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From the Minister for Trade

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

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Telephone (Direct dialling) 01-215 5144
GTN 215
(Switchboard) 215 7877

Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

Prime Minister
You should be aware. But I don't think you can
22 November 1985
usefully intervene.

CDP

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Dear Geoffrey,

HONG KONG: SECOND HARBOUR CROSSING

The Hong Kong Government is expected to decide, at the end of this month, who should be awarded the contract to construct, and operate the franchise of, the second road/rail tunnel across Hong Kong harbour. One of the three bids, that of the East Cross Company (ECC), which involves both Trafalgar House and GEC, offers the greatest potential for the UK. Following discussions between our officials, I telephoned the Governor on 19 November in support of their bid. I spoke along the lines of the attached note. The Governor was, understandably, non-committal.

The ECC bid is, by all accounts, running second to a Japanese consortium led by Kumagai Gumi. Our Hong Kong post, as well as the companies urged such intervention. Jim Prior spoke to me earlier this week, and you have now been approached by Sir John Nott: Lazard are ECC's bankers. Whilst pressing the case, and the hope that a late improvement in the ECC bid be considered, I made it quite clear to the Governor that I recognise that the decision is ultimately one for the Hong Kong Government. There was no question of our wishing to press a bid which was not intrinsically competitive.

With the recent improvements, I am confident that the ECC are making a particularly attractive offer, and one which shows a real determination to win. Its financing is very attractive, and based upon Japanese rather than ECGD support. The bid has now been further enhanced by an offer to reduce the proposed toll fee to match the HK\$10 we understand is being offered by Kumagai Gumi. Furthermore, the ECC are in serious discussions about joining

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forces with the third bid, being made by Sir Y K Pao's Cross Harbour Tunnel. The former would offer construction strength, and the latter operating expertise.

Whilst all three short-listed bids carry potential UK supply, only the ECC one offers a real role for the UK in consortium leadership. The ECC is a joint venture between Gammon (Hong Kong) and Nishimatsu of Japan: Gammon is 50% owned by Trafalgar House. The bid represents the kind of continued involvement in Hong Kong which we have been urging on UK companies. They will be taking on commitment and risk which ran beyond 1997. It also represents a positive initiative by a UK company to enter into joint venture with the Japanese partner: this approach is one which our two Governments have encouraged.

Furthermore, we have now secured a commitment from Trafalgar House that if their bid is successful, they will source at least £100m of the work from the UK. This is more than the other two bids offer, and includes the prospect of much needed work in, for example, the Cleveland Bridge works in the North East which failed to benefit from the Bosphorus Bridge contract.

I cannot be sure that my intervention with the Governor will result in the ECC's last minute concessions, which are technically time barred, being taken into account. Clearly the approach should not become public knowledge, but it should help reassure the companies that we are doing everything possible to assist them. They, together with Lazard, have been informed of my call on a strictly confidential basis.

The contract will be decided on 3 December, and could well excite some interest. I am, therefore, copying this letter to the Prime Minister, and to Nicholas Ridley who is aware of this project from his recent visit to Hong Kong.

Tom *Paul*

PAUL CHANNON

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HONG KONG: SECOND HARBOUR TUNNEL

SPEAKING NOTE

HMG taking a close interest in the contract to construct and operate the new Second Harbour Tunnel. Emphasise that we recognise that this is a decision for the Hong Kong Government and EXCO to take, but felt that I should let you know how we perceive the bids - particularly since we understand that there have been important recent developments.

Whilst all three short-listed bids have a potential UK content, our clear view is that the present East Cross Company bid offers the best UK opportunities - not simply in terms of this particular project, but also in enhancing the interest of UK companies in Hong Kong and the Chinese market. Gammon owned equally by Trafalgar House and Jardine Matheson: an important Hong Kong contractor with strong UK backing.

Understand that there have been two important recent developments.

First, understand that the East Cross Company have now informed the Hong Kong Government that they will reduce their initial bid which involved a tunnel toll of HK\$11 to HK\$10. Very much hope that this significant change - in Hong Kong's favour - will be taken into account.

Secondly, understand that the East Cross Company and Sir Y K Pao's Cross Harbour Tunnel Company have got a long way towards agreeing the basis on which they could co-operate on this project. This would seem to strengthen the UK/Hong Kong dimension. It also seems to offer the prospect of particularly effective implementation and operation - drawing on the particular construction and operating expertise of the two companies.