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Confidential Filing

Sino - British relations, including
Defence Sales.

CHINA

Pt 1: MAY 1979

Pt 3: JUNE 1985

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PART 3 ends:-

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PART 4. begins:-

CDP to PM 2/6/86



Foreign and Commonwealth Office

London SW1A 2AH

29 May 1986

Dear Charles

ESP
2/6

Visit by Hu Yaobang, 8-12 June 1986

In my letter of 21 May, I promised to send you a draft speech for the Prime Minister to use at her dinner on 9 June for Hu Yaobang, General Secretary of the Communist Party of China. I now enclose a draft which has been seen by our people in Peking and Hong Kong, but not yet by the Foreign Secretary or Mr Renton (both of whom are away).

We have tried to tailor the speech to the audience, and particularly to the sensitivities and likely pre-conceptions of the Chinese guests. As foreshadowed in my earlier letter, we have also attempted to highlight some themes designed to convince General Secretary Hu that Britain is a vigorous and innovative society, addressing major political and economic issues which are in fact very similar to those facing China. We have also included some quotations, including one from Shakespeare (in view of Hu's keen interest), and a Chinese one, with the text in pinyin.

To reinforce the impact of the speech we aim to provide you next week (with the main briefing) with some conversational material for the Prime Minister's use with Hu Yaobang and Vice Premier Li Peng over dinner, exploring some of the more general themes which it would be harder to cover in the more formal talks.

In the meantime, in case you should want a quarry for more material to work into the speech, I enclose an advance copy of the first draft of a Background paper on China that we are preparing along the lines of those we have sent you recently on Japan and Korea.

Yours ever

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

DINNER AT 10 DOWNING STREET FOR GENERAL SECRETARY HU YAOBANG, 9 JUNE
1986

DRAFT SPEECH BY PRIME MINISTER

1. Mr General Secretary, Mr Vice-Premier, Lords, Ladies and
Gentlemen.

2. In 1984 I went to Peking to sign the Joint Declaration on Hong
Kong. It was a memorable and historic visit. It also enabled me to
invite you and Premier Zhao Ziyang to visit Britain. Almost exactly
one year ago, Premier Zhao was sitting here at this table. Since
then we have been keeping the seat warm for you. Our pleasure now
is something which you and your distinguished delegation will
recognise. For one of the first remarks in the "Analects" of
Confucius is: "Is it not a delight that friends should visit from
afar"? That is true in modern Britain, just as it was in ancient
China.

3. Mr General Secretary, we are delighted that you have chosen to
begin your European tour here with this, your first visit to our
country. With you we welcome Vice-Premier Li Peng back to Britain
as an old and valued friend. His positive role, over the years, in
building up our economic cooperation, most recently with the Daya
Bay power generating project, is much appreciated. We also warmly
welcome back Professor Fei Xiaotong, who has lived amongst us and
knows us well. We were delighted when he was awarded the Huxley
Memorial Medal in 1981.

4. Indeed, all the guests here tonight prove the vitality of the
bonds between us. The range is impressive. To take but a few
examples: in space, our technologists are cooperating on solar power
for satellites. Lower down, Chinese, British and Pakistani
scientists joined together in 1980 in the International Karakoram
Project, a pioneering survey of the roof of world. On the ground,
we saw this year the reintroduction from Britain to China of the
rare Pere David's deer; and the establishment of a London
double-decker bus route from Central Peking to the Summer Palace.

Deep beneath the ground we are working together to exploit oil deposits formed before the dawn of human history.

5. In all these projects we are investing together in the future. I am therefore particularly pleased that this afternoon Vice-Premier Li Peng signed with Sir Y K Pao and Geoffrey Howe a Memorandum of Understanding establishing a major new scheme to bring many more Chinese students to Britain. This scheme arose from the imagination and generosity of Sir Y K. We thank him. As a science graduate I am particularly pleased that many of the scholarships will be in science and technology, where we face common challenges. The scheme is also innovative: ingeniously pooling the efforts of two governments and the private sector. Imagination brings practical results.

6. The most striking achievement of creative policy is our agreement on Hong Kong. The continued stability and prosperity of Hong Kong is a vital commitment for both our governments. In working together to implement the Joint Declaration, both sides continue to display political imagination. We are delighted it is going smoothly. We are confident that it will continue to do so. It is important that we should remain in close contact up to and beyond 1997, in the Joint Liaison Group and elsewhere. That is also what the people of Hong Kong want and expect.

7. Mr General Secretary, it is hardly surprising that the contacts now flourishing between us display such commitment, imagination and determination. We have both recognised that a new industrial revolution is already under way, throughout the world. We must harness the forces of change, not be buffeted by them. Computer-based systems are transforming our lives: in communications and transport, manufacturing and design, work and leisure. Enterprises face competition in global markets which respond instantaneously to events through telecommunications. Our people benefit - they have new goods and services to offer and to buy, new opportunities to learn and to travel. But these benefits do not come free. They have to be paid for by hard work, attention to quality and intelligent investment. We must not emulate the old man in the Chinese proverb, who sat under a tree waiting for rabbits. [Shou Zhu Dai Tu].

8. Self-confident economies thrive on the open flow of goods and services, ideas and expertise. A door closed to the world merely locks in those behind it. But sustained growth also requires confidence. This in turn depends on a stable and positive international political environment. Last month in Tokyo the Summit countries reaffirmed their commitment to reversing protectionism; to a constructive relationship between East and West; and to stamping out terrorism, which uses freedom to undermine freedom. Britain and China will benefit - as will the world - if these essential objectives are achieved.

9. Before you have to leave on Thursday I want you to see for yourself that Britain is society on the move; abandoning wasteful rigidities, inventive and flexible. We have had some success in the past at winning Nobel Prizes - now we are turning pioneering ideas into prosperity - and a prosperity that can be shared. Your joint venture with Pilkingtons at Shanghai, which will bring to China the benefits of their float glass technology, is one of many examples.

10. I have been lucky enough to visit China three times. I have seen those qualities there too. I know that historic changes are taking place in your country. I was not surprised to learn that Chinese inventions won six gold medals at a recent International Exhibition of New Technology in Geneva. And the achievements of your space programme, including the successful launch last year of a geosynchronous communications satellite, speak for themselves.

11. As political leaders, we come from different cultures and traditions. But they have long had profound effects on each other. Our civil service was partly inspired by China's example of relying on scholars rather than soldiers or a hereditary ruling class to arrange affairs of state. And people in China quite as much as in the West, were influenced by the scientific insights of Charles Darwin and the social conscience of Charles Dickens.

12. On Wednesday you will visit the British Museum where another 19th century thinker - Karl Marx - spent so much of his time. Had your visit been longer I would have suggested that you also visit Kirkcaldy, the birthplace of Adam Smith. Marx often complained that

was no marxist. And likewise, there is no direct reference to capitalism in "The Wealth of Nations" - Adam Smith's analysis of economic behaviour which Marx too regarded as a classic. There is, I believe, a moral here: we must use ideology to articulate our ideals, but not to stifle practical ideas. Walter Bagehot, the English constitutional writer, knew this. He said that "of all nations in the world, the English are perhaps the least a nation of pure philosophers."

13. We both derive inspiration from the past - that is a shared strength of the love and respect for history in both our cultures. But both nations also look to the future and to the young for inspiration. You, Mr General-Secretary, Vice-Premier Li and Professor Fei, have all taken forward the great Chinese tradition of teaching and concern for the moral and material welfare of young people. I hope that those in Britain and China who administer the new educational scheme set up today will remember the words of Chairman Deng Xiaoping. "The youth represent our future. It is they who will carry on our undertakings".

14. What Shakespeare called "a spirit of youth in everything" is evident in both official and unofficial links between Britain and China. And like the students who will benefit from public and private cooperation, our relations are in the bloom of their life. This year sees exceptional blooms. First your visit to us. Then the historic occasion this October when Her Majesty the Queen makes her State Visit to the People's Republic of China.

15. [Toasts]

CHINA

RELATIONS

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

23 May 1986

VISIT OF THE GENERAL SECRETARY OF
THE COMMUNIST PARTY OF CHINA

Thank you for your letter of 21 May about the arrangements for Hu Yaobang's visit. I agree that we should hold a brief signature ceremony for the agreement on the new scholarship scheme at No.10 just before the Prime Minister's talks with Hu Yaobang. I also agree that we should allow the Chinese side to have six people at the talks. If possible we should limit our representation to five.

(C. D. POWELL)

Robert Culshaw, Esq.,
Foreign and Commonwealth Office.

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JB

Sir Y. K. PAO

30/5



PA.
CC HONG KONG
SIR Y. K. PAO
PT2

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

10/10/10
21 May 1986

I enclose a copy of a telex to the Prime Minister from Sir Y. K. Pao about the Sino-British Friendship Scholarship Scheme. He claims that the administrative expenses of the British Council in operating the Scheme within the UK will seriously affect the number of Chinese students and scholars who can actually benefit from it. He therefore asks that HMG should fund those administrative expenses separately.

I should be grateful for an early draft reply.

(Charles Powell)

A. C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.

Reminds.

Pse also give to me
for phone chat.

JL/30/5

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Foreign and Commonwealth Office

London SW1A 2AH

21 May 1986

Dear Charles,

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Prime Minister

COP
21/5

Visit of General Secretary of the Communist Party
of China, Hu Yaobang, 8-12 June 1986

Following a visit by a Chinese reconnaissance team, the main elements of the forthcoming visit by the General Secretary of the Communist Party have now been agreed with the Chinese. I attach a copy of the outline programme showing the main events. Mr Hu Yaobang will be accompanied by a large delegation including Vice Premier Li Peng, the distinguished social scientist Fei Xiaotong (who studied at LSE); the Vice Minister of Foreign Affairs, Zhou Nan, who has special responsibility for Western Europe and therefore also for Hong Kong. After their stay in Britain Mr Hu and his party will go to the FRG, France and Italy.

Programme

The programme does not have as much commercial and technological content as ideally we should have liked. The main reason for this is that Mr Hu is personally very keen on Shakespeare, and especially wanted to go to Stratford. We have however managed to combine this visit with a programme in Oxford, taking in the University's Department of Metallurgy and Materials Sciences, Oxford University Press, and also Oxford Instruments (whose Chairman is the CBI's Young Businessman of the Year). Mr Luce will accompany Mr Hu throughout the day's programme. Mr Hu was also very keen to visit the Tower of London and go down the Thames. We intend to use this opportunity to demonstrate to him imaginative programmes for urban renewal. In addition Li Peng will meet businessmen under the auspices of the Sino-British Trade Council, and Hu Yaobang will give a talk on China's basic international and domestic policies at Chatham House and answer questions.

.../Dinner at No 10

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Dinner at No 10

In addition to full ceremonial arrangements and a range of calls, such as for Prime Minister Zhao Ziyang last year, there will be a lunch at Buckingham Palace and a visit to Parliament under the auspices of the British-Chinese Parliamentary Group chaired by Mr Robert Adley. The main feature of the programme, however, is two hours of talks with the Prime Minister on 9 June, followed by dinner at No 10. A guest list for the dinner has already been submitted. We hope soon to send you a draft speech. The Prime Minister has already agreed to go to the return banquet hosted by the Chinese on 11 June where rather shorter toasts will be proposed.

The Talks on 9 June

This is an unusual visit. So far as we can discover it is the first by a Communist leader who only holds a Party position. (Previous Soviet and East European visitors have held some government position in addition to their Party role. Hua Guofeng, who came here in 1979, was additionally Premier.) Hu Yaobang has made it clear that he is not concerned with the detail of trade and economic matters; but he is looking forward to discussing international relations. We wish to use this opportunity to demonstrate that Britain, as a member of the European Community and of the Commonwealth, as well as having a close rapport with the Americans, is still an important international power whose views the Chinese should listen to. On bilateral matters we wish to ensure that Mr Hu gives his backing to efforts to increase trade and promote student and scientific exchanges. (On detailed follow-up Vice Premier Li Peng has a central role in China's energy policies and as Chairman of the State Education Commission is a key figure in the training of China's leaders for next century.) We shall also wish to emphasise to both men the need for continued cooperation over Hong Kong and to put substance into our bilateral relations across the board to reflect the recent marked improvement in relations which will be symbolised by the State Visit in October. It would be useful too to note the importance we attach to an early and satisfactory settlement of claims negotiations which have just been started. Further points might arise from the meeting between the Foreign Secretary and the Chinese Foreign Minister on 23 May. During Hu Yaobang's visit Mr Renton will have separate talks with Zhou Nan which can cover the range of bilateral issues.

We shall let you have the briefing for the talks, including assessments of our own and likely Chinese objectives for the visits. At dinner conversation is likely to range more widely. This will give an opportunity to talk about the problems of modernising a nation's industry and society, and the role of education, science and technology, regardless

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of ideological label. Our briefing will seek to cover these points, and we shall try to reflect some of the themes in the draft speech.

Publicity

✓ *[Handwritten mark]*
We hope that the new scholarship scheme (originally suggested by Sir Y K Pao) to increase the number of Chinese students in the UK, will be ready for signature during the visit. The signatories would probably be Sir Geoffrey Howe and Sir Y K Pao, together with Li Peng (since he is the Chairman of the Chinese State Education Council as well as Vice Premier). If you agree, we think that a brief signature ceremony might take place at No 10 just before the Prime Minister's talks with Hu Yaobang. This would ensure maximum publicity for a significant new initiative. (Major agreements with the Chinese on investment protection and soft loans were signed earlier this month during the visit here of Zheng Tuobin, Minister of Foreign Economic Relations and Trade.)

Participation and Interpretation

We have sought to control the Chinese desire to have large numbers of people present at the meeting at No 10. The present plan, as agreed, is for a total of six on the Chinese side and perhaps five or six on ours, plus interpreters provided by each side.

Yano mar

R N Culshaw

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

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PROGRAMME FOR GENERAL SECRETARY HU YAOBANG
8-12 JUNE 1986

SUNDAY 8 JUNE

1630 Arrive London Heathrow. Met by Lord Young

MONDAY 9 JUNE

1000 Guard of Honour ceremony in FCO quadrangle
1010 Received by Prime Minister at No 10 Downing Street
1045 Meeting with the British-Chinese Parliamentary
Group (House of Commons)

1145 Call by Dr David Owen

(1120 and 1145 Calls by Mr Peter Walker and by Mr Paul Channon
on Vice Premier Li Peng)

1215 Call by Mr Neil Kinnock

1230 Lunch for Vice Premier Li Peng hosted by Mr Peter Walker
Secretary of State for Energy, followed by meeting with
representatives of British Industry held with Sino-
British Trade Council

1300 (Mr Hu will have a private luncheon)

1500 Call by Mr Norman Tebbit

1600-1800 Talks at No 10 Downing Street

1830 Call by Mr Heath

1945 Dinner at No 10 Downing Street hosted by Prime Minister

TUESDAY 10 JUNE

From 0900 Visits to : British Library
Stratford upon Avon
Oxford (to include Oxford Instruments,
Oxford University Press, and Department of
Metallurgy and Materials Science)

2000 Dinner at Balliol College, Oxford, hosted by the
Chancellor of Oxford University, Lord Stockton

WEDNESDAY 11 JUNE

0900 Visit Tower of London
River trip arranged by Port of London Authority

1120 Lecture at Royal Institute of International Affairs,

1300 Lunch given by HM the Queen at Buckingham Palace

1545 Call by Mr David Steel

1700 Press Conference

1900 Meet members of the Chinese community

1945 Dinner given by the General Secretary at the Chinese
Embassy

THURSDAY 12 JUNE

0645 Depart hotel for Heathrow for flight to Bonn

0740 Mr Renton will bid farewell





BM

bc PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

16 May 1986

VISIT OF MR. HU YAOBANG: GIFTS

Thank you for your letter of 13 May proposing that a hand-carved burr elm table should be commissioned for presentation to Mr. Hu Yaobang during his visit.

The Prime Minister is content with this.

(C.D. Powell)

Robert Culshaw, Esq.,
Foreign and Commonwealth Office

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Foreign and Commonwealth Office

London SW1A 2AH

15 May 1986

Prime Minister
Do you favour
this?
COP

Yours

Dear Charles,

Visit of Mr Hu Yaobang, 8-12 June: Gifts

The Chinese Embassy have told us that Mr Hu Yaobang, General Secretary of the Central Committee of the Communist Party of China, will be bringing gifts for The Queen, the Prime Minister and Sir Geoffrey Howe when he visits next month.

We recommend that the Prime Minister consider presenting a hand-carved burr elm table, which we would commission from John Makepeace at Parnham House. A square table 500mm square (table top) and 400mm high would cost £600 plus VAT. Parnham House have confirmed that they could complete an order for a square table for Mr Hu's arrival. I enclose a photograph of a similar elliptical burr elm table for your consideration.

The Ambassador in Peking, Sir Richard Evans, supports the idea and the Head of Chancery, Peking, has vouched for the quality of John Makepeace's work. We have discussed with Parnham House the possible difficulty of low humidity in Peking and are assured that this should not present problems. But in any case the Chinese Embassy have confirmed that such gifts to Senior Chinese personalities are kept in controlled temperatures.

Yours ever

R N Culshaw

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street





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

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

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Blup*

PS/*Secretary of State
for Trade and Industry*

14 May 1986

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

*CDP
14/5*

Dear Charles

**VISIT OF ZHENG TUOBIN - PRIME MINISTER'S
MEETING AT 17.30 : 14 MAY 1986**

I spoke this morning about amendments to the
Prime Minister's briefing for her meeting with
Zheng Tuobin this afternoon.

- .. I attach amended trade figures which should be
inserted after Brief B1. I can confirm that Mr
Clark will attend.

*Yours sincerely
Gina M. Davis*

GINA M DAVIS
Private Secretary

Encl

JF3AJS



Sino-British trade figures	£million		
	1984	1985	1986 Jan-Mar
UK exports to China	317*	396	111.2
UK imports from China	279	308	78.5

*includes an exceptional £82 million shipment of silver.

Main UK exports are machinery, chemicals, scientific instruments, steel.

Main UK imports are textiles and clothing, food, other agricultural and light industrial products.

Source: Overseas Trade Statistics of the UK

China's total foreign trade	US \$billion	
	1984	1985
China's imports	25.5	33.4
China's exports	24.4	25.8

Main OECD exporters to China 1985	US \$million	
	Exports to China	Imports from China
Japan	12,635	6,557
USA	3,856	3,862
FR Germany	2,231	871
Canada	936	296
Australia	865	292
Italy	790	587
France	778	496
UK	514	400

Source: OECD, Series A Statistics

Hong Kong trade with China 1985	HK \$million	
HK exports to China	15,189	
HK imports to China	58,963	
HK re-exports to China	46,023	

Source: Hong Kong Review of Overseas Trade 1985

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10 DOWNING STREET

From the Private Secretary

14 May 1986

Dear Mike,

PRIME MINISTER'S MEETING WITH THE CHINESE MINISTER OF
FOREIGN ECONOMIC RELATIONS AND TRADE
WEDNESDAY 14 MAY, 1986

The Prime Minister received a courtesy call from the Chinese Minister of Foreign Economic Relations and Trade this afternoon. Mr. Zheng Tuobin was accompanied by the Chinese Ambassador and a number of officials. The Minister for Trade was also present.

In response to the Prime Minister's question, Zheng Tuobin confirmed that Deng Xiaoping, Zhao Ziyang and Hu Yaobang were in excellent health. Deng Xiaoping had been travelling widely in different parts of China. The Prime Minister said that we were looking forward very much to the forthcoming visit of Hu Yaobang.

The Prime Minister said that trade relations between Britain and China were developing well. It was important that trade should expand as rapidly as possible as an earnest of the friendly relations between the two countries. She had been particularly pleased by the successful conclusion of the negotiations on the Guangdong project. This would provide very visible evidence of our developing trade relations. The Prime Minister continued that she welcomed the agreement that had been reached on the provision of £300 million of development loans to sustain trade with China.

