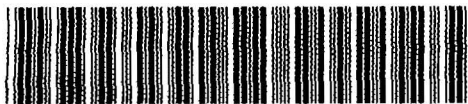




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R 130419Z AUG 87
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(b)(3):50 USC 403-1(i)
RUEAIIA/CIA WASHINGTON DC
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RUETIAH/DIRNSA FT GEORGE G MEADE MD
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TO RUEKJCS/DIA WASHDC/ (b)(3):10 USC 424

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CONTROLS:

~~SECRET~~ SECTION 01 OF 03 (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); SYRIA (SY); JORDAN (JO);

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- IRAN (IR); IRAQ (IZ); THAILAND (TH)
SUBJ: (U) IIR (b)(3):10 USC 424 POLYTECHNOLOGIES,
- NORINCO, AND PRC ARMS EXPORTS
WARNING: (U) THIS IS AN INFO REPORT, NOT FINALLY
- EVALUATED INTEL
DOI: (U) 870804
REQS: (U) (b)(3):10 USC 424
SOURCE: (U) (b)(3):10 USC 424,(b)(3):50 USC 403-1(i)
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SUMMARY: (S) NORINCO CONTINUES TO PROFIT BY WEAPONS SALES TO IRAN AND IRAQ WITH REVENUES FOR THE TH FIRST SIX MONTHS OF 1987 EXCEEDING THE SAME PERIOD IN 1986. HOWEVER, NORINCO'S POLICY HAS BEEN TO AGGRESSIVELY MARKET ITS PRODUCTS THROUGHOUT THE WORLD AS A HEDGE AGAINST A DOWNTURN IN MIDDLE EAST BUSINESS. MEANWHILE, POLY-NORINCO FRICTION CONTINUES AND COSTIND TRIES UNSUCCESSFULLY TO BRING ORDER TO THE CHINESE ARMS EXPORT ARENA.

TEXT: 1. (S) NORINCO ARMS SALES TO IRAN AND IRAQ:
(b)(1),1.4(c) THAT NORINCO ORIGINALLY ONLY SOLD WEAPONS TO IRAQ, BUT IN THE LATTER PART OF 1985 RECEIVED THE GO-AHEAD TO ALSO SELL WEAPONS TO IRAN. HE SAID THAT BECAUSE OF DANGERS INVOLVED IN TRAVEL TO THE MIDDLE EAST, NO NORINCO SALES PERSONNEL COVER BOTH IRAN AND IRAQ SINCE AN OFFENDED PARTY MIGHT SEEK REVENGE. SALES TO THE MIDDLE EAST HAVE BEEN VITAL TO NORINCO'S SURVIVAL. (b)(1),1.4(c) THAT LARGELY DUE TO ITS IRAN/IRAQ SALES, NORINCO'S 1986 REVENUES EXCEEDED 1985'S, AND REVENUES FOR THE FIRST HALF OF 1987 EXCEEDED THE FIRST HALF OF 1986. YET NORINCO RECOGNIZES THAT IT MUST RAPIDLY DIVERSIFY ITS CUSTOMERS BECAUSE OF THE POSSIBILITY OF THE IRAN/IRAQ MARKET DRYING UP (SEE BELOW). AS A RESULT, IT HAS RECENTLY AGGRESSIVELY PROMOTED SALES TO OTHER COUNTRIES. (b)(1),1.4(c) RECENT SALES TO THAILAND, "ANOTHER SOUTH ASIAN COUNTRY", AND SOME AFRICAN COUNTRIES AS EXAMPLES OF NORINCO SUCCESSES. HE SAID THAT NORINCO HAS LANDED IMPORTANT CONTRACTS WITH TWO BLACK AFRICAN COUNTRIES, BUT DID NOT IDENTIFY THEM. HE ALSO NOTED THAT NORINCO WISHES TO EXPAND ITS MARKETS IN LATIN AMERICA, BUT HAS NOT SUCCEEDED TO DATE.

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(b)(1),1.4 (c) THAT AN ORDER WAS ISSUED BY THE STATE "AROUND THE TIME ((YANG)) SHANGKUN VISITED THE UNITED STATES" (MAY 1987) TO STOP ARMS SHIPMENTS TO IRAN AND IRAQ. YET (b)(1),1.4 (c) CHINESE ARMS COMPANIES ARE STILL BEING ALLOWED TO SERVICE EXISTING CONTRACTS AND IMPLIED THAT AS A RESULT THIS ORDER HAS NOT AFFECTED NORINCO'S BUSINESS TO DATE. FURTHERMORE, (b)(1),1.4 (c) THAT EVEN AFTER THE IRAN/IRAQ WAR ENDS, HE BELIEVES NORINCO SALES TO THE REGION WILL REMAIN HIGH FOR SEVERAL YEARS SINCE BOTH SIDES HAVE INDICATED THAT THEY WILL NEED TO BUILD UP THEIR CURRENTLY DEPLETED WAR RESERVE STOCKS. (b)(1),1.4 (c) IRAN CONTINUES TO MEET ITS CONTRACT OBLIGATIONS WITH CASH PAYMENTS, WHILE IRAQ, WHICH CAN PROCURE ARMS FROM MANY DIFFERENT SOURCES (UNLIKE IRAN IN (b)(1),1.4 (c) VIEW), HAS REQUESTED TO DEFER PAYMENTS. (b)(3):10 USC 424 NORINCO REPS HAVE INDICATED IN RECENT MONTHS THAT NORINCO IS SUFFERING SERIOUS CASH FLOW PROBLEMS BECAUSE OF THE FAILURE OF THIRD WORLD CUSTOMERS TO MEET CONTRACT OBLIGATIONS. (b)(1),1.4 (c) TO INDICATE IRAQ WAS ALSO CONTRIBUTING TO NORINCO'S FINANCIAL WOES). (b)(1),1.4 (c) THAT NORINCO WILL SEND A BUSINESS REP TO SYRIA AND JORDAN

