

China

Foreign and Commonwealth Office

London SW1A 2AH

3 December 1979

*Paul**Dear Brian,*Defence Sales to China: Cymbeline Radar

In his Minute of 6 November to your Secretary of State, the Foreign and Commonwealth Secretary agreed that the sale of this equipment should be authorised provided that the notification exercise with our COCOM partners produced no sharp reaction.

You should know that the Germans have made representations to us at a fairly low official level about the notification procedure that we adopted. In substance, the line was similar to the one they took over the six items. They added, at a senior level, on 14 November that they might have a further communication to make; but nothing has yet materialised. The Belgians (who also raised objections over the six items) have spoken to our Embassy in Brussels in similar though less strong terms. We have not had any reaction from the Canadians, who have previously expressed their dislike of our procedure.

FCO officials do not consider that the German and Belgian reactions amount to a "sharp reaction", and are of the opinion that (subject to the views of other Departments) the sale can now go ahead, without any further reference to Ministers. Nonetheless, it seems that the degree of opposition on the part of our COCOM partners to our notification procedure may be increasing; it may therefore be advisable to mount a further round of diplomatic consultations to defuse objections before we try to push through any further sales - in particular, if they are more contentious than Cymbeline. FCO officials will be in touch with their colleagues in other Departments about this in the near future; it may also be necessary to consult Ministers.

I am copying this letter to Michael Alexander at No 10, to the Private Secretaries of other Members of OD, the Private Secretary at the Department of Industry and to Martin Vile at the Cabinet Office.

*Yours etc**Paul*(P Lever)
Private Secretary

B M Norbury Esq
Private Secretary to the
Secretary of State for
Defence

*China**Ag
Rms*FCS/79/175SECRETARY OF STATE FOR DEFENCEDefence Sales to China - Cymbeline Radar

1. In your minute of 25 October, you suggested that, in the absence of any agreed procedure for handling sales to China through the formal COCOM machinery, we should now notify our COCOM partners in capitals of this contract. Appropriate instructions have now been sent to posts.
2. I agree that, provided there is no sharp reaction from our COCOM partners, the companies should be authorised to go ahead without further reference to Ministers.
3. I also agree that, in future, the processing of Category 1 items should be handled in the same way by our officials, with the proviso that Ministers should be consulted if there are any serious objections by our COCOM partners.
4. I am copying this minute to the Prime Minister, other members of OD, the Secretary of State for Industry and Sir Robert Armstrong.

(CARRINGTON)

Foreign and Commonwealth Office

6 November 1979

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FOREIGN AND COMMONWEALTH SECRETARY

DEFENCE SALES TO CHINA - CYMBELINE RADAR

The first two contracts for the sale of defence equipment to the Chinese have now been signed with the United Kingdom Companies concerned. One is for the Field Artillery Computing Equipment (FACE) system, and the other for a mortar-locating radar (Cymbeline) manufactured by Marconi Space and Defence Systems and EMI respectively. Both orders are for small quantities of equipment for evaluation purposes; the value of each is about £1m.

2. Both items fall within Category 1 of the equipment approved by Ministers for further negotiation with the Chinese at the OD meeting on 11th June 1979. FACE has already been notified to our COCOM partners but similar action now needs to be taken in respect of Cymbeline. In the absence of any agreed procedures for processing sales to China through the formal COCOM machinery, I suggest we adopt the procedure previously used and approach COCOM capitals direct. The contract for Cymbeline has been signed "subject to HMG approval", but the Company are naturally keen to press ahead with the further work that is required to make good the order, and I would therefore be most grateful if you would arrange for our COCOM partners to be informed of this contract in this way. As on the previous occasion, it would be helpful if this could be done against a short timescale and on the understanding that, provided there was no serious objection,

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the Company could be authorised to go ahead with the order without further reference to Ministers.

3. As this is the first of what I hope will be many orders I wonder if we could also agree that in future this procedure for Category 1 items could be handled by our officials.

4. I am copying this minute to the Prime Minister, other members of OD, the Secretary of State for Industry, and Sir John Hunt.

A handwritten signature in dark ink, consisting of stylized initials and a horizontal line below them.

25th October 1979

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Extract from Discussion ^{between} ₃ PM and Premier Hua Guofeng
at 10 Downing St on 1/11/1979.

Premier Hua said that he wished the Prime Minister to know that the Chinese Government had decided to treat Guangdong Province in a special way, to allow its economy to develop quicker. Several counties bordering on Hong Kong had been designated special areas, in the hope that this would cause production and incomes to increase and the differentials with Hong Kong to narrow. Two counties, Baoan and Zhuhai, had already been designated, and Chaozhou would follow. These counties would have powers to develop their own foreign trade.