Zheng Tuobin said that he agreed with the Prime Minister about the importance of developing trade and economic relations to reflect the political relationship between the two countries. The Chinese Government attached high priority to expanding trade with the European Community including the UK. During his visit to the United Kingdom Zhao Ziyang had held discussions with various Government Departments. These contacts had been followed up and were now bearing fruit. He shared the Prime Minister's view that the agreement reached on the Guangdong project was of great importance. It was hoped to sign the contract for this

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project in June or July. Zheng Tuobin said that he was particularly gratified and satisfied with the development loan facilities provided by the British Government. Several projects had already been identified which could take advantage of these loans. The terms offered by the British Government were favourable. At the same time the new Investment Promotion and Protection Agreement would provide better conditions for British investors in China. All in all, he thought that developments over the past year had created a very favourable background for the forthcoming visit of Hu Yaobang.

The Prime Minister said that it had indeed been in response to Xhao Ziyang's request that we had arranged the development loans on terms that we believed would be helpful to the Chinese Government. She welcomed the fact that agreements were being signed, both on investment promotion and the development loans during Zheng Tuobin's visit. She had heard that discussions were also in progress about the possibility of ordering two merchant ships from Sunderland. She hoped these negotiations would be brought to a successful conclusion.

The Prime Minister invited Zheng Tuobin to tell her about China's new Five Year Economic Plan. Zheng Tuobin said that the rate of growth would be the same as in the previous Five Year Plan. Continuing economic reform would concentrate on the price system. The policy of decentralisation to local enterprises would continue. China wanted to create conditions in which managers had a free hand to manage. The aim was to reduce the amount of intervention by ministries and government departments and encourage direct contact between enterprises. At the same time China would continue its policy of opening to the outside world.

The Prime Minister enquired about oil prospecting in the South China Sea. She understood that the results so far had not been very promising. Zheng Tuobin said that China was expediting its exploration effort.

The Prime Minister said she had read that China had offered to launch satellites for the United States. Zheng Tuobin confirmed that contracts had been signed with a number of countries such as Sweden and that discussions were in train with others including the United States, Japan and France.

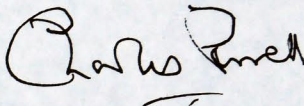
The Prime Minister referred to the historic importance of The Queen's forthcoming visit to China. The visit would be followed very closely by people in the UK. Zheng Tuobin said that everyone in China was looking forward to The Queen's visit. He was sure that she would receive a very warm welcome.

Zheng Tuobin said that the Chinese Government were very satisfied with the agreement which had been reached on Hong Kong. The Prime Minister said that Hong Kong continued to flourish. Our wish was to see it prosper in years to come.

The Prime Minister asked Zheng Tuobin to convey her greetings to Deng Xiaoping, Xhao Ziyang and Hu Yaobang.

I am copying this letter to Tony Galsworthy (Foreign and Commonwealth Office), Rachel Lomax (HM Treasury) and Michael Dailham (Department of Trade and Industry).

yours sincerely,

A handwritten signature in cursive script that reads "Charles Powell". The signature is written in dark ink and is positioned below the closing "yours sincerely,".

CHARLES POWELL

Michael Gilbertson, Esq.,
Department of Trade and Industry

PRIME MINISTER

You are to receive a courtesy call from the Chinese Minister of Foreign Trade, Mr. Zheng Tuobin, who is here on a four day visit as Mr. Channon's guest. His programme includes meetings with the Foreign Secretary, the Trade and Industry Secretary and the Energy Secretary. He will be signing an investment promotion and protection agreement and a soft loan agreement. He will also be travelling to Edinburgh where he will visit Ferranti.

There is not a great deal of substance to discuss. You will want to give your blessing to his visit as a further step in developing trade between Britain and China and commend what we have to offer in the sectors which are of priority to China: energy, transport and communications. You will want to refer to our satisfaction at the stage reached over Guangdong, say how much you are looking forward to Hu Yaobang's visit next month and send your warm regards to Chairman Deng Xiaoping and to Premier Zhao.

He may raise:

- quotas on China's imports to the Community, on which you can be reasonably supportive but it is a Community matter on which we are dependent on others; and

- COCOM, where we have been helpful and will be in future.

Since he will be bringing a delegation of five, the meeting will need to be in the Cabinet Room.

CDR

CHARLES POWELL

13 May 1986

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B/UP



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422
TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

PS/
Secretary of State for Trade and Industry
CONFIDENTIAL

13 May 1986

C D Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

CDD
13/5

Dear Charles,

**COURTESY CALL ON THE PRIME MINISTER BY MR ZHENG TUOBIN :
WEDNESDAY, 14 MAY 1986**

I attach a brief for this courtesy call.

We are most grateful that the Prime Minister has found time to meet Mr Zheng and that it will, exceptionally, be possible for him to be accompanied by four members of his delegation in addition to the Chinese Ambassador. I attach a note showing which Chinese officials will be present.

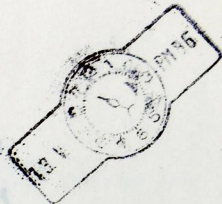
I am sending copies to the Private Secretaries to other Ministers taking part in the visit, namely the Foreign Secretary, the Secretaries of State for Energy and Employment, and the Minister for Overseas Development.

Yours ever,
Michael

MICHAEL GILBERTSON
Private Secretary

JF2BHX

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Handwritten:
M. ...
John ...

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John ...



PRIME MINISTER'S MEETING WITH ZHENG TUOBIN, CHINESE MINISTER OF FOREIGN ECONOMIC RELATIONS AND TRADE, 14 MAY 1986

Points to make

- 1 Hope visit successful and enjoyable. Recall with pleasure my own visits to China.
- 2 Delighted Sino British trade and economic relations developing well. Hope Minister's visit will stimulate further co-operation. Visit comes at opportune time as China embarks on 7th 5-year plan (1986-1990). China's priority sectors such as energy, transport and communications are ones in which Britain has much to offer.
- 3 Welcome the agreements to be signed on 15 May by Mr Zheng and Sir Geoffrey Howe:
 - (a) Investment Promotion and Protection Agreement should further stimulate reciprocal investment.
 - (b) Financial agreement relating to £300 million development loans will greatly enhance UK-China trade. Terms very attractive. Delighted that several projects already identified as suitable for use of the development loan. Hope these projects can soon be implemented. Hope also that normal business (in addition to business supported by soft loans) will continue to expand.
- 4 Both agreements will complement the renewed UK-China economic co-operation agreement which I signed during Premier Zhao's visit last year.
- 5 Guangdong nuclear. Important project. Delighted to hear that the Letter of Intent has been made effective. Look forward to contract signature in due course.
- 6 Look forward to visit next month of General Secretary Hu Yaobang.
- 7 HM the Queen looks forward to her visit to China in October.
- 8 My warm regards to Chairman Deng Xiaoping and to Premier Zhao.



Defensive points

1 (Quota restrictions on Chinese exports to Britain). Aware of China's need to expand exports. Mr Channon will be glad to consider the Minister's views. He also needs to consider the interests of UK producers. Quotas are however decided by the European Community not by individual member states.

2 (COCOM). HMG played leading role in recent relaxations in strategic controls on exports to China; hope to see further relaxations in due course, but unanimity among COCOM members needed on any further changes.

3 (Chinese membership of GATT). HMG will consider carefully consulting EC partners.



Background

Zheng Tuobin is visiting Britain from 14 to 18 May as the guest of the Secretary of State for Trade and Industry.

Agreements to be signed. At a signature ceremony on Thursday 15 May Zheng and Sir Geoffrey Howe will sign two important agreements:

- (a) Investment Promotion and Protection Agreement
- (b) The financial agreement on the £300 million development loans.

Under the latter agreement financial support will be given by the Exports Credit Guarantee Department (ECGD) and the Overseas Development Administration (ODA) to enable development loans to be provided on terms of 20 years' repayment (including 5 year grace period) with interest at 5 per cent. 4 projects have been identified as suitable for funding under the facility (subject to completion of necessary procedures including ODA development appraisal). The projects and the UK companies involved are: Yueyang thermal power station (NEI), Shanghai telecommunications (STC), Daye steel tube mill (Davy) and Luoyang tractor factor modernisation (Lucas/CAV). A number of other projects are also being considered for possible support under the development loan arrangement, but we are emphasising to the Chinese our view that most export business must be on normal commercial terms, without subsidy.

China's Economy; Prospects for Trade

China's Seventh 5-year plan (1986-1990) was approved by China's National People's Congress in April 1986. It envisages steady growth in GNP and foreign trade at an average annual rate of 7.5 per cent and 7 per cent respectively. The plan also calls for an increase in foreign exchange earnings from exports and other sources and for economy in the use of foreign currency.

The Plan emphasises the development of energy, transport communications and the modernisation of industry and agriculture. These sectors continue to offer worthwhile long term export opportunities. For the moment, however, China is experiencing a shortage of foreign exchange and is exercising strict control over imports. Emphasis is continuing to be placed on transfer of technology and on attracting foreign investment into joint ventures. China has also had some success in persuading its major suppliers to provide Government-supported soft loan finance.



Guangdong nuclear project.

GEC earlier this year signed a letter of intent which became effective on 17 April. It is expected that a contract will be signed within 3 months. Contract value to the UK is over £250 million.

Points which the Chinese might raise: background

1 Import restrictions. The Chinese have very recently asked that a quota be opened to permit the import of 100,000 Chinese TV sets a year. It is possible that Zheng will also wish during the visit to press HMG to agree to the relaxation of quotas restricting other Chinese exports eg pottery, shoes, gloves and certain flax and silk products. He may point out that it is only by earning more foreign exchange through exports that China will be able to import more from Britain. We shall need to agree to consider the points he makes but also remind him that external trade question are within the competence of the European Community and that we need to consider the interests of UK producers.

China's textile exports to the EC are governed by the EC-China textile agreement which runs until the end of 1988. There are no major problems.

2 COCOM. The member countries of the International Co-ordinating Committee (COCOM) agreed in September 1985 on a partial relaxation of the embargo against China, permitting licensing at national discretion of a range of items in the field of telecommunications, computers and semi-conductors. However the new arrangements do not permit national discretion for high speed fibre optics equipment for inter city links. Several projects in this area involving UK companies still require COCOM approval. The US oppose such applications, but the Chinese should not of course be told this.

3 GATT. China was granted observer status in GATT in June 1985 and has announced an eventual intention of full membership. If and when China applies, we consider that membership terms will need to be negotiated which will minimise the commercial disadvantages.

Following the agreement of China, Hong Kong became a separate contracting party to GATT on 23 April 1986. This paves the way for Hong Kong to remain a separate contracting party after 1997.



ANNEXES

- A Visit programme
- B Personality note
- C Key trade figures



PROGRAMME

VISIT OF THE CHINESE MINISTER OF FOREIGN ECONOMIC RELATIONS AND TRADE

Wednesday 14 May

- 15.30 Arrive London from Paris to be met by Mr A Hutton, Under Secretary, Overseas Trade Division 2, Department of Trade and Industry
- 17.30 Call on the Prime Minister, the Rt Hon Mrs Margaret Thatcher MP, 10 Downing Street.
- 19.30 for 20.00 Dinner hosted by the Rt Hon Paul Channon MP, Secretary of State for Trade and Industry.

Thursday 15 May

- 09.00 Call on the Rt Hon Paul Channon MP, Secretary of State for Trade and Industry
- 09.30 Meeting with the Hon Alan Clark MP, Minister for Trade.
- 10.45 Meeting with UK businessmen arranged by the Sino British Trade Council (SBTC).
Followed by joint SBTC/48 group lunch to be held at the Berkeley Hotel, Wilton Place, SW1. (Host: Sir Eric Sharp, President of the Sino British Trade Council).
- 14.30 Call on the Rt Hon Peter Walker MBE MP, Secretary of State for Energy.
- 16.30 Signature of Investment Promotion and Protection Agreement *and development loan agreement*
- 19.00 for 19.30 Return dinner hosted by His Excellency Mr Zheng Tuobin.



Friday 16 May

10.00

Call on Mr Timothy Raison MP, Minister for Overseas Development.

Lunch hosted by the Rt Hon Lord Young of Graffham, Secretary of State for Employment.

15.30

Visit to APV, Crawley, Sussex.

Evening:

Cultural Entertainment.

Saturday 17 May

09.10

Leave London.

10.20

Arrive Edinburgh.

11.00

Visit to Ferranti Industrial Electronics Ltd, Dalkeith, Scotland.

12.30

Lunch hosted by the Lord Provost.

14.30

Sightseeing.

17.10

Leave Edinburgh.

18.20

Arrive London.

Evening:

Free

Sunday 18 May

11.25

Depart London Gatwick for Beijing to be seen off by Mr C Benjamin, Under Secretary, Projects and Export Policy Division, Department of Trade and Industry.

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ZHENG TUOBIN

Minister of Foreign Economic Relations and Trade. Member of the CCP Central Committee.

- 1924 Born in Shaanxi province.
- 1958-64 Commercial Counsellor at the Chinese Embassy in Moscow.
- 1966 Acting Director of the First Bureau of the Ministry of Foreign Trade (dealing with socialist countries).
- 1971 Reappeared.
- 1972-77 Director of the Third Bureau of the Ministry of Foreign Trade (dealing with Western Europe, the Americas and Oceania).
- 1977-81 Vice-Minister of Foreign Trade.
- 1981-82 Minister of Foreign Trade.
- 1982- Vice-Minister of Foreign Economic Relations and Trade.
- 1982- Member of the CCP Central Committee.
- 1985- Minister of Foreign Economic Relations and Trade.

Zheng lost his ministerial ranking in 1982 when his ministry was one of those merged to form the Ministry of Economic Relations and Trade. Chen Muhua, Minister of the disestablished Ministry of Foreign Economic Relations with Foreign Countries and member of the Politburo, took over the new Ministry and Zheng's appointment as Vice-Minister does not rank as a demotion. Zhen has made many foreign visits over recent years, the most important of the recent ones being that to Japan in 1982 with Zhao Ziyang. He was a member of a trade delegation to the United Kingdom and France in 1977 and also visited the UK in 1985.

Approximate Pronunciation: Zheng rhymes with hung
Tuo rhymes with floor
Bin
Minister

Form of Address:



Sino-British trade figures	£million		
	1984	1985	1986 Jan-Mar
UK exports to China	317*	396	111.2
UK imports from China	279	308	78.5

*includes an exceptional £82 million shipment of silver

Main UK exports are machinery, chemicals, scientific instruments, steel.

Main UK imports are textiles and clothing, food, other agricultural and light industrial products.

Source: Overseas Trade Statistics of the UK

China's total foreign trade	US \$billion	
	1984	1985
China's imports	25.5	33.4
China's exports	24.4	25.8

Main OECD exporters to China 1985	US \$million	
	Exports to China	Imports from China
Japan	12,635	4,795
USA	3,856	2,842
FR Germany	2,231	628
Canada	936	227
Australia	865	218
Italy	790	357
France	778	337
UK	514	295

Source: OECD, Series A Statistics

Hong Kong trade with China 1985		HK \$million
HK exports to China	15,189	
HK imports to China	58,963	
HK re-exports to China	46,023	

Source: Hong Kong Review of Overseas Trade 1985

The Commercial Office

EMBASSY OF THE PEOPLE'S REPUBLIC OF CHINA, LONDON

Telephone:
Telex: 896440 CLEFSL G
Cables: CHINACOM LONDON.

56-60 Lancaster Gate
London W2 3NG
U.K.

THE MEMBERS ACCOMPANYING MINISTER ZHENG TUOBIN TO CALL ON
MRS THATCHER, THE BRITISH PRIME MINISTER ON 14 MAY 1986

Mr Li Xinghao
Director, General Planning Department, Ministry of Foreign
Economic Relations and Trade (MOFERT)

Mr Yuan Zhenmin
Director, Department of Treaty & Law, MOFERT

Mrs Yang Danhua
Deputy Director, 3rd Department, MOFERT

Mr Liu Chantu
Personal Secretary to the Minister and Interpreter

Mr Hu Dingyi, the Chinese Ambassador will also be present.



CCP

CJP
7/5

MINISTER FOR THE ARTS

PRIME MINISTER

I have completed a one week official visit to China as guest of their Minister of Culture (Mr Zhu) and two days in Hong Kong visiting their arts organisations. You may recall that the Chinese Minister of Culture visited Britain in April 1985.

I was given a very friendly welcome and visited Peking, Xian and Shanghai. I concentrated on viewing cultural activities ranging from the Peking opera, the Song and Dance Ensemble, the China National Library to local opera, a film studio, the Terracotta warriors and above all the conclusion of the China Shakespeare Festival. The latter event was the highlight of the tour. At the concluding ceremony in Shanghai, I presented your letter to Mr Cao Yu (the Chairman of the Festival and top Chinese playwright) and then read it out to a large audience. It clearly gave a lot of pleasure. The performance in the evening of 'The Taming of the Shrew' was quite brilliant and the most enjoyable Shakespearian performance I have ever attended, despite the fact it was in Chinese!

The Consul-General in Shanghai (Trevor Mound) is doing an excellent job in re-establishing our presence and the British Council are doing well. Their work, and particularly on English language teaching, should have a lasting effect.

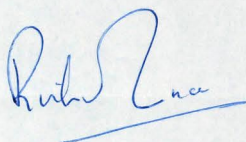
The visit was worthwhile for three main reasons:-

- (1) Part of the pattern of building political co-operation with China.
- (2) Establishing that we, as a Government, agree with the Chinese that cultural co-operation is an important way of constructing more lasting understanding and friendship, thus contributing to political and trade relations.
- (3) Making it clear to Hong Kong that they can both benefit from this co-operation and play an evidently valuable part in it.

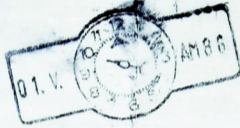
I will be following up more specific points on all this.

In the meantime the conclusion to your message was well received 'How beauteous mankind is! O brave new world that has such people in it!'

I am copying this to Geoffrey Howe.

A handwritten signature in blue ink, appearing to read 'Richard Luce', with a horizontal line underneath the name.

RICHARD LUCE
29 April 1986



To be filled in by the recipient.

161.

This document may be used for any purpose.



10 DOWNING STREET

THE PRIME MINISTER

29 April 1986

OF
Do you wish to keep?
East

Dear Mr. Sharp,

Thank you for your letter of 28 April and the helpful brief about Cable and Wireless's cable plans for the Pacific and Atlantic. It was useful to have this in case there is an opportunity to speak in support.

With best wishes,

Yours sincerely
Margaret Thatcher

Sir Eric Sharp, C.B.E.

OT



CABLE AND WIRELESS PUBLIC LIMITED COMPANY

MERCURY HOUSE · THEOBALDS ROAD · LONDON WC1X 8RX · TELEPHONE 01-242 4433 · LONDON TELEX 23181 CANDW G

Sir Eric Sharp C.B.E.
Chairman & Chief Executive

28th April 1986

The Rt. Hon. Margaret Thatcher, MP.,
Prime Minister,
10 Downing Street,
LONDON. SW1

Dear Prime Minister

You will be going to Tokyo for what may well be a more than usually important Summit. You will also know that Sir Geoffrey Howe will be talking to Mr. Abe about the convergence of interest between Japan's wish for an alternative international carrier and Cable and Wireless' cable plans for the Pacific and Atlantic.

We have made good progress as I reported in my letter to Sir Geoffrey of 10th April. I do not wish to make a specific request for your personal intervention on this issue and only attach this note as background should the subject arise in the corridors of your meetings with the Japanese.

Our Japanese allies will be calling on me in London on 30th April and, should there be any developments of note, I will notify our Ambassador in Tokyo.

I am copying this to Sir Geoffrey Howe and Sir Sydney Giffard in Tokyo.

*With all good wishes
Yours sincerely
Eric Sharp*

Enc.

cepc



MINISTER OF STATE FOR DEFENCE PROCUREMENT

D/MIN/NL/19/5/62

NBPM

18th April 1986

CDP

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Secretary of State

VISIT TO CHINA: 1ST-7TH APRIL 1986

Introduction

As you know, I visited China from 1st-7th April at the invitation of the Chinese Government. My purpose was to explore the scope for both defence sales and collaboration in defence procurement in the light of the improved relations and our deliberate decision taken last June to relax some security restrictions and make available a wider range of defence equipment to China.

