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Foreign and Commonwealth Office

London SW1A 2AH

20 June, 1985

Charles  
leave it  
at that

FEB

You have mentioned

EBB  
20.6

a No. 10 in letter to  
Mr. Benjamin. Do you want  
me to write as well? Or

Dear John,

Hong Kong: Tuen Mun Project: Hong Kong Dollar Financing

leave it  
at that?

As you know the Foreign Secretary has been following closely developments on the bid by the GEC, Cementation (Gammon) and Metro-Cammell consortium for the Tuen Mun Light Railway Project in Hong Kong.

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Sir Geoffrey Howe is concerned about the political implications of the "common line" agreement with other export credit agencies not to give official backing to any financing in Hong Kong dollars for this project.

The FCO were not consulted about this agreement: although discussions about it go back as far as 1982, we understand that the specific agreement on Tuen Mun was negotiated by ECGD between November 1984 and February 1985, just after the conclusion of the Hong Kong agreement. Had he been consulted, the Foreign Secretary would have wished to express serious doubts about the wisdom of entering at this juncture into an agreement which appeared to discriminate against the Hong Kong dollar. He hopes that the FCO will be given an opportunity to put its views in any future negotiations on matters of this nature.

However the Foreign Secretary accepts that now that the common line agreement exists it would not be right to breach it unilaterally in respect of the Tuen Mun Project. He also accepts that there is no possibility of undoing it in the limited time available before a decision on the tender is taken.

The Foreign Secretary is nevertheless concerned about the damaging consequences of any failure on our part to secure the contract due to our inability to match the terms of Hong Kong dollar finance offered by our competitors. It would quickly become known that this was because of refusal to provide ECGD backing for such finance. There is no doubt that our unwillingness to do this would be publicly imputed to lack of confidence by HMG in the future of the Hong Kong dollar. Although we recognise that this implication might be disputed, the Foreign Secretary does not believe that there would be any

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possibility of convincing public opinion in Hong Kong that this was not the reason. Not only would this be damaging to market confidence in Hong Kong, but we believe that it would not be understood by the Chinese. The Chinese at the highest level have been given assurances that we would give full support to maintaining Hong Kong's stability and prosperity in the period between the agreement and 1997. These assurances were repeated by the Prime Minister to Premier Zhao in December 1984.

The Foreign Secretary therefore believes that it is very important that other arrangements should be made which would enable the GEC consortium to match the financial terms offered by their competitors, in particular the Australians. If this can be done, at least it will not be possible to say, even if we fail to win the contract, that this failure was the result of HMG's having less confidence in the Hong Kong dollar than our competitors. We understand that DTI officials are discussing with the companies possible ways in which finance might be provided to the consortium in order to enable them to match the terms offered by the Australians. The Foreign Secretary very much hopes that these efforts will be successful.

I am copying this letter to Charles Powell (No 10), Rachel Lomax (HM Treasury) and Richard Hatfield (Cabinet Office).

*Yours ever,  
Peter Ricketts*

(P F Ricketts)  
Private Secretary

John Mogg Esq  
DTI