

The original documents are located in Box 38, folder “Personnel - Conflict of Interest, Hoose, Harned” of the Philip Buchen Files at the Gerald R. Ford Presidential Library.

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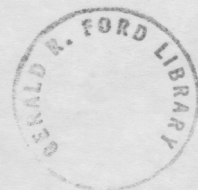
Hoose
Dr. Harned

Friday 3/7/75

11:15 Jay French wanted to talk with you about the material from Dr. Hoose. He wants to get a signoff on what he feels should be done -- and also to see if you want to call Dr. Hoose or if you want Jay to call him.

11:45 Dr. Hoose called and said he wasn't pushing at all -- but wanted to know if you have anyone you would want him to see while ~~the~~ he's here -- will be here through the 10th or 11th -- and then will be going back to China.

Embassy Row Hotel Rm. 510 265-1600



11:00 a.m.

Friday, August 15

Hoose
(Harned)

ed
Harned Hoose called and ask/that I give you the following message:

He has made excellent progress at the staff level on China matters. The matter is being staffed through Arthur Armstrong (State Dept.); Michael Dunn (CIEP); and Roger Shields (Pentagon).

The Fluor memo is now on Dr. Kissinger's desk, Secretary Schlesinger, Bill Seidman and Mel Laird's. These were all set up by Fluor.

Mr. Hoose is on his way back to China and will be in touch with you on his return in about a month.



HARNED PETTUS HOOSE

ATTORNEY AT LAW

129 NORTH ROCKINGHAM AVENUE
LOS ANGELES, CALIFORNIA 90049

CABLE ADDRESS
HARNHOOSE

AREA CODE 213
277-3811
472-2828

Temporary Washington, D. C.
Address (Through March 10th),
1975:

The Embassy Row Hotel - Suite 510
2015 Massachusetts Ave., N.W.
Washington, D.C. 20036
(202) 265-1600

~~SECRET~~

March 5, 1975

TO: PHILIP W. BUCHEN, COUNSEL TO THE PRESIDENT

SUBJECT: SECRET REQUEST BY THE PEOPLE'S REPUBLIC OF CHINA (PRC) TO FLUOR CORPORATION AND FLUOR ENGINEERS AND CONSTRUCTORS, INC. (FLUOR), WHICH ARE U.S. CORPORATIONS AND ARE AMONG THE LARGEST, IF NOT THE LARGEST, PETROLEUM ENGINEERING AND CONSTRUCTION FIRMS IN THE WORLD, TO SUBMIT TO THE PRC BY MARCH 15, 1975, TECHNICAL AND BUSINESS PROPOSALS:

1. For the Design, Engineering and Construction of a Major Oil Refinery and Petrochemical Complex to be Built in Hongkong, Macao or Possibly in South China, with Most or All of the Feedstock (Crude Oil and Gas) to Come from the PRC; and
2. For the Joint Ownership and Cooperative Operation of the Refinery and Petrochemical Complex by a Consortium of U.S. Chemical and/or Petroleum Companies Acting Together with a "Nominee" of the PRC (That is, a "Front" for the PRC), Probably to be a Prominent and Substantial Chinese Resident of Hongkong; and

FLUOR'S REQUEST FOR THE PRESIDENT'S AND THE U.S. GOVERNMENT'S SUPPORT, GUIDANCE AS MAY BE APPROPRIATE UNDER APPLICABLE LAWS AND REGULATIONS, AND IF POSSIBLE, AN EXPRESSION OF INTEREST AND WILLINGNESS TO COOPERATE IN THE ASPECTS OF THE PROPOSED PROJECT WHICH WILL TOUCH UPON THE U.S. INTERESTS AND OUR ENERGY AND ECONOMIC POLICIES

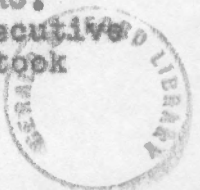
FROM: HARNED PETTUS HOOSE

1. This memorandum is addressed to Philip W. Buchen, because of his relative familiarity with the writer's background as to and involvement with U.S. corporations doing business with the PRC. A summary of the writer's background is attached, as Appendix I.
2. It is respectfully requested that this memorandum and its subject matter be taken up with the President, if possible, and also with other appropriate senior U.S. government officials as may be required. In view of the PRC's request for secrecy, it is requested that this matter be handled on that basis at this stage, to avoid any possibility of premature news stories during this period of delicate negotiations with the PRC. The PRC has set a deadline for Fluor's initial and preliminary proposals: March 15, 1975. The PRC request for a Fluor proposal and also the PRC's deadline of March 15, 1975 were conveyed to the writer of this memorandum very recently in Kwangchow (Canton), China and in Hongkong. To meet the PRC deadline, the writer will have to carry the Fluor proposal to the Chinese by hand, which will require departure via air from the U.S. West Coast on March 13th, our calendar. That will mean arrival in Hongkong late at night on March 14th, Asian calendar, with delivery to be made by hand to the PRC representatives the following morning, March 15th.

Therefore, it is hoped that this matter can be handled by the White House and any other appropriate senior U.S. officials, within the next week. The writer can remain here in Washington, D.C. for whatever period may be necessary within that week, if desired, to provide any oral information which may be required.

3. As is known by George Bush, Chief of the U.S. Liaison Office in Peking (and in particular, by Herbert Herowitz, Commercial Officer, and William Rope, Assistant Commercial Officer), and also by Philip T. Lincoln, Jr., Country Officer for PRC Affairs, U.S. State Department, and various U.S. officials at the Department of Commerce and the U.S. Consulate General in Hongkong: Fluor has been seeking business opportunities with the PRC for the past two years.

During that period, the writer has represented Fluor in general preliminary discussions with PRC petroleum and trade officials in China, during six business trips to the PRC. On two of those trips, the writer accompanied Fluor executive and technical teams. General exploratory discussions took



place in Kwangchow (Canton) and in Peking.

4. Fluor may be well known to the U.S. government, and especially to our various administrative entities dealing with energy and related fields. Fluor has handled a large number of major petroleum-related engineering and construction projects throughout the world. One current major undertaking is Fluor's participation in the Alaska pipeline work. For the convenience of those who may desire additional information as to Fluor, some background materials are submitted herewith, and by reference here are Appendix II to this memorandum.
5. The writer most recently was in the PRC from January 28th to February 17th, handling the business interests of a number of U.S. corporate clients, including Fluor. Discussions with key petroleum, trade and political officials in the PRC at that time and also with PRC officials in Hongkong, between February 17th and February 22nd, resulted in the PRC secret request that Fluor submit its technical and business proposal to the PRC for the major refinery and petrochemical project outlined below:
6. Description of the Proposed Project:

The scope of the facility is to include a grass-roots refinery with capacity of two to three hundred thousand barrels per day. Most or all of the feedstock (crude oil and gas) is to come from the PRC, probably initially from the Taching and Takang oil producing areas and then eventually from the recently discovered oil producing areas in Kwangtung Province, which adjoins both Hongkong and Macao. Except for certain small quantities of petroleum products for the local area, the majority of the output of the facility will be converted to petrochemical intermediates and finished products. These ethylene and aromatic-based chemicals will be sold to the PRC and consumed in the Hongkong area.

The Hongkong (or Macao) facility is to be owned entirely or to a major extent by a well-known and substantial Chinese resident of Hongkong. This Hongkong Chinese is very close to and cooperates with the PRC. The Chinese "very confidentially" have informed the writer that the Chinese resident of Hongkong actually is a "PRC official." He has not been identified yet, but will take a Fluor negotiating team to Peking in late March or early April, for concrete discussions.

The anticipated cost of the facility will approximate US\$4 billion, to US\$5 billion. As visualized by the PRC, the facility will be one of the largest of its kind in the world. The scope of the project will require the involvement of a consortium of U.S. corporations, if the transaction is consummated between Fluor (and its fellow consortium members) and the PRC. In addition to the substantial earnings by U.S. firms for design, engineering, construction and equipment, joint operation of the facility by the PRC's nominee ("front") and the U.S. firms will follow.

Depending on the negotiated terms of the agreement, it seems probable that the project will result in petroleum products and quite probably, crude oil's being made available to the U.S. market.

If this project consummates, also it would appear quite likely that the U.S. participants in this project also might well have a favored position as to subsequent projects involving the PRC (as has been the PRC practice with established working partners in the past), including further development of the PRC petroleum industry and further exploration for oil and gas on the PRC coast.

7. Japanese Competition

The PRC has advised us that our competition for the project is a Japanese consortium. Fluor believes that the Japanese group may be headed by C. Itch. As is well known, the Japanese government cooperates very substantially with its corporations in situations such as this.

Fluor feels that the U.S. national interests are involved, and that not only a substantial sale of U.S. services and equipment is involved, but also an important ongoing relationship with PRC petroleum sectors, with attendant implications as to alternate energy sources for the U.S.

Accordingly, Fluor hopes that the U.S. government will support the U.S. consortium in every way possible, during the current effort to obtain this major business for our own petroleum industry.

8. Request for Initial Assistance by the President and the U.S. Government

Initially, it is respectfully requested that our government will indicate its general and informal approval of the U.S. petroleum industry's involvement in the project, and will render informal advance guidance affirmatively, as to applicable laws and regulations (bearing on transactions with communist countries and other relevant matters).

A letter from the appropriate senior U.S. official to Fluor, indicating the U.S. government's interest and encouragement, and possibly generally indicating an interest in rendering assistance (for example, as to any semi-barter or "in-kind," i.e., allocation of crude oil and/or refinery and/or petrochemical products, etc.) would be very helpful in assisting the U.S. consortium to cope with the competition from Japan, Inc. Fluor would like very much to include such a letter in its March 15th presentation, if possible. In addition, Fluor would appreciate any affirmative government thinking as to the possibilities of Eximbank or similar partial support in this instance, in which the owner would be a



HARNED PETTUS HOOSE
ATTORNEY AT LAW

Chinese resident of Hongkong, outwardly (although actually, the "front" for the PRC.

Fluor and the writer feel that this project has large strategic, energy source, quasi-diplomatic and other implications, all in the U.S. interest.

The approval, cooperation and assistance of the President, the U.S. government, and of our appropriate agencies are respectfully urged.



Harned Pettus Hoose



HARNED PETTUS HOOSE
(Biographical Sketch)

Dr. Harned Pettus Hoose, an international lawyer, educator and foreign trade consultant based in Los Angeles, was born and grew up in China, where he lived for twenty-three years before the People's Republic of China was established in 1949. His father was a Methodist missionary and his mother was superintendent of nurses at a mission hospital in Peking.

Hoose was born on Mount Lu [pronounced "Loo"] in Kiukiang Province [pronounced "Gee-you Gee-yang"], south of the Yangtze River. By coincidence, both that mountain and the province are closely identified with China's present regime and its rise to power. In the 1920's, the province was the first area in China formally governed for a while by China's present leaders; and Mount Lu has been the site of several historic meetings, the most recent of which initiated the struggle between Chairman Mao Tze-tung and Lin Piao.

After an early childhood period in Kiangsi Province, Hoose lived for thirteen years in the northern city, Peking. He became bi-cultural and fluent in Chinese, and was educated in part as an American and in part among the Chinese. Hoose received his A.B. degree at the University of Southern California, and then returned to China for approximately five years as an officer with our U.S. combat troops during World War II. His guerrilla unit, with other similar American units in China, was awarded the Presidential Unit Citation.

Following the war and an LL.B. degree (Juris Doctor, 1967) at U.S.C., Hoose began a law practice which has extended for 25 years, with heavy involvement in international trade and business. In addition, he has served for periods on the law faculties at the University of California, Hastings College of Law and variously at the Schools of Law, Commerce and Graduate Business Administration, U.S.C. Currently, he is a consulting professor of international business at that graduate school. His published works include chapters on U.S. - China economic relations, trade and negotiations, in Trade With China (Praeger 1974) and Doing Business With China (Praeger 1973)

Hoose's work for a number of our largest American and international corporate clients has involved many business trips throughout Asia and Southeast Asia. He has handled extensive business transactions in Japan, Korea, Taiwan, Hongkong, Singapore, Malaysia, Indonesia, Laos, the Khmer Republic (Cambodia) and the People's Republic of China.

Since late 1971, he has been an occasional voluntary and non-governmental advisor to the White House and the National Security Council. He helped in President Nixon's preparations for the journey to Peking, and has provided similar voluntary advisory assistance to the White House since President Ford's assumption of office. Hoose also serves as an occasional voluntary consultant to our departments of State and Commerce.

A number of Hoose's recent radio, television and conference talks have been broadcast to Asia by the Voice of America. His interviews and reports as to China have been reported widely in our national media. Among others, Hoose has spoken before the American Society of Newspaper Editors in Atlanta; the Council on Foreign Relations in New York; the Chamber of Commerce and Industry in Chicago; Town Hall and the Center for the Study of Democratic Institutions in California; and many similar groups elsewhere on the West Coast. Hoose also spoke in 1973 before a group of graduate students and trade officials at Peking University in China.

Hoose was in the first handful of Americans who attended the Canton Trade Fair in April, 1972, and he returned to Peking in May, 1972, as one of the group of five American businessmen who were the first to enter Peking after President Nixon's trip to China. Since then, Hoose has made six trips to China in all involving seven months there. During those working trips, he has worked and lived with the Chinese in Canton, Hangchow, Shanghai and Peking. In late 1973, Hoose traveled throughout South China with and as a guest of senior



members of the Chinese government. He is well acquainted with many of China's business and trade leaders, among others. A few days ago [mid-September, 1974], the Commercial Counsellor of the People's Republic of China, Mr. Chang Tsien-hua, and other senior members of the commercial staff of the Chinese Liaison Office in Washington were dinner guests in Hoose's home in Los Angeles.

Hoose will return to China within the next few weeks, and in addition has just received a cable from trade officials in Peking requesting him to stand by for yet another business trip there early next winter.

Probably, Hoose's contacts with the Chinese in the People's Republic in the past two years have exceeded by several times those of any other non-Chinese American outside of our own Liaison Office in Peking. Unlike our government representatives in Peking, Hoose has been allowed to mingle freely with the Chinese and has traveled extensively in China.

Hoose, in his capacities as a foreign trade consultant and occasionally as an informal advisor on the American side is in close communication with trade and other officials in the U.S. and in China. However, his remarks before the UPI EDICON convention, of course, will be solely his own and will represent the comments and view of a private citizen, only.



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APPENDIX I

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APPENDIX I



TODAY

Appointment
scheduled

3/5/75

2 pm

Dr. Harned

~~House~~



Wednesday 3/5/75

Meeting
3/5/75
2 p. m.