2. My host was General He Qizong, the Deputy Chief of the General Staff. The General has responsibilities for defence procurement. He is only 43 and therefore may well be around for a very long time. I was glad to make his acquaintance. I also met the Minister of Defence, General Zhang Aiping, veteran of the Long March. My programme was cut short because of the Dockyard Services Bill Report Stage and Third Reading but I was able to have useful discussions and visited a missile factory and an APC factory (neither was very illuminating).

3. The Chinese have recently embarked on four great modernisations. The modernisation of the Armed Forces is one of these although the last in priority. The development of the economy on the lines of the new economic policies is the top priority. They intend to cut back the numbers of the Peoples' Liberation Army from four million to three million. However the savings should enable them to improve the quality of equipment. Such

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is the pressure of the new economic policies that some defence production facilities are being adapted to produce civilian goods, taking advantage of the relatively high quality output from military facilities. Also there is a strong preference for military equipment which can be exported to earn foreign currency.

Opportunities

4. This combination of improved relationships with China with the modernisation of the Armed Forces provides the opportunity for further collaboration and sales. However, in my view China will never buy large quantities of equipment from overseas. Even the reduced Armed Forces of the future will be too big for China to be able to afford to equip them with hardware from overseas (the US may be the exception). The Chinese are therefore interested in collaborative arrangements and small scale purchases of advanced equipment under which they obtain access to Western technology and share in joint ventures for research, production and export to third parties.

5. Some will fear that the Chinese are only interested in obtaining our technology at the lowest possible price. Clearly, any arrangements concluded with the Chinese will have to pay proper attention to intellectual property rights. The usual judgements have to be made about the balance of advantage. But the alternative to collaboration and joint ventures is not the Chinese purchase of our hardware - it is simply that we shall not do any business with them at all; and our competitors will get whatever business is available instead of the United Kingdom.

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6. I therefore concentrated during my visit on two main points. Firstly, I discussed the scope for new business based on the appreciation of the situation outlined above. Secondly, I proposed that there should be a Memorandum of Understanding to provide a point of reference between our two Governments for the discussion of defence procurement; the means of taking forward the possibilities for British business; and the provision of a forum for a speedy settlement of any difficulties that might arise. Progress was reasonably encouraging on both fronts.

/ 7. The proposed Memorandum of Understanding is at Annex A. As you will see, it outlines the areas in which further discussions between the two sides should take place to determine more specific arrangements. The Memorandum was drafted in consultation with Departments in London and handed over while I was in Peking. The idea was very well received and the Chinese Government have undertaken to respond quickly; I received a message just before leaving Peking that Zhang Aiping had agreed in principle that the Memorandum should be signed. I hope I might be able to sign it when the Trade Minister visits the UK from 14th-17th May.

8. So far as equipment is concerned, the following areas were specifically mentioned to me by General He Qizong as fields in which the Chinese were interested;

- electronics;
- battlefield attack helicopters; I was surprised to discover the Italians had discussed the A124 with the

/ Chinese ...

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Chinese, and we need to be associated with any future possibilities since we are already collaborating with the Italians on the A129 Mark 11;

- anti-tank weapons;
- air defence weapons;
- weapon locating radars;
- thermal imaging;
- reconnaissance drones;

9. The Chinese took me aback slightly by asking if there was scope for collaborating with us on the supply of frigates to Pakistan. Their idea was that they should provide the hulls, using relatively cheap Chinese labour, while we provided the complex engineering and electronics. I said that our negotiations with Pakistan were too far advanced to consider this possibility; however, the principle of that sort of collaboration in other areas is well worth considering. I also suggested that we might be able to help the Chinese in the field of anti-submarine warfare, with mines, sonars and torpedoes. Finally, the Chinese said that they would be glad to discuss with us the launching of British satellites from Chinese rockets; they said they could provide a reliable and cheap service, and that we need not depend simply on the Americans and the French.

10. I also discussed existing projects on which discussions are already underway - see Annex B for details - with the Chinese including Rolls-Royce engines and avionics for the F8 aircraft. Proposals have been made on the latter by Ferranti, GEC and Easams. We had heard informally that the Chinese had decided instead to purchase this equipment from the United States. But I was informed by the Chinese that no decision on this had been taken and that British proposals would be fully

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considered. I emphasised that we were prepared to offer technology transfer and the possibility of sales to third parties which, so far as we knew, were not on offer by the Americans.

11. The approach in all these areas is, as I say, likely to be by way of joint ventures and collaborative schemes. There are of course risks for the companies to evaluate in collaboration, but outright sales prospects are limited. Indeed, two British companies have already taken steps of a collaborative kind.

- Vickers have made arrangements with Norinco, the Chinese State Ordnance Supply Company, to collaborate on manufacture and sales to third countries of an armoured personnel carrier with a Chinese chassis and a Vickers turret;
- Shorts have sold eight of their 360 civil aircraft to China and have arranged for aircraft doors to be manufactured at Harbin. They are also discussing the possibility of the Chinese manufacturing some of the central wing components.

12. Two final points; first, the Chinese seem to be looking for help and guidance in the form of packages assembled especially to meet their needs. This is the kind of assistance which International Military Services, the Ministry of Defence owned company, was set up to provide. IMS have recently visited China, and I reminded our hosts of the services this company could provide; secondly, the Chinese are very much concerned with the difficult situation they face on the Vietnamese border - see below - and I think that it would be useful to draw their attention to British equipment that would be of particular assistance in this context. Some British equipment

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like the mortar locating radar, Cymbeline, has been used. We believe some sets may have been destroyed by the Vietnamese and consequently the Chinese are interested in further sales.

Further Points

13. Further points of interest were as follows:

a. Chinese Defence Preoccupations. The Chinese said that improvements in relations with the Soviet Union depended on the following three factors:

(1) a reduction in the size of Soviet forces on the border with China. (I was told that the Russians had a million troops on this border, and that the divisions were well armed and highly mobile);

(2) Afghanistan:

(3) Russian support for the Vietnamese. General He claimed that the Vietnamese had 600,000 soldiers on the Chinese border, many of them badly equipped and some very young conscripts. He said the Vietnamese economy was in ruins and that without Soviet support Vietnam would be a peaceful neighbour. While the overall level of operations on their border with Vietnam was fairly low, they said incidents did take place almost every day. The Chinese are very conscious of the lessons learned when fighting the Vietnamese in 1979. There is no doubting the strength of their feeling.

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b. Visits. The forthcoming visit of the General Secretary for the Communist Party to the United Kingdom, Mr Hu Yaobang, in June, and HM The Queen's visit to China in October were mentioned to me several times. The Chinese regard these visits as extremely significant and they provide further opportunities to develop good relations. I renewed the outstanding invitation to the Chinese Minister of Defence to visit this country; he expressed his gratitude for the invitation and asked his staff to discuss the possibilities with the Embassy. I also invited my host, General He Qizong, to visit this country. He has already had contacts with the French, Germans and Italians, and I think that it is important that he should come to the United Kingdom as well. I suggested that the Army Equipment Exhibition in June might be one possibility, and I said that I hoped that the Chinese would in any case be attending this Exhibition;

c. Comparisons with other Countries. The Ambassador pointed out to me that of the 750 Western companies who maintained permanent offices in Peking, only just over 20 are British. Of these, only a few are in the defence sector (Rolls-Royce, British Aerospace, GEC Avionics and Marconi. Dowty and Vickers employ the services of a consultant who resides in Peking for some months of the year). In these circumstances it is perhaps not surprising that sales of British defence equipment to China were only some £50 million in the last financial year. It is clear that more could be done, if there were more representatives on the spot. Personal relationships are important in China and the bureaucracy is complex and hard to understand. Companies must invest a good deal

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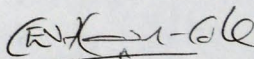
of time and effort in sounding out the prospects and keeping in touch with those who have to take the decisions. This is exactly what many of our European and American competitors are doing.

Conclusions

14. The Chinese market will remain difficult, and defence business will never be extensive. Nevertheless, it is clear that there are prospects of reasonable business with the Chinese, so long as we show imagination and ingenuity in devising arrangements for collaboration and joint ventures of various kinds. I have outlined the ways in which I think the Ministry of Defence can help in this area, and I will be taking the various points forward in consultation with colleagues in other Departments and with British companies as necessary.

15. A note of my programme of meetings and visits is at Annex C.

16. I am sending a copy of this minute to the Prime Minister, in view of her concern with relations with China and the forthcoming visit of Mr Hu Yaobang, to the Foreign and Commonwealth Secretary, David Young, Alan Clark and Timothy Renton.


PS.

Approved by the Minister
and signed in his absence

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ANNEX A

MEMORANDUM OF UNDERSTANDING BETWEEN THE GOVERNMENT OF THE PEOPLES
REPUBLIC OF CHINA AND THE GOVERNMENT OF THE UNITED KINGDOM OF
GREAT BRITAIN AND NORTHERN IRELAND CONCERNING CO-OPERATION ON
DEFENCE PROCUREMENT

1. Having regard to China's programme of modernisation in the field of national defence, the Government of the United Kingdom and the Government of the Peoples Republic of China have decided to co-operate over the development and execution of this programme to the mutual benefit of the Armed Forces and the defence industries of the two countries.
2. In particular and recognising that procurement must proceed on a case by case basis, the two Governments consider that scope exists:
 - For detailed arrangements about means by which the Government of the United Kingdom would use their good offices to assist the Government of the Peoples Republic of China to procure defence equipment in the United Kingdom. The fields to be covered could include the quality of equipment, transfer of technology, collaborative projects, and exports to third countries.
 - For the exchange of information about training methods and training aids, especially in relation to equipment in service with the Armed Forces of the United Kingdom.
 - For the conclusion of arrangements for the manufacture of British military equipment in China.
3. The two Governments have accordingly decided that discussions should be held between their officials to develop this Memorandum of Understanding into a series of more specific Memoranda of Understanding and arrangements.

DEFENCE SALES PROSPECTS WITH CHINA

Submarine update programme; including torpedoes, sonars, combat systems and discharge equipment.

Naval ground mines.

Periscopes.

Mine countermeasures equipment.

Avionics for updating the Chinese manufactured Dauphin helicopters in the anti-submarine warfare role, where proposals will be made by a consortium of GEC Avionics and Marconi Defence Systems who will be joined by either MEL or Ferranti who are competing for the supply of the search radars;

Other naval prospects, including radar warning indicator systems, fire control systems, measuring radar systems, light-weight radars, and submarine batteries.

Internal security equipment for the People's armed police. There may be problems concerning the supply of small arms and riot control equipment because of the effect on international public opinion. There are other possibilities, including Land Rovers, Westland Lynx helicopters for coastal patrol and surveillance duties, and night vision equipment.

Electronic warfare communications systems.

Other land systems prospects, including night vision equipment and radio and radar systems of various kinds.

Skyflash air-to-air missiles. British Aerospace put forward proposals for the supply of 200 Skyflash missiles with associated transfer of manufacturing technology. It now seems likely that an Italian offer has been accepted instead, but there is still a slender possibility that British Aerospace may be able to supply their Skyflash missile.

Avionics for the F-8 aircraft.

Inflight refuelling equipment.

Air traffic control radar.

Rolls-Royce engines.

ANNEX C

MINISTER (DP)'s VISIT TO CHINA: LIST OF MEETINGS

General Zhang Aiping

Minister of Defence

General He Qizong

Deputy Chief of the General
Staff responsible for
procurement

General Wu Shaozu

Vice Minister of the Commission
of Science, Technology
and Industry for National
Defence

Madame Zhu Youlan

Assistant Minister for Foreign
Economic Relations and
Trade

D/MIN/NL/19/5/62

Copies to:

Minister (AF)

Minister (DS)

US of S(DP)

CDS

PUS

CNS

CGS

CAS

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CDEC

C of N

MGO

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DUS(DP)

DG Mktg

AUS(EC)

RMD 3

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RM 3c

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Sir Geoffrey Howe QC, MP
Foreign and Commonwealth Secretary

The Lord Young of Graffham
Secretary of State for Employment

The Hon Alan Clark MP
Minister for Trade
Department of Trade and Industry

Timothy Renton Esq., MP
Minister of State
Foreign and Commonwealth Office

His Excellency Sir Richard Evans KCMG
HM Ambassador, Peking

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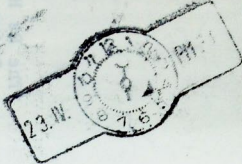
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file VC
cc BG



10 DOWNING STREET

From the Private Secretary

Checked with DN 21/4
no reply needed.

EXP 11/4.

To see, including
para 5 of Brown Minute
minute.

MR. UNWIN
CABINET OFFICE

DRS
11/4.

A.T.P.

Thank you for your minute of 10 April. The potential calls on the A.T.P. soft loan provision are indeed disturbing and, despite the Treasury's apparently relaxed attitude, it is clear that the provision for this will become a pressure point in next year's survey, if not in this.

I assume that the A.T.P. soft loan commitments are monitored by the Treasury, alongside E.C.G.D.'s commitments? (I am not sure whether Mr Mountfield's committee to monitor large contracts and commitments was set up before or after you moved across from the Treasury.)

I am copying this to Mr Mallaby, Mr Wiggins, Mr Roberts and Dr Walker at the Cabinet Office.

DAVID NORGROVE
11 April 1986

RESTRICTED



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

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

PS/

10 April 1986

cafc
CP.
Mr. Byler
Syrie.
CDP.

C D Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Charles, *file into DEN.*

Thank you for your letter of 7 April saying that the Prime Minister would be ready to receive Mr Zheng for a courtesy call.

Unfortunately the time you suggested, 16.30 hours on Wednesday, 14 May, presented difficulties since on present plans Mr Zheng is not expected to arrive at Heathrow from Paris until 15.30 hours on that day.

However, I understand the Prime Minister could be free to see Mr Zheng at 17.30 hours on 14 May, and I can confirm that this would be acceptable to the Chinese.

I am copying this letter to the Private Secretaries of the Foreign and Commonwealth Secretary and the Secretaries of State for Energy and Employment.

Yours ever,
Michael

MICHAEL GILBERTSON
Private Secretary

JF3AHN

China; Reels; Pt 3.

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1W 0ET
Tel: 2443
CIN 22
2-10-1988

10 April 1988

[Handwritten signature]
1/12



C. D. Powell Ltd
Private Secretary to the
Prime Minister

~~CCP~~
DH



RESTRICTED

P 01994

From: J B UNWIN
10 April 1986

MR NORGROVE

Mr Mallaby
cc Mr Wiggins o/r
Mr Roberts
Dr Walker

ATP: CHINA ALLOCATION

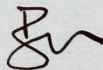
I was a little ^{as it is} alarmed by the Trade and Industry Secretary's letter of 27 March to the Employment Secretary about soft loans for China and the extent of the growing commitment under the new soft loan/ATP facility agreed by EX last summer (which then caused such difficult problems in the Star Chamber, and was only resolved for the duration of the PES period, although the commitments will rise for some years thereafter).

2. On the face of it, it looks as if the DTI risk over committing the facility at an early stage. They have already in principle earmarked £720 million of soft loans, against which there are some £2 billion of potential projects, against the £525 million soft loan capability over the next three years.
3. Treasury officials, however, tell me that they believe that in practice the commitment is containable and, at any rate for the three years of the PES period, can be financed within the agreed amounts. This is particularly so if, as seems likely, the £120-150 million proposal for Indonesia falls through. As you may have seen from recent telegrams, the Indonesians have rejected our £120-150 million soft loan offer in the face of much more favourable subsidy terms offered by, I think, the Japanese. Our Ambassador has suggested that we should counter this with an outrageously high subsidy (I am told it works out at over 200%);

but even the DTI will turn this down.

4. I think, therefore, that my initial concern was excessive, and that there is no need for intervention, or collective discussion, of these issues at this stage. It will, however, be important to look very closely at the commitment for future years in the coming PES round when the immediate question of who finds the money in the new final PES year has to be settled.

5. I might perhaps also add that I understand that the Chief Secretary will be minuting soon to record his reluctant acquiescence in the Saudi Tornado deal proposed in the Trade and Industry Secretary's letter to the Chancellor of 25 March (on which the Prime Minister's agreement was recorded in Mr Powell's letter of 26 March). I think that we shall be very lucky indeed if this case does not give rise to severe financing and expenditure problems; ECGD will be extending their exposure by another £1 billion plus interest in respect of a country which could become a net debtor before the end of the decade if oil prices stabilise at around the present level. I am not sure that there was adequate consultation in setting this deal up in the first place (it seems in part to have slipped the net established under new arrangements agreed last summer), but the Treasury are looking into this separately.



J B UNWIN

CABINET OFFICE



CHINA Relations PT3



DA2A2B.
b2 PC.

10 DOWNING STREET

From the Private Secretary

7 April 1986

VISIT OF THE CHINESE MINISTER OF FOREIGN ECONOMIC RELATIONS
AND TRADE

Thank you for your letter of 27 March about the visit in May of Zheng Tuobin. The Prime Minister would be ready to receive Mr. Zheng for a short courtesy call. This could be at 1630 hours on Wednesday 14 May.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, and the Secretaries of State for Energy and Employment.

Charles Powell

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

RESTRICTED

ccfe



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6460.....

Switchboard 01-213 3000

3rd April 1986

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

Dear Charles

VISIT OF THE CHINESE MINISTER OF FOREIGN ECONOMIC RELATIONS AND
TRADE, 14-18 MAY

My Secretary of State has seen Michael Gilbertson's letter to you of 27 March seeking the Prime Minister's agreement to a meeting with Zheng Tuobin when he visits the UK in May. Lord Young very much agrees with the DTI's view that Mr Zheng should be received here at the highest possible level. As DTI have pointed out Lord Young was received by Premier Zhao during both of his visits to China last year when Mr Zheng was the official host. It is Lord Young's view that the Chinese may well take it amiss if Mr Zheng is not accorded similar treatment. He very much hopes therefore that the Prime Minister can agree to this request.

I am copying to Michael Gilbertson, Robert Culshaw (FCO) and Geoff Dart (Department of Energy).

Yours sincerely

Stephen Ratcliffe

Stephen Ratcliffe
Private Secretary

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1972 10-18 1972

ATTENTION: CHINESE CONSUL GENERAL, BEIJING, CHINA

CHINA Consulate

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CHINA Consulate
CHINA Consulate

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CHINA Consulate



CHINA Relations PRS

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422
TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

PS/
Secretary of State for Trade and Industry

27 March 1986

RESTRICTED

C D Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Yes
not

Pre Minute:

This is a busy week, with your Scottish Conference speech on the Friday. But hard Tony supports the request. Do you wish to agree to see the Chinese

Dear Charles,

VISIT OF THE CHINESE MINISTER OF FOREIGN ECONOMIC RELATIONS AND TRADE, 14-18 MAY

The Chinese Minister of Foreign Economic Relations and Trade, Zheng Tuobin, will be visiting this country as my Secretary of State's guest from 14 to 18 May, for discussions about trade, and to sign, provided the preparatory work is completed in time, two important agreements: 4/4

- i a document confirming the conditions of the UK's £300 million soft loan facility for China;
- ii a UK/China Investment Protection and Promotion Agreement (IPPA). Zheng was Lord Young's host on his recent visit to China. The programme we are arranging for him will include meetings with the Foreign Secretary (who is expected to sign the IPPA on behalf of HMG), the Secretary of State for Energy, the Secretary of State for Employment, and the Minister for Overseas Development.

2 The purpose of this letter is to ask whether the Prime Minister would be willing to receive Mr Zheng for a short courtesy call, as she did his predecessor, Madame Chen Muhua, in March 1983. The Chinese have specifically requested this, pointing out that Premier Zhao saw Lord Young on both his visits to China last year. A meeting with the Prime Minister would emphasise to Mr Zheng the importance HMG attaches to our trade relations with China, where British companies are interested in a number of major projects. Before visiting Britain Zheng will have been to Ireland and France, where he will doubtless be received at high level. My Secretary of

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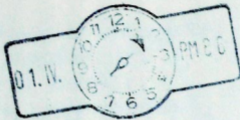
State therefore hopes that the Prime Minister can agree to meet Zheng, even though her diary at that time is already so full.

