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FM (b)(3):10 USC 424
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~~SECRET~~ SECTION 01 OF 02 (b)(3):10 USC 424
~~SECRET~~ NOFORN NO CONTRACT (b)(3):50 USC 403-1(i)
SERIAL: (U) IIR (b)(3):10 USC 424
PASS: (U) (b)(3):10 USC 424,(b)(3):50 USC 403-1(i)
COUNTRY: (U) CHINA (CH); IRAN (IR); THAILAND (TH).
SUBJECT: IIR (b)(3):10 USC 424 ARMS SALES APPROVALS AND PROFIT DISTRIBUTION (U)
WARNING: (U) THIS IS AN INFORMATION REPORT, NOT FINALLY EVALUATED INTELLIGENCE. REPORT CLASSIFIED ~~SECRET~~ NOFORN NO CONTRACT (b)(3):50 USC 403-1(i)

DEPARTMENT OF DEFENSE

DOI (U) 881127.

REQS: (b)(3):10 USC 424,(b)(3):50 USC 403-1(i)

(b)(3):50 USC 403-1(i) SUMMARY: (S//NF//NF) (b)(1),1.4 (c) APPROVAL PROCESS FOR CHINESE FOREIGN ARMS SALES, DISTRIBUTION OF ARMS SALES PROFITS, AND THE FORMATION OF A NEW FOREIGN MILITARY SALES COMMITTEE.

(b)(3):50 USC 403-1(i) TEXT: 1. (S//NF//NF) (b)(1),(b)(3):10 USC 424,1.4 (c) [redacted] ASKED IF THE CENTRAL MILITARY COMMISSION WAS INVOLVED IN THE APPROVAL PROCESS FOR LARGE VOLUME SALES. (b)(1),1.4 (c) IN THE CASE OF SALES TO THE MIDDLE EAST (IRAN/IRAQ) [redacted] COULD ADDRESS THE APPROVAL PROCESS BEFORE THE END OF THE WAR. THE APPROVAL FOR NORINCO SALES WAS OBTAINED BY ((DING)) HENGGAO WITH THE FOREIGN MINISTRY GIVING ITS APPROVAL

JOINT STAFF ACTION DIA(1) (U, E, 7, 8) (b)(3):10 USC 424,(b)(3):50 USC 403-1(i)

INFO [redacted]

+SAFE

BASED ON THE END USER CERTIFICATE (b)(1),1.4 INDICATED THAT THE WHOLE PROCESS WAS DESIGNED TO PROVIDE AN END USER CERTIFICATE FROM A NEUTRAL COUNTRY WHICH WOULD EASILY BE APPROVED BY THE FOREIGN MINISTRY AND DING HENGGAO. THE ONLY EXCEPTION TO THE APPROVAL PROCESS WAS THE REQUIREMENT TO OBTAIN HIGH LEVEL APPROVAL (b)(1),1.4 MENTIONED SPECIFICALLY THE NAME OF ((LI)) XIANNIAN PRIOR TO THE VISIT OF A FORTY MEMBER IRANIAN DELEGATION LED BY THE IRANIAN DEPUTY MINISTER OF DEFENSE IN 1983 AND ANOTHER IRANIAN DELEGATION LED BY AN IMMAN IN 1984. (b)(1),1.4 (c) ALTHOUGH EVERYONE AT THE TOP KNEW WHERE THE SALES WERE DESTINED, THEY SIMPLY WOULD NEVER ASK THE QUESTION AND THE FALSE END USER CERTIFICATES PROVIDED THEIR ABILITY TO DENY DIRECT SALES TO IRAN OR IRAQ (b)(1),1.4 (c) MADE OVER 80 PERCENT OF HIS SALES TO IRAN THROUGH HONG KONG FRONT COMPANIES AND THE HONG KONG BASED BANK MELLI IRAN. (b)(1),1.4 (c) "BANK MELLI IRAN MOVED THE MONEY IN AND OUT IN SUCH A WAY THE HONG KONG GOVERNMENT COULD NEVER DISCOVER ITS ORIGIN OR DESTINATION." FINALLY, (b)(1),1.4 (c) OVER 90 PERCENT OF HIS SHIPMENTS OF ARMS TO IRAN AND IRAQ WERE BROKERED THROUGH A HONG KONG SHIPPING AGENT. NORINCO SIMPLY DELIVERED THE ARMS FOB TO THE CHINESE PORT AND WALKED AWAY FROM THE WHOLE AFFAIR

(b)(3):50 USC 403-1(i) 2. (S//NF//NF) (b)(1),1.4 (c) THE RIVALRY BETWEEN POLY AND NORINCO WAS OVERSTATED. (b)(1),1.4 (c) THAT IN MANY CASES, HE WORKED WITH POLY ON SALES WHICH NORINCO COULD NOT COMPLETE. (b)(1),1.4 (c) NORINCO'S ADVANTAGE OVER POLY WAS ITS ABILITY TO HIRE LOCAL AGENTS FOR NORINCO OVERSEAS (b)(1),1.4 (c) POINTED OUT, POLY HAD ITS ATTACHES WHO PROMOTED POLY'S SALES BUT THE NORINCO AGENTS, UNLIKE THE ATTACHES OR OFFICIAL CHINESE NORINCO EMPLOYEES, COULD PAY THE BRIBES WHICH WERE ABSOLUTELY NECESSARY TO COMPLETE THE SALES.

