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CABINET
DEFENCE AND OVERSEA POLICY COMMITTEE

DEFENCE SALES TO CHINA: FUTURE POLICY

Memorandum by the Secretary of State for Foreign and
Commonwealth Affairs

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1. Negotiations authorised by the previous Government for the sale of defence equipment to China are proceeding in a number of areas and six specific items (listed at Annex A) are now ready for formal approval. We need to decide on our ground rules against the background of our bilateral relationship with China and of the implications for the Alliance and for Anglo-Soviet relations. In particular, we must decide what categories of equipment we are prepared to sell; and how to tackle the difficulties any defence sales are likely to create with our COCOM partners.
 2. Our predecessors decided that offensive weapons should not be supplied to China but that certain items, including Harrier, could be made available provided this was balanced by substantially increased trade in non-military fields. Industry was told that for the time being no firm decisions could be taken on certain more contentious items such as tanks, destroyers, and air-to-air missiles in which the Chinese have also expressed interest. Annex B lists 4 categories of equipment in increasing order of sensitivity and provides notes on the extent of Chinese interest, including Harrier and the three more contentious items.
 3. China is covered by the same rules in COCOM as the USSR. Like our allies we attach importance to COCOM especially in relation to the Warsaw Pact. But in recent weeks it has become clear that we will not be able to persuade our COCOM partners to accept modifications to the rules which would be necessary if we were to process China defence sales within the organisation. The Americans, Japanese and Germans do not wish as a matter of principle to sell defence equipment to China. But the Americans are prepared tacitly to acquiesce in the UK making such sales provided they do not go through COCOM, while the Germans, the Canadians and the Japanese are insisting that they should go through COCOM. The French are planning to proceed (and may even be proceeding) outside COCOM without consultation but seem unworried about damage to it. Annex C describes the background in more detail and argues that we too for the time being should proceed outside COCOM, notifying our partners of our intention to sell the six items which are ready. Even so we face the prospect of a major row with them.
 4. The general economic, political and strategical considerations we need to take into account are set out in Annex D. The arguments are finely balanced. Our relations with the Soviet Union will deteriorate if we sell arms to China, especially if we became the major Western supplier, and we may lose export contracts. But I believe there can be no question of going back on the position reached by our predecessors. I think we should rule out the sale of items such as strike aircraft which could affect the strategic balance in

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Asia, cause particular concern in Korea and Japan, and be objectionable to our allies (category 4 in Annex B). A grey area comprises difficult items such as Type 42 destroyers, air-to-air missiles, tank equipment and tanks (category 3). Supply of these items would not disturb the strategic balance; but such sales, especially of tanks, could lead to a critical reaction from some allies and to Soviet retaliation, eg against our exports. There should be room for greater flexibility in considering the supply of certain relatively uncontroversial types of equipment as in category 2. There are no strategic objections to the sale of items in category 1, and when the sale of Harrier was discussed at Guadeloupe no objections were raised.

RECOMMENDATION

5. Against this background I recommend that:
- a. For the six immediate items we should notify our COCOM partners without seeking their concurrence, but reserving a final decision until we see how sharply they react.
 - b. We should look at all other contracts on a case by case basis before granting export licences, taking into account national security interests, our COCOM partners attitudes, and the prevailing international situation.
 - c. We should not initiate a major governmental sales campaign.
 - d. Subject to (a), (b) and (c) above we should:
 - i. authorise British firms to proceed with negotiations in hand covered by category 1 in Annex A, including Harrier and associated equipment;
 - ii. tell industry that they may enter into negotiations for the sale of items in category 2;
 - iii. authorise industry to explore without commitment Chinese interest in items in category 3, but ask firms to keep in close touch and come back to us before embarking on contract negotiations.
 - e. We should rule out the sale of items in category 4.
 - f. In public we should take the line that sales of military equipment will only be part of a wider relationship with China.
 - g. We should take positive steps with the Russians to neutralize their adverse reactions eg by explanation and by adding content to our bilateral relations.

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FOREIGN AND COMMONWEALTH OFFICE
6 June 1979

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ANNEX A

DEFENCE SALES TO CHINA FOR URGENT CONSIDERATION

(a) Image_Intensifier_Tubes (Mullards)

Mullards believe that they will shortly conclude an agreement for the supply of these tubes, and the release of associated technology leading up to licensed production in China. The value of any contract would not be large by Harrier standards, but is of substantial importance to Mullards.

