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cc fro

10 DOWNING STREET

THE PRIME MINISTER

25 November, 1981.

Dear Sir Richard

Thank you for your letter of 23 November. I understand that your discussions with the Chinese have reached a crucial point, and I am therefore sending you an immediate interim reply.

As you say, Ministers have been making repeated attempts to persuade the United States to grant re-export licences. Douglas Hurd is at present in Washington, where he will keep up the pressure. His aim is to persuade the Americans at least to review their decision, on both commercial and political grounds. We shall be in touch with you again as soon as we know the outcome of his discussions.

Yours sincerely
Raymond Storer

Sir Richard Cave, M.C.

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Foreign and Commonwealth Office

London SW1A 2AH

24 November 1981

Type for PM's signature

Dear Michael,

Thank you for your letter of 23 November, enclosing a letter from Sir Richard Cave to the Prime Minister.

You will have seen the minute of 20 November from the Secretary of State for Defence to the Foreign and Commonwealth Secretary on "China - Project 051", which touches on the Thorn EMI case in paragraph 5. Any decision on further action will need to wait until we know the outcome of Mr Hurd's current discussions in Washington.

/ I enclose a draft interim reply cleared with the Ministry of Defence.

I am sending copies of this letter to David Oman (Ministry of Defence) and David Wright (Cabinet Office).

Yours ever

Roderic Lyne

(R M J Lyne)
Private Secretary

M O'D B Alexander Esq
10 Downing Street

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DRAFT: ~~XXXX~~/letter/~~XXXXXXXXXXXXXXXXXXXX~~

TYPE: Draft/Final 1+

FROM:

Reference

Prime Minister

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

Top Secret

Sir Richard Cave MC
Chairman
Thorn EMI Ltd
Thorn House
Upper St Martin's Lane
LONDON WC2H 9ED

Secret

Confidential

Restricted

Unclassified

Copies to:

25/11

PRIVACY MARKING

SUBJECT:

.....In Confidence

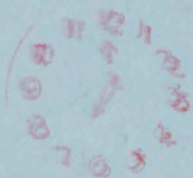
Thank you for your letter of 23 November. I understand that your discussions with the Chinese ^{have} reach a crucial point on ~~25~~ November and I am therefore sending you an immediate interim reply.

CAVEAT.....

As you say, Ministers have been making repeated attempts to persuade the United States to grant re-export licences. Douglas Hurd is at present in Washington, where he will keep up the pressure. His aim is to persuade the Americans at least to review their decision, on both commercial and political grounds. We shall be in touch with you again as soon as we know the outcome of his discussions.

Enclosures—flag(s).....

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JTB

3/12

10 DOWNING STREET

From the Private Secretary

23 November 1981

Sir Richard CAVE

I enclose a copy of a letter which the Prime Minister has received from the Chairman of Thorn EMI Limited about the export of sensitive equipment to China.

I should be grateful if you could let me have a draft reply which the Prime Minister might send to Sir Richard Cave. It would be helpful if this draft could reach me by Thursday 3 December.

I am sending copies of this letter and its enclosure to David Omand (Ministry of Defence) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Roderic Lyne, Esq.,
Foreign and Commonwealth Office.

JTB

THORN EMI Ltd.

Sir RICHARD CAVE CHAIRMAN

THORN HOUSE UPPER ST MARTIN'S LANE LONDON WC2H 9ED
Tel 01-836 2444

23rd November, 1981.

The Rt. Hon. Margaret Thatcher, PC, MP,
10 Downing Street,
LONDON, S.W.1.

Dear Prime Minister

In 1980 following receipt of export licences from the Department of Trade, which were renewed in March 1981, my company signed two contracts to supply the People's Republic of China with equipments related to underwater warfare valued at £3.6 million and for which we have received £2.2 million in advance payments.

Each equipment embodies three vital items of United States origin (total value £82,000) for which there is no direct replacement and for which re-export licences are required from the United States.

The manufacture of the first equipment is complete. For some months representatives of the People's Republic have been engaged at our works where the final inspection and delivery is scheduled to take place very shortly.