3 I am copying this letter to the Private Secretaries to the Foreign Secretary, the Secretary of State for Energy and the Secretary of State for Employment.

Yours ever,

Michael

MICHAEL GILBERTSON
Private Secretary



that the Prime Minister can agree to meet
a diary at that time is already so full.

letter to the Private Secretaries to the
Secretary of State for Energy and the
Employment.



cpl 2

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU877

Secretary of State for Trade and Industry

27 March 1986

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

mb

Prime Minister

*This seems
satisfactory*

Dear Charles,

CHINA: POWER STATION PROJECTS

N 1/4

In her minute of 26 February, the Prime Minister agreed the line proposed by my Secretary of State with NEI and GEC on the above topic but asked whether someone from the CEGB might be seconded to the NEI project team.

My Secretary of State saw NEI and Balfour Beatty on 13 March. He set out the terms on which Government support would be available for their bid, and the extent of CEGB involvement in the project management team. Formally the CEGB are sub-contractors to Balfour Beatty, who have responsibility for the project management, but Balfour Beatty intend to include CEGB personnel in the project team in a fully integrated way.

My Secretary of State is now writing to Balfour Beatty and NEI setting out in detail the conditions for Government support, and in particular making clear in view of our concerns to avoid a second Rihand that the contractual arrangements must give Balfour Beatty real responsibility and a financial stake in the outcome of the project.

I am copying this letter to the Private Secretaries to the Foreign Secretary, the Chancellor of the Exchequer, the Secretary of State for Employment and Sir Robert Armstrong.

*Yours ever,
Michael*

MICHAEL GILBERTSON
Private Secretary

CHINA: Relations: Pt 3.

DEPARTMENT OF TRADE AND INDUSTRY
1-10 VICTORIA STREET
LONDON SW1W 0BT
TELEPHONE 233121-233122
TELEGRAMS: 233121



13 March 1955

*The Ministry
of Commerce*



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

CONFIDENTIAL

27 March 1986

The Rt Hon Lord Young of Graffham
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON
SW1

Den David

ATP: CHINA ALLOCATION

Perhaps the best way to respond to your letter of 19 February and to take in some of the points made by Geoffrey Howe in his minute of 18 February, is to put the China soft loan activities within the context of the current inventory of offers and prospective project business.

In introducing soft loans last year, we envisaged a total of some £525 million worth of business being financed over the next three years. To date, we have offered in principle a total of £300 million to China, £300 million to India (though we shall try to mix soft loans with grant-injected ATP), and we are discussing a figure of some £120-150 million in Indonesia. Against these, we have a clear Chinese request for a power station involving NEI. We are currently negotiating the split of responsibility between NEI and Balfour Beatty, but if we went ahead this would involve a figure in the region of £160-180 million.

We shall probably have to meet the Chinese demand for a soft loan instead of the cash deal that the company envisaged for Lucas CAV (some £10-12 million), if we are not to lay ourselves open to the accusation by the company of having actually disrupted their sales prospects. In addition, our review of companies' approaches about future projects indicates a current further potential in excess of £1 billion, and our next round of talks with the Chinese will aim to focus priorities within this large potential list.

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19 **86**
BOARD OF TRADE
BICENTENARY



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In India we have a potential £600 million of projects both identified by the Indians and in which our companies are interested. In other markets, such as Malaysia, Thailand and Burma, we are aware of several £100 millions of new project activity in which our companies have an interest and will wish to advance proposals. In all, against the £525 million of soft loan capability over the next three years, we have in principle earmarked a total potential of £720 million against which there are some £2 billion of potential projects: we have aimed to start aggressively, and we can only contemplate this level of business assuming that we make full use of grant-injected ATP as well.

... Given the nature of ATP (the attached note summarises how it works), we have to look at cases to identify those that give us the best value for money and are the ones that client Governments want to do. In this, we have no particular predisposition on grounds of size since, as the CAV case illustrates, there can be a dubious case when we are talking of potential orders in £10 millions where the business might have been secured on cash terms, as much as for smaller cases where the same problem applies. However uncongenial these constraints, we must recognise that we do not have either the resources or the same institutions as the Germans and Japanese, which may allow them rather more flexibility.

Confronted with this pressure for the use of ATP (not just in China) it is, I am sure you will agree, important that we do not depart from the aim of securing the best value we can. We must look consistently at the value of the particular case, but also at the prospective benefits beyond the immediate project. Consequently, it would not be sensible to specify any particular proportion of ATP for a particular size category nor, for that matter, any particular industrial sectors. Apart from increasing the problems of taking a view between cases, and inviting companies to promote ATP soft loans when they come up against negotiating problems, this could well raise expectations that might not be fulfilled, since we are looking for cases that would justify ECGD at least medium-term credit as the platform on which the aid support can be applied.

The most important message to get across to companies interested in pursuing possible ATP cases is to make the earliest approach to my Department, so that their cases can be looked at urgently; even if they are not likely to meet the demands of the scheme. It is better for the company to be told so before incurring the relatively large precontract costs, which are a common feature of all the Asian and Far East markets, on false expectations. Conversely, if the case

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1986
BOARD OF TRADE
BICENTENARY



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is a runner we need to establish the link with the company so that we can play the tactical game as effectively as possible.

I am copying this letter to the Prime Minister and other EX colleagues, and to Sir Robert Armstrong.

PAUL CHANNON



ATP - WHAT IT IS

TRADE POLICY BACKGROUND

The Government is concerned at the growing trend of countries using bilateral development aid to distort normal competitive procedures, and is joining with other countries in international measures to control and discipline such activities. The Government recognises, however, that while an effective regime of control is necessary, the UK must have an ability to match the practices of competitor countries if our competitive companies are to be allowed to secure business on their merits.

AID TRADE PROVISION (ATP)

The institutions, practices and policies of the major trading countries vary significantly, and these differences are reflected in the variety of aid/trade instruments and the attitudes behind their application.

ATP was introduced as an element of the Bilateral Aid Programme to provide a ready instrument to counter such international practices by providing an aid injection to complement normal ECGD credit terms. It is available flexibly to the full range of developing countries whose status warrants aid and where adequate ECGD cover is available. A feature of this mechanism is that the goods and services should be eligible for ECGD support within their international obligations and function of powers. In November 1985, the Government announced an increase in the facilities available under ATP whereby low-interest loans can be extended beyond normal ECGD medium-term cover where appropriate.

The operation of ATP is conditioned by a range of factors, the most important being:

(a) The volume of business that can be supported by ATP in any form is of necessity limited, and it follows that its administration should be directed to secure the best value from the resources available. Within the context of the UK's overall trade, the forms of payment for exports range from cash (accounting for 80% of normal UK exports); loans by the private sector on commercial terms; ECGD-backed short term loans and medium fixed rate loans, where the interest rates are those agreed internationally under the OECD Consensus; and ATP, which is an injection of aid into the former. The relative costs to the taxpayer of these various forms of trade finance range from zero to 30-35% for grant-supported ATP to 35-40% for ATP soft loans (discounting to the date of sale).



(b) Since ATP operates essentially as a mechanism for reducing the cost of ECGD-backed loans, it rests upon guarantees provided under ECGD's normal powers and in accordance with their normal practices. These are designed to make the form and concessionality of ECGD's support appropriate to the particular type of transaction being financed: for example, commodities, spares and consumables, or the provision of operating services would not justify any extended credit support since they are transactions leading immediately to a commercial return and normally traded for cash. Equally, such items as consultancy or training, the provision of machine tools, and other supplies which yield a benefit either continuously or immediately they are installed would not warrant more than fairly short terms of credit.

Medium term credit becomes appropriate for transactions involving the integration of a variety of goods and services into a discrete project, the economic return from which is not obtainable until all these elements are completed; or for major purchases of capital goods, where again, there will be a significant period between contract signature and the economic return being achieved from the goods and services supplied.

Consequently, the first judgment of an ATP case lies in the appropriateness of particular goods and services to ECGD support, and for long-term loans in particular for normal medium-term credit support.

(c) Whilst medium-term loans, and soft loans, have the attraction of deferring repayment by the client until the investment is generating a benefit, the overall credit exposure is substantially increased by the accumulated outstanding principal and interest payments. Consequently it is necessary to secure the firmest assurances of repayment, normally in the form of a Government guarantee, or exceptionally a corresponding assurance from a reputable Government agency, to ensure that the repayments will be made on the due date. In addition, ECGD will have an interest in the bonds, warranties and guarantees, particularly arbitration definitions, which may affect their liabilities and the prospects of repayment.

(d) Even with the increased scope for ATP available with the addition of the new soft loan facility, choices have to be made. ATP is, therefore, bound to be discretionary and selective, and aimed at securing the best overall value for the relatively high concessionality involved.



(e) The basic perspective against which all proposals are examined is to identify those with the better qualities in themselves, but, since virtually all exports can plead the same immediate value-added impact, more importantly those offering the better prospects of benefits beyond the project itself in terms of long term trade and commercial advantages and continuing business on commercial terms in the world market generally. All proposals are therefore scrutinised against a common series of questions: first, its compliance with normal ECGD criteria and the availability of credit; the specific benefit of the project, both to the lead company and more widely to UK industry; the prospective market benefits for UK industry, both immediate and long term; the expertise and capabilities of the company proposing the case and its subsidiaries to do the job effectively and carry the costs and liabilities involved; how far these capabilities are able to take on the wider and longer term market; and whether the project itself makes sense. This case appraisal involves consultations with the company, ECGD and ODA, and may also require the appointment of consultants, and, in particularly difficult cases, submission to the Overseas Projects Board for independent advice. Cases are finally submitted for approval to the Minister for Trade and the Minister for Overseas Development.

PRACTICALITIES OF ATP DEPLOYMENT

The formal status of ATP is an understanding between the UK and the recipient Government whereby either grant aid is provided or the status of a soft loan confirmed as having the UK Government's support. Consequently, the authorities of both Governments must be satisfied that the case is a satisfactory use of resources, and the techniques for applying ATP reflect this basic structure:

(a) **Matching:** international understandings require that where ATP is used, notice should be given to other OECD partners, and, conversely, they should inform the UK authorities when they are due to be applying comparable aid. This means that offering ATP in support of a company in a public competitive bid would lead to other Governments knowing in advance with the option of matching, and this would not be a sensible use of ATP. Conversely, however, ATP is available - subject to normal scrutiny - to "match" aid offers by others where there is prima facie evidence that this has been done, or "conditional matching" can be considered where there are reasonable grounds to suggest that others may be applying some form of aid-associated financing, though again the case will need to be examined and the potential ATP costs of doing so.



(b) Initiation: in other instances, ATP cases can be identified by inter-Government agreement on the basis of proposals advanced by UK companies to the recipient Government's authorities, or on an individual basis in support of an initiative that a company is taking. Both types of case will require the two Governments to be satisfied that the case is worth while, and, if there is a single UK proposal, the UK Government will require examination to ensure that the proposals represents good value for money. In multinational bids, where UK companies are combining with colleagues from other countries, the UK Government will not normally consider offering ATP unless the other Governments involved are acting similarly. Other variants may arise, but the same basic procedure of scrutiny applies.

(c) Technical co-operation: occasionally ATP, usually in the form of a grant may be offered for feasibility studies, consultancies, operational advice, training etc where there is a direct relationship to a project where the UK has a good prospect of securing orders. Because of the high concessionality of such support, which within a given ATP budget, would have a disproportionate effect on the scope to offer support for exports more directly, such cases are viewed particularly carefully.

HANDLING OF ATP CASES

The costs for the taxpayer involved in ATP are high. The Departments concerned must therefore ensure that cases merit the special treatment. Every effort is made to undertake appraisals quickly, but it is unreasonable to expect the assessment process and submissions for approval to take less than a matter of weeks. Consequently, companies advancing proposals should indicate their intentions at the earliest practicable date to the appropriate point in DTI.

Decisions on both the merits of cases and the particular form of ATP support lie ultimately with the Government, and consequently companies should not give any intimation about the potential availability of ATP or its form to clients without specific clearance from the appropriate officials.

CHINA PROJECTS - UK LIST (AS AT 17 MARCH 1986)

<u>CLIENT</u>	<u>PROJECT</u>	<u>LOCATION</u>	<u>PROJECT COSTS</u>	<u>UK CONTENT</u>	<u>UK COMPANY</u>
1. Ningbo Port Authorities	Container Terminal at Beilun Port	Beilun Ningbo	£125m	£56m	1 Felixstowe Dock&Railway/ Davy McKee 2 Gray Mackenzie/ Taylor Woodrow
2. COSCO (Chinese state shipping co)	Supply of - 2 shallow draught container ships	-	£44m	£40m	British Shipbuilders
3. Guangdong Authorities	Hong Kong to Canton Toll Super Highway including Boca Tigris Bridge	Canton	£100m (Bridge only)	£80m (Bridge)	Trafalgar House/ Costain
4. State Science & Technology Commission (for Beijing Underground company)	Beijing subway modernisation	Beijing	£85m	£85m	Balfour Beatty leading Metrotec Group.
5. China National Import Export Corporation (CNIEC)	Aluminium smelter (Pingguo)	Pingguo	£740m	£150m	Wimpey Major Projects Ltd
6. Sichuan Posts & Telecommunications	Joint venture manufacturing facility to produce rural telephone exchanges	Sichuan	£50m plus	£50m	GEC Telecommunications
7. Shanghai Municipality	Optical Fibre telecommunication systems	Shanghai and Fuzhou	£25m plus	£25m	STC Telecommunications
8. Environmental Sanitation Managing Bureau, Municipality of Shanghai	Composting Plant (500tpd)	Shanghai	£5m	£3.5m	Peabody Holmes Ltd

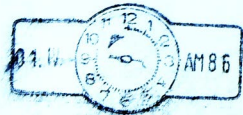
<u>CLIENT</u>	<u>PROJECT</u>	<u>LOCATION</u>	<u>PROJECT COSTS</u>	<u>UK CONTENT</u>	<u>UK COMPANY</u>
9. Guangdong Power Company	400KV/500 KV overhead transmission lines and substations associated with power station at Daya Bay, Guangdong	Daya Bay Lines to Hong Kong & Guangzhou	£129.6m	£81.2m	Balfour Beatty Power Construction Ltd
10. Shenzhen International Airport Feasibility Research Leading Unit	Shenzhen Airport	Shenzhen	£60m (1st Phase)	£20m	British Airports International (BAI)
11. Daye Steelworks	Seamless tube mill - modernisation and expansion	Daye	£42.5m	£33m	Davy McKee (Poole) Ltd In association with Tube Investments Ltd
12. Chinese P & T Authorities	Development of telecommunications	Yangtse Delta Region	£450m	£110m (very approx)	GEC Telecommunications Ltd
13. China Metallurgical Import and Export Corporation	Ningbo (Beilan) integrated steelworks	Ningbo	£3bn	£150m- £1bn	Davy McKee leading UK consortium
14. Ministry of Water Resources and Electric Power	Tianhuang Ping pumped storage hydro-electric project		£175m	£50- £100m input	Sir Alexander Gobb & Partners plus consortium members
15. Ministry of Coal	Yang Quan NO.3 Coal Preparation plant		£65m	£20-25m	Birtley Engineering Ltd
16. Dalian Urban Economic Development Co	50MW Diesel Power Station	Dalian in Liaoning	£16.2m	£12.5m	Hawker Siddeley Power Engineering Ltd

INDIA

<u>Customer</u>	<u>Project</u>	<u>Location</u>	<u>Project Costs</u>	<u>UK Content</u>	<u>UK Company</u>
			£m	£m	
GAIL	Combined Cycle Power Station	HBJ pipeline	182.0	142.0	HSPE consortium/ Babcock etc
SAIL	Durgapur Steel Plant	W. Bengal	600.0	400.0	Davy McKee consortium
Dept of Communications	Digital microwave telecoms network	Delhi-Bombay- Madras-Calcutta	60.0	55.0	GEC
Bombay Gas Co	Bombay gas distribution	Bombay	45.0	45.0	British Gas (consultancy ALM systems Parkinson Cowan Jearons Engineering
Metro Railway	Coach Supply	Calcutta	35.0	35.0	Hawker Siddeley BREL Metro Cammell
NTPC	Super thermal power station	to be agreed	350.0	275.0	GEC NEI Babcock Balfour Beatty

INDONESIA

<u>Project</u>	<u>UK Content</u> £m	<u>UK Company</u>
Rural Electrification	40	NEI
Steel Bridging	10	Mabey & Johnson
Cibinong Railway	21	Foster Wheeler
Merak Serpong Railway	34	Davy/BR International
Computers	16	ICL



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10 DOWNING STREET

From the Private Secretary

27 March 1986

VISIT BY GENERAL SECRETARY HU YAOBANG

Len Appleyard wrote on 27 March about the offer by Hu Yaobang to give a return banquet for the Prime Minister on 11 June. The Prime Minister has agreed to attend this.

(Charles Powell)

Robert Culshaw, Esq.,
Foreign and Commonwealth Office.

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Foreign and Commonwealth Office

London SW1A 2AH

27 March 1986

Dear Charles,

Visit by General Secretary Hu Yaobang: 8-12 June

The Chinese Embassy have told us that Mr Hu Yaobang would like to offer return hospitality to the Prime Minister during his visit. The Embassy know that this is not a requirement on such a visit. However, they have asked whether Mrs Thatcher would be free either for a dinner or to attend an evening reception on 10 or 11 June.

It would add to the success of the visit if the Prime Minister were able to accept. While the Chinese would prefer a dinner, we are sure Mr Hu would be honoured if the Prime Minister were able to spare 30 to 45 minutes at a reception.

Mr Hu will now be leaving early on 12 June. If the Prime Minister were able to attend a function on the evening of 11 June this would of course take the place of a farewell call that evening (the possibility of this was envisaged in your letter of 17 January).

Yours ever,

Le Appleyard

(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street

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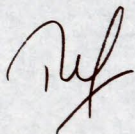


AM 86

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27/2.**PRIME MINISTER****CHINA: POWER STATION PROJECTS**

I am writing to support the line taken by Paul Channon in his recent minute. Both NEI and GEC were members of my first mission to China and I believe that we should seek to ensure that both companies are able to compete for power projects there. I would just add that it seems a pity that the CEGB's monopoly on project management in the UK has weakened the ability of our contractors to compete internationally.

I am copying this minute to Geoffrey Howe, Nigel Lawson, Paul Channon and Sir Robert Armstrong.



D. Y.

27 February 1986

CHINA: Relations - 2: R3

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CHINA: FOREIGN AFFAIRS SECTION



U.S. DEPARTMENT OF STATE

APR 1956



10 DOWNING STREET

*From the Private Secretary*26 February 1986. *cc/g**Dear Michael,***CHINA: POWER STATION PROJECTS**

The Prime Minister has considered the Trade and Industry Secretary's undated minute about the problems posed by Northern Engineering Industries' proposals for taking on a major power station project in China.

The Prime Minister is somewhat reassured by the details of the extent to which Balfour Beatty and the Central Electricity Generating Board would be involved in the project, and would be ready for the Trade and Industry Secretary to speak to both GEC and NEI on the lines proposed. She has, however, asked whether it would be possible for someone from the CEGB to be seconded to the project for which NEI are bidding. I should be grateful to know whether this is considered feasible.

I am copying this letter to the Private Secretaries to the Foreign Secretary, the Chancellor of the Exchequer, the Employment Secretary and Sir Robert Armstrong.

Yours sincerely,
Charles Powell
(Charles Powell)

Michael Gilbertson, Esq.,
Department of Trade and Industry



JU461

CONFIDENTIAL

CEPC
①

Can someone for
CEGB to

Rice Minister
You were unhappy about
letting NEI be involved.
The Trade & Industry Secretary
reckons Balfour Beatty's backing
is a sufficient safeguard.

PRIME MINISTER

CHINA: POWER STATION PROJECTS

referred to the
project?
not

In your Private Secretary's letter of 1 December, you quite rightly expressed caution about NEI's proposals for taking on a major power station project in China. We must of course seek to ensure that the problems associated with the Rihand project are not repeated. However, I believe that the direct involvement of both Balfour Beatty and CEGB in the management of the proposed project will enable such difficulties to be avoided.