The Secretary of State for Foreign and Commonwealth Affairs said that when he had seen the Governor of Hong Kong in London, and in Hong Kong, the Governor had been full of gratitude for the reception he had received on his visit to China, and the extent of Chinese economic collaboration with Hong Kong. Lord Carrington had seen for himself some of the problems caused by the illegal immigrants in Hong Kong. The numbers were very large by Hong Kong standards, if not by the standards of China, especially when added to the nearly 70,000 boat people in Hong Kong. Only the Chinese in Hong Kong could have coped as well as they had.

Sino-British Trade

The Prime Minister asked what assistance the British Government could give the Chinese Government in the commercial field. The British Government were ready to supply China with a wide range of defence equipment, including Harrier. At Prime Minister's Questions in the House of Commons, she had just been accused of causing trouble between China and the Soviet Union. When she had responded by affirming her readiness to supply Harriers to China, to further the expansion of Sino-British commercial relations, great cheers had gone up. Pravda had apparently yesterday warned her against this. She understood that a Chinese delegation would shortly be visiting Britain. In this field the Chinese Government would be given every facility and help possible. She wished Premier Hua to know that this policy came from the top.

/ Premier Hua

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Premier Hua said that he wished to thank the British Government, and the Prime Minister. He thought that the Prime Minister was taking a far sighted political view of the problem. If the Chinese Government achieved modernisation of their national defence, they would be in a better position to serve as a restraint on the Soviet Union. They were ready to take on this burden.

Premier Hua wished to inform the Prime Minister of two points which he had made to the French and German Governments. Firstly, he had said that a friend had told him that Mr. Brezhnev had threatened to exert pressure to stop the supply of arms to China. But the country which sold the most weapons internationally was of course the Soviet Union. His second point had been about the distinction between offensive and defensive weapons. As he had told President Giscard, long range missiles must be considered offensive; but French missiles had to be considered defensive, because it was inconceivable that France would use them to attack anyone. Rifles, as short range weapons, must be considered defensive; but it was rifles that the Vietnamese were using. Premier Hua had told President Giscard that the range of a weapon should not be the sole criterion of whether it was offensive or defensive. ^{The only criterion was the country which possessed them.} No-one believed that Britain had nuclear weapons in order to mount an attack on the Soviet Union. The Prime Minister commented that British missiles were for a second strike, as a deterrent. Premier Hua observed that they were for defence against blackmail. The Chinese Government were in favour of the Japanese having the means to defend themselves.

The Secretary of State for Defence expressed pleasure that the first two contracts for British defence sales to China had just been signed. The British defence industry was ready to discuss other sales, and some negotiations were already in hand. Premier Hua noted that a British friend had told him that Britain had advanced technology in this field, and that its munitions industry could produce more advanced equipment than Britain needed. Britain could go into joint production with China, whose needs were greater. The Chinese Government took a positive attitude towards production of weapons with Britain.

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There were no inhibitions on China's part about importing advanced weapons. They were not afraid of Soviet comment. But they had of course to take into account the position of certain countries. One way out would be to have cooperation in civil industries, which would serve as a cover for cooperation in the military field.

Premier Hua's delegation had had very good discussions with Rolls Royce, after their visit to the Rolls Royce plant on the previous day. Collaboration would not be limited to the Spey engine, but would continue in other fields such as marine turbines. This was why, in his remarks at dinner at Rolls Royce, he had used a metaphor about the progress of Sino-British relations being like a steamship with modern engines. Sir Kenneth Keith had said that Rolls Royce were maintaining contacts with the Third and Sixth Machine Building Ministries. Premier Hua had seen Rolls Royce's tank engine. Rolls Royce were aware of what the Chinese could do in their Xian plant, and Sir Kenneth Keith had suggested that some parts of engines could be manufactured in Xian, and others in Britain. This would help China to pay for her imports. China had purchased 3 Boeing 747s. It was now too late for these to be fitted with Rolls Royce engines, but in her future purchases of wide-bodied planes, China could cooperate with Rolls Royce by using RB 211s partly produced in China.

The Prime Minister said that she was concerned that the Chinese Government should receive all cooperation possible on the development of commercial relations, including those with Rolls Royce, and for example in coal mining, and power generation. She knew that the Chinese Government would want to make their decisions after the delegation got back to Peking. She had therefore arranged to have her Secretaries of State for Defence, Trade and Industry, as well as her Secretary of State for Foreign and Commonwealth Affairs, present at this meeting.

Premier Hua said that he had had commercial discussions with the West Germans and the French, and had told them that China now had total offers of 20 to 30 billion dollars of credit. Some friends of China wanted her to use these funds as quickly as possible, but it was necessary to be prudent, and to consider China's ability to

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pay for what she bought, and means of increasing her ability to pay. In some fields this was not a matter for concern. For example, Britain had had great success in opening up the North Sea oil fields and, as he had told the Chancellor of the Exchequer earlier that day, this had helped Britain to save very large sums of money. West Germany and France were not in a comparable position. But he wished to suggest that the British Government should undertake exploitation of their oil reserves in a planned way, to ensure that some reserves remained. Some US oil fields had been plundered, since, after their discovery, a number of companies had rushed in to get rich quick. He was raising this point because he knew from earlier remarks by the Prime Minister that she had noted the Soviet Union's attempts to outflank Western Europe through its soft under-belly. Britain therefore needed to hold on to some oil reserves.

