

PERSONAL & CONFIDENTIAL



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4th May, 1984

Dear Prime Minister,

In order to save your time I enclose a copy of the minutes of a meeting I had with Mr. Li Peng, Vice Premier of the People's Republic of China.

I shall be referring to the issues raised in this note when we meet, to which I am very much looking forward.

Yours sincerely,

A handwritten signature in black ink, which appears to read 'Robert Hodgson'.

The Rt.Hon. Margaret Thatcher, M.P.,
No.10 Downing Street,
London, W.1.

Keel 13/4/84

GUANGDONG NUCLEAR POWER STATION PROJECT

Notes of Meeting held on 9/4/84 in Shenzhen

Enclosure '9'
to Day HK-1
Apr 17/84
(TpLK. 2/84)

Present :

CLP

PRC

Lord Kadoorie
Chairman
China Light & Power

Mr. Li Peng
Vice Premier

Sir Sidney Gordon
Deputy Chairman
China Light & Power

Mr. Xu Jia Tun
Director
Xinhua News Agency
H.K.

Mr. Michael Kadoorie
Director
China Light & Power

Mr. Peng Shi-lu
Vice Minister
MWREP

Mr. W.F. Stones
Managing Director
China Light & Power

Mr. Lin Zhong Tang
Deputy Director
State Economic Commission

Mr. S.K.L. Poon
Divisional Manager
Planning & Systems

Mr. Jin De Qing
President
Bank of China

Dr. Y.B. Lee
Corporate Planning Manager

Mr. Yang Xing Rong
Director
Jiang Su Province Power
Supply Bureau

Mr. N.L. Chang
China Liaison Officer

Mr. Pan Yen Sheng
Director
Guangdong Nuclear Power
Preparatory Office

Mr. Zhan Yun Long
Deputy Director
Guangdong Nuclear Power
Preparatory Office

Mr. Shen Jian Sheng
Deputy Director
Guangdong Nuclear Power
Preparatory Office

1. The meeting commenced by Vice Premier Li Peng and Lord Kadoorie introducing members of their team to each other.
2. Lord Kadoorie stressed the long association between the Kadoorie family and China. He said that members taking part in the meeting had known each other for a long time and had laid a sound foundation for a common understanding between the two sides. CLP shared the desire to speed up the nuclear project but in so doing, it was necessary to exercise care in order to avoid making expensive mistakes. The nuclear power station was the largest J.V. project between China and foreign investors and he was most anxious to see that it would be successful. Other investors in U.K. and Europe were also keen on forming Joint Venture's with China and that they were looking at CLP in formulating the ground rules for future projects. Lord Kadoorie said he understood the importance of the nuclear project to China in its Four Modernisation Programme and CLP would do its best to assist in this aspiration.
3. Vice Premier Li Peng said that China attached great importance to the Guangdong Nuclear Project. In relation to the policy of opening up China to the world outside, the Government wished to make the nuclear project an example of this process. He said that China is somewhat late in using nuclear power generation, but nevertheless, work had already begun and a competition between the Guangdong and Jiangsu nuclear projects would be taking place in completing the first commercial nuclear power station in China.
4. Looking at the Guangdong Nuclear Project from a broader point of view, Vice Premier Li Peng said that major concessions had been made by the Chinese Government which were conducive to the success of the nuclear project. These included major decisions being taken in relation to preferential taxation rates being granted to the J.V. and 100% guarantee to the loans being given by the Bank of China. It was in the context of economic development of Guangdong and in the contribution to the prosperity and stability of Hong Kong, that the Chinese Government had consistently given support to this project. China hoped to see the nuclear project succeed.

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5. The Vice Premier then invited Mr. Lin Zhong Tang to express his views on the nuclear project. (Mr. Li Peng added that Mr. Lin was a very well-known engineer who had participated in the design and construction of the 10,000 ton hydraulic press in Shanghai in the 1960's and was now responsible for the technical and economic aspects of the nuclear project in the State Economic Commission).
6. Mr. Lin said that in relation to the purchase of equipment, an important aspect of the Chinese Government's policy is to combine the importation of equipment with the transfer of technology.