Content?
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2 Since the CEGB has retained the task of project management in the UK itself, we do not have contractors with home experience in building power stations. Thus, although our companies can produce good equipment, they have had to start from scratch in taking on the negotiation and implementation of turnkey power station contracts overseas.

3 Through the experience gained on Castle Peak and on the Bharat Aluminium project in India, GEC have now established a good basic combination of these skills and experience. But the Chinese appear to wish to negotiate this project with NEI and Balfour Beatty. At the time of Castle Peak, of course, GEC also had a negligible track record.

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4 In this particular case, Balfour Beatty would provide the contracting and negotiating expertise, in which they have world-wide experience. Although they have not recently project-managed a large coal-fired station, they have successfully completed many major and complex projects, including power stations devoted to steel and aluminium plants. The expertise of the CEGB will be available to Balfour Beatty, so that they will have access to the most experienced source of power station design in the UK.

5 NEI would have an equipment supply contract with the Chinese. They would share the project risk, and consequently we would permit them to provide some 25 per cent of the plant making up the UK content, approximately the proportion normally retained by the lead contractor on other projects. For the remaining 75%, we envisage that NEI would have to compete in open tender with other UK suppliers. We would employ independent consultants to check the tender procedures and the competitiveness of the eventual selection, including the plant reserved to NEI.

6 There will obviously still be risks. But we shall insist on a structure that gives Balfour Beatty real responsibility as project managers and a financial stake in the outcome of the project. I shall myself be seeing NEI and Balfour Beatty to emphasise to them the importance we attach to this.

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7 We shall undoubtedly also face requests from GEC, following the resources that they have committed on the Guangdong project, for aid support in pursuing further power station business in China. Given the likely importance of the Chinese market and our aim of doubling business won from soft loans, there could well be a case for supporting a second coal-fired station in China in due course. I shall therefore be taking the line with GEC that we would be prepared to consider this should they come forward with a proposal, but that it would have to take its place in the queue, and could not be included in the first lists of projects to be agreed with the Chinese.

8 From detailed analysis of this case, I would suggest that the following should be essential components of Government support for overseas power projects which require aid funding:

a an experienced contractor should be required to lead the UK bid with sufficient authority to make a success of implementing the project;

b an element of some 25 per cent of equipment should be reserved to a contractor taking project risk, but the remainder should be put to open tender throughout UK industry, with independent consultants employed to ensure

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that specifications, tendering and evaluation are conducted fairly.

We have been continuously beset by rival lobbying from GEC and NEI on power projects, and I propose to inform them both that this is the route we shall be following in future.

9 I am copying this minute to Geoffrey Howe, Nigel Lawson, David Young and Sir Robert Armstrong.

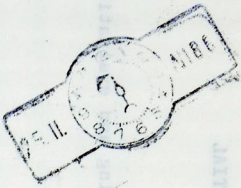
PAUL CHANNON

February 1986

Department of Trade & Industry

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BICENTENARY

CHINA: Sino British Relations / P. 3



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Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6460.....

Switchboard 01-213 3000

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
1 Victoria Street
London SW1

19 February 1986

SOFT LOANS FOR CHINA

I dined last night with the members of my December trade mission to China.

During the course of our discussions we talked about the current soft loan facility for China. I thought you ought to know straight away that all the mission members expressed great concern about your Department's intention to impose a lower limit of £5 million under which projects would be ineligible for support. It was their common view that this would severely affect their competitiveness in bidding for smaller project against the Japanese and others who impose no lower limits. Moreover it would make it virtually impossible for UK companies to offer soft loans direct to the Chinese provinces who have delegated authority to deal only in projects valued at under £5 million.

I was left in no doubt that the imposition of a lower limit would be deeply unpopular not least with the telecommunication industry. In the light of these concerns I undertook to ask you to look at this matter again. In particular I wonder if you would be prepared to set aside a small part of the facility (say 10 to 15 per cent) for small projects?

I am copying to Geoffrey Howe.

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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 dialling) 01-215

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GTN 215

(Switchboard) 01-215 7877

6 February 1986

The Rt Hon Lord Young of Graffham
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON
SW1H 9NF

CDP 42

New Point

Thank you for your letter of 15 January. I was pleased to hear that your second mission to China proved as successful as your first. I am confident that the mission will have done much to encourage the Chinese to look to British suppliers for their modernisation programmes.

You rightly mention the need to remove any uncertainty about the effect of COCOM controls on exports to China. It is with this in mind that my Department has now published a booklet setting out recently agreed arrangements which enable us to licence at national discretion a wider range of goods without reference to our COCOM partners. It will still be necessary, however, to seek the views of our COCOM partners on exports of more advanced technology.

As to soft loans, I agree that this facility should be a significant factor in further improving our commercial relations. It was always intended that China would be a principal recipient of soft loans, and we are planning a substantial increase on the initial £100 million facility. I wrote to Geoffrey Howe on 3 February (copied to you) on the matter of extra funds and on the general question of deployment of soft loans. Our most immediate objective however is to consolidate arrangements for supporting particular projects under such a facility.

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I am in no doubt about the importance the Chinese attach to competitiveness. There is always a risk that a soft loan facility will be viewed as a substitute for the keenest price and other terms. My officials are making it clear to companies that only projects which are fully internationally competitive are in the running for support; and, more generally, that China is likely to remain one of the world's most fiercely competitive export markets.

You also raise some interesting points about joint ventures. I hope that as our business contacts develop the Chinese increasingly will come to take a broader view of the benefits of joint ventures and to recognise the disincentive to inward investment that some present approaches represent.

Finally, I note that you hope to make a further visit to China at the turn of the year. Once other plans - including my own - have taken shape we must give some thought to questions of timing and commercial priorities.

I am copying this letter to the Prime Minister, Geoffrey Howe, and Members of E(A).

PAUL CHANNON

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CHINA

RELATIONS

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CCE



Secretary of State

Northern Ireland Office
Stormont Castle
Belfast BT4 3ST

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30/1

Rt Hon Sir Geoffrey Howe QC MP
Foreign and Commonwealth Office
Downing Street
LONDON SW1

29th January 1986

Dear Geoffrey,

EXPORT OPPORTUNITIES IN CHINA

at top

I have seen Michael Jopling's letter of 24 December to you reporting on some opportunities in China.

Northern Ireland industry, including the agriculture and food sector, has a clear interest in trade with China. I think the points Michael has put to you can be progressed through the normal working links between officials of our Industrial Development Board and those in the Department of Trade and Industry. Officials can also keep us in touch with any problems relating to Chinese patent law.

I have particularly noted Michael's suggestion that Government might consider making available a small investment of resources to allow post-graduate Chinese agriculturalists to come to the United Kingdom to study. The Faculty of Agriculture and Food Science at Queen's University, Belfast, (which is funded by the Department of Agriculture in Northern Ireland) has already had contact through the British Council and identified certain areas where collaborative work could be worthwhile. If funds are to be made available for this purpose then I would wish to make sure that they are also available to Chinese students who would wish to pursue their further studies in Northern Ireland.

I am copying this letter to Michael Jopling and other members of E(A) and to Sir Robert Armstrong.

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Foreign and Commonwealth Office

London SW1A 2AH

28 January 1986

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Dear Charles,

Visit by General Secretary Hu Yaobang

Further to Len Appleyard's letter of 17 January, the Chinese Embassy have now passed us the original of General Secretary Hu Yaobang's letter of 22 December 1985 to the Prime Minister, accepting the invitation to visit Britain in June. I enclose it herewith.

Yours ever,

R N Culshaw

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

伦敦

大不列颠及北爱尔兰联合王国

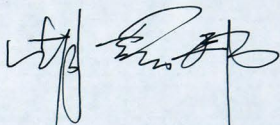
尊敬的玛格丽特·撒切尔首相：

承蒙你今年三月十八日和九月十六日两次来函，重申对我的邀请，并建议我于明年六月访问贵国。对此，我表示衷心的感谢。

访问你们美丽的国家是我的夙愿。我愉快地接受你的建议，期待着明年六月访问贵国，了解伟大的英国人民的生活情况和贵国在各方面所取得的成就，并结识各界的朋友。我还期待着在访问期间同你继续就共同关心的国际问题和我们两国之间的双边关系问题交换意见。自从你去年十二月访华和赵紫阳总理今年六月访英以来，我们两国之间的关系在许多领域都有了新的发展。我希望，不久以后我对贵国的访问将有助于进一步加强我们两国之间的友好

合作关系。

顺致最良好的祝愿。



一九八五年十二月二十二日于北京

(Translation)

Beijing, 22 December 1985

The Right Honourable Margaret Thatcher,
Prime Minister of the United Kingdom of Great Britain
and Northern Ireland,
London

Respected Prime Minister,

I would like to express my heartfelt thanks to you for your two letters dated 18 March and 16 September respectively, renewing your invitation to me and suggesting that I visit your country next June.

It is my long-cherished wish to visit your beautiful country. I have accepted your proposal with pleasure and look forward to visiting your country next June so as to have a better understanding of the life of the British people and the achievements you have scored in various fields and to make new friends in various walks of life. I also look forward to a continued exchange of views with you on international issues of common interest and on our bilateral relations during my visit. New progress has been made in many fields of Sino-British relations since your visit to China in December last year and Premier Zhao Ziyang's visit to Britain in June this year. I hope that my forthcoming visit to your country will help further strengthen the friendly relations and cooperation between our two countries.

With my very best wishes,

(Signed) Hu Yaobang

CHINA
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10 DOWNING STREET

From the Private Secretary

17 January 1986

VISIT BY GENERAL SECRETARY HU YAOBANG

BF |

Thank you for your letter of 17 January about the arrangements for Mr. Hu Yaobang's visit. Clearly we have to resign ourselves to a slightly shorter visit than originally planned. I agree that it is important that Mr Hu Yaobang should be met on arrival by a Cabinet Minister and hope that Lord Young will be able to undertake this. The Prime Minister will receive a brief courtesy call at 1000 on Monday 9 June provided it lasts no more than half an hour (you will recall that she is to deliver her speech at the Ministerial meeting of EUREKA at 1100). The Prime Minister could manage a substantive session of talks between 1600-1800 that day and a dinner that evening. I would very much hope that the Prime Minister would not need to be further involved in the programme but if absolutely necessary we would like to find a few minutes on the evening of Wednesday 11 June.

(CHARLES POWELL)

L. V. Appleyard, Esq.,
Foreign and Commonwealth Office.

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Foreign and Commonwealth Office

London SW1A 2AH

17 January 1986

Dear Charles,

Visit by General Secretary Hu Yaobang

We now have a response to the Prime Minister's ^{at 11.45} invitation (her letter of 16 September 1985) to the Chinese Communist Party General Secretary, Mr Hu Yaobang, to visit the UK for some five days in the week starting 9 June. The Chinese propose that Hu should arrive on Sunday 8 June and leave on the evening of 11 June (or possibly the morning of 12 June). He will then go on to the FRG, France and Italy, spending three to four days in each.

This time for arrival, which is slightly earlier than we had suggested, would allow Hu to recover from the journey before starting his official programme on 9 June. There need be no involvement by the Prime Minister on 8 June. The Chinese will, however, undoubtedly expect Hu to be met at a very senior level and will take umbrage if he is not. The Foreign Secretary met Premier Zhao last June, and Hu is senior to Zhao in the Party hierarchy. As Sir Geoffrey Howe will be at an informal meeting in The Hague that weekend, we are trying to see whether a Cabinet colleague (possibly Lord Young) could meet Hu on arrival.

It is not surprising that Hu should propose a slightly shorter visit than the five days originally envisaged, since his tour will now include four countries, starting in Britain. If the Prime Minister is content we should like to accept the proposed dates, but also to put down a marker that until the detailed programme has been discussed we should like to leave open the possibility of departure on the morning of 12 June: losing the evening of 11 June could make it more difficult to provide the right combination of events to maximise the impact of the visit and its value to the UK.

In planning a shorter programme, it will be particularly helpful to know the times when the Prime Minister will be able to meet Hu for talks (about two hours) and offer a dinner. The Chinese may well ask, as with Premier Zhao's visit, for a short courtesy call early on 9 June.

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This visit visit will be important in setting the tone for the State Visit to China in October. Once dates are agreed with the Chinese, we will therefore proceed to make sure that enough special touches are included in the programme to ensure that Hu's visit is as successful as Premier Zhao's longer one last year.

Yours ever,
Len Appleyard
(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street

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e/D
17:FCS/86/012MINISTER OF STATE FOR AGRICULTURE, FISHERIES AND FOODExport Opportunities in China

1. Thank you for your letter of 24 December about export opportunities in China, following your recent successful visit there. WITH COP

2. Chinese agriculture has certainly made remarkable progress in the past few years, and the planned future expansion provides considerable scope for our exporters. The relationship which you and your department have developed with the Chinese can have left them in no doubt of the importance the Government places on China as a market for our agricultural expertise and exports. It is also clear from the number of British companies who exhibited at Agro-China 85 that the industry itself is aware of the potential. This has now usefully been updated by the briefing your department has given to the Sino-British Trade Council (SBTC) following your return from China.

3. I can see no problem in principle with any of the various further pump-priming measures which you propose to stimulate export growth in agriculture and food processing. The ODA would certainly not exclude agro-industrial projects from the soft loan facility provided they are developmentally sound. The Chinese have provided a preliminary list of their priority projects for consideration under the soft loan facility and are due to visit London for further discussions shortly. On our side we are free to put forward any viable project. It would be helpful if your officials could put any new proposals as early as possible to the DTI.

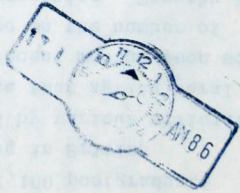


4. In the current academic year some 1,100 postgraduate Chinese students are undergoing training in British universities; almost half are supported by various official government-funded programmes, and I note that agricultural students are among these. We have in recent months been seeking ways of financing a substantial increase in the number of Chinese students attending British universities. Timothy Raison announced in the House on 19 December that part of the money saved from UNESCO contributions would be allocated to a joint scheme to provide more scholarships for Chinese students in the coming years. I am sure that the ODA would, under this new scheme, be receptive to Chinese proposals for further post-graduate agricultural training.

5. Private sector scholarships are another way forward. The City have funded a number of such scholarships and various industrial sectors and commercial companies have, as you mention, found it good business to sponsor students. You may wish to encourage further growth in this area by a joint MAFF/agriculture industry scholarship scheme. The 1980 UK/China Memorandum of Understanding on Co-operation in Agricultural Science and Technology might form the basis for such a scheme.

6. We will willingly, in conjunction with the DTI, take up any patent law problems with the Chinese if the exporters concerned can provide chapter and verse. We believe the Chinese would be receptive to approaches on this subject especially since the recent codification of their patent law and the conclusion last summer of a co-operation agreement with the European Patent Office.

7. I am copying this minute to the Prime Minister, members of E(A) and Sir Robert Armstrong.



Kolam

CHINA PPS

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Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213

Switchboard 01-213 3000

The Rt Hon Leon Brittan QC MP
Secretary of State
Department of Trade and Industry
1 Victoria Street
LONDON SW1

Handwritten signature: L. Brittan

Handwritten initials: MB

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Prime Minister
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China from
16 January 1986
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CHINA

As you know, I visited China last month, at the invitation of Zheng Tuobin, Minister of Foreign Trade. I was accompanied by six senior businessmen from the telecommunications and electronics industries (see annex for details). We spent 2 full working days in Peking and one in Chengdu in Sichuan Province. You will have seen already the telegrams from Peking reporting on the visit and in particular on my discussions with Premier Zhao. My office are circulating full reports of the individual meetings which we had with Chinese Ministers and officials. What follow therefore are a number of personal reflections arising from the visit.

No one visiting China can fail to be struck by the contrasts between their progress in some fields and their backwardness in others. For example, while they have made great strides in some areas of telecommunications, including the launch of their own satellites, in general their telecommunications network is relatively underdeveloped. For instance, in Sichuan Province, which has a total population of over 100 million, there are only 300,000 telephone lines; the majority of rural exchanges are hand operated and direct dialing between major cities is not yet possible. The electronics sector is also in need of much modernisation. Judging from a factory visit which we made in Chengdu the technology employed is at least 20 years out of date.

The Chinese are, as you know, anxious to remedy this situation and telecommunications, in particular, are to be accorded a high priority in their 7th Five Year Plan which will be published later this year. This will present major opportunities for the British telecommunications industry and the message which I received throughout my visit - both in

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Peking and in Sichuan - was that the Chinese are very keen to increase their commercial links with Britain. Nonetheless they stressed to me, as they had done on my earlier visit, that they expect us to be competitive in the face of the strong international competition particularly from Japan and the USA.

A further factor which is likely to determine our ability to assist the Chinese in developing their telecommunications network is our stance on COCOM restrictions. Although the Chinese did not mention specific COCOM problems to me during the visit, they did make it clear that in developing their networks they wanted to make use of the most advanced technology including optical fibre cable. It was not entirely clear to me nor to the accompanying businessmen whether - under the new COCOM regime - there would be restrictions to inhibit this and what these would be. This is a matter which I think we need to clarify as soon as possible for the benefit of our major telecommunication suppliers.

Two more general issues raised during mission were those of soft loans and the terms of joint ventures.

Soft loans

As you know John Chapman from your Department took the opportunity whilst accompanying me to present to the Chinese the list of projects which we are prepared to assist under the £100 million soft loan facility agreed earlier this year.

That we were able to agree this facility was clearly seen by the Chinese as a major step in enhancing our commercial relations and I was told that this will greatly increase the amount of business which British firms can expect from China in the future. The indications that we are looking to increase the amount available during the coming year were warmly received and created much goodwill about UK-China trade. The Chinese will, however, be looking for a significant increase and in order to gain the maximum advantage I believe that we must be willing to increase the current facility to at least £300-400 million. I hope that it will be possible for us to make an early announcement about this.

Incidentally there is clearly already considerable demand on our own side for an increased facility. Whilst in Hong Kong Sir Y K Pao pressed me about soft loans for a number of projects including the steel mill (which I think would be excluded by the overall project costs) and the new container port at Ningbo.

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Joint Ventures

Mindful of their balance of payments position the Chinese are looking increasingly at joint venture operations to supply them with goods and services and this is an option which British companies will need to consider seriously if they are to take full advantage of the Chinese market. However, establishing a joint venture operation with the Chinese would appear to be no easy matter as two members of my mission - Ferranti and GEC - have been encountering. Both have encountered problems in the final stages of agreement in securing foreign exchange allocations - in Ferranti's case for the repatriation of dividends and in GEC's to enable the joint venture to import components which are not currently available in China. These problems are no doubt exacerbated by China's current foreign exchange shortages and are to be hoped short term. But my impression was that despite the import savings which joint ventures would achieve the Chinese have shown some reluctance to allocate foreign exchange to joint ventures which are unable to demonstrate fully their ability to produce goods for export and thereby produce valuable foreign exchange as well. In my discussions with the Chinese I stressed that these difficulties needed to be resolved if they are to attract investment from the UK - and indeed elsewhere.

You may like to know that I have asked my mission members to keep me fully informed over the coming months of the progress they are making in China and my officials will be keeping in touch with yours on this.

Finally, I should say that whilst in China I was pressed on a number of occasions at very senior levels to continue my visits there on a regular basis. My intention is to respond positively. I know that there are already a number of visits planned for 1986, including your own, but I would hope to pay a further visit - again with a team of senior businessmen - at the turn of the year.

I am copying to the Prime Minister, Geoffrey Howe and members of E(A).

