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DEPARTMENT FOR OES/SCT, OES/NET, AND EA/C

DEPARTMENT PASS WHITE HOUSE FOR OSTP

E. O. 12356: DNG, OADR
TAGS: TATT, SCSA, PEPR, TNUC, TERY, PARM, CH, J
SUBJECT: U.S.-PRC NUCLEAR COOPERATION -- OR THE LACK
- OF IT

1. (LOU) THIS CABLE IS PART OF A SERIES INTENDED TO ASSIST THE DEPARTMENT IN PREPARING BACKGROUND AND TALKING POINT PAPERS FOR THE SECRETARY'S DISCUSSIONS IN CHINA. INFO ADDRESSEES ARE INVITED TO COMMENT SEPARATELY TO THE DEPARTMENT.

CHINA INTEREST

2. (C) ATTAINMENT OF CHINA'S GOAL OF QUADRUPLING GROSS NATIONAL PRODUCT BY THE YEAR 2000 DEPENDS CRITICALLY UPON TWO ENERGY-RELATED CONCERNS: INDIGENOUS PRODUCTION OF AT LEAST TWICE AS MUCH ENERGY AS CHINA
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PRODUCES TODAY, AND INTRODUCTION OF REFORMS AND NEW TECHNOLOGIES TO ACHIEVE A MARKED INCREASE IN ENERGY UTILIZATION EFFICIENCY (SEE SEPTEL ON ENERGY). CONSISTENT WITH THE FIRST PART OF THIS DESIRE -- THE NEED FOR MORE ENERGY -- BUT ALSO WOVEN INTO CHINA'S SELF-IMAGE AS A COUNTRY ABOUT TO UNDERGO RAPID DEVELOPMENT -- IS CHINA'S PLAN TO DEVELOP HER CAPABILITIES TO GENERATE ELECTRIC POWER FROM NUCLEAR STATIONS.

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3. (C) CHINA'S TECHNICAL LEADERS AND, INDEED, THE BUREAUCRACY ITSELF DIVIDE ON THE ISSUE AMONG TWO SCHOOLS: ONE WISHES INDIGENOUS DEVELOPMENT AND PRODUCTION OF AS MANY PARTS OF THE REACTORS AND TURBINES AS POSSIBLE; ANOTHER BELIEVES THAT THE QUICKEST AND, IN THE LONG RUN, LEAST EXPENSIVE WAY FOR CHINA TO BECOME A CLEAR-ENERGY PRODUCER IS TO PURCHASE THE TECHNOLOGY AND MOST OF THE EQUIPMENT FROM OUTSIDE SOURCES. THE CHINESE GOVERNMENT SEEMS TO HAVE GIVEN BOTH SCHOOLS A CAUTIOUS GREEN LIGHT. THE "PURCHASERS" ARE EAGER TO ESTABLISH AN 1800MW PLANT IN GUANGDONG, JUST HONG KONG'S PROXIMITY TO SELL EXCESS POWER FOR HARD CURRENCY TO HELP FINANCE THE STATION. THE "PRODUCERS" ARE AT EARLY-STAGE WORK ON A 300MW PLANT TO BE LOCATED OUTSIDE SHANGHAI. BESIDES AN ENTHUSIASM FOR NUCLEAR POWER'S FUTURE IN CHINA, THE "PURCHASERS" AND "PRODUCERS" AGREE ON ONE OTHER MAJOR POINT: BOTH PROFESS A STRONG PREFERENCE FOR OBTAINING THE TECHNOLOGY AND EQUIPMENT THEY NEED FROM U.S. COMPANIES. THE CHINESE ALREADY FEEL A KINSHIP TOWARD THE U.S. ON NUCLEAR MATTERS (UNDER THE S&T COOPERATION AGREEMENT THE USNRC IS SUPPLYING THE CHINESE WITH NUCLEAR SAFETY INFORMATION, AND THE CHINESE REPORTEDLY DELAYED AND RELOCATED THE "SHANGHAI" REACTOR AFTER THE THREE-MILE-ISLAND INCIDENT), AND THEY BELIEVE THAT PURCHASE

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OF U.S. REACTOR TECHNOLOGY WILL PROVIDE THEM WITH THE BEST AND LEAST EXPENSIVE AVAILABLE ("WHY PAY THE FRENCH TO SUPPLY OLDER U.S.-DEVELOPED TECHNOLOGY?")

