

**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

OD(80) 6th Meeting

COPY NO 43

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held at  
10 Downing Street on  
FRIDAY 29 FEBRUARY 1980 at 9.00 am

PRESENT

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon William Whitelaw MP  
Secretary of State for the  
Home Department

The Rt Hon Lord Hailsham  
Lord Chancellor

The Rt Hon Lord Carrington  
Secretary of State for Foreign  
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer

The Rt Hon Francis Pym MP  
Secretary of State for Defence

The Rt Hon Sir Ian Gilmour MP  
Lord Privy Seal

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon David Howell MP  
Secretary of State for Energy  
(Item 2)

Viscount Trenchard  
Minister of State  
Department of Industry

Mr Cecil Parkinson MP  
Minister of State, Department  
of Trade (Minister for Trade)

SECRETARIAT

Sir Robert Armstrong  
Mr R L Wade-Gery  
Mr R M Hastie-Smith

CONTENTS

Item No	Subject	Page
1	CHINA: DEFENCE SALES	1
2	AFGHANISTAN: CONTROL ON THE TRANSFER OF TECHNOLOGY TO THE SOVIET UNION	4

**CONFIDENTIAL**

**CONFIDENTIAL**

CONFIDENTIAL

1. CHINA: DEFENCE SALES

Previous Reference: OD(79) 2nd Meeting

The Committee considered a memorandum by the Secretary of State for Defence (OD(80) 15) about three major projects for defence sales to China, and a memorandum by the Foreign and Commonwealth Secretary (OD(80) 17) about the international political implications of such sales.

THE DEFENCE SECRETARY said that since the Committee discussed future policy on defence sales to China on 11 June 1979 negotiations had proceeded with the Chinese within the guidelines that had been laid down. A position had now been reached in which, in addition to the possible sale of Harriers, there was the prospect of major sales related to warships and their equipment, to air-to-air guided missiles and to aero-engines. If all these projects came to fruition, the United Kingdom would become the major supplier of defence equipment to China. There were no defence objections to that situation. It was, however, important to control the amount of new technology which was being made available to the Chinese, and for this reason Rolls-Royce should be informed that they should not proceed with the sale or transfer of technology on the RB 199 engine.

THE FOREIGN AND COMMONWEALTH SECRETARY said that he supported the recommendations put forward by the Defence Secretary, although with some reservations. It had to be remembered that the Chinese had a reputation for trying to obtain modern technology on the cheap without actually buying much; that China remained an uncertain quantity for the future in political terms; and that arms sales to China involved dangers of antagonising India, which was another important field for British defence sales. Careful political monitoring would therefore be needed. But as things now stood the commercial and political advantages of the course of action proposed by the Defence Secretary seemed to outweigh the dangers involved.

**CONFIDENTIAL**

16

17

18

19

20

21

22

7 3

8 4

9 5

10 6

11 7

12

13

14

15

**CONFIDENTIAL**

In discussion the following points were made -

- a. China appeared to have only a limited amount of real interest in British exports outside the defence field. So far, despite a number of Chinese visitors to this country, very few orders had actually been placed.
- b. It was desirable to ensure that the sale of things the Chinese really did want was made dependent on their acceptance of package deals which would include other items.
- c. The potential difficulties with India might be mitigated insofar as the proposed defence sales to China were in a more distant timescale than the deal already concluded with the Indians for the sale of Jaguar aircraft.
- d. It was important not to run unnecessary political risks by allowing the negotiations with China to be publicised prematurely, and the desire of the companies concerned to obtain publicity should be restrained until orders had actually been placed.
- e. A welcome feature of the proposed sales was the Chinese preference for paying cash. A line of credit was likely to be required only for the warships project. Special credit terms should be avoided.
- f. Care should be taken to ensure that stateowned British corporations did not commit themselves to loss-making deals, which would have implications for public expenditure.
- g. It was important to establish that difficulties would not arise because the equipment it was proposed to sell to the Chinese included non-British components. For example, there could be difficulties over selling Lynx helicopters equipped with United States Mark 46 torpedoes.

**CONFIDENTIAL**

**CONFIDENTIAL**

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed with the recommendations put forward by the Defence Secretary but accepted the need for careful political monitoring in the light of the Foreign and Commonwealth Secretary's reservations.