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HEADER:

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CONTROLS:

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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); SYRIA (SY); JORDAN (JO);

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- IRAN (IR); IRAQ (IZ); THAILAND (TH)

SUBJ: (U) IIR (b)(3):10 USC 424 POLYTECHNOLOGIES,

AROUND 11 TO 18 AUGUST 1987. THE REP'S VISIT TO SYRIA WILL BE TO WORK OUT THE TERMS OF A CONTRACT SIGNED IN 1986 WITH SYRIA FOR NORINCO'S SALE OF "SEVERAL TONS OF SPECIAL EXPLOSIVES." (b)(1),1.4 (c) THAT THE ACTUAL END USER IN THIS CASE WAS SYRIA. IN ADDITION, THE REP WILL VISIT JORDAN TO WORK OUT PROBLEMS ON AN AMMUNITION/EXPLOSIVES CONTRACT WHICH NORINCO HAS WITH IRAQ.

- ~~(S)~~ SILKWORM SALES/POLY-NORINCO FRICTION:

(b)(1),1.4 (c) RESPONSIBILITY FOR THE SILKWORM SALES TO IRAN ON POLYTECHNOLOGIES, INC. (b)(1),1.4 (c) IF NORINCO HAD DONE SUCH A THING, WHICH HE SAID WAS CONTRARY TO MINISTRY OF FOREIGN AFFAIRS GUIDANCE, "NORINCO WOULD HAVE BEEN CLOSED DOWN" (BY THE AUTHORITIES). BUT POLY IS SO WELL-CONNECTED, (b)(1),1.4 (c) THAT IT IS IMMUNE TO PRESSURE. EXPLAINING POLY'S POWER, (b)(1),1.4 (c) NOT ONLY POINTED TO ((HE)) PING (SON-IN-LAW OF ((DENG)) XIAOPING) AND ((HE)) PENGFEI (SON OF THE LATE MARSHAL ((HE)) LONG), BUT SAID (APPARENTLY BASED UPON RUMORS IN CHINESE CIRCLES IN BEIJING) THAT ((YANG)) SHANGKUN IS A STRONG BEHIND THE SCENES SUPPORTER OF POLY. FINALLY, HE SAID THAT ACCORDING TO HIS KNOWLEDGE, NO ONE IN POLY HAS BEEN PUNISHED TO DATE FOR THE SILKWORM MISSILE SALES, NOR DID HE BELIEVE THAT ANYONE WOULD BE IN THE FUTURE. MEANWHILE, (b)(1),1.4 (c) THAT POLY AND NORINCO REMAIN AT ODDS. HE SAID "POLY IS NORINCO'S BIGGEST COMPETITOR. THEY FREQUENTLY TELL POTENTIAL CUSTOMERS, 'WHATEVER NORINCO OFFERS, WE'LL SELL YOU AT A 5 PER CENT CHEAPER PRICE.' " POLY HAS REPORTEDLY RECENTLY MOVED TO AGGRESSIVELY MARKET AMMUNITION AND EXPLOSIVES WHICH MAY BRING IT INTO YET MORE COMPETITION WITH NORINCO, ALTHOUGH (b)(1),1.4 (c) POLY DID NOT HAVE THE CAPABILITY TO MARKET SPECIAL EXPLOSIVES.

- ~~(S)~~ COSTIND ATTEMPTS TO ASSERT CONTROL - WITHOUT SUCCESS: (b)(1),1.4 (c) THAT THE COMMISSION ON SCIENCE, TECHNOLOGY, AND INDUSTRY FOR NATIONAL DEFENSE (COSTIND) HAS RECENTLY BEEN ATTEMPTING TO PROMULGATE ARMS EXPORT CONTROL REGULATIONS.

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

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

WHILE (b)(1),1.4 (c) THAT
THERE IS A CONSENSUS THAT SOME ORDER MUST
BE BROUGHT TO THE PRC ARMS EXPORT FIELD, THERE
IS CONSIDERABLE DISAGREEMENT ON SPECIFICS.
ALREADY, (b)(1),1.4 (c) SEVERAL DRAFT VERSIONS OF
REGULATIONS HAVE BEEN CIRCULATED WITHOUT ACTION.
FURTHERMORE, (b)(1),1.4 (c) TO FEEL COSTIND DID
NOT HAVE SUFFICIENT CLOUT TO ENFORCE ANY
REGULATIONS WHICH MIGHT BE ISSUED.

COMMENTS: ~~(S)~~ (b)(1),1.4 (c)

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CONTROLS:

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COUNTRY: (U) CHINA (CH); SYRIA (SY); JORDAN (JO);

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- IRAN (IR); IRAQ (IZ); THAILAND (TH)
SUBJ: (U) IIR (b)(3):10 USC 424 POLYTECHNOLOGIES,

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