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FOREIGN AND COMMONWEALTH SECRETARY

CHINA - PROPOSALS TO MODERNISE LUDA CLASS DESTROYERS

You will recall that, when we discussed defence sales to China in OD on 29th February, one of the projects which we approved was the British Shipbuilders (BS) proposal to re-equip Chinese LUDA class destroyers and construct new destroyers. Since then, further discussions between BS and the Chinese have taken place, and a BS team has recently returned from Peking. From these contacts it is clear that the Chinese do not intend to proceed with the part of the original proposals relating to new construction, at least for the time being, but the LUDA refit discussions have made good progress and BS's recent visit concluded with the signature of a Letter of Intent. In summary, this is an agreement, subject to the approval of both Governments, to enter contract negotiations to modernise two LUDA class destroyers in Shanghai with a Shore Test Facility in the United Kingdom. The intended weapon fit of the project as now defined is at Annex. The project has now been designated the 051 Destroyer Project and BS have undertaken to present draft contract documents at the end of November 1980 - provided that Government approval for the project has been obtained.

2. I believe we should give that approval. Although the proposals have been scaled down from BS's earlier hopes, they still represent a considerable amount of business and would be an extremely valuable source of work for BS and the other companies involved. The value of the refit of these two ships is roughly £100M. There are good prospects, however, for the refit of further LUDAs which might, subject to agreement on the supply of an acceptable torpedo, include sale of the Lynx helicopter and torpedoes, (which are not included in the first two refits). There are seven LUDA class ships, and, we believe, an eighth in course of building.

3. From a security point of view, we are content that the equipments may be sold to China. A certain degree of sanitisation will be required for the Sea Dart missile, and this is under discussion with the manufacturers, British Aerospace. There is also the question of technology transfer. The Chinese have made it clear that they will seek transfer on, inter alia, Sea Dart



and Lynx as a condition of purchase. This is not specifically mentioned in the Letter of Intent since it has always been understood that technology transfer discussions must be direct with the appropriate suppliers and not through BS. Some initial discussions have taken place: when specific proposals are ready, each will have to be examined carefully before they are offered to the Chinese, but I do not believe we should refuse transfer as a matter of principle if security considerations permit.

4. From a strategic point of view, little has changed since the LUDA proposals were discussed at OD in February and, since the project is now less elaborate than was then envisaged its strategic significance is correspondingly lessened. We do however need to consider at this stage what action, if any, to take with our COCOM partners. Although we are doing little more at this stage than to re-endorse the approval given in February, it will, if BS present their draft contract and get it accepted, become increasingly difficult, if not impossible to stop the project without a major effect on Sino-British relations. Nevertheless I do not believe that we should notify our COCOM partners at this stage. In the circumstances I suggest that the best time to do this, so as not to cause ourselves unnecessary difficulties with our partners - the Japanese in particular may have some reservations about the project - would be when contract negotiations are further advanced. This would have the advantage of giving us more time to agree with our partners a procedure for dealing with China cases in COCOM.

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

Ministry of Defence

23rd September 1980

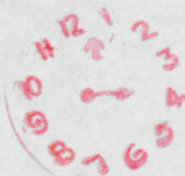
CHINA - BRITISH SHIPBUILDERS PROPOSALS FOR REFIT OF LUBA CLASS DESTROYERS

British Shipbuilders proposals for the refit of the LUBA class destroyers are designed to enhance the ships' defensive capability against attack from air and surface missiles, to improve the fast reaction capability of their weapons systems and to introduce a capability for Electronic Counter Measures and a real-time digital data and information system.

2. In equipment terms, the main features of the proposals can be summarised as follows:

- a. Weapons - light weight Sea Dart and 30mm guns.
- b. Combat Information Command and Control Systems - action information and fire control systems.
- c. Electronic Warfare Systems - jammer and chaff and infra-red rocket launchers.
- d. Radar Equipment - surveillance, tracker illuminator and fire control radars.
- e. Optronic Sights - laser range finders and TV devices.
- f. Underwater Acoustics - sonar.
- g. Communications Equipment - internal communications.
- h. Navigational Equipment - gyro compass stabilisers.

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Foreign and Commonwealth Office

P. Minister (2)

London SW1A 2AH

13 October 1980

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Dear Brian,

China: Proposals to Modernise Luda Class Destroyers

The Foreign and Commonwealth Secretary has seen the Defence Secretary's minute of 23 September about British Shipbuilders' (BS) proposal to modernise two LUDA class destroyers for the Chinese and set up a shore test facility in this country. He agrees that BS should be authorised to start contract negotiations.

Lord Carrington accepts that the transfer of some of the technology involved is a price which will have to be paid if a deal is to be concluded. He would have no objection to this in principle, but agrees that individual proposals should be examined on their merits. Since political as well as security considerations will need to be taken into account, we would be grateful if you would arrange for the FCO to be consulted as necessary. We understand that the transfer of technology on the Lynx helicopter is not in question at this stage and would only arise, if at all, in the context of discussions about refitting further LUDA destroyers.

Lord Carrington shares the Defence Secretary's view that some of our COCOM partners may have reservations about the project. The Americans could create difficulties about the supply of some of the equipments included; and the Japanese may be unhappy about the improvement in China's naval capability which the deal would facilitate. He therefore thinks it important to give our partners adequate time to consider what is proposed - and ourselves time to consider and respond to any objections which they may raise. We understand that the final contract is unlikely to be signed, assuming all goes well, before March next year at the earliest. On that basis Lord Carrington is content to delay formal notification to our partners until the negotiations are further advanced, perhaps early next year. The Americans have already been told in general terms about the proposed refit and have asked for more information. I understand that your officials agreed with the FCO officials that further information should be given to them in the context of our discussions with them of a China differential. In the light of these discussions, it may also become necessary to tell other COCOM partners - in particular the Japanese - what we have in mind. The exact timing of a formal approach will be a matter for careful judgement in the light, among other things, of the dates chosen for Lord Carrington's rearranged visits to Japan and China.

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For that reason we should be grateful to be kept closely informed of progress in BS's discussions with the Chinese. In the meantime Lord Carrington thinks it would be prudent to remind BS that Ministers will need to take account of the views of COCOM partners before final decisions are taken.

I am copying this letter to the Private Secretaries to other members of OD, to the Secretary of State for Industry, and to David Wright (Cabinet Office).

*Yours ever
R M J Lyne*

(R M J Lyne)
Private Secretary

13 OCT 1980

Brian Norbury Esq
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State for Defence
Ministry of Defence
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