4. (C) ON THE OTHER HAND, OTHER "ROOMS" OF CHINA'S NUCLEAR "HOUSE" HAVE DIFFERENT, CONFLICTING INTERESTS. CHINA LONG SUPPORTED THE POSITION THAT THE "NUCLEAR SUPPLIERS' GROUP" WAS A MONOPOLY OF INDUSTRIALIZED NATIONS WHOSE REAL GOAL WAS TO KEEP THIRD-WORLD NATIONS UNDER THEIR NUCLEAR THUMBS. THAT ATTITUDE HAS MELLOWED A BIT, BUT CHINESE PUBLIC STATEMENTS STILL HARK BACK TO SUPPORT OF THIRD-WORLD POSITIONS. THE CHINESE ALSO SORELY NEED HARD CURRENCY; SALES OF NUCLEAR MATERIALS (AND PERHAPS TECHNOLOGY) PRESENT AN ATTRACTIVE OPTION, DESPITE CHINA'S LACK OF PREVIOUS EXPERIENCE IN INTERNATIONAL NUCLEAR MARKETS.

5. (S) THERE IS ONE RUMOUR THAT THE SOVIETS RECENTLY OFFERED TO PROVIDE A POWER REACTOR TO THE CHINESE, BUT WE WOULD BE SOMEWHAT SURPRISED TO SEE THE CHINESE WALK

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THAT PAINFUL PATH AGAIN; WHEN THE SOVIETS PULLED THEIR
ADVISORS OUT IN THE LATE FIFTIES, THEY SABOTAGED OR
PULLED KEY PARTS OUT OF THE NUCLEAR RESEARCH FACILITIES
THAT THEY HAD BUILT IN CHINA.

U.S. INTERESTS

6. (C) U.S. INTERESTS IN NUCLEAR COOPERATION WITH

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CHINA -- AS WITH ANY OTHER COUNTRY, -- MUST ADVANCE U.S. NON-PROLIFERATION GOALS, WHILE MAXIMIZING TRADE OPPORTUNITIES FOR U.S. COMPANIES. U.S. NON-PROLIFERATION POLICY HAS TWO PRINCIPAL PILLARS ON WHICH POSSIBLE EXPORT OF U.S. NUCLEAR TECHNOLOGY TO CHINA MUST REST: A) THAT THERE BE SAFEGUARDS OR INSPECTIONS ON PEACEFUL NUCLEAR FACILITIES. / THE U.S. HAS ACCEPTED INSPECTIONS ON AMERICAN NON-DEFENSE FACILITIES, AS HAS EVERY OTHER NUCLEAR PRODUCER EXCEPT THE U.S.S.R., AND EVEN THE SOVIETS HAVE RECENTLY INDICATED A WILLINGNESS TO CONSIDER
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THE QUESTION (DEPARTMENT MAY WISH TO FILL IN STATUS OF THOSE DISCUSSIONS). B) THAT THERE BE ASSURANCES, EITHER GOVERNMENT-TO-GOVERNMENT OR THROUGH A THIRD PARTY SUCH AS THE IAEA, ON LIMITATIONS OF RE-EXPORT OF THE TECHNOLOGY OR MATERIALS.

7. (C) BEYOND THIS QUESTION OF WHAT CHINA WOULD DO EITHER INTERNALLY OR ON THE INTERNATIONAL MARKET WITH U.S.-SUPPLIED NUCLEAR TECHNOLOGY OR MATERIALS, WE MUST ALSO PAY CLOSE ATTENTION TO OTHER CHINESE POLICIES WHICH BEAR ON PROLIFERATION. WE WOULD BE ILL-SERVED IF WE CONVINCED CHINA TO ACCEPT AND F A FULL SYSTEM OF SAFEGUARDS ON TECHNOLOGY AND MATERIAL SUPPLIED BY US TO CHINA'S PEACEFUL PROGRAM, ONLY TO SEE CHINA DIVERTING MATERIALS FROM HER DEFENSE PROGRAM TO COUNTRIES WHO DO NOT SHARE OUR NON-PROLIFERATION INTERESTS. . ON THE OTHER HAND, A U.S. NUCLEAR POLICY TOWARD CHINA THAT WILL ENCOURAGE CHINA TO KEEP IN CLOSE CONTACT WITH US ON NUCLEAR ISSUES, THROUGH CHANNELS ESTABLISHED BY COOPERATION AND UNDERSTANDING, WOULD FURTHER OUR OVERALL NUCLEAR PROGRAM GOALS BY REDUCING CHINESE MISUNDERSTANDING AND HINDRANCE OF U.S. PROGRAMS AND POSITIONS. THE POTENTIAL COMMERCIAL BENEFITS OF NUCLEAR COOPERATION WITH CHINA ARE CONSIDERABLE. IN ADDITION TO THE USDOLS FIVE BILLION GUANGDONG POWER PROJECT, POTENTIAL SALES TO SHANGHAI AND OTHER INDIGENOUS REACTOR PROJECTS COULD GENERATE ADDITIONAL SALES IN THE BILLIONS OF DOLLARS.