9:25 Dr. Harned Hoose called at the suggestion
of Geoff Shepard (Dr. Hoose's nephew).

He has just come in from Chicago and there is something
he feels is absolute dynamite which has occurred in
China -- and he would like to come in and talk with you
about it.

He is staying at the Embassy Row Hotel .

265-1600
Room 510

I have scheduled an appointment for him today
(Wednesday 3/5) at 2 p. m.

((((Just to refresh your memory -- attached is your
exchange of correspondence with Dr. Hoose)))



March 1, 1975

*Harned
Harned*

Dear Harn:

Many thanks for your interesting and informative letter. I am very glad that you were able to settle the complicated dispute arising from the imports of Chinese shrimp. The success is indeed a tribute to your good relations with the Chinese and your skills as a negotiator.

Insofar as I am able to have any influence in such matters I shall be more than happy to cite your experiences and familiarity with the Chinese as they may relate to our future relations with this important Nation.

We very much enjoyed our evening with you at Geoff Shepard's home and to learn that we had friends in common from Michigan. I regret that Geoff is no longer in the White House but inasmuch as he will be remaining in Washington, I trust I will be able to see him often.

Bunny and I send our warmest regards to you and your wife.

Sincerely,

Philip W. Buchen
Counsel to the President

Mr. Harned Pettus Hoose
129 North Rockingham Avenue
Los Angeles, California 90049

PBuchen:sk 3/1/75



東方賓館
TUNG FANG

BINGUAN

Kwangchow
People's Republic of China
February 14, 1975

U.S.A. Address:
129 North Rockingham Ave.
Los Angeles, Calif. 90049
(213) 472-2828

Phil Buchen
Counsel to the President
The White House
Washington, D. C.
United States of America

Dear Phil:

My wife and I so much enjoyed the evening with you and your wife at the home of my nephew, Geoff Shepard and his Sandra, last December 18th. The visit with you is a pleasant memory, and it was especially interesting to find that we know a number of people in Grand Rapids and Holland, in common - including our memories of the formidable Kaie Cheff!

I have been here in China for three weeks, this time - the latest in a series of trips here representing various U.S. corporations in their trade and business with China.

This trip involved something of importance to the U.S., and its relations with the People's Republic of China. I believe this direct report may be of interest to you and to the President.

As a brother lawyer, and also in your present very responsible capacity, I want to tell you directly about the excellent result achieved here in a major trading crisis which threatened our U.S. - China trade. Phil Lincoln, China Desk at State, George Bush and other have been following the problem closely because of its impact on overall relations with China. The crisis arose because a substantial Chinese shipment of frozen shrimp (US\$1,200,000.00) was rejected by our FDA as below our standards. The Chinese quite naturally took the position that the problems (spoilage) must have occurred enroute, and declined responsibility. Our U.S. buyer, Seabrook Foods, Inc. and its insurance carrier, Insurance Company of North America, faced losses of approximately \$1,000,000.00 in U.S. dollars, and naturally threatened litigation against the Chinese, or at least formal adversary arbitration (which the Chinese regard as hostile and repugnant to a degree that enmity follows). All Western World insurance cover-



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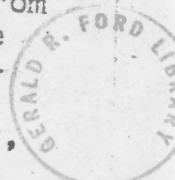
BINGUAN

age of Chinese food imports was withdrawn, and our insurance industry was on the verge of refusing insurance coverage as to all Chinese imports subject to FDA clearance, because of what was thought to be China's unwillingness to take responsibility. In the event of litigation and/or because of total lack of essential insurance, a breakdown in all U.S. imports from China was imminent, with obvious reciprocal breakdown in China's purchases from the U.S. to follow, in response. In my personal but well informed opinion, the wheat sales' cancellations were related to our crisis, and the grave dispute on the frozen shrimp matter also threatened our overall relationships, in substantial degree. What had begun here in China with ping pong balls was threatened by a dispute as to shrimp! How ironic - but we all remember the famous War of Jenkin's Ear in England's early history.

Seabrook Foods, Inc. and Insurance Company of North America, apparently because of my twenty-three years in China and my continuing friendly relationships with the Chinese, retained me as counsel to handle the dispute. I was greatly assisted by the informal concern and advice of Phil Lincoln and others at State, and also by Ambassador (Retired) Chris Phillips and others at our National Council for U.S. - China Trade. Other valuable assistance was rendered by my Chinese friends and key contacts, variously in Washington, D. C., New York, Canada and Hongkong.

Our initial move was to withdraw all threats of litigation, and to seek an amicable resolution through friendly negotiations. Massive data as to the passage of the shrimp from China via Japan to New York were assembled, and we devoted over two months to the preparation of FDA data, U.S. standards, U.S. laboratory testing procedures, and actual large color pictures of the storage, testing and other processes involved. I took statements from all available witnesses in North America, and collected all applicable files in various U.S. and private offices.

After the nadir, involving a cable from China declining any responsibility, gradually we achieved a situation in which the Chinese were willing to dispose of the question through friendly negotiations in China. I came here as Chief Negotiator for Seabrook Foods, Inc. on January 28th, with credentials also from the Seabrook Chairman and Board. As a courtesy to our Chinese friends, who do not recognize any insurance company's involvement or subrogation, my role also as a representative of Insurance Company of North America was discarded at the Border, temporarily (to be resumed upon my exit!). Also on our negotiating team were Murry Berger, President of Seabrook Foods,



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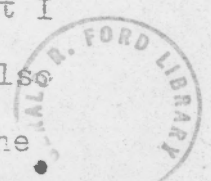
Inc., and two Hongkong Chinese who are Seabrook's representatives in Asia.

We brought six very large briefcases of evidence, pictures and business records to China with us, all of which were presented to the Chinese during formal discussions, and gone over by me with the Chinese, in detail. The negotiations were conducted formally, with eight days - some around the clock - consumed in frank but friendly talks. Our opposites in the formal negotiating sessions were: Jeng Wei, a Senior Official with the Chinese National Cereals, Oils & Foodstuffs Import and Export Corporation (Chief of the Aquatics Division) and the Senior Representatives of the Branches Involved (in the dispute).

The Chinese were well prepared, and were firm, strong in their own views, which differed entirely from ours in a number of ways, painstaking, detailed and hard-working - but very fair by their own standards. At stake were mutual dignity, mutual respect and an accommodation of our two widely different practices, procedures and attitudes in trade and other things.

It was quite evident during the negotiations that the Chinese Liaison Office in Washington, D. C. and also other Chinese friends had been kind enough to intervene and request that every effort be made to resolve the problem amicably and fairly. The Chinese team's patient and friendly attitude contributed greatly. I believe, also, that our side's genuine respect for China and for Chinese ways was of critical importance in resolving the problem.

We were able to settle the dispute to the full satisfaction of all parties involved - a formal settlement agreement was signed by me, as Chief Negotiator for Seabrook Foods, by Murry Berger, Seabrook's President, and by Jeng Wei, for the Chinese side, at 1:30 A.M. on the last day of our negotiations - eight in all! The work during the conference by the President of Seabrook, a distinguished American executive with American views, was able, patient and effective. The work done by the Chinese side certainly matched that of Mr. Berger in patience and quality. As the one man there who is familiar with both the Chinese and American worlds, I was proud of the representatives of each. The settlement by the Chinese side was very fair and even handsome. The details are confidential, but I can report that of the 1.2 million U.S. dollars loss, the recovery (including salvage of the rejected shrimp, and also China's voluntary contribution, in the name and spirit of friendship) will fall only about US\$200,000.00 short of the total.



東方賓館
TUNG FANG

BINGJAN

I am very pleased to report to you and possibly through you, to the President, that the crisis has been resolved; insurance coverage by Western World firms of China's sales to the U.S.A. will be reinstated; imports from China to the U.S.A. can continue; and, therefore, purchases by China from us will continue. I must compliment the Chinese on their fair and responsible handling of the first serious dispute on a major commercial matter with the U.S.A., involving China's products. Although this case involved the lowly shrimp, I feel its enormous impact on U.S. - China friendly relations warrants this direct report to you and the President.

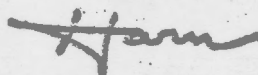
I feel strongly that this amicable settlement by our Chinese trading partners, following their tough attitude in the wheat blight situation, reflects their goodwill and their responsible approach to world trade. They made this goodwill besture, in a spirit of friendship and on the basis of what is mutually beneficial for our two peoples and countries, as they expressed it.

The Chinese well deserve reciprocal fair treatment by the U.S.A., in every way possible, including the early granting to China of "Most Favored Nation" status, in return for similar and other concessions we desire from the Chinese. Please be kind enough, Phil, to convey my views in this respect to the President, if you will.

As for myself, although I do not share the Chinese ideologies and am a loyal American, I am thankful that my birth and twenty-three years in China, my bilingual and bicultural condition as between the U.S. and China, and my ability to understand and communicate well with our Chinese friends, all had equipped me to be of some real service in this crisis.

As you may know, I would like very much to be of some official and formal service to the Administration with respect to China, if ever needed. Please call on me if the need should arise.

Sincerely yours,



"Harn"

Harned Pettus Hoose



MEMORANDUM

THE WHITE HOUSE

WASHINGTON

5112
ACTION

~~CONFIDENTIAL~~

August 19, 1975

MEMORANDUM FOR: DONALD RUMSFELD
PHILIP BUCHEN ✓
WILLIAM SEIDMAN

FROM: Brent Scowcroft *BS*

SUBJECT: Mr. Harned Hoose

In the past your offices have been contacted by a Mr. Harned P. Hoose, a Los Angeles businessman actively engaged in trade with the People's Republic of China. We have had dealings with Hoose for several years now, and have discovered that he typically uses very casual and self-initiated contacts with White House officials to promote his own commercial activities with the Chinese in a very self-serving manner.

Mr. Hoose is currently trying to broker a very large investment project in Hong Kong involving the construction of a petro-chemical complex by the Fluor Corporation and financed with American money. To be successful, this project would require support from the People's Republic of China; there is no evidence that Mr. Hoose has the support of Chinese officials which he claims to have. Without commenting on the merits of the project as a purely commercial venture, we are concerned about Mr. Hoose's efforts to link up his investment scheme with the political dimensions of the President's forthcoming trip to Peking.

Given the manner in which Hoose has misrepresented his contacts with White House officials in the past, I strongly suggest that any attempts by Hoose to contact you directly be diverted and that he instead be referred to the appropriate official at the Department of State concerned with our economic relations with the PRC. That official's name is Mr. Philip Lincoln, and his telephone number is 632-2656.

DECLASSIFIED

E.O. 12958, Sec. 3.5

NSC Memo, 11/24/98, State Dept. Guidelines
By W/HRM, NARA, Date 2/8/00



MEMORANDUM

THE WHITE HOUSE

WASHINGTON

Hoose
Harned
5112
ACTION

CONFIDENTIAL

August 19, 1975

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PHILIP BUCHEN
WILLIAM SEIDMAN

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DECLASSIFIED

E.O. 12958, Sec. 3.5

NSC Memo, 11/24/98, State Dept. Guidelines
By *WHA*, NARA, Date *5/8/00*



*Dick
Schuman*

For filing Harned

By TMH NARA, Date 1/13/16

HARNED PETTUS HOOSE

ATTORNEY AT LAW

129 NORTH ROCKINGHAM AVENUE
LOS ANGELES, CALIFORNIA 90049

CABLE ADDRESS
HARNHOOSE

AREA CODE 213
277-3811
472-2828

By Hand - July 31, 1975
~~CONFIDENTIAL~~ - PERSONAL

The Watergate Hotel - Rm. 611
(202) 965-2300

Philip W. Buchen
Counsel to the President
The White House
Washington, D.C.

Re: Political Gains Available to President Ford
in Connection with the China Refinery Project

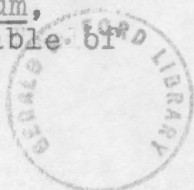
Dear Phil:

Enclosed is your information copy, which last Monday you suggested I send you, of my memorandum report for Fluor Corporation to the State and Commerce Departments and to Brent Scowcroft, dated July 31st. It deals with Fluor Corporation's negotiations on behalf of a U.S. Consortium of construction, oil, chemical and banking companies, with the People's Republic of China (PRC), to build for China the world's largest refinery and petrochemical plant in Hongkong, where it will use PRC feedstocks (crude oil and natural gas).

The negotiations have been successful, after four months of continuous sessions variously inside China and in Hongkong. As you know, since I speak Chinese fluently and was raised in China, gaining a bicultural background as to the U.S. and China during my twenty-three years there, I am Fluor Corporation's representative to the PRC and handle a senior position on the Fluor Negotiating Team, as its Liaison Man to China's senior government officials and to the other PRC trade representatives.

Fluor Corporation heads the U.S. Consortium, the leading companies of which include Bank of America, Chase Manhattan Bank, Phillips Petroleum Corporation and Union Carbide Corporation. The project not only greatly affects our relations with the PRC, but also will bring the U.S. a US\$13.6 billion balance of payments credit; an alternate source of petroleum and petrochemical products (which can offset the squeeze by the Middle-East oil countries), of great significance to U.S. strategic interests in the Western Pacific, East Asian, South China Sea and Indian Ocean areas, and also of importance to the U.S. in its search for greater and alternate energy sources. Because of the project's importance and also because the PRC demands secrecy at this stage, the U.S. Consortium inter-company communications all are being handled at the highest executive level: By J. Robert Fluor, Chairman of Fluor Corporation (who also is a member of President Ford's Export Council); David Rockefeller, Chairman of Chase Manhattan Bank; Chauncy J. Medberry, III, Chairman of Bank of America; F. Perry Wilson, Chairman of Union Carbide Corporation (who also is a member of President Ford's Export Council); and Wm. C. Douce, President of Phillips Petroleum Company.

Because the project has great political potential in support of the President and if handled properly can bring the President, personally, great credit in the fields of his international policy and his domestic economic policy, I urge you please to read the enclosed memorandum, personally. To facilitate that, I have deliberately prepared a Table of



HARNED PETTUS HOOSE
ATTORNEY AT LAW

Contents containing the essential information, which can be read in less than five minutes. In addition, the essential details are underlined in the memorandum, itself.

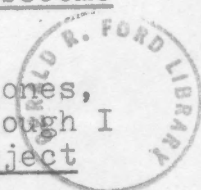
As you suggested, I am handling the initial "staffing" and the strictly diplomatic and trade aspects directly with State and Commerce. However I cannot speak with the people there about the political aspects, which I feel strongly can help us to get the President elected next year. On the strictly political aspects, and because I feel strongly that some circumstances involved in this massive project offer an excellent potential for the President personally, won't you please let me have a confidential session with you face-to-face and simply as two individuals mutually interested in helping President Ford prepare for next year's election? Perhaps you might find time for that, after you have had a chance to read the Table of Contents, in the enclosure.

