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INCOMING TELEGRAM

Department of State

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FM (b)(3):10 USC 424

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INFO USCINCPAC HONOLULU HI (b)(3):50

(b)(3):50 USC 403-1(i)

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HQUSAF WASHDC (b)(3)

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(b)(3):50 USC 403-1(i)

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

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

COUNTRY: (U) CHINA (CN); IRAQ (IZ).

SUBJECT: (U) (b)(3):10 USC PRC-NORINCO ARMS SALES
POLICY, COOPERATION (U)

WARNING: (U) THIS IS AN INFORMATION REPORT, NOT
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DEPARTMENT OF DEFENSE

DOI: (U) 988928.

REQS: (U) (b)(3):10 USC 424

SUMMARY: (b)(1),1.4 (c) THE PRC
GOVERNMENT HAS ISSUED ORDERS TO SUSPEND ALL SHIPMENTS
TO IRAQ IN SUPPORT OF UN SANCTIONS. PAST SINO-IRAQI
DEALINGS DISCUSSED. ARMS SALES TO IRAN THE FOCUS OF
NORINCO'S MIDDLE EAST SALES EFFORTS. Q

SOURCE: (b)(1), (b)(3):10 USC 424, 1.4 (c)

(b)(3):50 USC
403-1(i)

TEXT: (b)(1),1.4 (c) NORINCO HAS
RECEIVED ORDERS FROM THE PRC GOVERNMENT TO SUSPEND
ALL SHIPMENTS TO IRAQ. WHEN ASKED IF THESE ORDERS ARE
BEING FOLLOWED, (b)(1),1.4 (c) THEY ARE, "TO THE
BEST OF MY KNOWLEDGE". (b)(1),1.4 (c) THE PRC
HAS FAR MORE TO LOSE FROM VIOLATING THE SANCTIONS
THAN THE SMALL MONETARY GAIN IT COULD MAKE BY
CONSIDERING TO SELL ARMS TO BAGHDAD.

(b)(1), (b)(3):10 USC 424, 1.4 (c)

(b)(1),1.4 (c)

IRAQ OWES NORINCO USD 3 BILLION IN PAYMENTS FROM PAST MILITARY SALES. THE PAYMENT OF THIS DEBT WAS SUSPENDED BY THEN-PRC PRESIDENT (U) XIANNIAN DURING A VISIT TO IRAQ IN 1983. AS LARGE AS THE DEBT IS, AND DESPITE THE ADVERSE EFFECT IT HAS ON NORINCO'S ABILITY TO OPERATE EFFICIENTLY AS A BUSINESS, NO ONE AT NORINCO HAS BEEN HELD RESPONSIBLE FOR THE DEBT. (b)(1),1.4 (c)

3. (b)(1),1.4 (c) NORINCO HAS OFFICES IN BAGHDAD AND IN DUBAI. (b)(1),1.4 (c) EMPHASIZED THAT THE BAGHDAD OFFICE IS CURRENTLY IDLE. WHEN PRESSED FOR THE STATUS OF NORINCO PERSONNEL IN BAGHDAD, (b)(1),1.4 (c) STATED THAT ALL WOMEN AND CHILDREN HAVE BEEN ALLOWED TO LEAVE, AND THAT THE MEN ARE "NOT CONSIDERED TO BE HOSTAGES" BY NORINCO OR THE PRC GOVERNMENT. (b)(1), (b)(3):10 USC 424, 1.4 (c)

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(b)(3):50 USC 403-1(i)

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

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

COUNTRY: (U) CHINA (CH); IRQQ (IZ).

SUBJECT: IIR (b)(3):10 USC 424 PRC-NORINCO ARMS SALES

(b)(1),1.4 (c)

THERE WERE "PLANS TO MOVE THE BAGHDAD OFFICE PERSONNEL IN THE EVENT OF IMMINENT DANGER TO THEM," BUT THAT THE DECISION HAD NOT YET BEEN MADE. (b)(1),1.4 (c)

4. (b)(1),1.4 (c) DUE TO THE CURRENT "BAD STATE OF AFFAIRS IN THE ARMS SALES MARKET," ONE-THIRD OF THE 160 FACTORIES THAT SUPPORT NORINCO ARE CURRENTLY IDLE. (b)(1),1.4 (c) THE WORKERS ARE JUST SITTING AROUND PLAYING CARDS AND DRINKING TEA. (b)(1) STILL HAVE TO PAY THEM, BUT THEY CANNOT PRODUCE A SINGLE THING.

(b)(1),1.4 (c) RAW MATERIALS ARE BECOMING A PROBLEM AS WELL, EVEN FOR THOSE FACTORIES THAT ARE STILL OPERATIONAL. COMPOUNDING THESE PROBLEMS IS A RELUCTANCE TO STREAMLINE OPERATIONS TO IMPROVE EFFICIENCY. (b)(1),1.4 (c) COMPLAINED THAT "THE OLD MEN IN THE GENERAL LOGISTICS DEPARTMENT AND THE GENERAL STAFF DEPARTMENT ARE STILL LIVING IN THE PAST. THEY DO NOT UNDERSTAND TECHNOLOGY OR ITS IMPORTANCE." MULTIPLE FACTORIES STILL PRODUCE THE SAME ITEMS DESPITE THE CALL TO "ELIMINATE WASTEFUL DUPLICATION" IN PRODUCTION.

5. (b)(1),1.4 (c) NORINCO'S CURRENT EFFORTS ARE FOCUSED ON THE ARMS SALES MARKET IN IRAN.

(b)(1), (b)(3):10 USC 424, 1.4 (c)

IS STILL HAVING PROBLEMS CONVINCING THE IRANIANS THAT THE PRC CAN PROVIDE THEM WITH A TANK THAT FULFILLS THEIR NEEDS. IN ADDITION TO THE SOVIETS, (b)(1),1.4 (c) BIGGEST COMPETITOR IS FROM THE GERMAN FIRM MTU MOTOREN UND TURBINEN UNION.

(b)(1), (b)(3):10 USC 424, 1.4 (c)

(b)(1), (b)(3):10 USC 424, 1.4 (c)

THE ENGINE AND TRANSMISSION OFFERED BY NORINCO IS NOT POWERFUL ENOUGH TO MEET IRAN'S REQUIREMENTS. DESPITE THIS, (b)(1),1.4 (c) DRINCO IS "STILL IN THE RUNNING" TO PRODUCE THE TANK.

COMMENTS: 1. (b)(1),1.4 (c)

(b)(1), (b)(3):10 USC 424, 1.4 (c)

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

PASS: (U) (b)(3):10 USC 424, (b)(3):50

COUNTRY: (U) CHINA (CN); IRAQ (IZ).

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(b)(1), (b)(3):10 USC 424, 1.4 (c)

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PREP: (U)

ACQ: (U)

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