With regard to the Conventional Island for the Guangdong Nuclear Project, there was considerable difference of views and from a technical point of view, China had taken a decision to develop its technology based on the 1500 r.p.m. machines. For the importation of equipment therefore, priority would have been given to similar equipment. When the question of importation of GEC machine for the Conventional Island arose, there was considerable disagreement on the matter and the majority of the technical people, including himself, rejected the 3,000 r.p.m. machine in favour of the 1500 rpm one. However, in view of Sino-U.K. co-operation and the broader issues of strategy, the Government made a decision to use the GEC machines. This was a very major concession.

Mr. Lin said, personally, he hoped that the Guangdong Project would proceed smoothly and that the technical issues, once passed, would not become an issue again.

7. Mr. Jin De Qing, President of the Bank of China was then requested to give his views.

Mr. Jin said that the Bank of China had been doing a lot of preparatory work associated with the nuclear project.

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Prior to accepting the responsibility of arranging finance for the Guangdong Project, it would be necessary for the Bank to study the financial viability of the project, to see whether the loans could be repaid and whether it would be possible to shorten the construction period of the power station.

Mr. Jin said personally he hoped that the Project would succeed and that the Bank of China could be of assistance.

With regard to the selection of the 'Lead Bank' associated with the ECGD loan, Mr. Jin said he understood that CLP had a long working relationship with some banks in London. However, the choice had to be made on a competitive basis and he requested CLP for neutrality and non-interference on the matter.

On the question of price of electricity and quantity of re-sale, Mr. Jin requested an undertaking from CLP, which would make the nuclear project feasible.

8. In answer to the points raised by Mr. Lin and Mr. Jin, Lord Kadoorie said that

(a) He had emphasised to Framatome and EDF that technology transfer was an important aspect of this project. He believed that agreements would be signed not only for the transfer of technology but also for assistance in establishing the licensing procedures in China.

(b) He fully appreciated the reservations in China with regard to the plant offered by GEC. However, he had full confidence in Mr. Stones who would not have accepted such a proposal unless he was convinced that such a machine was both reliable and safe. Furthermore, the reputation of the British Electrical Industry was behind this project and any failure would mean that there would be no more market for them anywhere else.

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9. With regard to the point raised by Mr. Jin on the question of the lead bank, Sir Sidney said that although CLP knew many Bankers in London, it had no connection with any of them. He said that as an investor in a Hong Kong Merchant Bank, Lord Kadoorie was the Chairman of Schroders & Chartered, but this did not have any connection with the banks in London.

On the choice of the lead bank, Sir Sidney said that although the loans were guaranteed by the Bank of China, it was the J.V. which would repay the loans. It was therefore necessary for the J.V. to be involved in the discussions. What was good for the Bank of China would not necessarily be good to the J.V. He added that HKNIC did not wish to influence choice of the lead bank. But as a member of the J.V., it wished to see that the choice would be good for the project.

10. On the quantity of electricity to be purchased by Hong Kong, Lord Kadoorie and Sir Sidney said that the projections made in connection with the nuclear power station were based on a conservative average load growth of 6.5% p.a. while actual figures for the last 10 years had been in excess of 10%. There would be no difficulty if no unforeseen events were to occur in Hong Kong.

Lord Kadoorie said he hoped that discussions on Hong Kong's future would proceed smoothly so that his reservations in respect of load growth would be resolved and the question of flexible off-take would not exist.

11. On the price of electricity, Mr. Stones said it was clear that nuclear electricity would be cheaper than that generated from coal. The nuclear project would not have been considered had this not been the case. The question under discussion at present was the formulation of a mechanism which would distribute the risks fairly to the J.V. partners (in the ratio of their equity shares) in the event of coal price not escalating as anticipated and nuclear electricity turning out to be more expensive.

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Sir Sidney added that CLP was a controlled company operating under laws laid down by the Hong Kong Government which would not allow the purchase of electricity at a price higher than that generated from coal.