Here are a few points you might consider, Phil:

1. On the Political Issues Affecting Our Domestic Economic Policies: The U.S. Consortium - China project in Hongkong will provide the U.S. with a US\$13.6 billion balance of payment credit; 140,000 man-years of directly related employment within the U.S., and with the multiplier effect on indirectly generated employment, Fluor's statisticians estimate that the figure could reach 560,000 man-years; the full-time and continuous use of 144 U.S. cargo ships for four years, between U.S. and Hongkong; and nation-wide industrial and employment involvement. The economic aspects of the project might be of interest to L. William Seidman. From the political viewpoint, the President can make the economic aspects a strong plus with the voting public, as an example of our anti-recession but non-inflationary steps in supporting private industry, and as another example of improving economic conditions, just before the election. Although I am a moderate and middle-of-the-road Democrat, I supported the Nixon economic and foreign policies and also support those of President Ford. We need President Ford for the next four years. It would be unfortunate and unnecessary politically if this project should receive its initial support from the opposition, and also it would be poor politics, in my view, for this Administration to fail to take the justifiable credit for the project and be subject to the opponents' inevitable charge that the project succeeded wholly on its own, and without Administration planning and support.

2. In the energy field, the project will provide the U.S. and its allies with a very large alternate source of petroleum and petrochemical products, in Asia (suitably far from the USSR and the Middle-East), not far from Diego Garcia, for example. That aspect has political overtones, in addition to its own merits. The President should receive the justifiable credit. Perhaps Frank G. Zarb should become involved with the project.

3. Other significant aspects, all with political overtones, are discussed generally at pages 32-33 of my memorandum. Although I cannot discuss political aspects at State or Commerce, the project offers another good answer by President Ford to his occasional "detente critics," to those feeling that our China affairs are static, and to those who say the President's trip to Peking will be barren.



HARNED PETTUS HOOSE
ATTORNEY AT LAW

3. J. Robert Fluor, Fluor Corporation Chairman, is a strong supporter of President Ford's. Also, as mentioned, he is a member of President Ford's Export Council. Bob Fluor is a major financial and political supporter of Republican causes, especially in California and on the West Coast. Also, he is close to Barry Goldwater and David Rockefeller. Bob Fluor feels strongly that this project has reached a stage at which President Ford and his senior Assistants should be involved, in view of the great economic impact and the international and political aspects. In due course, either via David Rockefeller or via Barry Goldwater, Bob Fluor will request that he, I and three other key Fluor men involved at a senior level in this major project with China, be granted a meeting with the President. Hopefully, the meeting can be scheduled some time after the President returns from Europe, but prior to August 15th, when the Fluor Team must return to Hongkong and China to work on the project negotiations. Still in complete confidence and off-the-record between us, Phil, from the political viewpoint - as well as on the merits - it would be in the President's interest to see the Fluor men led by J. Robert Fluor. I hope you will give thought to that and, if you agree, help.

As you suggested, I am working directly with State and Commerce on the routine international and commercial aspects of this matter. A Fluor senior team is joining me here in Washington next week, to assist in that work. Also, I plan to speak to Brent Scowcroft, whom I have met with in the past, about the high level oral messages I have been given by China to convey orally to President Ford, or to someone in a position to assure me that the message will be conveyed directly by him to the President.

But I have not discussed the political aspects with anyone other than you, and you are the only recipient of this letter and of the thoughts expressed through the end of numbered Paragraph 3, above. If you are so inclined, after reading this letter and the memorandum's Table of Contents, you alone have the ball in the political areas I have mentioned, Phil. Please let me have your thoughts. I shall be at the Watergate Hotel, Rm. 611, until around August 15th.

Just in case you might decide to involve any others at the White House informally and pending the "staffing" now in process at State and Commerce, I am enclosing three additional copies of the memorandum.

Hope to see you this trip - and many thanks for the telephone call and the time you took to make it, last Monday.

Sincerely yours,



Harned Pettus Hoose



HARNED PETTUS HOOSE

ATTORNEY AT LAW

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AREA CODE 213
277-3811
472-2828

Temporary Washington, D. C. Address
(Through Approximately August 15, 1975):

The Watergate Hotel - Room 611
2650 Virginia Avenue, N.W.
Washington, D.C. 20037
Telephone: (202) 965-2300, Rm. 611

July 31, 1975

~~TOP SECRET~~

Determined to be an
Administrative Marking

By TMH NARA, Date 1/13/16

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Secret Informal Decision by the People's Republic of China to Have a U.S. Consortium Headed by Fluor Corporation Design, Engineer, Finance, Build and Help Operate the World's Largest Refinery and Petrochemical Complex, to be Owned by China Through Its Chinese "Patriots" Residing in Hongkong; To Be Supplied by Chinese Feedstocks (Crude Oil, Gas, Etc.); to Cost Between US\$4.5 Billion to US\$7 Billion to Construct; Which Complex, During the Construction Period and the Initial Operating Period While Financing is Being Repaid, Will Provide the U.S.



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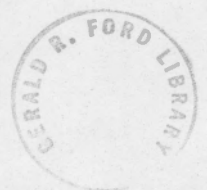
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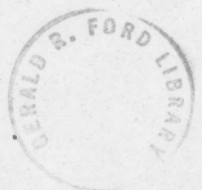
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a corporation or banking institution
which is an important member of the
U.S. Consortium led by Fluor Corporation,
communicate exclusively and directly
with the following two leaders of the
Fluor Corporation Entities:

J. Robert Fluor, Chairman of
the Board, Fluor Corporation
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REQUESTS BY FLUOR CORPORATION FOR SPECIFIC ASSISTANCE AND GENERAL GUIDANCE BY PRESIDENT FORD, HIS SENIOR ASSISTANTS, AND THE APPROPRIATE EXECUTIVES IN STATE AND COMMERCE 38-39

1. The President is Respectfully Requested to Meet With the Fluor Senior Executives and the Fluor Team's Three Senior Members, After This Matter Has Been Processed and Studied by the Appropriate Staffs and Upon the President's Return from Europe, to Discuss the U.S. Role and the PRC Requests of the U.S. Government in Connection with this Project 38

The Fluor Senior Executives and the Fluor Team's Three Senior Members Who Request the Meeting With the President Are:

J. Robert Fluor, Chairman and Chief Executive Officer of Fluor Corporation, Who Also is a Member of President Ford's Export Council 38

David S. Tappan, Jr., President, Fluor Engineers and Constructors, Inc. 38

A. C. Ewert, Vice President, International Sales, Fluor Engineers and Constructors, Inc. (who also is the Fluor Negotiating Team Leader, in the work with the PRC) ... 38

Charles M. Wuhrman, Executive Manager, Projects, Fluor Engineers and Constructors, Inc. (who also is the Project Director for this project) 38

Harned Pettus Hoose, Fluor Corporation Representative and Liaison Man to the People's Republic of China 38



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It Is Respectfully Pointed Out That the Above Steps, If Taken By the President, Should Be Effected With Careful Regard for the Delicate Circumstance That Fluor Is Advised That At This Time Only China's Most Senior Officials Are Aware of the PRC's Affirmative Intentions As to the Project ... 38

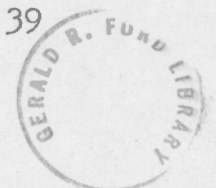
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If the President So Determines, He is Respectfully Requested to Take Whatever Steps He Feels Are Appropriate in That Connection, and to Advise Fluor Corporation as to Its Role in Calling the PRC's Attention to Any Such Impending or Accomplished Steps 39

SIGNATURE BY WRITER OF THIS MEMORANDUM,
 HARNED PETTUS HOOSE, REPRESENTATIVE AND LIAISON
 MAN TO THE PEOPLE'S REPUBLIC OF CHINA, FOR
 FLUOR CORPORATION 39

(End of Table of Contents)



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~~TOP SECRET~~

July 31, 1975 - By Hand

TO:

1. PHILIP C. HABIB, ASSISTANT SECRETARY FOR
EAST ASIAN AND PACIFIC AFFAIRS, U.S.
DEPARTMENT OF STATE

Attention: Philip T. Lincoln, Jr.,
Country Officer for People's
Republic of China, Etc. Affairs,
U.S. Department of State

2. TILTON H. DOBBIN, ASSISTANT SECRETARY FOR
DOMESTIC AND INTERNATIONAL BUSINESS,
U.S. DEPARTMENT OF COMMERCE

Attention: William W. Clarke,
Bureau of East-West Trade,
U.S. Department of Commerce

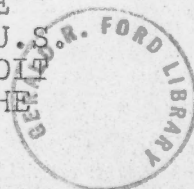
3. BRENT SCOWCROFT, DEPUTY ASSISTANT TO THE
PRESIDENT FOR NATIONAL SECURITY AFFAIRS

INFORMATION:

PHILIP W. BUCHEN, COUNSEL TO THE PRESIDENT,
THE WHITE HOUSE

SUBJECT:

SECRET INFORMAL DECISION BY THE PEOPLE'S REPUBLIC
OF CHINA TO HAVE A U.S. CONSORTIUM HEADED BY
FLUOR CORPORATION DESIGN, ENGINEER, FINANCE,
BUILD AND HELP OPERATE THE WORLD'S LARGEST
REFINERY AND PETROCHEMICAL COMPLEX, TO BE
OWNED BY CHINA THROUGH ITS CHINESE "PATRIOTS"
RESIDING IN HONGKONG; TO BE SUPPLIED BY CHINESE
FEEDSTOCKS (CRUDE OIL, GAS, ETC.); TO COST
BETWEEN US\$4.5 BILLION TO US\$7 BILLION TO CON-
STRUCT; WHICH COMPLEX, DURING THE CONSTRUCTION
PERIOD AND THE INITIAL OPERATING PERIOD WHILE
FINANCING IS BEING REPAID, WILL PROVIDE THE U.S.
WITH US\$13.6 BILLION BALANCE OF PAYMENTS CREDIT
AND AT LEAST 140,000 MAN-YEARS OF LABOR IN THE



SUBJECT (CONTINUED):

U.S.; WILL INVOLVE A NUMBER OF BENEFICIAL INTELLIGENCE, DEFENSE, STRATEGIC, INTERNATIONAL POWER BALANCE, ECONOMIC AND POLITICAL ASPECTS FOR THE U.S.; AND CAN PROVIDE THE PRESIDENT WITH A SIGNIFICANT AND SUBSTANTIAL SUBJECT FOR DISCUSSION AND POSSIBLE PUBLIC ANNOUNCEMENT DURING HIS VISIT TO PEKING LATE THIS YEAR

1. STATUS REPORT
2. ANALYSIS OF IMPLICATIONS FOR:
 - A. THE UNITED STATES OF AMERICA AND THE PEOPLE'S REPUBLIC OF CHINA; AND
 - B. THE U.S. ECONOMY, BUSINESS AND LABOR
3. REQUEST ON BEHALF OF FLUOR CORPORATION, THE LEADER OF THE U.S. CONSORTIUM, FOR ADDITIONAL AND CONTINUING COOPERATION, ASSISTANCE AND GUIDANCE BY THE PRESIDENT AND HIS ADMINISTRATION

FROM:

HARNED PETTUS HOOSE, FLUOR CORPORATION'S REPRESENTATIVE AND LIAISON MAN TO THE PEOPLE'S REPUBLIC OF CHINA

REFERENCES (PRIOR REPORTS AND COMMUNICATIONS ON THIS MATTER TO THE WHITE HOUSE, THE U.S. DEPARTMENT OF STATE, AND THE U.S. DEPARTMENT OF COMMERCE):

1. Hoose's Conference with Philip W. Buchen at the White House, March 5, 1975;
2. Hoose's Memorandum to Buchen ("Subject: Secret Request by the People's Republic of China (PRC) to Fluor Corporation, Etc.") dated March 5, 1975;
3. Hoose's Conferences with Philip T. Lincoln, Jr. (U.S. Department of State) and William W. Clarke (U.S. Department of Commerce) Between March 5th and March 12th, 1975;
4. Hoose Letter of March 11, 1975 (On Behalf of J. Robert Fluor, Chairman of Fluor Corporation) to Philip C. Habib, Assistant Secretary, East Asian and Pacific Affairs, U.S. Department of State;
5. Hoose's Letter of March 12, 1975 (On Behalf of J. Robert Fluor, Chairman of Fluor Corporation) to Tilton H. Dobbin, Assistant Secretary for Domestic and International Business, U.S. Department of Commerce;



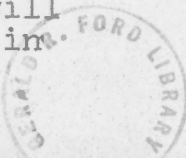
REFERENCES, ETC. (CONTINUED):

6. Two Letters by Tilton H. Dobbin, Assistant Secretary for Domestic and International Business, U.S. Department of Commerce, Both Dated March 25, 1975, to J. Robert Fluor, Chairman of Fluor Corporation; and
7. Letter by Lester E. Edmond, Deputy Assistant Secretary, Bureau of East Asian and Pacific Affairs, Dated March 26, 1975, to J. Robert Fluor, Chairman of Fluor Corporation.

REQUEST FOR PRESIDENTIAL AND WHITE HOUSE INVOLVEMENT AND ASSISTANCE, WHEN THIS MATTER HAS BEEN PRELIMINARILY PROCESSED AND EVALUATED BY THE ACTION ADDRESSEES AT THE U.S. DEPARTMENTS OF STATE AND COMMERCE:

1. Because this project by Fluor Corporation and its U.S. consortium with the People's Republic of China (PRC) directly affects U.S. - PRC relations and the President's visit to Peking later this year, has international power balance and political ramifications, affirmatively affects our economy, balance of payments, employment and alternate petroleum and petrochemical products sources, and has some strategic significance - all on a large scale - and also because the PRC has requested certain official steps on the part of the U.S. government to help in expediting and implementing the project, it is respectfully urged that the President and the White House become involved herein and provide guidance and assistance to Fluor Corporation.

