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CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

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CHINA : DEFENCE SALES

Memorandum by the Secretary of State for Defence

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1. When we discussed defence sales to China last June (OD(79)2nd meeting) we agreed to a categorisation, in terms of political and military sensitivity, of defence equipment in which the Chinese have been showing an interest. The details of the categorisation (ranked 1-4 in ascending order of sensitivity) are at Annex A. Since then some contracts (category 1) have been signed; and others are being currently negotiated. I am visiting China in March and will need an agreed line for my discussions with Chinese leaders. In particular, we need to take decisions on three major projects in category 3. They are:

a. Proposals from British Shipbuilders to re-equip Chinese LUDA class destroyers, and construct up to three new 6,000 ton destroyers (Annex B). British Shipbuilders are now ready to submit proposals to China.

b. British Aerospace's proposal to assist in the development by the Chinese of an air-to-air missile (Annex C). Further discussions between British Aerospace and the Chinese are planned in the next week.

c. Rolls-Royce Limited's proposal for further collaboration in the aero engine field (Annex D). Rolls-Royce hopes to sign an agreement with the Chinese during the SBAC exhibition in Shanghai.

In addition to these major proposals, I list at Annex E a note on other defence sales prospects, including Harrier.

2. Although these projects would add significantly to Chinese military capability and probably to her technological and industrial capability, I do not believe that they represent a threat to the security of the UK or our Allies. The versions of the major equipment on offer are to a down-graded performance compared with those currently in service in the UK. Moreover they will be fitted in ships and aircraft which are obsolescent and far less sophisticated than those currently available to the West or to China's neighbours. There is, however, one proposal from Rolls-Royce - to sell the RB 199

engine - where I believe we must protect our interests. This engine, which incorporates our latest technology, has been developed for the Tornado aeroplane, which is central to the UK's and allied defence capability for some years ahead. I consider that we should not permit its sale, nor the transfer of its advanced technology.

3. There are important strategic and regional considerations involved. In my view, however, the total additional capability which all of these proposals would provide to China should not give other countries valid grounds for anxiety. It will be necessary, however, for us to ensure that our policy is fully explained to countries in the region (in particular India and ASEAN countries), who may feel threatened by their perceptions of China's military capability. The main cause of concern to China's neighbours is likely to be British Shipbuilders' proposals for a new class of destroyer. However, these three ships - assuming they are ordered - will not, in the foreseeable future, significantly enhance China's deep water naval capability; nor would they of themselves permit the Chinese to conduct naval operations in waters close to India. The Soviet Union already has an overwhelming military capability in the region. India may also express concern about the uprating of engines in the Chinese B6 bomber (Annex D), but she already has far more modern aircraft to counter them.

Economic Benefit to UK

4. British Shipbuilders estimate that the re-equipping of the three LUDA Class destroyers would be worth about £300M, and the construction of three new destroyers worth a further £600M. There would also be significant subcontracting work for weapons and electronics firms. British Aerospace see considerable potential in the prospective missile contract. Moreover, in the longer term, collaboration on projects might lead to closer industrial and commercial contacts across a wider range of goods and might well improve the prospects for civil contracts. In the longer term there is some danger that the Chinese will require indigenous licensed manufacture and the transfer of technology, and that we may in due course assist a low cost producer to enter into competition with our own industry; but this argues, I think, not that we should interfere in the commercial exchanges, but that we should monitor their progress.

COCOM

5. We should also consider how to handle these projects in relation to our COCOM partners. Our policy on sales must not upset our allies, in particular the United States, particularly in that some of the equipment makes use of foreign, and especially, US, components. The question of COCOM relations is discussed further in the Foreign and Commonwealth Secretary's paper. We should also set our China proposals in the context of our own Far East interests. Currently these coincide with Chinese interests and we should, while continuing to keep our overall policy towards China under review, take account of this.