12. Vice Minister Peng Shi-lu said the the J.V. partners were co-operating well and although some problems still remained, these were being overcome one by one.

In entering into any business venture, he added, risks had to be accepted by both partners. Referring to the possibility of the average annual load growth not reaching 6.5%, Mr. Peng stated that this represented a small part of the total risk compared to the much bigger risk taken by China in the purchase of the turbine generator from GEC. In the event of full/reliable generation not being achieved, the repayment of loans would become impossible.

Mr. Peng added that the price of electricity would also be affected by the length of the construction period. A delay of one year would mean an additional cost of US\$400 million resulting in an increase of 0.5 US¢ per Kwhr of electricity.

13. Responding to Lord Kadoorie's concern in respect of the proposed coal fired power station in Shenzhen, Vice Premier Li Peng said that the Chinese Government had no plans for building such a power station. In any event, financial support from the Bank of China would be necessary and the Bank of China was not aware of such a project. He said that as a Special Economic Zone, Shenzhen had been given special rights which were not available to others in the country. He felt that the capacity of the proposed power station was far in excess of what the city needed and concluded that the plans had not been prepared by knowledgeable engineers.

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14. Mr. Xu Jia Tun of New China News Agency said that he was well aware of Lord Kadoorie's name in Hong Kong. If the two sides were to succeed in their co-operation in the construction of the nuclear power station, then in addition to strengthening the ties between China and the U.K., it would also contribute to the stability and prosperity of Hong Kong. Mr. Xu expressed the hope that Lord Kadoorie would take the lead in promoting this trend.
15. Mr. Xu said that there were people in Hong Kong who were unable to see very far. Having had the opportunity of listening to Lord Kadoorie, he was impressed by Lord Kadoorie's long-term vision, his friendly feelings towards China and his offer of co-operation in China's Four Modernisation programme. Like Mr. Hammar of Occidental Petroleum who is sympathetic and helpful to China, Mr. Xu said he considered Lord Kadoorie a friend of China. He felt that the problems which remained in the nuclear project could be resolved in the spirit of give and take as expressed by Mr. Li Peng. He further added that if the nuclear project turned out to be a success, substantial benefits to the Kadoorie family, both direct and indirect, would accrue.
16. Mr. Xu said that Hong Kong will continue to have a very bright future and that there was no place in S.E. Asia or in the Asian Pacific region which could replace Hong Kong's role. Combined with the development of China, there will be yet another golden age in Hong Kong. All these benefits will of course only go to those who have foresight.
- He said that following success in the nuclear project, other areas of co-operation could be entered into with the Kadoorie family.
17. Lord Kadoorie expressed an interest in agricultural co-operation and mentioned the regular exchange of visits between Guangdong and the Kadoorie farms.

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18. Vice Premier Li stated that differences still remained to be resolved. The central question remaining in the Project was the 100% guarantee which the Bank of China was expected to undertake. He said although it was permissible in a socialist country for the Government to give guidance to the Bank of China, the latter was nevertheless an independent enterprise which was answerable to its own Board of Directors as to the economic viability of any project.

Mr. Li Peng added that the two sides had already spent considerable time on the subject and it was his recommendation that the understanding recorded in the memorandum signed by Mr. Manzie and himself, as a result of discussions in March 1983 in Hong Kong and Beijing, be followed. He recalled that both the Hong Kong Government's views and CLP were represented in the formulation of the said memorandum.

Mr. Li Peng said that the central consideration of the memorandum was the price of electricity. The document had been prepared with a view to being fair to all parties concerned. The views of the Hong Kong Government on the price of electricity had been expressed in that document as had those of the Chinese Government.

Mr. Li Peng said that 5 major concessions had been made by the Chinese Government which included pegging of the price of nuclear electricity to that of fossil-fired coal generation for the first five years, to be followed by 15 years during which the price would be determined by cost of generation plus 10% profit. He stated that this was fair and reasonable to both parties.