2. The basic cost to the PRC or to its designated "front" or nominal Hongkong Chinese "Patriot" owners for engineering and construction of the complex will be between US\$4.5 billion and US\$7 billion, depending on PRC final decisions as to selections of complex units and product slates. The PRC will allocate about 42,000 metric tons of its crude oil per day, or approximately 14,000,000 metric tons per year, to the complex. Some of the products will be used within China and some will be marketed in foreign trade. Operation will be by the Hongkong Chinese "Patriots" (directed by the PRC), in cooperation with U.S. operating participants. Technology, engineering, construction, most of the machinery and equipment, much of the materials, financing, skilled labor and operational direction will be provided by U.S. interests. Fluor conservatively estimates that during the construction period (about four years) and the financing repayment period (about ten to twelve years), the project will provide the U.S. with a US\$13.6 billion balance of payments credit and with directly involved employment in the U.S. of 140,000 man-years of labor. Considering the multiplier effect, the continuing employment generated in the U.S. by the complex could be the equivalent of 560,000 man-years of employment. In addition, a significant alternate source of petroleum and petrochemical products will become available to the U.S. and its allies in Asia, through the complex. The impact upon the U.S. position in Asia, the Pacific and the Indian Ocean can be significant. U.S. - China relations will be affirmatively affected; U.S. - China trade will be substantially increased, as a very substantial step forward in



that area under the Shanghai Communiqué of February, 1972; and the U.S. will have become significantly involved in China's oil industry and a substantial portion of its crude oil and gas processing industries, with the resultant potential for further U.S. involvement in China's petroleum exploration and development program.

In view of the size, scope and implications of the project, Fluor Corporation would very much appreciate Presidential and White House guidance and assistance, supplementing that of the U.S. Departments of State and Commerce.

3. The preliminary assistance and guidance of the U.S. Departments of State and Commerce provided to Fluor Corporation and Hoose in Washington, D.C. in March, 1975 (as reflected in References 3 through 7, above) and the help and counsel of the U.S. Consul General in Hongkong provided to Fluor and Hoose during March through July, 1975, have been very much appreciated. Continuing assistance and guidance of that nature are respectfully requested, as the appropriate State, Commerce and White House personnel process and evaluate this matter and the within memorandum. Hoose is now available here in Washington, D.C. to work with State, Commerce and the White House on this matter, as may be needed and desired by them. He will remain here until around August 15th, when a return to Hongkong and China on this project will be required. In addition, the following two Fluor senior executives will be available here in Washington, D.C., from August 4th until around August 15th, when they too will be required to return to Hongkong and China on this project: A.C. Ewert, Vice President, International Sales, Fluor Engineers and Constructors, Inc. (who is the Fluor Negotiating Team Leader, in our work with the PRC and its Hongkong "Patriots"); and Charles M. Wuhrman, Executive Manager, Projects (who is the Project Director for this project, and the Fluor Technical Team Leader). Ewert, Wuhrman and Hoose will cooperate in all ways possible in the various U.S. government studies and discussions relating to this matter and the within memorandum.

4. Request for a Meeting with President Ford, by J. Robert Fluor, Chairman of Fluor Corporation, and David S. Tappan, Jr., President of Fluor Engineers and Constructors, Inc. (Accompanied by Their Senior Assistants in this Project: Messrs. Ewert, Wuhrman and Hoose)

J. Robert Fluor, who is a member of President Ford's Export Council and also is the Chairman and Chief Executive Officer of Fluor Corporation, respectfully requests that after President Ford returns from Europe, the President and his applicable advisors and Assistants please meet with the following Fluor men, to discuss the project, guide Fluor Corporation as to aspects touching upon our national interests, including the economy, alternate energy source aspects, and U.S. - China trade relations, and to consider the Fluor Corporation's specific requests



to the President and the White House, which are set forth in Paragraph 12 hereinbelow:

J. Robert Fluor, Chairman and Chief Executive Officer of Fluor Corporation
David S. Tappan, Jr., President, Fluor Engineers and Constructors, Inc.
A. C. Ewert, Vice President, International Sales, Fluor Engineers and Constructors, Inc. (and the Fluor Negotiating Team Leader, in the work with the PRC)
Charles M. Wuhrman, Executive Manager, Projects, Fluor Engineers and Constructors, Inc. (and the Project Director for this project)
Harned Pettus Hoose, Fluor Corporation Representative and Liaison Man to the People's Republic of China

In view of the requirement that Fluor Corporation resume its active discussions with the PRC and its Hongkong "Patriots" around August 15th, it is respectfully requested that the meeting with President Ford and his applicable advisors and Assistants be scheduled at the President's convenience, some time after his return from Europe and prior to August 15th.

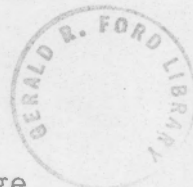
5. Suggestion That the White House May Wish to Involve, At Least in Preliminary Discussions with Fluor Corporation's Messrs. Ewert, Wuhrman and Hoose, the Hon. L. William Seidman, Assistant to the President for Economic Affairs, and the Hon. Frank G. Zarb, Administrator, Federal Energy Administration

Because of the substantial and significant impact of the project upon the U.S. economy and the project's affect on planning and work as to alternate or expanded crude oil, gas, petroleum products and petrochemical products, the White House might feel that it would be useful to involve the following two senior U.S. governmental officials in discussions with Fluor's senior men who are handling the project:

The Hon. L. William Seidman, Assistant to the President for Economic Affairs; and

The Hon. Frank G. Zarb, Administrator, Federal Energy Administration.

Fluor Corporation's senior men who are handling the project, Ewert, Wuhrman and Hoose (who are described in Paragraph 3, page 4, above) would be available for such discussions in Washington, D.C., at the convenience of Mr. Seidman and Mr. Zarb, between August 4th and August 15th. The Fluor men can be reached through Dr. Hoose, Rm. 611, Watergate Hotel.



STATUS REPORT, DESCRIPTION OF THE PROJECT AND STEPS IN PROCESS,
IDENTIFICATION OF ENTITIES AND INDIVIDUALS INVOLVED, AND ANALYSIS;
AND REPORT AS TO PRC INQUIRIES AND MESSAGES ABOUT THE PROJECT

Note as to a Quick-Scan Device Herein:

To enable readers to absorb the substance of this rather long report quickly, the essence (including titles and sub-titles of paragraphs) is underlined.

1. The People's Republic of China (PRC) Requires Absolute Secrecy as to this Project

PRC officials in China and in Hongkong have stressed to Fluor that this matter must be kept absolutely secret until China is prepared to announce it, either itself or through its so-called "Patriots" in Hongkong (Chinese residents in Hongkong who are loyal to the PRC and who will "front" this project for China, acting as the nominal owners and operators). The PRC has stressed that any public announcements or news leaks may necessitate the termination of discussions, and possibly denials by the PRC that the discussions have been in progress for four months and are continuing. Reasons given: The PRC must first prepare its senior internal opposition group and its people, as well as its allies, for the announcement that a U.S. consortium will carry out the project in Hongkong in cooperation with and for the PRC, using Chinese crude oil and gas.

2. The PRC is Handling this Project Simultaneously at Two Levels: (1) Through Normal State Trading and Business Corporations; and (2) Through a Secretly Functioning "High Political Channel" Headed by One of China's Highest Officials, Marshall Yeh Chien-ying, Apparently in Cooperation with Vice Premier Teng Hsiao-ping

A. The Normal State Trading and Business Corporations Channel

(1) The "Hongkong Patriots," Who Will Be the Nominal Owners and Operators of the Complex (Fronting for the PRC)

Mr. Henry Y. T. Fok (Ho Ying-tung), who is a very wealthy pro-PRC Chinese industrialist and businessman in Hongkong. His net worth is estimated by one of his bankers, W. Chan, Sub-Manager of the Hua Ch'iao, etc. Bank in Hongkong (PRC-controlled) as "over fourteen billion dollars, Hongkong money, (about US\$2.8 billion).



Henry Y. T. Fok and his background are well known to our U.S. Consul General in Hongkong. Fok now fronts for all PRC petroleum business in the Hongkong area, usually through his corporation, Feoso Oil Limited. He is handling the PRC's construction of oil storage depots in Hongkong's Shatien area and on Hongkong's Ch'ing-yi Island. Fok has wide real estate interests in Hongkong and Macao, and operates about 80% of the gambling casino establishments in Macao. One of his several hotels in Macao is the largest one there, the Lisboa. Fok owns the larger of the two hydrofoil fleets operating between Hongkong and Macao; is closely associated in some business ventures with Ho Yin (also called Ho-hsien), leading businessman in Macao, President of the Macao Chinese Chamber of Commerce and Macao delegate to the PRC 4th Congress. Henry Y. T. Fok (Ho Ying-tung) formerly was the notorious "smuggler" (backed by the PRC, which regards Fok as the PRC's John Paul Jones or its Sir Walter Raleigh), who ran the Seventh Fleet blockade during and after the Korean War. Fok has been designated by the PRC as its nominal owner and operator of the complex, who will front for China.

With Henry Y. T. Fok and also serving as the PRC's "Hongkong Patriots" in this venture, are: Timothy T. T. Fok, the eldest son; H.T. Liu, Managing Director, Feoso Oil Limited; Paul L.Y. Yang, Director of Feoso; L.L. Pong, a Fok relative and Fok's personal business manager; and others of Henry Fok's corporate and personal families. We have been told (by members of the "High Political Channel") that Ho Yin - also known as Ho-hsien - the Macao Delegate to the PRC 4th Congress, will be a silent partner with Henry Fok in the venture.

(2) PRC State Trading Channels in Hongkong

At this level, the project is being handled by China Resources Co., the PRC trading and business representative in Hongkong. The Fluor contact there is: T. M. Chow, Assistant Manager, Industrial Products & Minerals Dept. He has little or no discretion, and has to work with Peking trade channels.



Chow's function has been to receive communications from Fluor, deliver communications from Peking trade and technical channels to Fluor, request additional information or clarification, and the like, and to attend social functions variously given by the Chinese side for Fluor or by Fluor for the Chinese side. Chou has been involved in Hongkong with all of Henry Fok's and Feoso's oil business with the PRC. Chow does not appear to be connected with the "High Political Channel."

(3) Chinese Advisors and Assistants to the Fok Group

Valentin Nan Yeh (Yeh Nan), a U.S. citizen of Chinese origin, and a resident of N.Y., although he has been in the PRC for substantial periods recently. He is President of Da Sing Corp., in N.Y., and is very pro-PRC. Those who do not happen to be familiar with the Chinese perhaps should realize that the coincidence of similar or identical surnames among the Chinese is meaningless. There are only some 400 Chinese standard surnames, and widespread duplication is inevitable. So this Yeh is not related at all to Marshall Yeh Chien-ying, the leader of the "High Political Channel." Nor does Valentin Nan Yeh (Yeh Nan) appear to be connected with the "High Political Channel." He represents Mr. Fok in business matters, certainly in Asia and possibly also in the U.S. Yeh Nan has handled Fok's liaison work on this project with Peking, where his contacts include Liao Chen-tze, a senior official with the PRC involved with overseas "friendship groups," including Japanese.

James Lau (in Mandarin: Liao Hsing-chien), Managing Director, Top Trading Co. (H.K.) Ltd., in Hongkong. Lau (or Liao) is a business friend of Henry Fok, an intimate personal friend of Fok's relative, L.L. Pong, and advises Fok, through Pong, in this project. We have been told (by the "High Political Channel") that Lau (Liao) was among the pro-PRC overseas Chinese who assisted in the removal of Li Tsung-jen, formerly Vice President and briefly President, Republic of China, from his refuge in the U.S. to the PRC, during the cold war. Li was exhibited by the PRC in Peking as part of the PRC's cold war against us and Taiwan. He has passed on.



(4)

Fluor's Work and Contacts with the
Above Normal State Trading and Business
Channels, February Through July, 1975

The Fluor Negotiating Team, numbering from one to nine members at various times in the period indicated but with the largest number of members present in Hongkong between May 21st and July 13th, has dealt intensively and extensively with the above channels in Hongkong.

Work with Henry Y. T. Fok's (Ho Ying-tung's) group has been particularly heavy, as the Fluor Team enlarged upon, explained and developed its conceptual proposals as to the project, in the technical, financial and business areas. One meeting of the entire Fluor Team and the entire Fok team was attended by both the China Resources man (T.M. Chow, or Chow Tak-ming in Cantonese, or Chou Teh-ming in Mandarin) and a PRC man from Peking, H. T. Tung (or Tung Hang-to in Cantonese, or Tung Hen-tao in Mandarin). One other meeting involved the entire Fluor Team, the entire Fok team and H. T. Tung. Numerous conferences and sessions involving parts of each team (Fluor and Fok) were conducted; daily conferences between a Fluor Team member, Hoose, and Henry Y.T. Fok's eldest son, Timothy T.T. Fok (Ho Chen-ting in Mandarin, and Ho Tsen-ting in Cantonese) took place; and a number of sessions involving one or two Fluor men and one or two Fok men occurred. Fluor's representative, Hoose, also met separately with Chow on other occasions. In addition, potential sites for the complex were inspected via sea and by car by the Fluor Team, on two occasions accompanied by two members of the Fok team (Lantao Island and Macao). Fok supplied the launches for two days of site inspection via sea, and the vehicles for another two days of site inspection by land vehicles. In addition, during the working period in Hongkong from February through July 19th, and presently, Lee Pay-chu (identified in connection with the "High Political Channel," below, maintained and maintains almost daily liaison between the Fluor side and the PRC side comprising the normal trading channel, including China Resources and that entity's T.M. Chow.



(5)

Status of the Project, According to
the Normal State Trading and Business
Channels

Henry Y. T. Fok went to Peking for consultations with the Chinese government about the project, on three different occasions between February and July, 1975: Once in February, when both he and Ho Yin (Ho Hsien), Delegate to the 4th Congress of the PRC from Macao, were there (and when we have been told, the Fok and Ho Yin interests in the project were resolved); once in May, when he was accompanied into China by his aide, Yeh Nan, and by his son Timothy Fok, and Hoose met with them all and worked with them in Kwangchow; and again in July, when Fok was in China with the Hongkong Football (soccer) Team, as the President of the Hongkong Football Association, and visited Peking and the Ta Ch'ing oilfield area, among other places.

Fok conferred in person with Fluor's representative, Hoose, both in China and in Hongkong, about his trips. The following report in part is based on those conferences and in part is based on Henry Fok's, Timothy Fok's, Lau's (Liao's) and others' comments and reports also to other Fluor Team members.

According to this normal state trading and business channel, including Fok and China Resources (to Fluor men, via Hoose and via Lee Pay-chu):

"Peking is very much interested in this project, and is studying it carefully at the highest political and also at the technical levels." Final and formal decisions are expected from Peking, says this channel, "around next October and November." This channel also cautiously says, "off-the record," and with evident hesitancy to go beyond any authority from Peking, that "things look very positive as to our project, and we have a green light."