The Committee -

- 1. Agreed to a continuance of the present policy of allowing industry to sell defence equipment to China, subject to consultation with the Government on a case by case basis.
- 2. Invited the Defence Secretary to proceed as proposed in OD(80) 15.
- 3. Invited the Foreign and Commonwealth Secretary to inform the Committee if in the light of future international developments there seemed to be grounds for reconsidering the Government's policy on defence sales to China.

**CONFIDENTIAL**

16

17

18

19

20

21

22

7 3

8 4

9 5

10 6

11 7

12

13

14

15

CONFIDENTIAL

CONFIDENTIAL  
2. AFGHANISTAN: CONTROL ON THE TRANSFER OF TECHNOLOGY TO THE SOVIET UNION

The Committee considered a memorandum by the Lord Privy Seal (OD(80) 16) to which was attached a note by officials on the attitude the United Kingdom should take in the current negotiations about tightening and widening the controls applied by the Co-ordinating Committee on the International Strategic Embargo (COCOM).

THE LORD PRIVY SEAL said that the export of Western technology to the Soviet Union had been agreed on as a possible area for Western retaliation following the Soviet invasion of Afghanistan. The proposals since put forward by the United States were somewhat vague. They would need to be further explored as suggested in the officials' note. The position should also be explained to British businessmen as proposed. So far controls had not been suggested on the export of technology related to the Soviet energy industry; there was a dilemma for the West in that area, since action designed to damage the Soviet industry would have the effect of reducing global energy supplies.

In discussion the following points were made -

- a. British businessmen could be expected to press the Government to take a soft line on technology exports, in the light of Soviet hints about export opportunities, but there was little reason to suppose that such hints would in fact be followed by firm offers of contracts.
- b. The practical effect of limiting technology exports to the Soviet Union should not be exaggerated, given the Russians' talent for industrial as well as political espionage and their ability to obtain Western technology indirectly via Eastern Europe.
- c. It was important not to lose sight of the political implications of developing a harder attitude towards the Soviet Union in this field at the same time as a softer attitude towards China. The combined political effect would need to be carefully monitored.

4  
CONFIDENTIAL

CONFIDENTIAL

d. Even without new controls in COCOM, the Americans were in a position to restrict British exports to the Soviet Union in the computer field, where American components or know-how were often involved.

e. There was a need for caution over helping the Soviet Union develop energy resources which might well be used in ways inimical to the West. On the other hand, Britain stood to lose more than most of her partners if new restrictions were imposed on the export of equipment for the Soviet energy industry.

f. A particular problem was likely to arise over British contracts to export uranium hexafluoride to the Soviet Union for processing. One shipment had recently been made under an outstanding COCOM licence, but further licences were being opposed by the United States and significant damage to British commercial interests might result.

THE PRIME MINISTER, summing up the discussion, said that negotiations should be carried forward on the basis suggested by officials. Britain should keep in step with her partners but should not take the lead in urging tighter or wider controls. Policy would need to be decided on a case-by-case basis, in order to ensure that British interest did not suffer disproportionately in particular sectors, eg as regards exports of energy-related technology. The export of uranium hexafluoride for processing ought not to be interrupted, since this was not an area where there was any question of the Russians learning anything from Western technology.

The Committee -

- 1. Endorsed the conclusions of the note by officials attached to OD(80) 16.
- 2. Invited the Foreign and Commonwealth Secretary to arrange for negotiations to be carried forward in the light of that endorsement and of the Prime Minister's summing up of their discussion.
- 3. Invited the Secretary of State for Trade and the Secretary of State for Energy to ensure that British negotiators were aware of any areas where British exports might be disproportionately at risk.
- 4. Reaffirmed their earlier decision (OD(80) 5th Meeting, Item 3) that the export of uranium hexafluoride to the Soviet Union for processing should not be prevented, and invited the Secretary of State for Energy to consider in consultation with the Foreign and Commonwealth Secretary how the difficulties which had arisen in the Co-ordinating Committee on the International Strategic Embargo might be overcome.

Cabinet Office  
3 March 1980

5  
CONFIDENTIAL

16

17

18

19

20

21

22

7 23

8 24

9 25

10 6

11 27

12 MEMOS

13

14

15