



MO 11/4

cc RJ
Prime Minister

To note.

A.S.C. 17/2.

PRIME MINISTERCHINA - PROJECT 051

Following Patrick Jenkin's report of his visit to China you asked for a note on the problems which have arisen on Project 051. Since this is Defence Sales business we have agreed that I should reply.

2. The contracts signed on 10th November 1982 with UK Industry (Vosper Thorneycroft UK Ltd and British Aerospace Dynamics Group, Bristol Division) required formal ratification by the two Governments. We confirmed our approval of the arrangements in early January, but the Chinese have so far withheld theirs. At first the reason given was that a Government review had been ordered to settle questions of detail over the fairness of some contractual clauses, price and technological standards. We now understand that this review has developed into an internal military/political debate over fundamental policy issues which are likely to be resolved only at Prime Minister level.

3. While details of the points at issue are sparse, according to information from our Ambassador in Peking the Chinese Defence Minister is the main opponent to the Project proceeding as negotiated. I have, therefore, sent the attached personal message to him expressing our concern over Chinese delay in ratification of the contracts.

4. The Chinese Government has been made fully aware through Patrick Jenkin's discussions of the political damage to Sino/British relations if the contracts freely negotiated over three years do not proceed. This message has since been reinforced by meetings between



the Chinese Ambassador in London and Arthur Cockfield, and with senior FCO and MOD officials, but I felt it sensible to make our position clear personally to the Chinese Minister of Defence in the light of the latest advice from the Ambassador. These developments are worrying but I hope that my message will have the desired effect. I will keep you informed of developments.

5. I am copying this to Francis Pym, Patrick Jenkin and Arthur Cockfield.

WJH

Ministry of Defence
16th February 1983



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MO 11/14

16th February 1983

Your Excellency

As you know, I have recently taken over from Sir John Nott as Secretary of State for Defence and I very much hope that during my tenure of office the good relations which exist between your Armed Forces and ours will expand and deepen. I am sorry to hear that it is not convenient for Mr Blaker to visit China in March to discuss the way ahead, but of course I understand the reasons and hope that he may be able to come later this year. I am also sorry that it will not be possible for you yourself to visit the UK until later this year, but I shall look forward to meeting you then.

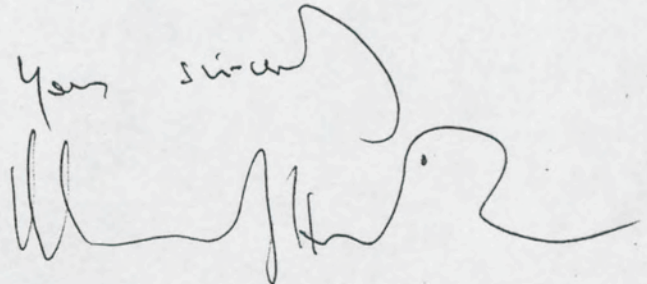
I had hoped that Mr Blaker might have been able to discuss with you Project 051. Now that this is not possible, I hope you will understand if I set down some thoughts in this message. As you know from our Prime Minister's visit in September last year, we have very high hopes of the Project, which we trust will be the start of a continued exchange of information on defence technology and of industrial cooperation on a firm basis of friendship, equality and mutual benefit.

Following the signature of the contracts on 10th November 1982 after three years of intensive preparatory work, British Industry is anxious to go ahead with the Project as soon as possible. I have, therefore, been very concerned to learn recently that there has been delay in ratification following the signature of the contracts by the companies. As you know, we have ratified these contracts and I very



much hope that it will soon be possible for the Chinese Government to do likewise. If at this late stage the contracts were not to be ratified, I fear that our efforts to advance defence collaboration and trade between our two countries would inevitably suffer a serious setback. But I am confident you have these considerations very much in mind and therefore look forward to early news of the results of your present enquiry.

My very best wishes to you in your important task.

Yours sincerely


Michael Heseltine



Sub
Defence

10 DOWNING STREET

From the Private Secretary

21 February 1983

CHINA - PROJECT 051

The Prime Minister was grateful for your Secretary of State's minute of 16 February, the contents of which she has noted. As Mr. Heseltine suggests, she would like to be kept informed about developments.

I am copying this letter to John Holmes (Foreign and Commonwealth Office), Jonathan Spencer (Department of Industry) and John Rhodes (Department of Trade).

A. J. COLES

Richard Mottram, Esq.,
Ministry of Defence.

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