ANNEX

Sir Eric Sharp CBE	Chairman and Chief Executive Cable and Wireless plc
Michael Clark	Deputy Chairman and Chief Executive The Plessey Company plc
Lester George	Director Ferranti plc
Richard Reynolds	Director GEC Telecommunications Ltd
Geoffrey Lomer	Racal Electronics plc
Kenneth Bacon	STC Telecommunications





MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

cept

From the Minister

*Prime Minister
Perry Jones
NSA 24/12*

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Relations
Downing Street
SW1

24. December 1985

Geoffrey Howe

mt

EXPORT OPPORTUNITIES IN CHINA

As you will know, I visited China last month at the invitation of the Chinese Minister of Agriculture, He Kang. He was here last July as our guest at the time of the Royal Show; and mine was a return visit timed to coincide with Ag China '85, the first major international Agri-Business Exhibition organised by the Chinese for several years. The reports of my visit have been circulated. But there are a number of reflections arising out of the visit which I should wish to put to you and other colleagues.

Out of an estimated population of 1 billion, some 800 million Chinese are in rural communities. He Kang described to me their plans for expanding agriculture and food production. They are looking to increase arable yields and to expand substantially their livestock production. To give just one statistic, they speak in terms of increasing their dairy herd over the next 10 years from 1 1/4 million to 10 million. Agriculture is a priority in their next 5 year plan. Ag China '85 reflected their desire to secure agricultural technology from overseas to assist with their planned development.

I was encouraged to find that the UK had the third largest presence at the Exhibition, with 56 exhibitors. Most of these were concerned with agricultural inputs of one sort or another. The competition from our Community partners and from other developed countries was very much in evidence. Kiechle, the German Minister, was there at the same time as me. We are of course relatively strong in companies concerned in developing and manufacturing agricultural inputs, including particularly agricultural chemicals. Following the exhibition, there have already been some positive signals from the Chinese to individual UK exhibitors.

/The Chinese

The Chinese are also looking to develop their food processing and packaging sector. They see this as an important step in raising the quality of life for the Chinese population and as a means of providing employment especially in the rural areas. He Kang is particularly concerned to expand the brewing industry and I have already sent him information about British companies in this business. As well as meeting their domestic needs, they clearly are looking to expand their foreign exchange earnings from agriculture and food exports.

Again our industry will face strong competition in these sectors. It was put to me that our firms often feel that they are competing against Governments in other developed countries. As an instance, I was told that the Danes have given a dairy processing plant in Beijing; and the Swedes one in Shanghai. These are apparently intended to demonstrate milk processing techniques and to train Chinese in dairy technology. But I think we can assume that these projects are seen as a means of furthering Danish and Swedish commercial interests in the Chinese market.

Generally I was very well received by He Kang and I invited a number of the UK exhibitors to join me at a meeting with him. I exchanged letters with He Kang defining areas for further co-operation between our countries and I hope that this will prove helpful in furthering our commercial interest. The exhibitors at Ag China were very realistic about the prospects in the Chinese market. They recognised that it is not a place for easy pickings and that the Chinese will, if they can, exploit our technology with the minimum of long term commitment.

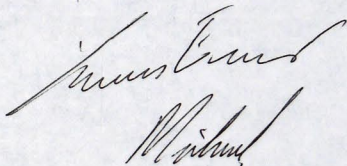
There are three particular points which I believe need to be considered.

I have referred to the size and importance of the agriculture and food sector. I assume that the bulk of the special soft loans facility which has been announced for exports to China will be used for large capital projects. But I hope that we can consider using some part of the soft loan funds to help promote contracts in the agriculture and food sectors. In particular, a mission of leaders from the food processing and packaging industries is being planned for early next year and I understand that George Jellicoe will be leading this. It seems to me worth considering whether some use of the soft loan facility might be developed in connection with this mission. I hope that this can be looked at.

One particular problem which was put to me on more than one occasion relates to the Chinese patent law. There is evidently some nervousness about how effective this is in protecting registered patents. The point was raised in relation to new agricultural chemicals which are not apparently subject to the present Chinese law. It would clearly be helpful to our exporters if this point could be pursued with the Chinese authorities.

The Chinese Minister indicated that it would be helpful if we could provide the means for some post-graduate Chinese agriculturalists to come here to study. I, of course, gave no commitment but said that I would take the point up on my return. I know that some of our commercial companies see it as good business to sponsor Chinese scientists at UK universities. I hope that we can consider at Government level whether there is any response we can make to the point He Kang put to me. Although I am not in a position to judge on these matters, a small investment of resources on Chinese post-graduates in the UK could be a worthwhile investment in the future.

I am copying this letter to the Prime Minister, members of E(A) and Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to read 'Michael Jopling', written in dark ink.

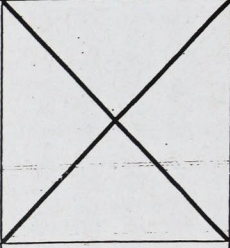
MICHAEL JOPLING

Kopert Vismaroud.

and this letter to the Prime Minister, members of E(A)3

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was Minister indicated that I should be pleased to me



DEPARTMENT/SERIES PREM 19 PIECE/ITEM 1682 (one piece/item number)	Date and sign
Extract details: letter from Gilbertson to Powell dated 12 December 1985	
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eg. HO 405, J 82.

Enter the piece and item references, .
eg. 28, 1079, 84/1, 107/3

Enter extract details if it is an extract rather than a whole piece.

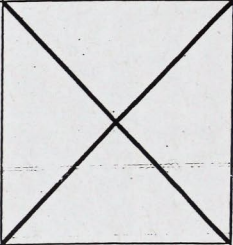
This should be an indication of what the extract is,

eg. Folio 28, Indictment 840079, E107, Letter dated 22/11/1995.

Do not enter details of why the extract is sensitive.

If closed under the FOI Act, enter the FOI exemption numbers applying to the closure, eg. 27(1), 40(2).

Sign and date next to the reason why the record is not available to the public ie. Closed under FOI exemption; Retained under section 3(4) of the Public Records Act 1958; Temporarily retained; Missing at transfer or Number not used.

DEPARTMENT/SERIES <i>PREM 19</i>	Date and sign
PIECE/ITEM <i>1682</i> (one piece/item number)	
Extract details: <i>Telegram No 3344 dated 5 December 1985</i>	
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TEMPORARILY RETAINED	
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DOCUMENT PUT IN PLACE (TNA USE ONLY)	

Instructions for completion of Dummy Card

Use black or blue pen to complete form.

Use the card for one piece or for each extract removed from a different place within a piece.

Enter the department and series,
eg. HO 405, J 82.

Enter the piece and item references, .
eg. 28, 1079, 84/1, 107/3

Enter extract details if it is an extract rather than a whole piece.
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Sign and date next to the reason why the record is not available to the public ie. Closed under FOI exemption; Retained under section 3(4) of the Public Records Act 1958; Temporarily retained; Missing at transfer or Number not used.

Secret

RE HELPFUL AND DREW ATTENTION TO YOUR MEETING WITH SHULTZ
NEXT WEEK, BUT THOUGHT EQUALLY THAT THEY WOULD HAVE
TO RESERVE ANY STATE DEPARTMENT INTERVENTION UNTIL THEY HAD
SEEN THE PROPOSED STUDY. THEY ASKED US TO KEEP THEM IN
TOUCH: THEY WERE CLEARLY VERY IRRITATED BY THE WAY DOD
HAD TRIED TO EXCLUDE THEM FROM THE DISCUSSIONS AND HAD
WITHHELD INFORMATION FROM THEM

WRIGHT

LIMITED

TREAS.

DEF. O.

FED.

NAV.

POST

MR BRATHWATE

SIR WARDING

MR HOBSON

MR MAULD

CORES TO

MR J. HALL OT2/S ST

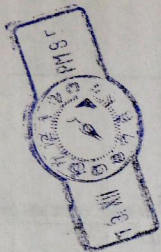
MR I DAWDNESS (M)

MR R CHRISTOPHER
CAS OFF.

-3-
Secret

CHINA PT3

SINO - BRITISH RELATIONS



CONFIDENTIAL

SPW



CP

10 DOWNING STREET

From the Private Secretary

1 December 1985

Dear John,

CHINA: POWER STATION PROJECTS

The Prime Minister has considered the Trade and Industry Secretary's minute of 29 November in which he reports Northern Engineering Industries' (NEI) new proposal for obtaining coal-fired power station business in China.

The Prime Minister is very sceptical of this proposal, especially as Balfour Beatty have never managed a coal-fired power station project before. Her advice is that the Trade and Industry Secretary should approach it with great caution.

I am sending copies of this letter to the Private Secretaries to the Foreign Secretary, the Chancellor of the Exchequer and the Employment Secretary and to Michael Stark in the Cabinet Office.

Yours sincerely

(C. D. POWELL)

John Mogg, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

SPW



Very sceptical especially as BB have managed coal-fired power station projects

CONFIDENTIAL

PRIME MINISTER

CHINA : POWER STATION PROJECTS

Prime Minister I am bound to say that this seems an odd arrangement. There is no reason to think NEI's performance has improved.

You may recall that during the summer, Norman Tebbit minuted you on the question of supporting Northern Engineering Industries (NEI) in the pursuit of coal-fired power station business in China. Because of the problems NEI have had on the Rihand contract in India, Norman Tebbit could not agree to support them as lead contractors for new major project business.

Agree to a sceptical reply seeing a fuller explanation of what is intended? CDD 29xi

2 NEI had made two proposals - the first using the CEGB as project managers on a sub-contract basis, the second Balfour Beatty in this role. In turning down the second proposal, Norman Tebbit said that he would be prepared to consider an alternative proposal provided the project management arrangements were satisfactory and NEI were not involved as lead contractor, as they were in the first two.

3 NEI have now come back with a third proposal intended to meet these conditions. This would involve Balfour Beatty signing a contract with the Chinese for design, project management and engineering, whilst NEI had a contract with the Chinese for the supply of equipment within the NEI Group. Balfour Beatty would also be contractually responsible for procuring equipment from outside NEI. Balfour Beatty would thus have primary responsibility for management and implementation of the project. They would be taking the major part of the project risk although they would seek back-to-back arrangements with NEI and sub-contractors to

JF4AOI



CONFIDENTIAL

cover liabilities which arose through the fault of others.

4 This represents a significant change from the position in August when Balfour Beatty were not prepared to take project risk. Although the contractual arrangements are somewhat unusual, in that the equipment supplier would normally expect to be a sub-contractor to a main project contractor, my judgement is that they would give Balfour Beatty sufficient responsibility and authority to ensure that they kept control of the negotiation and implementation of the project. Balfour Beatty have a reliable record of management of large projects in the power sector although not recently in coal-fired power stations.

5 I therefore propose to tell NEI and Balfour Beatty at a meeting arranged for 5 December that these new arrangements are ones which can command our support both in China and elsewhere, subject to detailed audit of the proposal once it is finalised. I shall also tell them that this does not commit us to providing the soft money they are seeking to finance the power station project, which they have been discussing with the Chinese. Nonetheless it will increase the pressure on us to allocate soft loans for this project, which the Chinese have indicated is their first priority.

6 The emergence of an acceptable NEI/Balfour Beatty proposal will also lead to lobbying by GEC who would otherwise have expected to lead a UK power station bid. GEC will be as unwilling as were NEI to seek sub-contract work from a rival manufacturer. Further work will be necessary to devise a satisfactory means of ensuring that any UK package finally put forward is both competitive and defensible against criticism from the power industry generally.

JF4A0I



CONFIDENTIAL

7 I am sending a copy of this minute to Geoffrey Howe,
Nigel Lawson, David Young and Sir Robert Armstrong.

L.B.

L B
29 November 1985

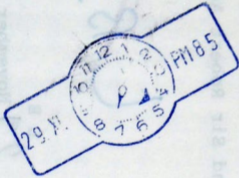
Department of Trade and Industry

JF4AOI

ATHINA

RELATIONS PT 3

CONSIDERATIVE





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

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

cell
4

JU563

Secretary of State for Trade and Industry

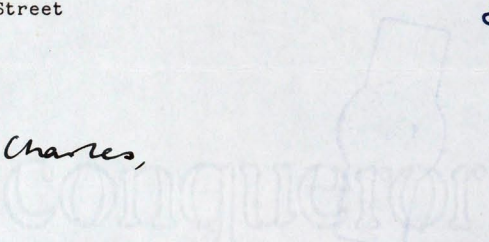
8 November 1985

SECRET

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

*COO
S/m*

Dear Charles,



TELECOMMUNICATIONS EQUIPMENT: EXPORTS TO CHINA

In your letter of 28 October you said that the Prime Minister wished to be informed about the outcome of my Secretary of State's discussions in Washington on this topic. You will, in the meantime, have seen Washington telegram No 2967 of 29 October, which recorded his meeting with Under Secretary Ikle.

At a meeting of officials last week under Cabinet Office chairmanship it was agreed that an interdepartmental team of officials should visit Washington as soon as possible to go over the ground in detail with the Americans. Such a visit is being arranged for later this month.

I shall keep you informed of developments.

I am sending copies of this letter to the Private Secretaries to the Foreign Secretary, the Chancellor of the Exchequer, Secretary of State for Employment, Secretary of State for Defence and Sir Robert Armstrong.

*Yours ever,
Michael*

MICHAEL GILBERTSON
Private Secretary

CHINA: Relations: Pt 3.

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0EX

TELEPHONE DIRECT LINE 0-211 2455

FACSIMILE 0-211 1941

8 November 1988



EQUIPMENT: EXPORTS TO CHINA

58 October, you said that the Prime Minister
in Washington this morning. You will, in
the success of my Secretary of

SECRET

bc. New P.C. 3

203806



10 DOWNING STREET

From the Private Secretary

28 October, 1985.

TELECOMMUNICATIONS EQUIPMENT: EXPORTS TO CHINA

Thank you for your letter of 24 October setting out your Secretary of State's views on GEC's wish to be able to export and manufacture optical fibre systems for China. I have also seen Peter Ricketts' letter of 25 October giving the Foreign Secretary's views.

The Prime Minister would, I am sure, be content with the terms of Mr. Brittan's proposed replies to Mr. James Prior and to Sir Eric Sharp. She would like to be informed of the outcome of Mr. Brittan's discussions in Washington and the subsequent progress with the case in COCOM.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Employment, the Secretary of State for Defence, and Sir Robert Armstrong.

C.D. Powell

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

SECRET

UB



File 10

10 DOWNING STREET

From the Private Secretary

27 September 1985

I am writing on behalf of the Prime Minister to thank you for your letter of 25 September with which you enclosed a copy of one you have sent to The Rt. Hon. Leon Brittan, M.P.

This is receiving attention and you will be sent a reply as soon as possible.

(C. D. POWELL)

The Rt. Hon. James Prior, M.P.

eu

Mr James Prior
GEC.

10/10

11/5/85
2) 22/10



MJ

10 DOWNING STREET

From the Private Secretary

26 September 1985

Dear John.

Jim Prior sent the Prime Minister a copy of his letter of 25 September to Mr. Brittan about GEC's difficulties in obtaining export licences to export and manufacture optic fibre communication systems for China.

The Prime Minister would like to be consulted about the terms of the reply.

I am copying this letter to Colin Budd (Foreign and Commonwealth Office).

John
directly

Charles Powell

John Mogg Esq
Department of Trade and Industry.

BM

S E C R E T



Foreign and Commonwealth Office

London SW1A 2AH

25 October 1985

CCF
2

THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT

Dear Charles,

COCOM: Possible Export of GEC/Cable and Wireless Telecommunications
Equipment to China

The Foreign Secretary has seen a copy of Michael Gilbertson's letter of 24 October about the possible sale of GEC/Cable and Wireless telecommunications equipment to China. Sir Geoffrey Howe shares Mr Brittan's keen interest in this important deal. It offers us a good opportunity to do some valuable and possibly continuing business in a market in which we have not so far been as successful as we hoped.

Sir Geoffrey Howe's main concern is that we should now find the best way of helping and advising the companies. There are, as Michael Gilbertson's letter makes clear, a number of stages which have to be gone through before we can give GEC and Cable and Wireless any assurance about the issue of an export licence. We have yet to see full details of the proposed sales.

We shall also have to consider carefully how best to present this deal to our partners in COCOM since, as Mr Brittan recognises, we cannot simply override or ignore their wishes. Some of them have a strong interest of their own in concluding such business with the Chinese and will be watching carefully to see that no other COCOM member gains an advantage. Nevertheless, the American attitude will be critical and our path will be easier if we can take them with us at every stage. Subject therefore to the outcome of Mr Brittan's conversations next week, Sir Geoffrey Howe believes that we should then take up an American offer, made during the negotiation of the recent COCOM agreement on exports to China, of a bilateral discussion between officials in order to try to find a way of presenting the case to COCOM which would not create a difficult precedent. For that reason we would welcome Mr Brittan's suggestion of a discussion under Cabinet Office chairmanship.

I am sending copies of this letter to the Private Secretaries

/to the

S E C R E T

S E C R E T



to the Secretary of State for Trade and Industry, the
Chancellor of the Exchequer, the Secretary of State for
Employment, the Secretary of State for Defence and
Sir Robert Armstrong.

Yr ever,
Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

THE GENERAL ELECTRIC COMPANY, p.l.c.
1 STANHOPE GATE · LONDON W1A 1EH
01-493 8484

FROM THE CHAIRMAN
THE RT. HON. JAMES PRIOR, MP

Print Printer. (2)

I will ask to
see Mr. Britton's
Reply before
Sept 25th - it goes.

CDP
25/9.

Dear Margaret,

mb

I thought you would be
interested to see this letter to Leon.

I am suspicious that the
Americans are seeking to deny us a
very good business. It really is ridiculous.

Yours
James

COPY

THE GENERAL ELECTRIC COMPANY, p.l.c.
1 STANHOPE GATE · LONDON W1A 1EH
01-463 8484

FROM THE CHAIRMAN
THE RT. HON. JAMES PRIOR, MP

Rt. Hon. Leon Brittan, MP,
Secretary of State for Trade and Industry,
Department of Trade and Industry,
1 Victoria Street,
LONDON SW1H 0ET.

25th September 1985

I am writing about the difficulties we apparently face in obtaining export licences to export and manufacture optic fibre communication systems for the People's Republic of China.

Your officials have been kept in close touch with the case but, briefly, we have been working on this joint venture in collaboration with Cable and Wireless for some two years now and we are on the point of achieving final agreement to set up a joint venture in the Shenzhen economic zone, with our Chinese partners, the Ministry of Railways and the Ministry of Water Resources and Electricity. As you will readily appreciate, with equity partners of this importance in the Chinese government, the joint venture is very likely to win a major share of the optic fibre system business in China. In particular, the Chinese railways have one of the most extensive networks in the world, most of which will require to have modern communications of this character installed over the next decade, so the market potential is very large.

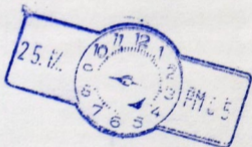
Unfortunately, it appears that despite the relaxation of the rules governing the export of sensitive equipment to China, optic fibre systems with devices of the kind required by the Chinese Railways may still not be granted an export licence. If indeed

.../...

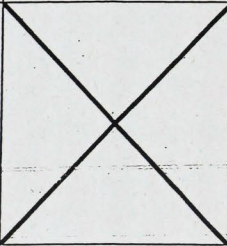
that is allowed to happen, then of course we would lose the position we have so painstakingly built up over the last two years and the Chinese will find some other method of satisfying their very reasonable requirements. At this point I must emphasize that the degree of sophistication in the system demanded by the Chinese seems entirely reasonable to our experts and indeed is exactly the same as has been adopted by British Rail as being the most cost effective system for their own traffic requirements. Moreover, both the Chinese Ministries with which we are dealing operate their own communications networks on which no other traffic is carried.

In these circumstances I find it very difficult to understand, especially in the light of our present good political relations with the Chinese, why a licence should be denied. Perhaps you could take a look at this case yourself and we might then meet to discuss the matter in rather more detail.

I am copying this letter to Geoffrey Howe in view of the importance of this project to our political relations and trade with China and also to Sir Eric Sharp in view of both his Cable and Wireless interest and his position as Chairman of the Sino British Trade Council.



A The National Archives

DEPARTMENT/SERIES <i>PREM 19</i> PIECE/ITEM <i>1682</i> (one piece/item number)	Date and sign
Extract details: <i>Letter and attachments from Gilbertson to Powell dated 24 October 1985</i>	
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RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	<i>17/7/18</i> <i>M.W.</i>
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Instructions for completion of Dummy Card

Use black or blue pen to complete form.

