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Foreign and Commonwealth Office

London SW1A 2AH

16 November, 1984

Dear Charles,

Yes

Prime Minister
Agreed not to
take a party of
businessmen to
Peking? C.D.

Prime Minister's Visit to Peking

As you know, the Foreign Secretary discussed briefly with the Prime Minister on 14 November the possibility that she might take some businessmen, and in particular businessmen from GEC, with her on the visit to China to sign the Hong Kong agreement. The Foreign Secretary was then inclined to see some merit in the idea but only if it was plain that it was not likely to get in the way of the central purpose of the journey. He agreed to give this subject further consideration.

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We have consulted the Governor further: I enclose a copy of his telegram. The Foreign Secretary is now disposed to accept this advice. The general problem is that the overriding reason for the Prime Minister's visit to Peking is to sign the Hong Kong agreement and thereby give significance to it. It will be important from a presentational point of view in Hong Kong that this be kept at the centre of the stage. If the Prime Minister were to go with a party of businessmen, this would be highlighted in the Hong Kong press, and there would be suggestions, which many in Hong Kong would be only too willing to believe, that we were now getting our prize for having sold out Hong Kong to the Chinese. Accusations of this kind might be extremely damaging, and could cast a cloud over the Prime Minister's visit to Hong Kong after the signature ceremony in Peking.

The Foreign Secretary agrees entirely with the Prime Minister that we should be ready to move fast to take commercial opportunities in China that may be opened up by the Agreement. But previous experience of businessmen accompanying Ministers on visits to Peking suggest that this is not the most effective way of promoting our commercial interests in China. The most productive approach seems to be for companies to pursue individual contacts and wait until much of the ground work has been done before having the Chairman out to conclude the deal. To take senior businessmen out without the necessary preparation having been done leads to frustration. A case in point was the visit of Mr Varley, then Secretary of State for Trade and Industry, in early 1979: I understand that the businessmen accompanying him landed no contracts, and that there was a good deal of internal bickering on our side afterwards.



The biggest outstanding project is the Guangdong Nuclear Project, which is GEC's main interest. There are particular Hong Kong reasons for not pressing this to a conclusion during the Prime Minister's visit. The project is not a very popular one in Hong Kong, where the population are worried about possible nuclear pollution, and also suspect that the Hong Kong consumer may eventually be asked to pay more for his electricity than he would have to pay if it came from a conventional source. There is some tendency to believe that the Hong Kong consumer is being sacrificed in order to provide contracts for British industry.

The position in the negotiations is as follows. The Joint Venture Company (JVC) between the Chinese and the China Light and Power Company in Hong Kong has not yet been set up. Commercial negotiations could start informally before the JVC is set up. But contracts can only be signed after the JVC is formed, and after the financial negotiations between the UK and French Governments and the Bank of China are completed. The JVC cannot be formed until China Light and Power have put the draft agreement to the Hong Kong Government and EXCO have approved it. The earliest date on which EXCO could consider the matter is 18 December. Moreover, as the Governor points out, it is quite probable that more than one meeting will be needed before EXCO can reach a decision. The financial negotiations relating to the Guangdong contract cannot be concluded until the Bank of China carry out a thorough evaluation of the project's viability, which can only realistically be done after the JVC is set up.

It would of course be possible to try to speed up this process. But it is most unlikely that negotiations could be concluded in time for anything to be signed during the Prime Minister's visit. And to accelerate the negotiations would involve trying to rush EXCO into taking decisions earlier than they had planned and before they are ready to do so. This would almost certainly fail, and might very well lead to EXCO taking a decision against the project. This would be disastrous. In all the circumstances the Foreign Secretary concludes that it would be most unwise to try to push this whole matter ahead faster than is at present scheduled.

The Foreign Secretary believes that the Prime Minister's visit will provide important opportunities to promote our commercial interests, including the Guangdong Nuclear Project during her talks with Chinese leaders. The content of these talks will not be public, and thus there would not be the same presentational risks vis-a-vis Hong Kong. These talks could identify the main areas of opportunity for British exports to China and could be followed up by appropriate business visits. There will be further opportunities during the visit of Premier Zhao to this country during 1985. There will therefore be no lack of



activity.

In the Foreign Secretary's view, the nature of this particular visit is such that we should need to be particularly convinced by other evidence before deciding to disregard the plain advice of the Governor, who has borne so much of the heat of battle on this front.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

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IMMEDIATE

HONG KONG AGREEMENT

PS (1)

PS/MR LUCE

PS/FUS

DR WILSON SIR W HARDING.