Unknown to the Fok group, we are told, the "High Political Channel" in Hongkong gave Fluor almost daily whereabouts and progress reports about Fok's Peking trips, and two weeks before he returned, told Fluor that Fok would tell us the above things upon his return. The predictions were verbatim and were exactly fulfilled by Fok on his later return.



(6)

The Normal State Trade and Business Channels Are Completely Unaware That Fluor Also is Working With the "High Political Channel"

According to the "High Political Channel" contacts of Fluor's, the normal State trade and business channels are completely unaware that Fluor also is working with the "High Political Channel." We do not know whether that is true, either in part or completely, but of course must assume it is true in conducting ourselves, or run the risk of angering our important and helpful contacts in the "High Political Channel," who have repeatedly instructed the leaders of the Fluor Team and Hoose not to mention the existence of the "High Political Channel" in this matter, its reports and communications to Fluor and Hoose, or the presence of one of its members (Lee Pay-chu) at almost all of our meetings with the members of the normal trade and business channels, including the Fok group.

(a) Reason for This Secrecy, According to "High Political Channel Sources"

The Fluor Team leaders themselves have been told by Lee Pay-chu, and Hoose has been told by him and also by other positively identified members of the "High Political Channel," both within China and also in Hongkong:

- i. That the Fok group, including Henry Y.T. Fok, himself, and the commercial and business-related men in the PRC trade entities must not know about the "High Political Channel" and our direct contacts with it, because the "High Political Channel" is charged with "watching" the normal channel and with guarding the PRC interests in Hongkong; and
- ii. That if the presence and involvement of the "High Political Channel" were known to the normal channel, the latter would become angry, perhaps frightened, and "less cooperative."

(b) Hoose's and Fluor's Assumptions as to



(b) (Continued)

the Real Reasons for the Above Procedures,
Involving the Secrecy Strictures Placed
Upon the Fluor Team by the Members of
the "High Political Channel"

- i. We assume that probably at least Henry Y. T. Fok, himself, and probably some or all of the PRC Chinese are generally aware of the "High Political Channel's" involvement, interest, and contacts with Fluor. Perhaps the motive for the strictures upon Fluor as to mentioning the "High Political Channel" to the members of the normal channel includes the quite commonly secretive nature of many Chinese communist procedures; a desire to keep the Americans and the relatively westernized Hongkong Chinese from communicating too freely with each other or comparing notes as to their respective communications from Peking.
- ii. We also assume that the "High Political Channel" men are communist party members, political men and probably intelligence service related. At least most of the normal commercial channel men are just businessmen and traders. The former are watching the latter, especially with respect to activities with the American Fluor Team.
- iii. We assume, too, that when the project is implemented, the PRC and the Fok group will have to work out what financial rewards or benefits Fok will receive in return for fronting the transaction for PRC. Fok now has small interests in the PRC's Hongkong business ventures involving petroleum products, which Fok fronts. The same is true of his Hongkong sales of sand and other products from China. It is not illogical to assume that the PRC is dealing with Fluor directly through the PRC "High Political Channel" simultaneously with the PRC dealings through normal trading channels, in part to guard against any efforts on the part of the Hongkong "Patriots" to gain some side advantage with Fluor in the project (which, of course, Fluor

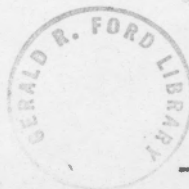


iii. (Continued)

would reject in any event).

iv. The Fluor Team leaders and Hoose also know, personally, from direct exposure to one of the "High Political Channel" senior members - Wang Chen-chuan - in Peking, that the "High Political Channel" selected Henry Fok and introduced Fluor to him. Fluor also met Lee Pay-chu in China, in connection with Wang Chen-chuan. Wang and his associates in Peking involved themselves directly with the Fluor Team's early negotiations and conversations in Kwangchow (Canton) in the Autumn of 1973 and in Peking, in February, 1974. Wang's and his associates power and authority were clearly apparent to the Fluor Team members during the several weeks in Peking, and it also was very evident that the normal commercial channel men in Peking were somewhat afraid of Wang. Among other things he did in the Americans' presence, he once ordered two obviously senior People's Liberation Army officers to vacate a train compartment, to make room for a Fluor executive. He was driven around Peking during Fluor's several weeks' work with Machimpex and Techimport there, and conducted the Fluor Team members, in a military vehicle driven by a military driver.

Wang also was Hoose's host during a subsequent trip they took together, at PRC expense, to Shanghai and Hangchow, for ten days. Wang told Hoose that his host on that trip was the government of the PRC. That too was evident from the privileges exacted by Wang, who was equipped with written authority, from the Revolutionary Committees in charge of the Shanghai and Hangchow areas. So although the motives of the "High Political Channel" in demanding the secrecy described above are not clear to the Fluor Team, the authenticity and authority of that channel is very clear indeed.



B. The "High Political Channel" Headed by Marshall Yeh Chien-ying

As the U.S. government knows, Yeh Chien-ying is close to Chairman Mao Tse-tung, Premier Chou En-lai and Vice Premier Teng Hsiao-ping. Yeh is one of the PRC's original marshals, a veteran of the Long March, the Minister of Defense, and one of China's handful of top leaders.

This group, which refers to itself with Fluor men as "The Channel," is composed of the following individuals, all of whom are involved in this project, according to bits and pieces of information variously told to Hoose; told to the Fluor Team leaders; possibly inadvertently or incidentally mentioned in the course of discussions on other topics; and overheard by Hoose during (i) conversations by him with known channel members variously inside China and in Hongkong or (ii) in the course of telephone conversations in Hoose's presence, variously inside China and in Hongkong:

Yeh Chien-ying (In charge of the PRC side of the project negotiations, according to our sources). We have been told told (by this Channel's members Chen Hung, Sub-Manager of the Bank of China, Hongkong; T. W. Shu, Assistant Manager, Bank of China, Hongkong - who both secretly are senior men in China's "political" group (probably intelligence) in Hongkong - and Lee Pay-chu (P.C. Lee), a Hongkong Chinese positively identified by three Fluor executives and Hoose in China, as a pro-PRC civilian residing in Hongkong but closely connected with Yeh Chien-ying's senior aide, Wang Chen-chuan) that Premier Chou En-lai and Vice Premier Teng Hsiao-ping also are actively involved in the project planning. This last cannot be confirmed, but is likely in the light of the range and nature of the information Fluor is receiving via this Channel, some of which has reached the Fluor Team weeks prior to eventual receipt of the identical information or news via Fok and the normal trade channels.

Wang Chen-chuan - A senior aide to Yeh Chien-ying in Peking. This man is well known by Hoose and is known also by three of the Fluor officers, who worked with him for about three weeks in Peking, in 1974.

Wu (or Woo) _____ (Given names unknown, because he is always referred to only as "Lao" (Old) Wu - an affectionate and respectful Chinese usage). Wu is Wang Chen-chuan's approximate equal in rank, and has been in New York City in connection with the PRC UN



Wu (or Woo) (Continued)

Mission (February, 1975). He has been in New York several times, travels relatively often between there and Peking, and deals directly with Huang Hua. He was on Lushan (Lu Mountain, Kiangsi Province) in late June, 1975, and went from there to Hongkong around the end of June, when he conferred with Lee Pay-chu, Chen Hung and others in the Channel in a large and luxurious house owned by the PRC on the Peak in Hongkong and in another large and luxurious house owned by the PRC on the "Kowloon Side," Hongkong. He told Lee Pay-chu, who told Hoose (February, 1975) that the PRC owns "over 50%" of the Henry Fok oil interests in Hongkong," which information was confirmed to Fluor by Fok himself in Hongkong, in May and June, 1975. Wu travels to and from Peking, Kwangchow (Canton) and Hongkong relatively frequently, and gives orders on high level PRC matters to Chen Hung, known in Hongkong as the Sub-Manager of the Bank of China. "Lao" Wu and his senior, "Lao" Chu (or Ju) through Lee Pay-chu told Hoose and Fluor that the PRC has selected Henry Y.T. Fok (Ho Ying-tung) as China's "Hongkong Patriot," to front for the PRC in being the nominal owner and operator of the Hongkong Refinery and Petrochemical Complex. Fok himself, Chen Hung, and T.W. Shu (the latter two, of Bank of China, Hongkong) confirmed that to Hoose, and Fok himself by his conduct and indirect remarks has confirmed that to the Fluor Team leaders.

Chu (or Ju) _____ (Given names unknown, because he is always referred to only as "Lao" (Old) Chu - an affectionate and respectful Chinese usage). This man is immediately junior to Yeh Chien-ying and is the immediate senior of Wang Chen-chuan and "Lao" Wu. He is sixty-seven years old, and quite fat physically. "Lao" Chu is directly in charge of the PRC side of the negotiations, and gives frequent instructions to Chen Hung (Bank of China, Hongkong), Yeh P'ing (China Resources Co., but a "political man" and a very senior Channel member, behind his "front" position as Deputy Director of China Resources Co.), and Lee Pay-chu. "Lao" Chu issues direct instructions to Wang Chen-chuan and "Lao" Wu, and also communicates directly in Peking, Kwangchow (Canton) and Hongkong, with the Chinese civilian member of the Channel, Lee Pay-chu. "Lao" Chu does not normally leave China, unlike his lieutenant, "Lao" Wu, and seems to divide his time almost equally between Peking and Kwangchow (Canton). He attended a conference with other PRC leaders on Lushan (Lu Mountain), Kiangsi Province, in late June and early July, 1975. Chu sent Wu from Lushan to Hongkong around the end of June, 1975, to obtain specific information from the Fluor side, to be taken



to Peking for use by Vice Premier Teng Hsiao-ping and Marshall Yeh Chiang-ying, in their high level "struggle" about the project, with the small but strong "Shanghai Group" of PRC leaders, who were questioning Fluor's and the U.S.A.'s "probable neo-colonial motives" in pushing (or supporting) the project. Chu has been known of by Hoose since 1973, and is the PRC senior official who obtained high level approval for Wang Chen-chuan to escort Hoose at PRC expense on the trip to Shanghai and Hangchow for ten days in 1974. Hoose has overheard Lee Pay-chu talking on the telephone between Kwangchow (Canton) and Peking, and between Hongkong and Peking, several times - including occasions when the calls were placed by Lee from Hoose's hotel rooms. The conversations with the Chinese operators and with the one called (Chu T'ung Chih, or "Comrade" Chu) involved identifying statements; and some of the calls included requests for specific information, positions or approvals - with references to Marshall Yeh - and were followed, variously within a few hours or a few days - by the requested matters. Chu also was described by Wang Chen-chuan to Hoose as "my senior" and in similar terms, at various times in 1973-1974, in China. Among other things, on some occasions Hoose's requested visa to enter the PRC on business has been forthcoming within a few hours after such telephone calls were made by Lee Pay-chu to "Lao" Chu in Peking. "Lao" Chu should be readily and specifically identifiable by the U.S. government by his position - immediately junior to Yeh Chien-ying; his areas - Peking and Kwangchow (Canton); his age - 67; the identities of his fully identified immediate subordinates - Chen Hung and Yeh P'ing, in Hongkong; and Wang Chen-chuan and "Lao" Wu, within the PRC and (as to "Lao" Wu, only) in New York; and his areas of responsibility - security; intelligence; military; and the regulation of contacts with foreigners. Chu has personally carried Fluor materials from Kwangchow (Canton) to Marshall Yeh Chien-ying in Peking, and conferred there also with Vice Premier Teng Hsiao-ping, on the project (Hongkong Refinery and Petrochemical Plant). These trips were in May, June and July, 1975.

H. Chen (Chen Hung), outwardly known as the Sub-Manager, Bank of China, Hongkong. Actually, he also is a senior member of the PRC "political" (intelligence) group in Hongkong, and exercises considerable authority as to the Fluor project. He communicates directly with



Yeh Chien-ying, "Lao" Chu, "Lao" Wu, and Wang Chen-chuan, in China, and is the most frequent source of information or authority used by Lee Pay-chu in Hongkong. H. Chen (Chen Hung) is consulted about the project almost daily by Lee Pay-chu, and apparently can obtain instructions or information from either Yeh Chien-ying or "Lao" Chu (varying with the importance of the need) within a few hours after being asked to do so. Hoose has discussed the Fluor project in Hongkong directly with Chen Hung (July, 1975, was the last time). Two possibly interesting notes: (i) The Hongkong colonial authorities identify Chen Hung as a man with great authority, in their own dealings with the PRC; and (ii) Chen Hung and Hoose were schoolmates in their youth (the 1930's) at Peking American Highschool. Chen Hung has changed his name since then, and like most Chinese communists, does not like to acknowledge his early American schooling.

Yeh P'ing, nominally just a Deputy Director of China Resources Co., Hongkong (and in charge of the office). Actually, he too is a senior member of the PRC's "political" (intelligence) group in Hongkong, and with Chen Hung he functions as the PRC "shadow PRC government" of the pro-PRC Chinese residents in Hongkong. This man also is heavily involved in the Fluor project, but works in the background with Lee Pay-chu.

