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10 DOWNING STREET

From the Private Secretary

14 August 1979

Dear Peter,

Sir Lawrence Kadoorie

Thank you for sending me, with your letter of 9 August, briefing for the Prime Minister's meeting with Sir Lawrence Kadoorie yesterday. Sir Lawrence duly called at No. 10 at 1545; the following is a summary of the main points which arose during half an hour's discussion.

China's Trading Policy

Sir Lawrence Kadoorie told the Prime Minister that the economic situation in China had undergone a significant change in recent months. He himself had always discounted the euphoria which had accompanied China's re-entry on to the international stage and the inflated expectations of a trade bonanza. He had believed that the Chinese would soon take a realistic view of their trading capacities and so it had proved. The Chinese knew very well that they could only import what they could pay for; and, given China's shortage of foreign exchange, this meant that they could only buy from the West about as much as the West was willing to buy from China. China Light and Power had now established a sound base for the development of Hong Kong's trade with China, by reaching an agreement with the Chinese Government on the sale of electric power. Competition for the China trade was, however, intensifying, as a natural consequence of a more realistic appreciation of the size of the market.

On the political situation in China, Sir Lawrence Kadoorie said that Deng Xiaoping seemed to have strengthened his position with the appointment of three of his supporters from the younger generation of the Chinese leadership to Ministerial posts.

KESCO and GEC/Babcock

Sir Lawrence Kadoorie recalled that China Light and Power had so far placed orders with UK suppliers totalling £300 million, all by negotiated contract. A further major order, by CLP in partnership with Exxon, amounting to £100 million, was now under consideration. Sir Lawrence said that he wished to

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negotiate this contract on the same basis as its predecessor but he had to persuade both Exxon, who in the aftermath of the Lockheed scandal were chary of negotiated contracts, and his shareholders and consumers, that there was a genuine case for negotiation rather than tender. Problems were already arising as a consequence of rumours in Hong Kong that CLP's main competitor had purchased equipment similar to that involved in the £300 million contract at a price 40 per cent lower than that negotiated with GEC. His answer to CLP's critics was that the contract had involved much more than hardware. He would, however, need more ammunition than this, not least with his Exxon partners. Sir Lawrence said that he would therefore welcome a clear expression of the British Government's backing for the new £100 million contract, which he could deploy during his forthcoming visit to the United States to meet both the Chairman of Exxon, in New York, and the executives of the company directly concerned with the contract, in Houston. The Prime Minister said that she would be very glad to help Sir Lawrence Kadoorie in this way; she would arrange for a letter to be drafted, in suitable terms, for her signature, which could be sent to Sir Lawrence in Geneva before his departure for the United States.

(When I spoke to you on the telephone yesterday evening, you kindly agreed to arrange for this letter to be drafted in time to reach me by 1700 this evening, so that the Prime Minister can sign it before her departure for Scotland tomorrow.)

Sir Lawrence Kadoorie also indicated to the Prime Minister that, in order to justify a negotiated contract, some improvement on the price would be necessary. He did not mention a figure but told me, after he had taken leave of the Prime Minister, that he thought it essential to secure a reduction of £5 million in the price at present quoted for GEC/Babcock's generating units.

Sir Lawrence Kadoorie left with the Prime Minister the speaking note which he had prepared for their discussion; I enclose a copy.

Refugees

Sir Lawrence Kadoorie told the Prime Minister that the flow of illegal immigrants across the border from mainland China had now ceased. Hong Kong's schools and hospitals, however, were already heavily overburdened by the combination of immigrants from the mainland and refugees from Vietnam. Sir Lawrence commented that the Vietnamese refugees were more adaptable and much better workers than the Chinese immigrants.

I am sending a copy of this letter and enclosure to Stephen Wall (FCO).

*Yours sincerely,
Peter Mason*

Peter Mason, Esq.,
Department of Industry.

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