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HD/ FED

SIR P CRADOCK

MR BURROWS, LEGAL ADVISERS

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FM HONG KONG 160825Z NOV 84

TO IMMEDIATE F C O

TELEGRAM NUMBER 3500 OF 16 NOVEMBER

INFO PRIORITY PEKING

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HONG KONG AGREEMENT

1. I UNDERSTAND THAT CONSIDERATION IS BEING GIVEN IN LONDON TO WHETHER A PARTY OF BUSINESSMEN, AND IN PARTICULAR FROM GEC, SHOULD ACCOMPANY THE PRIME MINISTER ON HER VISIT TO SIGN THE HONG KONG AGREEMENT.

2. AS I HAVE EXPLAINED IN EARLIER TELEGRAMS I CAN WELL UNDERSTAND THAT THE PRIME MINISTER WILL WISH TO TAKE THE OPPORTUNITY OF HER DISCUSSIONS IN PEKING TO PROMOTE SINO/BRITISH RELATIONS GENERALLY AND SINO/BRITISH TRADE IN PARTICULAR. BUT AGAINST THAT HAS TO BE BALANCED THE NEED TO AVOID CREATING THE IMPRESSION HERE THAT THE PROMOTION OF UK COMMERCIAL AND ECONOMIC INTERESTS WAS AN IMPORTANT FACTOR LYING BEHIND HMG'S DETERMINATION TO REACH AN AGREEMENT WITH THE CHINESE ON THE FUTURE OF HONG KONG. TO TAKE A PARTY OF SENIOR UK BUSINESSMEN, WHO WOULD INEVITABLY FEATURE PROMINENTLY IN THE MEDIA COVERAGE RELAYED BACK TO HONG KONG, WOULD IN MY VIEW RUN A SERIOUS RISK OF CREATING THE VERY IMPRESSION WHICH WE HAVE BEEN SUCCESSFUL IN AVOIDING SO FAR.

3. I UNDERSTAND THAT THERE IS ALSO A SUGGESTION THAT THE VISIT SHOULD BE USED TO BRING TO A CONCLUSION OR SIGNATURE SOME ASPECTS OF THE GUANGDONG NUCLEAR PROJECT, EG THE FORMATION OF THE JOINT VENTURE COMPANY. I WOULD RECOMMEND STRONGLY AGAINST PLANNING ON THIS BASIS. IT WOULD INEVITABLY BE INTERPRETED AS USING THE HONG KONG AGREEMENT AS A LEVER TO GAIN THE CONTRACT FOR GEC. AGAIN AS

THIS BASIS. IT WOULD INEVITABLY BE INTERPRETED AS USING THE HONG KONG AGREEMENT AS A LEVER TO GAIN THE CONTRACT FOR GEC. AGAIN AS I HAVE SAID IN EARLIER TELEGRAMS THERE IS LITTLE ENTHUSIASM FOR THE PROJECT HERE: E.G. THERE IS ANXIETY ABOUT THE SAFETY ASPECTS: CONCERN THAT THE HONG KONG CONSUMER WILL EVENTUALLY HAVE TO PAY TOO HIGH A PRICE FOR THE ELECTRICITY PRODUCED: AND FEARS ABOUT DELAYS AND COST OVER-RUNS.

4. SECONDLY, IT WOULD BE VERY RISKY TO ASSUME THAT SUFFICIENT PROGRESS ON THE OUTSTANDING ISSUES CAN BE MADE IN ORDER TO BE CERTAIN THAT THE DOCUMENTS COULD BE SIGNED. THE EARLIEST (AND AS YET UNCONFIRMABLE) DATE ON WHICH THE EXECUTIVE COUNCIL CAN CONSIDER THE DRAFT CONTRACTS, WHICH WILL BE ESSENTIAL TO THE AGREEMENT ON OFF-TAKE AND THE FORMATION OF THE JOINT VENTURE COMPANY, WILL BE DECEMBER 18. GIVEN THE COMPLEXITY OF THE DOCUMENTATION, AND THE IMPORTANCE OF THE ISSUES INVOLVED IT IS AT LEAST POSSIBLE THAT THE EXECUTIVE COUNCIL WILL REQUIRE MORE THAN ONE BITE AT THE CHERRY BEFORE THEY REACH A CONCLUSION: AND THAT IN CONSEQUENCE THE ISSUES WILL NEED TO BE CONSIDERED FURTHER AT A MEETING EARLY IN THE NEW YEAR. THERE WOULD BE STRONG RESENTMENT AMONG EXCO MEMBERS IF IT APPEARED THAT THEY WERE BEING PRESSURED INTO A QUICK DECISION ON MATTERS OF SUCH MAGNITUDE. SUCH PRESSURE WOULD BE COUNTER-PRODUCTIVE: WITHOUT IT I AM OPTIMISTIC THAT EXCO WILL ACCEPT THE PROPOSITIONS. IN ANY CASE, EVEN IF THEY DID REACH A DECISION ON DECEMBER 18TH THERE COULD BE NO PROSPECT OF FORMING THE JOINT VENTURE COMPANY SUFFICIENTLY QUICKLY TO ENABLE LETTERS OF INTENT TO BE ISSUED OR OTHER DOCUMENTS TO BE SIGNED ON THE 20TH.

