

Inquire: DOC7D
Item No: 466640

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HEADER:

PP RUEAIIA
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P 090946Z DEC 87
FM (b)(3):10 USC 424
TO RUEKJCS/DIA WASHDC PRIORITY

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

RUEAIIA/CIA WASHDC/ (b)(3):50 USC 403-1(i)
RUEHC/SECSTATE WASHDC/ (b)(3):50 USC 403-1(i)

(b)(3):50 USC 3024(i)
(b)(3):10 USC 424,(b)(3):50 USC 403-1(i)

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CONTROLS:

~~SECRET~~ SECTION 01 OF 04 (b)(3):10 USC 424

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

BODY:

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

COUNTRY: (U) CHINA (CH); JORDAN (JO); IRAN (IR);
- IRAQ (IZ); NORTH KOREA (KN); SAUDI ARABIA (SA);
- UGANDA (UG); LIBYA (LY); NIGERIA (NI);
- CHILE (CI); EGYPT (EG); UNITED KINGDOM (UK);
- YUGOSLAVIA (YO); ANGOLA (AO); ZIMBABWE (ZI)
- ROMANIA (RO).

SUBJ: IIR (b)(3):10 USC 424 NORINCO ARMS SALES ABROAD (U).

WARNING: (U) THIS IS AN INFORMATION REPORT, NOT
- FINALLY EVALUATED INTELLIGENCE. REPORT

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DEPARTMENT OF DEFENSE

DOI: (U) 871207.

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

SOURCE: ~~(C/NF/WF)~~ / (b)(1),(b)(3):10 USC 424.1.4 (c)

SUMMARY: ~~(S)~~ NORINCO APPEALS TO THE STATE COUNCIL TO LIFT A PRC SUSPENSION OF ARMS SALES TO IRAN, WHILE GAINING GROUND IN ARMS MARKETS IN AFRICA.

TEXT: 1. ~~(S)~~ ARMS SALES TO IRAN REPORTEDLY SUSPENDED.

(b)(1),1.4 (c) THAT APPROXIMATELY ONE MONTH AGO, ((ZHAO)) ZIYANG DIRECTED THE IMMEDIATE SUSPENSION OF ALL MUNITIONS TRANSFERS TO IRAN, ALTHOUGH "PROJECTS," SUCH AS THE SALE OF EXPLOSIVE PRODUCTION LINES, ARE BEING ALLOWED TO CONTINUE. THE ORDER BECAME EFFECTIVE AT THE TIME OF ISSUE AND APPLIED EQUALLY TO MINISTRY OF DEFENSE INDUSTRY COMPANIES (E.G., NORINCO) AND PLA COMPANIES (b)(1),1.4 (c) POLY TECHNOLOGIES, INC. AS AN EXAMPLE). (b)(1),1.4 (c) THAT EVEN DELIVERIES ON EXISTING CONTRACTS HAVE BEEN PUT IN ABEYANCE. HE NOTED THAT SEVERAL PRC SHIPS LOADED WITH MUNITIONS ENROUTE TO IRAN WERE RECALLED TO CHINESE PORTS AND THE CARGO HAS BEEN UNLOADED. THE PRC'S "SPECIAL MATERIALS LEADING GROUP" (A COMMITTEE COMPRISED OF THE PLA MILITARY TRANSPORTATION SUBDEPARTMENT, PRC CUSTOMS, COSCO, ETC.) WHICH COORDINATES THE MOVEMENT OF ALL MUNITIONS IN AND OUT OF CHINA ACCORDING TO MONTHLY PLANS, HAS BEEN GIVEN INSTRUCTIONS TO STRICTLY ENFORCE THE SUSPENSION. NORINCO HAS BEEN PARTICULARLY HARD HIT BY THE SUSPENSION. OF THE SOME 7,500 TONS OF WAR MATERIALS SCHEDULED FOR DELIVERY TO IRAN NOW BEING HELD UP IN PRC PORTS, ABOUT ONE-HALF IS EXPLOSIVES AND PROPELLANTS UNDER CONTRACT FROM NORINCO. BECAUSE END-USERS HAVE DIFFERENT SPECIFICATIONS FOR EXPLOSIVES, NORINCO FINDS IT DIFFICULT TO REDIRECT SHIPMENTS TO IRAQ, WHICH URGENTLY NEEDS EXPLOSIVES, BUT HAS HIGHER QUALITY REQUIREMENTS THAN IRAN. WHILE NORINCO IS ARRANGING FOR THESE EXPLOSIVES TO TEMPORARILY BE STORED IN WAREHOUSES AND DEPOTS, IT HAS ALREADY FORWARDED A PAPER TO THE STATE COUNCIL URGING THAT IT BE ALLOWED TO EXECUTE ITS EXISTING CONTRACTS WITH IRAN. WHILE THE COMPANY IS REPORTEDLY

