being developed for further projects in China, and we stand ready to help wherever possible.

3

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4 CLP and Exxon: We are aware through contacts with Lord Kadoorie and senior CLP management, of problems in relations with Exxon. This is basically for the shareholders to sort out, but we have shown that we are ready to use our good offices whenever Lord Kadoorie indicates. Perhaps he could keep us in touch with his conversations with Mr Rawl and any other problems as they arise.

5 Influence of Japan: We value Lord Kadoorie's advice.

The Government is keeping a close eye on the full range of Japan's industrial and trade activities, with a view to being firm when necessary but also taking advantage of opportunities as they present themselves.

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BRIEF FOR PRIME MINISTER'S MEETING WITH LORD KADOORIE CBE JP
CHAIRMAN OF CHINA LIGHT AND POWER COMPANY (CLP)

BACKGROUND

1 The Prime Minister last met Lord Kadoorie in Hong Kong in December 1985 before the negotiations for the Daya Bay nuclear project were successfully completed.

2 China Light and Power Company (CLP)

CLP has been a major customer for UK power equipment: since 1977, orders in excess of £1 billion have been placed for Castle Peak and associated transmission network in Hong Kong. The Cable Peak 'B' station was opened in October 1986 by HRH Duke of Edingburgh.

3 Guangdong (Daya Bay) Nuclear Project:

CLP part of the Guangdong Nuclear Power Joint Venture Company which is a Hong Kong/Chinese joint venture and the client for the Daya Bay nuclear power station. In September 1986 GEC were awarded the contract, worth over £250m, to supply the turbine generators for the station. Lord Kadoorie's personal commitment to the project played an important part in the successful conclusion of negotiations.

4 Future Projects:

CLP has been asked to enter into joint ventures with Chinese investment agencies in the financing, construction and operation of new thermal power stations. For one, likely to be built in Guangdong province, CLP hopes to offer a replica of its own Castle Peak 'B' station in Hong Kong. CLP are presently discussing the project with GEC.

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6 CLP/Exxon Relationships:

In the past Lord Kadoorie has been under considerable pressure where there has been disagreements between CLP and their largest shareholder, Exxon, over CLP's participation in the Guangdong nuclear project. Exxon has since agreed to co-operate with CLP on any non-nuclear project in China. Whilst essentially an internal matter for the company, DTI has used its good offices to underline Government commitment and support when CLP have thought this useful. We remain ready to do so in future.

7 Increase in Japanese influence throughout the area:

Japan is a major exporter to and investor in Hong Kong as is UK. While seeking to maximise UK trade and investment we must also welcome for political reasons the demonstration of Japanese confidence in Hong Kong's future as a major business and trade centre in the Far East.

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BACKGROUND

1. There is a continuing level of pressure in Hong Kong for people to acquire British citizenship. The Prime Minister explained to Sir Michael Sandberg last year that it was not possible to grant British citizenship to wealthy businessmen in return for investment in the United Kingdom.
2. We do not accept that there is an inordinate wish to emigrate from Hong Kong: or that, to retain key personnel, they should be offered British citizenship as a safety net. To accept this premise would quickly be seen in Hong Kong as reflecting a lack of confidence by the government in Hong Kong's future.
3. In any event, there is no provision in nationality law to grant British citizenship as a reward or an honour. Applicants for British citizenship must meet the statutory requirements. An unavoidable requirement of naturalisation is that applicants should have been granted settlement here on the date of their application and that they should have been in the country exactly 5 years before the day they apply (or 3 years in the case of people married to British citizens). There are other residential requirements limiting, for example, absences from the United Kingdom during the 5 or 3 year periods. But we have discretion to set these aside and are ready to be flexible provided we can be satisfied that the applicant is really established in this country and has thrown in his lot here.
4. Employees of the China Light & Power Company working in Hong Kong and China are very unlikely to have established any roots in the United Kingdom or basis for a claim to British citizenship, although they may already be British Dependent Territories citizens (who remain subject to immigration control here).

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BACKSLASH

There is a continuing level of activity in Hong Kong for people to... (The text is mirrored and difficult to read.)

It is a fact that the... (The text is mirrored and difficult to read.)

The... (The text is mirrored and difficult to read.)

The... (The text is mirrored and difficult to read.)

CONFIDENTIAL

BRIEF FOR THE PRIME MINISTER'S MEETING WITH
LORD KADOORIE ON 15 SEPTEMBER 1987

BRITISH CITIZENSHIP FOR CHINA LIGHT AND POWER COMPANY PERSONNEL

LINE TO TAKE

1. Recognise the valuable contribution of China Light and Power Company to the prosperity of Hong Kong. But do not accept pessimistic view of people's future in Hong Kong. We have no power anyway to grant British citizenship to the Company's key employees. People must meet the legal requirements.
2. In general, applicants for British citizenship must have lived in the United Kingdom for 5 years and have been granted settlement under the Immigration Rules. This applies equally to British Dependent Territories citizens. Unlikely that China Light and Power Company personnel working in Hong Kong or China could qualify.
3. Defensive if question of emigration from Hong Kong is pressed.

Nothing new in people moving out of Hong Kong. Long tradition of people being educated and settling abroad. Fairly steady emigration at the moment, but not inordinately high. Do not consider it an indication of any real lack of confidence in Hong Kong. Economic indicators tend to show the opposite.

CONFIDENTIAL

PRIME MINISTER

MEETING WITH LORD KADOORIE

You are to see Lord Kadoorie on Tuesday. He has thoughtfully provided you with a note of the points which he hopes to raise. The brief is geared to replying to them.

The trickiest ones are:

(i)

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- (ii) British Citizenship for China Light and Power Company Personnel. He suggests that the best way to retain key qualified staff as 1997 gets nearer is to give them British nationality. I know where your personal sympathies lie on this. But I am afraid that you ought to stick to the same line that you took on this subject with Michael Sandberg last year. We have no power to give such people citizenship unless they meet the residence requirements. Anyway, to accept the concept of giving British citizenship as a safety net would be seen as reflecting lack of confidence in Hong Kong's future which is precisely what we want to avoid.

CDP
CHARLES POWELL

11 September 1987

VC3ASN

[Lord Kadoorie's Notes]

CONFIDENTIAL

NOTES FOR MEETING WITH THE PRIME MINISTER

1. Guandong Nuclear Investment Joint Venture Progress Report
(G.N.I.J.V)

A highlight of our co-operation with China occurred on Friday, 7th August, when I attended a ceremony to mark the pouring of the first concrete on Reactor No. 1 at our joint venture nuclear power station in Daya Bay.

After some eight years of negotiations and working with the various Ministries and State Council in China, it gave me a great feeling of achievement. The project, which is the largest joint venture in China and seen as great importance to the Party and State Council is of real significance to Sino-British relations and the future of Hong Kong.

2. Inquiries as to Future Projects

My company has now been asked to joint venture with P.R.C. investment agencies in the financing, construction and operation of new fossil fired power stations. The one most favoured by the Chinese is located in Ping-gu County, 50 kms Northeast of Beijing and will ultimately have a capacity of four 350 MW units. In addition, we have been approached by our friends in Guandong to build a four 660 MW coal fired power station, some 60 kms up the Pearl River from Hong Kong. Payment for plant and profit will be achieved by purchasing coal for Reminbi selling to China Light & Power Company for U.S. dollars.

Naturally, we think it to be in our best interests for these plans to be replication of our own power stations at Castle Peak.

3. Scarcity of Senior Qualified Staff

A growing problem which is assuming serious proportions is the loss of qualified staff.

There is a very real incentive for ethnic Chinese in this class to emigrate in order to obtain a passport which, in an emergency, would give the holder right of abode in a country other than the P.R.C.

In the electrical industry it takes 12 to 14 years of practical experience before an employee can be promoted to the position of "Charge Engineer", and when a man in this position leaves, he is very difficult to replace.

The same thing applies in the banking field with senior accountants, and to a degree, throughout industry generally.

4. The French at Daya Bay are so concerned that they are considering a plan to give French nationality to senior qualified engineers working on the nuclear project in order to attract and maintain their services.

Can England consider a similar plan ?

Used with discretion, it would be very helpful to those of us who are trying to maintain Britain's reputation in China.

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6. C.L. & P. - Exxon relationship
Mr. Rawls' visit to London
7. C.L. & P. - G.E.C. relationship
8. Rapid increase in Japanese influence throughout the area.

bs/

cc pc
cc hon

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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

PS/ Secretary of State for Trade and Industry

11 September 1987

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

COP
11/9

Dear Charles,

LORD KADOORIE'S MEETING : 15 SEPTEMBER 1987

... I attach some notes for the Prime Minister's use when Lord Kadoorie calls on Monday.

The response on his concern about losing key professional staff from Hong Kong is covered separately by a note from the Home Office (attached). But from a Trade angle, it is indeed true that Canada, the US, and Australia, with France and others not far behind, are actively attempting to recruit bright Hong Kong people, with an eye to their value in future trade with China. The line on Lord Kadoorie's nomination for an honour for Mr Stones has been agreed with FCO.

I am copying this letter to the recipient of yours.

Yours
Paul

PAUL STEEPLES
Private Secretary

*Encl

JF5CDY

CONFIDENTIAL

NOTES FOR MEETING WITH THE PRIME MINISTER

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(G.N.I.J.V)**

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8. Rapid increase in Japanese influence throughout the area.

bs/

CONFIDENTIAL

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1. There is a continuing level of pressure in Hong Kong for people to acquire British citizenship. The Prime Minister explained to Sir Michael Sandberg last year that it was not possible to grant British citizenship to wealthy businessmen in return for investment in the United Kingdom.
2. We do not accept that there is an inordinate wish to emigrate from Hong Kong: or that, to retain key personnel, they should be offered British citizenship as a safety net. To accept this premise would quickly be seen in Hong Kong as reflecting a lack of confidence by the government in Hong Kong's future.
3. In any event, there is no provision in nationality law to grant British citizenship as a reward or an honour. Applicants for British citizenship must meet the statutory requirements. An unavoidable requirement of naturalisation is that applicants should have been granted settlement here on the date of their application and that they should have been in the country exactly 5 years before the day they apply (or 3 years in the case of people married to British citizens). There are other residential requirements limiting, for example, absences from the United Kingdom during the 5 or 3 year periods. But we have discretion to set these aside and are ready to be flexible provided we can be satisfied that the applicant is really established in this country and has thrown in his lot here.
4. Employees of the China Light & Power Company working in Hong Kong and China are very unlikely to have established any roots in the United Kingdom or basis for a claim to British citizenship, although they may already be British Dependent Territories citizens (who remain subject to immigration control here).

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BRIEF FOR THE PRIME MINISTER'S MEETING WITH
LORD KADOORIE ON 15 SEPTEMBER 1987

BRITISH CITIZENSHIP FOR CHINA LIGHT AND POWER COMPANY PERSONNEL

LINE TO TAKE

1. Recognise the valuable contribution of China Light and Power Company to the prosperity of Hong Kong. But do not accept pessimistic view of people's future in Hong Kong. We have no power anyway to grant British citizenship to the Company's key employees. People must meet the legal requirements.
2. In general, applicants for British citizenship must have lived in the United Kingdom for 5 years and have been granted settlement under the Immigration Rules. This applies equally to British Dependent Territories citizens. Unlikely that China Light and Power Company personnel working in Hong Kong or China could qualify.
3. Defensive if question of emigration from Hong Kong is pressed.

Nothing new in people moving out of Hong Kong. Long tradition of people being educated and settling abroad. Fairly steady emigration at the moment, but not inordinately high. Do not consider it an indication of any real lack of confidence in Hong Kong. Economic indicators tend to show the opposite.