CONCLUSIONS

6. Against this background, I recommend that:

a. We continue with our present policy of allowing industry to sell defence equipment to China, subject to consultation with the Government on a case by case basis.

b. On the specific projects listed at Annexes B, C and D we should, subject to the resolution of details in the Annexes and subject to making satisfactory arrangements with COCOM:

i. inform British Shipbuilders that we are content for them to proceed as proposed;

ii. inform British Aerospace Dynamics that we are content in principle for an air-to-air missile to proceed, subject to satisfactory assurances on technical and security matters;

iii. inform Rolls-Royce that they may proceed with their present plans but that we cannot agree to the sale of, or the transfer of technology on, the RB 199 engine.

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Ministry of Defence

26th February 1980

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ANNEX A

## [redacted]ES OF EQUIPMENT OF POSSIBLE OR ACTUAL INTEREST TO THE CHINESE

### CATEGORY 1

Types of equipment whose supply British firms have hitherto been authorised to negotiate and which it is now proposed should be confirmed (subject to final Government approval).

i. Naval Equipment

Hovercraft
Minehunters
Fishery Protection vessels
Shipborne communications systems
Ship engines (turbines)

ii. Army Equipment

Anti-tank and surface to air missiles (eg Swingfire and Optical Rapier)
Military radars (eg Cymbeline)
Laser Equipment (range finders and target markers etc)
Armour plate for tanks (not Chobham Armour)
Fire Control Systems for tanks
Night vision equipment, including infra-red tank sights and small arms sights
Thermal direction finding and imaging equipment
Low Light television
Image Intensifiers
Military Communications Systems
Small arms and ammunition (eg 4.8mm rifle and ammunition)
Artillery Data Systems (eg FACE and AWDATS)

iii. Air Force Equipment

Harriers
Hawk
Airborne Radars
ECM equipment
Head-up displays
Inertial Navigation equipment
Radar altimeters
Aeroengines

iv. Miscellaneous

Military cameras
NBC protective clothing

### CATEGORY 2

Types of equipment whose supply British firms have not hitherto been specifically authorised to negotiate, but which would not upset the strategic balance, and are not particularly sensitive. It is now proposed that industry should be authorised to negotiate their supply (subject to final Government approval).

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Naval inertial navigation equipment, radars, sonars and echo sounders
Light Guns
Equipment associated with Harrier supply
Flight Simulators
Airborne Communications system

CATEGORY 3

Types of equipment whose supply British firms have not hitherto been specifically authorised to negotiate, but which would not upset the strategic balance, although they are particularly sensitive. It is now proposed that industry should be authorised to explore the extent of the interest which the Chinese have already shown in them, but to come back to the Government again before any decision is taken to start contract negotiations.

Helicopters and associated weapons systems
Frigates (Types 21 and 24)
Type 42 destroyers
Air to air missiles
Naval missiles (eg early versions of Seawolf and Seadart)
Tanks:

a. the refurbishment and re-equipping of existing Chinese tanks including provision of new engines and new guns;

b. modernisation of existing Chinese tank manufacturing facilities;

c. British support for Chinese R and D efforts in the tank field;

d. the acquisition of the Vickers Mark 4 tank and licensed manufacture in China.

CATEGORY 4

Types of equipment which it is proposed to rule out for sale to the Chinese:

Chobham Armour
Blind Fire Rapier
Strike Aircraft (eg Tornado)
Large Cruisers
Submarines

ANNEX B

## BRITISH SHIPBUILDERS PROPOSALS

British Shipbuilders have been discussing with the Chinese their Naval requirements for over a year now. Following their visit to Shanghai and Peking last November they have identified two separate but inter-related projects:

a. re-equipping Chinese LUDA class destroyers

b. constructing and equipping a completely new destroyer of about 6000 tons.

British Shipbuilders have put together detailed proposals, and, subject to HMG approval, they propose to put these to the Chinese very soon.

2. In both cases the weapon equipment fit would be more or less the same. The main features are the provision of Sea Dart and Sea Wolf surface to air missiles, new radars, sonars, ESM and ECM equipment, communications equipment, action information system, and fire control system. It is also intended that both the re-equipped ship and the new ship would carry Westland Lynx helicopters which the Chinese wish to be equipped with Sea Skua anti-ship missiles and torpedoes.