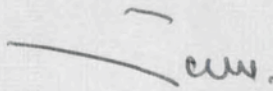
As the re-export licences are not forthcoming we made an approach to Viscount Trenchard a few weeks ago and he took up the matter with the U.S. Government. We understand that he has been advised that the U.S. Navy will not grant re-export licences and unless the United States position is changed, the alternatives facing us are either to refrain from fulfilling the contracts or do so without the re-export licences.

Our failure to fulfil the contracts would need to be adequately explained at all levels and would undoubtedly cause the People's Republic much consternation and, amongst other things, bring into question the sincerity and credibility of the United Kingdom and perhaps the United States. The cost to my company of such frustration would be an exceedingly heavy burden both financially and in its effect on potential large export contracts.

We dare not contemplate the alternative of completing the contract without the re-export licences. As you may be aware, we are well advanced in negotiation for the sale of the Searchwater radar to the U.S. Navy. The prospect is very encouraging and success is potentially worth more than £100 million and of course great prestige useful in seeking further export markets. If the current situation results in an adverse effect to this unique opportunity I fear that the consequences to the U.K., not just THORN EMI, may be widespread.

I appreciate the efforts that your Ministers are making to persuade the United States to grant the re-export licences, but as the licences have not been forthcoming I feel that I must now seek your intervention because of the very serious commercial and diplomatic implications of the situation.

Yours sincerely,

Richard  *Law.*

THORN EMI Ltd.

Sir RICHARD CAVE CHAIRMAN

THORN HOUSE UPPER ST MARTIN'S LANE LONDON WC2H 9ED
Tel 01-836 2444

3rd December, 1981.

The Rt. Hon. Margaret Thatcher, PC, MP,
10 Downing Street,
LONDON, S.W.1.

New Prime Minister

24/12
1) Copy to F/C.O. ✓
(Mr. Lyne)

2) p.a.

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I am most grateful to you for informing me of the action that has been taken concerning the supply of equipment by us to the People's Republic of China, as outlined in my letter of the 23rd November.

I so much hope that when the Americans take another look at the technical arguments their decision will be in our favour.

Yours sincerely,
Richard [Signature]

RGC/JSO.

10 DOWNING STREET

THE PRIME MINISTER

1 December, 1981.

Dear Sir Richard,

In my letter of 25 November I promised to let you know the outcome of Douglas Hurd's discussions in Washington about your company's sale of equipment for the Chinese Navy.

On the basis of these representations, the Americans have agreed that further expert discussions on the technical aspects of the proposed export should take place as soon as possible. We are therefore planning to send a team to Washington towards the end of next week.

It would be idle to pretend that the Americans will be easily persuaded to change their decision on re-export licences in this case. However, their agreement to take another look at our arguments does mean that their decision will be reviewed.

Yours sincerely,

(SGD) MT

Sir Richard Cave, M.C.

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Foreign and Commonwealth Office

London SW1A 2AH

27 November 1981

Dear Michael,

Thorn/EMI

In her letter of November to Sir Richard Cave, the Prime Minister promised to let him know the outcome of the Minister of State's discussions in Washington this week about the Thorn EMI sale of equipment for the Chinese Navy. While no immediate progress towards a decision was made, the Americans agreed that expert discussions should be held as soon as possible. We are therefore arranging to send a suitable team to Washington towards the end of next week.

I enclose a draft reply from the Prime Minister to Sir Richard Cave.

Yours ever
Roderic Lyne

(R M J Lyne)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
London SW1

CONFIDENTIAL

DSR 11 (Revised)

DRAFT: ~~minute/letter/teletype/despatch/note~~
XXXXXXXXXXXXXXXXXXXXXXXX

TYPE: Draft/Final 1+

FROM: Prime Minister

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO: Sir Richard Cave MC
Chairman
Thorn EMI Ltd
Thorne House
Upper St Martin's Lane
London WC2H 9ED

Your Reference

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Confidential

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Unclassified

Copies to:

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CAVEAT.....

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It would be idle to pretend that the Americans will be easily persuaded to change their decision on re-export licences in this case. However, their agreement to take another look at our arguments does mean that their decision will be reversed.

reversed.

Ans

*
Draft submitted
earlier this
week
RMJL.

Enclosures—flag(s).....