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DRAFT

MEETING WITH LORD KADOORIE CBE JP: 15 SEPTEMBER 1987Discussion Points

- 1 Daya Bay Nuclear Power Station: Delighted at the progress of the nuclear project, and the major effort made by China Light and Power (CLP), in conjunction with the Hong Kong Government, to allay local Hong Kong concerns and agitation. This seems to be settled-down, but very ready to liaise in the future.

- 2 Future projects: We look forward to the professional and friendly relations between CLP and UK companies being developed for further projects in China, and we stand ready to help wherever possible.

- 3 Honour for WF(Bill) Stones: We recognise full well Bill Stones contribution to British exports and to the successful development of CLP as a provider of reliable power for mainland Hong Kong. Lord Kadoorie will understand that we cannot give a commitment, but all that he says will be taken fully into account.

- 4 CLP and Exxon: We are aware through contacts with Lord Kadoorie and senior CLP management, of problems in relations with Exxon. This is basically for the shareholders to sort out, but we have shown that we are ready to use our good offices whenever Lord Kadoorie indicates. Perhaps he could keep us in touch with his conversations with Mr Rawl and any other problems as they arise.

5 Influence of Japan: We value Lord Kadoorie's advice. The Government is keeping a close eye on the full range of Japan's industrial and trade activities, with a view to being firm when necessary but also taking advantage of opportunities as they present themselves.

BRIEF FOR PRIME MINISTER'S MEETING WITH LORD KADOORIE CBE JP
CHAIRMAN OF CHINA LIGHT AND POWER COMPANY (CLP)

BACKGROUND

1 The Prime Minister last met Lord Kadoorie in Hong Kong in December 1985 before the negotiations for the Daya Bay nuclear project were successfully completed.

2 China Light and Power Company (CLP)

CLP has been a major customer for UK power equipment: since 1977, orders in excess of f1 billion have been placed for Castle Peak and associated transmission network in Hong Kong. The Cable Peak 'B' station was opened in October 1986 by HRH Duke of Edingburgh.

3 Guangdong (Daya Bay) Nuclear Project:

CLP part of the Guangdong Nuclear Power Joint Venture Company which is a Hong Kong/Chinese joint venture and the client for the Daya Bay nuclear power station. In September 1986 GEC were awarded the contract, worth over £250m, to supply the turbine generators for the station. Lord Kadoorie's personal commitment to the project played an important part in the successful conclusion of negotiations.

4 Future Projects:

CLP has been asked to enter into joint ventures with Chinese investment agencies in the financing, construction and operation of new thermal power stations. For one, likely to be built in Guangdong province, CLP hopes to offer a replica of its own Castle Peak 'B' station in Hong Kong. CLP are presently discussing the project with GEC.

Temporarily retained

THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT

6 CLP/Exxon Relationships:

In the past Lord Kadoorie has been under considerable pressure where there has been disagreements between CLP and their largest shareholder, Exxon, over CLP's participation in the Guangdong nuclear project. Exxon has since agreed to co-operate with CLP on any non-nuclear project in China. Whilst essentially an internal matter for the company, DTI has used its good offices to underline Government commitment and support when CLP have thought this useful. We remain ready to do so in future.

7 Increase in Japanese influence throughout the area:

Japan is a major exporter to and investor in Hong Kong as is UK. While seeking to maximise UK trade and investment we must also welcome for political reasons the demonstration of Japanese confidence in Hong Kong's future as a major business and trade centre in the Far East.

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FILE
DA

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

9 September 1987

LORD KADOORIE

As you know, Lord Kadoorie is coming to see the Prime Minister on 15 September. He has thoughtfully provided a note of the points which he intends to raise. I enclose a copy. I shall be grateful if you would let me have appropriate briefing in conjunction with other departments.

I am copying this letter and enclosure to Philip Mawer (Home Office) and Robert Culshaw (Foreign and Commonwealth Office).

(C.D. POWELL)

Tim Walker, Esq.,
Department of Trade and Industry.

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Cable "Kadoorie" Hong Kong
Telephone 5-21,9221
Telex 73427



St. George's Building
Hong Kong

From
The Lord Kadoorie C.B.E.J.P.
Apt. 1104 Coligny Parc
9 A Plateau de Frontenex
1208 Geneva
Switzerland

CMP 11/4.

tel. 010-41-22-36.63.02

September 7, 1987

Mr. Charles Powell
Private Secretary to
the Prime Minister
10 Downing Street
London, S.W.1A 2AA
U.K.

Dear Mr. Powell,

Knowing how busy the Prime Minister is, and in anticipation of our meeting on 15th inst., I am taking the liberty of sending you a brief note of matters I would like to mention on that occasion.

Thanking you,

Sincerely yours,

Kadoorie

Kadoorie



FROM: The Lord Kadoorie, CBE, JP

*St. George's Building
Hong Kong
Telephone 5-249221*

August 14, 1987

Mr. Charles Powell
Private Secretary to
the Prime Minister
10 Downing Street
London SW1A 2AA
ENGLAND

Dear Mr. Powell,

14/8

Thank you for your letter advising me that the Prime Minister can see me at 9.00 a.m. on Tuesday, 15th September.

I much appreciate this courtesy and shall arrange to return to London from Geneva accordingly.

With kind regards,

Sincerely yours,

Kadoorie

Kadoorie



Je v
cfo

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

7 August 1987

BP || The Prime Minister has asked me to thank you for your letter of 29 July. She would very much like to see you but unfortunately cannot manage the dates when you will be here in August. If it would not be too much trouble for you to come over from Geneva, the Prime Minister would be able to see you at 9 o'clock on Tuesday 15 September. Perhaps you would be kind enough to let me know in due course whether this is convenient.

(CHARLES POWELL)

The Lord Kadoorie, CBE, JP.

DA

GR



DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

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

PS/ Secretary of State for Trade and Industry

6 August 1987

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Dear Charles,

WITH CDP

Thank you for your letter of 3 August covering a request from Lord Kadoorie that he should meet the Prime Minister during his forthcoming visit to Europe.

Over the years Lord Kadoorie has been of immense value to UK companies seeking business in Hong Kong and China, and he continues to wield considerable influence. We believe that if it is at all possible the Prime Minister should agree to a short meeting with Lord Kadoorie. We understand that what he has in mind is effectively a courtesy call in which he can update the Prime Minister on progress and prospects on projects in Hong Kong and China.

We have also spoken to the FCO about Lord Kadoorie's proposal. They have no objection to the Prime Minister meeting him.

... I attach a draft for the Prime Minister's signature agreeing to a meeting.

I am sending a copy of this letter and the draft to Lyn Parker at the FCO.

Yours

Paul

PAUL STEEPLES
Private Secretary

Encl

JF4BAU



DRAFT REEPLY FOR THE PRIME MINISTER TO SEND TO:

The Lord Kadoorie CBE JP
St Georges Building
Hong Kong

Thank you for your letter of 29 July. As you say, much has happened since we last met and I should be delighted if we could meet while you are in Europe.

Perhaps your office might contact mine to arrange a suitable time.

BB2ABJ



GOVERNMENT

Lord KADOORIE

5/8



h9

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 August, 1987.

Chased:
coming this evening
JD 6/8

I enclose a copy of a letter to the Prime Minister from Lord Kadoorie, asking to call on her in August or September. I should be grateful for **very early advice** on whether the Prime Minister needs to see him. One possibility might be to suggest that he sees Lord Young in August, holding open the possibility of a meeting with the Prime Minister in September if that appears justified, following the meeting with Lord Young.

I am copying this letter and enclosure to Lyn Parker (Foreign and Commonwealth Office).

(C.D. Powell)

Paul Steeples, Esq.,
Department of Trade and Industry.

①

FROM: The Lord Kadoorie, CBE, JP

Cable "Kadoorie" Hong Kong
Telephone 5-21,9221
Telex 73127



St. George's Building
Hong Kong

July 29, 1987

R31

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

Prime Minister

Agree to see Lord

Kadoorie briefly in September?

Yes

He wants to bring you
up to date on commercial
prospects in Hong Kong

Dear Prime Minister,

Much water has passed under the bridge since the last time I had the pleasure of informing you as to progress on China's largest joint venture - construction of the nuclear power station at Daya Bay.

CDP
b/p

Other potential projects are developing which could involve British industry and knowing how busy you are I hesitate to ask but perhaps it would be useful if you could spare half-an-hour to grant me an interview during my forthcoming visit to England and the Continent.

I shall be in London from August 15th to August 30th and in Geneva until September 22nd. If it is possible for you to see me between these dates I would be happy to fit in at your convenience.

With kindest regards,

Sincerely yours,

Lawrence Kadoorie

Kadoorie

9.00-9.30

on Tuesday 15/9.

MCA

1/2

HONG KONG Castle Peak. PE 4



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PROJECTS & EXPORT POLICY DIVISION
DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5462
GTN 215)
(Switchboard) 01-215 7877



30 April 1987

C D Powell Esq
Prime Minister's Office
10 Downing Street
London SW1

*CDP
20/4*

Dear Charles,

THE OTHER END OF THE TELESCOPE - GUANGDONG NUCLEAR
POWER STATION

Following the final signature of this project, David Wilson asked me to prepare a "history". With something well over 120 files, we really couldn't manage this. But I gave a recent lecture on "Chinese Negotiating Techniques", and my speech notes are attached, which I have circulated to Departments as a brief overview.

Since I have quoted specifically one of your phrases, you might be amused to glance through this account at some time when time permits.

*Sam,
Chris*

C B BENJAMIN

30 W. 9th St.
NEW YORK, N.Y.
APR 12 1987
3 PM 87

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NEGOTIATING TECHNIQUES

INTRODUCTION

Novel experience - to negotiate with a party for more than a year, apparently successfully, without the latter making more than one concession.

Difficult to disentangle, since PEP were involved in a series of negotiations:

- (a) Treasury;
- (b) The French;
- (c) China Light and Power;
- (d) GEC;
- (e) The Banks;

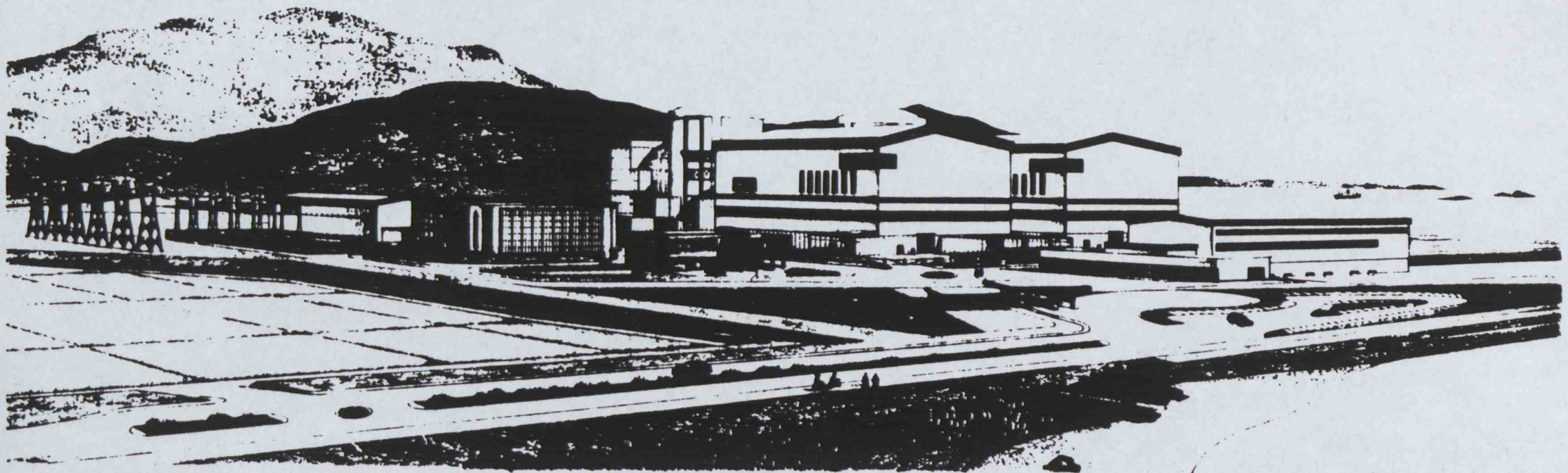
and finally, the Chinese.