3. The Chinese have asked British Shipbuilders to quote, in both re-equipping and new construction cases for 1, 2 or 3 ships. It is difficult to be precise about the value, but it would be very large indeed. To construct just one new ship would cost, very roughly, £150M-£200M and approximately £100M per ship for the re-equipping project. The Chinese at present have eight LUDA class ships and are still producing them, so that potential here is also very large. As far as timescale is concerned, in the case of both re-equipping and new construction, the Chinese would like the first ships completed in 1983/84 but this is highly unlikely to be practical. 1985/86 is the earliest realistic date.

4. In both the re-equipping and new construction cases, British Shipbuilders quotations are based on the supply of finished products from the UK. The Chinese have said, however, that they would like ultimately to be able to manufacture the various equipments themselves.

### Implications

5. The British Shipbuilders proposals represent, in value, complexity and sensitivity, much the largest of the current China projects. British Shipbuilders are well aware, as indeed are the Chinese, that all their discussions hitherto have been subject to HMG approval. However, this is really the last moment at which we have the option of stopping the projects without considerable upheaval (except, of course, for some unforeseen and overriding reason which necessitated a change in policy). It is important therefore that the implications are carefully considered at this stage.

6. In strategic terms, the proposal to modify the LUDA class would have the effect of introducing technology some 15 to 20 years in advance of China's current capabilities. However, the progressive modification of the small number of LUDAs in commission or building would do little, in the short to medium term, to alter the strength and posture of the Chinese Navy relative to that of the Soviet Union in the area. Also given the continuance of Soviet support for


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Vietnam, the programme is unlikely significantly to alter the position in that area. In the longer term, much would depend upon the degree of assistance given in creating an independent Chinese capability to reproduce and develop the sophisticated weapons technology incorporated in the LUDA proposal. Access to the latest shipborne SAMs and electonics would almost certainly have an accelerative effect on Chinese expertise in these fields, no matter what degree of assistance they receive. This improvement would also have a spin-off effect in related weapons fields, notably land based SAMs and electronics. The new ship falls into a rather different category and could result, if large numbers were built, in a fairly rapid advance in the ability of the Chinese Navy to project its present influence beyond the immediate coastal waters of the Chinese mainland. Furthermore, the creation of an independent capability to build and equip such vessels would result in a quantum jump in the Chinese warship construction capability even though the ability to reproduce indigenously the technology of the weapons may take some years to acquire. Consequently, this project may be viewed, by the Soviet Union and by other countries in the area, with more concern than the LUDA equipment. However, since the proposal is only to build at most three such ships this should not be too serious a problem.

7. In security terms, the various equipments involved in the Naval projects vary considerably in their degree of sensitivity. The sonar, radar and communications system for example pose no difficulties. The most sensitive items in the projects are the Sea Wolf and Sea Dart surface to air missile systems. In both cases, however, the Royal Navy has specified the action required by the manufacturers to sanitise the systems and bring them down to an overall security level of CONFIDENTIAL. If their recommendations are followed, it should prove possible to complete both the re-equipping and new construction projects within an overall security level of CONFIDENTIAL, and on this basis the Navy Department is content that, on security grounds, the projects are acceptable. In isolated cases it may be necessary to release a certain amount of SECRET information. Any such proposals would need to be considered very carefully.

8. In the longer term, the Chinese are likely to require permission for licensed manufacture of many of the equipments involved, including possibly Sea Dart and Sea Wolf missiles. The transfer of technology which this would involve would certainly need to embarace areas currently classified SECRET. This need not take place immediately if the technology transfer can be phased to match the Chinese capacity to absorb it. The release of SECRET information will not be inevitable until the manufacture in China of certain components is permitted.

