

MEETING WITH SIR LAWRENCE KADOORIE

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

Present

Secretary of State
Sir Lawrence Kadoorie

Mr Manzie
Mr Brown

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

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

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

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

/Mr Manzie ...

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

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

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

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Circulation

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

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

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

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

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

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

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

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

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

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

W.F. Stones

23.7.1980

- 5 AUG 1980