Premier Hua said that he had diverted the conversation to this topic because he wished to express interest in Britain's oil industry. But the principal point he wished to make was about operations in the Yellow Sea by BP. He had seen data about a section some 5,000 meters square, which BP considered promising, although they had not yet undertaken analysis. Of course, they would need luck. (The Prime Minister interjected that skill was needed as well.) Premier Hua thought BP would be lucky. Oil had already been struck in the Bohai Gulf. American companies were very keen to explore some areas, like the mouth of the Pearl River. The Chinese Sea was called 'Pacific' and was not so stormy or deep as the North Sea, and should therefore be easier to exploit. The Chinese Government were optimistic about the potential. They had reached agreement with the French on cooperation on Chinese continental fields. Cooperation with Britain in the future on this was a possibility. There would be no question about China's ability to repay, since the oil produced would simply be divided according to contract. The same went for coal, of which China had abundant reserves. The long term estimate of the coal reserves in Premier Hua's home province of Shani was 500,000 million tonnes. This would allow for 500 million tonnes a year to be mined for a thousand years.

The Prime Minister commented that a lot of machinery would be needed. Premier Hua said that the current problem was lack of

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rail transport. Five railways ran into the province, but this was still not enough to get all the coal out. The Japanese wanted to cooperate on an integrated basis, involving mining, and the development of China's railways and deep sea ports. Deep sea ports were needed to ship coal to Western Europe, in 50,000 tonne, or even better 100,000 tonne vessels. The French had said they would also cooperate in selling Chinese coal elsewhere. There were also abundant coal reserves in Shandong province.

Air Services Agreement

The Prime Minister intervened to suggest that, before continuing on this subject, she wished to invite her Secretary of State for Trade to speak about the Air Services Agreement. Mr. Nott said that he understood that the Chinese Government might be prepared to sign this Agreement. He wished first to give them two firm assurances:- firstly, that Gatwick, now London's most modern airport, would continue to be developed as such, and to grow; and secondly, that if Heathrow were opened up to new airlines, the British Government would do their best to get CAAC in. However, Gatwick was the better airport, and most people preferred to use it. If the Agreement was signed, the British Government hoped that services would be able to start not later than April 1980.

Vice-Minister of Foreign Affairs Zhang Wenjin said that CAAC hoped that, if Heathrow was opened to new airlines, CAAC would be the first on the list. The Secretary of State for Trade replied that the British Government would look at this as favourably as possible. Premier Hua noted that the Agreement had already been initialled, and his Vice-Minister of Foreign Affairs had been in contact with the British Ambassador. The Prime Minister said that the Agreement would be signed at the end of the meeting. (In informal conversation after the meeting, and before signature, the Secretary of State for Trade and Vice-Minister of Foreign Affairs agreed that the Agreement would be signed on the understanding that, if Heathrow was opened to new airlines, CAAC would be given priority; but that this would not be a formal condition of signature, and that the British Government could not commit themselves to putting China top of the list.)

Sino-British Trade (continued)

At the Prime Minister's invitation, the Secretary of State for Industry resumed the discussion of industrial cooperation. On the previous day, Premier Hua had seen the British Rail Centre, and the Chinese Minister of Railways would be visiting Britain soon. The British Government hoped to cooperate with the Chinese in this field. Premier Hua said that, as he had made clear when he had been shown an advanced passenger train in Derby, China's principal transport requirement was for freight, particularly coal, which comprised a third of the freight carried. The Chinese Minister of Railways would be able to have detailed discussions during his visit. The Secretary of State for Industry observed that British Rail's technology enabled the best possible use to be made of already existing track, and therefore could speed up transport on China's present railway system.

Sir Keith Joseph went on to note that China had huge mineral wealth, eg in tin, lead, tungsten and cobalt. Proposals had been made by a number of British companies, particularly John Brown Constructors, which were so arranged that the Chinese would have to pay out nothing, as the interest would be deferred. The Secretary of State for Trade commented that the Chairman of John Brown Constructors had been one of the businessmen who had accompanied him on his call on Premier Hua on Tuesday. The Secretary of State for Industry noted that there was a lot of tin in Yunnan, lead and zinc in Qinghai and Gansu, tungsten in Hunan, cobalt in Hainan Island and copper in Jiangxi. Premier Hua said that the Chinese Government would look at these proposals. A joint venture with the British at Yangzhou in Shandong, were work by the Chinese side was already half-way to completion, could be considered.

Hong Kong

The Prime Minister then invited the Secretary of State for Foreign and Commonwealth Affairs to make a further point about Hong Kong. Lord Carrington said that Premier Hua would remember, or (if he did not), Minister of Foreign Affairs Huang Hua would remember, that when the Governor of Hong Kong had visited China, he had raised the question of the New Territories leases. The

/ problem was that,