There is also a problem in disentangling hindsight from the realities of the existential dilemma when actually at the negotiating table. But clearly there are lessons that we have learned. Try to set these out.

THE TARGET

The Daya Bay station - first stage, 2 x 950 MW PWR station, with French nuclear island and UK turbines plus associated

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GUANGDONG NUCLEAR POWER PLANT

GUANGDONG - TIMETABLE

1979

AUTUMN

CHINESE CANCEL ORDERS FOR 2 FRENCH PWR'S
PRELIMINARY DISCUSSIONS BETWEEN CLP AND
GPC ABOUT POSSIBLE NUCLEAR STATION

1980

DECEMBER

BRITISH GOVERNMENT LEND PERSONNEL TO
GPC/CLP FEASIBILITY STUDY TEAM

BRITISH AND FRENCH GOVERNMENTS BEGIN
TALKS ON COLLABORATION. UK KEEPS OPEN
US OPTION

1981

CHINESE CONSIDERING FEASIBILITY STUDY

CONTINUING DEBATE WITHIN UK ON FRENCH
AND US OPTIONS

1982

MARCH

GPC VISIT UK TO CONFIRM GEC'S ABILITY
TO PROVIDE CONVENTIONAL ISLAND

SUMMER

US OFFICIALS INDICATE NO EARLY RESOLUTION
OF TECHNOLOGY TRANSFER PROBLEMS

NOVEMBER/DECEMBER

VICE PREMIER LI PENG VISITS UK AND FRANCE
TO DISCUSS PROJECT. STATE COUNCIL
SUBSEQUENTLY APPROVES PROJECT.

1983

MAY

SEPARATE MEMORANDA SIGNED BY FRENCH AND
BRITISH GOVERNMENTS WITH MWREP
CONFIRM PREFERRED ANGLO/FRENCH APPROACH

1984

FEBRUARY/MARCH

GEC AND FRAMATOME BIDS GO IN
TECHNICAL DISCUSSIONS BEGIN

DECEMBER

1ST ROUND OF FINANCIAL NEGOTIATIONS WITH
BOC IN PARIS AND LONDON

1985

JANUARY

GNP JVC FORMALLY ESTABLISHED

APRIL/MAY

2ND ROUND OF FINANCIAL NEGOTIATIONS IN
SHENZHEN,

JULY

3RD ROUND OF FINANCIAL NEGOTIATIONS
IN SHENZHEN, CONCURRENT WITH COMMERCIAL
NEGOTIATIONS

OCTOBER

"FINAL" NEGOTIATIONS. 4th ROUND OF
FINANCIAL NEGOTIATIONS IN PEKING. ALL
PARTIES PRESENT SIMULTANEOUSLY

NOVEMBER/DECEMBER

FRENCH FINALISE PRICE AGREEMENT IN PARIS
FINAL FRENCH FINANCIAL NEGOTIATIONS IN
PEKING

1986

JANUARY

GEC REACH AGREEMENT ON PRICE IN PEKING.
FINAL BRITISH FINANCIAL NEGOTIATIONS
IN PEKING

MARCH

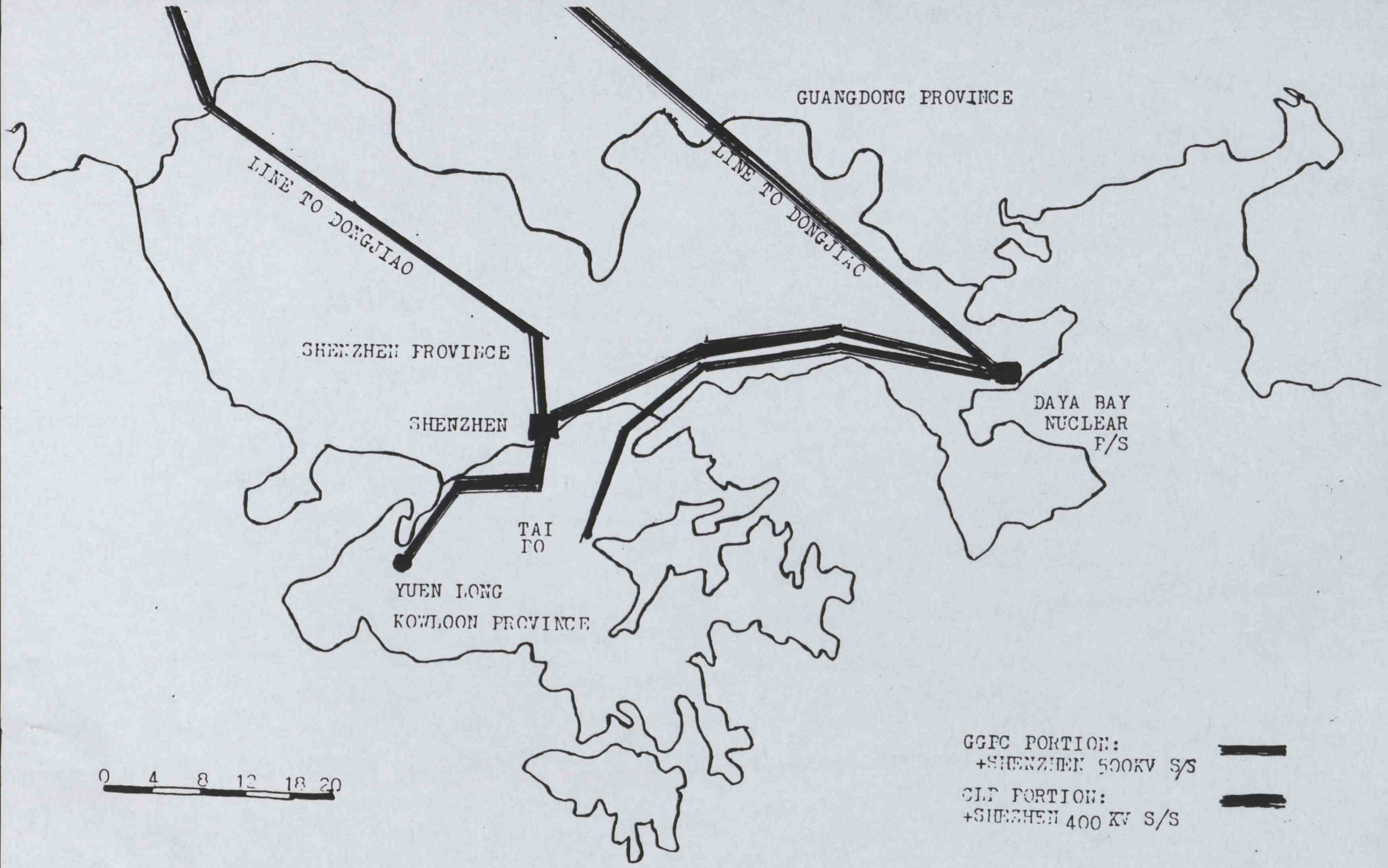
LETTERS OF INTENT SIGNED

SUMMER

LOAN AGREEMENT NEGOTIATIONS

SEPTEMBER

CONTRACTS SIGNED



GUANGDONG PROVINCE

LINE TO DONGJIAO

LINE TO DONGJIAO

SHENZHEN PROVINCE

SHENZHEN

DAYA BAY
NUCLEAR
F/S

TAI
FO

YUEN LONG
KOWLOON PROVINCE

GGFC PORTION:
+SHENZHEN 500KV S/S
CLF PORTION:
+SHENZHEN 400 KV S/S

0 4 8 12 18 20

equipment. Electricité de France is the overall project manager.

French value: £6-700 million

UK value: £250 million

Location: 50 kilometres from Hong Kong:
transmission lines into Shenzhen and Hong Kong.

HISTORICAL BACKGROUND

Levels of Negotiation

The negotiations had two dimensions - the Macro-negotiations at Government level, creating the opportunity, and then the Micro-negotiations - often interacting at political level - but with substantial pressure applied to a mass of detailed technical and financial issues.

A. Macro-Negotiations

The project evolved from various strands.

I 1978-79

China: overall energy-deficient, and hence the whole sector has priority. They have very high hydro resources and potential, and substantial coal reserves. But areas

MACRO - MOTIVES

CHINA	-	ENERGY DEFICIENT
		LATEST NUCLEAR TECHNOLOGY
		FOREIGN EXCHANGE CONSTRAINT
FRANCE	-	MAJOR NUCLEAR PRODUCER
		RUNDOWN IN DOMESTIC/EXPORT ORDERS
		OPPORTUNITY TO ENTER CHINA
		FUTURE PROSPECTS
HONG KONG	-	GROWING DEMAND
		SHORTAGE OF NEW POWER STATION SITES
		ENHANCE LINKS WITH CHINA
UK	-	POWER GENERATION ORDERS
		HK/CHINA INTERDEPENDENCE
		HK SUPPLIED WITH ENERGY UP TO 1997

of the country are not readily accessible for these sources, and nuclear power was viewed as the third national source.

Had nuclear power technology, derived from Soviet technology. Wanted access to latest Western technology.

France: evolved a substantial nuclear industry - domestic programme of 52 stations, based originally on Westinghouse technology, but now broken free of technology strings, and France has its own characteristic design.

Manufacturing capacity installed for 4-5 nuclear vessels a year, but domestic programme running down, and needed to export. Sold to South Africa and Korea. Prospects elsewhere eg Mexico, Turkey, Egypt etc under economic clouds.

China was a major market, envisaging a programme of up to 8 stations. But clearly important to establish the first presence.

The French had been pursuing hard: EdF's first presentation to Chinese in Beijing took place in 1978. By 1979, the negotiations with French were well advanced -

stories of 200-plus French technicians in Beijing. But China went into economic retrenchment for foreign exchange shortage, and negotiations broken off (Autumn 1979).

France thus had a strong motive to sell nuclear station as first of China's new programme, and had already expended substantial resources only for negotiations to be faulted for China's foreign exchange deficiency.

Hong Kong: a growth rate of demand of 14-18% per annum in power demand. Main utility - China Light and Power - had ordered predominantly UK equipment - their total installed capacity at Castle Peak is 4 gigawatts, all coal-fuel fired.

But scope for new power station sites limited: Hong Kong at that time concerned to establish links with China against the Treaty expiring in 1996. Negotiations on the new Treaty in initial stages in 1978.

II 1979-1981

Germination of a proposal which allowed Chinese to envisage acquisition of Western PWR technology and to overcome the inherent foreign exchange difficulties.

CLP/Hong Kong - need to ensure energy supplies from early '90s onwards, but constrained by real estate, and concerned to build up links with China.

- CLP began contacts with Guangdong Power Corporation to supply "surplus" electricity into the economic zone of Shenzhen;
- the first hint of a suggestion that Guangdong could be the site of a PWR serving both the Province and Hong Kong;
- tentative soundings between CLP/Guangdong PC, and the UK provided CLP with "experts" who could provide a technical input that CLP themselves lacked;
- growing "political contacts" across the Hong Kong/China border.

At this stage, the running was made with considerable imagination by CLP, notably under their Chairman, Lord Kadoorie and his CLP manager, Bill Stones.

