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MJD 12/17/2011

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
126050	NSC/S PROFILE	RE 8207215	1	10/15/1982	B1
126049	MEMO	MICHAEL GUHIN TO WILLIAM CLARK RE RESPONSE TO LETTER	1	12/6/1982	B1
126051	MEMO	L. PAUL BREMER TO WILLIAM CLARK RE REPLY TO LETTER	1	12/1/1982	B1
126052	CABLE	STATE 292851	2	10/19/1982	B1
126053	CABLE	STATE 294813	2	10/20/1982	B1
126054	CABLE	BEIJING 14401	1	10/21/1982	B1
126055	CABLE	BEIJING 14530	3	10/23/1982	B1
126056	CABLE	BEIJING 14784	1	10/28/1982	B1
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B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]

B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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THE WHITE HOUSE
WASHINGTON

December 8, 1982

Dear Mr. Kirby:

Thank you for your letter of October 15 on the need to reexamine the possibility of peaceful nuclear cooperation with the People's Republic of China. I regret the delay in this response and can assure you that the question has not been sitting idle during this time.

As you know, the subject involves a number of political, policy and legal considerations that must be reviewed in the broad context of U.S. interests. I cannot, of course, prejudge the outcome of our review but can assure you that we are reviewing the matter for consideration at the highest level and are aware that time is short.

Your thoughts on this issue are appreciated.

Sincerely,



William P. Clark

Mr. Robert E. Kirby
Chairman
Westinghouse Electric Corporation
Gateway Center
Pittsburgh, Pennsylvania 15222

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Westinghouse
Electric Corporation

Robert E Kirby
Chairman

Westinghouse Building
Gateway Center
Pittsburgh Pennsylvania 15222

8232286

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October 15, 1982

The Honorable
William P. Clark
Assistant to the President
for National Security Affairs
Washington, D. C. 20506

Dear Judge Clark:

You know I would only interrupt your busy duties with a matter of great importance. The need for a complete and timely reexamination of our nuclear power relationship with the People's Republic of China fits that bill.

China will shortly choose its suppliers for its nuclear power program. Its first choice for building two large reactors near Hong Kong, to supply power to that city, and to China, is a Westinghouse-United Kingdom team. Apart from that, China has also asked Westinghouse to provide components and advice in development of its indigenous nuclear reactor. As things now stand, we are not authorized to participate in either project, and the work will be done by other countries.

In our relationships with the world's most populous nation--also a nuclear weapons state--it would seem that a commercial nuclear agreement should have a high priority. From the viewpoint of the economies of the United States and Great Britain, commercial nuclear exports could be a real shot in the arm.

At stake are jobs, and several billion dollars in exports, in an American industry that has had many cancellations and no new reactor orders in four years. In the electrical equipment sector, this is also the case for non-nuclear equipment.

As of today, we are not allowed to make nuclear sales to China for these reasons: There is as yet no bilateral nuclear cooperation agreement with that country (a legal requirement); and according to press reports, concerns exist within our Government that China is providing nuclear assistance to certain countries whose motives are at question. Until the concerns are resolved, the U.S. is taking no new initiative to negotiate the essential bilateral agreement.

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Judge Clark
Page 2
October 15, 1982

The U.K., which seems to be well informed, has a different evaluation of China's nuclear export behavior, and the French are eagerly and publicly trying to replace Westinghouse as China's future nuclear supplier. Out of Prime Minister Thatcher's recent trip to China could come a U.K. decision to team up with the French, unless the U.K. soon receives positive U.S. assurance that Westinghouse will be allowed to participate. China has agreed to consider the French alternative if the U.S. says no, or takes too long to decide.

We do not feel that U.S. policy properly takes account of China's status as a nuclear weapons state--a status recognized by our Government in the Non-Proliferation Treaty of 1968. It is obvious that China's commercial nuclear power program is not a nuclear non-proliferation issue. If there are other non-proliferation issues to be discussed with China, surely the U.S. will have more influence on China's policies if we, rather than others, become China's partner in nuclear energy. How can the U.S. accomplish its non-proliferation objectives if we refuse to cooperate with China in a peaceful energy program--a program which is going to take place regardless of our actions?

We would deeply appreciate a fresh analysis of the facts followed by a high-level policy review of this entire matter. We realize that sensitive foreign policy issues are concerned here and that the matter is delicate.

Sincerely

RE Kirby

P.S. I am taking the liberty of sending a copy of this letter to Ed Meese since, in the past, I have spoken to him about export financing which would also be needed for a sale to China.

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Suggested Reply to R.E.Kirby, Chairman of Westinghouse

Dear Mr. Kirby,

Thank you for your letter of October 15 about the prospects for entering into a nuclear power relationship with China.

Over the past months, we have examined carefully the possible benefits, both political and commercial, which could flow from the construction of Chinese nuclear power plants by U.S. firms. While we in general encourage participation by U.S. firms in Chinese economic development, we unfortunately cannot give the go ahead at this time for U.S. participation in the Guangdong project.

As you know, there are a number of legal and policy issues that must be resolved before we can enter into a nuclear relationship with China which would permit our companies to supply nuclear reactors, equipment, fuel, and technology. Under these circumstances, we also are unable to approve the export of U.S. technology under license from U.S. firms by other countries.

Mr. Robert E. Kirby,
Chairman,
Westinghouse Electric Corporation,
Gateway Center,
Pittsburgh, Pennsylvania.

N47-9-19-82

U.S. IS HOLDING UP PEKING ATOM TALKS

China's Reluctance to Accept Checks on Nuclear Exports Viewed as an Obstacle

By JUDITH MILLER

Special to The New York Times

WASHINGTON, Sept. 18 — The United States is holding up a nuclear cooperation agreement with China because of suspicions that the Chinese are giving nuclear aid to Pakistan and other nations thought to be developing nuclear weapons, according to Government and industry officials.

The Government officials said they were disturbed by intelligence reports suggesting that China had helped Pakistan in trying to develop a capacity to enrich uranium for weapon use.

The officials said China was also believed to have sold low-enriched uranium to South Africa through private parties. They said Chinese sales of heavy water, required for reactors that use natural uranium, were believed to have been made to Argentina and possibly India.

Under a four-year-old United States law, none of these countries are permitted to purchase nuclear fuel and technology from the United States because they have refused to submit all their nuclear plants to international inspection or to sign the 1968 treaty to prevent the spread of nuclear weapons.

Talks Began in June

The start of United States talks with China on a nuclear accord was disclosed in June by Walter J. Stoessel Jr., then the Deputy Secretary of State, in a speech to the National Council on United States-China Trade. Such an accord is needed before American companies can sell nuclear technology to China.

State Department and company officials said the talks had been hampered by China's refusal to sign the treaty banning the spread of nuclear weapons or to join the International Atomic Energy Agency and abide by its inspection system or safeguards. The United States wants China to permit inspection to demonstrate that any help is being used strictly for power generation.

Moreover, the United States wants China to impose safeguards on its nuclear exports, especially to countries suspected of developing nuclear weapons, to insure that the equipment and material is used for purely peaceful purposes.

tion that it wants to play by the rules of the nuclear club," an American official said. "This poses a very sticky challenge for the international effort to curb the spread of atomic weapons."

Walters Sought Assurances

Vernon A. Walters, Ambassador at Large, visited Chinese officials in August, seeking assurances they would place safeguards on nuclear exports. He did not succeed, officials said.

China has no nuclear power reactors, but is thinking of starting a program for which it would need Western technology and equipment.

The most important project being considered is the construction of two 900-megawatt pressurized water reactors in Guangdong Province. The Chinese would like to sell some of the power produced to neighboring Hong Kong.

American company officials said China had already approached Britain about supplying the reactors and related technology. But the Chinese, officials said, have told the United States that they are interested in American technology. American companies estimate that hundreds of millions of dollars of exports could be at stake.

In addition, the Chinese are contemplating building a 300-megawatt station in Shanghai using their own technology, officials said.

Suspicious Disclosed in August

"Suspicious about Chinese aid to Pakistan were disclosed last month by James L. Malone, Assistant Secretary of State for Oceans and International Environmental and Scientific Affairs. In an interview published Aug. 19 he told Nucleonics Week, a trade newsletter, that China refused to accept international safeguards.

Mr. Malone added that another complicating problem was China's relationship with Pakistan. He declined to specify what kind of assistance China was providing to Pakistan. But he said that it was likely that Chinese low-enriched uranium had ended up in South Africa and heavy water in Argentina.

China has denied providing fuel to South Africa. But Mr. Malone raised the possibility that China might have been deceived by private dealers about which nation would ultimately be receiving the nuclear material.

Other Aides Doubt Deception

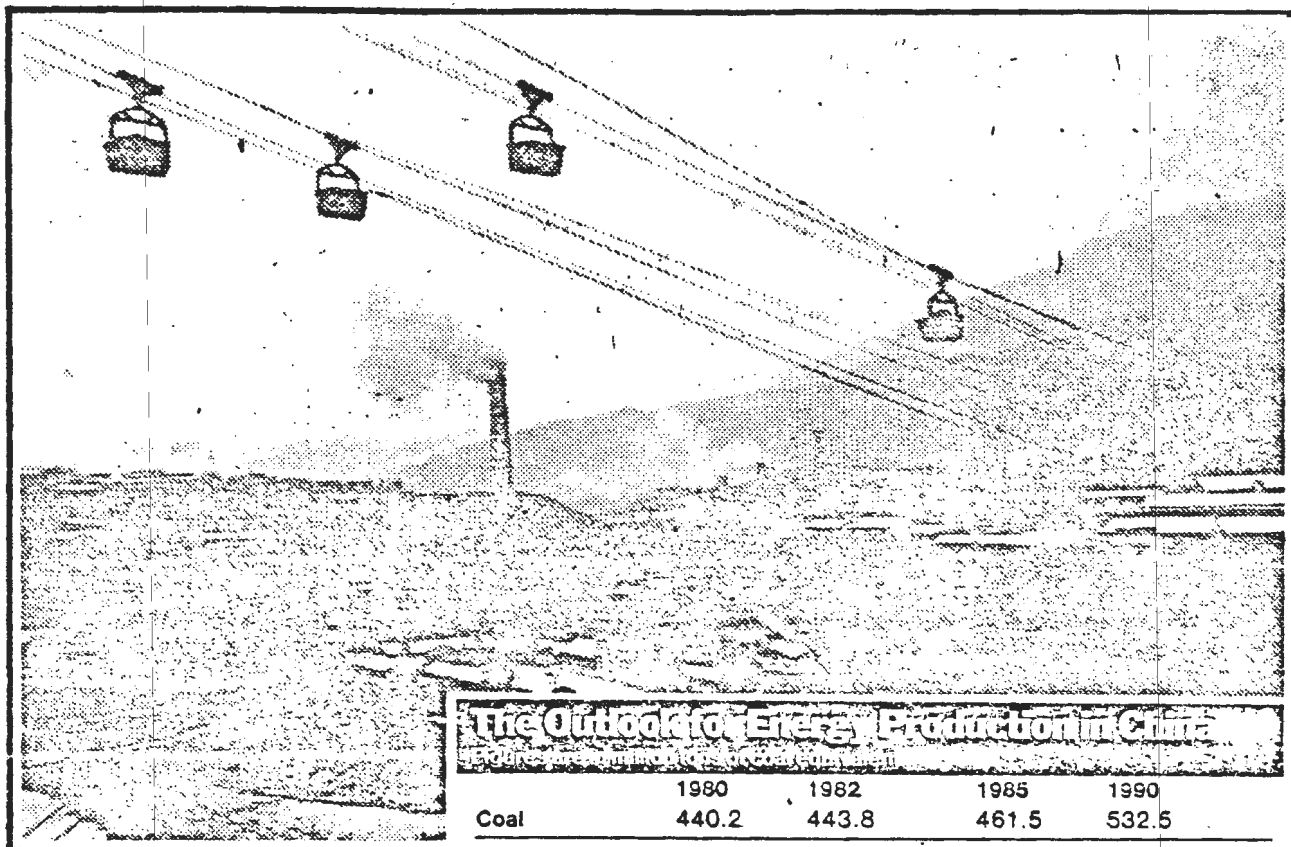
Some officials do not share Mr. Malone's view that China was being deceived by private brokers about the ultimate recipient of its nuclear exports. They noted that China faced a long-term shortage of hard currency, which could spur a drive to increase exports, including nuclear fuel and technology.

Other officials said there was evidence that China's aid to Pakistan was related to uranium enrichment efforts for use in weapons. Pakistan has been attempting to develop its own ability to produce highly enriched uranium as a fuel for research reactors that can also be converted for use in weapons.

The United States has a \$3.2 billion security assistance program, intended, in part, to dissuade Pakistan from developing a nuclear weapons program or testing a nuclear device.

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China Energy: Chance for U.S.



The Outlook for Energy Production in China

	1980	1982	1985	1990
Coal	440.2	443.8	461.5	532.5
Oil	151.5	143.0	135.9	150.2
Hydropower	24.0	27.9	32.0	41.2
Gas	19.0	16.0	17.3	18.6
Total	634.7	630.6	646.6	742.5

Source: American Chamber of Commerce, Hong Kong

United Press International

By CHRISTOPHER S. WREN

Special to The New York Times

PEKING, Oct. 13 — China's plans to double its energy output by the end of the century to sustain its modernization drive provide the most substantial potential here yet for American business.

Ventures in oil, coal and hydropower are moving American investment into a new phase that could provide a substantial base not just for bilateral trade, but also for the broader Chinese-American relationship, which has been buffeted by disagreements over the status of Taiwan.

While Peking has shifted politically toward a position of equidistance between Washington and Moscow, it continues to look to the United States for technology that the Soviet Union does not have. Last year, China's trade with the United States ran \$5.5 billion, about 25 times larger than China's trade with the Soviet Union.

