

I share your view. I believe we should relax and

Prime Minister



Foreign and Commonwealth Office

London SW1A 2AH

1 February 1985

more relaxed than the vic. torpedoes

Agree to proposed relaxation? Plus torpedoes?

The proposed relaxation is pretty modern. I don't see any real objection to selling torpedoes: if we don't we shall only get pipped by our competitors.

\* I have asked Percy Goddard - he agrees.

China: Supply of Submarine Equipment

Now that the Joint Declaration with China over Hong Kong has been signed, Sir Geoffrey Howe has been looking again at the current embargo on all sales of submarine equipment to China.

The embargo has operated since 1979, when Ministers agreed in OD that submarine equipment should be excluded from the list of permissible defence sales to China, on the grounds that it might alter the strategic balance in the region and be unwelcome to our allies. This policy was reviewed in 1983 when it was agreed that applications could be considered on their merits. However, the Prime Minister expressed reservations about the possible impact of sales on Hong Kong public opinion during the negotiations with the Chinese on the future of the territory (Timothy Flesher's letter of 11 August 1983 to Nick Evans, copy enclosed for ease of reference). In view of this, we have continued to withhold political clearance for all items of submarine equipment.

In recent months, Chinese interest in British submarine equipment has increased. The modernisation of China's ageing submarine fleet is known to be a high Chinese priority, and there are strong indications, which surfaced most recently during the visit in November of the Commander of the Chinese Navy, that they consider British equipment in a number of fields (particularly torpedoes, but also including less sensitive items such as periscopes) to be best suited to their requirements. In the face of our refusal to allow exports, however, there is evidence that they are now investigating alternative sources of supply, notably in Sweden, West Germany, France and the United States. There is a danger that, if our attitude is more restrictive than that of our competitors, we shall forego considerable commercial opportunities at a time when we are trying hard to increase exports to China.

So far as the Hong Kong angle is concerned, now that the negotiations have been successfully concluded, the case for

/ extreme caution





extreme caution has diminished. Indeed, any concern in Hong Kong about the strengthening of Chinese military capabilities would probably be more than offset by the positive impact of a clear manifestation of the close bilateral relations which will be essential for the successful implementation of the Hong Kong agreement. Furthermore, any contracts would take months, if not years, to come to fruition, and would in any case be small in relation to total trade with China. There is therefore little danger of criticism that we had allowed ourselves to be influenced by prospects of commercial gains in the defence field in negotiating the Hong Kong agreement.

The general case against assisting China in such a way as significantly to upset the balance of power in the Pacific remains valid. However, against the above background, Sir Geoffrey Howe considers that there is now scope for some relaxation in the sale of certain items of submarine equipment. There are a number of marginal items in which the Chinese are or may become interested and which would not enhance China's capability sufficiently to change the regional naval balance. By relaxing our present restrictive policy so as to permit the export of such items, we stand a chance of increasing considerably our current disappointing defence exports to China (£1.1m in 1983, although probably over £20m in 1984). There would also be a wider political benefit, since the Chinese resent the limitations which Western countries impose on their access to technology. This would be helpful both in political terms and in promoting our wider commercial relationship. This is reinforced by the fact that the Chinese have made representations to us on COCOM (Peking telno 113 of 27 January). We are currently seeking to give the Chinese positive signals about our attitude to bilateral relations following the Hong Kong agreement.

The practical effect of the proposed new approach would be to allow export to China of items such as batteries, periscopes and masts. Complete hulls and weapons systems, torpedoes and torpedo firing systems would still be prohibited (probably to continued Chinese disappointment - torpedoes are thought to be their main priority). Items to which we had no unilateral objection would of course still need to be submitted to COCOM. The likely attitude of COCOM partners, particularly the United States, is not at present clear. However, it is evident from reports of a recent visit to China by the Chairman of the US Joint Chiefs of Staff, and a visit now in progress by the Assistant Secretary of the Navy, that the Americans are themselves seriously considering significant sales to China of

/ defence equipment,





defence equipment, including submarine related equipment. Indeed, it may soon be necessary to consider with our COCOM partners a wider review of the present COCOM rules about sales of defence equipment to China. But this possibility need not inhibit us from now letting those concerned in this country know that we are prepared to relax our own national rules on the sale of certain items of submarine equipment to China and giving them the opportunity to seek orders.

Sir Geoffrey Howe would be grateful to know whether the Prime Minister agrees to this proposed revision of policy. I am sending a copy of this to the Private Secretaries to the members of OD and to Richard Hatfield (Cabinet Office).

*Yours ever,*

*Len Appleyard*

(L V Appleyard)

C D Powell Esq  
10 Downing Street



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MR POWELL

1 February 1985

CHINA: SUPPLY OF SUBMARINE EQUIPMENT

*Attached*  
I hope we can support the proposal in Len Appleyard's letter of 1 February. I do not now see much risk of criticism that in negotiating the Hong Kong agreement we allowed ourselves to be influenced by prospect of commercial gains. Nor do I see much risk in the proposal to the regional naval balance. We cannot afford to be more restrictive than our competitors. And it would be ironic if, after all our efforts on arms sales to China in the past and after the Hong Kong agreement, we allowed the Americans to scoop the pool.