9. There are three other points which need to be resolved in further discussion with the Chinese and British Shipbuilders. The first is the question of where the work, on both re-equipping and new construction, is to be carried out. Doing the work in this country would be of considerable benefit to British Shipbuilders. The second point is that the Chinese will almost certainly expect credit facilities for the projects. This will need to be discussed between British Shipbuilders and ECGD. The third is the question of HMG, and in particular Ministry of Defence, involvement in the project. Hitherto, this has been confined to providing general advice and assistance, but there is little doubt that if the project does proceed we shall be asked to do more - for example to provide oversight services, conduct Weapon Acceptance Trials and undertake training of Chinese Naval personnel in the UK, both in RN Establishments and in British firms' premises. This can be done, and, if we are ready to approve the project, there is no reason of principle

why we should not be ready to assist in so far as we can within our resources. However, resources are not available for involvement directly with the Chinese in design matters, and even if MOD is asked to review the design, only a cursory review of the concept would be possible. The ship design will be entirely the responsibility of British Shipbuilders, and although they will adopt a number of MOD Standards, the ship will not meet all current RN requirements, and will not bear the RN cachet. It should, however, prove satisfactory for service in the Chinese Navy. British Shipbuilders will seek technological help from MOD and this will be carefully controlled to minimise the impact to RN projects. British Shipbuilders will be instructed to deal with all Chinese design problems to avoid direct contact between MOD and the Chinese. MOD has also expressed doubts, in view of the demands placed on British Shipbuilders by the likely RN programme, about their ability to design, coordinate and manage these projects, involving as they do complex weapon systems with some dozen firms with major commitments. British Shipbuilders have, however, expressed confidence in their ability to muster the appropriate white collar effort, by drawing on resources both inside and outside BS.

10. A particular issue which needs to be considered is the inclusion of the Lynx helicopters in the Naval packages. The Chinese have made it clear that this, and the possibility of the standardising on this helicopter for their land forces is directly dependent on our agreeing to supply an anti-submarine torpedo with it. When Ministers last considered sales to China, torpedoes were not considered in the Categories. It is now recommended that, in order to contribute to the success of the projects, we should agree that, in the context of the British Shipbuilders discussions, we should be prepared to consider the supply of a suitable helicopter borne anti-submarine torpedo. There is a problem in that the only suitable UK torpedo is Stingray, which is of too modern and high a level of technology for us to be prepared to offer to the Chinese as it stands. However, we would be prepared to consider supplying a sanitised version of Stingray to China, with delivery not before 1985 at the earliest. We would need to examine any sanitisation proposals very carefully, but we, and the manufacturers, Marconi Space and Defence Systems, believe it should be a practical proposition.

Conclusion

11. These two Naval projects, although complex and in some ways sensitive, represent a considerable and valuable source of work for British industry. We recommend, therefore, that we should tell British Shipbuilders that we are content, in principle, for them to proceed as planned.

ANNEX C

## BRITISH AEROSPACE AIR TO AIR MISSILE PROPOSALS

British Aerospace Dynamics Group have been discussing for over a year now with the Chinese the possibility of assisting them in the design, development and production of an air to air missile. British Aerospace were originally hindered in their discussions by the fact that their only modern air to air missile - Sky Flash - was too sensitive and too heavily based on US technology to be a candidate for sale to China. BAe therefore invented a completely new concept, which they called "Red Flash" embodying some of the British elements of Sky Flash fitted to the much older "Red Top" airframe. Infra-red seeker and fuze components based on a UK research programme were also included for a short range version of "Red Flash". Their aim was to involve the Chinese in a collaborative project leading to the production of such a missile.

2. In subsequent discusssions with the Chinese, the Chinese themselves put forward a counter-proposal - that BAe should assist them in the development of their own PL4 air to air missile by supplying certain components and technology which would have been involved in the "Red Flash" proposals. For a time the pure "Red Flash" and the PL4 hybrid proposals were discussed in parallel. The Chinese have recently indicated however that they now wish to concentrate solely on the PL4 proposal, which has now been renamed PR4.

3. What British Aerospace are now proposing, therefore, is a programme, the essence of which is that they will supply the guidance and fuzing systems to go into a basically Chinese designed air to air missile. The Chinese have asked for a very early date for the missile to be in service, and BAe are looking at ways in which they could have ready an infra-red guided and fuzed version in four years and a radar guided and fuzed version in five years.

