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DEPARTMENT OF TRADE AND INDUSTRY
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From the Minister for Trade

Charles Powell Esq
10 Downing Street
LONDON
SW1
1985

/ February

Dear Charles

PRIME MINISTER'S MEETING/RECEPTION FOR LORD YOUNG'S VISIT TO CHINA,
MONDAY 4 FEBRUARY

As you recently requested by telephone, I am enclosing a brief for this occasion.

[now see further letter]

Could you please note that the reference to Short Brothers in (e) on page 2 should be regarded as being in square brackets until we can confirm the latest position with the company. Their representative is in China at the moment and is difficult to contact. It is possible that we will not hear until Monday. I will then contact you.

FCO consider that the Prime Minister will not need briefing on current UK/China political issues other than COCOM, which is covered in the brief.

The ODA is content with the proposed references to the question of aid for China.

I believe that, so far, three members of the mission have told you that they will be abroad on 4 February and are sending alternates. These are: Mr P Bosonnet (Deputy Chairman BOC) replaces Mr Giordano, Mr J H Crouch (Director, Marketing, Cable and Wireless) replaces Sir Eric Sharp, and Dr A G Raper (Deputy Chairman, Davy McKee) replaces Mr Kingdon.

I am copying this letter to Colin Budd (FCO) and Leigh Lewis (Lord Young's office).

*Yours sincerely
Steve*

STEPHEN NICKLEN
Private Secretary to
the Minister for Trade



PRIME MINISTER'S MEETING WITH LORD YOUNG AND HIS MISSION
TO CHINA, 4 FEBRUARY

POINTS TO MAKE

(i) With the Mission Members

(a) Glad such a strong team has been put together, wish them success; personally attach importance to mission's success, as does the Chinese Premier. Mission represents UK industry and commerce as a whole. Follow up after the mission will be very important.

(b) UK/China agreement on Hong Kong marks start of new phase in Sino-British relations.

(c) UK companies have much to offer China in Chinese economic priority sectors eg energy, transport, communications, industrial modernisation. Glad these sectors so well represented on mission.

(d) Good prospects therefore for increasing our present (modest but improving) level of trade and economic co-operation with China.

(e) But it is still a difficult and competitive market, as mission members know, and getting business there will continue to call for patience and hard work.

(f) Ask Lord Young to speak about the mission's objectives and his overall approach to the mission.

(g) (If time permits) ask company representatives briefly to describe their aims for the visit and any points they want to put to the Ambassador (so that these can be reported to Peking to be considered before the visit).

(ii) With the Ambassador

(a) Mission includes top people from some of our best companies shows our determination to build up trade and economic links with China. Many more companies applied to go.

(b) Grateful to Chinese authorities for welcoming this delegation, particularly Madame Chen Muhua, Minister of Foreign Economic Relations and Trade, who will be the delegation's host. Know that much hard work will be involved to finalise preparations.

(c) Invite Ambassador to comment generally on overall prospects for UK-China trade and current developments in Chinese economic and foreign trade policy.

(d) Guangdong nuclear project. Glad that Hong Kong-China joint venture company was set up on 18 January. Hope negotiations



can now move smoothly and quickly to conclusion.

(e) Aerospace. Very glad China has wisely decided to buy the European Airbus and Short Brothers SD360 aircraft. Discussed these with the Chinese Prime Minister in Peking. Also discussed prospects for BAe 146 sale. Mr Glasscock, BAe, will I am sure hope to discuss that contract further during his visit.

(f) (If time permits). Ask mission members to put any other points to the Ambassador.

DEFENSIVE POINTS

(i) With the Mission Members

(a) COCOM. Controls decided multilaterally; no prospect of early major relaxation of controls on exports to China but ideas for speeding up handling of licence applications relating to China will be discussed at high level COCOM meeting in February.

(b) Aid-soft credit. Aware that other countries are giving China aid and mixed credit. But unless aid budget increased which is very difficult, more UK aid for China means less for other countries. China has a good foreign exchange position and not infrequently pays cash.

(ii) With the Ambassador

(a) COCOM. Aware of recent representations by Vice Foreign Minister Zhou Nan to the British Charge d'Affaires in Peking which are being considered. The COCOM system of export controls is the subject of multilateral agreement; cannot say anything new at present.

(b) Aid-soft credit. Glad that we have started a modest technical co-operation programme with China. Difficult to do more without putting at risk the public expenditure objectives which are such a high priority for HMG. ECGD-supported credit available without restriction; delighted China was recently upgraded to ECGD's highest category for premium assessment purposes.

OT2/3B
31 January 1985



BACKGROUND NOTE

This will be the first meeting of the delegation as a group (though some members will not be present because they are abroad: they will send substitutes). After the Prime Minister's meeting with the delegation they will be joined by the Chinese Ambassador and others from the Chinese Embassy.

A list of the members of the mission, and very brief notes on their companies' interests in China is attached.

COCOM

The Chinese Vice Foreign Minister, Zhou Nan, spoke to the British Charge d'Affaires in Peking (Mr Thomson) on 17 January complaining about the continued application to China of the COCOM strategic export controls. There is no prospect of China's early removal from the controls (which would require unanimous agreement) but discussions are in progress within COCOM about speeding up the processing of applications for exports to China.

AID

Britain has no bilateral capital aid programme for China; we have only a modest (though increasing) technical co-operation programme. The Chinese (and UK businessmen) often criticise HMG for failing to give China capital aid. ECGD credit is available on normal Consensus terms; and China was recently raised to the highest category for ECGD premium assessment.

