



10 DOWNING STREET

THE PRIME MINISTER

26 August 1982

*Dear Admiral Lygo.*

Thank you for your letter of 9 August 1982 drawing my attention to the difficulties which British industry faces when trying to sell its products in the Japanese market. This is of course a long-standing problem both for civil and military sales to which I shall be giving attention during my visit in September. I do however appreciate that the difficulties are greater in the market for defence equipment than elsewhere, because of Japan's ambitions for self-sufficiency in arms production, and her need to establish an indigenous Research and Development base rather than increase her reliance on imported technology. The TANSAM missile system is a case in point but I hope that we shall soon see a more flexible approach from the Japanese and increased opportunities for British industry in the defence equipment field.

I share your hopes for the signature of the contracts for Project 051 in China. If successful it will be a milestone in our relations with China, and a great opportunity to establish a firm foothold in this market before our competitors. I look forward to the conclusion of a project

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on which British Aerospace and Vosper Thornycroft have worked so hard and so long. I have asked to be kept informed of progress and advised on whether it would be possible to announce the contract during my visit if it has been signed by then.

Yours sincerely

Raymond Lygo

Admiral Sir Raymond Lygo, KCB.

cc on Chinese Policy File



MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-~~2307922~~ 218 2111/3

D/S of S/PS/10

25th August 1982

Dear Tim,

PM signature  
D

You wrote to Derek Piper on 12th August enclosing a letter to the Prime Minister from Sir Raymond Lygo. A draft reply is attached.

As you will see we would generally endorse the points made by Sir Raymond on the Japanese choice of an indigenous air defence missile rather than RAPIER. Although the Japanese expressed considerable interest in RAPIER and sent specialist teams to the UK to evaluate it they continued to develop their own system - TANSAM. TANSAM is much less effective and more expensive than RAPIER but, when it came to a choice of system, the Japanese chose not to include RAPIER in the competition and instead evaluated TANSAM against ROLAND, the French system. We believe that the reason was simply that they realised the superiority of RAPIER and did not wish to be embarrassed by the unfavourable comparison. ROLAND is also better than TANSAM - but not so much so, and comparison of the two just enabled the Japanese Government to choose the indigenous missile without losing too much face.

As to Sir Raymond's reference to negotiations with the Peoples Republic of China on SEA DART, the Prime Minister will be aware of the present state of play following her recent conversation with the Chinese Ambassador. Negotiations on the contract are at a delicate stage and we will, of course, ensure that the outcome is brought to the Prime Minister's attention. The Prime Minister will note that we have taken a cautious line in the draft on the suggestion that she might announce the contract for the sale of SEA DART during her visit as we believe that the Chinese may not be anxious to broadcast the deal. This, and other aspects of sales business, will be covered in the briefing which is being prepared for the Prime Minister's visit to the Far East.

I am sending copies of this letter to Chris Greenwood (FCO), John Rhodes (Trade) and Jonathan Spencer (Industry).

Yours ever  
Nick Evans

(N H R EVANS)

T Flesher Esq

DRAFT REPLY FROM THE PRIME MINISTER TO ADMIRAL SIR RAYMOND LYGO, KCB

Thank you for your letter of 9 August 1982 drawing my attention to the difficulties which British industry faces when trying to sell its products in the Japanese market. This is of course a long-standing problem both for civil and military sales (which I shall be <sup>giving attention</sup> addressing during my visit in September, <sup>do however</sup> but I appreciate that the difficulties are greater in the market for defence equipment than elsewhere, because of Japan's ambitions for self-sufficiency in arms production, and her need to establish an indigenous Research and Development base rather than increase her reliance on imported technology. The TANSAM missile system is a case in point but I hope that we shall soon see a more flexible approach from the Japanese and increased opportunities for British industry in the defence equipment field.

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12 August, 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 9 August about Japan and China. This is receiving attention and a reply will be sent to you as soon as possible.

(Timothy Flesher)

Admiral Sir Raymond Lygo, KCB,

FILE

R M

23/8

Sir Raymond Lygo

Chased - coming  
shortly 24/8

12 August, 1982

I enclose a copy of a letter the Prime Minister has received from Admiral Sir Raymond Lygo, Chairman and Chief Executive of British Aerospace.

I should be grateful if you could let me have a draft reply for the Prime Minister's signature by 23 August.

I am sending a copy of this letter and its enclosure to Chris Greenwood (Foreign and Commonwealth Office).

(Timothy Flesher)

D Piper, Esq.,  
Ministry of Defence,

R.M.

# British Aerospace

PUBLIC LIMITED COMPANY

ADMIRAL SIR RAYMOND LYGO, KCB  
*Chairman and Chief Executive*

rl/cd

9th August 1982

The Rt Hon Margaret Thatcher, MP  
Prime Minister  
No. 10 Downing Street  
London SW1

*Dear Prime Minister,*

## Japan

I am prompted by Mr. Michael Marshall's report of his visit to the Far East to remind you of the situation which exists in relation to the procurement by the Japanese Defence Forces of U.K. equipment. For some years British Aerospace tried to promote the highly successful Rapier system in Japan. The Japanese went through the process of an apparent selection between contending systems which included an indigenous development of a system called TANSAM. They had never developed such a weapon system before and it was bound to be more expensive than the purchase of a system such as Rapier from the United Kingdom. Rapier, the most likely winner of the competition, was ruled out right at the beginning so that the competition could be run between the Franco-German Roland, already too expensive even for the Americans to afford, and their own system. It will come as no surprise to you to know that their own system won.

I was not a little miffed by this. I expressed my concern to the Japanese Ambassador in London in the following terms. We allow your products to flood into our markets quite freely because we believe that if you can produce things which are better, more reliable and are

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*cc China: Policy File*

## Dynamics Group

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preferred by the public to indigenous products, in the interest of free trade we allow you free access to our markets. I would expect the same to apply when you have no comparable product in your country and we can supply it at what must be extremely competitive rates. Of course, all this was politely refuted.

I am quite certain the point I am making will not be lost on you. I write merely to suggest you keep it in mind in any conversations you may have in Japan which relate to the balance of trade and, in particular, to the great difficulty we face in penetrating the Japanese market for defence equipment.

We are also in discussion with the Nippon Electronics Company to collaborate on the manufacture of ground terminal equipment for satellite communications. This could help to put British Aerospace in the forefront of this new technology. In addition, we have been approached by NTT, the Japanese Posts and Telecommunications Authority, in connection with possible collaboration on our satellites. International collaboration in international telecommunications is important if one is to be successful in bidding. The Japanese are large contributors to international networks and therefore collaboration with them has its attraction. However, it will probably bring us into conflict with some national and European suppliers.

#### China

We have been engaged in negotiations with the Chinese over the supply of air-to-air weapons and a naval Medium Surface to Air Missile System (Sea Dart) for some four years. The former opportunity proved fruitless. The latter, Sea Dart, is now showing distinct signs of possible success, particularly since its success in the Falklands. After much patient negotiation, we have got to a point where the difference between the two sides is just over £3M in a £75M contract. It really does begin to look as if this might be the breakthrough we have been looking for. If successful, we will be the first defence contractors to have won a substantial contract in China and I am sure it will provide an opportunity for us to expand this foothold in the years to come. I would hope that it might be possible to have all the arrangements completed by your visit so that the contract could be announced as part of the visit. Whatever the situation, your help would be invaluable.

*Have a good trip.*

*Yours sincerely,  
R Lygo*