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SELLING A HIGHER VOLUME TO IRAQ, IRAN PAYS FOR DELIVERIES
UP FRONT VICE IRAQ'S FREQUENT DEFERRED PAYMENTS, AND
NORINCO'S ALREADY SERIOUS CASH FLOW PROBLEMS WILL BECOME (b)(1),(b)
OVERWHELMING UNLESS THE BAN IS LIFTED. [REDACTED] (3):10 USC
[REDACTED] THAT OVER THE PAST YEAR, ACTUAL PAYMENTS 424,1.4 (c)
FROM IRAN AND IRAQ TO NORINCO HAVE BEEN ROUGHLY EQUAL.)
THE STATE COMMISSION OF MACHINE INDUSTRY (SCOMI)
FACTORIES, WHICH ARE PRODUCING THE EXPLOSIVES, WILL ALSO

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RUEHC/SECSTATE WASHDC/ (b)(3):50 USC 403-1(i)

(b)(3):50 USC 403-1(i), (b)(3):50 USC 3024(i)

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

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CONTROLS:

~~SECRET~~ SECTION 02 OF 04 (b)(3):10 USC 424

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

BODY:

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

COUNTRY: (U) CHINA (CH); JORDAN (JO); IRAN (IR);
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SUBJ: IIR (b)(3):10 USC 424 NORINCO ARMS SALES ABROAD (U).

BE HARD PRESSED IF NORINCO IS UNABLE TO FULFILL ITS
CONTRACTS. SALES OF EXPLOSIVES TO IRAN HAVE EARNED

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NORINCO "MILLIONS AND MILLIONS OF DOLLARS" AND THE SITUATION IS REGARDED AS CRITICAL. (b)(1).1.4 (c) THAT, BECAUSE OF THE HARDSHIP THAT THE SUSPENSION IS PLACING ON PRC COMPANIES (SUCH AS NORINCO) AND SUPPLIER FACTORIES, THE SUSPENSION WILL BE LIFTED, BUT ONLY TO SERVICE EXISTING CONTRACTS. HE ANTICIPATES, FIRST, "MATERIALS" ON CONTRACT WILL BE AUTHORIZED FOR SHIPMENT, AND LATER WEAPONS. HE NOTED THAT THIS IS ACTUALLY THE FOURTH TIME SINCE THE PRC BEGAN EXPORTING TO IRAN SEVERAL YEARS AGO, THAT THE STATE HAS ORDERED A SUSPENSION OF MUNITION TRANSFERS. THE MOST RECENT OCCASIONS WERE NOV-DEC 86 (NO REASON CITED) AND MAY 87 "WHEN YANG SHANGKUN WENT TO THE UNITED STATES." HOWEVER, AFTER YANG RETURNED TO CHINA, PRC ARMS EXPORTERS URGED THE SUSPENSION BE LIFTED BECAUSE OF THE ECONOMIC HARDSHIPS THEY WERE FACING. STILL, (b)(1).1.4 (c) THE CURRENT CESSATION IN ARMS TRANSFERS TO IRAN AS THE MOST COMPREHENSIVE AND SEVERE SUSPENSION TO DATE. (b)(1).1.4 (c) THAT IN THE PAST SHIPS WERE NOT RECALLED TO PORTS AND, IN GENERAL, SHIPMENTS IN PROGRESS WERE ALLOWED TO PROCEED. (b)(1).1.4 (c) THAT ALTHOUGH IT IS LIKELY THE SUSPENSION WILL BE LIFTED TO FULFILL EXISTING CONTRACTS, THE STATE MAY POSSIBLY TAKE A HARD LINE ON NOT ALLOWING NEW CONTRACTS TO BE NEGOTIATED. HE FEELS THAT THE COMMISSION ON SCIENCE, TECHNOLOGY, AND INDUSTRY FOR NATIONAL DEFENSE (COSTIND) (WHICH MONITORS/APPROVES PRC MUNITIONS EXPORTS FROM CHINESE DEFENSE INDUSTRIES) HAS THE CAPABILITY TO ENFORCE A BAN AND "PREVENT ARMS COMPANIES FROM PLAYING TRICKS."