"There will be a big takeoff in Sino-U.S. economic and trade relations until the end of the century," pre-

A 1978 picture of Paoting Coal Mines in Sichuan Province, one of the richest mining areas in China.

dicted Eugene K. Lawson, Deputy Assistant Secretary of Commerce for East Asia and the Pacific, after recent meetings here with Chinese officials. "It's long-term and big bucks. It will supply the cement and glue of the relationship."

Insufficient energy has hampered China's industrialization. Factories operated at only 70 percent to 80 percent of capacity in 1980 for lack of power. Energy has also been wasted or lost in inefficient furnaces. Recent conservation measures have trimmed national consumption slightly, saving 910,000 tons of coal in the first eight months of this year.

"Energy shortage and the strain on

transport are major checks on China's economic development at present," said China's party chief, Hu Yaobang, in a major report to the 12th party congress last month. "Growth in energy has slowed somewhat in the past few years, while waste remains extremely serious."

Mr. Hu called for "necessary capital construction projects" in energy and other fields to help China achieve its goal of quadrupling its gross domestic product by 2000.

A deputy minister of the state planning commission, Fang Weizhong, said in an interview last month that

Continued on Page D17

China Energy: Chance for U.S.

Continued From First Business Page

China planned to double its energy output by 2000. He mentioned preparations under way to expand coal mines, step up oil exploration and develop latent hydropower in the upper reaches and tributaries of the Yellow, Yangtze and Hongshui rivers.

The Workers Daily has reported that China's power industry met its third-quarter target, producing 239 billion kilowatt-hours this year by Sept. 28, despite a shortage of fuel. But Li E'ding, a chief engineer for the Ministry of Water Conservancy and Power, told a conference last month that the output of electricity must increase by more than 10 billion kilowatts a year; the current rise is only 2 billion.

Three major areas of energy development have attracted significant American interest.

OIL. Although China is ranked about seventh in worldwide oil output, onshore production has stagnated at just over 100 million tons a year, down from a peak of 106 million in 1979. Water flooding is now used in 93 percent of China's onshore wells to maintain pressure.

The biggest potential reservoirs lie along the continental shelf, especially in the southern Yellow Sea and the South China Sea. Paul Ravessies, president of Atlantic Richfield's international oil and gas company, has described it as "the longest unexplored virgin coastline in the world."

Last month, Arco became the first American oil company to be awarded drilling rights in Chinese waters, in a joint venture with Santa Fe International. Another 16 American oil concerns are among the 33 companies that have submitted 102 proposals to drill offshore. The companies have already invested about \$200 million in

seismic surveys.

"Offshore oil is the cutting edge of Sino-U.S. relations for the rest of this century," Mr. Lawson of the Commerce Department said. "Any time oilmen put iron in the water, they're talking about a long-term operation."

Chinese geologists are also embarking on a survey of potential oil-bearing basins in western China, which could provide much of the country's onshore oil, according to Huang Jiqing, president of China's geological society.

COAL. China has the world's third-largest coal reserves, after the United States and the Soviet Union. Coal accounts for more than half of the fuel for the country's power plants, and this proportion is growing as China diverts more petroleum for export.

To achieve its target of doubling coal output, now 620 million tons a year, the Ministry of Coal plans to set up major mining centers with power plants nearby, while encouraging energy-short areas to develop small coal mines.

Last March, the Occidental Petroleum Corporation won the right to undertake a feasibility study of a vast open-pit coal mine at Pingsuo in Shanxi Province. The mine, potentially the largest in the world, would produce 15 million tons of coal a year in its first phase, eventually tripling that amount. Occidental expects to be awarded the contract for the mine, whose profits could reach \$500 million annually.

China's total coal reserves are believed to exceed 600 billion tons. Some coal from Pingsuo would be exported to Japan for hard currency.

HYDROPOWER. China has the largest untapped water power in the world. Last month, Mr. Lawson signed a protocol with China that would involve American specialists in the development of hydropower in the

Tianshenqiao Basin of southern China.

The United States has given China a \$400,000 grant to hire an American engineering concern to carry out a feasibility study for two major dams, 190 feet high and 590 feet high, respectively, that could produce 2.8 million kilowatts. They are among 10 dams to be built along the Hongshui in the Guangxi Autonomous Region.

The two dams, which would be far upstream in the rocky gorges of the Hongshui, would cost about \$1.6 billion. The cost of the entire project could run \$7 billion. China is talking to the World Bank about major loans.

Mr. Lawson said the United States would enjoy a technological edge over other countries in supplying products and expertise in all three energy fields. Such major projects could also offer a market for other American exports like earthmoving equipment.

Mr. Lawson observed that China enjoyed an overall trade surplus of nearly \$4 billion last year. "The Chinese can pay for anything they put their mind to pay for," he said. "It just so happens that in these three areas, we have the best technology."

The Government also wants to develop nuclear power. Construction is starting near Shanghai on a 600,000-kilowatt nuclear power station. China plans to build a much larger nuclear facility in southeastern Guangdong Province, with a capacity of 1.8 million kilowatts.

Negotiations on an agreement that would let China buy advanced American nuclear technology are stalled because Washington suspects that Peking is providing nuclear assistance to Pakistan and other countries believed to be developing atomic weapons. China has refused to sign the nuclear nonproliferation treaty.

NYT 2, 1982

U.S. and China Discussing Export Of Nuclear Technology to Peking

By BERNARD GWERTZMAN

Special to The New York Times

WASHINGTON, June 1 — The Reagan Administration said today that it had begun talks with China on the possibility of an agreement on nuclear cooperation that would enable American companies to help develop China's nuclear power industry.

Deputy Secretary of State Walter J. Stoessel Jr. made the disclosure in a policy speech on China in which he said that President Reagan valued United States relations with China "highly" and "believes it is important to work together to expand the benefits to both countries."

Contending that too much attention had been paid to Washington-Peking differences over Taiwan, Mr. Stoessel also revealed that in a recent directive Mr. Reagan reaffirmed a policy of "substantial liberalization" in the export of technology to China.

Mr. Reagan, according to Mr. Stoessel, declared that American export policy "should support a secure, friendly and modernizing China."

On nuclear policy, Mr. Stoessel said the United States had been "conducting discussions with the Chinese on the possibility of an agreement for peaceful nuclear cooperation, which would enable us to compete commercially in the development of China's nuclear power program."

State Department officials said that discussions on a possible agreement had been held privately with Chinese officials and have up to now been hampered by China's refusal to sign the treaty banning the proliferation of nuclear weapons or to join the International Atomic Energy Agency and abide by its safeguards. China already has nuclear weapons, but the Administration is insisting that China allow inspection to demonstrate that any help from the United States be used strictly for nuclear power.

China has no atomic power reactors, State Department officials said, but has indicated that it was thinking of start-

Continued on Page A7, Column 1

ing a program for which it would need to import Western technology and equipment.

The Chinese, officials said, have told the United States that they were interested in American technology and American companies have estimated that hundreds of millions of dollars of exports could be at stake.

The most important project under consideration is for the construction of two 900 megawatt pressurized water reactors in Guangdong Province, which borders Hong Kong. The Chinese would like to sell some of the power produced to Hong Kong to gain foreign currency to offset imports.

In addition, the Chinese are contemplating building a smaller 300 megawatt station in Shanghai using its own technology, the officials said.

Re-export Not Allowed

The most extensive talks with the Chinese were held last fall, officials said today, when James L. Malone, Assistant Secretary of State for Oceans and International Environmental and Scientific Affairs, made an unpublished trip to China. The Chinese were told that they must provide assurances on the peaceful use of the nuclear technology and the nuclear fuel that might be provided and guarantees against re-export.

The Chinese have told the Americans that they would only use such technology for power, but they have problems with allowing international inspection. They have also steadfastly refused to sign the treaty banning proliferation of nuclear weapons that was negotiated by the United States, Britain and the Soviet Union in the early 1960's and which the Chinese viewed as an attempt to block China from having its own nuclear weapons.

Officials here said that the United States is searching for a way to make it easier for the Chinese to provide assurances, but that an additional round of high-level talks is probably needed.

In his speech to the National Council on United States-China Trade, Mr. Stoessel said that "a strong United States-China relationship is one of the highest goals of President Reagan's foreign policy."

Arms Sales to Taiwan

As to the problems raised by Peking's strong objections to continued American military sales to Taiwan, Mr. Stoessel said that "so long as both sides demonstrate the statesmanship, vision, and good will that have characterized our relationship, we will be able to overcome our difficulties."

"Indeed, anything other than a successful outcome would be a great misfortune for both sides," he said. "The only beneficiary would be our common adversaries."

He said that public attention to the Taiwan issue "has tended to obscure the continuing progress which this Administration has made in carrying out important China policy initiatives."

The Administration has already issued regulations that generally treat China as a friendly nation, no longer bound by the controls on exports to the Soviet Union and other Communist nations. It is seeking legislation that would lift laws barring China from foreign aid and food for peace, and from the sale to this country of certain types of furs.

IRAN-IRAQ

Why foreign business stays where bullets fly

Iran's new attack against Iraq, with the avowed aim of overthrowing the Ba'athist government of Saddam Hussein, is giving European and Japanese companies an acute case of war jitters. They fear that billions of dollars of work in progress and lucrative future orders will be in jeopardy if they push the panic button too soon and pull workers out of the Persian Gulf nations.

Although one Italian oil executive shrugs off the uneasy mood—"We are veterans of Middle East turbulence," he says—others who are pressing ahead with work are far more concerned. "We are not alarmist, but it will be a catastrophe if the war spreads," says an official at the Pont-à-Mousson division of France's Saint-Gobain group, which is midway through a \$660 million renovation of Baghdad's water supply system.

the region worry that the Iran-Iraq conflict will spill over into neighboring Kuwait or Saudi Arabia, or become enmeshed with the fight in Lebanon.

High insurance. The vulnerable tankers heading for the giant Iranian oil-export terminal on the island of Kharg were among the first indirect victims of the new Persian Gulf hostilities. Lloyd's of London underwriters rapidly doubled insurance rates to 1% of hull values for tankers nearing the terminal. The Japanese shipowners' labor-relations agency banned all vessels flying the Japanese flag or staffed by nationals from approaching the island. But 450 Japanese working for companies such as Chiyoda Chemical Engineering & Construction Co. and Toyo Engineering Corp. ignored their embassy's advice to evacuate the area around Iraq's Basra oil complex.

200,000 bbl. a day from Iran, are not too unhappy with the uncertainty. They may find the dip in Iranian supply a convenient way to deal with a 7% cut in output from hard-pressed domestic refineries mandated by the Japanese government. "This brought the situation back to what it should be," snaps a corporate planner at one of the Japanese oil companies. In fact, 9 of the 11 businesses are trading companies. They are thought to have planned to resell the Iranian oil in the Mideast below cost, as part of a strategy to win Iranian orders for reconstruction of the war-shattered areas. ■

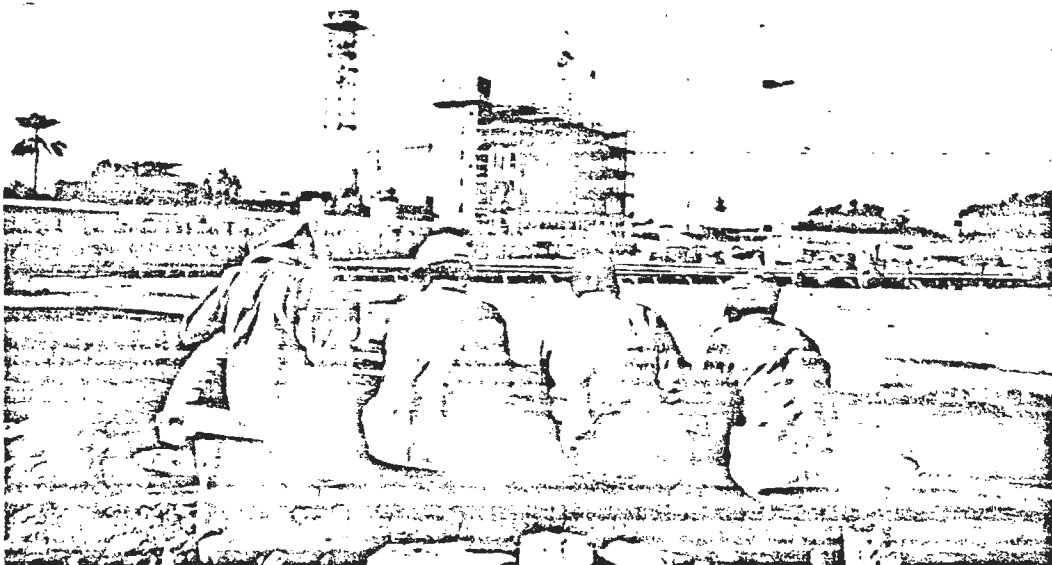
CHINA

Tougher dealing over U. S. nuclear sales

An ambitious effort to sell American nuclear equipment and technology to China has put the U. S. on a tightrope between Beijing and Taipei. Washington is still likely to offer nuclear sales to the People's Republic of China but only if China will accept terms guarding U. S. equipment from diversion to military uses or third countries. And any compromise is likely to be rejected now by China's leaders, aroused by the resurgence of pro-Taiwan sentiment in Washington that accompanied the resignation of Secretary of State Alexander M. Haig Jr.

A high-level interagency group has been working on a formula for export controls and safeguards the U. S. government would require of the Chinese in order for American companies to sell technology and equipment for nuclear power stations to China. These must be formalized in an "agreement of cooperation" with China before exports may begin. But, in view of Washington's apparent intentions to continue sales of fighter jets to Taiwan, Chinese hardliners are unlikely to meet the U. S. halfway by, for example, allowing an international body to inspect nuclear sites where American equipment is used.

Company bids. According to a Hong Kong publication with close ties to Beijing, *Economic Reporter*, "informed sources" expect a decision soon on China's first nuclear power plants. Chinese leaders have blown alternately hot and cold on nuclear power since 1978, when discussions began with French, British, U. S., and Canadian companies on pressurized water reactor (PWR) technology



In Baghdad, a French company is midway through a \$660 million water system renovation.