Lee Pay-chu (P.C. Lee), a Chinese businessman in Hongkong. He was met by Hoose, among other places (in the U.S. and in Hongkong) in the PRC, in direct connection with Wang Chen-chuan, who identified Mr. Lee as "my friend." Lee Pay-chu is a civilian, and heavy exposure to him in the past three years has convinced Hoose that Lee is not a member of the PRC Channel, as such, but serves rather in a voluntary capacity as a nongovernment volunteer motivated by deep patriotism for his fatherland, the PRC. Lee is a Northerner, from Paoting. He comes from a long line of educated and wealthy traders, reaching back generations to the silk routes across Asia. He owned ten "factories and large outlets" devoted to furs, silks and other textiles and goods, in 1949. He "gave them to China," he claims. During the war against the Japanese, Lee was a guerilla fighter, and became impressed by Chairman Mao and his supporters in that period. P.C. Lee (on behalf of the PRC) was a key figure in cooling the "disturbances" or pro-PRC riots in Hongkong, during the so-called Great Proletariat Cultural Revolution, in 1967, and handled the settlement and cooling negotiations for the PRC side through an English solicitor, George Stevenson, on the British side. The Fluor Team met Lee Pay-chu in China in the Fall of 1973. In the subsequent

February, 1974 Fluor Team visit to Peking, Wang Chen-chuan identified Lee to the Fluor Team members orally, as "my friend," and recommended that if Fluor wished to have a Chinese work with them in their business efforts with the PRC, Lee Pay-chu would be "very suitable for that purpose." On other occasions, Wang Chen-chuan similarly identified and recommended Lee Pay-chu to Hoose, both in Kwangchow (Canton) and in Peking. Lee Pay-chu interfaces with Hoose, in the liaison work between the PRC and Fluor Corporation, in this project. Lee is in direct contact on a frequent basis with Yeh Chien-ying; "Lao" Chu; "Lao" Wu; Wang Chen-chuan; and the various Hongkong members of what they refer to as "the Channel." He is involved almost full time with the project, works most frequently directly with Hoose (but quite often with Messrs. Ewert and Wuhrman, the Fluor Team Leader and the Fluor Project Director, respectively). In connection with this project and Fluor approaches to the PRC, Hoose and Lee have been in Peking together and in Kwangchow (Canton) together, Lee has gone alone to Peking twice, and Lee has gone alone to Kwangchow (Canton) many times, the most recent of which were last week and again, yesterday (July 22nd-24th, and July 28th-29th. To date, all of Lee's promises have been kept and all of his reports have been confirmed exactly by subsequent events. He is painstakingly honest, scrupulously careful in his work, and so far has been completely trustworthy in his dealings with Hoose and Fluor. However, it must be borne in mind that Lee Pay-chu is absolutely dedicated in his love of China, and obedient to the directions of what he calls "the Channel," by which he means everyone working for Marshall Yeh Chien-ying. Where China's national interests and our American national interests are in opposition, Lee cannot be relied upon at all by the American side, of course. He is aware that Hoose feels exactly the same way, but in reverse, and that he cannot rely at all on Hoose as to anything which may not serve the national interests of the U.S. However, the working bond between Lee and Hoose is their commonly shared respect for individual Chinese and the non-communist aspects of Chinese culture, and above all, Lee and Hoose share a common grave concern about the steadily growing USSR military threat to both the U.S. and China, and the hope that cautiously increased Sino-American relationships may provide one of the answers to the USSR military threats, eventually, if that answer continues to be in the respective national interests both of the U.S. and of China. This section has been handled in detail, because the Lee-Hoose cooperation has been and can continue to be of value to the project and to the U.S., in view of Lee's powerful PRC connections and Hoose's various contacts in our own government.

3. Secret Informal Decision by the People's Republic of China (PRC) to Proceed with the Hongkong Project

Fluor's A.C. Ewert, Jr., Vice President, International Sales (Fluor Negotiating Team Leader, in the work with the PRC), Charles M. Wuhrman, Executive Manager, Projects (Project Director for this project, and the Leader of the Fluor Technical Team for this project) and Harned Pettus Hoose, all have been told the following by Lee Pay-chu, and key portions of the following also have been confirmed to Hoose by Chen Hung, another member of the "High Political Channel," which is referred to by its members as "the Channel." Note that the following dovetails with and supports, in greater detail, the comments and reports to Fluor by members of the PRC normal trading channels, reported above (Paragraph (5), page 10, hereinabove).

- A. With the "approval of Chairman Mao," Premier Chou En-lai, Vice Premier Teng Hsiao-ping and Marshall Yeh Chien-ying, Minister of Defense (among other key positions), together with their senior colleagues, have decided to proceed with the Fluor plan for the PRC to construct, own and operate (through its Hongkong Chinese "Patriots"), the Hongkong Refinery and Petrochemical Complex, and to allocate the necessary
- B. A public announcement will be made either (i) soon after President Ford's visit to Peking, if the PRC - U.S. relations continue to be friendly and if no unexpected difficulties arise before then, either within China or externally, or (ii) earlier than the President's visit to Peking, if the U.S. can provide the PRC with some "suitable" trigger device, i.e. some propaganda excuse for China to use with own senior cadre groups and people internally, and with its allies, externally.
1. The so-called trigger device is needed by China's leaders as an excuse for an early announcement of the project, and for documenting it and proceeding publicly with its implementation. If no such trigger device can be forthcoming, then the PRC will use President Ford's visit to Peking (if the result is generally constructive) as the necessary excuse for the announcement and implementation, pursuant to the Shanghai Communiqué of February, 1972 and its provisions as to trade and business between the two countries.

2. The trigger device definitely does not have to include recognition, the exchange of ambassadors, the abrogation of our treaty with Taiwan, or any such grave extreme and controversial step. It will be sufficient if President Ford can just initiate or announce the beginning of procedures to do one or more of the following:
- a. Make Most Favored Nation status available to the PRC. In this connection, the PRC representatives showed some familiarity with our laws, and with the limitations upon the President's powers to effect such status as to the PRC. The request was simply that there be an announcement of this Administration's policy favoring MFN for the PRC, and initiating the formal procedures; or
 - b. Resolve the blocked funds and frozen assets problem. Here, the suggestion was that the U.S., by itself, "take the first step," and then that China, too, will comply on its side and will reciprocate. That portion of the message is not intelligible to the Fluor people, because they do not know the precise status of this item; or
 - c. Remove all U.S. armed forces from Taiwan. Here it was stressed that at this point and for the limited purposes involved (to enable the PRC to proceed with the project, at an early date), it would not be necessary to do anything further at this time with respect to Taiwan; or
 - d. Make some other "similar" token friendly and public gesture, of at least "some substance," with respect to the PRC. Such a gesture should be designed to be suitable as an excuse for the PRC leaders to use with its people and allies, for the major steps and apparent shifts in previously announced PRC policy inherent in an early public announcement and the implementation of the Hongkong project.

C. Evolution of the Affirmative Decision, Within the PRC

The PRC desire to construct, own and operate a major refinery and petrochemical complex in Hongkong and to supply it with Chinese feedstocks (crude oil, gas, etc.) was formulated early in February, 1975, by the Yeh Chien-ying group in Peking, in response to inquiries by Fluor Corporation transmitted to the PRC via Hoose and Lee Pay-chu. Approval for study of the matter was obtained from Chairman Mao Tse-tung, Premier Chou



En-lai and Vice Premier Teng Hsiao-ping, soon thereafter. The Fluor Corporation's conceptual proposals were secretly solicited by the Yeh Chien-ying channel through Lee Pay-chu and Hoose, the latter of whom the Yeh Chien-ying group knew about through prior communications on other matters and also whom some of the Yeh Chien-ying channel members knew personally. Directions were given to Fluor Corporation via Lee and Hoose, as to the nature of the proposals desired, their due date, and the procedures for delivering the proposals to the PRC. Also, via those channels, Fluor was told to deal with Henry Y. T. Fok (Ho Ying-tung), the so-called PRC "Patriot" in Hongkong. Fok was told by the PRC authorities with whom he regularly works, to accept the Fluor materials and to transmit them to the PRC via Fok's standard PRC State trading corporation channels. Meanwhile, copies also were transmitted directly to Yeh Chien-ying and his close senior associates in Peking, via his special channels. Fok also went to Peking for consultations on the matter.

A continuous flow of materials pertaining to Fluor's conceptual proposals, financing and business aspects was conveyed to Peking from Hongkong and Los Angeles, (i) via Henry Y. T. Fok and the normal PRC State trading corporation channels and (ii) without Fok's knowledge, also via the special Yeh Chien-ying channels, directly to Yeh Chien-ying, Chou En-lai and Teng Hsiao-ping.

During April, May and part of June, 1975, the Yeh Chien-ying and Teng Hsiao-ping group in the PRC variously prepared its senior colleagues for very high level and secret discussions about the Hongkong project. Their opposition in the PRC government at first was not informed. In June, the Hongkong project was presented openly to the PRC highest leadership group, including the opposition. A secret struggle ensued.

In late June, the Yeh Chien-ying group sent a high level representative ("Lao" Wu) from Lushan (Lu Mountain, in Kiangsi Province) to Hongkong, to request Lee Pay-chu and Hoose to prepare and provide the Yeh Chien-ying group as soon as possible with detailed commentaries as to the "inner motivations" of Fluor Corporation, the U.S. government and the Hongkong U.K. authorities, in respectively proposing or supporting such a project, and as to whether some "neocolonial" trick or international economic power play might be involved. The commentary was prepared, discussing the various innocent and sincere (though business-motivated) purposes of Fluor Corporation, its consortium colleagues, the U.S. and the Hongkong authorities; and the commentary was transmitted by Hoose and Lee via the senior Yeh Chien-ying channel member, "Lao" Chu, to Yeh Chien-ying and

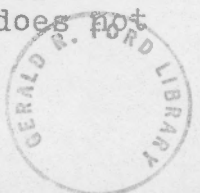


Teng Hsiao-ping in Peking. The Yeh Chien-ying channel members in Hongkong told Hoose and Lee Pay-chu that the commentary as to inner motives was urgently needed for Chou En-lai's, Teng Hsiao-ping's and Yeh Chien-ying's use in contending with the questions raised in the then current struggle with their very senior opposition, i.e., "the Shanghai group," as the PRC sometimes calls what some Western commentators variously call the "radicals," "the extremists" or "the Madame Mao group."

The opposition, Lee and Hoose were told, had raised questions as to whether the Fluor, U.S. and Hongkong authorities were sincere, or whether on the other hand some "neocolonial and imperialist conspiracy" against the PRC was the underlying motive.

In early July and again in mid-July, Fluor and Hoose were told secretly by the Yeh Chien-ying channel that the supporters of the project (Chou En-lai, Teng Hsiao-ping and Yeh Chien-ying) had prevailed; that "a green light for the project had been obtained;" that the project had been secretly and informally approved, at the highest level; and that the project would be formally approved and implemented, eventually, when and in the manner reported hereinabove (See Paragraph 3, pages 19-20, above).

At that time, Fluor and Hoose were told that the public announcements and the implementation could be advanced to a date prior to President Ford's visit to Peking, if the U.S. government could provide some "token public trigger advice," as is reported in detail in 3. B., pages 19-20, hereinabove. Fluor and Hoose were told that the project and the affirmative decision continue to be secrets, even within the PRC and in all governmental and diplomatic "circles," excepting only among the very highest leaders. Fluor and Hoose were told that the PRC now will begin to prepare its people and allies. Possibly by coincidence or possibly as part of that preparation, a PRC-controlled Chinese newspaper in Hongkong in mid-July published a comment by its editor, in substance stating that Hongkong should take concrete steps to seek involvement in processing and using PRC crude oil, and commenting on the many advantages which would result from such steps. That PRC-controlled newspaper commentary was published well before the UK-published Economist magazine appeared in Hongkong, urging something of the same sort, so the PRC-controlled commentary could not have been prompted by that UK source and must have been prompted, if at all, by a PRC source. We cannot evaluate the PRC-controlled commentary precisely, of course. But it is well known that the PRC press does not act independently of the PRC government.



4. In Addition to and Apart from the Fluor and PRC Hongkong Project Information and Inquiries Conveyed Via the Yeh Chien-ying Channel, That Channel Very Recently Has Conveyed the Following Important Messages to Hoose, to be Relayed by Hoose to President Ford:

Certain Oral Messages from Yeh Chien-ying and His Group, With Respect to Informal and Off-the-Record Suggestions and Inquiries as to Possible Solution of the U.S. - PRC Problems, Including the Taiwan Question.

The Oral Messages and Inquiries Are Secret, and Hoose Promised the Yeh Chien-ying Channel That:

- A. They Would Be Kept Secret, Excepting from the President and His Most Senior Relevant Assistants; and
- B. That Hoose would Do His Utmost to Deliver Them as Soon as Possible and in a Manner That Will Assure Their Receipt by the President, Himself

In View of the Messages' Subject Matter, Contents, Origin and Intended Recipient, of Course Their Contents Are Not Known to Fluor Corporation. However, the Fluor Team Leaders Were Told by One of the Yeh Chien-ying Channel Members That Such Messages from Them to President Ford Have Been Given to Hoose, Although Their Contents Cannot Be Disclosed to Fluor Corporation

As some of the National Security Council current and past senior officials know, including Al Haig and perhaps in somewhat less detail, Brent Scowcroft, during the past three years and in connection with Hoose's nine business trips in the PRC involving in all almost a year in China, Hoose has developed close contacts with the group of "political cadres" (probably intelligence-related men in the PRC) now identified as the Yeh Chien-ying group.

Prior Secret memoranda by Hoose to the White House from time to time in the past three years and particularly when Al Haig was the Deputy Assistant to the President for National Security Affairs, and then Chief of Staff, White House, reflect Hoose's earlier voluntary reports, as a loyal and patriotic American, as to this element among his PRC business contacts.

That element, through Wang Chen-chuan, a senior aide to Yeh Chien-ying, was Hoose's host during his 1973-74 journey in the PRC, as the guest of the PRC government. That



element has been involved in most of Hoose's major business transactions with the People's Republic of China in the past three years. For example, in Hoose's successful settlement of the major business dispute between Seabrook Foods, Inc. and the Insurance Company of North America, Hoose's clients, and the PRC trading corporation, China National Cereals, Oils and Foodstuffs Import and Export Corporation, last February, 1975, Hoose was assisted in working out a compromise resolution which was very favorable to the U.S. side of the dispute, by top PRC intervention in the dispute, brought about through the Yeh Chien-ying channel.

Further, and as an example, the Fluor Team received a great deal of assistance in its negotiations in Peking, from Hoose's contact, Wang Chen-chuan, who personally entered the meetings and took part.

Another example was the obtaining of important contract concessions for another of Hoose's clients, Hercules Corporation, through the assistance of one of the Yeh Chien-ying channel members in Peking, in February and March, 1974.

All of the above examples happened to involve the national economic interests of the PRC, in the view of the Yeh Chien-ying group, and so assistance was extended at a very high level, and the results were excellent for the U.S. business entities involved at the time. However, in each instance the lower echelons of PRC trading companies initially involved had not perceived the PRC national interest, and were not cooperating. These few examples of many more incidents in the past three years are cited for the purpose of reflecting the proven authenticity and great authority of the Yeh Chien-ying group, and its ability to speak for the highest levels of the PRC government. The issues involved were not daily or routine matters. Their special resolution required very high authority. For example, in the Seabrook Foods, Inc. - Insurance Company of North America dispute with the PRC, the settlement obtained for the American side by Hoose, with the assistance of his contacts in the Yeh Chien-ying group, involved receipt by the Americans of a settlement valued at more than US\$ one million. It takes enormous authority in the PRC to authorize such a settlement. These commercial incidents are concrete examples of the fact that the Yeh Chien-ying group does have that enormous authority, and can speak for the top level of PRC government. That demonstrated authority should be borne in mind, in evaluating the authenticity of the current oral message conveyed by the Yeh Chien-ying group to President Ford, via Hoose.



On the governmental messages level, from time to time Hoose has received various comments, expressions of views, and the like, from the Yeh Chien-ying group in the PRC, which Hoose has understood to have been intended by the speaker or speakers to be a "message," "inquiry," or sort of trial balloon, designed to be transmitted by Hoose to White House, State or Commerce officials with whom Hoose has been in touch, from time to time, as a voluntary nongovernmental advisor.

