

Subject filed on China: Visit of Hua
May 79cc. China: Sino-British
Relations etc. before late.
May 79

From the Secretary of State

f.a. PWS

M O'B Alexander Esq
Private Secretary
10 Downing Street
London SW1

31 October 1979

Dear Michael

VISIT OF PREMIER HUA: TRADE TALKS, TUESDAY 30 OCTOBER

The Prime Minister may like to see a short report on two meetings dealing with UK/China trade with Premier Hua and his colleagues.

The first meeting was between Premier Hua and a group of 10 senior British businessmen led by Mr Nott. The time was short and the businessmen had been strictly enjoined not to exceed their allotment of time. Unfortunately the timing was upset by Premier Hua arriving late, then making a statement himself and questioning some of the businessmen on their presentations. Nevertheless all the businessmen were able to make their main points.

Premier Hua showed himself alert, interested and quick to follow up particular points. His own statement was couched in fairly general terms and, while encouraging about the possibilities of expanding Sino-British trade, emphasised the need for the Chinese to be certain that they could pay for the technology they bought from abroad. He emphasised the importance of co-operation in developing economic relations, by which he meant such devices as joint production and compensation trade.

The second meeting was between Sir Keith Joseph (who had to leave early for a meeting of E Committee), Mr Nott and Yu Qiuli, Vice Premier of the State Council and head of the State Planning Commission. At this meeting Sir Keith and Mr Nott raised a considerable number of specific trade and industrial issues; in particular they asked when commercial negotiations were likely to be resumed or when further discussions in certain fields would take place. Yu Qiuli declined to reply to each point as it was made and at the conclusion of the presentation by Ministers contented himself with a very general statement. He outlined the economic priorities of the present government, and the emphasis on agriculture; the Chinese needed



From the Secretary of State

to modernise industry while continuing production rather than starting again, and in this process the Vice Premier felt that British companies had a good deal of experience to offer. He accepted that China would need to buy know-how but said that they could not afford to pay large fees. This appeared to be a reference both to the contribution which British consultants could make, on which both Ministers had commented, and to the costs of sending Chinese students to the UK. His message seemed to be that, in order to create goodwill, we should be prepared to provide these services free. He referred to China's natural resources in the minerals and metals field and said that there could be joint ventures in their extraction. The specific points raised by the two Ministers could, he said, be discussed further with the Vice Ministers of the State Planning Commission and Foreign Trade, who were present at the meeting, and we are following this suggestion up.

Mr Nott did not consider that this meeting had been very fruitful, but we hope to learn more from discussions with the Vice Ministers.

I am writing separately about the discussions on the Air Services Agreement, and the use by the Chinese airline of Gatwick.

I am sending copies of this letter to Paul Lever (FCO), Ian Ellison (Industry), Bill Burroughs (Energy) and Martin Vile (Cabinet Office).

Yours sincerely,

Stuart Hampson

S HAMPSON
Private Secretary

Subject filed on China:
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cc China: May 79
Sino-British Relations
the Defence talks.

Michael

CLIVE WHITMORE

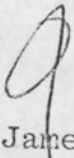
Let's see how
much of this is covered
by the brief which he got
as MOD will no doubt be
preparing for the Home Minister's

In preparing the brief for the ^{use} Prime Minister for the visit of Chairman Hua,
the attached may be useful. RM/18x

The brief is admirably succinct.

Attached also is a memorandum
which was given to Mr Yang Yong in
July and has recently been updated for
the Lord Privy Seal.

Sir Peter Matthews, the Managing
Director and Chairman-designate of Vickers
Ltd is to be invited to the Hua dinner:
the brief is therefore very relevant.


Henry L James
9 October 1979



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BRIEF REGARDING VICKERS LIMITED'S IMMEDIATE INTERESTS
IN TRADE WITH CHINA.

Vickers Limited have traded with China for a great many years in the fields of both civil and military requirements. At the moment Vickers have a number of modest contracts to the order of £10m. each for provision of special testing facilities for components of aircraft and aircraft engines.

Under negotiation at the present time is a very important project for the provision of research and test facilities for the design and validation of jet engines. The facilities are required to simulate and measure effects of high altitude supersonic conditions, to facilitate design of the engine itself and the mountings and fixings of the engine to the aircraft.

The cost of such a facility is to the order of £100m. We understand that the Chinese wish to place this order with Vickers and that we can expect final negotiations to be opened shortly. These follow many exchanges of technical missions both ways.

HMG's interests, both in regard to the NGTE test facilities and the Ministry of Defence, are supporting the Vickers' proposals. Vickers have been informed that the Chinese authorities intend this to be one of the items which they will include within their presently available financial facilities.

