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PS/ *Secretary of State for Industry*

28 July 1980

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

Dear Caroline

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

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

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

Yours sincerely
Catherine Bell
CATHERINE BELL
Private Secretary

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



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

BACKGROUND

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

CURRENT POSITION

4. Castle Peak "A" Station

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

Castle Peak "B" Station

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



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

GUANGDONG PROJECT

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

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



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

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

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

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



Kong.

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

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

LINE TO TAKE

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



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10 DOWNING STREET

THE PRIME MINISTER

15 August 1979

Dear Sir Lawrence,

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

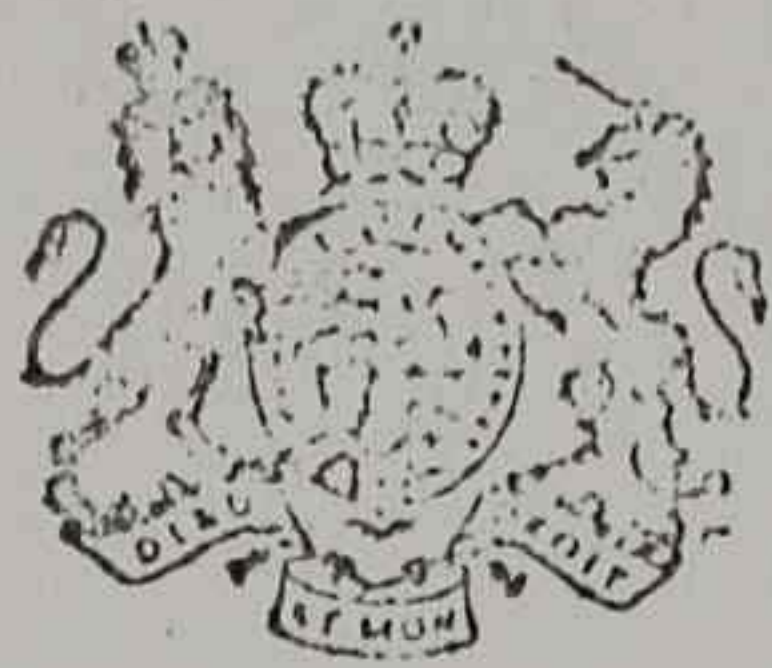
As you emphasised, Hong Kong has a major role as a show place for Western achievements and technology and as a gateway into China. This underlines the need to support large projects by the UK such as those in which China Light and Power are engaged.

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

Kind regards,

Yours sincerely
Margaret Thatcher

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



Return to
M. Alexander

10 DOWNING STREET

3 March 1980

Dear Sir Lawrence,

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

Julius.

Warm personal regards,

Yours sincerely

Margaret Helton

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

NEW NATIONALITY LAW

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

OVERSEAS STUDENTS' FEES

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

ILLEGAL IMMIGRATION FROM CHINA

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

VIETNAMESE REFUGEES

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

UK/HONG KONG AIR SERVICES

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

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

NEW NATIONALITY LAW

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

OVERSEAS STUDENTS' FEES

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

ILLEGAL IMMIGRATION FROM CHINA

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

/VIETNAMESE

VIETNAMESE REFUGEES IN HONG KONG

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

UK/HONG KONG AIR SERVICES

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

VISIT BY LORD CARRINGTON TO THE FAR EAST

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

Foreign and Commonwealth Office

24 July 1980

SIR LAWRENCE KADOORIE CBE

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



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

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

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

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

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

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

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

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



Also there have been verbal hints,

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

NOTE:

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

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

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

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

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

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

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

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



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

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



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Secretary of State for Industry

²¹
18 July 1980

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

Dear Caroline, ^{ed. 2.17.}

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

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

Yours sincerely,
Iain

IAIN P MORRIS
Private Secretary