5. THERE IS NO DOUBT THAT HONG KONG WILL BE LOOKING TO THE VISIT FOR A DEMONSTRATION OF COMMITMENT ON THE PART OF THE UNITED KINGDOM GOVERNMENT AND THE CHINESE GOVERNMENT TO THE AGREEMENT ON THE FUTURE OF HONG KONG. TO ELEVATE THE PROMOTION OF SINO/BRITISH TRADE TO A POSITION OF ANY PROMINENCE DURING THE VISIT COULD ONLY DETRACT FROM THE IMPACT OF THAT DEMONSTRATION.

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10 DOWNING STREET

From the Private Secretary

18 November 1984

From the Private Secretary

18 November 1984

Dear Peter,

PRIME MINISTER'S VISIT TO PEKING

Dear Peter,

Prime Minister

Thank you for your letter of 16 November explaining the reasons why the Foreign Secretary felt that it would not be appropriate for the Prime Minister to take a party of businessmen with her to Peking at the end of the year.

The Prime Minister accepts the Foreign Secretary's advice.

I wrote to Len [unclear] a copy of a message from [unclear] saying that he would not be [unclear] (the Prime Minister [unclear])

I subsequently spoke, on the Prime Minister's instructions, to the United States Ambassador and explained that the Prime Minister's aircraft was in [unclear] through Washington. It would therefore be convenient for her to meet briefly there [unclear] the President. Ambassador Price rang back the fact that he had spoken to the President who had said elsewhere that California and would look [unclear]. He then rang back once again this evening [unclear]. The consideration was being given in Washington to making the 22 December meeting [unclear] on the lines of a [unclear] in February. The President might then visit London briefly in May on his way to or from Bonn. Ambassador Price also mentioned a State Visit later in the year. I did not respond at all to this last point.

Yours sincerely
Charles Powell

Charles Powell

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

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I discussed all this with the Prime Minister and she decided that clearly 22 December was not an ideal time for the President. Nor would she wish to have an extended meeting then since there would not be adequate opportunity to prepare fully for it. Moreover, her programme for Peking and Hong Kong was now clearly going to be extremely heavy. I see Peter Ricketts's letter of 14 November in this light and I would prefer not to pursue the case of a meeting with the President in December but to concentrate on the proposed February meeting. Our aim should be to agree and approve dates for this as soon as possible.

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SIR PERCY CRADOCK

PRIME MINISTER'S VISIT TO PEKING

The Prime Minister has noted your minute of 9 November recommending she should not take a party of businessmen with her to Peking next month. My understanding is that she intends to follow your advice.

C.D. Powell
11 November 1984

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Prime Minister
CDP
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MR POWELL

9 November 1984

PRIME MINISTER'S VISIT TO PEKING

1. I understand Lord Young has suggested to the Prime Minister that she might take a party of businessmen with her to Peking next month. I would strongly advise against this on the following grounds.

- a. The reason for the Prime Minister's visit is the signature of the Hong Kong Agreement. It will be most important to keep that at the centre of things and avoid giving colour to the view that we have neglected Hong Kong interests for the sake of UK commercial interests in China. The fact that we have an excellent agreement and a good response from Hong Kong will not necessarily preserve us from this charge, and the Governor has recently warned of the danger in connection with publicity over the Guandong nuclear project.
- b. Taking businessmen with the Prime Minister will not cause contracts to materialise where they do not already exist. In other countries the situation may well be different, but my experience in Peking has always been that the way to do business is for each firm to pursue its contracts individually, and only when the time is right, (usually after many visits by juniors), send out its Chairman to conclude the deal. This enables the Embassy to concentrate its services on one important visitor at a time; it also helps the Chinese, who are bad at fixing up separate interviews for a number of business leaders at the

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same time. To send out a group of high level industrialists without careful preparation is a recipe for frustration; the visit by Eric Varley as Secretary of State for Industry in early 1979 accompanied by just such a group is a good illustration; it landed no contracts and led to much internal bickering.

- . This does not, of course, mean that we should not exploit the opportunities now offered us, or the Prime Minister should not press the case for individual British firms and a generally higher level of Sino/British trade in private discussions with Chinese leaders, to be followed up by individual firms, and later when Premier Zhao comes here next year. But we need to be careful about the focus and presentation of the December visit.



PERCY CRADOCK

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