UK had to rein back "scientific enthusiasts" - with no nuclear programme under way, UK had engineers/scientists with little to do, and rather less commercial acumen, who had notions of joining with Westinghouse to do "the first Sizewell" in Southern China. But even so, there was a more serious impediment to such an approach,

namely that, whereas the French had built up a continuing dialogue with the Chinese, had freed themselves from licensing constraints to export, and were negotiating on the back of a continuing domestic programme, Westinghouse had not built a station since "Three Mile Island" - indeed several US PWRs had been cancelled, and still suffered from a US Senate restriction on the export of nuclear technology that excluded China.

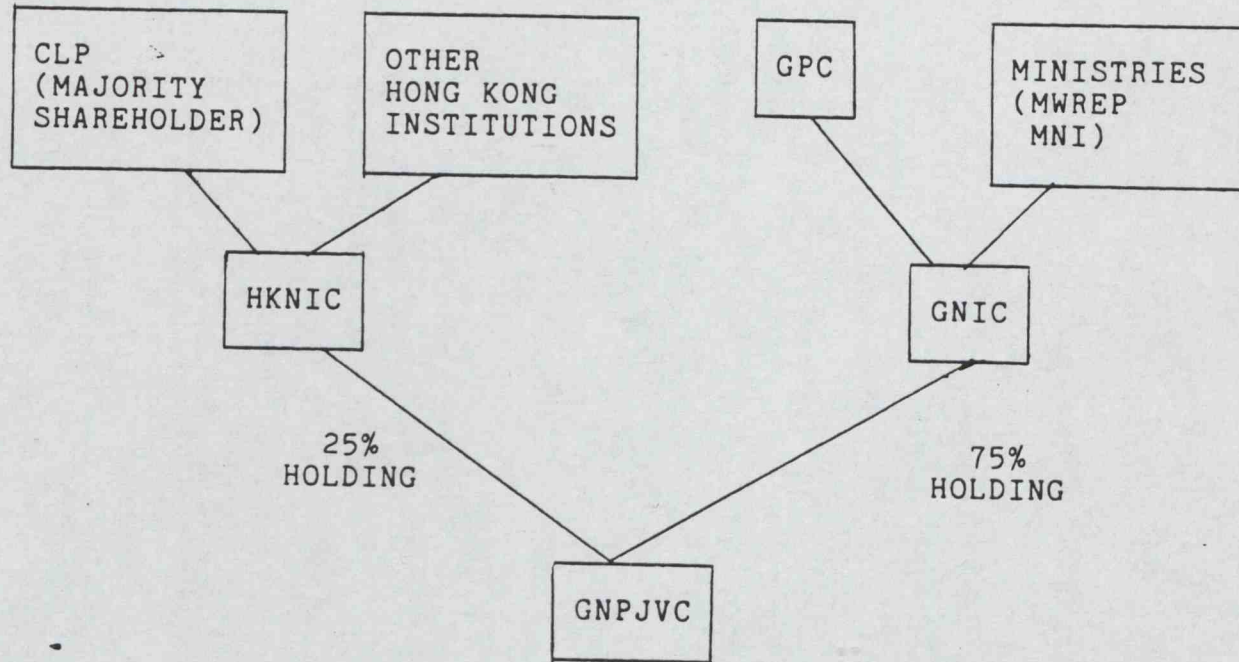
III Period 1981 to 1984: Considerable commercial jockeying for position. Throughout 1981 and 1982 indecision in the UK camp over the US or French option. French gradually dominant because of their better links with key Chinese leaders and because ultimately US could not undertake to agree to transfer of technology. CLP supported inclusion of GEC, although French would have preferred to retain a total French offer. Ultimately French accepted Chinese decision that GEC should be given the first run.

In practice, the UK's position at the macro-level was based upon a monumental bluff. We had to sustain the belief that in infrastructure projects in Hong Kong,

we had the capability to behave, when we wanted, in the manner in which the French behave in their colonial territories, and, indeed, the Chinese might expect us to behave as well. Here, our track record of consistent orders by CLP, securing the Mass Transit, First Harbour Crossing, etc were important in sustaining the illusion. For, in reality, Hong Kong would be interested in the cheapest option going. This inflated view of what the British Government might do was dependent upon all parties at least adopting a consistent line, or, at least, creating the illusion that unless the UK had its cut of the action, we might act to frustrate the project. Hence, the French needed to be satisfied that the scope for linking into Hong Kong demand was real, and that CLP had the pre-eminent role.

In parallel, through Hong Kong, there were technical studies taking place, again with UK experts on loan where necessary, on the range and selection of sites, initial safety studies etc. And the Hong Kong Government instituted an appraisal of the financial viability of the project - using the costs of alternative coal-fired

STRUCTURE OF JVC/HKNIC AND GNPJVC:



(Equity to 10% of planned project cost)

KEY:

- CLP CHINA LIGHT & POWER
- GPC GUANGDONG POWER CORPORATION
- MWREP MINISTRY OF WATER RESOURCES & ELECTRIC POWER
- MNI MINISTRY OF NUCLEAR INDUSTRY
- HKNIC HONG KONG NUCLEAR INVESTMENT CO.
- GNIC GUANGDONG NUCLEAR INVESTMENT CO.
- GNPJVC GUANGDONG NUCLEAR POWER JOINT VENTURE CO.

generation as a datum, employing Lazards. With the Anglo/French Government agreement, CLP pushed ahead with the negotiations to establish a Joint Venture Company.

With the Hong Kong Government's approval in principle, the structure of the JVC was devised - notably the Hong Kong stake in the JVC was contributed by HKNIC, in which in turn CLP provided equity and HKG guaranteed loans.

In Europe, there were a series of technical exchanges between China and France and Britain, but notably an appraisal by the Chinese of GEC's technical capability.

After protracted negotiations, the UK and French Government signed separate memoranda with the Chinese Government in April 1983 followed up by a further memorandum on the UK side in December 1983. These memoranda covered both financial and commercial aspects, including confirmation of the acceptability of GEC's design, and covered the principles of the offtake agreement in the case of the UK memorandum. These were key documents in determining the field for subsequent negotiations, particularly on the financial side. They

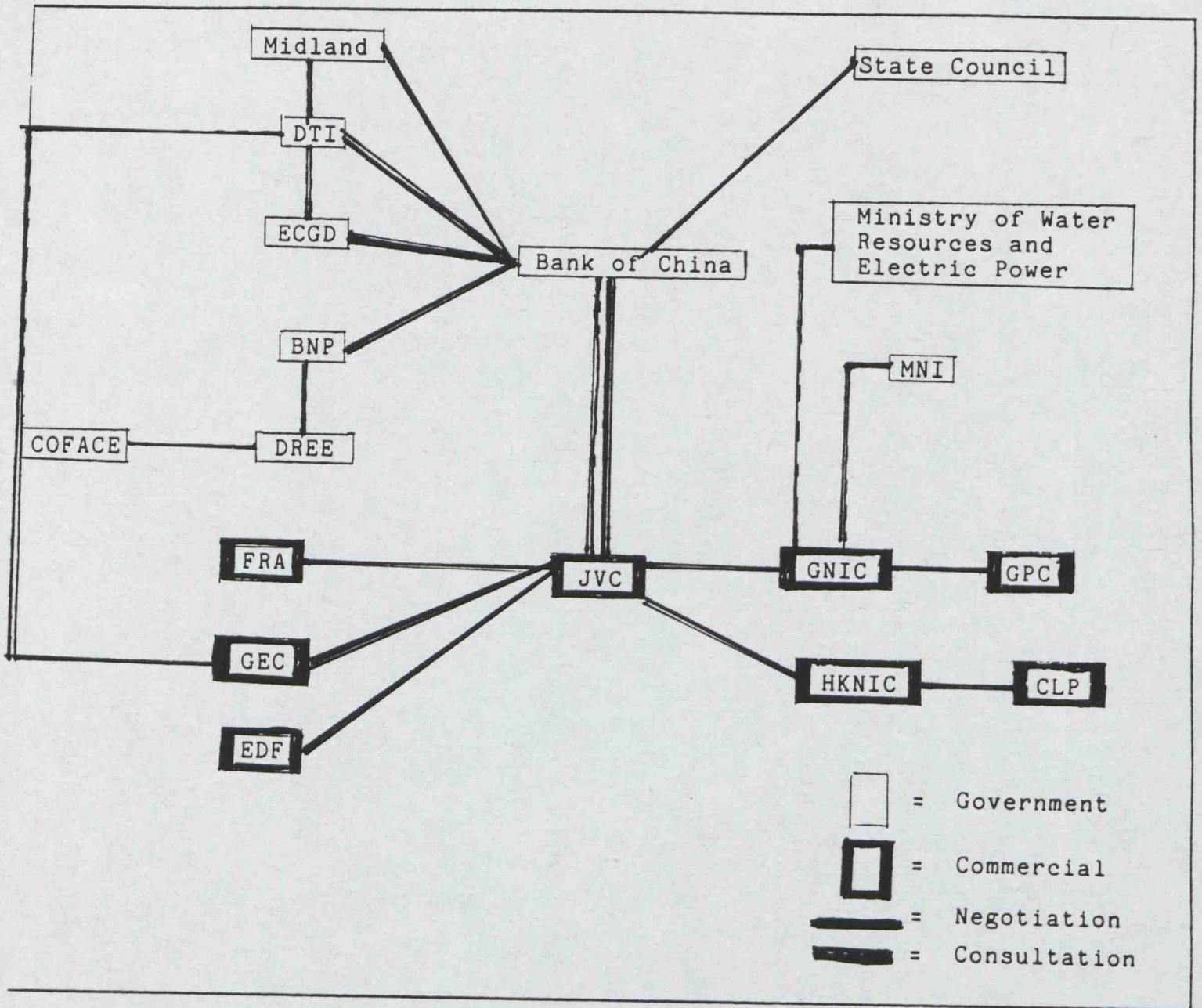
provided one of the key reference points enabling the British side to draw limits to the finance concessions by arguing that they were not envisaged at the time of the memoranda. Although bids were submitted in March 1984, the customer was the Joint Venture Company and real negotiations could not start until the JVC was established.

At the technical level, there were continuing discussions with companies and the "nascent" JVC at their headquarters in Shenzhen - just north of the Hong Kong border. But the progress of the JVC negotiations was fraught - legal liability; offtake volume and price formulae; shortfall provisions, etc. With CLP's majority shareholder being Exxon, there were also difficulties that had to be resolved in New York.

The JVC agreement was formally ratified in January 1985. Just before then, when it appeared that these negotiations were going to be successfully concluded, in December 1984, the Bank of China negotiating team visited London and Paris for "exploratory" talks, but really to



PATTERN OF NEGOTIATION



- BNP = BANQUE NATIONAL DE PARIS
- FRA = FRAMATOME
- JVC = JOINT VENTURE COMPANY
- MNI = MINISTRY OF NUCLEAR INDUSTRY
- GNIC = GUANGDONG NUCLEAR INVESTMENT CORPORATION
- GPC = GUANGDONG POWER COMPANY
- HKNIC = HONG KONG NUCLEAR INVESTMENT COMPANY
- CLP = CHINA LIGHT & POWER COMPANY

restate their "requirements". So the final stage began (1985-86).

B Micro-Negotiations

THE PLAYERS

There were three levels of negotiations, each conducted in its own distinct series of contacts:

- (a) Commercial: EdF/Framatome —————→ JVC
GEC —————→ JVC
- (b) Financial: French officials (DREE) —→ BoC
UK (PEP/ECGD) —————→ BoC
- (c) Political: not specific, but significant against a background of the negotiations for the Hong Kong Agreement proceeding, and the PM's meetings in Beijing to sign the Treaty in May 1985. But the project was kept in political profile by reference in the growing number of Ministerial contacts that occurred over the year.

