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FM PEKING

TO DESKBY 020900Z DTI

TELNO INDUS 255

OF 020345Z NOVEMBER 85

INFO IMMEDIATE PARIS, HONG KONG, BTC HONG KONG, JAKARTA (FOR ADAMS)

FOR DTI DUTY OFFICER, TO PASS TO ALTY WEE4

YOUR TELNO INDUS 266 : GUANGDONG NUCLEAR PROJECT

1. VICE-PREMIER LI PENG RECEIVED ME AND DAVIES AT 9.00 AM ON 2 NOVEMBER FOR 30 MINUTES. AFTER INITIAL COURTESIES HE MADE FOUR POINTS.
2. FIRST, HE ASKED ME TO THANK MR BRITTAN FOR HIS MESSAGE, AND TO APOLOGISE FOR THE DELAYED ANSWER CAUSED BY HIS OWN VISIT TO KOREA AND THEN BY THE NEED FOR THE CHINESE SIDE TO DISCUSS MATTERS FURTHER. HE HOPED THAT MR BRITTAN WOULD UNDERSTAND.
3. SECONDLY, HE EMPHASISED THAT THE CHINESE GOVERNMENT WOULD CONTINUE TO GIVE POSITIVE SUPPORT TO THE CONSTRUCTION OF THE NUCLEAR POWER STATION IN GUANGDONG AND TO COOPERATION WITH CLP. THEY HOPED THAT THE JOINT SUPPLY OF EQUIPMENT BY FRANCE AND BRITAIN WOULD BE SUCCESSFUL ON THE BASIS OF MUTUAL BENEFIT. BOTH THE UNITED STATES AND JAPAN HAD SIGNED NUCLEAR COOPERATION AGREEMENTS WITH CHINA SO THAT FIRMS FROM THE TWO COUNTRIES WERE NOW VERY ACTIVE IN SEEKING BUSINESS. THE CHINESE HOWEVER WISHED TO GIVE PARTICULAR CONSIDERATION TO THEIR OLD FRIENDS, WHERE OTHER CONDITIONS WERE EQUAL. THE TERMS OFFERED BY THE AMERICANS AND JAPANESE MIGHT BE MORE ADVANTAGEOUS IN CERTAIN RESPECTS, BUT THE CHINESE ALWAYS PROCEEDED AS OLD FRIENDS SO LONG AS TERMS OFFERED COULD BE ACCOMMODATED. ANOTHER REASON WHY THE CHINESE SUPPORTED THE PROJECT WAS THAT THEY BELIEVED THAT IT WOULD BE CONDUCTIVE TO THE JOINT CHINESE AND BRITISH EFFORTS TO PRESERVE THE STABILITY AND PROSPERITY OF HONG KONG.
4. THIRDLY, AS TO THE NEGOTIATIONS THEMSELVES, THE MAJOR PROBLEM NOW RELATED TO PRICE. THE FIRST STAGE OF THE NEGOTIATIONS HAD BEEN QUITE FRUITFUL. BOTH GEC AND THE BRITISH GOVERNMENT HAD MADE CERTAIN EFFORTS, GEC CUTTING ITS MARGIN AND THE BRITISH GOVERNMENT OFFERING FAVOURABLE LOAN CONDITIONS. HOWEVER, FRANKLY SPEAKING, THE TERMS SO FAR OFFERED BY THE BRITISH SIDE WERE STILL A FAIR WAY FROM BEING ACCEPTABLE TO THE JVC. ACCORDING TO THE JVC THE REASON FOR THE REMAINING GAP WAS THAT THE ORIGINAL PRICE OFFERED BY GEC WAS FAR TOO HIGH BY COMPARISON TO INTERNATIONAL PRICES. IT MUST HOWEVER BE ACKNOWLEDGED THAT THE GAP HAD ALREADY BEEN SUBSTANTIALLY NARROWED. HE SUGGESTED THAT THE CHINESE AND BRITISH GOVERNMENTS SHOULD CONTINUE TO EXERT INFLUENCE ON THE JVC AND GEC TO GET THEM TO NARROW THEIR DIFFERENCES. IT WAS NOT HOWEVER FOR THE GOVERNMENTS TO DECIDE THE FINAL TERMS. ALL THEY COULD DO WAS TO EXERT INFLUENCE. THE CHINESE GOVERNMENT COULD EXERT INFLUENCE ON THE CHINESE CHAIRMAN OF THE JVC TO LOWER HIS DEMANDS

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AND TO ASK THE JVC TO TAKE UPON ITSELF MORE RISKS. THE BRITISH GOVERNMENT COULD EXERT INFLUENCE IN TWO QUARTERS : FIRST, ON GEC TO CUT ITS PRICE FURTHER: AND SECOND, ON THE HONG KONG COMPONENT OF THE JVC TO MAKE THEM ACCEPT THE IDEA OF LOWERING THEIR DEMANDS AND TAKING MORE RISK.