Vickers are very well aware of the slow time-scale of bringing commercial contracts to finalisation in China and they feel that at this stage an expression at a high political level of awareness of and interest in this particular contract, relating as it does to supply of equipment and transfer of high technology, might be opportune and helpful.

8.10.79

SIR PETER MATTHEWS

VICKERS HOUSE,
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TELEPHONE: 01-828 7777

30th August 1979.

MEMORANDUM OF VICKERS LIMITED INTERESTS IN DEFENCE AND
RELATED EQUIPMENT FOR THE PEOPLE'S REPUBLIC OF CHINA.

1. Vickers Limited have already concluded contracts for provision of test equipments for the Rolls-Royce Spey engine, which is to be manufactured in China. This includes special equipment for testing tyres and aircraft undercarriage systems. Further similar test equipments have been offered and are under negotiation.

2. Also related to aircraft, Vickers Limited have been in detailed discussion with Chinese Aerospace authorities regarding the supply of test equipment required to support design of new supersonic high altitude aero engines. This is a major project, the total cost of which may amount to between £100m. and £150m. Vickers Limited have submitted an outline proposal with considerable detail. A mission has visited China to discuss this, and we have entertained a number of Chinese missions here. We have now been asked to put in revised prices and are sending a high level team to China in October to try to negotiate a contract.

We now know the Chinese will approve this as one project which will go ahead despite any financial restrictions and they are openly stating that they wish to place the contract with us subject to price. We understand a special branch office of the Third Ministry of Machines is being established under Mr. Liu at the Embassy at Blackheath, very probably largely to progress this order.

There are possible problems, the most complex arising from the fact that although the equipment is wanted to validate their own Spey engine production, they also wish to use it for further research and development. This tends to mean continual advance and change in computer programmes, instrumentation etc., which make the drawing up of a totally agreed specification extremely difficult. Indeed this might take two years work and consequently delay completion. We are urging the Chinese to accept the main machinery specification and principal test procedures and order on that basis, with a view to amending and updating later if need be. We are trying to persuade them that this is what we would do in this country in this situation and that our Government is quite accustomed to drawing up contracts of a development or new nature in this way with companies such as ours, without detailing every point in the first instance.

As regards Cocom, MOD is well aware of the position and we are hoping to process this simply by notification and as an extension of the Spey contract.

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With regard to tanks, Vickers representatives have seen Pau Tow and Da Tung and have received a delegation led by Mr. Tang of Northern Industries. Vickers Limited have put forward proposals embracing views of main British contractors - Marconi, Rolls-Royce Motors, MEL and others - covering the main points:-

- (a) Improvements to the existing Chinese tank; aiming sights, fire control, engine power, transmission.
 - (b) Provision of specialised machine tools and equipment to improve production techniques.
 - (c) Provision of a completely equipped research facility for design and development of future tanks.
 - (d) Discussions have established that the new Vickers Mark IV tank meets the specification drawn up by the Northern Industrial Corporation for the future Chinese Main Battle Tank. This new vehicle incorporates all recent technological developments relating to armour plate, engine transmission, gun and its control systems. The first vehicle which Mr. Tang saw under construction during his visit has now been completed and has recently completed successful proving trials.
 - (e) The underlying objective here, of course, is to equip the Chinese to manufacture this tank for themselves in China. This involves many issues, updating the tank, building the factory, building a new engine, building a new gun, manufacture of ammunition, development of supply of electronics. There is also the question of Chobham armour, and issues will arise in regard to Cocom.
4. Following my visit to China in October 1978 and a series of subsequent meetings, I had a specific meeting with Mr. Callaghan before the visit of Mr. Wang Chen, the Deputy Premier, when we agreed that we should continue to explore this whole possibility under the general heading of "Engineering and General Collaboration", in the hope and belief that specific objections might evaporate as time goes by and the programme develops. In my view this programme may represent the biggest single opportunity for engineering collaboration and supplies to China.
5. The Latest Position:
We had expected to demonstrate the new fire control system on a T59 tank in Peking in June. This was delayed as part of their general review of expenditure. However, it is now agreed that this is to go ahead and take place in October.

PAM/AB.

Handed to Mr. Yang Tang at 5.00
(copy to Mr. Wu)

SIR PETER MATTHEWS

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3. With regard to tanks, Vickers representatives have seen Fou Tou and Da Tung and have received a delegation led by Mr. Tang of Northern Industries. Vickers Limited have put forward proposals embracing views of main British contractors Marconi, Rolls-Royce Motors, MEL and others - covering the main points:-
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4. All our proposals are currently being considered by the Northern Industrial Corporation. We had expected to be invited to demonstrate new Fire Control System on a T59 tank in Peking in June. Unfortunately this has been postponed, and we should like to be advised of the new date as soon as possible.

PAM/AB
4 July 1979.