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SUBJECT

10 DOWNING STREET

From the Private Secretary

30 July 1980

Dear Ian,

Call by Sir Lawrence Kadoorie

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

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

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

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

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

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

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

Yours sincerely

Richard Alexander

Ian Ellison, Esq.,
Department of Industry.

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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