(b)(1),1.4 (c) DIGRESSED INTO A SHORT DISCUSSION ON THE NECESSITY OF BRIBES FOR SALES TO THAILAND AND HIS PERSONAL INVOLVEMENT IN DISCUSSIONS BETWEEN THE DIRECTOR OF NORINCO, ((ZOU)) JIAHUA AND GENERAL ((CHAWALIT)) WHICH DATED BACK TO 1986 (b)(1),(b)(3):10 USC 4 [redacted] IF HE MIGHT PROVIDE SOME INSIGHT ON POLY'S SALES APPROVAL PROCESS AND (b) SAID THAT HE WAS UNINFORMED ON THAT SUBJECT. (b)(3):50 USC 403-1(i) 3. (S//NF//NF) (b)(1),(b)(3):10 [redacted] HE WAS VERY INTERESTED IN THE DISTRIBUTION OF PROFITS FROM THE SALES OF CHINESE MILITARY EQUIPMENT. (b)(1),1.4 (c) AS A GENERAL BT

~~SECRET~~ SECTION 02 OF 02 (b)(3):10 USC 424

~~SECRET~~ NOFORN NO CONTRACT (b)(3):50 USC 403-1(i)

54 SERIAL: (U) IIR (b)(3):10 USC 424

PASS: (U) (b)(3):10 USC 424,(b)(3):50 USC 403-1(i)

COUNTRY: (U) CHINA (CH); IRAN (IR); THAILAND (TH).

SUBJECT: IIR (b)(3):10 USC 424 ARMS SALES APPROVALS AND

RULE, PROFITS WERE DISTRIBUTED IN THE FOLLOWING MANNER:

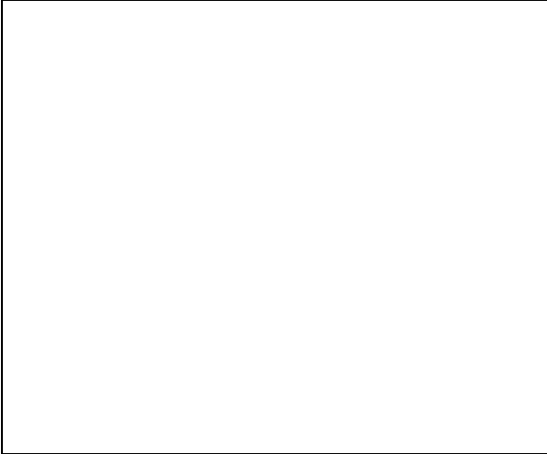
- 30 PERCENT WAS RETURNED TO COSTIND.
- 30 PERCENT WAS RETURNED TO THE MINISTRIES, I.E. MINISTRY OF ORDNANCE INDUSTRY.
- 30 PERCENT WAS DISTRIBUTED TO NORINCO FACTORIES.
- 5 PERCENT WAS LEFT WITH THE NORINCO SALES OFFICE.

(b)(1),1.4 (c) WAS VERY PROUD OF THE IMPROVEMENTS WHICH HAD BEEN MADE IN NORINCO FACTORIES AS A RESULT OF THE INVESTMENT OF PROFITS IN THOSE COMPANIES. (b)(1),1.4 (c) NOTED THAT THE FACTORIES WERE ABLE TO MODERNIZE MUCH OF THEIR EQUIPMENT WITH THE FUNDS.

4. (S//NF//NF/OR) (b)(1),1.4 (c) THERE MAY PRESENTLY BE SOME EFFORT UNDER WAY TO BRING BOTH NORIN-

CG AND POLY UNDER SOME CENTRAL CONTROL. (b)(1).1.4 THINKS THAT A COMMITTEE ON FOREIGN MILITARY SALES HAS BEEN FORMED WHICH WILL INCLUDE DING HENGGAO ((U)) HUAGUO, ZOU JIAHUA AND ((HE)) PENGFEI (b)(1).1.4 COULD PROVIDE NO FURTHER INFORMATION ON THE COMMITTEE NOR ANY PROSPECTS FOR THE FUTURE RATIONALIZATION OF THE FOREIGN MILITARY SALES PROCESS

COMMENTS: 1. ~~(S//NF-NO/DR)~~ (b)(1),(b)(3):10 USC 424,1.4 (c)



//IPSP: (U) (b)(3):10 /
//COMSOBJ: (U) USC 424
PROJ: (U)
COLL: (U)
INSTR: (U)
PREP: (U) (b)(3):10 USC 424
ACQ: (U)
DISSEM: (U)

WARNING: (U) REPORT CLASSIFIED ~~SECRET~~
- ~~NOT RELEASABLE TO FOREIGN NATIONALS~~
- ~~NOT RELEASABLE TO CONTRACTORS/CONSULTANTS~~
- (b)(3):10 USC 424

DECL: ~~CONF~~ BT