The topics of some of those various comments, expressions of views, and the like, have ranged from the sometimes trivial, through subjects of some economic or trade information value, up to what Hoose has believed were matters sometimes vitally affecting the U.S. national interests.

In each instance and providing, of course, that no client confidences were involved, as a patriotic and loyal American, Hoose took pains at his own expense and without seeking or expecting any reward, to convey the supposed comments, expressions of view, or message, to an appropriate U.S. governmental official. Many such reports have been delivered orally by Hoose to Al Haig, during the periods indicated and when General Haig was in a position to handle them, when he was Deputy Assistant for National Security Affairs and later, when he was Chief of Staff, White House. Two or three such reports were made by Hoose to Brent Scowcroft. Others have been made to individuals variously at State, Commerce and at the National Security Council or at the U.S. Liaison Office in Peking.

In 1974, at the specific and express request of a senior member of the Yeh Chien-ying group (then calling itself only a "Very senior PRC government group"), Hoose carried an informal off-the-record but very specific message and inquiry from the PRC to President Nixon. The contents of that message were and are secret, and will not be stated here. Hoose delivered the message to Al Haig, who indicated he would transmit it directly to President Nixon. There is absolutely no question as to the authenticity of that message. Its source and contents alone confirmed that, in addition to certain other factors. As it happened, and perhaps in some small degree because Hoose, himself so advised (in addition to the independent determination in that regard by President Nixon and his Assistants), that particular message was ignored and thereby rejected by President, sub silentio. Even to have answered it might have prejudiced our relations with third nations. However, the very content of the message, itself, was of some value to the U.S. in the strategic informational areas.

The above information is provided here, because there is a natural human tendency, which is admirable of course when grave international matters are involved, to place a very heavy burdon of proof on one who is a citizen, without official portfolio, who offers his government and his country an oral message of grave import from the leaders of another nation. That is especially the case where, as here, we do have some official contacts with that other nation. That properly cautious tendency on the part of our U.S. government may be all the more accentuated where, as here, a change of administration has taken place and some key positions have changed.

Hoose accepts the heavy burden of proof. The fact is that he has been entrusted this time with a very important informal and off-the-record oral message from the Yeh Chien-ying and Teng Hsiao-ping group in the PRC, for President Ford. Its subject matter and content are extremely important. It should be heard by President Ford, and in any event it must be delivered in such a manner and to a sufficiently senior and responsible U.S. governmental official, as to assure that it will be called to the President's attention. This time the message involves informal inquiries, suggestions and messages, in "trial balloon" form, which Hoose believes might offer a good solution to the U.S. - PRC problems, including the Taiwan problem. Hoose urgently requests an opportunity to deliver the message as and when appropriate, and in a manner that will enable Hoose to report to the Yeh Chien-ying group that their important message has been delivered to President Ford.

The Chinese Reasons for Conveying an Important Oral Message from the PRC Government to Our President, Via a U.S. Civilian, Without Official Portfolio, Rather Than Via the Usual Diplomatic Channels or Via Some Officially Recognized Channel

Some private China experts and some U.S. governmental officials who may not be familiar with the thought processes and inner attitudes of the PRC Chinese may wonder why they would convey even informal and off-the-record messages and inquiries via a civilian without any official status and without portfolio, when we have a number of official contacts, including the Liaison Offices in Washington, D.C. and Peking.

However, to those who really are familiar with the Chinese, on the basis of a lifetime among them perhaps rather than through scholarly studies, the



answer is obvious:

The use of a middleman is traditional among the Chinese, and is particularly in vogue now, with the political and ideological uncertainties and many pitfalls inherent in a "continuing revolution," in which approved viewpoints and positions change often, and only the most agile can survive by avoiding taking any dangerous positions.

For thousands of years and particularly since the PRC revolution and an apparently unending series of "movements," with the PRC's many internal conflicts and high level struggles, the Chinese have used middlemen and unofficial go-betweens to float trial balloons and make preliminary inquiries which could be disclaimed if rejected, to preserve the principals' political or even physical skins; to save face, when a negative response or disinterest is ascertained in advance, by then avoiding presenting the question openly; and to establish in advance of any confrontation, the dignified and safe boundaries of what is and is not feasible between two different principals who are about to meet face-to-face.

As is required by the Chinese generally of a prospective middleman, and as they view Hoose in this case, he meets the necessary criteria to convey "trial balloon" inquiries and suggestions by the PRC to President Ford:

(1) Hoose thoroughly understands the Chinese, their language and their feelings, perhaps as only one who was born and grew up among them and is bi-cultural as to China and the U.S. can.

(2) Hoose can be trusted to be accurate, without injecting his personal feelings or interpretations.

(3) Hoose respects the Chinese, individually, and respects the non-communistic aspects of their culture.

(4) Hoose has a proven record of maintaining total confidentiality, and if the results of the communication are either that it is ignored or that it is rejected, Hoose will not humiliate the senders by disclosing to the press or from some platform that he conveyed the message. The matter simply dies.

(5) Hoose is known both by the PRC and in the U.S. as being strongly anti-communist and absolutely loyal to the U.S., and therefore can be trusted also by the

recipient of the message and inquiry.

(6) Hoose has had some access to the White House and to some other high U.S. officials, and has a potential for effecting the desired delivery.

The above points provide the Chinese attitudes with respect to the oral messages Hoose has been given to convey to the President.

From the American point of view, Hoose is a former (World War II) Naval Intelligence officer, with an established record for great loyalty to the U.S., and a deep love for America. His Naval File is: Lieut. Harned Pettus Hoose, USNR, S(I), File No. 212334. His integrity may be known to some in the U.S. government, and can be confirmed if desired, by General Alexander Haig, among others. Perhaps John Holdridge may have sufficient familiarity with Hoose's record, in voluntarily serving the U.S., in recent years. Hoose is a reputable lawyer, relatively well known in Los Angeles, and enjoys an "A-V" top rating in the national independent rating system, Martindale-Hubbell. He has practised law very successfully for over twenty-five years, and represents a number of U.S. corporations numbered among "Fortune's 500." He is a former Chairman of the Board of Trustees of the Westwood Community Methodist Church, one of Los Angeles' largest churches; a former holder of a number of offices and responsibilities in the State Bar of California, the Beverly Hills Bar Association and the Los Angeles Bar Association; is admitted to practice before the U.S. Supreme Court; is a Member of the American Legion; and has been selected for inclusion in the next issue of Who's Who. Because many of the addressees and potential readers of this memorandum have never heard of Hoose and know little or nothing about him, the above items are included here to meet some of our American criteria, in evaluating Hoose's potential for carrying important oral messages accurately and with integrity.

As a loyal and patriotic American, Hoose urgently requests an opportunity to deliver the message from the PRC's senior governmental officials to President Ford.

5. Description of the Fluor and PRC Project (Hongkong Refinery and Petrochemical Complex) and of the U.S. Consortium Headed by Fluor Corporation

A. The Project

The Hongkong Refinery and Petrochemical Complex will be the largest of its kind in the world and will be designed and constructed on world scale proportions to process



about 42,000 metric tons of Chinese crude oil per day or approximately 14,000,000 metric tons of Chinese crude oil per year. The complex will be capable of producing a broad slate of products, including fertilizers, olefins and aromatics, in substantial amounts. The feedstocks supplied by China to the complex will include natural gas, in addition to crude oil and other feedstocks. The petroleum and petrochemical products from the refinery and petrochemical complex will be used within China, in Hongkong and also for export to world markets.

The PRC will own and operate the refinery and complex, probably through its Chinese Hongkong resident "Patriots," who will front for the PRC in financing the project, participating to some degree with Fluor in the engineering and construction, participating to some extent with the U.S. operating participants in operating the facility during the financing pay-back period and operating the complex alone thereafter, and marketing the products not used within China.

Depending on the final selections by the PRC of facility units and product slates, the cost to the PRC or its "front" owners will range from US\$4.5 billion to US\$7 billion.

The facility will be located in Hongkong's New Territories, with convenient access to gas and crude oil from the PRC, power, ocean approaches, Pearl River barge traffic from crude oil sources in Kwangtung Province, pipelines from China into Hongkong's New Territories, and Hongkong's connections with international financing and marketing networks.

It is anticipated that a Preliminary Study will be effected by Fluor Corporation, commencing immediately after the public announcement and extending for about six months. Thereafter, engineering and construction will take approximately four years.

B. The U.S. Consortium

(1) The Consortium is Led by Fluor Corporation

Fluor Corporation initiated the discussions and negotiations with the PRC, after a three year marketing campaign, numerous trips to the PRC by its representative, Hoose, and two quite long working visits to Kwangchow (Canton) and Peking, respectively in 1973 and 1974, by teams. In 1975, the Fluor Team assigned to this project at this stage has worked almost constantly on Fluor's conceptual proposals and in explaining and enlarging them for the PRC side.



Fluor Corporation is widely known as the largest heavy-engineering firm in the world, and is a major contractor on the Alaska pipeline project, among other large assignments currently under way. Fluor's background and status were succinctly reported in the following item which appeared in Newsweek, International Edition, July 7, 1975, page 34:

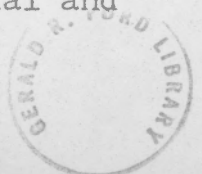
"Fluor Corp. Wins Iranian Refinery Contract

Barely two weeks after it landed a multibillion deal to develop Saudi Arabia's natural gas industry, Fluor Corp. of Los Angeles, Calif., has won a contract to design and build a \$750 million refinery complex in Iran. The new agreement, a joint venture between a Fluor subsidiary, Fluor Atlantic Ltd., and West Germany's Thssen Rheinstahl Technik GmbH., will provide the National Iranian Oil Co. with a 200,000-barrel-a-day facility that will produce gasoline, kerosene, jet fuel, liquified petroleum gas and solvents, plus sulfur as a byproduct. Fluor, whose annual turnover last year was \$801 million, has risen in recent years to become the largest heavy-engineering firm in the world and now has a backlog of orders that stands at \$10 billion."

J. Robert Fluor is Chairman of the Board of Fluor Corporation, and also is a member of President Ford's Export Council. David S. Tappan, Jr., is President of Fluor Engineers and Constructors, Inc. The Fluor Team in the current discussions and negotiations with the PRC is led by A. C. Ewert, Vice President, International Sales. Charles M. Wuhrman, Executive Manager, Projects, is the Project Director.

(2) Other Members of the Consortium Selected To Date

The requirement of absolute secrecy exacted of Fluor by the PRC has resulted in a decision to proceed with great caution and only on a limited basis, for the present, with the organization of the consortium. Although the consortium eventually will have to be larger and will include additional major corporate entities, which in turn will draw upon the products and services of a broad range of U.S. industry and labor, only the key financial participants and operating participants have been involved to date. All communications between Fluor Corporation and them have been limited to the Chairman or corporate Presidential level only, to safeguard confidentiality. Those key financial and operating participants are:



Phillips Petroleum Company - By Wm. C. Douce,
President

Union Carbide Corporation - By F. Perry Wilson,
Chairman of the Board

Note: F. Perry Wilson, also (as is J.
Robert Fluor) is a member of
President Ford's Export Council.

Bank of America - By Chauncy J. Medberry, III,
Chairman of the Board

The Chase Manhattan Bank - By David Rockefeller,
Chairman of the Board

6. The Project Will Have a Very Substantial Affirmative Impact
Upon the U.S. Economy, Industry and Labor

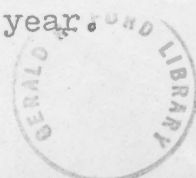
During the construction and financing pay-back periods, the project will gain the U.S. a US\$13.6 billion balance of payments credit.

The value of U.S. components of goods and services for the project ranges from US\$3.9 billion as a minimum, through US\$5 billion as a probable amount, to a maximum of US\$5.5 billion. For example, the project will require 2,800 miles of pipe; 360,000 valves; 5,000 pumps; 200,000 instruments; 10,000 electric motors; 3,400 large towers, drums and storage tanks; and 47,000 miles of electrical wire.

The U.S. will have the opportunity to supply US\$3.6 billion worth of raw materials for the project. Fluor estimates that during the initial operating period of the complex, during which the financing will be repaid (10 to 12 years), the interest earnings for funds advanced for construction will provide an additional US\$5 billion to the U.S. balance of payments.

The complex will provide for the continuing employment of 140,000 man-years of labor in the U.S., and considering the multiplier effect, the continuing employment generated by the complex - in the U.S. - could be the equivalent of 560,000 man-years of employment.

Shipping the U.S. equipment and construction materials to Hongkong will provide availability of continuous employment for approximately 44 ships per year for a four year period. During the initial period of operation, there will be a requirement to employ about 17 ships continuously per year.



7. An Alternate Source of Petroleum and Petrochemical Products Will Be Available to the U.S. and Its Allies, Through the Hongkong Complex Supplied by Chinese Crude Oil and Natural Gas

When this new Hongkong Refinery and Petrochemical Complex is completed, it will provide an alternate source of petroleum and petrochemical products for the industries of the U.S., Japan, Hongkong and others, derived from the surplus products not used by the PRC and sold on world markets. This substantial new alternate source, with Americans involved as engineers, constructors, suppliers of technology, equipment and materials, and as operating participants, will provide a negating factor for potential petrochemical material boycotts by Middle Eastern and other countries.

8. Beneficial Defense, Strategic, International Power Balance, and Political Implications for the U.S.

Fluor Corporation, of course, is a business entity. It should not and does not become involved in international affairs, which of course are a province of governments, although unavoidably Fluor's international and often major projects may impinge upon international and geopolitical matters.

However, Fluor Corporation is led by and composed in large measure of loyal and patriotic American citizens, who are generally aware of certain advantages to the U.S. in the areas indicated in the title to this Section of the memorandum, which will result from the successful completion and operation of the Hongkong project.