Use the card for one piece or for each extract removed from a different place within a piece.

Enter the department and series,
eg. HO 405, J 82.

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File.



10 DOWNING STREET

THE PRIME MINISTER

PRIME MINISTER'S
PERSONAL MESSAGE

16 September 1985

My dear Premier,

SERIAL No. T 165/85 CC MASTER
075

I look back with the greatest pleasure on your most successful visit here in June. At that time we discussed the possibility of meeting again in New York at the celebrations of the Fortieth Anniversary of the United Nations General Assembly in October.

It is now clear that the British Parliament will be resuming its work at that time after its summer recess. As a result it is I am afraid most unlikely that I shall be able to travel to New York for this occasion - although should this position change, I shall let you know immediately.

I am very sorry that this year's General Assembly is now unlikely to provide an opportunity to see you again.

With my best wishes,

*Yours sincerely
Margaret Thatcher*

His Excellency Mr. Zhao Ziyang

JH



10 DOWNING STREET

THE PRIME MINISTER

16 September 1985

Dear General Secretary,

Since I wrote to you on 18 March there has been a very satisfactory programme of visits between our two countries. The highlight was of course Premier Zhao Ziyang's visit in June, during which we looked forward to your visit here.

In view of the busy programme which we both no doubt face for 1986, it might be helpful if we now tried to find mutually convenient dates. Might I suggest a visit of some five days in the week starting 9 June.

There is a great deal which we will wish to show you and there are many friends of China here who will be anxious to meet you. I particularly look forward to the opportunity to discussions in greater depth than were possible during my short visit to Peking last December.

With best wishes,

Yours sincerely
Margaret Thatcher

His Excellency Mr. Yu Yaobang

DA

cyl
2

Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister
 the Foreign Secretary
 may still remain that
 you go to New York if
 Mitterand & Kohl go as
 well as Reagan. I will ask for some work to be done on
 a speech.

13 September 1985

But 23/24 October are dates
 I have in mind for the
 Anglo-Irish summit.

Dear Charles,

United Nations Fortieth Anniversary

C DP 13/9

You wrote to Len Appleyard on 5 July recording the Prime Minister's decision not to attend the UN Fortieth Anniversary celebrations on 23-24 October. You recorded also the Foreign Secretary's view that the option should be kept open of changing this decision in the event of some dramatic change in the plans for celebrating the Fortieth Anniversary.

Since you wrote, the nature of the occasion and the level of participation has become a little clearer. The event itself will take the form previously envisaged, namely, addresses to the General Assembly by a number of Heads of State or Government during the period 20-24 October, culminating in a special commemorative session of the Assembly on the afternoon of 24 October. There will also be a dinner given by the Secretary-General on the evening of 24 October and a lunch given by him the previous day. As regards attendance, it has now been announced that President Reagan will be going to New York on 23-24 October. In addition, amongst our European partners and other allies, the Prime Ministers of the Netherlands, Belgium, Luxembourg, Denmark, Greece, Canada, Norway and Turkey all seem definite participants, as are the Prime Ministers of Japan and China. A large number of Third World Heads of State/Government are already firmly declared. In all, around 60 Heads of State or Government, out of a total UN membership of 159 are expected in New York during the period 20-24 October. Surprisingly, there has been virtually no indication so far of high level attendance from the Eastern Bloc.

Herr Genscher told the Foreign Secretary on 10 September that Chancellor Kohl was not planning to attend. Neither the French nor the Italians have so far definitively committed themselves on the level of their attendance, although until the announcement of President Reagan's participation we were receiving indications from both, as well as from the Germans that they would most likely not be represented at Head of State/Government level. Until the final intentions of these three governments are clearer, the Foreign Secretary would not

/wish



wish to make any recommendation as to whether the Prime Minister should reconsider her earlier decision. But if, in addition to President Reagan, President Mitterrand decides to go to the celebrations, and Chancellor Kohl changes his mind, he may wish to advise that the Prime Minister should after all do so as well, on the grounds that we ought not to appear to give the UN less priority than other major Western powers. This would be particularly the case if President Mitterrand were to attend: it would be incongruous for Britain to be bracketed with the Soviet Union as the only two permanent members of the Security Council not to be represented at Head of State/Government level in the Fortieth Anniversary celebrations. As regards the level of Soviet attendance, Genscher also told Sir Geoffrey Howe on 10 September that the Germans had heard that Gromyko would attend; but we have no information ourselves that supports this.

Sir Geoffrey Howe intends to discuss this question with his French and German colleagues in the margins of his meetings in New York on 22-27 September, in an attempt to reach a common position. If the Prime Minister agrees, he will take the line that the long absence at CHOGM and Parliamentary pressures make a visit by the Prime Minister to New York on 23-24 October particularly awkward, and that in these circumstances we are working on the assumption that he, the Foreign Secretary, would go. He will try to establish the intentions of President Mitterrand and Mr Kohl, with the aim as far as possible of influencing them towards attendance at Foreign Minister level.

In your letter of 10 September you asked us to consider whether it would be appropriate for the Prime Minister to send a short message to the Chinese Premier in view of the enquiry from the Chinese in New York about a meeting between Mr Zhao and the Prime Minister. We do indeed believe that such a message would be appreciated: I enclose a draft. We would propose to send the top copy to Peking for delivery in Peking, and ask Sir John Thomson in New York to draw on it in replying to his Chinese colleague. There have also been tentative enquiries in New York from the Pakistanis, Turkish and Israeli Missions. We would propose to explain that Parliamentary pressures make it unlikely that the Prime Minister will be in New York for this occasion.

Ye ew,
 (P F Ricketts)
Private Secretary

Pete Ricketts

C D Powell Esq
 10 Downing Street

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:
Prime Minister

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

TO:
His Excellency Mr Zhao Ziyang
Premier of the State Council
People's Republic of China

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

66

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

I look back with the greatest pleasure on your most successful visit here in June. At that time we discussed the possibility of meeting again in New York at the celebrations of the Fortieth Anniversary of the United Nations General Assembly in October.

It is now clear that the British Parliament will be resuming its work at that time after its summer recess. As a result it is I am afraid most unlikely that I shall be able to travel to New York for this occasion. ^{although} Should this position change, I ^{will} let you know immediately. ~~It would give me great pleasure to see you again.~~ I am very sorry that this year's General Assembly is now unlikely to provide an opportunity on which ^{to see you again} to do so.

With my best wishes.

Enclosures—flag(s).....

UNITED NATIONS: 40th Anniversary: April 85.



cc/pe



Foreign and Commonwealth Office

London SW1A 2AH

13 September 1985

Dear Charles,

China: Visit by General Secretary Hu Yaobang

Mark Addison agreed in his letter to Stuart Eldon of 12 August that the week beginning 9 June 1986 would be convenient for a visit by General Secretary Hu Yaobang.

As Peter Ricketts had explained in his letter of 9 August to Tim Flesher, originally we had thought that a letter of invitation might be taken by Mr Luce. Unfortunately, Mr Renton's hospital treatment means he has been unable to take up Mr Luce's visit to China this month. In the circumstances, we think it would be useful if a letter could now be taken by Mr Ridley, who will be visiting China from 25 September to 1 October. I attach a draft letter for your consideration.

Yours ever,

Len Appleyard
(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street

CHINA : Relations : A3



RESTRICTED



FILE

ey

10 DOWNING STREET

From the Private Secretary

10 September, 1985

MEETING WITH THE CHINESE PRIME MINISTER

The Prime Minister has noted from UKMIS telegram No. 654 that Zhao Ziyang is hoping to meet her in New York at the 40th Anniversary celebrations of the United Nations. They did in fact make a tentative agreement to meet then during the Prime Minister's farewell call on Zhao Ziyang at the end of his visit in July. As you know, the Prime Minister is now most unlikely to go to New York for the 40th Anniversary. She has commented that we shall need to deal tactfully with the Chinese over this. You will wish to consider whether it would be appropriate for her to send Zhao Ziyang a brief message.

(C.D. Powell)

P. Ricketts, Esq.,
Foreign and Commonwealth Office.

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GRS 265

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CONFIDENTIAL
FM UKWIS NEW YORK
TO PRIORITY FCO
TELNO 654
OF 051705Z SEPTEMBER 85
AND TO ROUTINE PEKING

We shall have to deal with Mrs Thatcher when he was here - I could expect to be in N. York and

INVITATION TO P.M. BY CHINESE P.M.

1. WHEN MY NEW CHINESE COLLEAGUE, AMBASSADOR LI LUYE, PAID A COURTESY CALL ON ME TODAY HE SAID THAT HE HAD BEEN COMMISSIONED BY HIS PRIME MINISTER TO EXPRESS THE HOPE THAT HE MIGHT MEET MRS THATCHER IF SHE WAS TO BE IN NEW YORK AT THE TIME OF THE 40TH ANNIVERSARY CELEBRATIONS. THE AMBASSADOR SAID THAT HIS PRIME MINISTER WOULD BE ARRIVING VERY LATE ON 21 OCTOBER AND WOULD BE USING THE FOLLOWING DAY TO REST AND BRIEF. HE WAS INTENDING TO SEE OTHER PRIME MINISTERS AND HEADS OF STATE ON THE 23RD AND WOULD BE LEAVING NEW YORK ON 26 OCTOBER.

2. I UNDERTOOK TO REPORT THIS APPROACH. I WAS SURE THAT THE PRIME MINISTER WOULD IN PRINCIPLE WELCOME A MEETING WITH HER CHINESE COLLEAGUE. HOWEVER, THERE WERE STRONG PARLIAMENTARY CONSIDERATIONS WHICH TUGGED AGAINST INTERNATIONAL CONSIDERATIONS CONNECTED WITH THE 40TH ANNIVERSARY AND MEETINGS IN NEW YORK.

I KNEW THAT MRS THATCHER HAD ALL THESE CONSIDERATIONS IN MIND AND THAT SHE HAD NOT YET COME TO A FINAL DECISION. IT MIGHT BE THAT SUCH A DECISION COULD ONLY BE TAKEN QUITE CLOSE TO THE TIME.

3. AMBASSADOR LI LUYE SAID THAT HE WOULD REPORT MY COMMENTS TO HIS PRIME MINISTER AND REPEATED THE LATTER'S HOPE FOR A MEETING. HE DID NOT PROPOSE A SPECIFIC TIME, BUT EVIDENTLY HAD 23 OCTOBER IN MIND.

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No. 10 DOWNING STREET

THOMSON

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PLANNING STAFF
NEWS D
INFO D
PS
PS/MR RIFKIND
PS/FUS
MR DEREK THOMAS
SIR W HARDING
MR WILSON

THIS TELEGRAM
WAS NOT
ADVANCED

CONFIDENTIAL

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PROTOCOL 2

END

PLANNED

REVIEW

THROUGH

BY

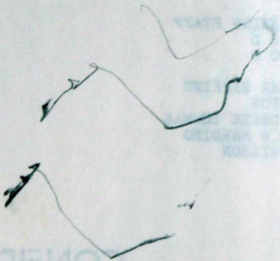
FOR MR. WILSON

ON THIS

MR. WILSON

MR. WILSON

MR. WILSON



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CCPC 18?



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

PS/
Secretary of State for Trade and Industry

2 September 1985

Tim Flesher Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

NBPM
CDP
3/9.

Dear Tim,

NEI PROJECT LEADERSHIP IN CHINA

Following the Prime Minister's endorsement of the line to be taken with NEI, my Secretary of State saw Sir Duncan McDonald on 8 August.

2 My Secretary of State underlined that the current proposals from NEI were not acceptable as a basis for Government support. Whilst they may release CEGB from direct liabilities, in view of the continuing problems on Rihand he could not advocate in future that NEI should be given support as a lead contractor for another project of the same kind. My Secretary of State was able to draw upon the critical remarks made the previous day by the new Indian High Commissioner when he called as illustrating the continuing and wider adverse impact of NEI's performance on this project. My Secretary of State confirmed, however, that this reservation did not apply to NEI's ability to build and deliver power generating equipment as such.

3 Sir Duncan expressed his considerable disappointment, and said that he would re-examine whether an alternative approach could be proposed. He did not, however, feel that NEI could avoid responding to the Chinese enquiry. My Secretary of State stressed again that NEI could not make any assumptions about the availability of soft-loans for China for their particular proposal, particularly given the problems of selecting the best cases for limited aid support. In view of NEI's intention to continue their discussions with the Chinese, we have notified our Ambassador in Beijing of the situation and asked him to take judicious steps to avoid any future misunderstanding (Otter 225 of 9 August).

JH3CCN



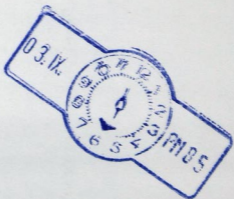
4 NEI are bound to come back after the holiday and are likely to press all quarters in their lobbying. I am therefore copying this note to Colin Budd (Foreign and Commonwealth Office), Richard Broadbent (Chief Secretary's Office), Geoff Dart (Energy), Leigh Lewis (Lord Young's Office) and to Richard Hatfield (Sir Robert Armstrong's Office).

Your ever,

A. D. Lansley

ANDREW D LANSLEY
Private Secretary

JH3CCN





FILE

27

cc:PC

10 DOWNING STREET

From the Private Secretary

12 August, 1985

CHINA: VISIT BY HU YAOBANG

Peter Ricketts wrote to Tim Flesher on 9 August about the proposed visit to the United Kingdom by Hu Yaobang, the Chinese Communist Party General Secretary.

The Prime Minister has agreed in principle to a visit along the lines proposed. So far as dates are concerned, the week beginning 9 June would I think be most convenient from the Prime Minister's point of view. You will, of course, need to get in touch with us to agree the detailed timings in due course.

(Mark Addison)

S. Eldon, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

dg

CONFIDENTIAL

CPK



Foreign and Commonwealth Office

Prime Minister:

London SW1A 2AH

Do you agree in principle to a visit along the lines proposed? 9 August 1985

Yes no

Dear Tim,

JR 9/8.

China: Visit by Hu Yaobang

During Premier Zhao Ziyang's recent visit, the Prime Minister reiterated her invitation to Chinese Communist Party General Secretary Hu Yaobang to visit Britain. Although Hu has acceded in principle, we have so far had no formal response on timing. The Chinese Embassy have, however, suggested to us that if we wish to give effect to this invitation, we should propose specific dates.

We know that Hu intends to visit France in the same trip. The French are thinking in terms of a visit in the early summer, in order to avoid a clash with their national assembly elections, which are due before April 1986. From our point of view, we need a sufficient interval between Hu's visit and the State Visit to China next October to maximise the impact of both and to ensure an even spacing between such major bilateral events. These factors point to dates in May or June.

wb9/6

As regards duration, our feeling is that we should offer around five days. We do not yet know how long Hu will spend in France; recent visits to Australia and New Zealand lasted five and three days respectively. Premier Zhao was here for six days; Hu would probably be offended by an offer of significantly less. We will also need to ensure that the content and level of the visit is not noticeably inferior. However, we would anticipate less demand on the Prime Minister's own time: although in terms of political power in China, Hu is on a par with Premier Zhao, he represents the party rather than the state and is therefore not the Prime Minister's direct counterpart.

I should be grateful to know whether the Prime Minister would be content for us to propose a visit by Hu in May or June; if so, it would be helpful to have an indication of dates that would be convenient for the Prime Minister. The best opportunity to pass on the invitation might be during the visit to China next month by Mr Luce. He might deliver a letter to Hu from the Prime Minister.

Yours ever,
Peter Ricketts

(P F Ricketts)

Tim Flesher Esq
10 Downing Street

CONFIDENTIAL



POST OFFICE GENERAL DELHI



10 DOWNING STREET

THE PRIME MINISTER

am 7/p.e.

CF Have you
the other pos to
this?

J 15/8

Message, as amended,
passed to DII.

MEAT 13/8

Following the signature of the UK-China Joint Declaration on the Question of Hong Kong, the Premier of the People's Republic of China visited Britain in June. Her Majesty The Queen will make a state visit to China next year. I am delighted at these exchanges which indicate the excellent relations which exist between our two countries.

China is engaged in an impressive programme of modernisation and I am pleased that British companies are already making a significant contribution to it. British industry is well suited to supply technology and expertise to meet China's needs in her priority areas such as energy, industrial modernisation and transport and telecommunications. I look forward to a rapid and mutually beneficial increase in co-operation between our two countries.



10 DOWNING STREET

THE PRIME MINISTER

Following the signature of the UK-China Joint Declaration on the Question of Hong Kong, the Premier of the People's Republic of China visited Britain in June. Her Majesty The Queen will make a state visit to China next year. I am delighted at these exchanges which indicate the excellent relations which exist between our two countries.

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ppp please include
drafts supplied by psc

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

DW395

PS/ Secretary of State for Trade and Industry

9 August 1985

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

Prime Minister:

If you agree,
a draft message
is attached.

Dear Charles,

W
9/8

The Sino-British Trade Council have asked for a message from the Prime Minister to appear in the September issue of the Chinese publication "International Trade News".

2 My Secretary of State and the President of the SBTC, Sir Eric Sharp, will be providing messages, which will form a foreword to a supplement on British technology and products and British companies keen to do business with China. A similar feature appeared last year and Ministerial messages were included from the Secretary of State for Energy and from the Minister for Trade. In view of the attention which political and trade relations with China have received in the past year, my Secretary of State thinks that a message from the Prime Minister would be appropriate.

3 I attach a draft message from the Prime Minister for consideration.

Yours sincerely,
Maureen Dodsworth.

MAUREEN DODSWORTH
Private Secretary



EL3AMG

Chant

10 DOWNING STREET

From the Private Secretary

7 August 1985

The Prime Minister has now seen your Secretary of State's minute of 5 August about power station projects in China. As I have already told you, the Prime Minister was content that your Secretary of State should take the line proposed in his minute when he sees Mr. Duncan McDonald of NEI.

I am sending a copy of this letter to Peter Ricketts (Foreign and Commonwealth Office), Rachel Lomax (H.M. Treasury), Geoff Dart (Department of Energy), David Normington (Department of Employment), Leigh Lewis (Minister without Portfolio's Office) and Richard Hatfield (Cabinet Office).

(Tim Flesher)

Andrew Lansley, Esq.,
Department of Trade and Industry.



u/ly

Prime Minister:

CONFIDENTIAL

Do you endorse the line that ~~there~~

COMMERCIAL IN CONFIDENCE Mr Tebbit proposes

to take in his meetings with Duncan McDonald of NEI?

Yes - We have little choice
no

PRIME MINISTER

JH

CHINA : POWER STATION PROJECTS

f/s

Following my minute to you of 17 July I saw Duncan McDonald of NEI and informed him that we could not support NEI's proposals to pursue power station business in China as lead contractors using CEGB as project managers.

2. NEI have now put forward new proposals. These would give Balfour Beatty the project manager role previously reserved for the CEGB, who would now act as technical advisers to Balfour Beatty. This meets our concern as far as the CEGB are concerned.

3. However, NEI would still retain their position as lead contractor, and thus final responsibility for negotiating and implementing the contract. These are precisely the functions which NEI have failed to perform satisfactorily on the Rihand contract in India. I could not therefore advocate supporting their latest proposals.

JF1AAX



CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

4. I propose to see NEI again and make clear that I am not prepared to support their proposals to lead power station projects until they have sorted out Rihand. I would add that, whilst we are prepared to support sales of NEI equipment, this must be through a reputable contractor with a suitable track record.

5. Balfour Beatty have told us that they would not be willing to take a lead role for a coal-fired power station, and it is doubtful if other contracting companies would do so either. Consequently, the practical result of this message to NEI is likely to be to confirm our support to a GEC-led package for any power station projects in China.

6. GEC's policy is not to take the demanding risks of the lead-contracting role unless they are sure of getting the turbine generator orders. This will cut out NEI Parsons from turbine generator work in China under a UK led package.

7. This issue has brought to a head the fundamental problem that our domestic orders, together with the power projects abroad that we can realistically expect to win, are not enough to keep both NEI and GEC supplied with the turbine generator work they need to maintain current capacity.