4. Although this initial programme will concentrate on the production and supply of finished parts for the missiles, it is also envisaged that, in the longer term, the project will involve full Chinese production of the missile. It is also intended that, following the 4/5 year programme, there should be a continuing joint development programme to achieve the full performance criteria that the Chinese have requested. It is this latter aspect of the programme which is likely to be most sensitive from technology transfer and working level security risk points. There may also be problems in the British Aerospace proposals to carry out avionic and weapon system integration for the Chinese F8 strike aircraft.

5. It is impossible at the moment to put anything like a realistic value on the proposals, which are currently too ill-defined to make such an exercise worthwhile. The next step is for BAe to discuss the proposals further with a Chinese technical team which plans to visit the UK in the next few weeks.

### Implications

6. In strategic terms, the proposals would undoubtedly improve China's technological and industrial capability in the field of defence and would improve the capability of her Air Force. However, we do not believe that the improvement would be sufficient to have any impact on the strategic balance in the area. This would be true even if this project were taken together with the Rolls Royce proposals at Annex D.

7. In security terms, it has been difficult, and remains so, to form a final view on the proposals, because they are still in the process of definition. The original "Red Flash" proposals were very open-ended, and the RAF was concerned that they would involve the

transfer of information which would enable countermeasures to be devised to Sky Flash and other missiles on which we will be heavily dependent in the 1990s. This would not be acceptable to us, nor would it be likely to be acceptable to the US, and it could prejudice the forthcoming US/European air to air missile collaborative programme. The more recent information from BAe suggests that they have modified their proposals in a way which reduces this risk and that it may be possible to develop a programme which is acceptable from the UK security point of view with the level of information transferred not exceeding CONFIDENTIAL. Any proposal to go above this level will need to be examined very carefully. Any approval we may give them in principle to go ahead will, therefore, be heavily dependent upon our being satisfied that the technical content of their proposals is acceptable. We shall also need to scrutinise carefully in draft their contractual proposals; our final view on the proposals will, for example, be influenced by whether there is to be an effective contractual prohibition on the supply of missiles incorporating UK design features by the Chinese to third parties. We shall also need to point out to British Aerospace that MOD will not have the resources to provide evaluation or acceptance facilities, or to run a service clearance programme for Red Flash.

8. For their part, British Aerospace themselves believe that they have, in this project, a very lucrative and valuable source of employment for both their manufacturing and design staff during a period when their air to air missile work for HMG will be at a low point. They are therefore very keen that they should be allowed to proceed.

Conclusions

9. Despite the difficulties and remaining uncertainties, therefore, BAe believe that this project is highly valuable and worthwhile. We recommend, therefore, that we should agree in principle to the project proceeding, making it clear however to British Aerospace that this agreement is entirely dependent on our being satisfied that the technical content of the proposals they put forward do not represent a significant threat to UK security, either now or in the long term.

ANNEX D

## ROLLS ROYCE PROPOSALS

Rolls Royce are seeking an understanding with the Chinese whereby they will be given what amounts to a first refusal on civil aircraft engine orders placed by the CAAC or any other Chinese organisation over the next 20 years in exchange for the supply and transfer of a range of Rolls Royce technology. Rolls' wish to sign a statement of intent with the Chinese which includes the following elements:

i. assistance with modernisation of China's aeroengine industry;

ii. assistance to China to obtain CAA approval for supply of gas turbine components for use in aircraft certified by the CAA;

iii. arrangements to provide engineering collaboration services on aeroengine projects which could include:

a. uprating thrust of Spey 202 (as fitted to RAF Phantoms)

b. adaptation of Spey without reheat to extent necessary to be installed in B6 bomber

c. consultation on development of China's WS6 engine;

iv. licensed manufacture by the PRC of Spey 512 parts for use by CAAC in the Civil Spey 512 (as used in Trident and BAC 1-11);

v. sub-contract manufacture by China of engine components for use by Rolls Royce;

vi. following purchase by China of the Harrier utilising the Pagasus 104 engine, Rolls Royce will offer a manufacturing licence for those parts of the engine in which Rolls Royce have the proprietors interest; and will assist the PRC to obtain licences for accessories and other non Rolls Royce proprietory components;

vii. sales of gas generators and associated equipment; or

viii. sales of gas generators and licensed manufacture of associated equipment (together with rights to sell to certain other countries); or

ix. licence to manufacture gas generators and associated equipment (again with rights to sell to certain other countries).