Special features

- (a) BoC role - the focus of the finance negotiations. What became apparent was that "as the financier of the project", they regarded themselves as the recipient of Anglo/French loans, which would then

be on-lent to the JVC. As such, they regarded themselves as entirely distinct from the JVC, and requiring their own assurances and guarantees from the JVC. There was clear tension evident in early meetings, when BoC refused to attend any of the commercial negotiations, and were unhappy at having JVC "observers" in the negotiations.

(b) The China Light and Power interests, which had previously been the UK's "ally" in setting up the project, were now clearly on the other side of the table, aggressively pressing for concessions. Indeed, CLP provided considerable "commercial" and "operational" expertise, and individually provided undoubtedly the sharpest financial negotiator. It is interesting also how, whilst the CLP presence and expertise were strong in the early stages, as the decision-point approached, the Chinese component grew progressively more assertive and dominant. But masked contacts continued.

THE COINAGE

In the initial Memorandum signed by the Governments, it had been clear that the technical and commercial negotiations

were for the companies and EdF, with Governments concerned solely with the financial terms of the guaranteed funding - dealing with ECGD/COFACE-supported credit terms under the OECD Consensus: a major advantage lay in the fact that the Consensus had introduced a special "nuclear power agreement" which had the effect of making the ruling interest rate for nuclear stations 1% higher than normal Consensus rates. The Guangdong project had been argued by the UK/France as an exemption in view of the fact that negotiations were in progress, and hence the interest rate was defined as the Consensus rate ruling at the date of contract - with the rate varying every 6 months, there was continual play about holding the rate, and 9.5% became something of an obsession when Consensus rates rose above this.

- But the UK and French had legacies from past negotiation:

(a) The French admitted that in previous credit agreements they had accepted a "special" premium rate for China - considerably lower than the normal ECGD/

6

CHINESE "REQUESTS" IN MEMORANDUM OF 1983

1. FIRST REPAYMENT TO BE PAYABLE SIX MONTHS AFTER ACTUAL COMMISSIONING OF SECOND UNIT.
2. ALL INTEREST PRIOR TO COMMISSIONING TO BE CAPITALISED AS PART OF EXPORT CREDIT FACILITY AT SAME INTEREST RATE.
3. UK TO PUT CEILING ON ESCALATION OF PRICE OF GEC EQUIPMENT.
4. UK TO CONSIDER COVERAGE OF REASONABLE THIRD COUNTRY ELEMENT IN GEC'S CONTRACT ON SAME CREDIT TERMS.
5. AGREED THAT INTEREST RATE OF LOANS WOULD BE FIXED AT OECD CONSENSUS RATE AT DATE OF CONTRACT SIGNATURE (THEN 9.5%). IF OECD RATE DROPPED PRIOR TO CONTRACT, LOWER RATE TO APPLY.

ADDITIONAL SUBSEQUENT CHINESE REQUESTS

1. SOFT LOAN TERMS FOR PART OF FINANCE.
2. BALANCE AT SUB-CONSENSUS INTEREST RATE.
3. COVER FOR LOCAL COSTS TO BE AVAILABLE WHETHER OR NOT WITHIN GEC CONTRACTUAL RESPONSIBILITY.
4. AT LEAST 15% OF LOAN TO BE DENOMINATED IN HK\$.
5. SUBSTANTIALLY REDUCED ECGD PREMIUM.
6. BALLOONING FOR PRINCIPAL REPAYMENTS (HIGHER TOWARDS END).
7. DEFERRAL OF PAYMENTS AT SAME INTEREST RATE IF JVC CANNOT SELL POWER.
8. ECGD/MIDLAND TO MAKE UP ANY SHORTFALL IN PROVISION OF FUNDS BY LENDING BANKS.
9. INTEREST RATE NOT TO EXCEED 9.5%, EVEN IF CONSENSUS RATE RISES BEFORE CONTRACT SIGNATURE.
10. JVC TO HAVE RIGHT TO SWITCH CURRENCIES.

COFACE rate, and would find it difficult to avoid eventually conceding to this previous level (the practice is doubtful under international rules!). The problem was for the UK to do the same with a different premium level and system.

(b) The UK had an overhang of special terms with CLP that reoccurred in the guise of "extra" Chinese requirements.

In fact, these actually increased for a time as negotiations proceeded.

The complete set of pieces is shown in Diagram IV. Without going into them in detail, under most of them there is a permutation of variations - for example, capitalisation of interest offers a wide range of options, eg the scale, interest rate, currency, duration, etc. Each variant involves a cost for the credit underwriting agency and its government and it is worth saying that we and the French had "an algebra" for calculating the costs, and the limits to which each was prepared to go. One difference was that the French could do the calculations in their heads, whereas the UK side had

to transport its own computer to-and-fro to China - getting it through Shenzhen Station with several thousand Chinese converging on four entry gates was one of the epics of the negotiations.

ANGLO/FRENCH LIAISON

Having two parties negotiating with one client, we had immediately put ourselves at a tactical disadvantage - Sun Tsu's maxims state "Where your enemy is united, divide him" - and we had achieved this for the Chinese without them doing anything.

Hence we and the French realised that we needed the closest co-ordination, since anything that one side conceded would automatically have to be matched by the other.

The structure of finance negotiations reflected the commercial structure - separate commercial negotiations, with related Government financing. There was an array of technical discrepancies in the methodology of credit support eg guarantee requirements; premium systems and forms of cover. And these were

THE CHINESE STYLE AND IDIOM OF NEGOTIATIONS

- (a) METICULOUS
- (b) BLOODY TOUGH
- (c) REMORSELESS
- (d) BUYER'S MARKET
- (e) SHAMELESS
- (f) THE SPIRIT OF MUTUAL CO-OPERATION
- (g) EXPLOIT TIME
- (h) NO BARGAINING
- (i) FREE FLOATING
- (j) PRESSURE
- (k) FORMAL EXCHANGES/GO-BETWEENS

rationalised as far as practicable to underline that the terms from both Governments were "broadly comparable".

In addition, neither side entirely trusted the other - the French could have done the complete station themselves. When there was some public controversy about Government support for exports in the UK financial press, the French told us bluntly that they would pursue the project with the UK, but were determined to win, if not with us, then by themselves. The UK, in our rather more restrained way, hinted that we also had options either to forestall the project or make it more costly to the French. So we had a healthy frankness about our respective positions.

STYLE AND IDIOM OF NEGOTIATIONS

There are many commentaries on the characteristics of the Chinese in negotiation, but in our experience these can be summarised -

(a) Meticulous: All technical aspects are explored thoroughly. Usually a period of studying dispositions, options, skirmishing. Initial discussions may

appear discursive, or mere politeness, and on visits to the UK, almost "tourist".
But

(b) Bloody tough: As our late Governor of Hong Kong - a very experienced sinologist - remarked, they are "bloody tough" in negotiation, and François le Corre (the first DREE director in charge of negotiations for the French) remarked at the beginning of our liaison, from his previous experience, "they are very, very, very greedy".

(c) Remorseless: Probably a good rule to follow is that the Chinese will believe a limit has been reached only when the other party leaves the negotiating table - both Framatome and GEC called a halt to their negotiations at one point or another. The problem is to make this gesture credible within a framework of concessions eg if further significant concessions are made after the gesture, it becomes meaningless, and the Chinese will place less weight on any subsequent limit.

(d) They exploit a buyer's market. Every commercial company has visions of selling one sock for every Chinaman. But careful. They were deliberate in ensuring that we and the French were aware that they were talking to other alternative suppliers - GEC had an approach from Kraftwerk Union; NEI were encouraged at a late stage to put up alternatives to the turbines (not by CLP); and we were allowed to use a room for consultations with a complete PWR proposal from Mitsubishi in all 12 volumes standing on the table.

(e) Shameless: No qualms about inventing outrageous demands, which after the umpteenth dismissal, is still expected to be traded for a real concession.

Ruthless use of "face" - "Your statement does not accord with the promises made by your Minister etc".

(f) The spirit of mutual co-operation: This is a coercive pressure, where the Chinese threaten that their opponents are not showing the "spirit" of the political goodwill etc required by the original Memorandum. In this "game" each session at the table requires a small concession - or prospect of one - with a recital of

explanations of why others cannot be accepted. It does require care to ensure that a response is not over-adamant on points later to be conceded, since the Chinese will not accept the same rejection on points where no concession could be made. Again, the style of concession has to reinforce those points where one is standing firm. Ironically, "extra" points put down by the Chinese can be useful in providing a means of using time - in the current negotiations, for example, Hong Kong dollars and the CLP reference to their "maximum price" derived from their own cash-flow appraisal. It is therefore important to milk the instances where one is firmly saying "No".

(g) They exploit time - to sustain a negotiation in China is very expensive, with teams of experts to handle repeated and detailed questions, telephones, own typing facilities etc. Spinning out time therefore increases the pressure to make the quick concession.

(h) No bargaining: there is no "trade"

in negotiation: both French and the UK tried to cross-link concessions. But to no avail. Progress can therefore often only be measured by such symptoms as a change in agenda sequence, which may imply that items lower down are ones that the Chinese expect are less likely to be granted. But again, look out - next time, the item at the bottom may suddenly rise to the top. In the course of the whole negotiations there was only one concession made by the Chinese over the table - dropping the request for Hong Kong dollar finance, otherwise the UK and French positions consistently failed to meet "Chinese requirements".

(i) Free floating: The Chinese have a reluctance to have "formal papers" on the table, but tend to proceed by elaborate and carefully worked "position speeches". Frequently, the UK had to submit formally a paper clarifying a point, or summarising a particular stage of negotiation - the Chinese were not entirely comfortable, since they prefer to hold to "their interpretation" of what you may have said.

(j) Pressure: Past masters at "slow torture", and here the whole spirit of Sun Tsu comes to bear.

(k) Formal exchanges/go betweens: Where exchanges are in a very conventionalised idiom, they can become blocked as each side commits its "face" to a particular position: hence it is important for a negotiator to have an effective "go-between" - the UK commercial staff at our Embassy performed this function for the UK, and the French had a Chinese-born nuclear engineer as their Nuclear Counsellor - and all Chinese agents are "double-agents" - Sun Tsu - otherwise they cannot survive in China.

These characteristics are rationalisations from hindsight, and for newcomers, such as UK officials brought up in the comfortably conventional atmosphere of Whitehall, extremely disconcerting. But equally for commercial companies, since they do not have at least some practice through correspondence with the Treasury - not just a Departmental joke, but style is very bureaucratic.

NEGOTIATING SCENARIO

The general strategy composed the following elements:

(a) With all the parties involved on the Chinese side, and the inevitable prospect

of there being outstanding commercial differences, we both concluded that the final round was bound to be in Beijing. Earlier stages thus had to be "sustaining goodwill", but retaining enough for the final round. It was also recognised that there could well be more than one "final round", and conceivably there could be merit in demanding that this be done jointly.

(b) Aim to "string out" financial concessions in parallel with the development of commercial negotiations - for one side or the other to reach the finishing post prematurely would simply have put heat on the other.

(c) Coping with the Chinese "double-bind" - always pleading "We wish a mutually satisfactory conclusion" whilst offering no concession themselves, would require very careful staging of concessions between us and the French, so that each side in turn could offer some nugget without accelerating the concessionary pace.

(d) As the largest Joint Venture in Chinese history, and the highly political quality of the project, conditions were

generally "cold war" in style - all sides used every available source of intelligence. But it had to be assumed rooms were "bugged", and consultations took place in car parks, hotel restaurants, and in hotel rooms only by written exchanges. Delegations/Embassies all kept ½ hour apart.