(b) ICS_3 (Marconi Communications Systems)

Marconi are expecting imminently a firm order from the Chinese for 6 ship sets of their ICS 3 naval communications system. Delivery would commence in 1981.

(c) SFCS_600 (Marconi Radar)

Following a visit by Marconi to China a Chinese team recently paid a return visit and confirmed their interest in Marconi's Simplified Fire Control System for tanks. Marconi are confident that this will lead to a firm order though they are uncertain about the likely quantities and value involved.

(d) MEL-Night_Vision_Equipment (MEL Ltd - a subsidiary of Philips Electronic)

The Chinese have shown interest in a wide range of MEL's night vision equipment, particularly tank night sights. MEL have visited China, and a Chinese delegation visited MEL recently and showed firm interest in buying small quantities on a trial basis with the expectation of further, larger orders later.

(e) and (f) FACE_and_MORCOS (Marconi Space and Defence System)

Marconi visited China last year and recently received a Chinese delegation to discuss their Field Artillery Computing Equipment and Mortar Locating equipment. Marconi have now submitted an export licence application for about £2 million worth of Field Artillery Computing Equipment.

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TYPES OF EQUIPMENT OF POSSIBLE OR ACTUAL INTEREST TO THE CHINESE
CATEGORY_1

Types of equipment whose supply British firms have hitherto been authorised to negotiate and which it is now proposed should be confirmed (subject to final Government approval).

i. Naval Equipment

Hovercraft
 Minehunters
 Fishery Protection vessels
 Shipborne communications systems
 Ship engines (turbines)

ii. Army Equipment

Anti-tank and surface to air missiles (eg Swingfire and Optical Rapier)
 Military radars (eg Cymbeline)
 Laser Equipment (range finders and target markers etc)
 Armour plate for tanks (not Chobham Armour)
 Fire Control Systems for tanks
 Night vision equipment, including infra-red tank sights and small arms sights
 Thermal direction finding and imaging equipment
 Low Light television
 Image Intensifiers
 Military Communications Systems
 Small arms and ammunition (eg 4.8mm rifle and ammunition)
 Artillery Data Systems (eg FACE and AWDATS)

iii. Air Force Equipment

Harriers
 Hawk
 Airborne Radars
 ECM equipment
 Head-up displays
 Inertial Navigation equipment
 Radar altimeters
 Aeroengines

iv. Miscellaneous

Military cameras
 NBC protective clothing

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CATEGORY 2

Types of equipment whose supply British firms have not hitherto been specifically authorised to negotiate, but which would not upset the strategic balance, and are not particularly sensitive. It is now proposed that industry should be authorised to negotiate their supply (subject to final Government approval).

Naval inertial navigation equipment, radars, sonars
and echo sounders
Light Guns
Equipment associated with Harrier supply
Flight Simulators
Airborne Communication system

CATEGORY 3

Types of equipment whose supply British firms have not hitherto been specifically authorised to negotiate, but which would not upset the strategic balance, although they are particularly sensitive. It is now proposed that industry should be authorised to explore the extent of the interest which the Chinese have already shown in them, but to come back to the Government again before any decision is taken to start contract negotiations.

Helicopters and associated weapons systems
Frigates (Types 21 and 24)
Type 42 destroyers
Air to air missiles
Naval missiles (eg early versions of Seawolf and Sea Dart)
Tanks:

- a. the refurbishment and re-equipping of existing Chinese tanks including provision of new engines and new guns;
- b. modernisation of existing Chinese tank manufacturing facilities;
- c. British support for Chinese R and D efforts in the tank field;
- d. the acquisition of the Vickers Mark 4 tank and licensed manufacture in China.

CATEGORY 4

Types of equipment which it is proposed to rule out for sale to the Chinese:

Chobham Armour
Blind Fire Rapier
Strike Aircraft (eg Tornado)
Large Cruisers
Submarines

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Chinese Purchasing Policy

Discussions with the Chinese Missions that have visited the UK have revealed certain trends in Chinese thinking. First, the Chinese wish to up-date some of their existing equipment eg they want fire control and night vision equipment for their tanks, avionics equipment for their aircraft, computer aided equipment for their ships and artillery. Next, they want to acquire new weapon systems eg Harrier. Finally they want to build up and modernise their research, development, testing and production facilities. They are prepared to buy initial quantities from the UK but their main concern is to acquire Manufacturing licences perhaps associated with the supply from the UK of sophisticated, hard-to-produce components and sub-systems. For our part we have stressed that the purchase of technology must be accompanied by orders for hardware and that we are mainly interested in work for British industry.

