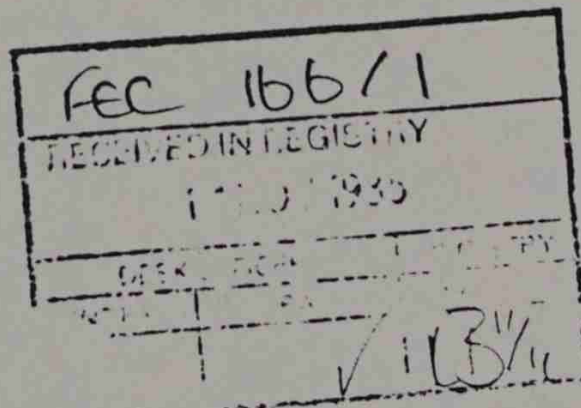


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GUANGDONG NUCLEAR PROJECT

SEE MIPT. MESSAGE APPROVED BY PRIME MINISTER READS AS FOLLOWS:

QUOTE SINCE WE DISCUSSED THE CURRENT NEGOTIATIONS ON THE GUANGDONG NUCLEAR PROJECT IN NEW YORK, I HAVE RECEIVED YOUR VERY HELPFUL MESSAGE, DELIVERED BY YOUR AMBASSADOR TO GEOFFREY HOWE ON 30 OCTOBER.

BOTH SIDES NOW SEEM TO HAVE A BETTER UNDERSTANDING OF EACH OTHER'S POSITION. WE CONTINUE TO REGARD THE PROJECT AS IMPORTANT ON BOTH POLITICAL AND ECONOMIC GROUNDS. AND I AM PLEASED THAT. WITH MOVEMENT ON BOTH SIDES. THE NEGOTIATIONS WITH THE BANK OF CHINA HAVE LED TO THE BEST FINANCING TERMS THAT WE AND THE FRENCH GOVERNMENT CAN DEFEND INTERNATIONALLY. THE BANK OF CHINA NOW HAS THE FINAL FINANCIAL OFFER.

I FULLY AGREE WITH YOUR VIEW THAT DIFFERENCES ON PRICE LED TO THE RECENT PAUSE IN NEGOTIATIONS. WE HAVE HELD DISCUSSIONS WITH GEC DURING THIS PAUSE. AND I AM PLEASED TO SAY THAT THE COMPANY WILL BE RETURNING TO PEKING TO RESUME NEGOTIATIONS ON 11 NOVEMBER. IF THESE ARE TO BE SUCCESSFUL, HOWEVER. THERE

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WILL NEED TO BE A FLEXIBLE APPROACH ON BOTH SIDES. WITH OUR ENCOURAGEMENT. GEC HAVE ALREADY GONE A VERY LONG WAY TO MEET THE JOINT VENTURE COMPANY'S POSITION. AS A RESULT OF THE PRICE CUTS THEY HAVE MADE. THE RETURN TO GEC IS NOW MINIMAL COMPARED WITH THE SUBSTANTIAL COMMITMENTS THEY WILL HAVE TO CARRY OUT. THEY ARE UNDERSTANDABLY CONCERNED THAT FURTHER DEMANDS MIGHT BE PLACED UPON THEM EVEN IF THEY WERE TO MAKE THE FURTHER PRICE REDUCTION REQUIRED BY THE JVC. IT IS OBVIOUSLY NECESSARY FOR GEC TO BE AWARE OF ALL THE JVC'S REQUESTS TO ALLOW NEGOTIATIONS TO PROCEED ON A REASONABLE BASIS.

I WAS REASSURED BY VICE PREMIER LI PENG'S RESPONSE TO LEON BRITTAN'S LETTER, WHICH HE HAS REPORTED TO ME, THAT THE CHINESE GOVERNMENT WOULD USE ITS INFLUENCE TO MODERATE THE JOINT VENTURE COMPANY'S DEMANDS. I CAN ASSURE YOU THAT GEC WILL APPROACH THE FORTHCOMING NEGOTIATIONS IN A SERIOUS AND SINCERE WAY. I BELIEVE OUR CONTACTS HAVE BEEN HELPFUL IN MAINTAINING THE MOMENTUM OF NEGOTIATIONS, AND THAT WE SHOULD BOTH CONTINUE TO MONITOR CLOSELY THE PROGRESS OF NEGOTIATIONS IN THE INTERESTS OF AN EARLY SUCCESSFUL CONCLUSION. UNQUOTE.

NONE

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GUANGDONG

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GUANGDONG NUCLEAR

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File

VC2410

PRIME MINISTER'S
PERSONAL MESSAGE



cc: FCO
DTT

SERIAL No. T208A/85

10 DOWNING STREET

Subject: *cc Ops
masters*

THE PRIME MINISTER

7 November 1985

My dear Premier,

Since we discussed the current negotiations on the Guangdong Nuclear Project in New York, I have received your very helpful message, delivered by your Ambassador to Geoffrey Howe on 30 October.