(e) We had to develop and maintain a consistent set of negotiating constraints which allowed us to rule out certain Chinese demands. Unless some such limits can be established early in negotiations, and the Chinese side progressively acclimated to them, it becomes very difficult to respond to the incessant Chinese response: "Your offer does not meet our requirements". In the case of the finance negotiations, the two cards we had to play were (i) the Memoranda already agreed with the Chinese side - eventually we were able to say we had "fulfilled the terms of the Memorandum"; and (ii) the international obligations arising from our OECD membership. The second proved a useful tool in dividing the Chinese side because the Bank of China wished to appear a responsible member of the International Financial Community and thus to show respect for international

agreements, whereas the JVC had a much narrower interest in getting the best deal for itself. By and large these two factors defined the British and French backstop positions and, apparently, were recognised to some degree by the other side.

NARRATIVE SCENARIO

Following the review with the Bank of China in December 1984, the next call for talks was in Shenzhen in March 1986. This was for "clarification", and both UK and French sides considered that no concessions should be indicated. Chinese very disappointed, but could not be too outspoken, since commercial/technical discussions with the companies were still at a preliminary stage. UK batted first, with the French second.

UK/China/HK Agreement signed in May 1985 - During her visit to Beijing, when the project was raised, the Prime Minister said that price and technical performance were entirely matters to be raised with Lord Weinstock.

June/July, Shenzhen - here the French went first, followed by the UK. Agreed thresholds, including moves along the "capitalisation" route, but the French did throw in a "dollar option", whose mathematics confused us if not the Chinese. But it was quite a good example of a "feint" where the French, knowing all along that the Chinese would insist upon the currency of the supplying country, wished to underline that concessions were viewed critically by their authorities, hence prepared to offer more in a lower interest rate currency.

In this period, negotiations on Framatome had stalled, because the Chinese drew in some expert reports on technology and price based on Korean, Taiwan and other references - having used a US consultant - that the French did not accept. On the GEC side, there were still technical discussions to clarify options and pricing of packages.

The Bank of China team, who had been away from Beijing for three weeks by the time the UK had been in Shenzhen a week, were visibly impatient. And we had no problem in concluding on the basis that we would consider seriously further concessions from our "authorities", but it was pointless

unless the commercial negotiations were clear.

Both the UK and French - the latter quite brilliantly - played on the "bureaucratic" structure of "authorities", "beyond the brief", "budget limits" etc. A line of argument which the Chinese seemed naturally to accept as bureaucrats themselves.

Beijing, October/November 1985: The OK Corral - The Wyatts, Hallidays and Daltons converged on Beijing in Oct/November for the final negotiations.

Commercial Side - The nuclear element was critical, and considerable effort was focused to clear outstanding technical issues. GEC still had some outstanding technical points, but the focus was on the commercial terms - the "base price" being the sum of the packages. EdF were also present.

Financial Negotiations - Still Chinese "requirements" not met by either French or UK.

Disposition of Chinese forces - The Chinese had to complete commercial negotiations - complex conditions, guarantees, bonding etc, with Framatome, GEC and EdF, plus financial negotiations with French and British Governments. By any standards a major task. To

do this, their main negotiating team numbered no more than 20, with 4-6 CLP participants. Sheer shortage of resources meant that they could not negotiate on all fronts simultaneously.

On the commercial front, the nuclear element was the lynchpin, and initial concentration was on resolving differences: protracted sessions with Chinese pressures and grudging movements by Framatome. Meanwhile, GEC were very effectively put on "hold".

Financial Negotiations - On the finance side, there was a large formal meeting on both UK/French and Bank of China at the start, plenty of expressions of will to achieve successful co-operation. But discussions were stalled immediately through some dispute on the Chinese side as to whether the JVC were allowed to have a formal seat at the negotiating table. After a few days, each side had its first session with "JVC observers" - notably, the UK had Sir Jack Cator, the erstwhile Financial Secretary of Hong Kong, but appointed as Chairman of HKNIC, and a Chinese member of the JVC, while the French had C K Ho from CLP - by far the most astute and effective commercial negotiator, plus another Chinese representative.

French first meeting broke down - their new leader, Paul Ravier, introduced a new ploy - he offered a concession, which the Chinese inevitably rejected as "not meeting our requirements", to which he remarked tartly that if the Chinese didn't like it, the French side would take it back. The French delegation then went on a series of sight-seeing trips. But the UK had the senior Bank of China negotiator, Mr Yu, and the weaker CLP component. One suspects that the Bank of China were only too glad to have the most aggressive and difficult CLP character in baulk designated for negotiations with the French which were in suspense. But for the UK, there were a series of meetings, one or two a day, going over the "requirements" and "UK positions", while we consulted the French during the breaks. Interesting features:

(a) Exchange of Chairmanship - Mr Yu invited the UK to take the chair on alternate sessions, and observed this meticulously, even ticking off his own troops. China-experts remarked that this was an unusual procedure. But despite the cordial way the negotiations were conducted, this did put

the UK under pressure when in the Chair to move the negotiations forward.

(b) The Melon Saga - "When a starving man is seeking melons, you do not give him sesame seeds". "Melons" became a point of reference to indicate concessions and limits. Whilst initially light-hearted, this conformed to the oriental preference for using metaphor to say "No". Taken to extent of melons being served at the final negotiating banquet.

(c) Chinese side dissension - the JVC/CLP spokesmen were allowed a minimal say, and their points were carefully relegated - the only "open" concession was a JVC point about financing in Hong Kong dollars.

GEC "on hold" - GEC were confronted with a ruthless opening position by the Chinese, when the JVC (under the Chair of Sir Jack Cator) had said that unless there was a price reduction of "X" they would not consider any move on their side. "X" was large. GEC had a full negotiating team waiting, but only received occasional calls from the JVC to see if they were ready to make the full concession of "X". This "hold" situation lasted virtually for the whole fortnight.

There were moves outside the formal negotiations, but these did not lead to any

return to the table. (Sun Tsu: Anger and confuse your enemy.)

Meanwhile, the French sensed that the Chinese would be ready to sign with Framatome quickly, and were keen to press financial concessions. The UK side said that the position should be held until GEC were at a corresponding stage, otherwise further concessions would be needed.

The sequence of negotiations was sporadic - frequent consultations on the Chinese side, and there was clearly an overall direction coming from Vice-Premier Li Peng and a small group of senior Ministers. There was a danger of stalling again; the financial negotiating basket was running dry, and no obvious way in which we were ever going to get out of Beijing. We then heard that the PM was due to be seeing Premier Zhao at the UN. In contemplating the line of the brief to the PM, came across Sun Tsu "When confronted with overwhelming odds, the prudent General retreats to a position of impregnable defence". The PM offered just such a defence, and we had to press the French that this was an opportunity for us to draw a line across the financial negotiations, and also express at

the highest level impatience at the slow progress.

In the event, the PM spoke to this brief - the reporting telegram began with the phrase "The Leaders unsheathed rival telegrams" - and underlined that there was an exceptionally favourable finance proposal made, and this was as far as we could go. The next negotiating session was relatively easy, in that one could say that our Prime Minister had informed Premier Zhao that no further concessions would be forthcoming. We then completed a paper summarising the final offer - the French submitted a note confirming that their offer would be in parallel - and left two days later. The Chinese had indicated, however, that they were still not content with the issue of ECGD "premium".

Surprise at the airport. GEC were also leaving, having broken off negotiations. Mr Yu was genuinely upset.

December 1985 - Summary

- Still a substantial difference on Framatome negotiations

- EdF, after three weeks waiting in Beijing, had hardly been at the table

- GEC were feeling their way back into the negotiation

- We and the French maintained that we had completed the main financial negotiations, but the Chinese still said that "premium" and "bank charges" were areas that needed to be cleared.

Li Peng, due to make a visit to Eastern Europe on 15 December, diverted to Paris, and made a "political settlement" with Mme Cresson, the French Trade Minister, to bridge the outstanding gap on price for both Framatome and EdF. It was also left that French officials would travel to Beijing to clear up outstanding issues by Christmas. This they did, and the heat then shifted to the UK.

GEC were fighting a tit-for-tat battle on price concessions, and the Chinese had resurrected the issue of "performance guarantees from the UK Government" in addition to a substantial price reduction from GEC. The UK official team indicated that it could only go to China to complete negotiations on the finance, and GEC negotiated over Christmas and into the New Year. Their price negotiations were only resolved by an

unusual "political gesture", in that Li Peng expected the final move to be made at Government level, and our Ambassador himself made GEC's final concession personally to Li Peng.

Then officials went out on 2 January 1986, to find that GEC's final "Letter of Intent" had been agreed, only subject to the British government providing a guarantee of GEC's technical performance. We had recognised that we could not meet this request in precise terms, but worked out with ECGD a formula whereby, if the project were delayed for reasons outside Chinese control, we would consider a rephrasing of payment - this was in effect what would happen anyway, but it enabled us to present a concession that apparently went beyond, and was more comprehensive, than what had been requested. Our pitch was therefore to refer to the fact that the original Memorandum signed in 1982 by the Chinese acknowledged the technical acceptability of GEC's equipment, that the Prime Minister had firmly stated that technical guarantees were entirely a matter for GEC, but that, in the spirit of fullest co-operation, we would be ready to accept a best endeavours clause as a side letter to the finance agreement.

There was some problem in identifying precisely how we could calculate an equivalent of the French concession on export credit premium, but we found ways of presenting and recalculating the ECGD premium to make ours appear comparable to the French. But, with the ceremony set for 4.30, when the final draft was presented to us at 3.30 one of the annexes had been completely revised to change the terms for premium payment. On this occasion, the Bank of China Chairman was Madam Huang, who was much less dominant in handling the JVC, and in the event ECGD were presented with an ultimatum that either they accepted the implied concession in the text, or the agreement would have to be signed with this outstanding, and further discussed. ECGD opted for the latter.

Post-Agreement Negotiations

In February 1986, the Bank of China made a visit to London to clear up these outstanding points. Inevitably, we gave them a welcoming dinner, and they were entertained on the basis that this was an occasion for pleasure and not business. So the dinner proceeded with nothing more than light conversation.

The following month, while ECGD were in

SUMMARY OF LESSONS WHEN NEGOTIATING WITH THE CHINESE:

- I They never stop
- II Think before you start
 - What are your limits?
 - How to establish them with the Chinese
 - There will be a break-point/disengagement
 - The scenario must be credible
- III Define the field of battle - try to ensure that the "Memorandum", or whatever form the initial document is, is as balanced as possible, because they will certainly exploit any generalisations.
- IV Identify roles and relationships, especially relative authority
- V Time is a crucial element
 - Patience
 - Care in repeating refusals
 - Courtesy and shamelessness to match the Chinese
- VI Control the drafting
- VII Read your Sun Tsu and relax.

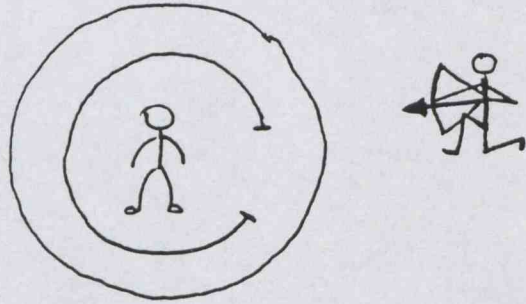
Shenzhen completing the details of the finance agreement, Madam Huang raised an issue saying that "Mr Benjamin had promised that the UK would concede this at the dinner in London". This was a typical example of the "shameless ploy" - she was in fact putting leverage on the UK by asking us to save her "face" with her colleagues and the JVC. We found a form of words with no real concession, and in the event the final "Letter of Intent" was signed in March, and after further negotiation, the full contract with Framatome and GEC in November 1986.