*U*  
*-*

PERCY CRADOCK

*Spoken to Sir P. Cradock, who agrees that we could relax the embargo on torpedoes — though might run into COCOM problem.*

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*CDD 1/2.*



CHINA  
Defense Sales

SECRET

SECRET

SECRET SUPPLY OF SUBS AND AIRCRAFT

I have been asked to provide information on the supply of  
of aircraft. I do not see much risk of this being  
to the extent of the report on the aircraft. It is  
We do not appear to be very easily given than our  
efforts to make sure to call at the end of the year



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file

RM



(JKRATN)

CCPC ✓

10 DOWNING STREET

4 February 1985

*From the Private Secretary*

Dear Au,

CHINA: SUPPLY OF SUBMARINE EQUIPMENT

Thank you for your letter of 1 February proposing some relaxation of the embargo on the sale to China of certain items of submarine equipment.

The Prime Minister agrees to what is proposed but thinks that we ought to go beyond it and be ready to sell torpedoes and torpedo-firing systems, if this can be done under COCOM.

You will wish to consider the scope for such a further relaxation of restraints on sales of submarine-related equipment to China.

I am copying this letter to the Private Secretaries of members of OD, and to Richard Hatfield in the Cabinet Office.

Yours sincerely,

(C. D. POWELL)

L.V. Appleyard, Esq.  
Foreign and Commonwealth Office.

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*dlc*  
*(1)*



MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-~~9307020X~~ 218 2111/3

MO 11/14

*Amend mt*

19th February 1985

*Prime Minister*  
*Agree to review by*  
*Officials (without*  
*delaying current*  
*business)?*  
*COP*

*COP o/v*

*Dear Charles*

CHINA: SUPPLY OF SUBMARINE EQUIPMENT

The Defence Secretary has seen Len Appleyard's letter to you of 1st February, concerning the supply of submarine equipment to China. He has also seen your response of 4th February conveying the Prime Minister's views on this matter. The Ministry of Defence was not in fact consulted on this proposal before it was submitted to the Prime Minister.

Mr Heseltine agrees with the Prime Minister's views on sales to China, and feels that we might usefully consider going further still. The political and commercial factors highlighted in Mr Appleyard's letter indicate the need for a more fundamental review of our national policy on sales to China, across the whole range of defence equipment. The successful conclusion of the Hong Kong negotiations presents us with an opportunity, which must be taken if we wish to avoid being left behind by the Americans, who seem ready to contemplate sales across a much wider range of defence equipment than covered in this correspondence.

Our obligations to COCOM are of course relevant here. COCOM can effectively act as a brake on how far and how fast any COCOM member country may proceed down this road. However, the question of any further liberalisation of COCOM policy towards China is one which can only be pursued once we have clarified our own national policy.

The Defence Secretary therefore proposes that, as a matter of urgency, officials of the Departments concerned should jointly undertake a review of our defence sales policy towards China in view of the recent political and commercial developments, and should produce recommendations for Ministers to consider.

*Agreed mt*

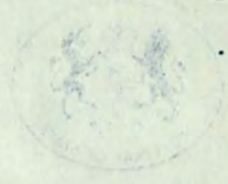
I am copying this letter to the Private Secretaries of OD members, and Richard Hatfield in Sir Robert Armstrong's office.

*Yours ever*  
*Aimon Lowe*  
(S H LOWE)

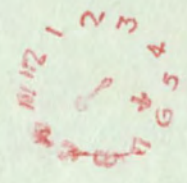
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20 FEB 1985





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C. LCO. DTI.  
FCO COX  
HMU CO.  
LPO  
LPSO



10 DOWNING STREET

*From the Private Secretary*

25 February 1985

CHINA: SUPPLY OF SUBMARINE EQUIPMENT

Simon Lowe wrote to me on 19 February on this subject conveying the Defence Secretary's proposal that officials should undertake a review of defence sales policy towards China.

The Prime Minister agrees that such a review should be conducted as a matter of urgency. She would not however wish it to interfere with immediate decisions on recent Chinese expressions of interest in the purchase of torpedoes on which she has already given her views.

I am copying this letter to the Private Secretaries of members of OD and to Richard Hatfield (Cabinet Office).

(Charles Powell)

Richard Mottram Esq  
Ministry of Defence





JF7691

PS Secretary of State for Trade and Industry

ccp

DEPARTMENT OF TRADE AND INDUSTRY  
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4 March 1985

Len Appleyard Esq  
Private Secretary to the  
Secretary of State for Foreign  
and Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing Street  
LONDON  
SW1

NBM  
AQ 4B

Dear Len

CHINA : SUPPLY OF SUBMARINE EQUIPMENT

Thank you for sending me a copy of your letter of 1 February to Charles Powell. I have now seen his reply of 4 February. My Secretary of State agrees to the Foreign Secretary's proposal as amended by the Prime Minister. Our readiness to sell a wider range of defence equipment to China, assuming we can get the approval of our COCOM partners, will certainly do no harm to our prospects of civil exports to that market. The United States are likely to seek to use COCOM rules to prevent us from making sales while negotiating for themselves. We therefore need to clear the COCOM approval quickly.

2 My Secretary of State has now seen a copy of Simon Lowe's letter of 19 February to Charles Powell about the Defence Secretary's proposal that officials should undertake a review of our defence sales policy towards China. He has no objection to this, but thinks that implementation of the Foreign Secretary's and Prime Minister's suggestions should not await the outcome of this review.

3 I understand that, Lord Young has been briefed to speak in suitable terms during his visit to China this month.





4 I am copying this letter to Charles Powell (PS/No 10),  
to the Private Secretaries to members of OD and to Richard  
Hatfield (Cabinet Office).

Yours sincerely,

Maureen Dodsworth

MAUREEN DODSWORTH  
Private Secretary



5 MAR 1955

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D B L 7 6

China PT 2

Sino - British Relations