8. (S) THE U.S. AND CHINA HAVE PURSUED A LIMITED COOPERATION PROGRAM IN NUCLEAR SAFETY. THAT COOPERATION PROGRAM WAS ENTIRELY ONE-SIDED AT THE ONSET, WITH U.S. NRC SUPPLYING NUCLEAR SAFETY CODES AND OTHER SAFETY-RELATED INFORMATION TO THE CHINESE. THE EXCHANGE HAS

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RECENTLY DEVELOPED THE BEGINNINGS OF RECIPROcity, AS THE CHINESE HAVE STARTED TO SEND US INFORMATION ON THEIR OWN CODES (ALTHOUGH THE CHINESE CODES ARE OF LITTLE TECHNICAL VALUE TO US, THEIR PROVISION IS A USEFUL INDICATION OF THE CHINESE APPRECIATION OF RECIPROcity AND EVIDENCE OF AN INCREASED SENSE OF IMPORTANCE OF SAFETY, BOTH OF WHICH ARE IMPORTANT TO US). WE WERE ABLE TO CARRY OUT SEVERAL SERIES OF TALKS WITH THE CHINESE ON NUCLEAR MATTERS OVER THE LAST TWO YEARS, AND WERE SUCCESSFUL IN KEEPING THOSE TALKS SECRET UNTIL VERY RECENTLY, BUT THOSE TALKS WERE INCONCLUSIVE. DURING THE CONVERSATIONS, WE REACHED A BASIC UNDERSTANDING WITH THE CHINESE THAT THEY WOULD PROVIDE ASSURANCES REGARDING RE-EXPORT OF MATERIALS AND TECHNOLOGY SOLD BY THE U.S., BUT, AS EXPLAINED BELOW, THOSE ASSURANCES WOULD NOT BE ENOUGH FOR US TO PROCEED WITH BILATERAL COMMERCIAL OR TECHNICAL COOPERATION.

AREAS OF DISAGREEMENT AND DISSATISFACTION

9. (S) WE HAVE SERIOUS PROBLEMS WITH TWO AREAS OF CHINESE NUCLEAR POLICY: INTERNAL USE OF MATERIALS AND TECHNOLOGY WHICH MIGHT BE SUPPLIED FROM THE U.S., AND EXTERNAL SALES OR TRANSFER POLICY. OUR INITIAL DISCUSSIONS WITH THE CHINESE FOCUSED PRINCIPALLY ON THE FORMER,

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I.E., ON ASSURANCES AND GUARANTEES, INCLUDING SAFEGUARDS, THAT THE CHINESE MIGHT MAKE TOWARD EVENTUAL USES OF MATERIALS WHICH WOULD BE SUPPLIED WITH A "PURCHASED" REACTOR (MOST PROBABLY THE GUANGDONG FACILITY, BY WESTINGHOUSE). THE CHINESE ARGUE THAT AS A NUCLEAR WEAPONS STATE THEY SHOULD NOT BE REQUIRED TO SUBMIT TO INSPECTION, ADDING THAT THEIR MILITARY FACILITIES ARE PRODUCING A SURPLUS OF FISSIONABLE MATERIAL AND THAT THEY THUS HAVE NO INCENTIVE TO DIVERT MATERIALS FROM POWER REACTORS. THEY REFUSE TO JOINING IAEA (PART OF THEIR REAS

ON IS THAT THEIR ACQUISITION WOULD PULL TAIWAN OUT FROM UNDER IAEA CONTROLS, BUT THE PRC IS ALSO OPPOSED TO SUBMITTING ITS OWN REACTORS TO IAEA INSPECTION) AND HAVE ALSO FAILED TO SIGN THE NON-PROLIFERATION TREATY (SEE SEPTEL ON ARMS CONTROL AND DISARMAMENT).