The main lessons that one would leave for anyone likely to confront the Chinese on a major negotiation are:

- I They never stop
- II Think before you start
 - What are your limits?
 - How to establish them with the Chinese
 - There will be a break-point/disengagement
 - The scenario must be credible
- III Define the field of battle - try to ensure that the "Memorandum", or whatever form the initial document is, is as balanced as possible, because they will

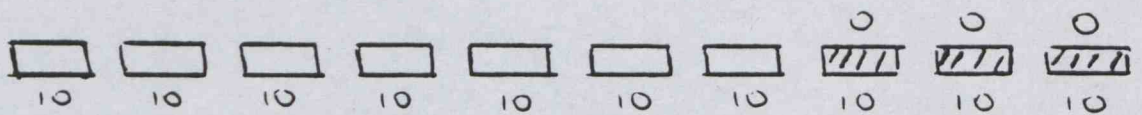
COMMERCIAL DEVICES

A) SURROUNDING THE ENEMY:



B) THE 66% RULE: 0 ————— 100

C) "I WILL MAKE CONCESSIONS":



certainly exploit any generalisations

- IV Identify roles and relationships,
especially relative authority
- V Time is a crucial element
 - Patience
 - Care in repeating refusals
 - Courtesy and shamelessness to Match
the Chinese
- VI Control the drafting
- VII Read your Sun Tsu and relax.

Commercial Negotiations

These were extremely complex, and would probably require a full seminar on their own - the leader of the GEC team in fact spent more than four months of the year in China.

But one could just illustrate the Chinese technique of pressing for price concessions:

(a) The supply is put into packages, with several in the form of "options that the Chinese may elect to take up;

(b) This "basic price" is declared too high, by a large margin, and the Chinese will offer

to consider some concession on their side if the supplier reduces the price by this margin (X). "Surround the enemy" stage.

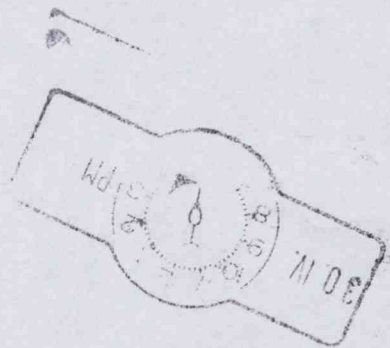
(c) The seller is given no sign of the value of any subsequent Chinese concession - even if you break out of the "one avenue of escape", you are still surrounded.

(d) So the company will make only a partial concession in the direction of this margin (X). Say, 30%. The Chinese response will be that because a full concession was not made, they will allow half - 15%. The difference is now 55% of X. The Chinese will move again half of the concession made by the seller.

Asymptotic to 66% concession in the Chinese favour. Hence a constant "come on" to try to settle near 50%, with no guarantee that the Chinese will make a similar concession.

(e) Chinese contribution: with a new "basic price", and still a "gap", the Chinese may agree to give up some of their "options". But at the value of the original basic price ie three options of 10% of X each, gives the Chinese a further advantage of 10% in terms of the new base price.

Whether this represents other Chinese negotiations, but at all levels needs a carefully thought-out and articulated strategy. Even if responding to an unexpected move, should allow scope for this within the strategy.



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SECRET



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434
My ref: R/PSO/16394/86

The Rt Hon Paul Channon MP
Department of Trade and
Industry
1 Victoria Street
LONDON
SW1H 0ET

Your ref:

31 JUL 1986

Dear Paul

HONG KONG: NUCLEAR SAFETY

at 1107

I have seen a copy of Geoffrey Howe's
minute to you dated 16 July. I would
strongly support the line he proposes.

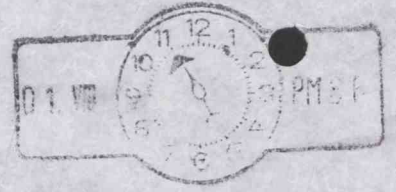
I am copying this letter to those who
received a copy of Geoffrey's minute.

Nicholas Ridley
Nicholas

NICHOLAS RIDLEY

SECRET

HONGKONG Castle Peak PTU



2 of 18

3



JU46

Secretary of State for Trade and Industry

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28 July 1986

S E C R E T

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for
Foreign & Commonwealth Affairs
Foreign & Commonwealth Office
Downing Street
London SW1

Dear Geoffrey,

*CDP
29/7*

HONG KONG: NUCLEAR SAFETY

Thank you for your minute of ^{at 11:00} 16 July about public concern in Hong Kong over the safety of the Guangdong nuclear station. I agree that we must continue to give our full support to the Hong Kong Government in its efforts to inform and reassure the Hong Kong people.

The Government's suggestion that the Chinese Government should be told of the 'political price' of the continuation of the project would, as you say, have important implications for our relationships with both the Chinese and the French. Such a move would be detrimental to our efforts to expand Sino-British trade including the recently agreed £300m soft loan facility. There would also be major repercussions on political and commercial relations with the French. Given the French Government's unwavering commitment to their nuclear power programme, and their close collaboration with us in Government and industrial spheres for over five years to secure the Guangdong project, they would undoubtedly react very strongly to suggestions originating from HMG that the project should be substantially amended. It is possible that the effects would go much wider than our relations with France and China. The UK could be represented, however unfairly, as an unreliable partner for collaborative projects in general. I think therefore that we should take no steps to follow up the Governor's suggestion without full Ministerial consideration, and I believe that for the present our main task is to seek to reassure Hong Kong, rather than to consider ways of putting pressure on the Chinese to amend the project. If you agree you may wish to make

1786
1986
BOARD OF TRADE
BICENTENARY



S E C R E T

our views known to the Governor.

I am aware that there is some pressure in Hong Kong to postpone contract signature and final Authorisation to Proceed (ATP) pending the outcome of the UMELCO investigations. As far as Hong Kong is concerned, contract signature is the significant step since this would be seen as firm commitment by the contracting parties. ATP is scheduled for 7 October, but there is as yet no firm date for contract signature, although it must precede ATP. If ATP is not reached by 1 November the agreed price for GEC's contract would lapse and would have to be renegotiated.

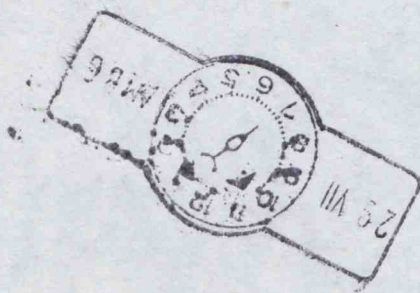
Although at this stage we do not need to take a firm view it would be awkward for us to request the Chinese to delay matters. However, I understand that a recent report suggests that the Chinese may be prepared themselves to delay signature to allow consideration in Hong Kong of the findings of the various overseas Missions from UMELCO. It is also possible there will be slippage in the remaining negotiations on the project. This again would allow the UMELCO discussions to be concluded before contract signature. On the other hand, slippage of ATP beyond 1 November would cause difficulties for GEC. Our officials should keep this under review, as part of the continuing requirement for close co-ordination on nuclear safety aspects of the project.

I am copying this letter to the Prime Minister, the Secretary of State for Energy, the Chancellor of the Exchequer, the Secretary of State for Health and Social Security, the Secretary of State for the Environment and the Secretary of State for Scotland.

PAUL CHANNON

17
1986
BOARD OF TRADE
BICENTENARY

HONG KONG Castle Road PT4





COPY NO. 2 OF 9

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

CDP
18/7.

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State
Foreign and Commonwealth Office
Downing Street
London
SW1A 2AL

18 July 1986

HONG KONG: NUCLEAR SAFETY

WITH COPY

I have seen your minute of 16 July to Paul Channon.

I agree that we must do what we can to get the facts about nuclear power across to the people of Hong Kong, and I am glad that my recent speech has helped in this respect. It is of course a pity that the opportunity I would have had to follow this up personally during my stopover in Hong Kong as part of my visit to China will now be missed.

As you will know, my officials have been closely involved in the visit this week of Mr Yaxley, to which you refer in your para 4.

The UKAEA have for some time had a consultancy with the Hong Kong Government under which they are advising on environmental aspects of the Daya Bay plant, contingency planning and so forth. The Authority have been asked to give the necessary priority to this work, and to keep us closely in touch with progress. It is of course essentially for the French to demonstrate the safety features of the plant which they are to supply, and for the Chinese to demonstrate that they are establishing an effective safety regime. We are however considering how we might help the Chinese in this task.

Following Chernobyl. the IAEA is considering extending its safety consultancy arrangements, and it may be that this too will offer

SECRET



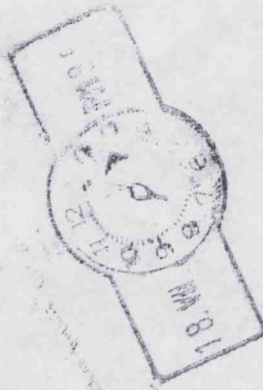
scope for assistance to China and thereby a measure of reassurance to Hong Kong.

I am copying this minute to the Prime Minister, Nigel Lawson, Norman Fowler, Nicholas Ridley and Malcolm Rifkind.

A large, stylized handwritten signature in black ink, consisting of a large 'P' and 'W' with a small 'e' above the 'W' and a flourish below the 'W'.

PETER WALKER

SECRET



CDP
16/7.FCS/86/193Secretary of State for Trade and IndustryHong Kong: Nuclear Safety

1. The Governor of Hong Kong has sent us a series of reports about attitudes in the territory, since the Chernobyl nuclear disaster, towards the construction of the nuclear power station planned for Daya Bay in Guangdong Province, China, about 30 miles from Hong Kong. You will recall that the main contractors for the station, which will be China's first, are Framatone (France - for the nuclear plant) and GEC (for the generators). Ownership will be 75% Chinese, 25% Hong Kong and Hong Kong is to take 70% of the electricity produced.
2. There is mounting public concern in Hong Kong about the safety implications of the project. This has been taken up by Unofficial members of the Legislative Council, who have secured an adjournment debate on the issue on 16 July.
3. Our officials have held urgent discussions and drawn up a programme of measures to allay public concern in Hong Kong. As you know, the issue was raised with General Secretary Hu Yaobang during his visit to London. In conjunction with the French Government we have since made high-level representations in Peking, urging the Chinese to take clear public steps to demonstrate their commitment to safety at Daya Bay. Our officials are arranging briefing, in Hong Kong and in Europe, for Hong Kong opinion-formers to reassure them about the safety record and features of the French PWR design which will be used.

/4.



4. We are also encouraging the Hong Kong Government to demonstrate to people there that it is actively seeking to inform itself, so as to reassure them about the safety implications of a project with which it is itself indirectly associated. A senior Hong Kong Government official is visiting our Departments this week to discuss such matters as monitoring, contingency planning and the relationship between local reactor management and nearby urban communities. He will also visit a power station in France of the type which is to be built at Daya Bay and which is similarly placed near a large centre of population.

5. The Governor has asked us to recognise that there will be a price to pay for the continuation of the project in terms of confidence among the people of Hong Kong; and that this price will be substantially raised during the 1990s, when the station is commissioned. He has invited Ministers to consider whether they should point out to the Chinese Government the political benefits that could be obtained in Hong Kong if the Chinese were to decide now to move the project from Daya Bay or to convert it to a thermal station.

6. Such a step would of course have the most far-reaching implications for our relationships with the Chinese and French governments, as well as for British commercial interests. There would be wider consequences too in terms of perceptions in this country of the Government's attitude to nuclear power, and of the risks associated with it.