Persian Gulf diplomatic sources believe the two-year-old conflict will not end soon. The marshy terrain around Basra, the center of the current fighting, makes quick victories hard to attain. And ideological fervor on both sides is sharp. This means that companies such as Italy's Snam Progetti, which nearly completed a refinery in the Iraqi city of Basra before war broke out, will have to wait still longer to get the work done. But most companies cannot fully assess the conflicting reports from the warring nations, and those that are operating in

The recession-battered oil market dismissed the risk of a severely curtailed Iranian oil flow. The Paris-based International Energy Agency estimated that Iran is still exporting 1.2 million to 1.4 million bbl. per day, and Iraq 600,000 bbl. daily. And the fighting only prompted a restoration of the \$1 per bbl. that was cut from spot crude-oil prices in July when OPEC failed to agree on production curbs.

In the short run, at least, some companies, among them 11 Japanese businesses that recently signed up to take

for two 900-Mw stations in Guangdong Province. The PWR stations would be located on a bay just north of Hong Kong, where revenues from power service to the British colony could help defray a price tag of \$1 billion per reactor.

Little has been heard from the Chinese on the Guangdong project since late 1980. But in a sign of renewed interest, the Chinese interrupted the formal agenda of talks with Assistant Secretary of Commerce Raymond J. Waldmann, visiting Beijing in June, to raise the subject of U.S. company bids on nuclear projects.

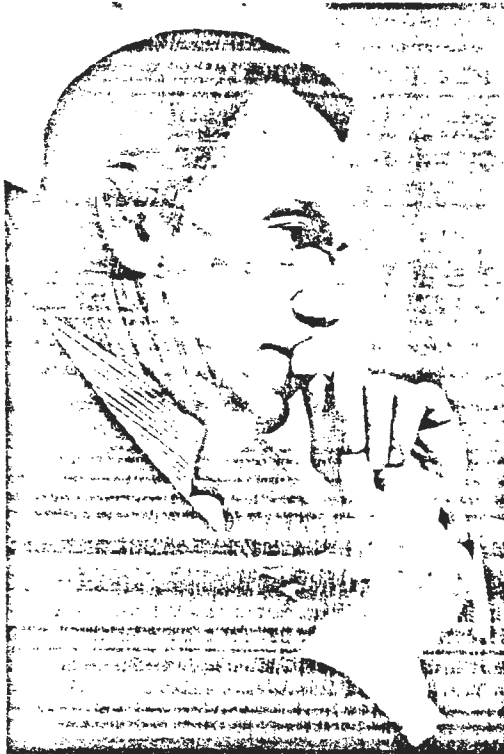
Westinghouse Electric Corp., the U.S. supplier of PWR technology, and its British licensee, National Nuclear Corp., are already seeking export authorization from the State Dept. for the Guangdong stations. Says National Nuclear Managing Director Norman L. Franklin: "I think there is real evidence of genuine interest in getting a bid from us... and if the terms are right, in accepting it." Borg-Warner Corp.'s Los Angeles-based Byron Jackson Pump Div. has applied to the U.S. Nuclear Regulatory Commission for export licenses to ship two coolant pumps for a 300-Mw reactor that the Chinese plan to build, using mainly indigenous technology in Shanghai.

Administration officials face a dilemma. A declaration backing nuclear exports to China might soothe Beijing's nerves and rouse enthusiasm in the U.S. industry, hard hit by a world downturn in new plant orders. But if the White House and State Dept. decide against allowing nuclear exports to China, U.S. companies that have granted licenses to foreign manufacturers could find themselves in a dispute similar to the feud over use of American technology in the construction of the Soviet gas pipeline to Western Europe. If President Reagan comes down against the exports, he could end up pushing American allies onto Beijing's side of the fence. ■

FRANCE

The chemical burden Elf refuses to shoulder

Opposition by the head of one of France's state-controlled oil companies is threatening to scuttle the Mitterrand government's plan to restructure the ailing French chemical industry. Only days



Elf's Chalandon will not back a chemical industry reorganization without a new oil-pricing formula.

after Jean-Pierre Chevènement took over as Industry Minister, Elf Aquitaine President Albin Chalandon said that he would not "put our company and its personnel in peril by assuming a capital risk" in an industry that in 1981 lost \$670 million on sales of \$13 billion.

Elf, which earned \$647.8 million on sales of \$18.3 billion last year and has a reputation for profitability and good management, would become the leader in French petrochemicals under the Industry Ministry plan. It would take control of Produits Chimiques Ugine Kuhlmann (PCUK), and of Ato Chimie and Chloe Chimie, chemical and plastic producers now owned jointly by Elf and Compagnie Française des Pétroles (CFP), another state-owned oil company.

Reluctance. Chalandon, whose company already spends \$73 million a year on chemicals, had previously indicated a willingness to double its outlays. But he now says that, faced with monthly losses of \$5.8 million on refining, he will not jeopardize the company's primary business by investing more in chemicals.

His reluctance to contribute capital is not the only hitch. CFP Chairman René Granier de Liliac insists that CFP will not remain in Ato or Chloe as a minority partner. CFP's share in the two joint ventures, according to de Liliac, is worth

\$406 million, and he wants to sell out. Chloe lost \$53.6 million last year; Ato lost \$18.8 million in 1981.

The chemical reorganization plan—drawn up by Chevènement's predecessor, Pierre Dreyfus—aims to limit overcapacity in fertilizers and plastics. At the same time, the plan will try to move the industry toward production of fine chemicals and high-value products. But while French chemical makers are paying world-market prices for such imported feedstocks as naphtha, the prices they can charge on the domestic market remain frozen. Chalandon now is threatening to withhold support for the reorganization scheme unless Chevènement permits him to use a new oil-pricing formula, now partially blocked by France's price freeze.

Even if Chevènement can find a way to finance a new lineup in petrochemicals, he still faces problems from Elf's management. Chalandon has said repeatedly that he expects the government to shoulder the social costs of any effort by Elf to rebuild a sector he describes as plagued with overcapacity, debt, and inefficient plants. And as a result of the squabble, current restructuring plans are being shelved. "Everything is on hold," says an executive of one of the nationalized chemical companies. ■

AFRICA

A Franco-American tug-of-war over trade

Inroads by U.S. companies in the lucrative oil, construction, and banking industries have shattered French complacency in the francophone West African countries of Cameroon, Gabon, and the Ivory Coast, once France's *chasse gardée*, or private preserve. But with a well-coordinated effort by government, banking, and business, the French are now mobilizing to stem further competition in their former colonies.

In an opening sally earlier this year, France's Technip—armed with \$800 million in financing packaged by the government in Paris—bested Air Products & Chemicals Inc., of Allentown, Pa., in a contract-bidding war to supply process equipment for a \$2 billion liquefied natural gas (LNG) project in Cameroon (BW—

AUG 22, 1982

83 "FRANCE HOPES TO SELL WESTINGHOUSE PWR TO CHINA." 08-22-82 (24)
upi 08-22-82 08:40 (24 LINES)

PEKING (UPI) A French delegation left Peking Sunday after concluding talks on supplying reactors for China's first nuclear power station.

A French Embassy spokesman said the six-member delegation held three days of talks with Chinese officials to examine "all questions relating to construction of a nuclear center with two units of 900 megawatts each in Guangdong province."

China has been shopping for two pressurized water reactors for its premier nuclear power station in Guangdong province near Canton, a southern coastal city 75 miles north of Hong Kong.

Westinghouse produces the reactors that China seeks, but American companies are barred from selling nuclear materials to Peking because China has not signed the Nuclear non-proliferation Treaty.

Framatome, a French company, produces pressurized water reactors under license from Westinghouse.

The company received State Department approval several years ago to sell the reactors to the Chinese, who were then planning to build the power station in Shanghai.

The site was shifted to Canton in part so that some of the electricity could be supplied to Hong Kong, earning China coveted foreign exchange.

Chinese Announcement of Nuclear Plant On Hong Kong Border Creates Confusion

By LYNNE CURRY

Journal of Commerce Special

HONG KONG — Confusion surrounds a recent Chinese announcement that Peking has approved a decision to build a joint venture nuclear power plant with China Light and Power Co. of Hong Kong.

Guangdong Provincial Governor Liu Tianfu told Hong Kong governor, Sir Edward Youde, in Canton that the central Chinese government has given permission to build a nuclear power plant in Shenzhen, the municipality which borders Hong Kong. Under the proposed plan, Guangdong Electric Co. and China Light would jointly construct and operate the plant.

However, China Light and the Hong Kong government have both said they had received no official notification that the project would go ahead.

"The project was approved in principle months ago," said Dean Barrett, general manager of China Light, adding that "we are waiting to start negotiations for the whole package."

A Hong Kong government official said the government had no knowledge that Peking had approved the project.

Sir Edward was in Canton as part of a two-day visit to Guangdong province.

The visit followed a dramatic

slump in the Hong Kong stock market sparked primarily by anxiety about Hong Kong's future. Britain's colonial lease expires in 1997 and Prime Minister Margaret Thatcher is due in Peking next month where she is expected to raise the issue of the territory's position.

In light of this there was speculation that the Chinese announcement was a reassuring gesture toward Hong Kong on the part of the Peking government.

The plant would have two 900-megawatt pressurized water-type reactors. It would be located about 50 kilometers northeast of Hong Kong's border in eastern Shenzhen, outside Shenzhen special economic zone. China Light estimates the cost will be approximately \$5 billion.

Power from the plant would be shared by both Guangdong and Hong Kong. According to a feasibility study, Hong Kong consumers would pay for their 60 percent share of the electricity. The Chinese would finance the remaining 40 percent of power generated primarily through international loans. Mr. Barrett said.

China Light already supplies 3 to 4 percent of its power to Guangdong province.

China Light's power plants are owned by associate companies that are joint ventures between China Light and Eastern Energy Ltd., a

subsidiary of Esso Eastern Inc. China Light owns 40 percent of each company and Eastern owns 60 percent. Exxon Corp. of the United States owns Eastern.

Mr. Barrett said the Chinese will decide on the supplier. The French company, Framatome, was being considered. American suppliers cannot be considered because of the nuclear non-proliferation treaty prohibiting U.S. companies from selling nuclear plants directly to countries that do not allow international inspection of nuclear safeguards.

However, Mr. Barrett pointed out that Framatome's equipment is designed under license from Westinghouse of the United States.

Mr. Barrett stressed that China Light has told the Chinese that the plant must conform to the highest international safety standards. There were reports last year that the site for the plant was located on a fault but Mr. Barrett emphasized that it is not situated in an earthquake belt. "China Light has double and triple checked," he said.

The plant is expected to be in operation by 1990. Under the terms of the feasibility study completed in 1980, Guangdong Electric and China Light would jointly operate the plant until 2009, 12 years after Britain's lease on Hong Kong expires and the territory reverts to China.

US Companies in Race For PRC Nuclear Sales as Washington Reviews Rules



BC continues its close monitoring of the Chinese decision – expected imminently – to go ahead with the building of nuclear power reactors (BC '82 p. 77) with news below of US companies' increasing participation in discussions of such sales. US firms' activities are against a backdrop of US-PRC talks aimed at getting around US government obstacles to nuclear sales.

US companies that had all but given up hope of participating in the planned development of China's nuclear power industry are very much back in the game now that the Reagan administration has begun to review rules that prevent the sale of US-manufactured nuclear equipment to China.

One eye on Shanghai . . .

Representatives in Peking of both Westinghouse and General Electric say they are holding discussions with Chinese ministries about possible supplies of equipment for a prototype nuclear power station in Shanghai. Moreover, both US suppliers of nuclear technology are definitely interested in the proposed Guangdong power station project in south China.

Westinghouse's representative in Peking said the Chinese were "requesting information" about components for the primary and secondary systems of the Shanghai prototype. Under US regulations, Westinghouse is able to supply components for the secondary system – described as the "turbine cycle" – but not for the nuclear steam supply system.

US sales of reactors to China are beginning to look like a real possibility as US and Chinese officials undertake negotiations toward overcoming barriers in the way of such sales. These barriers are in a 1978 act of Congress that requires "full-scope safeguards" in countries buying US nuclear know-how.

China is not a signatory to the nuclear non-proliferation treaty – it has had the bomb since the early 1960s – and has made it clear it will not allow inspection of its nuclear facilities on the grounds that such inspection would constitute an infringement of its sovereignty.

Walter Stoessl, the US Deputy Secretary of State, told a June meeting of the National Council for US-China Trade that the US had been conducting "discussions with China on the possibility of an agreement for peaceful nuclear cooperation which would enable the US to compete commercially in the development of China's nuclear power program." US officials in Peking say discussions are continuing.

A General Electric representative said his company had been approached by the Chinese for information about components in the turbine cycle of the Shanghai prototype and discussions were continuing. Foreign executives and

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diplomats in Peking now assume that China is committed to proceeding with the Shanghai reactor which will be built to a Chinese design with the addition of some foreign-supplied components. The prototype will be a 300-megawatt pressurized water reactor (PWR).

According to a scientific expert attached to a Western embassy in Peking, the prototype reactor would be a "stepping stone" on the way to developing a homegrown nuclear industry. He anticipated that China would have to import some foreign technology to complete the project.

According to the Westinghouse executive, what China would be purchasing is not as yet "clearly defined," but it is clear that the Chinese "want to run the show themselves."

... the other on Guangdong

Meanwhile discussions are proceeding on the construction of a nuclear power station in Guangdong involving twin 900-megawatt reactors to supply power to the province and to Hong Kong. A meeting was held earlier this month in Guangzhou between A. G. Manzie, Deputy Secretary of the British Department of Industry representing the British government and Guangdong Vice-Governor Ye Xuanping (叶选平), representing the Chinese government.

