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PRIME MINISTER

CONFIDENTIAL

Prime MinisterAgree attached reply to Lord  
Kadoorie?If so, you may prefer to write  
similarly to Lord Rhodes, rather  
than offer a meeting. Agree?

GUANGDONG NUCLEAR PROJECT

With his letter of 23 November Peter Walker sent to me a copy of Lord Kadoorie's appeal to you that HMG should put up £25m as one quarter of the equity required for the Hong Kong Nuclear Investment Company (HKNIC). Your Private Secretary also wrote to me on 15 November about the request for a meeting you had received from Lord Rhodes.

DMS  
29/11

2 On 8 November, the Hong Kong Government (HKG) gave its approval for Hong Kong's participation in the project to subject to satisfactory fiscal and commercial conditions for the purchase of electricity; and invited China Light and Power (CLP) to form HKNIC. Formation of HKNIC is a necessary step towards establishing the joint venture company with the Chinese and the negotiation of the electricity off-take agreement. The Chinese are pressing hard for progress on both these fronts.

3 Despite its previous commitment to taking a leading role, CLP is at present refusing to contribute more than £20m to HKNIC and is pressing HMG and HKG to take holdings, both to show their confidence in the project, and as a gesture of political goodwill to the Chinese. HKG is reluctant to go further than a £20m loan to HKNIC.



4 Officials here have pressed GEC on whether they would be willing to take equity in HKNIC. However, GEC have strongly resisted the suggestion on the grounds that they have already committed exceptional resources to lengthy negotiations, they would not want to be both contractor and, in effect, purchaser, and that equity from GEC would not have the same political impact as equity from HMG.

5 The Governor of Hong Kong and the Embassy in Peking doubt whether HMG's participation in HKNIC would have any effect on China's basic position in the talks on the future of Hong Kong. However, Peking believe that failure to set up HKNIC at all, especially if this could be attributed to HMG, would run the risk of affecting the atmosphere of the talks.

6 I appreciate this downside risk, but whether or not such a concession is made at this stage, there will be further pressure from the Chinese and CLP for favourable financing terms. Moreover, investment would be quite contrary to our policy of reducing HMG's shareholding in the private sector, and would set an undesirable precedent for other overseas projects. Provided a satisfactory return is allowed on investment by HKG it may be possible to find UK private sector investors. I told Lords Rhodes and Maclehorse on 1 November that I could not support HMG equity and I see no reason to change my mind at this stage.

7 As Peter Walker mentions, there is still a danger that the French may try to obtain the whole project. We hope that judicious use of the Hong Kong card will enable us to maintain GEC's position but in the end it would not in practice be



possible for Hong Kong to refuse outright to buy electricity from  
an all French station. Accordingly, we shall need to give  
further consideration to financial support, when the GEC bid is  
submitted in March next year. As you agreed with Patrick Jenkin  
 in November 1982, we may need to offer capitalisation of  
pre-commissioning interest to secure the conventional island  
contract. And, as Peter Walker suggests, it may be useful to  
 offer CEGB services, as we did on the Castle Peak projects. But  
at this stage we should certainly give no more than a general  
indication of our willingness to take a positive position. ??

... 8 A draft reply to Lord Kadoorie is enclosed. In view of Lord  
 Kadoorie's strongly held views it would also be helpful, if your  
 diary permits, if you could give Lord Rhodes the same message in  
 person. However, we should avoid encouraging Lord Kadoorie to  
 travel to London for a meeting at which he would be offered  
 nothing new.

9 I am sending copies of this minute to Geoffrey Howe and Nigel  
 Lawson with the previous correspondence, and to Peter Walker.

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29 November 1983

Department of Trade and Industry

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DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO

CONFIDENTIAL

Lord Kadoorie  
St Georges Building  
Hong Kong

Thank you for your letter which Peter Walker delivered to me on his return from the Far East.

I continue to follow developments on the Guangdong project with great interest and I was pleased to hear from Peter Walker of the great progress which is now being made on the preparatory work. I know that the Hong Kong Government has looked carefully at the implications of the project for Hong Kong and I was pleased to note the positive view reached by the Executive Council on 8 November. I believe this marks an important step forward.

I have always agreed with your view that the project offers a unique opportunity to strengthen the ties between the PRC, Hong Kong and the UK. It was with this in mind that Norman Tebbit listened carefully to the arguments put forward by Lord Rhodes and Lord Macle hose that the British Government should consider putting a modest amount of equity into the Hong Kong Nuclear Investment Company (HKNIC). Officials, too, bore in mind the political significance of the project in exploring views in Hong Kong on this issue in November.

Nevertheless, after full consideration, I have concluded that putting equity into HKNIC is not the way in which the British Government should seek to support the project. I am sure you will appreciate that such a step would be quite contrary to our policy of reducing government shareholdings in the private sector wherever possible. And I believe that we can play a more useful and constructive role by providing a positive framework at Government level for detailed discussions between all the interested parties, and by supporting GEC's bid with attractive

financing terms. Indeed, we have already made an important contribution in this way, and we shall continue to do so. Investing equity in the Hong Kong Nuclear Investment company must be primarily for the private sector to take up. CLP will naturally wish to take a leading position but I understand that the Hong Kong Government would be willing to explore with you the possibility of encouraging the Hong Kong institutions to come in.

I hope you will understand that this does not reflect any diminishing of the importance which the British Government attaches to the project. While I must conclude that it would be inappropriate for the British Government to take an equity stake in HKNIC, I can assure you that we shall continue to do all that we can to support your efforts to bring the project to a successful conclusion.

HONG KONG : Castle Peak

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