Both sides now seem to have a better understanding of each other's position. We continue to regard the project as important on both political and economic grounds, and I am pleased that, with movement on both sides, the negotiations with the Bank of China have led to the best financing terms that we and the French Government can defend internationally. The Bank of China now has the final financial offer.

I fully agree with your view that differences on price led to the recent pause in negotiations. We have held discussions with GEC during this pause, and I am pleased to say that the company will be returning to Peking to resume negotiations on 11 November. If these are to be successful, however, there will need to be a flexible approach on both sides. With our encouragement, GEC have already gone a very long way to meet the Joint Venture Company's position. As a result of the price cuts they have made, the return to GEC is now minimal compared with the substantial commitments they will have to carry out. They are understandably concerned that further demands might be placed upon them even if they were to make the further price reduction required by the JVC. It is obviously necessary for GEC to be aware of all the

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JVC's requests to allow negotiations to proceed on a reasonable basis.

I was reassured by Vice Premier Li Peng's response to Leon Brittan's letter, which he has reported to me, that the Chinese Government would use its influence to moderate the Joint Venture Company's demands. I can assure you that GEC will approach the forthcoming negotiations in a serious and sincere way. I believe our contacts have been helpful in maintaining the momentum of negotiations, and that we should both continue to monitor closely the progress of negotiations in the interests of an early successful conclusion.

With best wishes,

Yours sincerely
Margaret Thatcher

His Excellency Mr. Zhao Ziyang

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bc PC

10 DOWNING STREET

From the Private Secretary

7 November 1985

GUANGDONG NUCLEAR PROJECT

Thank you for your letter of 7 November enclosing a draft message from the Prime Minister to Premier Zhao. The Prime Minister has approved the message with one small amendment and I enclose a copy. You will no doubt wish to have the text telegraphed to our Embassy in Peking for delivery.

I am copying this letter to Peter Ricketts (Foreign and Commonwealth Office) together with the signed original for despatch by bag.

(CHARLES POWELL)

Michael Gilbertson, Esq.,
Department of Trade and Industry.

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Secretary of State for Trade and Industry

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

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

7 November 1985

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COMMERCIAL IN CONFIDENCE

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Charles,

GUANGDONG NUCLEAR PROJECT

The Prime Minister undertook at her meeting with Premier Zhao in New York on 24 October to let the Premier have a statement of the UK position on the Guangdong negotiations. I attach a draft for this purpose.

Since GEC's negotiations with the Chinese broke off on 24 October there has been a flurry of messages at political level from the Chinese. The Prime Minister's message is intended to pick up the positive elements in these and put the Chinese on notice that we expect the price negotiations, which are due to restart on 11 November, to be carried on in a more constructive way by the Chinese side than they have been to date. The message also underlines my Secretary of State's earlier statement to Vice Premier Li Peng that our financial offer is the best we can defend internationally and will not be improved further, in the face of attempts by the Chinese and their Hong Kong partners to press for better terms.

Following meetings with GEC and French officials yesterday, our assessment is that difficult negotiations on price still lie ahead. GEC are prepared to make some further moves towards the Chinese, but the Chinese will have to show some flexibility if an agreement is to be reached. The French appear if anything even more determined to resist further concessions. Their position, as supplier of the key component, the nuclear steam supply system, on which they are offering to transfer technology, is stronger than that of the UK. It may well be necessary for the Prime Minister to intervene again with Premier Zhao, and her message leaves the way open for this.

Prime Minister
Agree attached
message to Zhao Ziyang?
It is deliberately rather
general, as the company
want to keep the maximum
flexibility.
attached CDP7/Ki



I should be grateful if you could let me know as soon as the Prime Minister has approved the draft message, as we are anxious to get it to the Chinese in advance of negotiations restarting on 11 November. If you let me have the signed text, we shall also arrange for this to be delivered via the Embassy in due course.

I am copying this letter to Peter Ricketts (FCO).

*Yours ever,
Michael*

MICHAEL GILBERTSON
Private Secretary

Enc

His Excellency Mr Zhao Ziyang
Premier of the State Council of the People's Republic of China *CM*

Please type for Mr's signature

Since we discussed the current negotiations on the Guangdong Nuclear Project in New York, I have received your very helpful message, delivered by your Ambassador to Geoffrey Howe on 30 October.

Both sides now seem to have a better understanding of each other's ^{*position*}. We continue to regard the project as important on both political and economic grounds, and I am pleased that, with movement on both sides, the negotiations with the Bank of China have led to the best financing terms that we and the French Government can defend internationally. The Bank of China now has the final financial offer.

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I was reassured by Vice Premier Li Peng's response to Leon Brittan's letter, which he has reported to me, that the Chinese Government would use its influence to moderate the Joint Venture Company's demands. I can assure you that GEC will approach the forthcoming negotiations in a serious and sincere way. I believe our contacts have been helpful in maintaining the momentum of negotiations, and that we should both continue to monitor closely the progress of negotiations in the interests of an early successful conclusion.

Wilt bear witness.