INDIVIDUAL ITEMS OF EQUIPMENT

Harrier

Mr Callaghan told the House of Commons on 16 January that his Government were prepared to negotiate the sale of Harrier, which it regarded as essentially a short range tactical aircraft with a defensive role, provided that this was balanced by substantially increased trade in other areas which would be of significant benefit to our civilian export industries. Commercial negotiations are currently proceeding, but are unlikely to be completed before the autumn of this year. British Aerospace are offering 3 main versions of the Harrier to the Chinese: a close support land version, a maritime version (incorporating the Blue Fox radar) and a two seat training version. As part of the package they are also offering various equipments and weaponry associated with these versions. The Russians many now have accepted that they cannot prevent the sale of Harrier. But retaliatory action of some kind could not be ruled out, particularly if this were to be the first major Western arms sale of a kind which appeared to establish a precedent. The Chinese certainly expect it to go through, and retraction from the deal at this stage would be very damaging to our political relations.

Destroyers

The Chinese have shown an increasingly serious interest in Type 42 destroyers, whose primary role is for area air defence. A sale would represent a very substantial boost to the future of British Shipbuilders. In addition British Shipbuilders believe that an agreement to supply could also lead to sales of civil ships, in a sector where they are desperately needed, perhaps doubling the value of the overall business.

The Russians have an overwhelming naval superiority in terms of capability (although not numbers) and a destroyer sale to China would not represent a significant strategic threat to them.

Tanks

The Chinese have been negotiating with Vickers Ltd on two main tank related issues. Their first priority is to update their existing Russian-designed T 59 tanks. This could involve providing new equipment for the tanks, such as night vision devices and fire control systems, and also providing new engines and possibly new guns. In parallel the Chinese are also considering buying new tanks and one

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in which they have shown particular interest is the Vickers Mark 4; they also wish to obtain assistance in the improvement of their existing tank manufacturing facilities and UK support for their Research and Development efforts in the tank field.

Although a Chinese tank offensive against the Soviet Union in the near future is not a realistic possibility, supply of large numbers of modern tanks to China would be perceived as a threat to their security, at least in the medium term. It would also radically increase China's offensive capability against Vietnam, and thus possibly China's readiness to initiate hostilities again. It would be more likely than a Type 42 sale to provoke Russian retaliation.

Missiles

The Chinese have shown an interest in a range of missiles produced by British Aerospace Dynamics Group.

In the naval field their main interest has been in Sea Dart (ship-air or ship-ship) but they have also enquired about the Sea Wolf (ship-air).

In the land environment, they have shown limited interest in Swingfire (anti-tank) and rather more interest in Rapier (anti-aircraft).

They have also expressed considerable interest in air-to-air missiles and, since BAC's "Skyflash" cannot be supplied for security reasons, BAC have suggested to the Chinese a joint programme to develop a new air-to-air missile (called "Redflash") embodying some of the less sensitive aspects of Skyflash technology.