Also at the meeting were representatives of PRC central government ministries concerned with the project as well as officials of China Light and Power of Hong Kong and the General Electric Co of the UK, which is interested in supplying components.

According to a representative of one of the organizations taking part in the Guangzhou meeting, the talks have "taken the project a stage further."

A feasibility study, prepared under the supervision of China Light and Power engineers, has been examined by the Chinese government and formed the basis for the Guangzhou discussions. The two sides apparently agreed the project is "viable" and are now deciding whether a financially acceptable arrangement can be worked out among the partners.

Competition from France

Framatome, the French nuclear reactor builder, is considered by some observers to be the leading contender in the race to sell reactors for the Guangdong plant. But the French company can expect spirited competition from US firms if the US government lifts restrictions on sales of nuclear technology to China.

Framatome reactors are built under license from Westinghouse. The PRC's being able to buy a reactor containing US know-how from a non-US firm, but not directly from a US one, is probably an important reason for the review of US policy toward such sales.

Westinghouse's Peking representative said the company would "like very much to be a supplier of nuclear technology for the Guangdong plant." For the past few years, Westinghouse has been supplying published information to the

Chinese for the Guangdong project, it has not been involved in detailed technical discussions on nuclear systems. Westinghouse also has had interchanges with China Light and Power about the Guangdong project.

PRC Countryside Holds Potential for Agriculture Sales



Changes in the organization of Chinese farming and more cash in rural pockets from free-market sales of private-plot produce are leading to the growth of a consumer goods market in the countryside. BC two issues ago ('82 p. 94) discussed those changes and that cash. They should also begin to mean a bigger and more accessible market for firms in agriculture-related industries. BC below continues its close look at what's happening in Chinese agriculture.

As more decisionmaking is put into the hands of households rather than the commune, more sales and more direct marketing opportunities for firms are likely. Getting through to the farmer will be a welcome departure for many companies since, in past years, few of them other than the agricultural machinery salesmen have gotten such access, selling instead to the state's foreign trade corporations.

PRC purchases of agriculture-related goods have been increasing as a percentage of total imports over recent years. Of total Chinese imports in 1979, about 25% were agriculture-related, in 1980 the figure was 32%, and in 1981 it similarly was about a third. Agricultural sales can be expected to continue well into the 1980s. While domestic production of sugar and cotton is increasing, imports of those commodities and of chemical fertilizer

and agricultural machinery will continue to figure prominently.

The PRC spent US\$944 million for wheat alone in 1979 and US\$1.84 billion in 1980. China will continue to buy grain, although the volume of such purchases will vary with foreign exchange constraints, domestic production, and the weather (see box on China's agricultural buying).

The current policy thrust that presses to raise the standard of living and promote exports has clear benefits for agriculture, since it means, for example, government encouragement of crops that vary urban consumers' diets and fuel the textile industry. The farmers will fatten, if at times more through trickle-down rewards than direct ones. Throughout Chinese history, peasants have tended to get the slimmest slice of the economic pie. The situation has not changed all that much in terms of actual budget allocations — after an important spurt in 1978 and 1979 in money set aside in the state budget for agriculture, that budget line then dropped 9% in 1980 and fell 12% more in 1981.

Other benefits from the central government have made a difference. These include higher prices for farm produce paid by the state to the farmers and encouragement of private-plot cultivation and sales of the output from them on free markets. Rural credit is increasing farmers' purchasing power and replacing lagging state support for agriculture, and groups of farmers are getting together and obtaining loans to finance the purchase of machinery for farming and small factories. Loans of Rmb35.28 billion (a 14% increase over 1980) accounted for 54% of rural spending on tools and other supplies in 1981. The Agricultural Bank of China and credit cooperatives reported Rmb24.05 billion in rural savings at the end of 1981.

The bulk of China's peasants will not be rich in the foreseeable future. Clearly, however, there will be more cash in the countryside for purchases to ease and enlarge production.

Opportunities for future sales will crop up in:

- **Agricultural machinery.** Despite a recent slump in agricultural machinery purchases, such buying should pick up in the 1980s as farmers have more money and better access to information about such machinery, especially that which is appropriate for small- to medium-scale farming. While China exported US\$37 million in farm machinery in 1981, domestic production of large tractors fell by 45.9% and output of hand tractors dropped by 9.8%. The large state farms in the northeast that are particularly amenable to large-scale machinery spent substantial amounts on such items in the 1970s. The market there might appear to be on the way to being saturated, but similar sales do continue to be made.

Recent machinery deals include:

- International Harvester's sale of reforestation machinery, i.e. crawlers, loaders, bulldozers, skidders, and US\$7.5 million worth of tractors, combines, tillage tools, and hay machines;

More PRC Agro-facts

- Only about 160 million acres of the country are arable — that is about 10.4% of the total area — but the country's farmers manage to provide nearly 31% of the nation's total industrial and agricultural output (by value). In 1981 agricultural output value was Rmb231.1 billion (Rmb1.9:US\$1) out of a total Rmb749 billion.

- Chinese authorities have targeted a 4% increase in agricultural output value in 1982, and grain production is expected to grow by 2.6%.

- Spurred by higher prices for nonstaple crops, farmers will step up production of dairy products, meat, vegetables, oil, and sugar-bearing crops.

- Acreage sown to cash crops such as tea, tobacco, cotton, and fiber plants expanded dramatically in 1981. Production of these crops will continue to grow to support light industrial manufacturing.

[Answer] [in English] In a number of countries that I visit, there are -- may I call it -- human problems: Internees or problems of visas, permission to leave or to come to a country. I must say that they are particularly few in the case of China, very few indeed, far less than in most countries I have visited in the last two months. In every country where I go, I draw the attention of my hosts to the human problems. I never comment on any of the human problems. Why? Because I hope there can be progress. Otherwise, I would not refer to them. I think the more one talks published about such human problems, the least chances it be solved. [sentence as received] I shall not say anymore about any human problems between China and France.

[Question] Alain Campiotti (24 Hueres de Lausanne). You have referred to the nuclear power program as well as the exchanges between the two countries. Can you say more about this since the first contacts between the two countries appear to have failed?

[Answer] A few years ago China had some sort of nuclear power program, and during official visits made at that time by ministers of the preceding government and the former president of the republic, talks were held between China and France. Since then the policy of readjustment has resulted in a modification of the program. We are therefore now in a new situation where the talks previously held should also be adjusted. A French mission will therefore come here within the next 3 weeks to examine China's present intentions concerning the nuclear power plan and present our possibilities. The industries on the one hand and the government on the other will indicate what can be done. As you can see, this is quite remarkable as far as technology is concerned ~~because we have the most audacious program in the world as far as technology is concerned~~ and because we have the most audacious program in the world as far as nuclear power development is concerned. Of all European countries, France has the greatest number of stations that have been in operation for some time. This, therefore, constitutes a testimonial. Having said this, the material conditions for the realization of the project, the deadlines and financing and so on will be presented to the Chinese, who will freely judge them and compare the offers to be made by our enterprises with those to be made by the enterprises of other countries. There is no doubt that this is very important because this is the beginning of a development which can be very important to China as far as nuclear power production is concerned. We are interested in this development particularly because France -- I would like to remind you -- has the most ambitious program in the world as far as nuclear power production is concerned.

Questions on the Sale of French Arms to China

[Cheysson] It is not usual to discuss issues on arms in public. This said, you must have noticed that the French chief of staff was in China 3 months ago, and I am not betraying any secret by telling you that France has not ruled out any discussion with China, whose defense potential can be strengthened in effect by French arms or Chinese arms based and built with understanding with China if it is China's desire and if we come to agreement. Therefore, it is not a forbidden subject.

It was not a matter of any specific, precise question. Many issues were brought up. Some, those on which the future depends like nuclear power energy, oil, transport and coal, were examined a bit more attentively.

At the same time, we discussed aeronautics and when one says aeronautics, there is the civil aviation. For example, the Dolphin helicopters -- already a helicopter contract has been signed with China with their ultimate production to be in China -- and there are aircraft which also have a military purpose, that is true. We, naturally, stayed within the defensive arms sector. Once again, the subject is not excluded, it was not specifically discussed. Besides I did not meet the Chinese authorities responsible for this sector; I did not have the honor of meeting the minister of defense or officials linked with industries and arms. This did not come under the purview of my visit.

[Question] Alain Campiotti (24 Heures de Lausanne). Can you state the position of France towards Taiwan?

[Answer] France's position has remained unchanged for years. We recognize only the People's Republic of China. We will not change on this subject. There is nothing new. I will even tell you that the subject was not raised during my discussions here.

[Question] [in English] Sunil Roy (PRESS TRUST OF INDIA). During the course of your discussions with the Chinese leaders, has France's aid program to Hanoi come up? If so, what was their reaction?

[Answer] [in English] Every one of us respects the full independence and sovereignty of the other. Therefore, I didn't ask any question on Chinese programs, and no questions were put on any French assistance program in the world. Where we came the closest on this point was when we discussed Kampuchea -- therefore, withdrawal of Vietnamese troops; therefore, relations with Vietnam. As I told you earlier, I explained our position, which is that we want to keep a live wire with the Vietnamese, not only through an embassy in Hanoi, but also through other relations with Hanoi. That was the closest we came to this very point of our assistance program, which, again, was not referred to in any discussion.

[Question] Alain Campiotti (24 Heures de Lausanne). What is the significance of your visit to Seoul within the framework of an eventual recognition of North Korea?

[Answer] Seoul is in Korea as I know -- we are interested in Korea, that is exact. We keep close relations with South Korea and it seems normal to go and discuss Korean problems with the government of Seoul. You will know more when I get there.

PARIS CARRIES CHEYSSON 2 AUG PRESS CONFERENCE

AB061229 Paris Diplomatic Information Service in French 1005 GMT 6 Aug 82

[Second and final part of French Foreign Minister Claude Cheysson's press conference in Beijing on 2 August.

[Text] [Question]: Alain Campiotti (24 Heures de Lausanne). You have talked about the various analyses you examined on some particular points with the Chinese. Did their attitude toward Vietnamese policy form part of these analyses?

[Answer] There were different elements of analysis on this subject. However, there was agreement concerning the objective, and this was the most important thing. If you question a Chinese leader, he will tell you the same thing. The objective is to have all foreign troops depart from Kampuchea. Like France, China or Switzerland, Kampuchea has the right to freely decide its own future. Vietnamese troops must therefore leave Kampuchea. We reached complete agreement on this. All the Kampucheans must be free to choose their destiny without any foreign interference. At the moment, there is foreign interference. This is why France does not recognize, cannot recognize and will not recognize the Khieu Samphan government. This is quite clear. How can one get the Vietnamese to depart? As far as we, the French, are concerned, we think that the plan suggested by the ASEAN countries aimed at ensuring a neutral Kampuchea that is free from foreign troops and chooses its regime and government under international control is a good plan, and we are very close to the ASEAN countries on this point. Here also, there are no differences between China and France. The differences start with the question of the coalition government created a few weeks ago. We in France have very confident and old relations with the two elements of the coalition government -- Norodom Sihanouk, with whom I have already met and with whom I will meet again in a few weeks time, and Son Sann. On the other hand, France rejects the policy conducted by Pol Pot when he was the master of Kampuchea. The French reject all policies of oppression and cruelty toward the people. We reject it in South Africa as well as in many other countries of the world. We reject it in Kampuchea more than anywhere else. What happened when Pol Pot was master of Kampuchea has not been forgotten in France, where it has created a sense of general repugnance. There is not a single Frenchman who would imagine meeting Pol Pot or having a discussion with him. This constitutes a major hindrance for us in our relations with the coalition government. Therefore, we presently recognize no government in Kampuchea and do not at the moment see any possibility of recognizing one.

The second point on which there may be difference between China and France concerns relations with Vietnam. Both France and China have relations with Vietnam and ambassadors in Hanoi. We believe that our relations with Vietnam will perhaps be useful one day. I think that it was good that I should receive the Vietnamese foreign minister in Paris and listen to him. We are not the ones who should decide what should be done. It is the responsibility of the countries in the region, and especially the Southeast Asian countries belonging to the ASEAN, to decide whether the Vietnamese offers are interesting or not. They have not yet accepted these offers. But one day perhaps progress may emerge from any one of these offers with the agreement of the ASEAN countries, and, if this happens, we think that our relations with Vietnam may be useful. Do not forget that we are not a country of the region. We will not under any circumstance interfere in the internal affairs of any country whatsoever. Even from afar, our desire to maintain relations with Vietnam while we are mostly tied to the ASEAN countries is justified.

[Question] [in English]: Wayne Corey (Voice of America). Mr Foreign Minister, do you consider that the controversy surrounding the Li Shuang affair last year is over or is it still affecting relations between France and China?

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DEPARTMENT OF STATE

DOCUMENT DESCRIPTION:

TO: CLARK

SOURCE: KIRBY, R E

DATE: 15 OCT 82

KEYWORDS: CHINA P R

NUCLEAR ENERGY

TECHNOLOGY TRANSFERS EXPORT CONTROLS

SUBJ: WESTINGHOUSE CONCERN RE US POLICY ON EXPORT OF NUCLEAR ENERGY

REQUIRED ACTION: DRAFT REPLY FOR WH SIG

DUE DATE: 27 OCT 82

COMMENTS: *** PLS HONOR SUSPENSE DATE ***


FOR MICHAEL O WHEELER

STAFF SECRETARY

Received in S/S-I
10/31 at 3:41 p.m. (21)

73
-2-

I can assure you that we appreciate the potential benefits of having U.S. firms participate in nuclear power projects in China and have both the legal and policy aspects of the situation under intensive review.

We would hope to find a way to overcome the obstacles and to conclude a nuclear cooperation agreement. However, it is not possible at this time to predict when we might be able to do so.