2. (U) ROUTES FOR PRC ARMS TRANSFERS.

- A. (U) TO IRAN - (b)(1).1.4 (c) THAT THE PRC HAS TRIED TO AVOID SHIPPING MUNITIONS DIRECTLY TO IRAN "SO IF SOMETHING GOES WRONG WE WON'T BE BLAMED." FOR A PERIOD OF TIME, IN LATE 1984 AND 1985, NORINCO USED THE SERVICES OF TWO NORTH KOREAN COMPANIES, ONE LOCATED IN GUANGZHOU AND THE OTHER IN HONG KONG, IN TRANSPORTING ARMS TO IRAN. HOWEVER, THE NORTH KOREANS "WERE TOO GREEDY" AND WERE CUT OUT AS MIDDLEMEN. SUBSEQUENTLY, NORINCO USED ONE OF ITS JOINT VENTURES IN HONG KONG (NAME UNKNOWN; (b)(1).1.4 (c)) SAID THIS JOINT VENTURE HAS EXISTED FOR SEVERAL YEARS, WHILE NORINCO'S SECOND JOINT VENTURE IN HONG KONG WAS ONLY RECENTLY ESTABLISHED). THIS NORINCO JOINT VENTURE, (b)(1).1.4 (c) HAS LOST MOST OF ITS BUSINESS AS A RESULT OF THE ARMS TRANSFER SUSPENSIONS.

- B. (U) TO IRAQ - (b)(1).1.4 (c) THAT NORINCO DOES NOT IDENTIFY IRAQ AS AN END-USER ON ITS CONTRACTS. GENERALLY, JORDAN IS LISTED AS THE PURCHASER, BUT A

"MILITARY PORT IN SAUDI ARABIA" IS OFTEN USED AS THE PORT OF DEBARKATION.

3. ~~(S)~~ NORINCO SALES ABROAD.

- (b)(1),1.4 (c) THAT ALTHOUGH NORINCO WILL STILL BE ABLE TO SELL MUNITIONS TO IRAN AND IRAQ IF THE GULF WAR ENDS, SINCE BOTH SIDES MUST REPLENISH DEPLETED

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

BODY:

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

COUNTRY: (U) CHINA (CH); JORDAN (JO); IRAN (IR);
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SUBJ: IIR (b)(3):10 USC 424 NORINCO ARMS SALES ABROAD (U).

STOCKS, THE COMPANY CONTINUES TO AGGRESSIVELY EXPAND
ITS MARKETS BY SENDING TRADE DELEGATIONS ABROAD TO

DRUM UP BUSINESS. NORINCO'S FIRST DIVISION (WEAPONS) HAS BEEN PARTICULARLY SUCCESSFUL IN 1987, LANDING CONTRACTS (b)(1).1.4(c) MOSTLY FOR LIGHT WEAPONS) IN ANGOLA, NIGERIA, ZIMBABWE, AND UGANDA. ADDED TO ITS NOT INSUBSTANTIAL BUSINESS TIES WITH ALGERIA, EGYPT, AND LIBYA, NORINCO HAS BEEN RELATIVELY SUCCESSFUL IN AFRICA. BUSINESS IS BEING PROMOTED IN LATIN AMERICA AND SOUTH AMERICA, BUT TO DATE, THE ONLY TANGIBLE RESULT HAS BEEN A JOINT VENTURE IN CHILE. FINALLY, (b)(1).1.4(c) THAT NORINCO'S RECENTLY ESTABLISHED JOINT VENTURE IN LONDON HAS REACHED THE ADVANCED STAGES IN BUSINESS NEGOTIATIONS WITH SAUDI ARABIA TO PURCHASE MUNITIONS ON BEHALF OF IRAQ. THE JOINT VENTURE IS BEING ENCOURAGED TO LAND THE CONTRACT IN ORDER TO GIVE IT INITIAL WORKING CAPITAL. HOWEVER, "MANY MIDDLEMEN HAVE APPEARED IN THIS DEAL" AND IT IS NOT CLEAR IF A CONTRACT WILL ULTIMATELY BE SIGNED.

4. (b)(1).1.4(c) NORINCO-POLY RIVALRY.

