

Ref: B05752

*China*PRIME MINISTERDefence Sales to China: Future Policy
(OD(79) 5)

BACKGROUND

In his memorandum the Foreign and Commonwealth Secretary recommends that we should go ahead with the sale to China of 6 items of defence equipment (listed in Annex A) negotiations for which are nearing completion, subject only to possible second thoughts if we are faced with very adverse reactions when we notify our COCOM partners bilaterally of our intention. His other recommendations are, in effect, that we should move cautiously over future defence sales, ruling out entirely especially offensive items and taking positive steps to neutralise Soviet objections. This is a complex and wide ranging subject and much of the meat of the argument in the paper has been relegated to Annexes C and D.

2. Previous sales to China have included the Spey aircraft engine in 1975 (despite COCOM objections) and marine gas turbines last year (outside COCOM) despite strong Japanese objections.. Parliament was told in January of the previous Government's readiness, in principle, to sell Harrier. Commercial negotiations on this are well advanced.

HANDLING

3. I suggest you should invite the Foreign and Commonwealth Secretary to introduce his memorandum. Before considering the Foreign and Commonwealth Secretary's specific recommendations, you may wish to ask for views of members of the Committee on the general policy, in the light of the arguments set out in Annex D. Are the Committee agreed that it is right to go ahead with the policy of defence sales to China, on the general lines adopted by the previous Government? Are the risks of adverse Soviet reactions - which are probably unavoidable whatever steps are taken to neutralise them - acceptable, and worth the commercial and industrial advantage which we hope will result?

4. The Committee might then consider in turn the recommendations in paragraph 5 of OD(79) 5.

a. Although they would all be excluded by the existing COCOM rules, the 6 items listed in Annex A are relatively uncontentious.



The reactions of our COCOM partners are likely to be based on the importance they attach to maintaining the integrity of COCOM procedures rather than on substance. Some of them may be severe (see Annex C). The Foreign and Commonwealth Secretary's recommendation is qualified to allow the opportunity for reconsideration. But this amounts only to putting off the decision whether we are prepared to allow existing COCOM rules - which would not be easy to change - to block our trade with China in a field in which we may have an edge over our competitors. The French have made their position clear. What do the Committee think? Do they agree with this recommendation?

b. and c. This cautious approach is clearly a sensible one, given the likely reactions of our COCOM partners and of the Russians. We should particularly need to keep in touch with the Americans, who may be ready to reconsider their attitude to our proposed "no comment" procedure (see paragraph 4 of Appendix to Annex C), which looks like being the only way forward without seriously damaging COCOM. Do the Committee agree with these recommendations?

d. and e. These recommendations are in line with the above approach. The categories listed in Annex B have been drawn up by the Ministry of Defence and you may wish to ask the Defence Secretary whether he is satisfied that the distinctions made are reasonable. It is consistent with the aircraft's role that Harrier should be included in Category 1 and negotiations have proceeded on this basis. It has been cited by the Chinese as something of a test of our intentions, and Russian objections have probably been exaggerated as a result of the publicity surrounding it. It will be necessary to consider very carefully before authorising negotiation on Category 3 items. Tanks, in particular, could cause trouble and although there is no question of selling main battle tanks (eg Chieftain or Shir 1) what is suggested under this item goes a long way towards helping the Chinese to build up an "offensive" capability in this important area. Do the Committee agree with these recommendations?



f. The meaning of this is not entirely clear. How does it relate to the prospects for and development of our civil trade with China? Is the intention that we should aim at a general balance in our exports so that defense sales do not predominate? Is this attainable? You may wish to ask the Secretary of State for Trade to comment.

g. It will clearly be important to take what steps we can to minimise adverse Soviet reactions. But we have no reason to be on the defensive, especially about items which could have no significant effect on the strategic balance, which is strongly in Russia's favour. Soviet reactions may not be very severe in relation to the current 6 items (we have succeeded in riding out the Spey engine sale without much trouble), although there have been some threatening noises from Moscow. But if we move into provocative areas (Harrier is one) we can expect the Russians to step up their complaints. What does the Foreign and Commonwealth Secretary have in mind?

CONCLUSIONS

5. The first point you may wish to establish is that the Committee endorse in principle the Foreign and Commonwealth Secretary's view that there can be no question of going back on the position reached by the previous Government (see paragraph 3 above and paragraph 4 of OD(79) 5). Subject to this and to the comments of the Committee on the specific proposals made by the Foreign and Commonwealth Secretary (see paragraph 4 above) I suggest you might invite the Committee to approve the recommendations in paragraph 5 of OD(79) 5.

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ould probably develop the cruise missile but without entering prior commitments on parity or equilibrium. When the Prime Minister commented that the Soviet Union had developed a very significant lead in medium-range missiles, President Giscard said that France was ahead so far as submarine launched missiles were concerned.

Lord Carrington said that the need to proceed with the modernisation of Theatre Nuclear Forces in parallel with SALT III created an added complication, along with domestic political difficulties in the Low Countries. It was likely that Belgium, the Netherlands, and the FRG would insist on a new strategic arms limitation conference as a pre-condition of TNF modernisation, perhaps even in advance of SALT III. So far, the NATO Council had decided only that there must be a decision on TNF modernisation by the end of 1979. President Giscard said that it would be useful to exchange views on this further. The French Government was at present studying France's interest in SALT III and in the development of the French deterrent after 1990. The main options under consideration were cruise missiles and mobile launching systems. The necessary scientific data would be ready during 1980. President Giscard went on to say that the French had never had a real discussion of these matters with the FRG, since they did not wish to imply a commitment to German security which would involve France's own deterrent. It was impossible not to discuss these problems with the Germans but equally impossible to have a real discussion. The Prime Minister said that she had discussed these matters with Chancellor Schmidt.

Lord Carrington said that he had some understanding of the West German view that they could not accept the deployment of medium-range systems on German soil unless a third country, in addition to the UK, did so too. President Giscard said that he thought that Belgium would probably accept medium-range systems in the end, perhaps for a limited period of time.

Defence Sales to China

President Giscard asked the Prime Minister whether the British Government had reached a final decision on the sale of Harrier aircraft to China. The Prime Minister said that the Government, for their part, were ready to sell Harriers to the Chinese

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but some problems had arisen during the commercial negotiations. In response to the President's question, Lord Carrington said that the United Kingdom had it in mind to sell something under one hundred aircraft along with a licence to manufacture them in China. President Giscard said that the French Government had taken a different decision since it regarded the sale of arms to China as a major bilateral test of the relations of any country with the Soviet Union. The French Government was also a little apprehensive of the future attitudes of the Chinese military establishment. No mood of expansionism was detectable yet, but would the situation last? In view of these factors France had decided to sell the Chinese nothing more than anti-tank weapons.

Vietnamese Refugees

The Prime Minister told President Giscard that UK merchant ships in the Far East were continuing to pick up large numbers of Vietnamese refugees. There were now over 40,000 refugees in Hong Kong and the UK had agreed to take another 1,000 from the "Sibonga". The Government was now faced with the problem of 300 Chinese children on a British ship off Taiwan whom the Taiwan Government were refusing to take in. President Giscard said that France had already accepted 60,000 Vietnamese and they were coming in at the rate of 500 a month. The whole problem was in essence one for the United Nations but the UN was handling it very inefficiently. President Giscard said that he had noted the Prime Minister's message to Dr. Waldheim.

The discussion ended at 1310.

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