Sincerely,

William P. Clark

RECEIVED 18 OCT 82 14

TO CLARK

FROM KIRBY, R E

DOCDATE 15 OCT 82

KEYWORDS: CHINA P R

NUCLEAR ENERGY

TECHNOLOGY TRANSFERS

EXPORT CONTROLS

SUBJECT: WESTINGHOUSE CONCERN RE US POLICY ON EXPORT OF NUCLEAR ENERGY
TECHNOLOGY TO CHINA

ACTION: PREPARE REPLY FOR CLARK SIG DUE: 21 OCT 82 STATUS S FILES

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FOR CONCURRENCE

FOR INFO

LAUX

GUHIN

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WEISS

MCGAFFIGAN

BAILEY

ROBINSON

COMMENTS

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ACTION OFFICER (S)	ASSIGNED	ACTION REQUIRED	DUE	COPIES TO
<i>State</i>	<i>10/21</i>	<i>Draft Reply</i>	<i>10/27</i>	
<i>W</i>	<i>12/1</i>	<i>Lead Lindy telegram</i>		<i>None</i>
<i>C</i>	<i>12/8</i>	<i>Clark's letter</i>		

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cc: VP Meese Baker Deaver Other_____

COMMENTS

Prepare reply

10/14

JP:

"Adm" Garrick assumes he is someone special--
perhaps he is--

He handcarried this to me for WC on Friday.
WC did not wish to meet with him.
He did see Ed Meese.

jh

NATIONAL SECURITY COUNCIL

21 Oct

Comm. t. pls ask
State to honor
the case

NSC STAFF

1.

SECRETARY

NSC SECRETARIAT

2.

*Send to State for draft
reply ~~copy~~ by next
Tuesday Wednesday 10/27 9*

BRIAN MERCHANT

3.

C/O SITUATION RM.

*note
action
transferred
to me*

File 10/20

INTERNAL NSC ROUTING

BAILEY	MYER
BLAIR	NAU
BOVERIE	NORTH
CHILDRESS	PIPES
CLARK	POINDEXTER
DEGRAFFENREID	REED
DOBRIANSKY	REGER
FONTAINE	RENTSCHLER
FRENCH	ROBINSON
GOLD	RUSSELL
GREGG	RYE
GUHIN	SAPIA-BOSCH
HELM	SHOEMAKER
KEMP	SIMS
KIMMITT	STEARMAN
KRAEMER	TANTER
LEVINE	TEICHER
LILAC	TYSON
LINHARD	WEISS
LORD	WETTERING
MARTIN	WHEELER
MCFARLANE	<u>Lavx</u>
MCGAFFIGAN	
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PMS THE HONORABLE WILLIAM P CLARK

ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS

WASHINGTON D. C.

THE FOLLOWING ORIGINAL TELEX SENT TO THE HONORABLE WILLIAM P.
CLARK ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS

SELECTING FRANCE AS THEIR SUPPLIER IF THE U.S. WILL NOT GIVE
WESTINGHOUSE APPROVAL TO EXPORT. WE THINK THAT MID-DECEMBER IS THE
ABSOLUTE DEADLINE FOR A DECISION IN PRINCIPLE WHICH MIGHT SAVE THESE
EXPORTS AND JOBS FOR THE UNITED STATES.

I AM SORRY TO ADD THIS REQUEST TO YOUR BUSY AGENDA, BUT
UNFORTUNATELY, THIS TIMING IS NOT OURS TO CONTROL.

R. E. KIRBY WESTINGHOUSE ELEC CORP GATEWAY CENTER PITTSBURGH PA.

1710 EST
NNNN

WASHINGTON D C WITH CC TO RICHARD T KENNEDY UNDER SECRETARY OF STATE
FOR MANAGEMENT WASHINGTON, D. C., MALCOLM W BALDRIGE SECRETARY
OF COMMERCE WASHINGTON D C., AND W. KENNETH DAVIS DEPUTY SECRETARY
OF ENERGY WASHINGTON D C

IN MY LETTER OF OCTOBER 15, I ASKED THAT OUR GOVERNMENT REEXAMINE
OUR NUCLEAR POWER RELATIONSHIP WITH THE PEOPLE'S REPUBLIC OF CHINA,
TO CONSIDER WHETHER WESTINGHOUSE COULD BE AUTHORIZED TO PARTICIPATE
IN EXPORTING NUCLEAR REACTORS AND COMPONENTS TO CHINA.

WE APPRECIATE YOUR PROMPT ACTION IN INITIATING SUCH A POLICY
REVIEW. MAY I NOW URGE THAT IT BE EXPEDITED IN EVERY WAY POSSIBLE.
WE KNOW THAT THE CHINESE AND BRITISH ARE NEARING THE POINT OF

22
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32

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REFERRAL

DATE: 21 OCT 82

MEMORANDUM FOR: STATE SECRETARIAT

DEPARTMENT OF STATE

DOCUMENT DESCRIPTION:

TO: CLARK

SOURCE: KIRBY, R E

DATE: 15 OCT 82

KEYWORDS: CHINA P R

NUCLEAR ENERGY

TECHNOLOGY TRANSFERS EXPORT CONTROLS

SUBJ: WESTINGHOUSE CONCERN RE US POLICY ON EXPORT OF NUCLEAR ENERGY

REQUIRED ACTION: DRAFT REPLY FOR WH SIG

DUE DATE: 27 OCT 82

COMMENTS: *** PLS HONOR SUSPENSE DATE ***


FOR MICHAEL O WHEELER

STAFF SECRETARY

Westinghouse
Electric Corporation

Robert E Kirby
Chairman

Westinghouse Building
Gateway Center
Pittsburgh Pennsylvania 15222

October 15, 1982

The Honorable
William P. Clark
Assistant to the President
for National Security Affairs
Washington, D. C. 20506

Dear Judge Clark:

You know I would only interrupt your busy duties with a matter of great importance. The need for a complete and timely reexamination of our nuclear power relationship with the People's Republic of China fits that bill.

China will shortly choose its suppliers for its nuclear power program. Its first choice for building two large reactors near Hong Kong, to supply power to that city, and to China, is a Westinghouse-United Kingdom team. Apart from that, China has also asked Westinghouse to provide components and advice in development of its indigenous nuclear reactor. As things now stand, we are not authorized to participate in either project, and the work will be done by other countries.

In our relationships with the world's most populous nation--also a nuclear weapons state--it would seem that a commercial nuclear agreement should have a high priority. From the viewpoint of the economies of the United States and Great Britain, commercial nuclear exports could be a real shot in the arm.

At stake are jobs, and several billion dollars in exports, in an American industry that has had many cancellations and no new reactor orders in four years. In the electrical equipment sector, this is also the case for non-nuclear equipment.

As of today, we are not allowed to make nuclear sales to China for these reasons: There is as yet no bilateral nuclear cooperation agreement with that country (a legal requirement); and according to press reports, concerns exist within our Government that China is providing nuclear assistance to certain countries whose motives are at question. Until the concerns are resolved, the U.S. is taking no new initiative to negotiate the essential bilateral agreement.

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Judge Clark
Page 2
October 15, 1982

The U.K., which seems to be well informed, has a different evaluation of China's nuclear export behavior, and the French are eagerly and publicly trying to replace Westinghouse as China's future nuclear supplier. Out of Prime Minister Thatcher's recent trip to China could come a U.K. decision to team up with the French, unless the U.K. soon receives positive U.S. assurance that Westinghouse will be allowed to participate. China has agreed to consider the French alternative if the U.S. says no, or takes too long to decide.

We do not feel that U.S. policy properly takes account of China's status as a nuclear weapons state--a status recognized by our Government in the Non-Proliferation Treaty of 1968. It is obvious that China's commercial nuclear power program is not a nuclear non-proliferation issue. If there are other non-proliferation issues to be discussed with China, surely the U.S. will have more influence on China's policies if we, rather than others, become China's partner in nuclear energy. How can the U.S. accomplish its non-proliferation objectives if we refuse to cooperate with China in a peaceful energy program--a program which is going to take place regardless of our actions?

We would deeply appreciate a fresh analysis of the facts followed by a high-level policy review of this entire matter. We realize that sensitive foreign policy issues are concerned here and that the matter is delicate.

Sincerely

RE Killy

P.S. I am taking the liberty of sending a copy of this letter to Ed Meese since, in the past, I have spoken to him about export financing which would also be needed for a sale to China.

U.S. IS HOLDING UP PEKING ATOM TALKS

China's Reluctance to Accept Checks on Nuclear Exports Viewed as an Obstacle

By JUDITH MILLER

Special to The New York Times

WASHINGTON, Sept. 18 — The United States is holding up a nuclear cooperation agreement with China because of suspicions that the Chinese are giving nuclear aid to Pakistan and other nations thought to be developing nuclear weapons, according to Government and industry officials.

The Government officials said they were disturbed by intelligence reports suggesting that China had helped Pakistan in trying to develop a capacity to enrich uranium for weapon use.

The officials said China was also believed to have sold low-enriched uranium to South Africa through private parties. They said Chinese sales of heavy water, required for reactors that use natural uranium, were believed to have been made to Argentina and possibly India.

Under a four-year-old United States law, none of these countries are permitted to purchase nuclear fuel and technology from the United States because they have refused to submit all their nuclear plants to international inspection or to sign the 1968 treaty to prevent the spread of nuclear weapons.

Talks Began in June

The start of United States talks with China on a nuclear accord was disclosed in June by Walter J. Stoessel Jr., then the Deputy Secretary of State, in a speech to the National Council on United States-China Trade. Such an accord is needed before American companies can sell nuclear technology to China.

State Department and company officials said the talks had been hampered by China's refusal to sign the treaty banning the spread of nuclear weapons or to join the International Atomic Energy Agency and abide by its inspection system or safeguards. The United States wants China to permit inspection to demonstrate that any help is being used strictly for power generation.

Moreover, the United States wants China to impose safeguards on its nuclear exports, especially to countries suspected of developing nuclear weapons, to insure that the equipment and material is used for purely peaceful purposes.

China, this far, gives little indication that it wants to play by the rules of the nuclear club," an American official said. "This poses a very sticky challenge for the international effort to curb the spread of atomic weapons."

Walters Sought Assurances

Vernon A. Walters, Ambassador at Large, visited Chinese officials in August, seeking assurances they would place safeguards on nuclear exports. He did not succeed, officials said.

China has no nuclear power reactors, but is thinking of starting a program for which it would need Western technology and equipment.

The most important project being considered is the construction of two 900-megawatt pressurized water reactors in Guangdong Province. The Chinese would like to sell some of the power produced to neighboring Hong Kong.

American company officials said China had already approached Britain about supplying the reactors and related technology. But the Chinese, officials said, have told the United States that they are interested in American technology. American companies estimate that hundreds of millions of dollars of exports could be at stake.

In addition, the Chinese are contemplating building a 300-megawatt station in Shanghai using their own technology, officials said.

Suspicions Disclosed in August

"Suspicions about Chinese aid to Pakistan were disclosed last month by James L. Malone, Assistant Secretary of State for Oceans and International Environmental and Scientific Affairs. In an interview published Aug. 19 he told Nucleonics Week, a trade newsletter, that China refused to accept international safeguards.

Mr. Malone added that another complicating problem was China's relationship with Pakistan. He declined to specify what kind of assistance China was providing to Pakistan. But he said that it was likely that Chinese low-enriched uranium had ended up in South Africa and heavy water in Argentina.

China has denied providing fuel to South Africa. But Mr. Malone raised the possibility that China might have been deceived by private dealers about which nation would ultimately be receiving the nuclear material.

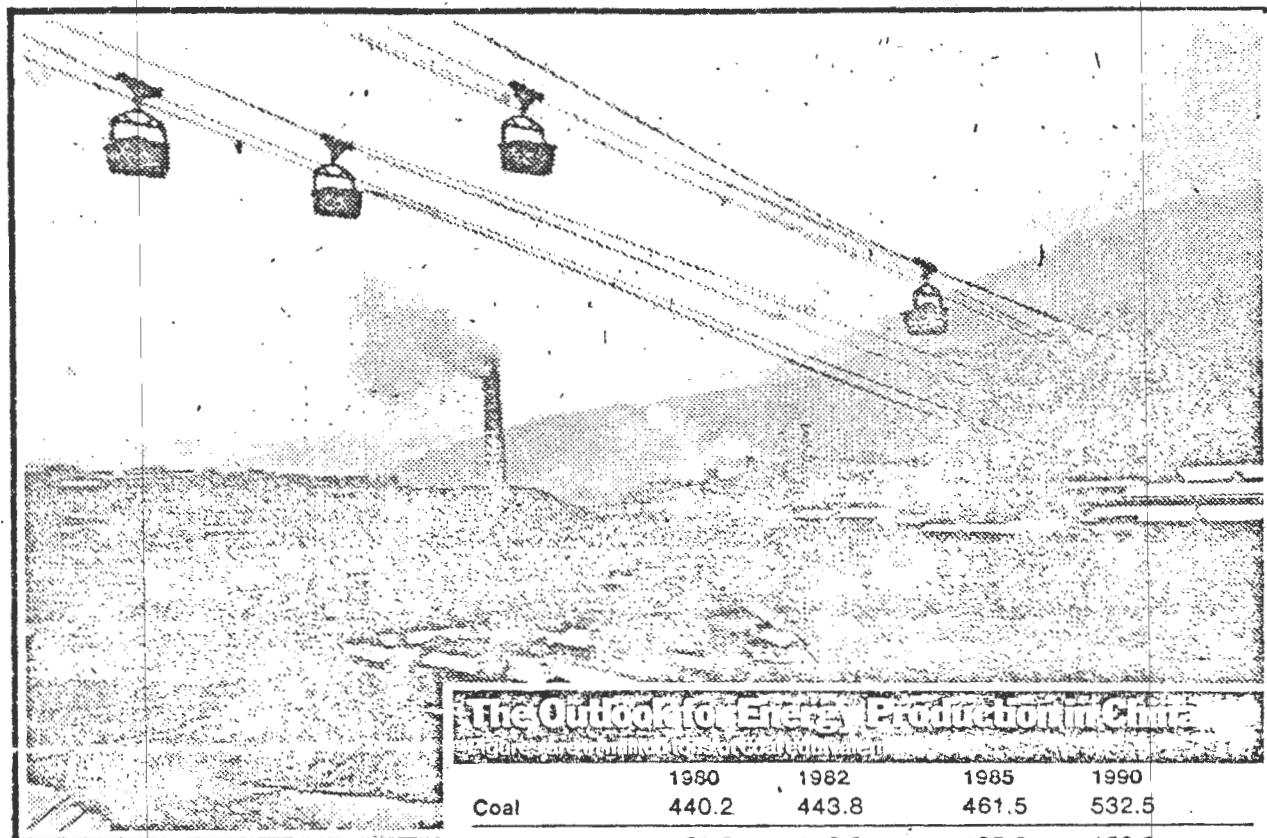
Other Aides Doubt Deception

Some officials do not share Mr. Malone's view that China was being deceived by private brokers about the ultimate recipient of its nuclear exports. They noted that China faced a long-term shortage of hard currency, which could spur a drive to increase exports, including nuclear fuel and technology.