- (b)(1).1.4(c) THAT OFTEN REPORTED NORINCO-POLY RIVALRY CONTINUES ALTHOUGH IT MUST BE KEPT IN PERSPECTIVE. HE NOTED THAT ULTIMATELY, THE PLA CANNOT SELL LARGE NUMBERS OF WEAPONS THRU POLY SINCE ITS STOCKS ARE LIMITED. ITS SALES VOLUMES ARE REPORTEDLY SMALL COMPARED WITH NORINCO. FURTHERMORE, SINCE IT CANNOT PRODUCE MATERIALS SUCH AS EXPLOSIVES, AND CERTAINLY IS UNABLE TO MODIFY ITS STOCKS TO MEET CUSTOMERS REQUIREMENTS, POLY CANNOT COMPETE WITH NORINCO IN MANY PRODUCT LINES. YET, PROBLEMS DO EXIST BETWEEN THE TWO COMPANIES. FOR EXAMPLE, (b)(1).1.4(c) THAT EARLIER THIS YEAR, NORINCO AGENTS AT A CHINESE PORT PHOTOGRAPHED 130 MM GUNS PRODUCED IN 1984 BEING LOADED ON A SHIP BOUND TO IRAN. THE GUNS HAD BEEN SOLD BY POLY AND THE DEAL VIOLATED A STATE REGULATION WHICH RESTRICTS THE PLA TO ONLY SELL "OLD" WEAPONS FROM ITS INVENTORY. NORINCO SUBSEQUENTLY LODGED A FORMAL PROTEST. IN ORDER TO COPE WITH THIS PROBLEM, SCOMI HAS RECENTLY RAISED ITS PRICES (I.E., PRICES CHARGED TO THE PLA) TO "SOMEWHERE BETWEEN THE FORMER SUBSIDIZED PRICES AND INTERNATIONAL MARKET RATES" IN ORDER TO REDUCE THE PLA'S INCENTIVE TO BUY CHEAP FROM NORINCO AND RE-SELL ABROAD (AT RATES LOWER THAN NORINCO'S). (b)(1).1.4(c) THAT CHINESE MILITARY ATTACHES ABROAD RESPOND UNEVENLY TO NORINCO'S REQUESTS FOR ASSISTANCE. SOME ARE COOPERATIVE, WHILE OTHERS APPEAR BEHOLDEN TO POLY AND ARE NOT HELPFUL.

5. (b)(1).1.4(c) NORINCO PRODUCT SALES VS. PROJECTS.

- (b)(1).1.4(c) THAT THE PROJECTS DIVISION OF NORINCO (WHICH SELLS MANUFACTURING PROCESSES, TURN-KEY PROJECTS,

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ETC.) FREQUENTLY IS AT ODDS WITH PRODUCT LINE DIVISIONS. FOR EXAMPLE, NORINCO'S EXPLOSIVES DIVISION IS CONCERNED THAT ITS SALES WILL BE ADVERSELY AFFECTED BY THE PROJECT DIVISION'S EFFORTS TO ESTABLISH AN EXPLOSIVES PRODUCTION LINE(S?) IN IRAN. WHILE CONSULTATIONS TO RATIONALIZE SALES EFFORTS BETWEEN NORINCO DIVISIONS DO OCCUR, (b)(1).1.4 (c) [REDACTED] THAT THE PROJECTS DIVISION IS "SEMI-INDEPENDENT" AND DIFFICULT TO INFLUENCE. THE PROJECTS DIVISION IS

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CONTROLS:

~~SECRET~~ SECTION 04 OF 04 (b)(3):10 USC 424

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

BODY:

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

- COUNTRY: (U) CHINA (CH); JORDAN (JO); IRAN (IR);
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SUBJ: IIR (b)(3):10 USC 424 /NORINCO ARMS SALES ABROAD (U).

ALSO REPORTEDLY OPERATING AT A LOW OR ZERO PROFIT MARGIN.
THE EQUIPMENT IT PROMOTES IS OFTEN CONSIDERED INFERIOR

BY WORLD STANDARDS AND THE DIVISION HAS TO LOWER ITS
PRICES TO SECURE SALES. (b)(1).1.4 (c) TO PROJECT
DIVISION SALES TO ALGERIA, LIBYA, EGYPT, YUGOSLAVIA,
AND ROMANIA AS EXAMPLES OF ITS LOW PROFIT OPERATIONS.

COMMENTS: ~~(S/NP/IN)~~ (b)(1).1.4 (c)

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