JFLAAX



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COMMERCIAL IN CONFIDENCE

8. Whilst we can point to other, non-turbine, business available to NEI under a GEC led package, and our readiness to support them as turbine sub-contractors elsewhere, we can still be sure of a strong reaction from NEI to our refusal to support them as lead contractors. They are bound to lobby hard to have the decision reversed, citing for instance possible employment effects in the North East and damage to their commercial interests.

9. Nonetheless, in the light of our experience on Rihand, I believe we have no choice but to stand firm. Quite apart from the damage a mishandled power project could do our relations with China, our aid resources will inevitably be limited, and will be wasted if we do not back horses of whose track record we are confident. NEI's management needs to devote itself to putting Rihand right before taking on further complex and high risk projects.

10. I should give this news to Duncan McDonald before I leave the office at the end of the week so that the company does not give false expectations to the Chinese authorities. Before doing so, in view of the political implications, I would welcome your endorsement of the line that I propose.

JFLAAX



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COMMERCIAL IN CONFIDENCE

11. I am sending a copy of this minute to Geoffrey Howe, Nigel Lawson, Peter Walker, Tom King, David Young, and to Sir Robert Armstrong.

NT

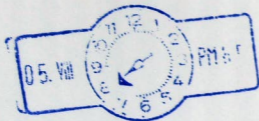
NT

5 August 1985

Department of Trade & Industry

JF1AAX

CHINA: Relations: Pt 3.



CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

ing a copy of this minute to Geoffrey Howe,
Peter Walker, Tom King, David Young, and to Sir

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CCB/KP



DW327

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

26 July 1985

A Turnbull Esq
Private Secretary to the Prime Minister
10 Downing Street
London
SW1

Dear Andrew,

SIR WALTER MARSHALL'S VISIT TO CHINA

As requested in your letter of 19 July, I attach briefing for the Prime Minister's meeting with Sir Walter Marshall on 29 July. You may also care to draw to the Prime Minister's attention again my Secretary of State's note to her on 17 July on power projects in China (a copy is attached).

2. I am copying this letter and attachments to Geoff Dart (Department of Energy) and Richard Broadbent (Treasury).

Yours sincerely
Maureen Dodsworth

MAUREEN DODSWORTH
Private Secretary

CONFIDENTIAL

CDP

CCPC



FROM: CHIEF SECRETARY

DATE: 26 July 1985

PRIME MINISTER

NBM
CDP
27/7.

CHINA POWER STATION PROJECTS

I have seen Norman Tebbit's and David Young's recent minutes to you on this subject.

2 I agree with Norman that after their performance in India on the construction of the Rihand Power Station, support for NEI for power station projects in China should be withheld for the time being. I also agree that involving CEGB as project managers would be likely to create more problems than it would solve.

3 I understand that the Americans are seeking confirmation of previous international agreement to a "no-aid" agreement for the Huanenpower station projects (for which GEC are tendering) and I was glad to learn that we are supporting them in this. Bearing in mind the size of these kind of projects (nearly £1 billion is involved for Huanen), I am sure Norman Tebbit will need to be extremely cautious in his discussions with GEC, about the possibility of ATP support.

4 I am copying this minute to Norman Tebbit, Geoffrey Howe, Peter Walker and David young and to Sir Robert Armstrong.

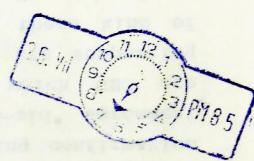
for PETER REES

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COMMERCIAL IN CONFIDENCE

[Approved by the Chief Secretary]

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China: Relations. Pt 3.

CONFIDENTIAL



J RAM
CHINA: Recs

10 DOWNING STREET 19 July, 1985

From the Private Secretary

Dear Marston,

SIR WALTER MARSHALL'S VISIT TO CHINA

Sir Walter Marshall will be seeing the Prime Minister on Monday, 29 July. He is going to China in early September with the Lord Mayor of London and will be seeing a number of senior Chinese officials and Ministers responsible for energy. Sir Walter believes that Britain is capable of selling both nuclear and coal firing power stations to China. I should be grateful for a note by close of play on Friday, 26 July on the prospects for power stations sales to China, on the CEEGB's role in this, and on any other points the Prime Minister might make to Sir Walter.

I am copying this letter to Geoff Dart (Department of Energy).

Yours sincerely
Andrew Turnbull

(Andrew Turnbull)

Miss M. Dodsworth,
Department of Trade & Industry

JC

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cell (2)
Prime Minister

PRIME MINISTER

CDP
18/7

CHINA: POWER STATION PROJECTS

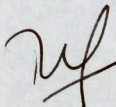
Norman Tebbit kindly copied to me his minute to you of 17th July.

2. As he says, Peter Walker and I have discussed the present position with him and I agree entirely with his conclusion that we cannot support the current NEI/CEGB proposals. Equally, however, we are all agreed that in communicating with the Chinese we need to take great care not to convey an impression that we are going back on the willingness which was expressed during Premier Zhao's visit to consider soft loans as part of mixed credit packages for certain major projects.

3. Incidentally, you and colleagues might like in that connection to see the attached internal memorandum from Cable & Wireless detailing the apparent willingness of the French Government to consider soft loans for French equipment going to China even when provided via a non-French company. I would be grateful, however, if the memorandum was not given any wider circulation.

4. My only other concern is whether we should tie our future consideration of NEI's potential to undertake projects in China so directly to the Rihand project. While I am not acquainted with the problems there in any detail, it may be that some of these problems will never be able to be said to have been entirely overcome. On that basis, I would prefer us to judge any future bids for support from NEI against the test of whether we believe that they have made satisfactory project management arrangements for the particular project concerned. As Norman says, that is likely to depend very largely on whether they can convince us of their ability to provide for better project management than was the case at Rihand.

5. I am copying this minute to Geoffrey Howe, Nigel Lawson, Peter Walker, Norman Tebbit and to Sir Robert Armstrong.


DY

18th July, 1985

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Note for File

c.c. Chairman
Mr. B.A. Pemberton
Miss P.R. Bosdet

Soft Loans for China


During a discussion with Banque Paribas some few weeks ago I asked them if there would be any possibility of arranging soft loans for equipment provided to China through C&W if that equipment were sourced from France. I now have a reply.

1½ billion French francs are currently available for 40% of the total cost at a flat fixed 2% interest rate for a loan period of up to 30 years. Repayment of the principal can be postponed for up to 10 years.

The balance of 60% of the equipment cost is available through French bank credit arrangements at 9.8% fixed interest rate for 10-15 year loans.

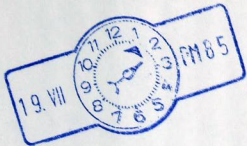
The 2% money is only available until the tranche set aside is exhausted. Each application would be considered separately as being a project eligible for these credit terms.

I will discuss the whole matter further with Mr. Pemberton before and during our visit to Hong Kong in September.


EFP/SR
10th July, 1985.

DIR/FIN/258

Relations: China
PE3



2

Prime Minister

NEI have shown themselves less than competent. The Trade & Industry Secretary has decided that we cannot support them as lead

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contractors for major power station projects in future.
MFB CDP 17/7



PRIME MINISTER

CHINA: POWER STATION PROJECTS

Following our recent decision at EX that projects in China should be eligible for ATP support, we have received indications from the Chinese that they wish to put forward a number of coal-fired power station projects as priorities for aid funding. Although we will not have to take immediate decisions on which projects we might support, I have been considering the industrial and commercial implications of supporting a UK power station bid in China.

2 My principal concern has been to avoid the problems which have occurred at the Rihand power station in India, where UK project management weaknesses have been largely responsible for delays to the station and losses for the companies concerned. The lead contractor for Rihand, with project management responsibility, is Northern Engineering Industries (NEI). A recent visit by Indian officials to discuss progress on the project has underlined the wider damage which failures in managing these high-profile projects can do to the UK's industrial reputation, even though the equipment supplied is of good quality, as the Indians themselves concede. This is particularly serious when the calls which such large projects make on the aid budget mean that we can only give aid support to a very limited number.

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3 Both NEI and GEC are anxious to secure work in China, where bids are expected to be made on a turnkey basis, with project management the responsibility of the lead contractor as at Rihand. In recognition of our doubts about their project management, NEI have proposed that they should use the CEGB as project managers on a subcontract basis. NEI would retain full financial responsibility. GEC have meanwhile built up a competent project management team through their work on the successful Castle Peak contracts in Hong Kong. They have also recently taken an order for a smaller station in India which is proceeding satisfactorily.

4 Peter Walker and I have discussed the NEI/CEGB proposals, together with David Young. We have decided that we cannot support them: as lead contractor, NEI would still have final responsibility for the negotiation and implementation of any contract; the risk remains, even with CEGB support, that in their anxiety for work NEI would accept unrealistic contract conditions and be reluctant to take expensive remedial action later as has happened on Rihand. Moreover, the Chinese regard the CEGB as essentially an arm of HMG, so that if problems developed on the contract it would be difficult for us to avoid footing the bill, whatever the CEGB's precise contractual role. Because of these risks neither Peter Walker nor I regard it as appropriate for the CEGB to take on project management as sub-contractor in overseas projects. It would be even less appropriate for the CEGB to take the lead role, since the substantial financial risks might then fall on the UK electricity consumer. We would also be seen by the Chinese as even more heavily committed.

5 For large coal-fired power station project bids in China I have therefore decided that our support

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should be withheld from NEI and that we should support GEC as lead contractors. If other companies express an interest in turnkey power project management, eg, Balfour Beatty, we can consider the case on its merits. I shall be informing both Duncan McDonald and Lord Weinstock of this decision very shortly, which will stand until I am satisfied that NEI have completely overcome their problems on Rihand. Although NEI is by no means wholly reliant on turnkey project work, a GEC-led bid could have severe implications for NEI's manufacturing activities. I shall therefore make clear to Lord Weinstock that if we are to consider supporting power stations business (as opposed to other projects) which aid in China, arrangements will have to be made to ensure that NEI have a fair chance to supply equipment to the GEC bid.

6 A similar arrangement is likely to be necessary for future major power projects in India and perhaps elsewhere, as the Indians have made it abundantly clear that they are not prepared to see NEI lead a UK bid in future.

7 I am sending a copy of this minute to Geoffrey Howe, Nigel Lawson, Peter Walker and David Young, and to Sir Robert Armstrong.

N7

NT

17 July 1985

DEPARTMENT OF TRADE AND INDUSTRY

JF2AAR





CONFIDENTIAL

File



BRIEF FOR THE PRIME MINISTER'S MEETING WITH SIR WALTER MARSHALL

Objective

- 1 To indicate the limits within which the CEGB can assist with power station exports to China.
- 2 To explore the most useful role for the CEGB, and how best to use Sir Walter's visit to China.
- 3 To explain position on aid for China.

Points To Make

1 Coal-fired Power Stations

There are a range of prospects for coal-fired power stations in China. But competition is tough, and pursuing projects in China is very expensive, time consuming, and carrying them out fraught with unusual difficulties and risks.

2 Realistically, therefore, leadership must lie with a commercial enterprise that has the resources to carry the heavy front-end costs, the capacity to take the risks, and the negotiating and management competence to secure a good contract and carry it out.

3 We therefore welcome the CEGB's interest in supporting UK companies. But the CEGB cannot play a role which would expose it or HMG to financial risk if problems occurred on a project. This means the CEGB cannot lead a UK consortium, nor can it act as project manager, even on a sub-contract basis. Whatever the contractual position, the Chinese regard the CEGB as an arm of HMG, and would look to Government to foot the bill if the CEGB played an up-front role. Furthermore, following the Ewbank Report, Ministers have just completed a review of nationalised

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industries practices in project management and have concluded that as far as practicable this function should be passed to the private sector where expertise gained can be directly applied to export business.

4 There is scope for the CEEB to deploy its reputation for reliable and efficient operation constructively

- (a) as a consultant/adviser to the Chinese (or HMG, if necessary, to secure a negotiated contract);
- (b) as a provider of personnel and expertise to our companies on a commercial basis;
- (c) as a source for technical services, eg training, quality assurance etc.

5 Nuclear Power

Not realistic to consider sales of UK-built PWR nuclear stations until we have a track record - Germans, French, US and Japan already have this. But there could be some sub-contract/services work in co-operation with others.

6 Aid

Chinese now aware that we have agreed that China eligible for ATP; funds will be limited - no increase at present in ATP budget; no decision yet on what projects might be supported. Officials to discuss mechanisms and priorities with Chinese in the autumn. Sir Walter should merely note any Chinese suggestions at this stage.

7 Guangdong Nuclear

Negotiations continuing; see no advantage in Sir Walter raising the project.



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Background Note

1 Coal-fired Power Stations: The best prospects for UK power station sales are for coal-fired stations, where China has ambitious plans to increase capacity.

2 British companies, principally NEI and GEC, are already pursuing a number of such projects. However there is fierce international competition. The Chinese are looking for favourable finance and low prices.

3 Sir Walter Marshall has made a number of proposals for CEGB involvement in the UK's export activity in this field; these include a proposal that the CEGB should lead a "UK Limited" consortium; and that the CEGB should provide project management services to NEI, whose project management of the Rihand contract has proved inadequate.

4 DTI and Department of Energy Ministers discussed the CEGB's proposals recently and concluded that the CEGB could not be allowed to lead a UK consortium or provide project management services as a sub-contractor. This is because the Chinese see the CEGB as an arm of HMG, and if problems were to occur in implementing a contract in which the CEGB had an up-front role, the Chinese would press CEGB/HMG to foot the bill, whatever the CEGB's contractual position. This could have implications for UK electricity consumers. Moreover, although the CEGB has considerable experience of building power stations in the UK, it has no record of contract negotiation as a supplier or project management overseas.

5 The CEGB can play a role in supporting competent private sector lead contractors through the provision of personnel and technical services (training, quality assurance), though these will have to be competitively priced to be attractive.

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6 Sir Walter has been informed of Ministers' decision by Department of Energy officials, as well as via NEI. Although the CEGB are no doubt disappointed by Ministers' refusal to give them a lead role, Sir Walter appears to have accepted it. He now appears to see the CEGB's most appropriate role as providing training and operations back-up to GEC as main contractor. In itself this would be acceptable, but in contact with the Chinese it will be important for Sir Walter to resist Chinese pressure to elevate the CEGB's role, and also to avoid implying that aid will necessarily be available for power station projects: the NEI/CEGB partnership had been hoping to secure a negotiated contract with the Chinese for a 2 x 350 MW station, provided HMG was prepared to allocate aid to this project. However, even apart from the unacceptability of the NEI/CEGB proposals, no decisions have been made on which projects might be aid-supported in China: to finance power stations on this basis will be expensive.

7 Nuclear Power: The Chinese have plans for a number of PWR plants beyond Guangdong. At present the French and Germans are making the running in pursuing these. The Americans and Japanese can also be expected to bid now that they have concluded a nuclear cooperation agreement with the Chinese. Against this background the UK, which has not yet built a PWR station, does not have a realistic chance of securing nuclear power station export orders in the near or medium term. At best the UK might secure some hardware business as sub-contractor to a foreign reactor supplier or as supplier of the turbine generators (as in Guangdong nuclear). On the nuclear fuel and services side there may be somewhat better prospects. However this would not primarily involve the CEGB.

Pete

*Get him to
work at
Chigwell,
not*

①

PRIME MINISTER

MEETING WITH WALTER MARSHALL

Walter Marshall would like an opportunity to talk through various issues with you, and I expect you would welcome this. If you are content, I will arrange a mutually convenient time.

We would like to agree with him that Mr Walker should be aware of the meeting. This will not only head off any ill feelings but will leave you free to follow up with Mr Walker any points Walter Marshall raises. It will also allow us to commission any briefing we need from Departments.

Agree a meeting?

Sir Walter is assuming that he will be invited to the meeting on Endurance (now fixed for 24 July). Mr Walker prefers to hold a meeting with him first and then come to a separate meeting of Ministers. This is because on a number of issues the CEGB is a protagonist, e.g. who pays for higher coal stocks and what rate do the Scots charge the CEGB for electricity supplied through the interconnector.

AT

*I hope Sir Walter
will be present at the
meeting on Endurance
and if necessary can
Dunfermline as well
not*

Andrew Turnbull
11 July 1985



CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET 5422

TELEPHONE DIRECT LINE 01-215

SWITCHBOARD 01-215 7877

PS/

Secretary of State for Trade and Industry

12 June 1985

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

NBRM
COO 13/6.

Dear Charles

CHINA - REVIEW OF DEFENCE TRADE POLICY

Pt 2 attached

My Secretary of State has read with interest the paper circulated under cover of Jeremy Wright's letter to you of 29 May.

2 Mr Tebbit agrees that we should now be ready to sell a wider range of defence equipment to China. But he has commented that we must not underrate the need to consult our COCOM partners, which is mentioned in paragraph 2 of the paper. Other COCOM countries are moving towards liberalisation of high technology trade with China. But this has so far been expressed in terms of greater readiness to sell civil equipment which has military applications rather than defence equipment as such. We cannot take for granted their readiness to agree to particular exports of defence equipment and we shall need to work hard on them to ensure that we are not behind the game.

3 I am copying this letter to the Private Secretaries of OD and to Richard Hatfield (Cabinet Office).

Yours sincerely,
Maureen Dodsworth.

MAUREEN DODSWORTH
Private Secretary

JH1CKD

~~China~~: Rels. Pt 3

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET 2A22

TELEPHONE DIRECT LINE 01-212

SWITCHBOARD 01-212 1204

CDD.

~~DTI ray.~~

Sir Peter Matthews, President of
Sino-British Trade Council is
retiring on 1 July. Sir Eric Hope
is taking over (of Cablex Wireles).
An announcement will be made
tomorrow.

Sir Eric will be seeing 2-2
tomorrow (10.30am) & will be
introduced as President Pengtek.

Most 3/8

SECRET

cc/c
|



Foreign and Commonwealth Office

London SW1A 2AH

3 June 1985

*NBPM
CDP
4/6*

Dear Charles,

China: Review of Defence Trade Policy

atta d. cd.

The Foreign Secretary has seen a copy of the paper attached to Jeremy Wright's letter of 29 May to you.

Sir Geoffrey Howe agrees with the thrust of the paper, which was prepared in close consultation with FCO officials. He agrees in particular with the judgement that the strategic threat from China to the UK appears negligible at present, that the threat to Hong Kong is small and is unlikely to be increased by UK defence sales to China, and that the Chinese are unlikely to pass our technology to the Warsaw Pact.

We have some reservations about certain details of the argument in the paper. It may underestimate the extent to which some countries in the region (eg Indonesia and India) feel concern about China's present and growing power. It also underplays the possibility of continuing conflict with Vietnam as well as pressures on Taiwan. The judgement on China's continuing political stability could also be put more cautiously.

Subject to these points of detail, however, the Foreign Secretary supports the conclusions and recommendations of the Defence Secretary's paper. There is clearly no advantage for the UK in having a policy towards China that is more restrictive than that of our COCOM partners.

I am copying this letter to the Private Secretaries of OD and to Richard Hatfield (Cabinet Office).

Yours ever,

Le Appleyard

(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street

SECRET

CHINA: Relations: Pt 2.



3 JUN 1985

Handwritten text, possibly a signature or name, which is mostly illegible.

CONFIDENTIAL



file
881
bcc PC 70

10 DOWNING STREET

From the Private Secretary

1 June 1985

Dear Richard,

**CHINA - REVIEW OF DEFENCE TRADE
POLICY**

The Prime Minister has considered the conclusions of the inter-departmental review of defence sales policy towards China sent under cover of Jeremy Wright's letter of 29 May.

Subject to the views of colleagues, she is content with them.

I note that the brief for the discussions with the Chinese Premier on this subject on 6 June has already been amended appropriately.

I am copying this letter to the Private Secretaries to Members of OD and to Richard Hatfield (Cabinet Office).

Yours sincerely
[Signature]
C D POWELL

Richard Mottram, Esq.,
Ministry of Defence

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PART 2 ends:-

DTI to MZA

31/5/85

PART 3 begins:-

CDP to MGS

1/6/85