PROGRAMME

The itinerary is:

- 27 February London-Peking (arrive 28 February)
- 5 March Peking-Shanghai (China's major industrial and commercial centre)
- 7 March Shanghai-Canton (major industrial city in South China, and a centre for offshorer/oil activity)
- 9 March Canton-Hong Kong (where a 2-day programme will be organised)
- 12 March Hong Kong-London

In each place there will be a number of meetings for the full delegation, but as far as possible arrangements will also be made for individual members to have individual meetings relevant to their own interests. Details are being worked out. In Peking, there will probably be meetings with the Ministry of Foreign Economic Relations and Trade, State Economic Commission, State Planning Commission, China Council for the Promotion of International Trade, China International Trust and Investment Corporation and with a number of functional Ministries eg Coal, Water Resources and Electric Power and others.

OT2/3B

31 January 1985



MEMBERS OF LORD YOUNG'S MISSION

1 GOVERNMENT

The Rt Hon Lord Young of Graffham	Minister without Portfolio
Mr David Hall	Assistant Secretary Overseas Trade Division 2 Department of Trade and Industry
Mr Leigh Lewis	Private Secretary to Lord Young
Miss Sheena Wallace	Press Secretary to Lord Young
Mrs Margaret Bell	Personal Assistant to Lord Young

2 BUSINESSMEN

Mr Richard Giordano	Group Chairman and Chief Executive Officer, the BOC Group
Mr John Glasscock	Deputy Chief Executive, British Aerospace plc (Aircraft Group)
Mr H C Harrison	Chairman, Simon Engineering plc
Mr Dennis Jackson	Director, Corporate Strategy and International Affairs, Rolls Royce Ltd
Lord King of Wartnaby	Chairman, Babcock International plc Chairman, British Airways
Mr Roger Kingdon	Chief Executive, Davy McKee (Teeside Group) Ltd
Sir Duncan McDonald	Chairman, Northern Engineering Industries plc
Sir Eric Sharp	Chairman and Chief Executive, Cable and Wireless plc
Mr John Swinglehurst	Director, Sedgwick Group plc
Lord Weinstock of Bowden (or another senior director of GEC)	Managing Director, General Electric Company plc

3 PRESS

Up to 5 representatives, not yet known.



LORD YOUNG'S MISSION TO CHINA

Brief notes on mission members' interests in China

British Aerospace (represented by Mr John Glasscock)

Supplied 35 Tridents in early 1970s. Contract initialled January 1985 for three A310 Airbus aircraft. Position on possible BAe 146 sale (discussed during Prime Minister's visit in December) remains unclear. Also pursuing sales of Jetstream; and working with MATRA of France on bid to supply direct broadcast satellites.

Rolls Royce (Mr Dennis Jackson)

Major contract with Xi An aeroengine factory in 1975. Hope shortly to sign contract for production of four sets of SK15 HE engines for a power station in Xinjiang. Also negotiating agreement for co-production of SK15 HE and SMIA engines (both of Spey origin). Are also supplying power generation units for oil field use, and pursuing possible naval order for marine turbines.

Simon Engineering (Mr Harry Harrison)

Major contract for grain handling port equipment in 1983. Pursuing opportunities in food processing (flour mills, edible oil refineries etc) SimChem (a group member company) interested in possible chemical and plastics projects.

Babcock International (Lord King)

Interested mainly in energy sector eg coal fired boilers, coal pulverisation, gasification and combustion.

British Airways (Lord King)

Airline rights in to Peking. Possible contracts with CAAC for eg training services, computer software. Joint venture in offshore oil helicopters in South China. Bidding (with Vickers) for contract for new maintenance facilities at Canton airport.

Davy McKee (Mr Roger Kingdon)

Metallurgical industry, coal handling and gasification, petrochemicals, mining. Despite long efforts in China, still awaiting major success.

Cable and Wireless (Sir Eric Sharp)

Wide range of telecommunications activities in South China: offshore oil telecommunications. Local area in Shenzhen, microwave links throughout Guangdong Province.

Sedgwicks (Mr John Swinglehurst)

The only European insurance brokers in Peking. Handle much of China's reinsurance business in the London market.



NEI (Sir Duncan McDonald)

Have had successes in underground electrical equipment for coal mines. Looking for business in power generation and other areas.

GEC (Lord Weinstock)

Guangdong nuclear project. Other power generation and transmission projects. Optical fibres (subject to COCOM restraints). Traffic control systems. Two representative offices in Peking: GEC Avionics and Marconi. Has been awarded a number of defence related contracts.

BOC Group (Mr Richard Giordano)

Gases and air separation plants (currently quoting for oxygen air separation plants for steel mills in China); carbon and graphite products (eg electrodes). Equipment for high vacuum environments, eg in the semi-conductor industry. Health care products.

OT2/3B
31 January 1985



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1 February 1985

Dear Charles

**PRIME MINISTER'S MEETING/RECEPTION FOR LORD YOUNG'S VISIT TO CHINA
MONDAY 4 FEBRAURY**

Since I wrote to you earlier today, there have been further developments in relation to Short Brothers. Short have now landed the contract for 8 x SD360 aircraft for use, as we understand it, in commuter travel in the Shanghai and Canton areas. We therefore advise the Prime Minister to take the line with the Chinese Ambassador set out in (e) on page 2 of the brief.

2 For the Prime Minister's information, but not to be revealed at the meeting, the contract is worth some £37m.

3 One further point. I understand from Leigh Lewis that there remains some uncertainty about who will accompany Lord Young from GEC. It is now unlikely to be Lord Weinstock. It is not yet clear whether Mr Prior will go instead.

4 I am copying this letter to Colin Budd (FCO) and Leigh Lewis (Lord Young's Office).

Yours sincerely
Steve

STEPHEN NICKLEN
Private Secretary to
the Minister for Trade