Those advantages will be readily apparent to the U.S. government, which is directly concerned with and responsible for such things. The advantages of the defense, strategic, international power balance and political natures which will flow to the U.S. from this Fluor project with the PRC, include:

- A. Effecting a major commercial enterprise involving U.S. private industry and labor with the PRC, in what the Chinese like to call "the spirit of the Shanghai Communiqué of February, 1972, and thereby advancing the implementation of U.S. - PRC trade and business relations, on a scale which greatly exceeds the entire trade both ways between the U.S. and the PRC since 1972.
- B. Balancing our detente with the USSR and its related trade and other aspects, with a very large trade and business transaction with the PRC, with the resultant impact upon (i) the PRC's allies in Asia, and the discouragement they will experience as to their hopes for PRC support against the U.S.A., for example, in Korea, and elsewhere; (ii) the PRC,

which will have a very large economic and financial stake in continuing its improving relations with the U.S., and will be reassured also as to the U.S.'s steps in our detente with the USSR; (iii) the USSR, which may be made somewhat more cautious in its own foreign policy and more faithful in its performance of obligations to the U.S., by the knowledge that the U.S. - PRC relations also are progressing well, on a large scale; and (iv) the American public, especially in this pre-election period, when the occasional critics of our foreign policies and of our administration's domestic economic policies will be confronted with a very substantial offsetting move between the U.S. and the PRC, more closely balancing those involving the USSR, which at the same time provides significant domestic economic advantages, affirmatively and substantially affecting U.S. industry and employment.

- C. The military and defense implications of having a substantial part of the PRC's oil refining and petrochemical manufacturing industry concentrated in Hongkong, where there is ready access by sea and where the general political situation is friendly to the U.S. This advantage to the U.S. and its allies is one of the prices apparently accepted by Marshall Yeh Chien-ying and his group, in their desire to locate the PRC complex on British soil (Hongkong), where it will be operated in part by U.S. industry, and therefore where (the Yeh Chien-ying channel has said to Hoose), the USSR would be very hesitant to interfere with it, even in the event of war between the USSR and the PRC.
- D. The strategic implications of the availability of a major petroleum source in the South China Sea area, relatively near the East Asian, Pacific and Indian Ocean U.S. strategic zones and yet suitably remote from the Mid-East and the USSR, where the U.S. bases including Diego Garcia can have a potential source of fuels to offset the present Mid-Eastern near monopoly in that regard, in those areas.
- E. The U.S. intelligence implications inherent in a U.S. - PRC project involving the PRC's energy materials, their availability and reserves, the mechanics of their transportation and distribution, and the identities of the PRC personnel involved.

- 9. The Hongkong Colonial Authorities Have Secretly Granted Their Preliminary Approval of the Project, and Have Informally Assured Fluor Corporation That The Necessary Sites Will Be Held Available for the Refinery and Petrochemical Complex

The Fluor Team leaders and Hoose have consulted at some length twice, on an off-the-record and secret basis, with the Hon. J. J. Robson, Secretary of the Environment, of the Hongkong Colonial Government. He has jurisdiction as to the sites, and is one of the senior officials in Hongkong whose approval is required. He reports directly to the Governor and to the Colonial Secretary of Hongkong, who together constitute the real and almost entirely authoritative government of the Royal Crown Colony of Hongkong.

By express oral "gentlemen's agreement" between Mr. Robson and the Fluor men, it is understood that during this period of absolute secrecy exacted by the PRC, only Mr. Robson, the Governor and the Colonial Secretary in Hongkong are and shall be aware of the secret negotiations between the U.S. consortium led by Fluor Corporation, and the PRC. Apart from those three Hongkong officials, we understand that Whitehall in London has been advised, also on a secret basis. Secret inquiries from that source in the UK may be expected, if they have not already been received by the U.S. government.

In that connection, Fluor Corporation has called the attention of Mr. J. J. Robson to the following portion of the Hon. Lester E. Edmond's (Deputy Assistant Secretary, Bureau of East Asian and Pacific Affairs, U.S. Department of State) March 26, 1975 letter to J. Robert Fluor, Chairman of Fluor Corporation, with respect to the project:

"Since the refinery would be located in Hong Kong, the project would of course require the blessing of the local government authorities. In the absence of such an endorsement, and in the present, very preliminary, stage, we believe it is a little too early for us to provide any definitive views." (The balance of the letter cites the Shanghai Communiqué, and indicates the U.S. government's view that the Fluor initiatives with respect to the project are fully consistent with the commitment undertaken by both sides in the Shanghai Communiqué "to facilitate the progressive development of trade between (our) two countries.") (Emphasis added)

Fluor's purpose in calling that portion of the U.S. Department of State's letter to Mr. J. J. Robson's attention was Fluor's desire to make sure that the U.S. government's correct deference to the desires of the Hongkong authorities with respect to the project to be built in the Colony, were understood by the Hongkong authorities, and would be included in any Secret communications on the subject between the Governor of Hongkong and Whitehall.

Through Mr. J. J. Robson, Fluor has been advised (i) that



the project will receive the formal blessing of the Hongkong government, when such blessing is formally requested by the PRC or its "Hongkong Patriots" who will front for the PRC in the transaction, provided that an established and reputable engineering and construction firm, such as and specifically including Fluor Corporation, is to handle the construction, and further provided that at least initially, the same calibre of U.S. operating participants, such as and specifically including Phillips Petroleum Company and Union Carbide Corporation, will oversee the operations of the complex at least in its initial years of operation - to assure high standards and thereby to protect Hongkong's interests, including the regular and profitable receipt by the Hongkong government, of the rentals for the site (based on "throughput"); and (ii) that two different potential sites under consideration by Fluor and the PRC, both in Hongkong's New Territories, will be held available for a reasonable time while the secret negotiations between Fluor and the PRC continue.

The above was reported by Fluor to the U.S. Consul General in Hongkong, who at the suggestion of the U.S. Department of State, personally has been kept advised by Fluor as to its progress. He is on standby to assist Fluor in meeting the Governor to discuss the project, when the PRC is ready to have the matter become public.

Mr. J. J. Robson also has commented informally and off-the-record to the Fluor Team leaders and Hoose, that although the Hongkong government would prefer to deal with some pro-PRC Chinese individual or group in Hongkong other than Mr. Henry Y. T. Fok (Ho Ying-tung), because (i) of his record as a cold war smuggler against the U.S. and the UK and because (ii) of his extreme loyalty to and close connections with the PRC, nevertheless since the PRC has designated Fok as its desired "front" (as he is already as to the PRC's other petroleum business activities in Hongkong, and as he is in part in his sand monopoly business with the Hongkong authorities and in regard to the Hongkong Shatien area and Tsingyi Island petroleum storage depots (really owned by the PRC) which are now being constructed), and because the Hongkong authorities want to cooperate with the PRC and also greatly desire the project, the Hongkong government will acquiesce in and will support Henry Y. T. Fok's (Ho Ying-tung's) involvement in the project.

Very much off-the-record, and as a personal communication only (not to be attributed to the Hongkong government, under any circumstances), J. J. Robson has indicated to one of Fluor's English contacts with him, that the Hongkong government might give some thought to granting some local honors to Mr. Fok, for the purpose of trying to make him somewhat



more acceptable to Hongkong's loyal (to the Colonial government) Chinese, by the time the project becomes known to the public. At that time, a series of somewhat "rubber stamp" public meetings about the project will have to be conducted by the advisory entities which serve under the Governor. Many of the members of those advisory entities are Chinese whom the UK has knighted or otherwise honored, from time to time. Although the advisory entities apparently would not have the raw power to stop the Hongkong government in its approval of the project, they might cause difficult press comment and some unrest among the pro-UK Chinese elements in Hongkong. For that reason, the Colonial government will handle the pro-PRC Henry Y. T. Fok's involvement in the project in as delicate manner as possible. Fok already is the President of the Hongkong Football Association, a soccer group with pro-PRC leanings and strong political clout, but which is recognized and respected by the Colonial government. The Governor regularly "kicks out the first ball each season," so to speak. But apparently we may anticipate that Henry Y.T. Fok may receive some further local honors, in the near future.

The Hongkong authorities realize, of course, that the project cannot possibly succeed without the PRC's blessings and without the PRC crude oil, natural gas, etc. In view of the project's tremendous impact on the Hongkong economy (more than doubling its GNP and its trade with the PRC, for example) and its hoped for (by the UK) affirmative affect on the desired extension of the New Territories' lease, beyond the present expiration date of 1998, the Hongkong authorities have indicated through J. J. Robson that full cooperation from them can be anticipated, including their outwardly warm acceptance of the pro-PRC Henry Y. T. Fok's involvement and their cheerful forgiveness of his former role as a cold war smuggler against the U.S. and the UK.

The following items are relevant for our own State Department's consideration, with respect to Fok's identity as a former cold war anti-U.S. smuggler: (i) Discreet inquiries by one of the Fluor English solicitors in Hongkong, who has very good connections with the Hongkong government, have brought confirmation that Henry Y.T. Fok (Ho Ying-tung) has no criminal or questionable record, even with the "Special Branch," apart from the cold war smuggling period. He is now a law-abiding resident of Hongkong, as far as that source is concerned; and (ii) the only objections the Hongkong authorities have relate to Fok's role as a former enemy or adversary during the cold war, when he apparently was successful in running the Seventh Fleet blockade, and the fact that he is known to be a loyal closely connected PRC-supporter. Those qualities, of course, are the reasons he has been selected by the PRC to front for it in the project. Those qualities are inherent in any East-West transaction, of course. When they are brought out in the open and safeguards



are taken by the Western side in an East-West transaction, they can be coped with. In this instance, Fluor's well-connected English contact with the Hongkong authorities remarked to Hoose in confidence (possibly reflecting the views of some of his contacts, but this is not confirmed):

"When the PRC can make its points simply by threatening to turn off the spigot in China controlling the crude oil flow to the complex, it really doesn't make a damned bit of difference that one of their blighters is running the complex - and it might even be an advantage to us, to have him financially involved in the operation."

In any event, the Hongkong authorities have decided to accept both the project and the PRC-designated Chinese "Patriot," who will front for them in its construction and operation.

10. Fluor Has Kept the U.S. Government Advised

Fluor has taken pains to keep the U.S. government advised as to its progress in the secret negotiations with the PRC, and has very much appreciated the government's assistance, informal guidance as to aspects which touch upon the U.S. national interest, and also the U.S. government's cooperation in maintaining strict secrecy at this stage, in view of the PRC's requirements in that regard.

See References 1. through 7., caption to memorandum, pages 2-3 hereinabove, for Fluor's March, 1975 reports to the U.S. government, by reference.

In addition to the indicated conferences and correspondence, Fluor representatives have made periodic confidential oral reports, variously in person and on the telephone, to Philip T. Lincoln, Jr., Country Officer for People's Republic of China, Etc., Affairs, U.S. Department of State, and to James Cross, U.S. Consul General in Hongkong, between March and July, 1975.

11. Fluor's Careful Adherence to Applicable U.S. Laws

In their talks with the PRC men and with the PRC's Chinese "Patriots" in Hongkong, the Fluor Team members have been very careful to limit their statements and materials to matters clearly in the public domain and not involving any technology transfers, either orally or in writing. When necessary and appropriate and in whatever manner possible under the U.S. government's guidance as to how the presently required (by the PRC) strict secrecy, Fluor Corporation will

initiate procedures seeking formal U.S. governmental approvals and permits as to the project and its various steps. The advice and guidance of the White House, U.S. Department of State and U.S. Department of Commerce in that connection would be appreciated.

REQUESTS BY FLUOR CORPORATION FOR SPECIFIC ASSISTANCE AND GENERAL GUIDANCE BY PRESIDENT FORD, HIS SENIOR ASSISTANTS, AND THE APPROPRIATE EXECUTIVES IN STATE AND COMMERCE

1. The President is respectfully requested to meet with the Fluor senior executives and the Fluor Team's three senior members, after this matter has been processed and studied by the appropriate staffs and upon the President's return from Europe, to discuss the U.S. role and the PRC requests of the U.S. government in connection with this project.

The Fluor senior executives and the Fluor Team's three senior members who request the meeting with the President are:

J. Robert Fluor, Chairman and Chief Executive Officer of Fluor Corporation, who also is a member of President Ford's Export Council.

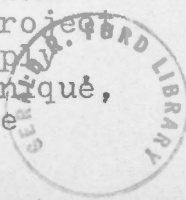
David S. Tappan, Jr., President, Fluor Engineers and Constructors, Inc.

A. C. Ewert, Vice President, International Sales, Fluor Engineers and Constructors, Inc. (who also is the Fluor Negotiating Team Leader, in the work with the PRC)

Charles M. Wuhrman, Executive Manager, Projects, Fluor Engineers and Constructors, Inc. (who also is the Project Director for this project)

Harned Pettus Hoose, Fluor Corporation Representative and Liaison Man to the People's Republic of China

2. The President is respectfully requested to include the joint U.S. Consortium - PRC project for construction of the Hongkong Refinery and Petrochemical Complex in his planning, preparations and U.S. - PRC communications preliminary to the President's visit to Peking late this year, with careful regard for the delicate circumstance that Fluor is advised that at this time only China's most senior officials, including Premier Chou En-lai, Vice Premier Teng Hsiao-ping and Defense Minister Yeh Chien-ying, are aware of the PRC's affirmative intentions as to the project; and the President also is respected requested to consider including this project which has industry-wide and broad labor benefits and deep affects the U.S. - PRC progress under the Shanghai Communiqué, a topic for discussion and, if appropriate, a part of the



expected Joint Peking Communiqué of November of December, 1975, if the PRC should approve.

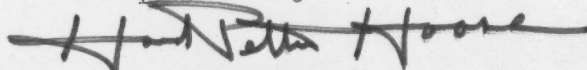
3. The President is respectfully requested to authorize Fluor's representatives to indicate to the PRC side that the U.S. government continues generally to support the Fluor efforts as to the Hongkong Refinery and Petrochemical Complex, when the Fluor Team returns to Hongkong and China in middle or late August, 1975, to resume discussions with the PRC side.

If possible, it is hoped that such authorization by the President this time may be in writing and signed by the Secretaries of State and Commerce, themselves, and if possible in even more positive terms than the preliminary letters provided by State and Commerce last March, 1975. See References Nos. 6 and 7, page 3, above.

4. The President is respectfully requested to determine whether he feels with Fluor Corporation that it would be in the national interest to provide the PRC with some form of "trigger device" or friendly signal, as reported in Paragraphs 3.B.1. and 3.B.2, pages 19-20, above, to enable the highest officials in the PRC to use such trigger device or friendly signal with its people and allies, as an excuse to them for the PRC's policy changes apparent in proceeding overtly with the joint U.S. Consortium - PRC project at an early date, or even following the President's visit to Peking late this year.

If the President so determines, he is respectfully requested to take whatever steps he may feel are appropriate in that connection, and advise Fluor Corporation as to its role in calling the PRC's attention to any such impending or accomplished steps.

Respectfully submitted,



Harned Pettus Hoose,
Representative and Liaison Man
To the People's Republic of China,
For FLUOR CORPORATION

By Direction of J. Robert Fluor,
Chairman, Fluor Corporation

(Excepting as to Paragraph 4,
Pages 23-28, with which
Fluor Corporation is Not Involved)