10. (C) THE U.S.-NON-PROLIFERATION ACT OF 1978 WOULD THEREFORE REQUIRE A BILATERAL AGREEMENT OF NUCLEAR

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COOPERATION, WHICH WOULD BE REVIEWABLE BY THE CONGRESS, BEFORE THE U.S. COULD ALLOW ANY AMERICAN COMPANIES TO SUPPLY NUCLEAR TECHNOLOGY TO CHINA. LTHOUGH THE NPA DOES NOT SPECIFICALLY REQUIRE END-USE ASSURANCES AND INSPECTIONS FOR SUCH AGREEMENTS WITH NUCLEAR-WEAPONS STATES, IN FACT NO NEW AGREEMENT HAS GONE TO THE CONGRESS WITHOUT SUCH PROVISIONS. A SINO-AMERICAN NUCLEAR COOPERATION AGREEMENT WHICH DEPARTED SO MARKEDLY FROM PREVIOUS EXAMPLES WOULD DRAW FIRE NOT ONLY FROM THOSE CLOSELY INTERESTED IN NON-PROLIFERATION, BUT WOULD ALSO SERVE AS A RALLYING POINT FOR THOSE IN CONGRESS WHO DIFFER WITH OTHER ASPECTS OF U.S. POLICY TO CHINA, INCLUDING THOSE RELEVANT TO TAIWAN.

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11. (S) IN PUBLIC, THE CHINESE HAVE HELD RESOLUTELY TO THEIR "PRINCIPLED" POSITION THAT INSPECTIONS ARE A VIOLATION OF CHINESE SOVEREIGNTY AND THAT ASSURANCES ARE NEEDLESS FOR A STATE ALREADY POSSESSING NUCLEAR WEAPONS. IN PRIVATE, THE CHINESE HAVE HINTED THAT THEIR OBJECTIONS TO THE QUESTIONS OF "ASSURANCES" AND "INSPECTIONS" ARE MORE CONNECTED TO THE TERMINOLOGY THAN TO THE PERFORMANCE OF THOSE FUNCTIONS. WHILE IT IS THUS THEORETICALLY POSSIBLE TO WORK OUT A COMMON GROUND OR TERMINOLOGY THAT COVERS ASSURANCES AND INSPECTIONS WITHOUT USING THOSE TERMS, PROGRESS ON THAT ISSUE HAS BEEN IMPOSSIBLE BECAUSE OF EVEN GREATER U.S. CONCERN OVER CHINESE POLICY TOWARD NUCLEAR EXPORTS.

12. (S) IN SEVERAL INSTANCES, THE CHINESE HAVE SOLD NUCLEAR TECHNOLOGY OR MATERIALS TO PRIVATE COMPANIES, GETTING ONLY THE "ASSURANCES" OF THE COMPANIES THAT THE MATERIALS WERE INTENDED FOR PEACEFUL NUCLEAR PROGRAMS. AT LEAST SOME OF THESE MATERIALS WERE DIVERTED FROM WHAT
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THE CHINESE CLAIM TO HAVE BELIEVED TO BE INTENDED RECIPIENTS, AND THE ULTIMATE RECIPIENTS WERE ARGENTINA, AS WELL AS POSSIBLY SOUTH AFRICA. THERE ARE ALSO SUSPICIONS THAT CHINESE NUCLEAR COOPERATION WITH PAKISTAN MAY HAVE FACILITATED ISLAMABAD'S ACQUISITION OF WEAPONS-RELATED KNOW-HOW.

