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CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-233 3299

From the Minister without Portfolio
The Rt Hon Lord Young of Graffham

Charles Powell, Esq.,
10 Downing Street,
London, S.W.1.

25th April, 1985

Dear Charles

UK TRADE MISSION TO CHINA AND HONG KONG

As you will recall from Lord Young's report on his mission, the question of financing trade with China was raised by a number of those he met. Your letter to Callum McCarthy of 18th March asked the FCO to advise on the scope for extending ATP to China and Peter Ricketts' letter of 19th April has recorded the Foreign Secretary's views. *with CSL.*

Subsequent to writing his original report, Lord Young has received the attached letter from Roger Kingdon of Davy McKee, written on behalf of his and five of the other companies represented on the mission, suggesting that the Government might transfer part of its existing aid programme to the financing of a limited number of major projects in China.

As you will see, Mr. Kingdon expresses the hope that the Prime Minister and other Ministers concerned might agree to meet representatives of the companies on the mission to discuss the issues involved. Lord Young has now had the opportunity to discuss this with Mr. Channon and, as a result, believes that it might indeed be a valuable use of the Prime Minister's time if she were able to hold such a meeting over the next few weeks. If this were a possibility, Lord Young would suggest that those invited, in addition to Mr. Kingdon, might be Lord King, Richard Giordano and Sir Eric Sharp. Although the last named was not a party to Mr. Kingdon's memorandum, he has subsequently made known to Lord Young that Cable & Wireless are facing increasing difficulties in their trade with China on the issue of finance.

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I should be grateful if you could let me know the Prime Minister's reaction to this suggestion.

I am copying this letter to Peter Ricketts (FCO), John Mogg (DTI) and Matthew Cocks (Mr. Channon's office).

Yours ever

Leigh

Leigh Lewis
Private Secretary

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25 March 1985

The Rt Hon Lord Young of Graffham
Minister without Portfolio
Cabinet Office
70 Whitehall
London SW1A 2AS

Dear Minister,

During our Mission to China it became clear to many of us that the Chinese hoped that Britain would join the many other countries who provide concessionary finance in support of projects. They singled out particularly power generation, steel and transportation, which includes port modernisation and improvements to railways and highways, as industries for which they would like help.

When we discussed this you suggested that those members of the Mission interested in such projects should agree a memorandum explaining their views which should be forwarded to you. The attached memo is the result of discussions between Davy, BOC., Babcock, Simon Engineering, GEC and NEI, and has been approved by the members of the Mission from those Companies.

A number of us representing these Companies would very much like to meet with the Prime Minister and other Ministers to explain our conclusions and discuss the issues involved.

Yours sincerely

Roger Kingdon

Roger I Kingdon



LORD YOUNG MISSION TO THE PEOPLE'S REPUBLIC OF CHINA

Memorandum on the Financing of Projects
in the P.R.C.

1. The Mission was received most warmly by senior members of the Government who expressed with conviction a wish to improve bilateral trade with Britain. The recurring theme of meetings with the Premier and his Ministers, particularly our host, Mme Chen Muhua, the Foreign Minister, was the need for high technology and its unimpeded transfer, competitive prices and good commercial terms. They fully recognised that in the transfer of technology Britain led Japan.
2. The People's Republic of China has a strong financial base with foreign reserves of US \$18 Billion and foreign debts of US \$7 Billion, principally with Japan. While the P.R.C. Government expects their foreign debt to increase as their modernisation programme gains momentum, no evidence was seen that the Government would relax their controls and allow excessive growth of debt.
3. Many British companies, in addition to those represented on the Mission, have been successful in selling into China and have good prospects of further business. In most cases this success has been the result of some special technology or particular situations coupled with skilled marketing. The scope for expanding this trade is considerable with the favourable political climate and the competitiveness of British industry which has been helped by recent currency changes. The majority of contracts are based on cash payment terms.

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4. In describing their modernisation plans to the Mission, Ministers frequently referred to the serious shortage of electric power and of the urgent need to build a series of coal fired power stations around the coast. They also explained the importance of their plans for a rapid expansion of their steel manufacturing industry and major transportation modernisation of ports, railways and highways. These are major projects where special technology will not be a factor. It was made clear that competitive pricing and financing terms will be important factors in selecting partners for these projects.

5. The desire expressed by Lord Young on frequent occasions for Britain to establish itself as a close trading partner with China was warmly reciprocated and the hopes that Britain's share of China's foreign trade would increase echoed in speeches by the Chinese Leader.

It was made clear at a number of meetings that many of China's trading partners helped with finance at preferential interest rates and Minister Chen Muhua particularly emphasised in one of her banquet speeches that China is a developing country and needs the assistance of developed countries such as Britain.

Information was given of soft loans from Japan (30 years, 3% interest), France (30 years, 3% interest) and individual members obtained information about similar loans from Italy, Austria and Sweden. The Embassy in Beijing has a full list of these loans.

6. By the end of their period in China, members of the Mission became convinced that participation by British companies in the major projects planned by the Chinese would require some concessionary finance to be available.

They do not think the amount of support need be very large, but they do believe that some will be necessary. They also believe that failure to help the Chinese in this way will be seen as a lack of trading commitment to China by the British and will compare unfavourably with other smaller countries.

7. Those members of the Mission concerned with the project business consider that the best course to adopt would be to allocate a sum of money from the existing bilateral aid programme to support projects in China in the power, steel and transportation fields. Some Members consider that the sum of money need not be larger than £30 - £50M over a period of three to four years, but others consider that the number of projects involved would require us to match the much larger sums already being made available by our European competitors.
8. The Chinese should be invited to suggest projects from these fields which they would like to be supported by Britain with favourable finance. Once identified, members of the Mission are confident that a suitable grouping of Companies could be arranged to bid for these projects competitively.
9. The establishment of Britain as a supplier of these major projects would lead to repeat business. It would also bring about the full recognition by China of Britain as a serious trading partner.
10. Members of the Mission hope that the Government will give serious consideration to this proposal and would welcome the opportunity to discuss it.

Babcock International
British Oxygen
Davy McKee

General Electric Co.
Northern Engineering Industries
Simon Engineering

Relations: CHINA Pt 2.

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