Rolls Royce also wish to offer to sell the RB199 engine to the Chinese, and to transfer the technology involved in it.

2. Rolls Royce are looking mainly to their future market prospects for civil aeroengines. They forsee a large domestic civil aircraft market in China and thus a large potential market for their engines. By offering to assist the Chinese, now, to develop and update their own aeroengine manufacturing capability (both civil and military) Rolls hope to establish a sufficiently good working relationship and understanding to enable them to compete successfully with the expected challenge of the US manufacturers, when it comes. Rolls Royce already have something of a "favoured" position in the China market as a result of a contract concluded in 1975 permitting the Chinese to manufacture, under licence, the Spey 202 engine. The statement of intent is calculated to build on this existing relationship.

3. In the long term the potential market for Rolls Royce engines in China could be vast, but it is not possible to provide any firm prediction of China's aeroengine requirements or of the pace at which these requirements will emerge. If Rolls Royce can secure an advantageous position in the market in the early stages of it s development, this must enhance Rolls Royce's prospects for benefitting from the expansion of the Chinese aerospace market.

Implications

4. In strategic terms, much the same can be said about the Rolls Royce proposition as can be said about British Aerospace Dynamics' proposals (Annex C). Taken together, they would all, to a greater or lesser extent, improve China's technological and industrial capability in the field of defence, and individually would improve the capability of her Armed Forces, primarily in their defensive role. However, even collectively they would not represent a marked improvement. The adoption of the Spey 202 for use in the B-6 would clearly improve its range and performance generally, and could be viewed as adding to China's offensive capability. However, in isolation from improvements to other vital components of the system (ESM, weapons etc) such a project would not significantly advance China's capability.

5. In security terms, the Ministry of Defence's main concern in these proposals is to ensure the adequate protection of technologies critical to the manufacture of other high performance military aeroengines both current and future; this is an area in which the West has a significant lead over the Soviet Union. Detailed discussion with Rolls Royce has satisfied the Ministry of Defence that their proposals to uprate the thrust of the Spey 202 engine, and to adapt it for installation in the Chinese B-6 bomber, are acceptable from a security standpoint, though the fitting of British engines in Chinese bombers may come under criticism in more general, political terms. The same applies to their proposals to offer licensed manufacture of Spey 512 components and the Rolls Royce element of the Pegasus 104 engine (though on this the reaction of the US Government will be important, since they contribute to the Pegasus programme), and to those referring to industrial and marine gas turbines, provided that the transfer of critical RB211 technology is not involved. The proposals to help the Chinese with the development of their WS6 engine need to be studied further when the details become clearer.

6. The Ministry of Defence would, however, have strong objections on security grounds to the sale of RB199 engines to China, still more to its manufacture under licence. The engine incorporates our latest technology. It is also at the beginning of an extensive development programme and is likely to power the new generation of offsensive support aircraft which will come into service with the RAF in the early 1990s. It will, therefore, continue to be in the forefront of our engine design and technology for the next 15 years. Possession of the RB199 would give the Chinese Air Force a greatly improved offensive capability, so that quite apart from the point of view of the security of technical information, supply would involve major strategic issues which would be of concern to the US and our other allies as well as to ourselves.

Conclusions

7. The Rolls Royce proposals, though only at an early stage of negotiation, would, if they come to fruition, represent a highly valuable means of continuing Rolls Royce's favoured status in the Chinese market. We recommend, therefore, that Rolls Royce should be authorised to proceed with their present plans subject to the resolution of the points in para 5, with the exception that they should be told that we cannot agree either to the sale of, or transfer of technology on, the RB199 engine.

