



MO 11/14

PRIME MINISTER

*We must watch the timing of the initial approach very carefully indeed. The news could*

*The Minutes:*

*Agree to this approach? The Foreign Secretary agrees (see his minute attached) 1/8.*

SALE OF SUBMARINE EQUIPMENT TO CHINA

*be taken back in Hong Kong if talks are not going reasonably well*

Our current policy on the sale of military equipment to China is governed by decisions taken in OD in June 1979 (OD(79)31). Items which were specifically excluded from sale to China included major warships and submarines (on strategic grounds) and Chobham Armour and Blindfire Rapier (primarily on security grounds). The ban on the sale of submarines has since been interpreted as covering the supply of all submarine equipment.

2. Since June 1979, an understanding has been reached in COCOM on a so-called "China differential" which allows for favourable consideration of applications to sell military equipment to China. However, the United States authorities have listed various categories of equipment which they are still not prepared to see supplied to China. Anti-submarine warfare equipment is one such category, but we do not know for certain whether their reservations extend to individual equipments for submarines although this is likely under their previous rules. However, they have recently announced a relaxation in the levels of civil and dual use technology they are prepared to export to China and there are reports that Caspar Weinberger is planning to visit China in the Autumn to take this a step further. We understand that the State Department are continuing to review their policy towards China and we could be helping them at the right time if we get in soon. Canada and Japan will also need to be consulted since they have expressed concern over arms sales to China in the past.





3. The Chinese are now showing considerable interest in British submarine equipment. Before the set-back over Project 051 they had been making informal inquiries about assistance with modernising their Romeo class submarines which date from the early 1950s. In the aftermath of the 051 cancellation, it may be doubtful how far British industry would wish to assist with this programme. However, the Chinese have recently confirmed their interest in involving British companies and, there are a number of sales opportunities for individual equipments such as periscopes, batteries, and diesel generators, which British companies are not allowed to bid for under our present policy. For example, earlier this year, I received a letter from Sir Michael Edwardes complaining that the Chloride group is not permitted to sell submarine batteries either to China or Taiwan.

4. MOD and FCO officials have now reviewed the situation paying particular attention to the significance of our bilateral relations with China for the future of Hong Kong. This review has concluded that, despite the disappointment over Project 051, there remain sound defence and foreign policy reasons for continuing to promote our defence sales relationship with China and relaxing the total embargo on the sale of all submarine equipment. They recommend that, on a national basis, we should in future consider any proposals to modernise Chinese submarines or sell submarine equipment to China on their merits, taking care not to approve any proposals which might alter the balance of Naval power in the region or assist the Chinese with their nuclear submarine programme.

5. I agree these proposals, but we need to consult our COCOM allies before taking matters further. I propose that we should take informal soundings with our major allies bilaterally but principally the United States, to establish whether or not they would agree to us supplying some submarine equipment to China, and, if required, discussing the modernisation of China's Romeo class submarines.

*Dr. give them the latest capability round about - 1997 - we do*

*Not want incidents - even though we cannot envisage any such thing at present.*





I understand that some concern has been expressed over the implications of approaching the Americans on this shortly after our decision to purchase ALARM rather than HARM. But the two issues are quite separate. The discussions will be exploratory and in keeping with the evolution of American policy on China. Moreover, it will be a little while before we make the initial approach.

6. I should be grateful for your agreement to proceeding in this way.

7. I am copying this minute to members of OD and to Sir Robert Armstrong.

*Walt*

Ministry of Defence  
28th July 1983



CHINA; Pets

May 79



COOPERATIVE



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*From the Private Secretary*

11 August 1983

*Dear Nick,*

The Prime Minister has now seen your Secretary of State's minute of 28 July about the sale of submarine equipment to China. She has also seen that of the Foreign and Commonwealth Secretary of 4 August on the same subject. Mrs. Thatcher has endorsed the broad lines of the approach set out in the minutes of Mr. Heseltine and Sir Geoffrey Howe. She has commented, however, that we must be careful about the timing of the initial approach envisaged in Mr. Heseltine's minute. The news that we might be prepared to consider proposals to modernise Chinese submarines or sell submarine equipment to China might be taken badly in Hong Kong if the talks with China were not going well. On the recommendations made by officials who have reviewed our policy on this issue, the Prime Minister has commented that you must avoid giving the Chinese the latest capacity round about 1997. Even if we do not now envisage incidents with China, we should take every possible step to avoid them.

I am sending a copy of this to the Private Secretaries to Members of OD and to Richard Hatfield (Cabinet Office).

*Yours ever,  
Tim Flesher*

TIMOTHY FLESHER

N.H.R. Evans, Esq.,  
Ministry of Defence.

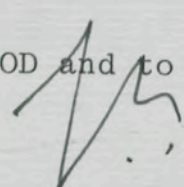
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PM/83/61PRIME MINISTERSale of Submarine Equipment to China

1. I have seen a copy of Michael Heseltine's minute to you of 28 July. — with TF/folder 1
2. I very much agree with him that we should consider any proposals to modernise Chinese submarines or sell submarine equipment to China on their merits, provided such sales would not alter the balance of naval power in the region or assist the Chinese with their nuclear submarine programme. I see no reason to be swayed one way or the other by Hong Kong considerations at this stage. I recognise that if the prospects for selling to China periscopes, batteries and diesel generators are confirmed, we shall wish to inform our COCOM allies.
3. I am less certain whether at this early juncture it would be advisable for us to ask the Americans whether they would agree to us supplying submarine equipment to China, and I am not sure I share the implied judgement that our primary concern should be influencing the current US policy review.
4. It would perhaps be more consistent with past practice if we were first to establish whether there really is a defence sales prospect here before informing our major allies. It seems to me that if the proposals by FCO/MOD officials are accepted, British industry is now in a position to explore this prospect further. I therefore welcome Michael Heseltine's suggestion that we should wait a little while before speaking to the Americans.
5. I am copying this minute to members of OD and to Sir Robert Armstrong.

  
(GEOFFREY HOWE)Foreign and Commonwealth Office  
4 August, 1983

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CHINA: Relations  
May 1979

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