13. (S) THESE CONCERNS HAVE MADE IT DIFFICULT TO FORMULATE A USG POSITION ON THE INSPECTION AND EXPORT CONTROL ISSUES WHICH COULD RESULT IN THE BILATERAL AGREEMENT THAT IS REQUIRED FOR AMERICAN COMPANIES TO COMPETE WITH THE LESS INHIBITED EUROPEANS FOR REACTOR SALES. THE IMPASSE LEAVES THE FIELD OPEN TO THE FRENCH SUPPLIER, FRAMA WHICH MAY OR MAY NOT COMBINE WITH A BRITISH TURBINE SUPPLIER FOR THE GUANGDONG REACTOR CONTRACT, WORTH ABOUT USDOLS FOUR-FIVE BILLION. IF THE FRENCH ARE LESS CONCERNED THAN WE TOWARD CHINESE NON-PROLIFERATION POLICY, AND THEY SO SEEM TO BE, THEN THE SINO-FRENCH NUCLEAR CONNECTION WILL MEAN NOT ONLY A CONSIDERABLE COMMERCIAL LOSS FOR THE U.S., BUT ALSO A MAJOR SETBACK TO OUR HOPES TO MODERATE CHINESE NON-PROLIFERATION POLICY OVER THE LONG TERM.

CHINESE POSITION

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14. (S) IF THE CHINESE RAISE THIS POINT SEPARATELY FROM THE ISSUE OF TECHNOLOGY TRANSFER, THEY WILL PROBABLY CONCENTRATE ON THE LOGIC OF THEIR "PRINCIPLED POSITION": THAT THERE IS NO SENSE IN INSISTING ON SAFEGUARDS FOR A NUCLEAR-WEAPON STATE, AND THAT THE U.S. MIGHT AS WELL SELL CHINA ITS OWN TECHNOLOGY, SINCE THE TECHNOLOGY THAT THE FRENCH ARE EAGER TO SELL TO THE CHINESE IS REALLY AMERICAN TECHNOLOGY. THE CHINESE MAY FOR THE FIRST TIME PROVE WILLING TO DISCUSS THE QUESTION OF CHINESE NUCLEAR EXPORT POLICY WITHOUT RESORTING TO STANDARD DEFENSIVE RHETORIC. THERE IS SOME EVIDENCE TO SUGGEST THAT THE CHINESE ARE BEGINNING TO

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INSIST ON GOVERNMENT TO GOVERNMENT GUARANTEES AGAINST
DIVERSION, BUT WE DO NOT YET KNOW THE NATURE OR EXTENT
OF THESE ASSURANCES, OR HOW THE CHINESE WOULD ENFORCE
THEM.

U.S. POSITION
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15. (S) WE MIGHT START BY AGREEING THAT CHINA IS
INDEED A NUCLEAR WEAPON STATE, BUT STRESS THAT OUR
CONCERNS ARE CONSISTENT WITH THOSE OF CHINA IN TRYING
TO PREVENT THE SPREAD OF NUCLEAR WEAPONS TO STATES
WHICH, WERE THEY TO POSSESS THE WEAPONS, WOULD MARKEDLY
DECREASE STABILITY IN THEIR REGIONS AND THE WORLD. THE
INTERNATIONAL SYSTEMS BUILT UP FOR MARKETING AND
CONTROLS ON NUCLEAR MATERIALS WERE NOT CREATED OUT OF
THIN AIR, BUT INSTEAD WERE CAREFULLY BUILT UP TO
PRESERVE THE OPPORTUNITIES FOR ALL PEACEFUL STATES TO USE ADVANTAGES OF
NUCLEAR POWER WHILE AFFORDING
MAXIMUM PROTECTION AGAINST PROLIFERATION OF THE WEAPONS.
WE HOPE THAT CHINA CAN COME TO UNDERSTAND THE REAL
REASONS BEHIND THIS INTERNATIONAL SYSTEM, AND COME
WITH US TO SUPPORT IT. WE WOULD BE HAPPY TO HAVE FURTHER
TALKS ON THESE ISSUES. WE WOULD ALSO BE PLEASED, IF
WE FOUND SUFFICIENT COMMON GROUND TO DO SO, TO CONCLUDE
A BILATERAL AGREEMENT ON NUCLEAR COOPERATION. UNDER OUR
LAW SUCH A BILATERAL AGREEMENT IS A PREREQUISITE TO OUR
BEING ABLE TO ENCOURAGE AMERICAN COMPANIES TO ASSIST
CHINA'S NUCLEAR POWER PROGRAM. HUMMEL

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