



MO 11/14

*Annex*

*Agree, subject to views of  
colleagues?*

*Annex Yes  
not*

FOREIGN AND COMMONWEALTH SECRETARYCHINA: ROLLS ROYCE TANK ENGINES

Rolls Royce Motors have for sometime been discussing with the Chinese authorities the possibility of selling CV8 and CV12 diesel engines. During my visit to China the Chinese made clear to me their interest, in particular, in the CV12. Recently, a Chinese team has been visiting the Rolls Royce factory at Shrewsbury and, as a result, Rolls Royce have initialled a Memorandum of Understanding with the Chinese.

2. The MOU states that Rolls Royce will provide the Chinese, free of charge, with a CV12 engine by 31st October 1980 for evaluation. These tests would be completed by August 1981. In return, the Northern Industrial Company of China will provide Rolls Royce by 31st July 1980 with a T59 tank, into which Rolls Royce would fit a VC8 engine for demonstration. The MOU also provides, in general terms, for further discussions, if these tests and demonstrations are successful, leading to the supply of engines from the UK and, eventually, licensed manufacture in China.

3. When we discussed defence sales to China in OD last June, and again in February this year, we placed tanks and tank engines in Category 3 (those items of equipment of which there were to be only exploratory discussions without commitment). The arrangements now made by Rolls Royce Motors go beyond what we foresaw, although the MOU, which has only been initialled, is not of course a binding contract. However, I would have no objection, from my point of view, to the sale of either the CV8 or the CV12 engine to China - let alone the more limited proposals envisaged in the MOU. For their part Rolls Royce believe that the arrangement could result in a substantial amount of business. I consider that we should back their judgement in this and not seek to stand in their way. I do not believe that at this stage it is necessary for us to inform our COCOM partners, although this will be necessary if a firm sale becomes likely.



4. The proposal to send a Chinese T59 tank to the UK does of course have political implications, particularly at present, and on which you will wish to comment. I do not, however, believe that these should be insuperable. In fact, as our defence sales relationship with China develops, I do see such arrangements, as here envisaged, as a natural step forward. Moreover, in terms of the prospects for the expansion of our defence sales, I am encouraged by the fact that the Chinese are prepared to entrust us with one of their tanks as, perhaps, an indication of the sincerity of their intentions.

5. I should be grateful, therefore, to know that you, and other OD colleagues, are content that Rolls Royce may proceed according to the Memorandum of Understanding subject, of course, to referring back to Ministers before any decision is taken to start contract negotiations for sales.

6. I am copying this minute to the other members of OD, to the Secretaries of State for Industry and Employment and to Sir Robert Armstrong.

Ministry of Defence

1st May 1980

2 MAY 1980





CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

6 June 1980

*h.s.*  
*Prime Minister* (2)

*Prime Minister* 6/6

*Dear Brian,*

Rolls-Royce Tank Engines

The Foreign and Commonwealth Secretary has seen the Defence Secretary's minute of 1 May about Rolls-Royce's proposals for collaboration with the Chinese on tank engine technology. He has also seen the comments of the Prime Minister, Chancellor of the Exchequer, Industry Secretary and Lord President. This reply has been delayed while we sought further information from your department.

Lord Carrington agrees that we should in principle support Rolls-Royce's efforts to expand their business with China. He sees no real problem in the supply to China of one CV12 engine (which could be regarded as part of the exploratory discussions on tank technology authorised by OD last year); nor in the complementary arrangement for the Chinese to send a tank to the UK. But there is no point in provoking unnecessary speculation and Lord Carrington thinks that Rolls-Royce should be required to handle the exchange - and in particular the presence of a Chinese tank here - without publicity.

Lord Carrington notes that Rolls-Royce's Memorandum of Understanding provides for further discussions which could lead to the supply of British tank engines to China and their licensed manufacture there. This would be a major step. Tanks are essentially offensive items of military equipment and the extensive collaboration which Rolls-Royce appear to have in mind could be expected to provoke a reaction from (at least) India and the Soviet Union. We could not take for granted our COCOM partners' acquiescence in a technology transfer in this area.

Ideally, we would have wished to see an assessment of the strategic implications for such a deal before approving the arrangements covered by Rolls-Royce's MOU. But we accept that this would be difficult to make given the timescale and uncertainties involved particularly over the numbers of engines to be supplied and manufactured.

/Lord Carrington

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Lord Carrington is therefore content with Mr Pym's proposals. But in view of the long term political implications he thinks it would be as well for Rolls-Royce to be reminded that approval of the MOU does not imply that the government would necessarily approve any eventual contract for sales or technology transfer which may emerge.

I am copying this letter to the Private Secretaries to the other members of OD, Ian Fair (Department of Employment) and David Wright (Cabinet Office).

*yours ever*  
*Roderic Lyne*

(R M J Lyne)  
Private Secretary

B M Norbury Esq  
PS/Secretary of State  
for Defence  
Ministry of Defence  
London

CONFIDENTIAL

6 JUN 1980



CONFIDENTIAL

*China*



MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-~~XXXXXX~~ 218 2111/3

MO 11/14

16th June 1980

*Dear [Name]*

*NRSD*

*Repts 17/6*

ROLLS ROYCE TANK ENGINES

Thank you for your letter of 6th June. My Secretary of State is grateful for Lord Carrington's agreement that Rolls Royce may proceed with their plans for collaboration with the Chinese on tank engine technology.