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ANNEX C

DEFENCE SALES TO CHINA: COCOM IMPLICATIONS

1. COCOM was set up after the war to control the supply of strategic goods to Communist countries. Background is contained in an appendix to this Annex.
2. We have a major interest in preserving COCOM as a means of coordinating the control of sales of strategic materials to the Soviet Union and its Warsaw Pact allies. Present COCOM procedures do not in our view correspond with the changed international position of China and our long term aim should be to secure modifications to these procedures which would permit more lenient treatment within COCOM of strategic sales to China. We have been trying to do this over the last few months (see paragraph 4 of appendix) with the suggestion that, by mutual agreement, member Governments might let certain sales to China pass without comment rather than saying yes or no in COCOM. But we have been unable to reach agreement with our partners who are reluctant to accept the creation of a "China differential".
3. In general our partners have indicated that they do not object to our selling defence equipment to China as such (although the Americans, the Germans and the Japanese have told us that they will not make such sales themselves). But they have stressed to us the importance they attach to the preservation of COCOM. It seems likely that they consider that on the one hand, exempting defence sales to China would lead inevitably to the exemption of civil sales; and on the other, that an exemption for China would increase the pressures for the relaxation of sales to Eastern Europe: a "China differential" might open a Pandora's box.
4. The Americans do not wish to be seen by the Chinese as obstructing the sale of arms; and they do not want to make difficulties for the UK. But Mr Vance told Lord Carrington and Mr Pym during his recent visit here that the United States Administration were opposed to arms sales to China being submitted through the COCOM machinery. It was their policy to keep a balance in their relations with the Soviet Union and China, and they would be placed in difficulty if they were forced into a position of public acquiescence in sales to China as they would be if COCOM procedures were used. We should not put proposals through COCOM if we did not wish to risk a United States veto. The French told us last autumn that they did not propose to put their defence sales to China through COCOM. They would simply inform their main partners. There are indications that French sales in some areas may possibly be further ahead than ours. But they have not yet talked to us about them. On the other hand the Germans, who need to take particular account of Soviet reactions because of the importance they attach to their relationship with the GDR, have said that they want to keep all sales to China within COCOM. The Japanese were displeased when we by-passed COCOM last year on marine gas turbines even though that was a relatively uncontroversial sale. They are likely to react strongly if we by-pass COCOM again. The Canadians have said that such action would amount to "institutionalised hypocrisy".

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5. We are thus faced with a dilemma. If we go outside COCOM for defence sales to China we risk a row with the Germans, the Japanese, the Canadians and probably some of the smaller countries who may well argue that such action would erode the effectiveness of collective decision making in COCOM. If we try to use COCOM procedures for China we risk a row with the Americans and probably their veto on the sales as well. But on balance there seems to be no alternative for the time being at least, if we are to go ahead with defence sales to China, to testing out whether we can by-pass COCOM without provoking serious trouble in the Alliance.

6. The risk is that in moving towards a China differential by selling arms to China outside COCOM, we shall put in question the present rules without being able to reach agreement with our partners on new rules to ensure its continuing effectiveness as regards the Warsaw Pact. The best we can hope - and work - for is that if we move ahead in smallish steps (eg through the sale of the 6 items outside COCOM) we shall be able to persuade our partners to accept a fait accompli, and, in due course, to modify COCOM's rules accordingly.

7. On the 6 items the Americans have asked us not to consult our partners further in capitals and not to submit the items to COCOM, but to notify our partners outside the Committee of our intention to supply these items to China. Moreover, they have asked us not to reveal their position to our other partners. So we cannot put the blame on them for the procedure we are being asked to follow, although, when Lord Carrington raised the matter on 23 May, Mr Vance undertook to have a word with the Germans. Even so, some of our partners are likely to object to this procedure for the reasons given in paragraph 4 above, and we still face the likelihood of a row, and the debate about whether defence sales to China should remain subject to COCOM rules or not seems likely to come out into the open. American officials may have realised that in asking us to sell the six items outside COCOM, the consequence could be an open row; but it is what they have hitherto sought to avoid and, given their conflicting interests, it is likely to embarrass them.

8. In the circumstances, the right course would seem to be to move forward cautiously, using the 6 items as a pilot project; our hope would be that this would pave the way for the sale of more contentious items and, eventually, to appropriate modification in the rules of COCOM. We should now notify our partners of our intention to sell the 6 items, without seeking their concurrence. But if their reactions are sharp, we shall naturally have to consider further how to proceed, particularly in view of the implications for the Harrier sale.

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APPENDIX

COCOM: BACKGROUND NOTE

1. The Coordinating Committee (COCOM) - membership: the NATO countries (less Iceland) and Japan - was set up in 1950 to control the supply of strategic goods to Communist countries. The Committee establish lists of items of embargoed equipment in accordance with agreed strategic criteria (see paragraph 5 below). Under the General Exceptions Procedure, member countries from time to time propose items for sale, which in their view should not be prevented by these criteria. Decisions on these cases are taken by unanimity and there is no provision for abstention. It follows that any change in these rules of procedure requires unanimous agreement.

2. All items of defence equipment destined for China, which are listed at Annex A are caught by this embargo. Thus to allow any of these items through COCOM under the General Exceptions Procedure would involve giving more favourable treatment to China than to Warsaw Pact countries. The notion is acceptable to us but not to some of our partners. The only military sale we have so far made to China is the Spey engine in 1975, when we went ahead despite objections raised in COCOM.