Other officials said there was evidence that China's aid to Pakistan was related to uranium enrichment efforts for use in weapons. Pakistan has been attempting to develop its own ability to produce highly enriched uranium as a fuel for research reactors that can also be converted for use in weapons.

The United States has a \$3.2 billion security assistance program, intended, in part, to dissuade Pakistan from developing a nuclear weapons program or testing a nuclear device.

China Energy: Chance for U.S.



The Outlook for Energy Production in China

	1980	1982	1985	1990
Coal	440.2	443.8	461.5	532.5
Oil	151.5	143.0	135.9	150.2
Hydropower	24.0	27.9	32.0	41.2
Gas	19.0	16.0	17.3	18.6
Total	634.7	630.6	646.6	742.5

Source: American Chamber of Commerce, Hong Kong

United Press International

By CHRISTOPHER S. WREN

Special to The New York Times

PEKING, Oct. 13 — China's plans to double its energy output by the end of the century to sustain its modernization drive provide the most substantial potential here yet for American business.

Ventures in oil, coal and hydropower are moving American investment into a new phase that could provide a substantial base not just for bilateral trade, but also for the broader Chinese-American relationship, which has been buffeted by disagreements over the status of Taiwan.

While Peking has shifted politically toward a position of equidistance between Washington and Moscow, it continues to look to the United States for technology that the Soviet Union does not have. Last year, China's trade with the United States ran \$5.5 billion, about 25 times larger than China's trade with the Soviet Union.

"There will be a big takeoff in Sino-U.S. economic and trade relations until the end of the century," pre-

A 1978 picture of Paoting Coal Mines in Sichuan Province, one of the richest mining areas in China.

dicted Eugene K. Lawson, Deputy Assistant Secretary of Commerce for East Asia and the Pacific, after recent meetings here with Chinese officials. "It's long-term and big bucks. It will supply the cement and glue of the relationship."

Insufficient energy has hampered China's industrialization. Factories operated at only 70 percent to 80 percent of capacity in 1980 for lack of power. Energy has also been wasted or lost in inefficient furnaces. Recent conservation measures have trimmed national consumption slightly, saving 910,000 tons of coal in the first eight months of this year.

"Energy shortage and the strain on

transport are major checks on China's economic development at present," said China's party chief, Hu Yaobang, in a major report to the 12th party congress last month. "Growth in energy has slowed somewhat in the past few years, while waste remains extremely serious."

Mr. Hu called for "necessary capital construction projects" in energy and other fields to help China achieve its goal of quadrupling its gross domestic product by 2000.

A deputy minister of the state planning commission, Fang Weizhong, said in an interview last month that

Continued on Page D17

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China Energy: Chance for U.S.

Continued From First Business Page

China planned to double its energy output by 2000. He mentioned preparations under way to expand coal mines, step up oil exploration and develop latent hydropower in the upper reaches and tributaries of the Yellow, Yangtze and Hongshui rivers.

The Workers Daily has reported that China's power industry met its third-quarter target, producing 239 billion kilowatt-hours this year by Sept. 28, despite a shortage of fuel. But Li E'ding, a chief engineer for the Ministry of Water Conservancy and Power, told a conference last month that the output of electricity must increase by more than 10 billion kilowatts a year; the current rise is only 2 billion.

Three major areas of energy development have attracted significant American interest.

OIL. Although China is ranked about seventh in worldwide oil output, onshore production has stagnated at just over 100 million tons a year, down from a peak of 106 million in 1979. Water flooding is now used in 93 percent of China's onshore wells to maintain pressure.

The biggest potential reservoirs lie along the continental shelf, especially in the southern Yellow Sea and the South China Sea. Paul Ravesties, president of Atlantic Richfield's international oil and gas company, has described it as "the longest unexplored virgin coastline in the world."

Last month, Arco became the first American oil company to be awarded drilling rights in Chinese waters, in a joint venture with Santa Fe International. Another 16 American oil concerns are among the 33 companies that have submitted 102 proposals to drill offshore. The companies have already invested about \$200 million in

seismic surveys.

"Offshore oil is the cutting edge of Sino-U.S. relations for the rest of this century," Mr. Lawson of the Commerce Department said. "Any time oilmen put iron in the water, they're talking about a long-term operation."

Chinese geologists are also embarking on a survey of potential oil-bearing basins in western China, which could provide much of the country's onshore oil, according to Huang Jiqing, president of China's geological society.

COAL. China has the world's third-largest coal reserves, after the United States and the Soviet Union. Coal accounts for more than half of the fuel for the country's power plants, and this proportion is growing as China diverts more petroleum for export.

To achieve its target of doubling coal output, now 620 million tons a year, the Ministry of Coal plans to set up major mining centers with power plants nearby, while encouraging energy-short areas to develop small coal mines.

Last March, the Occidental Petroleum Corporation won the right to undertake a feasibility study of a vast open-pit coal mine at Pingsuo in Shanxi Province. The mine, potentially the largest in the world, would produce 15 million tons of coal a year in its first phase, eventually tripling that amount. Occidental expects to be awarded the contract for the mine, whose profits could reach \$500 million annually.

China's total coal reserves are believed to exceed 600 billion tons. Some coal from Pingsuo would be exported to Japan for hard currency.

HYDROPOWER. China has the largest untapped water power in the world. Last month, Mr. Lawson signed a protocol with China that would involve American specialists in the development of hydropower in the

Tianshenqiao Basin of southern China.

The United States has given China a \$400,000 grant to hire an American engineering concern to carry out a feasibility study for two major dams, 190 feet high and 590 feet high, respectively, that could produce 2.8 million kilowatts. They are among 10 dams to be built along the Hongshui in the Guangxi Autonomous Region.

The two dams, which would be far upstream in the rocky gorges of the Hongshui, would cost about \$1.6 billion. The cost of the entire project could run \$7 billion. China is talking to the World Bank about major loans.

Mr. Lawson said the United States would enjoy a technological edge over other countries in supplying products and expertise in all three energy fields. Such major projects could also offer a market for other American exports like earthmoving equipment.

Mr. Lawson observed that China enjoyed an overall trade surplus of nearly \$4 billion last year. "The Chinese can pay for anything they put their mind to pay for," he said. "It just so happens that in these three areas, we have the best technology."

The Government also wants to develop nuclear power. Construction is starting near Shanghai on a 600,000-kilowatt nuclear power station. China plans to build a much larger nuclear facility in southeastern Guangdong Province, with a capacity of 1.8 million kilowatts.

Negotiations on an agreement that would let China buy advanced American nuclear technology are stalled because Washington suspects that Peking is providing nuclear assistance to Pakistan and other countries believed to be developing atomic weapons. China has refused to sign the nuclear nonproliferation treaty.

NYT JUNE 2, 1982

U.S. and China Discussing Export Of Nuclear Technology to Peking

By BERNARD GWERTZMAN
Special to The New York Times

WASHINGTON, June 1 — The Reagan Administration said today that it had begun talks with China on the possibility of an agreement on nuclear cooperation that would enable American companies to help develop China's nuclear power industry.

Deputy Secretary of State Walter J. Stoessel Jr. made the disclosure in a policy speech on China in which he said that President Reagan valued United States relations with China "highly" and "believes it is important to work together to expand the benefits to both countries."

Contending that too much attention had been paid to Washington-Peking differences over Taiwan, Mr. Stoessel also revealed that in a recent directive Mr. Reagan reaffirmed a policy of "substantial liberalization" in the export of technology to China.

Mr. Reagan, according to Mr. Stoessel, declared that American export policy "should support a secure, friendly and modernizing China."

On nuclear policy, Mr. Stoessel said the United States had been "conducting discussions with the Chinese on the possibility of an agreement for peaceful nuclear cooperation, which would enable us to compete commercially in the development of China's nuclear power program."

State Department officials said that discussions on a possible agreement had been held privately with Chinese officials and have up to now been hampered by China's refusal to sign the treaty banning the proliferation of nuclear weapons or to join the International Atomic Energy Agency and abide by its safeguards. China already has nuclear weapons, but the Administration is insisting that China allow inspection to demonstrate that any help from the United States be used strictly for nuclear power.

China has no atomic power reactors, State Department officials said, but has indicated that it was thinking of start-

Continued on Page A7, Column 1

ing a program for which it would need to import Western technology and equipment.

The Chinese, officials said, have told the United States that they were interested in American technology and American companies have estimated that hundreds of millions of dollars of exports could be at stake.

The most important project under consideration is for the construction of two 900 megawatt pressurized water reactors in Guangdong Province, which borders Hong Kong. The Chinese would like to sell some of the power produced to Hong Kong to gain foreign currency to offset imports.

In addition, the Chinese are contemplating building a smaller 300 megawatt station in Shanghai using its own technology, the officials said.

Re-export Not Allowed

The most extensive talks with the Chinese were held last fall, officials said today, when James L. Malone, Assistant Secretary of State for Oceans and International Environmental and Scientific Affairs, made an unpublicized trip to China. The Chinese were told that they must provide assurances on the peaceful use of the nuclear technology and the nuclear fuel that might be provided and guarantees against re-export.

The Chinese have told the Americans that they would only use such technology for power, but they have problems with allowing international inspection. They have also steadfastly refused to sign the treaty banning proliferation of nuclear weapons that was negotiated by the United States, Britain and the Soviet Union in the early 1960's and which the Chinese viewed as an attempt to block China from having its own nuclear weapons.

Officials here said that the United States is searching for a way to make it easier for the Chinese to provide assurances, but that an additional round of high-level talks is probably needed.

In his speech to the National Council on United States-China Trade, Mr. Stoessel said that "a strong United States-China relationship is one of the highest goals of President Reagan's foreign policy."

Arms Sales to Taiwan

As to the problems raised by Peking's strong objections to continued American military sales to Taiwan, Mr. Stoessel said that "so long as both sides demonstrate the statesmanship, vision, and good will that have characterized our relationship, we will be able to overcome our difficulties."

"Indeed, anything other than a successful outcome would be a great misfortune for both sides," he said. "The only beneficiary would be our common adversaries."

He said that public attention to the Taiwan issue "has tended to obscure the continuing progress which this Administration has made in carrying out important China policy initiatives."

The Administration has already issued regulations that generally treat China as a friendly nation, no longer bound by the controls on exports to the Soviet Union and other Communist nations. It is seeking legislation that would lift laws barring China from foreign aid and food for peace, and from the sale to this country of certain types of furs.

IRAN-IRAQ

Why foreign business stays where bullets fly

Iran's new attack against Iraq, with the avowed aim of overthrowing the Ba'athist government of Saddam Hussein, is giving European and Japanese companies an acute case of war jitters. They fear that billions of dollars of work in progress and lucrative future orders will be in jeopardy if they push the panic button too soon and pull workers out of the Persian Gulf nations.

Although one Italian oil executive shrugs off the uneasy mood—"We are veterans of Middle East turbulence," he says—others who are pressing ahead with work are far more concerned. "We are not alarmist, but it will be a catastrophe if the war spreads," says an official at the Pont-à-Mousson division of France's Saint-Gobain group, which is midway through a \$660 million renovation of Baghdad's water supply system.

the region worry that the Iran-Iraq conflict will spill over into neighboring Kuwait or Saudi Arabia, or become enmeshed with the fight in Lebanon.

High insurance. The vulnerable tankers heading for the giant Iranian oil-export terminal on the island of Kharg were among the first indirect victims of the new Persian Gulf hostilities. Lloyd's of London underwriters rapidly doubled insurance rates to 1% of hull values for tankers nearing the terminal. The Japanese shipowners' labor-relations agency banned all vessels flying the Japanese flag or staffed by nationals from approaching the island. But 450 Japanese working for companies such as Chiyoda Chemical Engineering & Construction Co. and Toyo Engineering Corp. ignored their embassy's advice to evacuate the area around Iraq's Basra oil complex.

