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PS/ Secretary of State for Trade and Industry

4 May 1984

John Coles Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear John,

LORD KADOORIE'S MEETING WITH THE PRIME MINISTER :
TUESDAY, 10 MAY 1984

GUANGDONG NUCLEAR PROJECT

Thank you for copying to me your letter of 1 May to Peter Ricketts.

... 2 I enclose a self-contained brief, which my Secretary of State has not been able to see, on the Guangdong Nuclear project for this meeting. I understand the FCO are briefing separately on political aspects of Hong Kong, and I am copying this letter to Peter Ricketts.

Yours ever

Colin McCarthy

M C McCARTHY
Private Secretary

Encl

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PRIME MINISTER'S MEETING WITH LORD KADOORIE, CHAIRMAN OF CHINA LIGHT AND POWER COMPANY, HONG KONG : 10.00AM, TUESDAY 8 MAY

GUANGDONG NUCLEAR POWER PROJECT

OBJECTIVE

The meeting is at Lord Kadoorie's request. He wishes to tell the Prime Minister about progress on the Guangdong project. (Lord Kadoorie is also meeting Mr Tebbit on 10 May).

The Prime Minister will wish to reaffirm to Lord Kadoorie HMG's continued support for the project; to sound out his views on possible competition to GEC's bid; and to explore the timetable for agreement on contracts for equipment, the setting up of the joint venture company, and the purchase of electricity by Hong Kong.

LINE TO TAKE

- (i) HMG continues to attach great importance to this project and the opportunity it offers to strengthen economic links between the PRC, Hong Kong and the UK. We have every confidence in GEC's capabilities and competitiveness.
- (ii) HMG is fully committed to working in partnership with the French on this project. But we know that some Chinese would have preferred an all French project. How are French negotiations progressing?
- (iii) Noted with interest nuclear co-operation agreement signed on President Reagan's visit to China. How does Lord Kadoorie interpret this move?
- (iv) How are discussions progressing on formation of the joint venture company between the Guangdong and Hong Kong nuclear investment companies? And on the purchase of electricity by Hong Kong?

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DEFENSIVE

UK Financing Terms

- (i) Officials will take note of all preliminary views. But we shall not come to this question until detailed negotiations.

Provision of Part of ECGD Loan in Hong Kong Dollars

- (ii) The Bank of China, who will act as borrower have not expressed interest in Hong Kong dollars.

HMG Investment in Hong Kong Nuclear Investment Company

- (iii) We considered this request carefully, but could not agree to this proposal which was contrary to our own domestic policies.

Departure from DTI of Deputy Secretary Responsible for Guangdong Project,
Mr A G Manzie

- (iv) Mr Manzie's move to the PSA does not indicate any change in HMG's commitment. Mr Christopher Benjamin, who has extensive experience in negotiating large capital export projects will take, will take up the Guangdong responsibilities.

ESSENTIAL FACTS

1 On 15 March GEC entered their bid price for the turbine island at £364m. As agreed by Ministers, the financing terms offered matched the French opening offer for the nuclear island: the UK offered a sterling loan of 85% of the UK content of the GEC contract, plus a further 15% to be used at the customer's option to cover either local costs or partial capitalisation of pre-commissioning interest; the consensus interest rate of 9½%; and a repayment term of 15 years from commissioning on the plant. GEC are scheduled to negotiate a letter of intent by 15 August.

2 Both the Chinese and China Light and Power (CLP) have pressed already for a lower price and enhanced loan terms. It would be premature to discuss these further in advance of the detailed negotiations scheduled to take place in Hong Kong this summer. However one political point Lord Kadoorie might raise with the Prime Minister is his repeated request that ECGD should offer part of the loan in Hong Kong dollars, as an expression

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of confidence in the currency. But the Bank of China, who will act as borrower, have not sought Hong Kong dollars. Formally, ECGD will respond only to requests from the Bank of China. The Bank of China will on-lend to the Guangdong joint venture company, and could itself offer Hong Kong dollars to the joint venture if it so wished. HM Treasury are strongly opposed to ECGD carrying the exposure risk of Hong Kong dollars.

3 The Prime Minister may wish to explore potential competition to GEC from the French and the Americans. There are no new developments on the French position; the French are due to conclude a letter of intent for the nuclear island by 15 July. The Americans have signed a nuclear agreement during President Reagan's visit to Peking which may open the door to exports of civil plant. The text of the agreement will not be made public until it is put before Congress on 13 June.

FLAG A

4 On the Hong Kong aspects of the project, Lord Kadoorie still regrets HMG's refusal to invest in the Hong Kong Nuclear Investment Company, the Hong Kong partner in the joint venture company which will own the power station. The Prime Minister wrote to Lord Kadoorie on 1 December declining his request.

5 On the establishment of the joint venture company and the conclusion of the agreement on Hong Kong's purchase of electricity, there has been hard bargaining on both sides. Chinese Vice Premier Li Peng met Lord Kadoorie on 9 April to press for more rapid progress. This underlines the political and economic importance the PRC attaches to the project. Agreement is now expected in June.

6 Mr Manzie, the DTI Deputy Secretary with responsibility for this project, left the Department on 1 May to head the PSA. Should Lord Kadoorie raise any disquiet about this the Prime Minister may wish to indicate that this move does not reflect any change in HMG's commitment to the project. Mr Benjamin, the Under Secretary who heads DTI's Project and Export Policy Division, has very wide experience in project negotiations.

Department of Trade and Industry
3 May 1984

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