3. The present procedural problems first came to a head last year, when we proposed to sell marine gas turbines to China. The Americans, who did not wish to take a view on the sale, asked us not to submit the case to COCOM but to notify our partners individually in capitals of our intention to sell them. We did so. Some of our allies were upset at this lack of consultation and have since tried to persuade us not to repeat this procedure.

4. To avoid such repetition we devised a procedure, for use within COCOM, which would have enabled individual members not to take a view on any particular sale submitted to COCOM if they so wished. Initial reactions last November were generally favourable, but the Americans refused to take a position on it. We tackled them again at the official level in April warning them that if they could not agree we would have to adopt a "no comment" procedure outside COCOM in respect of the 6 items (Annex A). The Americans have now told us that "non-weapons" sales should be put to COCOM, that "weapons" sales should be the subject of bilateral political consultation, but that for the 6 items we should simply notify our allies in capitals of our intention. Meanwhile, some of our other partners have had second thoughts about our "no comment" procedure and have said that they want to see COCOM rules preserved intact.

5. The strategic criteria, governing the export of goods and technologies, are as follows:

- a. Materials, equipment and technologies which are designed specially or in peacetime used principally for the development, production or utilisation of modern arms, ammunition or implements of war.

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- b. Materials and equipment incorporating technological know-how, the acquisition of which by proscribed destinations may reasonably be expected to give significant direct assistance to the development and production in peacetime of modern arms, ammunition or implements of war, of their means of utilisation or delivery, or of counter measures to them.
- c. Materials, equipment and technologies of which proscribed destinations have a deficiency which may reasonably be expected to be critical in relation to the production in peacetime of modern arms, ammunition or implements of war, of their means of utilisation or delivery, or of counter measures to them, and which they could not overcome within a reasonable period.

The purpose of the embargo is to restrict the export of only those goods and technologies conforming with these criteria, provided they are of such a nature as to make a significant contribution to the military potential of proscribed destinations and therefore have an adverse effect on the security of the Member States.

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ANNEX D

ARGUMENTS FOR AND AGAINST FURTHER DEFENCE SALES

1. The principal arguments in favour of a more forthcoming policy are:

- i. China's military equipment is up to 20 years out of date and sales of defence equipment will not alter the strategic balance for the foreseeable future.
- ii. The French have told us that they will sell military equipment to China (whether we do or not) as part of a balance between military and non-military exports, but without doing anything which might be construed by the Russians as an attempt to form an anti-Soviet front. They have already sold helicopters which are in military use and negotiations for a large missile deal (HOT) appear to be far advanced.
- iii. Although the Chinese are slowing the pace of their modernisation plans, defence purchases are still a priority and China remains a major potential export market. The Chinese record of payment is good and trade worth about £7,000 million between now and 1985 is contemplated in the recently concluded Economic Cooperation Agreement. Defence sales is one area where British industry is competitive and has a privileged position since the Americans, Germans and Japanese will not sell arms to the Chinese. The Chinese have already said that they want 70 Harriers, which could be worth £600 million with equipment and spares.
- iv. Supplying military equipment to China is very unlikely to reduce significantly the Soviet threat to Western Europe. However defensive links, like closer political and economic relations, will not only benefit Anglo-Chinese relations but will also help to strengthen China and encourage her leadership to continue their relatively outward-looking and pro-Western policies. The US Government has said that it wants a strong and prosperous China, and none of our major partners has objected to the principle of our supplying some military equipment to China.

2. The principal arguments against going further than hitherto are:

- i. There is no guarantee that China will maintain a consistent foreign and defence policy, and doubts have been raised by China's attack on Vietnam. We risk increasing criticism from our allies and the Russians without the certainty of securing really significant sales.

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ii. The Sino-Soviet dispute will go on indefinitely and the Soviet Union is a greater factor in the world and for the UK than is China. The Russians see Western defence sales to China as a sign that Western countries are moving towards China to the detriment of East-West relations. If Britain becomes a leading supplier of defence equipment to China, Anglo-Soviet relations will deteriorate, we may lose potential export contracts and there will be bitter Soviet propaganda against the UK. Hitherto at least, British exports to the USSR (£432 million in 1978) have been worth more than those to China (£91 million in 1978).

iii. Our allies, not to speak of the Russians, could well object to the supply of obviously offensive items which they may regard as destabilising or damaging to detente. They will also recall the turbulent and occasionally aggressive periods in China's history since the Communists took over in 1949.