200,000 bbl. a day from Iran, are not too unhappy with the uncertainty. They may find the dip in Iranian supply a convenient way to deal with a 7% cut in output from hard-pressed domestic refineries mandated by the Japanese government. "This brought the situation back to what it should be," snaps a corporate planner at one of the Japanese oil companies. In fact, 9 of the 11 businesses are trading companies. They are thought to have planned to resell the Iranian oil in the Mideast below cost, as part of a strategy to win Iranian orders for reconstruction of the war-shattered areas. ■

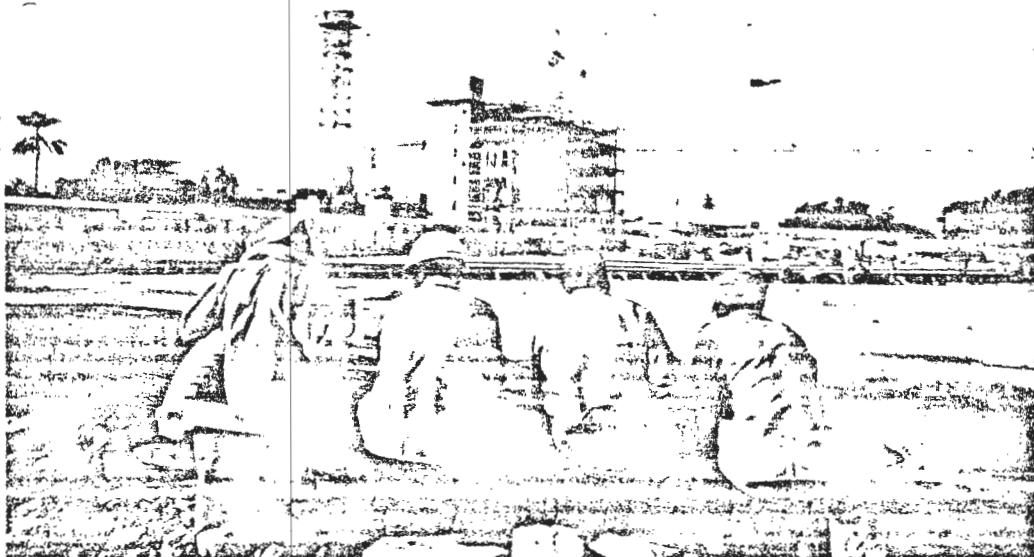
CHINA

Tougher dealing over U. S. nuclear sales

An ambitious effort to sell American nuclear equipment and technology to China has put the U. S. on a tightrope between Beijing and Taipei. Washington is still likely to offer nuclear sales to the People's Republic of China but only if China will accept terms guarding U. S. equipment from diversion to military uses or third countries. And any compromise is likely to be rejected now by China's leaders, aroused by the resurgence of pro-Taiwan sentiment in Washington that accompanied the resignation of Secretary of State Alexander M. Haig Jr.

A high-level interagency group has been working on a formula for export controls and safeguards the U. S. government would require of the Chinese in order for American companies to sell technology and equipment for nuclear power stations to China. These must be formalized in an "agreement of cooperation" with China before exports may begin. But, in view of Washington's apparent intentions to continue sales of fighter jets to Taiwan, Chinese hardliners are unlikely to meet the U. S. halfway by, for example, allowing an international body to inspect nuclear sites where American equipment is used.

Company bids. According to a Hong Kong publication with close ties to Beijing, *Economic Reporter*, "informed sources" expect a decision soon on China's first nuclear power plants. Chinese leaders have blown alternately hot and cold on nuclear power since 1978, when discussions began with French, British, U. S., and Canadian companies on pressurized water reactor (PWR) technology



In Baghdad, a French company is midway through a \$660 million water system renovation.

Persian Gulf diplomatic sources believe the two-year-old conflict will not end soon. The marshy terrain around Basra, the center of the current fighting, makes quick victories hard to attain. And ideological fervor on both sides is sharp. This means that companies such as Italy's Snam Progetti, which nearly completed a refinery in the Iraqi city of Basra before war broke out, will have to wait still longer to get the work done. But most companies cannot fully assess the conflicting reports from the warring nations, and those that are operating in

The recession-battered oil market dismissed the risk of a severely curtailed Iranian oil flow. The Paris-based International Energy Agency estimated that Iran is still exporting 1.2 million to 1.4 million bbl. per day, and Iraq 600,000 bbl. daily. And the fighting only prompted a restoration of the \$1 per bbl. that was cut from spot crude-oil prices in July when OPEC failed to agree on production curbs.

In the short run, at least, some companies, among them 11 Japanese businesses that recently signed up to take

for two 900-Mw stations in Guangdong Province. The PWR stations would be located on a bay just north of Hong Kong, where revenues from power service to the British colony could help defray a price tag of \$1 billion per reactor.

Little has been heard from the Chinese on the Guangdong project since late 1980. But in a sign of renewed interest, the Chinese interrupted the formal agenda of talks with Assistant Secretary of Commerce Raymond J. Waldmann, visiting Beijing in June, to raise the subject of U.S. company bids on nuclear projects.

Westinghouse Electric Corp., the U.S. supplier of PWR technology, and its British licensee, National Nuclear Corp., are already seeking export authorization from the State Dept. for the Guangdong stations. Says National Nuclear Managing Director Norman L. Franklin: "I think there is real evidence of genuine interest in getting a bid from us... and if the terms are right, in accepting it." Borg-Warner Corp.'s Los Angeles-based Byron Jackson Pump Div. has applied to the U.S. Nuclear Regulatory Commission for export licenses to ship two coolant pumps for a 300-Mw reactor that the Chinese plan to build, using mainly indigenous technology in Shanghai.

Administration officials face a dilemma. A declaration backing nuclear exports to China might soothe Beijing's nerves and rouse enthusiasm in the U.S. industry, hard hit by a world downturn in new plant orders. But if the White House and State Dept. decide against allowing nuclear exports to China, U.S. companies that have granted licenses to foreign manufacturers could find themselves in a dispute similar to the feud over use of American technology in the construction of the Soviet gas pipeline to Western Europe. If President Reagan comes down against the exports, he could end up pushing American allies onto Beijing's side of the fence.

FRANCE

The chemical burden Elf refuses to shoulder

Opposition by the head of one of France's state-controlled oil companies is threatening to scuttle the Mitterrand government's plan to restructure the ailing French chemical industry. Only days



Elf's Chalandon will not back a chemical industry reorganization without a new oil-pricing formula.

after Jean-Pierre Chevènement took over as Industry Minister, Elf Aquitaine President Albin Chalandon said that he would not "put our company and its personnel in peril by assuming a capital risk" in an industry that in 1981 lost \$670 million on sales of \$13 billion.

Elf, which earned \$647.8 million on sales of \$18.3 billion last year and has a reputation for profitability and good management, would become the leader in French petrochemicals under the Industry Ministry plan. It would take control of Produits Chimiques Ugine Kuhlmann (PCUK) and of Ato Chimie and Chloe Chimie, chemical and plastic producers now owned jointly by Elf and Compagnie Française des Pétroles (CFP), another state-owned oil company.

Reluctance. Chalandon, whose company already spends \$73 million a year on chemicals, had previously indicated a willingness to double its outlays. But he now says that, faced with monthly losses of \$5.8 million on refining, he will not jeopardize the company's primary business by investing more in chemicals.

His reluctance to contribute capital is not the only hitch. CFP Chairman René Granier de Liliac insists that CFP will not remain in Ato or Chloe as a minority partner. CFP's share in the two joint ventures, according to de Liliac, is worth

\$406 million, and he wants to sell out. Chloe lost \$53.6 million last year; Ato lost \$18.8 million in 1981.

The chemical reorganization plan—drawn up by Chevènement's predecessor, Pierre Dreyfus—aims to limit overcapacity in fertilizers and plastics. At the same time, the plan will try to move the industry toward production of fine chemicals and high-value products. But while French chemical makers are paying world-market prices for such imported feedstocks as naphtha, the prices they can charge on the domestic market remain frozen. Chalandon now is threatening to withhold support for the reorganization scheme unless Chevènement permits him to use a new oil-pricing formula, now partially blocked by France's price freeze.

Even if Chevènement can find a way to finance a new lineup in petrochemicals, he still faces problems from Elf's management. Chalandon has said repeatedly that he expects the government to shoulder the social costs of any effort by Elf to rebuild a sector he describes as plagued with overcapacity, debt, and inefficient plants. And as a result of the squabble, current restructuring plans are being shelved. "Everything is on hold," says an executive of one of the nationalized chemical companies.

AFRICA

A Franco-American tug-of-war over trade

Inroads by U.S. companies in the lucrative oil, construction, and banking industries have shattered French complacency in the francophone West African countries of Cameroon, Gabon, and the Ivory Coast, once France's *chasse gardée*, or private preserve. But with a well-coordinated effort by government, banking, and business, the French are now mobilizing to stem further competition in their former colonies.

In an opening sally earlier this year, France's Technip—armed with \$800 million in financing packaged by the government in Paris—bested Air Products & Chemicals Inc., of Allentown, Pa., in a contract-bidding war to supply process equipment for a \$2 billion liquefied natural gas (LNG) project in Cameroon (BW—

AUG 22, 1982

83 "FRANCE HOPES TO SELL WESTINGHOUSE PWR TO CHINA." 08-22-82 (24)
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PEKING (UPI) A French delegation left Peking Sunday after concluding talks on supplying reactors for China's first nuclear power station.

A French Embassy spokesman said the six-member delegation held three days of talks with Chinese officials to examine "all questions relating to construction of a nuclear center with two units of 900 megawatts each in Guangdong province."

China has been shopping for two pressurized water reactors for its premier nuclear power station in Guangdong province near Canton, a southern coastal city 75 miles north of Hong Kong.

Westinghouse produces the reactors that China seeks, but American companies are barred from selling nuclear materials to Peking because China has not signed the Nuclear non-proliferation Treaty.

Framatome, a French company, produces pressurized water reactors under license from Westinghouse.

The company received State Department approval several years ago to sell the reactors to the Chinese, who were then planning to build the power station in Shanghai.

The site was shifted to Canton in part so that some of the electricity could be supplied to Hong Kong, earning China coveted foreign exchange.

Chinese Announcement of Nuclear Plant On Hong Kong Border Creates Confusion

By LYNNE CURRY
Journal of Commerce Special

HONG KONG — Confusion surrounds a recent Chinese announcement that Peking has approved a decision to build a joint venture nuclear power plant with China Light and Power Co. of Hong Kong.

Guangdong Provincial Governor Liu Tianfu told Hong Kong governor, Sir Edward Youde, in Canton that the central Chinese government has given permission to build a nuclear power plant in Shenzhen, the municipality which borders Hong Kong. Under the proposed plan, Guangdong Electric Co. and China Light would jointly construct and operate the plant.

However, China Light and the Hong Kong government have both said they had received no official notification that the project would go ahead.

"The project was approved in principle months ago," said Dean Barrett, general manager of China Light, adding that "we are waiting to start negotiations for the whole package."

A Hong Kong government official said the government had no knowledge that Peking had approved the project.

Sir Edward was in Canton as part of a two-day visit to Guangdong province.

The visit followed a dramatic

slump in the Hong Kong stock market sparked primarily by anxiety about Hong Kong's future. Britain's colonial lease expires in 1997 and Prime Minister Margaret Thatcher is due in Peking next month where she is expected to raise the issue of the territory's position.

In light of this there was speculation that the Chinese announcement was a reassuring gesture toward Hong Kong on the part of the Peking government.

The plant would have two 900-megawatt pressurized water-type reactors. It would be located about 50 kilometers northeast of Hong Kong's border in eastern Shenzhen, outside Shenzhen special economic zone. China Light estimates the cost will be approximately \$5 billion.

Power from the plant would be shared by both Guangdong and Hong Kong. According to a feasibility study, Hong Kong consumers would pay for their 60 percent share of the electricity. The Chinese would finance the remaining 40 percent of power generated primarily through international loans. Mr. Barrett said.

China Light already supplies 3 to 4 percent of its power to Guangdong province.

China Light's power plants are owned by associate companies that are joint ventures between China Light and Eastern Energy Ltd., a

subsidiary of Esso Eastern Inc. China Light owns 40 percent of each company and Eastern owns 60 percent. Exxon Corp. of the United States owns Eastern.

Mr. Barrett said the Chinese will decide on the supplier. The French company, Framatome, was being considered. American suppliers cannot be considered because of the nuclear non-proliferation treaty prohibiting U.S. companies from selling nuclear plants directly to countries that do not allow international inspection of nuclear safeguards.

However, Mr. Barrett pointed out that Framatome's equipment is designed under license from Westinghouse of the United States.

Mr. Barrett stressed that China Light has told the Chinese that the plant must conform to the highest international safety standards. There were reports last year that the site for the plant was located on a fault but Mr. Barrett emphasized that it is not situated in an earthquake belt. "China Light has double and triple checked," he said.

The plant is expected to be in operation by 1990. Under the terms of the feasibility study completed in 1980, Guangdong Electric and China Light would jointly operate the plant until 2009, 12 years after Britain's lease on Hong Kong expires and the territory reverts to China.

US Companies in Place For PRC Nuclear Sales as Washington Reviews Rules



BC continues its close monitoring of the Chinese decision – expected imminently – to go ahead with the building of nuclear power reactors (BC '82 p. 77) with news below of US companies' increasing participation in discussions of such sales. US firms' activities are against a backdrop of US-PRC talks aimed at getting around US government obstacles to nuclear sales.

US companies that had all but given up hope of participating in the planned development of China's nuclear power industry are very much back in the game now that the Reagan administration has begun to review rules that prevent the sale of US-manufactured nuclear equipment to China.

One eye on Shanghai...

Representatives in Peking of both Westinghouse and General Electric say they are holding discussions with Chinese ministries about possible supplies of equipment for a prototype nuclear power station in Shanghai. Moreover, both US suppliers of nuclear technology are definitely interested in the proposed Guangdong power station project in south China.

Westinghouse's representative in Peking said the Chinese were "requesting information" about components for the primary and secondary systems of the Shanghai prototype. Under US regulations, Westinghouse is able to supply components for the secondary system – described as the "turbine cycle" – but not for the nuclear steam supply system.

US sales of reactors to China are beginning to look like a real possibility as US and Chinese officials undertake negotiations toward overcoming barriers in the way of such sales. These barriers are in a 1978 act of Congress that requires "full-scope safeguards" in countries buying US nuclear know-how.

China is not a signatory to the nuclear non-proliferation treaty – it has had the bomb since the early 1960s – and has made it clear it will not allow inspection of its nuclear facilities on the grounds that such inspection would constitute an infringement of its sovereignty.

