

Defence



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

MO 11/14

23rd July 1980

NRPA.

Handwritten signature
 - 23/7

Dear Roden,

CHINA: BRITISH AEROSPACE'S PR4 AIR-TO-AIR
 MISSILE PROJECT

You will recall that, when OD discussed defence sales to China on 29th February one of the specific projects which was approved in principle was British Aerospace's proposal to assist in the development by the Chinese of an air-to-air missile (named PR-4). There have been some recent encouraging developments in BAe's discussions with the Chinese of which your Secretary of State will wish to be aware.

BAe's basic proposals have not changed since February. Their intention is to enter into a collaborative arrangement with the Chinese under which BAe will provide the guidance and firing systems to go into a Chinese-designed air-to-air missile. Following the OD approval in February, BAe apparently satisfied the Chinese on the technical content of the programme, which the Chinese confirmed would meet their requirements, although, on price, it became clear that there was a substantial difference between BAe's estimate of what the programme would cost, and what the Chinese were prepared to pay.

During his recent visit to the UK to sign a contract for avionic equipment with Marconi Mr Duan Zi Jun of the Third Ministry of Machine Building visited the BAe facilities at Stevenage and Hatfield, and told BAe that the Chinese had every intention of proceeding with the programme "provided

R M J Lyne Esq
 Foreign and Commonwealth Office



an acceptable price can be agreed". Mr Duan asked BAe to send a delegation to Peking to discuss a preliminary contract which would cover a Project Definition phase (nine months), during which a detailed development and production plan could be agreed. BAe also expect that the Project Definition Contract will be accompanied by an MOU between the Third Ministry of Machine Building and BAe, confirming the intention of both sides to proceed to production if all goes well. The visit was originally planned for the end of July, but has now been postponed and will probably not take place until September.

BAe expect to be able to complete the PD phase within the limits of the security clearances they have already been given, and provided they can do this, we would see no objection to them going ahead. But we shall need to look carefully at any agreed development and production plan that emerges after PD to ensure that it meets our requirements. Accordingly, our officials will instruct BAe that any MOU they may sign containing statements of intent to proceed after PD must include a reference to the need for HMG approval before the start of the development and production contracts.

Ministers will therefore have another opportunity to take stock at the end of nine months, if the programme proceeds according to plan. Nevertheless, it would be wrong not to recognise that it would be difficult to stop the project then except for very pressing reasons. In this connection, it is necessary to consider the question of the timing of any approach to COCOM partners. Our officials are already in contact with yours on this point. Our view is that we should wait until the end of the PD phase and see the exact scope of the project that emerges before notifying our partners. Indeed until that step is reached we shall not know if a programme acceptable to both sides is possible. But it would be helpful to have your views on this.

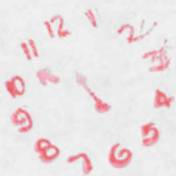


I am copying this letter to Michael Alexander (No 10),
to the Private Secretaries to the other members of OD, and
to David Wright (Cabinet Office):

Yours truly
J D S Dawson

(J D S DAWSON)

24 JUL 1980





Foreign and Commonwealth Office

London SW1A 2AH

1 August 1980

Dear Jonathan

NBPA

RHS

CHINA : BRITISH AEROSPACE'S AIR-TO-AIR MISSILE PROJECT

Thank you for your letter of 23 July to Roderic Lyne about this project.

In Lord Carrington's absence in South America the papers have been submitted to the Lord Privy Seal. Sir Ian Gilmour was pleased to learn that BAe have made progress in their discussions with the Chinese. He agrees that the company should be authorised to take matters further on the basis outlined in your letter, and on the understanding that BAe's proposed MOU will be submitted to your department for clearance before signature. We shall wish to examine the political implications, including those relating to COCOM, very carefully at that stage. Any MOU will certainly have to include (as you suggest) a clear statement of the need for further government approval before the start of development and production contracts.

Sir Ian Gilmour agrees that COCOM partners should not be informed about this project in the meantime. If a deal is eventually concluded it would involve a significant transfer of technology in a sensitive area and some of our partners might well be unhappy about it. However, the final shape of the project is unclear and it is far

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from certain that BAe will succeed in reaching agreement with the Chinese. We also see advantage in delaying an approach until there is an agreed procedure for handling defence sales to China in the COCOM machinery.

I am copying this letter to the recipients of yours.

Yours ever

Michael Arthur

M A Arthur
Private Secretary to the
Lord Privy Seal

11 AUG 1980