/7.



7. Our immediate response to the Governor's concerns must, I suggest, be to continue providing the fullest possible support to the Hong Kong Government in its present difficult position. We must organise a vigorous campaign of information and counter-briefing on the issues raised in public debate. We must demonstrate to the Hong Kong Government, and enable them to demonstrate to a nervous and volatile population, that we are aware of our responsibilities towards the community; that we are fully communicating local anxieties to the governments and enterprises concerned; and that all possible is being done to inform and reassure Hong Kong people. We must also do all we can to foster a more balanced attitude in Hong Kong to the case for nuclear power: Peter Walker's keynote speech on the issue has already been used there to good effect.

8. The planned series of briefings and consultations should help make Hong Kong people better aware of the facts regarding reactor safety. But reactions to nuclear power are not entirely rational, and it would be wrong to under-estimate the depth of public feeling in the territory. The Governor suggested last week that the debate on the adjournment in the Legislative Council could well not be the end of the matter: before the LEGCO session finished at the end of July there could be calls for a further debate on a motion to the effect that no nuclear plant should be built so close to Hong Kong and that the Chinese Government should be asked to reconsider the project. However on 4 July the Unofficial members of the Executive and Legislative Councils (UMELCO) decided to mount their own independent investigation into the safety aspects of nuclear power: Logically this ought to be completed before the final contracts are signed for the Daya Bay project.



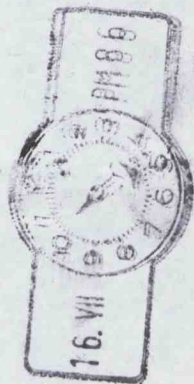
9. It will be of the utmost importance for the future of the Daya Bay project that the UMELCO members associated with the investigations are well and carefully briefed by all the Governments and enterprises concerned. So far as the UK is concerned our officials will need to keep in close touch over the issue, and to give it the very highest priority. I am glad that your officials are in touch with their opposite numbers in Paris to ensure that the UMELCO team is sensitively handled, and properly briefed, while in France.

10. I am copying this minute to the Prime Minister, the Secretary of State for Energy, the Chancellor of the Exchequer, the Secretary of State for Health & Social Security, the Secretary of State for the Environment and the Secretary of State for Scotland.

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

GEOFFREY HOWE

Foreign & Commonwealth Office
16 July 1986



FROM: The Lord Kadoorie, CBE, JP

2

Cable "Kadoorie" Hong Kong
Telephone 5-21,9221
Telex 73127



St. George's Building
Hong Kong

114

March 21, 1986

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

Prime Minister

mt

W

114

Dear Prime Minister,

I cannot let the occasion of the signing of Letters of Intent between Guangdong Nuclear Power Joint Venture Company and GEC for the Daya Bay project pass without once again conveying to you my very sincere thanks for the ever ready help you have extended to me in getting this difficult project off to a good start.

Not only has it the potential to be of great value to Hong Kong but also to the United Kingdom in that it should open doors to new opportunities for British industry to participate in further development towards the accomplishment of China's Four Modernizations Programme.

With kindest regards and best wishes,

Sincerely yours,

Lawrence Kadoorie

Kadoorie



10 DOWNING STREET

THE PRIME MINISTER

21 January 1986

MJ
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(MS2 BLE)

Dear Lord Kadoorie,

Thank you for your letter of 3 January on the outcome of negotiations about the Guangdong Nuclear Project.

In reaching this advanced stage, the project has had to surmount an almost unparalleled set of hurdles. You and your colleagues in China Light and Power can take justifiable pride in having had the initiative and vision several years ago to believe, against the odds, that a project of this scale and complexity could be brought to fruition. Whilst we have at times sat on opposite sides of the negotiating table, the British Government has always recognised the contribution China Light and Power have made to the efforts to establish the project, and the support you have given to the use of British equipment.

I have every confidence in the ability of GEC and their sub-contractors to make a success of the conventional island, but we shall in any case continue to take a close interest in the project's progress.

Yours sincerely
Margaret Thatcher

The Lord Kadoorie, CBE, JP.

cell



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

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

Secretary of State for Trade and Industry

PS/

17 January 1986

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

Dear Charles,

LETTER FROM LORD KADOORIE TO THE PRIME MINISTER ON THE GUANGDONG
NUCLEAR PROJECT

I attach a self-explanatory draft reply to Lord Kadoorie's letter
of 3 January.

2 To ensure the letter's speedy and secure delivery, I should
be grateful if it could be sent via diplomatic bag to our Trade
Commissioner in Hong Kong, Mr R E Holloway, for onward
transmission (Lord Kadoorie's own letter was routed in this way).

3 I am copying this letter and draft reply to Robert Culshaw
(FCO).

*Yours ever,
Michael*

MICHAEL GILBERTSON
Private Secretary

DW5AGY

BLE

The Rt Hon The Lord Kadoorie CBE JP
Chairman
China Light and Power Company Limited
24th Floor
St George's Building
Hong Kong

Thank you for your letter of 3 January on the outcome of negotiations about the Guangdong Nuclear Project.

In reaching this advanced stage, the project has had to surmount an almost unparalleled set of hurdles. You and your colleagues in China Light and Power can take justifiable pride in having had the initiative and vision several years ago to believe, against the odds, that a project of this scale and complexity could be brought to fruition. Whilst we have at times sat on opposite sides of the negotiating table, the British Government has always recognised the contribution China Light and Power have made to the efforts to establish the project, and the support you have given to the use of British equipment.

I have every confidence in the ability of GEC and their sub-contractors to make a success of the conventional island, but we shall in any case continue to take a close interest in the project's progress.

CM

Hong Kong, Guangdong; P74



The Rt Hon The Lord Asquith GBE JP
 Chairman
 China Light and Power Company Limited
 24th Floor
 St George's Building
 Hong Kong

Thank you for your letter of 3 January on the outcome of negotiations about the Guangdong Nuclear Project.

In reaching this advanced stage, the project has had to surmount an almost unparalleled set of hurdles. You and your colleagues in China Light and Power can take justifiable pride in having had the initiative and vision several years ago to believe, against the odds, that a project of this scale and complexity could be brought to fruition. Whilst we have at times sat on opposite sides of the negotiating table, the British Government has always recognised the unique contribution China Light and Power have made to the efforts to establish the project, and the support you have given to the use of British equipment.

I have every confidence in the ability of GEC and their sub-contractors to make a success of the conventional island, but we shall in any case continue to take a close interest in the project's progress.



PRIME MINISTER

GUANGDONG NUCLEAR PROJECT

Following the recent signature by GEC and HMG respectively of memoranda dealing with the main commercial and financial points on this project, you will wish to have a more detailed report.

2 I was grateful for your rapid response, and that of colleagues, to Paul Channon's minute of 24 December seeking authorisation for officials to match the French premium level. This allowed our Ambassador to support GEC's position in discussion with Vice Premier Li Peng. Although GEC had to give further ground on price, they and the Chinese Joint Venture Company were able to reach agreement on price and other commercial matters, signing a Memorandum of Understanding on 3 January.

3 The Government negotiating team had several days' tough negotiations with the Bank of China on the financial package. They met especially stiff pressure on the ECGD premium and a demand that HMG should provide guarantees for the performance of the GEC equipment. They managed to deflect the latter point and to reach agreement on a premium level equivalent to that of the French. The President of the Bank of China and Mr Benjamin, the Under Secretary who has led the DTI effort on the project, signed an MoU on 6 January expressing the agreement reached. I am writing a letter of comfort to Vice Premier Li Peng on our continuing interest in the success of the project.

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CONFIDENTIAL

4 GEC will soon begin discussions in Shenzhen with the Chinese on a letter of intent and all going well this will lead to contract signature soemtime in the latter half of this year. In addition officials will need to clear up some outstanding matters on the financial side, and in particular help draw up loan documentation. These further steps will call for continuing work, and officials will no doubt occasionally have to refer to us, but the signature of the two MoUs augurs well for contract signature in due course.

5 To have reached this position on this complex project has required exceptional patience and determination over long years of negotiation by all concerned. In particular GEC, who have spent several millions of pounds in its pursuit, have had teams of senior engineers in China for months at a time undertaking exceptionally demanding technical and contractual negotiations. Few companies in Britain would have had the financial strength and depth of expertise to last the course. The order will provide great benefit outside GEC, for sub-contractors and material suppliers, without these companies having to negotiate with the Chinese or take the project risk.

6 For our own part, the financial offer negotiated is generous - in part as a result of French determination to secure their part of the project - but the concessions we have had to make do not differ significantly from those envisaged when EX first discussed the project in February 1984.

7 I am copying this minute to EX colleagues and to Peter Walker and Tom King.

L.B.

L B

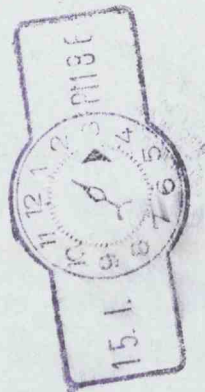
15 January 1986

JF4ATE

DEPARTMENT OF TRADE AND INDUSTRY

HONG KONG PT 4

Quangdong





cc PC

10 DOWNING STREET

From the Private Secretary

8 January 1986

I enclose a copy of a letter to the Prime Minister from Lord Kadoorie about the successful conclusions of the negotiations on Guangdong.

I should be grateful for a draft reply with any appropriate remarks about Lord Kadoorie's role.

I am copying this letter and enclosure to Robert Culshaw (Foreign and Commonwealth Office).

(C.D. Powell)

John Mogg, Esq.,
Department of Trade and Industry

BM



BRITISH TRADE COMMISSION
HONG KONG.

6 January 1986

Private Secretary
to the Prime Minister
10 Downing Street
LONDON SW1

Dear Private Secretary,

Attached is a personal letter to the Prime Minister from Lord Kadoorie regarding the GEC contract for the generators at the nuclear power station in Guangdong.

Lord Kadoorie has given me a duplicate of the letter and I have sent a copy to the Department of Trade and Industry (Chris Benjamin) and to the FCO (Antony Galsworthy) and to the Embassy in Peking (Hugh Davies).

Yours ever,

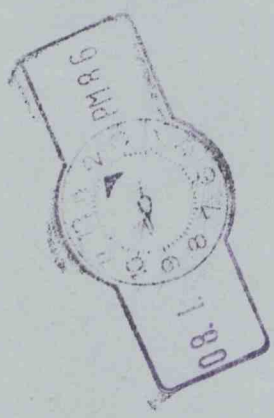
Reg Holloway

R E Holloway

Att

cc C Benjamin Esq, DTI
A C Galsworthy Esq, FCO
H L Davies Esq, Peking

BRITISH TRADE COMMISSION
HONG KONG



FROM: The Lord Kadoorie, CBE, JP

Cable "Kadoorie" Hong Kong
Telephone 5-21,9221
Telex 73127



Prime Minister (2)
We are working
in a reply
St. George's Building
Hong Kong
CDD
Sji

January 3, 1986

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

Dear Prime Minister,

It is indeed pleasing - and somewhat of a relief - to be able to write in these the first days of 1986 to offer you congratulations on the successful outcome of the negotiations with the Chinese for the construction of the nuclear power station at Daya Bay.

That this has been achieved is due to the hard work and patience of all connected with this project since its inception seven years ago. It now remains to show that British industry is as good as its word. You may rest assured, we here in Hong Kong, will continue to cooperate in order to make this project a success.

May I take this opportunity to wish you and yours good health and every happiness in 1986 and the years to follow.

Sincerely yours,

Lawrence Kadoorie:

Kadoorie

PART THREE ends:-

31 DECEMBER 1985

PART FOUR begins:-

1 JANUARY 1985

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