Walter Stoessl, the US Deputy Secretary of State, told a June meeting of the National Council for US-China Trade that the US had been conducting "discussions with China on the possibility of an agreement for peaceful nuclear cooperation which would enable the US to compete commercially in the development of China's nuclear power program." US officials in Peking say discussions are continuing.

A General Electric representative said his company had been approached by the Chinese for information about components in the turbine cycle of the Shanghai prototype and discussions were continuing. Foreign executives and

diplomats in Peking now assume that China is committed to proceeding with the Shanghai reactor which will be built to a Chinese design with the addition of some foreign-supplied components. The prototype will be a 300-megawatt pressurized water reactor (PWR).

According to a scientific expert attached to a Western embassy in Peking, the prototype reactor would be a "stepping stone" on the way to developing a homegrown nuclear industry. He anticipated that China would have to import some foreign technology to complete the project.

According to the Westinghouse executive, what China would be purchasing is not as yet "clearly defined," but it is clear that the Chinese "want to run the show themselves."

... the other on Guangdong

Meanwhile discussions are proceeding on the construction of a nuclear power station in Guangdong involving twin 900-megawatt reactors to supply power to the province and to Hong Kong. A meeting was held earlier this month in Guangzhou between A. G. Manzie, Deputy Secretary of the British Department of Industry representing the British government and Guangdong Vice-Governor Ye Xuanping (叶选平), representing the Chinese government.

Also at the meeting were representatives of PRC central government ministries concerned with the project as well as officials of China Light and Power of Hong Kong and the General Electric Co of the UK, which is interested in supplying components.

According to a representative of one of the organizations taking part in the Guangzhou meeting, the talks have "taken the project a stage further."

A feasibility study, prepared under the supervision of China Light and Power engineers, has been examined by the Chinese government and formed the basis for the Guangzhou discussions. The two sides apparently agreed the project is "viable" and are now deciding whether a financially acceptable arrangement can be worked out among the partners.

Competition from France

Framatome, the French nuclear reactor builder, is considered by some observers to be the leading contender in the race to sell reactors for the Guangdong plant. But the French company can expect spirited competition from US firms if the US government lifts restrictions on sales of nuclear technology to China.

Framatome reactors are built under license from Westinghouse. The PRC's being able to buy a reactor containing US know-how from a non-US firm, but not directly from a US one, is probably an important reason for the review of US policy toward such sales.

Westinghouse's Peking representative said the company would "like very much to be a supplier of nuclear technology for the Guangdong plant." For the past few years, Westinghouse has been supplying published information to the

Chinese for the Guangdong project, it has not been involved in detailed technical discussions on nuclear systems. Westinghouse also has had interchanges with China Light and Power about the Guangdong project.

PRC Countryside Holds Potential for Agriculture Sales



Changes in the organization of Chinese farming and more cash in rural pockets from free-market sales of private-plot produce are leading to the growth of a consumer goods market in the countryside. BC two issues ago ('82 p. 94) discussed those changes and that cash. They should also begin to mean a bigger and more accessible market for firms in agriculture-related industries. BC below continues its close look at what's happening in Chinese agriculture.

As more decisionmaking is put into the hands of households rather than the commune, more sales and more direct marketing opportunities for firms are likely. Getting through to the farmer will be a welcome departure for many companies since, in past years, few of them other than the agricultural machinery salesmen have gotten such access, selling instead to the state's foreign trade corporations.

PRC purchases of agriculture-related goods have been increasing as a percentage of total imports over recent years. Of total Chinese imports in 1979, about 25% were agriculture-related, in 1980 the figure was 32%, and in 1981 it similarly was about a third. Agricultural sales can be expected to continue well into the 1980s. While domestic production of sugar and cotton is increasing, imports of those commodities and of chemical fertilizer

More PRC Agro-facts

- Only about 100 million acres of the country are arable — that is about 10.4% of the total area — but the country's farmers manage to provide nearly 31% of the nation's total industrial and agricultural output (by value). In 1981 agricultural output value was Rmb231.1 billion (Rmb1.9:US\$1) out of a total Rmb749 billion.

- Chinese authorities have targeted a 4% increase in agricultural output value in 1982, and grain production is expected to grow by 2.6%.

- Spurred by higher prices for nonstaple crops, farmers will step up production of dairy products, meat, vegetables, oil, and sugar-bearing crops.

- Acreage sown to cash crops such as tea, tobacco, cotton, and fiber plants expanded dramatically in 1981. Production of these crops will continue to grow to support light industrial manufacturing.

and agricultural machinery will continue to figure prominently.

The PRC spent US\$944 million for wheat alone in 1979 and US\$1.84 billion in 1980. China will continue to buy grain, although the volume of such purchases will vary with foreign exchange constraints, domestic production, and the weather (see box on China's agricultural buying).

The current policy thrust that presses to raise the standard of living and promote exports has clear benefits for agriculture, since it means, for example, government encouragement of crops that vary urban consumers' diets and fuel the textile industry. The farmers will fatten, if at times more through trickle-down rewards than direct ones. Throughout Chinese history, peasants have tended to get the slimmest slice of the economic pie. The situation has not changed all that much in terms of actual budget allocations — after an important spurt in 1978 and 1979 in money set aside in the state budget for agriculture, that budget line then dropped 9% in 1980 and fell 12% more in 1981.

Other benefits from the central government have made a difference. These include higher prices for farm produce paid by the state to the farmers and encouragement of private-plot cultivation and sales of the output from them on free markets. Rural credit is increasing farmers' purchasing power and replacing lagging state support for agriculture, and groups of farmers are getting together and obtaining loans to finance the purchase of machinery for farming and small factories. Loans of Rmb33.28 billion (a 14% increase over 1980) accounted for 54% of rural spending on tools and other supplies in 1981. The Agricultural Bank of China and credit cooperatives reported Rmb24.05 billion in rural savings at the end of 1981.

The bulk of China's peasants will not be rich in the foreseeable future. Clearly, however, there will be more cash in the countryside for purchases to ease and enlarge production.

Opportunities for future sales will crop up in:

- **Agricultural machinery.** Despite a recent slump in agricultural machinery purchases, such buying should pick up in the 1980s as farmers have more money and better access to information about such machinery, especially that which is appropriate for small- to medium-scale farming. While China exported US\$37 million in farm machinery in 1981, domestic production of large tractors fell by 45.9% and output of hand tractors dropped by 9.8%. The large state farms in the northeast that are particularly amenable to large-scale machinery spent substantial amounts on such items in the 1970s. The market there might appear to be on the way to being saturated, but similar sales do continue to be made.

Recent machinery deals include:

- International Harvester's sale of reforestation machinery, i.e. crawlers, loaders, bulldozers, skidders, and US\$7.5 million worth of tractors, combines, tillage tools, and hay machines;

[Answer] [in English] In a number of countries that I visit, there are -- may I call it -- human problems: Internees or problems of visas, permission to leave or to come to a country. I must say that they are particularly few in the case of China, very few indeed, far less than in most countries I have visited in the last two months. In every country where I go, I draw the attention of my hosts to the human problems. I never comment on any of the human problems. Why? Because I hope there can be progress. Otherwise, I would not refer to them. I think the more one talks published about such human problems, the least chances it be solved. [sentence as received] I shall not say anymore about any human problems between China and France.

[Question] Alain Campiotti (24 Hueres de Lausanne). You have referred to the nuclear power program as well as the exchanges between the two countries. Can you say more about this since the first contacts between the two countries appear to have failed?

[Answer] A few years ago China had some sort of nuclear power program, and during official visits made at that time by ministers of the preceding government and the former president of the republic, talks were held between China and France. Since then the policy of readjustment has resulted in a modification of the program. We are therefore now in a new situation where the talks previously held should also be adjusted. A French mission will therefore come here within the next 3 weeks to examine China's present intentions concerning the nuclear power plan and present our possibilities. The industries on the one hand and the government on the other will indicate what can be done. As you can see, this is quite remarkable as far as technology is concerned ~~because we have the most audacious program in the world as far as technology is concerned~~ and because we have the most audacious program in the world as far as nuclear power development is concerned. Of all European countries, France has the greatest number of stations that have been in operation for some time. This, therefore, constitutes a testimonial. Having said this, the material conditions for the realization of the project, the deadlines and financing and so on will be presented to the Chinese, who will freely judge them and compare the offers to be made by our enterprises with those to be made by the enterprises of other countries. There is no doubt that this is very important because this is the beginning of a development which can be very important to China as far as nuclear power production is concerned. We are interested in this development particularly because France -- I would like to remind you -- has the most ambitious program in the world as far as nuclear power production is concerned.

Questions on the Sale of French Arms to China

[Cheysson] It is not usual to discuss issues on arms in public. This said, you must have noticed that the French chief of staff was in China 3 months ago, and I am not betraying any secret by telling you that France has not ruled out any discussion with China, whose defense potential can be strengthened in effect by French arms or Chinese arms based and built with understanding with China if it is China's desire and if we come to agreement. Therefore, it is not a forbidden subject.

It was not a matter of any specific, precise question. Many issues were brought up. Some, those on which the future depends like nuclear power energy, oil, transport and coal, were examined a bit more attentively.

At the same time, we discussed aeronautics and when one says aeronautics, there is the civil aviation. For example, the Dolphin helicopters -- already a helicopter contract has been signed with China with their ultimate production to be in China -- and there are aircraft which also have a military purpose, that is true. We, naturally, stayed within the defensive arms sector. Once again, the subject is not excluded, it was not specifically discussed. Besides I did not meet the Chinese authorities responsible for this sector; I did not have the honor of meeting the minister of defense or officials linked with industries and arms. This did not come under the purview of my visit.

[Question] Alain Campiotti (24 Heures de Lausanne). Can you state the position of France towards Taiwan?

[Answer] France's position has remained unchanged for years. We recognize only the People's Republic of China. We will not change on this subject. There is nothing new. I will even tell you that the subject was not raised during my discussions here.

[Question] [in English] Sunil Roy (PRESS TRUST OF INDIA). During the course of your discussions with the Chinese leaders, has France's aid program to Hanoi come up? If so, what was their reaction?

[Answer] . [in English] Every one of us respects the full independence and sovereignty of the other. Therefore, I didn't ask any question on Chinese programs, and no questions were put on any French assistance program in the world. Where we came the closest on this point was when we discussed Kampuchea -- therefore, withdrawal of Vietnamese troops; therefore, relations with Vietnam. As I told you earlier, I explained our position, which is that we want to keep a live wire with the Vietnamese, not only through an embassy in Hanoi, but also through other relations with Hanoi. That was the closest we came to this very point of our assistance program, which, again, was not referred to in any discussion.

[Question] Alain Campiotti (24 Heures de Lausanne). What is the significance of your visit to Seoul within the framework of an eventual recognition of North Korea?

[Answer] Seoul is in Korea as I know -- we are interested in Korea, that is exact. We keep close relations with South Korea and it seems normal to go and discuss Korean problems with the government of Seoul. You will know more when I get there.

1. 9 Aug 82

PRC INTERNATIONAL AFFAIRS
WESTERN EUROPE

G 1

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[Second and final part of French Foreign Minister Claude Cheysson's press conference in Beijing on 2 August.

[Text] [Question]: Alain Campiotti (24 Heures de Lausanne). You have talked about the various analyses you examined on some particular points with the Chinese. Did their attitude toward Vietnamese policy form part of these analyses?

[Answer] There were different elements of analysis on this subject. However, there was agreement concerning the objective, and this was the most important thing. If you question a Chinese leader, he will tell you the same thing. The objective is to have all foreign troops depart from Kampuchea. Like France, China or Switzerland, Kampuchea has the right to freely decide its own future. Vietnamese troops must therefore leave Kampuchea. We reached complete agreement on this. All the Kampucheans must be free to choose their destiny without any foreign interference. At the moment, there is foreign interference. This is why France does not recognize, cannot recognize and will not recognize the Khieu Samphan government. This is quite clear. How can one get the Vietnamese to depart? As far as we, the French, are concerned, we think that the plan suggested by the ASEAN countries aimed at ensuring a neutral Kampuchea that is free from foreign troops and chooses its regime and government under international control is a good plan, and we are very close to the ASEAN countries on this point. Here also, there are no differences between China and France. The differences start with the question of the coalition government created a few weeks ago. We in France have very confident and old relations with the two elements of the coalition government -- Norodom Sihanouk, with whom I have already met and with whom I will meet again in a few weeks time, and Son Sann. On the other hand, France rejects the policy conducted by Pol Pot when he was the master of Kampuchea. The French reject all policies of oppression and cruelty toward the people. We reject it in South Africa as well as in many other countries of the world. We reject it in Kampuchea more than anywhere else. What happened when Pol Pot was master of Kampuchea has not been forgotten in France, where it has created a sense of general repugnance. There is not a single Frenchman who would imagine meeting Pol Pot or having a discussion with him. This constitutes a major hindrance for us in our relations with the coalition government. Therefore, we presently recognize no government in Kampuchea and do not at the moment see any possibility of recognizing one.

The second point on which there may be difference between China and France concerns relations with Vietnam. Both France and China have relations with Vietnam and ambassadors in Hanoi. We believe that our relations with Vietnam will perhaps be useful one day. I think that it was good that I should receive the Vietnamese foreign minister in Paris and listen to him. We are not the ones who should decide what should be done. It is the responsibility of the countries in the region, and especially the Southeast Asian countries belonging to the ASEAN, to decide whether the Vietnamese offers are interesting or not. They have not yet accepted these offers. But one day perhaps progress may emerge from any one of these offers with the agreement of the ASEAN countries, and, if this happens, we think that our relations with Vietnam may be useful. Do not forget that we are not a country of the region. We will not under any circumstance interfere in the internal affairs of any country whatsoever. Even from afar, our desire to maintain relations with Vietnam while we are mostly tied to the ASEAN countries is justified.

[Question] [in English]: Wayne Corey (Voice of America). Mr Foreign Minister, do you consider that the controversy surrounding the Li Shuang affair last year is over or is it still affecting relations between France and China?

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- B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.