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EZ2:

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

~~CLASSIFIED CONFIDENTIAL NOFORN.~~

DEPARTMENT OF DEFENSE

DOI: (U) 880604  
REQS: (U) (b)(3):10 USC 424

SOURCE: (C) / (b)(1),(b)(3):10 USC 424.1.4 (c)

8800642149

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MSGNO

2 (MIIR) RSB \*15/06/88\* \*01:08\*

(b)(1),1.4 (c)

SUMMARY: ~~(U)~~ REPORT DISCUSSES SILKWORM SALES TO IRAN, THE L-8 TRAINER AND F-7M FOR THE PLAAF, ATTEMPTS TO SELL AIRCRAFT TO LATIN AMERICAN, AND AIRCRAFT SALES/PRODUCTION IN GENERAL.

TEXT: 1. ~~(U)~~ (b)(1),(b)(3):10 USC 424,1.4 (c)

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. ~~(U)~~ 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. ~~(U)~~ 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, (b)(1),1.4 (c) THE AIR FORCE HAS NO CHOICE AND WILL BE FORCED TO BUY THEM WHEN THE TIME COMES.

4. ~~(U)~~ 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 INHQRD 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. ~~(U)~~ 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)

MOST FOREIGN COUNTRIES WANT SOME TYPE OF MODIFICATIONS WHICH REQUIRE FOREIGN PARTS. AS A RESULT, THIS CAUSES PROBLEMS IN DEVELOPMENT AND PRODUCTION TIME, COST, AND PARTS ACQUISITION FOR THE AIRCRAFT FACTORY, AND MEANS THE GOVERNMENT MUST USE MORE HARD CURRENCY TO PAY MAI.

(b)(1),1.4 (c) THE GOVERNMENT SOMETIMES MAKES MAI SELL THE AIRCRAFT AT EXTREMELY LOW PRICES JUST TO MAKE THE DEAL.

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

\*\*\*<<<< SECTION 2 >>>>\*\*\*

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).

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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. (b)(1),1.4(c) 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),1.4(c)

(b)(1),(b)(3):10

USC 424.1.4(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 TRAN.

(b)(1),(b)

(3):10 USC

424,1.4 (c)

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

//IPSP: (U) (b)(3):10 USC 424

//COMSOBJ:

PROJ: (U)

INSTR: (U)

PREP: (U)

(b)(3):10 USC 424,(b)(3):50 USC 403-1(i)

ACQ: (U)

DISSEM: (U)

WARNING: (U)

DECL (S) (b)(3):10 USC 424

END OF MESSAGE

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