5. FOURTHLY, AFTER EFFORTS BY THE TWO GOVERNMENTS, THE JVC AND GEC COULD CONTINUE NEGOTIATIONS AND, IN COOPERATION WITH THE FRENCH COMPANIES, PROCEED TO CONTRACT SIGNATURE. GENERALLY SPEAKING, THE CHINESE WERE OPTIMISTIC ABOUT THE PROJECT, AND HE HIMSELF WAS OPTIMISTIC. ALTHOUGH THERE WERE MANY RUMOURS IN THE PRESS THAT THE TWO COMPANIES (JVC AND GEC) HAD SUSPENDED THE NEGOTIATIONS, SOME SAYING THAT THE NEGOTIATIONS HAD BROKEN DOWN, SOME SAYING THAT THE JVC WERE LOOKING FOR NEW PARTNERS, SUCH REPORTS COULD NOT BE HELPED. HE THOUGHT THAT WITH COOPERATIVE EFFORTS PROGRESS WAS POSSIBLE AND HE REPEATED THAT HE WAS OPTIMISTIC. HE ASKED THAT THESE FOUR POINTS SHOULD BE CONVEYED TO MR BRITTAN.

6. THANKING HIM FOR RECEIVING ME, I UNDERTOOK TO CONVEY HIS MESSAGE TO MR BRITTAN IMMEDIATELY. SPEAKING PERSONALLY, I WAS ENCOURAGED BY THE VICE-PREMIER'S REMARKS AND I THOUGHT THAT THE BRITISH GOVERNMENT WOULD ALSO BE ENCOURAGED. AS TO THE PRESS, THE EMBASSY HAD RECEIVED MANY PRESS ENQUIRIES AND WE HAD CONSISTENTLY TAKEN THE LINE THAT THERE HAD BEEN A PAUSE IN THE NEGOTIATIONS AND NO BREAKDOWN. I THEN SPOKE AS INSTRUCTED IN YOUR TUR, DRAWING FULLY ON POINTS A TO D AND POINT F, EMPHASISING THAT I WAS SPEAKING ON INSTRUCTIONS

7. LI PENG THANKED ME. HE SAID THAT HE HAD NOT REFERRED TO GEC'S DEPARTURE FROM PEKING IN HIS REMARKS. NOT SURPRISINGLY THE JVC HAD A DIFFERENT VIEW ABOUT GEC'S DEPARTURE. SO FAR AS THE CHINESE GOVERNMENT WAS CONCERNED THEY DID NOT ATTACH TOO MUCH IMPORTANCE TO THIS. IT COULD BE EXPLAINED AS A RESULT OF ONE SIDE DECLARING THAT THE NEGOTIATIONS WERE CONCLUDED, OR AS A DECISION BY ONE SIDE SIMPLY TO LEAVE. THIS DID NOT MATTER MUCH. WE SHOULD NOW ADOPT A POSITIVE APPROACH AND LOOK TO THE FUTURE. SPEAKING PERSONALLY, HE WISHED TO ADD THAT HE HAD FOLLOWED THE TALKS IN NEW YORK BETWEEN THE TWO PREMIERS VERY CLOSELY AND HE KNEW THAT THE CHINESE AMBASSADOR HAD MET SIR GEOFFREY HOWE AND HAD REPORTED FULLY ON THIS. THE BURDEN OF WHAT LI PENG WISHED TO SAY WAS THAT BOTH SIDES SHOULD NOW MAKE FURTHER EFFORTS. THE CHINESE SIDE WOULD DO SO AND HE HOPED THAT THE BRITISH WOULD. HE BELIEVED THAT THERE WOULD THEN BE A SUCCESSFUL OUTCOME.

-2-
CONFIDENTIAL

18.1

8. I ENQUIRED, BEFORE DEPARTURE, TO WHOM I SHOULD PASS THE MESSAGE FROM THE PRIME MINISTER SINCE PREMIER ZHAO WOULD NOT BE IN PEKING NEXT WEEK. LI PENG SAID THAT I SHOULD PASS IT TO HIM AND HE WOULD MAKE A REPORT TO THE PREMIER.

EVANS

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-3-
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