My Secretary of State takes the point that we should seek to avoid unnecessary speculation and that Rolls Royce should be required to handle the exchange - particularly the presence of a Chinese tank in this country - without publicity. Neither MOD nor Rolls Royce can guarantee that a leak will not occur, but we would not expect that this would cause any difficulty from Rolls Royce's point of view.

We also take the point that collaboration with the Chinese on an offensive item such as the tank is a sensitive issue, and can be expected to provoke a reaction from those who do not share our views on China; and that we cannot take the acquiescence of our partners in COCOM for granted. At the same time, it is fair to note that collaboration on a tank engine, including any extension to licenced manufacture, would represent a qualitative improvement rather than a quantitative increase in operational ability. In this respect, the Rolls Royce proposals have a good deal in common with the provision of fire control systems and night vision equipment, to which our COCOM partners have not raised any serious objections.

We will also warn Rolls Royce that approval to the MOU does not imply that the Government would necessarily approve any eventual contract for sales or technology transfer which may emerge.

R M J Lyne Esq  
Foreign and Commonwealth Office

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We are writing to Rolls Royce to put these points on record.

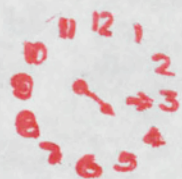
I am copying this letter to the Private Secretaries to the other members of OD, Ian Fair (Department of Employment) and David Wright (Cabinet Office).

*Yours and  
Boris Norbury*

(B M NORBURY)



17 JUN 1980



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*China* DSG

*File*

cc HO HMT D/Emp  
DGT FCO CO  
LPS LCO  
LPO D/Ind

6 May 1980

CHINA: ROLLS ROYCE TANK ENGINES

The Prime Minister has seen the Defence Secretary's minute of 1 May to the Foreign and Commonwealth Secretary on this subject. The Prime Minister agrees that, subject to the views of colleagues and the proviso in paragraph 5 of Mr. Pym's minute, Rolls Royce may proceed according to the Memorandum of Understanding.

I am sending copies of this letter to the Private Secretaries to the other members of OD, Ian Ellison (Department of Industry), Ian Fair (Department of Employment) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Brian Norbury, Esq.,  
Ministry of Defence.

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*ds*



Secretary of State for Industry

CONFIDENTIAL

*Change*  
DEPARTMENT OF INDUSTRY

ASHDOWN HOUSE

123 VICTORIA STREET

LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301

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12 May 1980

Rt Hon Francis Pym MC MP  
Secretary of State for Defence  
Ministry of Defence  
Main Building  
Whitehall SW1

*Dear Francis.*

CHINA: ROLLS ROYCE TANK ENGINES

Thank you for sending me a copy of your minute of 1 May 1980 to the Foreign and Commonwealth Secretary.

I welcome the proposal that Rolls Royce should proceed according to the Memorandum of Understanding subject of course to coming back to Ministers before final decisions are taken. This development would provide a very useful bridgehead for both civil as well as military sales in China. This is particularly important given the strong competition for the Chinese market.

I am sending copies of this letter to other members of OD, to the Secretary of State for Employment, and to Sir Robert Armstrong.

*Em*

*Keith*

12 MAY 1960



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Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

12th May 1980

B. Norbury Esq.  
Ministry of Defence  
Main Building  
Whitehall  
SW1

*Des Brian,*

*H.S. Vint*

CHINA: ROLLS ROYCE TANK ENGINES

The Chancellor has seen a copy of the Defence Secretary's minute to the Foreign and Commonwealth Secretary of 1 May, and the Prime Minister's comments (in Michael Alexander's letter of 6 May) agreeing to what he proposes subject to the views of other members of OD Committee.

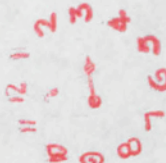
I am writing to say that the Chancellor sees no objections to the proposals. A copy of this letter goes to the private secretaries to the recipients of Mr Pym's minute.

*Yours,*  
*M.A. Hall*

M.A. HALL  
Private Secretary

CONFIDENTIAL

12 11 1980



Civil Service Department,  
Whitehall,  
London, SW1A 2AZ

*With the Compliments  
of the  
Private Secretary  
to the  
Lord President of the Council*

China



Civil Service Department  
Whitehall London SW1A 2AZ  
01-273 4400

13 May 1980

B Norbury Esq  
Ministry of Defence  
Main Building  
Whitehall  
LONDON SW1A 2HB

As  
Mint

Dear Brian,

CHINA: ROLLS ROYCE TANK ENGINES

The Lord President has seen a copy of the Defence Secretary's minute of 1 May to the Foreign and Commonwealth Secretary and has no objection to what Mr Pym proposes.

A copy of this letter goes to the Private Secretaries to the recipients of Mr Pym's minute.

Yours ever,

Edmund Chaplin

E G M CHAPLIN  
Private Secretary



14 MAY 1980

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