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(b)(3)(5) USC 403.1(c)
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RUEALGX/SAFE
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FM (b)(3)(10) USC 424
TO RUEKJCS/DIA WASHDC
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(b)(3)(10) USC 424

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SERIAL: (U) IIR (b)(3)(10) USC 424
COUNTRY: (U) CHINA (CH); ARGENTINA (AR); BRAZIL (BR); CHILE (CI); IRAN (IR).
SUBJECT: IIR (b)(3)(10) USC 424 CHINESE AVIATION TOPICS (U).
WARNING: (U) THIS IS AN INFORMATION REPORT. NOT FINALLY EVALUATED INTELLIGENCE. REPORT
DEPARTMENT OF DEFENSE
DOJ: (U) 880604
REQS: (U)
SOURCE: 8800642149
MSGNO 2 (M11) RSB #15/06/88a #01:08a
(b)(1),1.4 (c)

SUMMARY: REPORT DISCUSSES SILKWORM SALES TO IRAN.
The L-8 TRAINER and F-7M for the PLAAF, ATTEMPTS TO SELL
AIRCRAFT TO LATIN AMERICA, AND AIRCRAFT SALES/PRODUCTION
IN GENERAL.

TEXT: 1. VARIOUS CHINESE AVIATION TOPICS, INCLUDING SILKWORM
MISSILE SALES, THE L-8 TRAINER, THE F-7M FIGHTER,
AIRCRAFT SALES TO LATIN AMERICA, AND CHINESE AIRCRAFT
PRODUCTION IN GENERAL.

2. SILKWORM MISSILES [(b)(1),1.4 (c)] THE MINISTRY
OF AVIATION INDUSTRY (MAI) CAN GUARANTEE UNEQUIVOCALLY
THAT IT HAS NEVER SOLD SILKWORM MISSILES TO IRAN, EITHER
DIRECTLY OR INDIRECTLY THROUGH ANOTHER COUNTRY, HOWEVER,
"WHO KNOWS WHAT POLY TECHNOLOGIES INCORPORATED HAS DONE."

3. L-8 TRAINER [(b)(1),1.4 (c)] THAT THE PLAAF
DOES NOT PARTICULARLY LIKE THE L-8 TRAINER BEING
DEVELOPED AT THE NANCHANG AIRCRAFT MANUFACTURING CORP
(NAMC). NOR HAS THE PLAAF DECIDED TO BUY ANY L-8. HOWEVER,
THE AIR FORCE HAS NO CHOICE AND WILL
BE FORCED TO BUY THEM WHEN THE TIME COMES.

4. F-7M FIGHTER [(b)(1),1.4 (c)] THAT THE
PLAAF HAS PURCHASED SOME F-7M'S, BUT CONSIDERS THEM TO
TOO EXPENSIVE. AT THE SAME TIME, MAI IS NOT EAGER TO
SELL ANY MORE F-7M'S TO THEM BECAUSE THEY ONLY PAY IN
RENMINBI. NOT IN QIAOHU CURRENCY. AS A RESULT, MAI LOSES
MONEY BECAUSE MANY OF THE F-7M'S COMPONENTS, SUCH AS
THE GEC HEADS UP DISPLAY, ARE PURCHASED FROM ABROAD WITH
HARD CURRENCY.

5. AIRCRAFT SALES TO LATIN AMERICA [(b)(1),1.4 (c)]
MAI WAS ACTIVELY TRYING TO SELL AIRCRAFT TO ARGENTINA,
CHILE, AND BRAZIL. BUT HAS HAD NO SUCCESS SO FAR. IF
THEY WERE SUCCESSFUL, THEY WOULD ESTABLISH A SUPPLY
DEPOT SOMEWHERE IN LATIN AMERICA. AlTHOUGH AIRCRAFT
SALES WOULD HELP CHINA ECONOMICALLY OVERALL. MAI WILL
NOT GAIN THAT MUCH. THE REASON FOR THIS IS THAT THOSE
COUNTRIES WILL NOT PAY CASH, BUT WILL TRADE GOODS FOR
THE AIRCRAFT. THE CHINESE GOVERNMENT, IN TURN, WILL
PAY MAI IN RENMINBI. HOWEVER, IF THE AIRCRAFT HAVE ANY
FOREIGN PARTS, THE GOVERNMENT WILL PAY MAI IN FOREIGN
CURRENCY (PRIMARILY USD) FOR THOSE PARTS[(b)(1),1.4 (c)]

6. AIRCRAFT COSTS [(b)(1),1.4 (c)] THAT IF A CUSTOMER
ORDERS AN AIRCRAFT, BUT IT IS NOT DELIVERED UNTIL SOME TIME
LATER, THE COST IS THE PRICE OF THE AIRCRAFT AT THE TIME
END OF MESSAGE

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COUNTRY: (U) CHINA (CH); ARGENTINA (AR); BRAZIL (BR);
- CHILE (CI); IRAN (IR).
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THE CONTRACT IS SIGNED, HOWEVER, IF MAI OFFERS A CONTRACT
BUT THE CUSTOMER DELAYS SIGNING IT UNTIL LATER, THEN MAI
IS ALLOWED TO ADD ONLY A SIX PERCENT INCREASE PER YEAR.
IN THE LONG RUN, MAI LOSES BECAUSE PRODUCTION COSTS ARE
INCREASING MUCH MORE THAN SIX PERCENT ANNUALLY.
7. ANOTHER PROBLEM FOR MAI'S
AIRCRAFT PRODUCTION IS THAT ABOUT 60 PERCENT OF MAI'S
INCOME NOW COMES FROM NON-AVIATION COMMERCIAL PRODUCTS.
AS A RESULT, SOME OF THE FACTORIES THAT MAKE AIRCRAFT
COMPONENTS ARE NOW USING THE SAME MATERIALS AND MANPOWER
TO MAKE CIVILIAN PRODUCTS, WHICH BRING IN MORE MONEY.

COMMENTS: 1. 

(b)(1),(b)(3):10
USC 424.14(c) 
THE MOST IMPORTANT POINT
TO CONVEY WAS THAT MAI DOES NOT MAKE THE
SILKWORM (THE MINISTRY OF ASTRONAUTICS DOES), AND MAI WAS
NOT RESPONSIBLE FOR SILKWORM SALES TO IRAN.

(b)(1),(b)
(3):10 USC
424,14 (c)

IS CERTAIN THE PLAIF WAS ABOUT 20-25 F-7M S.
IT IS ALSO APPARENT THAT THE PLAIF WILL NOT ACQUIRE ANY
MORE BECAUSE OF THEIR COST.

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