19. The Vice Premier thanked Lord Kadoorie and his colleagues for accepting his invitation and coming to Shenzhen to meet him.

Lord Kadoorie thanked the Vice Premier for the invitation and expressed a wish to open the nuclear power station jointly with the Vice Premier.

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20. In a conversation during the luncheon banquet, Vice Premier Li Peng expressed a desire to cooperate closely with the Kadoorie family. He said that the cooperation will span from Lord Kadoorie, who he was sure would live to be a hundred, to Mr. Michael Kadoorie and continue long after that.

ybl:nlc

13th April, 1984

1283A

CHINA LIGHT & POWER CO., LTD.
PRESS CUTTING OF PUBLIC AFFAIRS BRANCH

*Enclosure 'H' to Day HK-1
dated April 17/84
(Tup 4c. 2/84)*

NEWSPAPER

H. K. STANDARD

8147 (1/84)

DATE

12/4/84

PROMINENCY	<input type="checkbox"/> IMPORTANT	<input checked="" type="checkbox"/> ORDINARY	<input type="checkbox"/> FRONT PAGE	<input type="checkbox"/> BACK PAGE	<input type="checkbox"/> INSIDE PAGE	
TO :			CIRCULATE TO	INITIAL	DATE	
Separate copies sent to Mr. D. Barrett Corporate Planning Manager China Liaison Officer for information			1	MANAGING DIRECTOR	<i>seen</i>	
			2	Divisional Manager (Planning & Systems)		
			3	Company Secretary		
			4	PUBLIC AFFAIRS BRANCH		
			REMARKS			

SUGGESTED ACTION

UK using China Light as trump card — claim

THE British government is believed by some industrial circles here to have persuaded China Light and Power Company to make a decision which, they hope, will provide last-minute trump cards for the British side in negotiations with China on the future of Hongkong.

China-watchers claim that Lord Kadoorie, chairman of China Light and Power Company, wrote a letter earlier this year at the request of the British government, informing Mr Peng Shilu, China's Vice Minister of Water Resources and Electric Power, that CLP could not proceed with negotiations for a joint venture to interconnect the systems of China Light and Guangdong Electric until May at the earliest and, possibly, much later — a move that sources suggest could motivate China to postpone the Guangdong project for years and eventually build it alone.

China is understood to have interpreted Lord

FORUM 1997

by
Sheila Dawes
in London

Kadoorie's letter as indicating that he could not give the go ahead until arrangements for the future of Hongkong had been finalised and a Sino-British agreement ratified by the British Parliament. One source claims China anticipates that ratification will be sought from parliament in June.

Britain has been preparing to finance the General Electric Company's expected deal to build part of the nuclear power station by extending its first £1 billion export credit loan.

If China's plans to set up a joint venture with Hongkong are not finalised, says sources, there will be no "customer" to award contracts. The GEC contract, worth US\$900 million, was expected to be awarded this spring.

It is now thought that a statement by Vice-Premier



LORD Kadoorie... could not give go ahead.

Li Peng made in February, that all major contracts for the Guangdong project would be awarded by the end of next year, was made as a direct result of Lord Kadoorie's letter.

•A spokesman for the Department of Trade told *The Standard* that no date had been set for awarding the

GEC contract and this was a matter for the customer.

Allegations by British industrial circles that "political rattlings" and "bluff and counter-bluff" situations linked with the Sino-British negotiations have detracted from their expensive efforts to win orders at Guangdong against fierce competition from French and American companies, have been circulating for the past year.

Sources maintain that negotiations to form a joint venture to own and operate the station have been interrupted twice and the delay used as a bargaining tactic by Britain at the Beijing talks.

An industrial source pointed out that several negotiations connected with Guangdong were running parallel to each other and it might well be that these needed to be completed before negotiations on the joint venture could begin.

He thought they were just about to begin.

And amid reports of high-powered exchanges between London and Beijing, the Hongkong Government was accused of stalling and "dragging its heels" before it issued a franchise.

ISSUED BY P.A. BRANCH ON

12/4/84

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