ANNEX E

MISCELLANEOUS ITEMS

In addition to the major prospects listed in Annexes B-D, a number of firms have been holding discussions with the Chinese on other potential sales which, although smaller, nonetheless involve transfer of technology and valuable improvements in defence capability for the Chinese. Some of these have reached an advanced stage of negotiation.

Contracts already signed and notified to our COCOM partners

| Equipment | Number | Value | Delivery Date |
|---|---|---|---|
| MEL Night vision equipment | 10 sets | £0.5M | 1981 |
| Marconi FACE | 5 sets | £1.0M | March 1980 |
| EMI Cymbeline | 3 sets | £1.2M | April 1980 |

All these sales have been for field trials, and there are good prospects for much larger follow-on orders, possibly also including licensed manufacture.

Contracts already signed "subject to HMG approval" and now needing notification to COCOM

| Equipment | Number | Value | Delivery Date |
|---|---|---|---|
| Graseby Instruments Ship Launched Underwater Transponder Target (SLUTT) | 6 | £0.2M | Mid 1980. Good prospects for follow-on orders. |
| EMI Portable Acoustic Tracking System (PATS) and Deep Mobile Target (DMT) | 1 PATS 2 DMT | £3.6M | Early 1982. Good prospects for additional orders. |

Negotiations at advanced stage and notification to COCOM likely to be required soon

| Equipment | Number | Value | Delivery Date |
|---|---|---|---|
| Avionics fit for F7 (Marconi Avionics) | 100 sets | £33M | Not known |
| Degaussing ranges (Thorn Automation) | 1 | £0.8M | 1981 |
| "Corvus" decoy (Plessey) | 100-400 rockets | £0.18M - £0.72M | Mid 1980 - Mid 1981 |
| Cutlass and RCM2 Naval EW equipment (Decca) | 7 sets | £13M | 1981 |

Progress on Harrier

2. British Aerospace are offering three main versions of the

Harrier to the Chinese: a close support land version, a maritime version (incorporating the Blue Fox radar) and a two-seater training version. The package also includes various equipments and weaponry associated with these versions. BAe submitted their detailed proposals last August. The Chinese at the time indicated t hat they would wish to send an evaluation team to the UK to discuss all aspects of the deal, but this visit has never materialised. The Chinese have recently rejected an offer by BAe to send a small team out to China to discuss the deal further, and the prospects for the sale, which would have been initially for the sale of complete aircraft, followed by licensed manufacture, are beginning to look less hopeful. We know that one problem is price. British Aerospace are quoting a figure of £5.5M per aircraft, not including spares, training and armament. There have been one or two signs lately however, that the Chinese are prepared to start negotiations on price, which may be a more hopeful sign. Price is of course essentially a matter for the Chinese to sort out with BAe.

3. Since the ball is now clearly in the Chinese court on Harrier there would seem little we can do to hasten things forward. We should however take every opportunity to stress to the Chinese that there are no political objections in the way of a sale, and that we very much hope that negotiations will be successfully completed.

Tanks

4. The Chinese are continuing to talk with Vickers Ltd and others on two main tank-related issues. Their first priority appears to be to update their existing Russian-designed T59 tanks, with equipment such as night vision devices and fire control systems, and also providing new engines and possibly new guns. In the longer term the Chinese want help in designing and building a new tank. The discussions have been continuing at a fairly slow pace. There are no signs that any tank-related project is likely to reach fruition in the immediate future.

IMS Ltd

5. IMS Ltd, a limited company wholly owned by the Ministry of Defence, which, among other functions, promotes and sells the products of the Royal Ordnance Factories, is interested in exploring the possibilities of the Chinese market. Given the extent to which British industry is now involved with the Chinese in discussing defence equipment, IMS's entry into the potential Chinese market is a natural step, and one which, on the commercial grounds on which they operate, it is right that they should wish to undertake. Nevertheless, IMS's close involvement with the MoD would bring HMG a step closer to direct involvement with the Chinese in defence sales matters than hitherto. Naturally, they would only be permitted to promote those equipments authorised for discussion with the Chinese in political and security terms.