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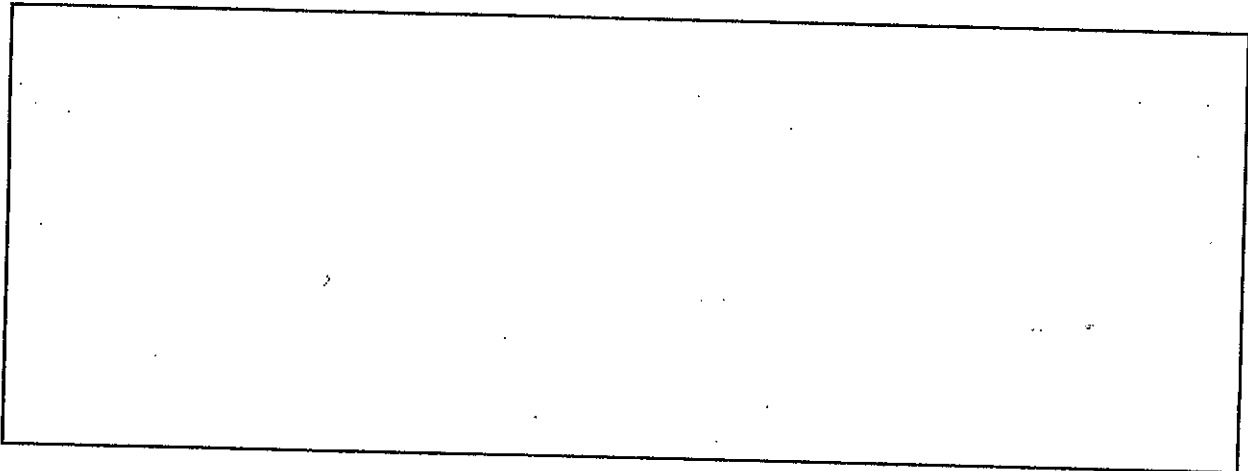
RELEASED IN PART

B1, 1.5(C), 1.5(D), 1.5(F)

N6J

Classified Report to Congress on the  
Non-Proliferation Policies and Practices  
of the People's Republic of China<sup>1</sup>

Summary



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(U) Beginning in the early 1980s, however, China began emerging from its isolation. It became a member of the International Atomic Energy Agency (IAEA) in 1984, adopted a policy of requiring IAEA safeguards on its nuclear exports, announced that it would not assist other countries to develop nuclear weapons, and in 1989 concluded an agreement with the IAEA for the application of safeguards in China. In 1992, China set aside its criticism of the NPT and became a party to the Treaty, thereby assuming legally binding commitments not to assist non-nuclear weapon states to

<sup>1</sup> This report was prepared by the policy community to fulfill the legal requirement for a Presidential Report to Congress in connection with activation of the 1985 U.S.-China Agreement for Peaceful Nuclear Cooperation. The Intelligence Community (IC) has reviewed the intelligence in this report for accuracy, but takes no position on policy or legal matters, such as whether China has met the legal requirements for certification.

The judgments and information presented in this policy report are based on diplomatic reporting and Chinese actions and statements in response to US demarches, as well as on intelligence reporting and Intelligence Community assessments and judgments, which are presented more fully in the IC-coordinated paper China's Proliferation Behavior--An Update. This IC paper was the 18 September 1997 Statement for the Record to the Senate Select Committee on Intelligence. Because of its higher classification, China's Proliferation Behavior --An Update, has been forwarded to Congress in separate channels. To date, the Intelligence Community has not changed any of the judgments in that assessment.

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Classified by: Richard J.K. Stratford, PM/NE Director

Reason: E.O. 1.5(d) and (e)

UNITED STATES DEPARTMENT OF STATE

VIEW AUTHORITY: FRANK E.

CHMELZER

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acquire or manufacture nuclear weapons and to require safeguards on its nuclear exports to nonnuclear weapon states. In 1995, China supported the indefinite extension of the NPT. In 1996, China announced a moratorium on nuclear explosive testing in July and signed the Comprehensive Test Ban Treaty (CTBT) in September. Also in 1996, China publicly committed itself not to assist unsafeguarded nuclear facilities.

(U) With respect to nuclear export controls, China took a number of steps in 1997 to establish an effective and comprehensive national nuclear export control system. In May 1997, China's State Council approved a circular notice to government and industry requiring strict implementation of China's nuclear export policy of not assisting other countries to acquire nuclear weapons. This notice was supplemented in June by China's publication of a list of controlled nuclear dual-use items identical to the list adopted by the Nuclear Suppliers Group. Also in May, China attended the Zangger Committee's semiannual meeting as an observer, and in October China attended the Zangger Committee as a full member. In September 1997, China promulgated nation-wide nuclear export control regulations accompanied by a list of controlled nuclear items which the Chinese side stated is identical to the trigger list adopted by the Nuclear Suppliers Group. The new nuclear export control regulations restate China's nuclear export policy that: (1) all exports are for peaceful purposes only; (2) recipients must accept IAEA safeguards; and (3) no reexport to a third country without Chinese government approval. China is finalizing a similar system of export controls on nuclear-related dual-use items. At the October Zangger Committee meeting, China issued a statement which indicated that government departments have the right to exercise "catch-all" authority over nuclear dual-use items.

(S) China has significantly curtailed its existing nuclear cooperation with Iran, most notably by canceling the sale of a uranium conversion facility regarded as a key link in Iran's nuclear weapons program, and has made clear in a confidential written assurance that it is not going to engage in new nuclear cooperation with Iran, and that it will complete the last two existing projects (which are not of proliferation concern) within a relatively short period.

(S) China appears to be acting consistently with its May 1996 commitment not to provide assistance to unsafeguarded nuclear facilities. We are not aware of any transfers of equipment or material by Chinese entities to

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(U) This report discusses the evolution of Chinese nonproliferation policies and practices and assurances and describes the assurances provided by China on nonproliferation and nuclear cooperation matters.

Pre-1983 Approach to Non-Proliferation and Nuclear Trade

(U) Throughout the era of Mao Zedong, the People's Republic of China (PRC) generally remained aloof from the international community on nuclear matters. Domestically, it focused almost completely on its military nuclear program. Some limited civil nuclear research was conducted as an offshoot of the military nuclear effort, but the PRC had no serious civil nuclear energy or research program. Internationally, the PRC had little or no involvement with other countries or international organizations in the peaceful uses of nuclear energy. It did not belong to the International Atomic Energy Agency (IAEA). It did not become a party to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) or associate itself with the principles of the NPT.

(U) During the 1960s and 1970s, China's position on nuclear proliferation was closely tied with its position on superpower disarmament and its aspirations for leadership of the Third World. China argued that the spread of nuclear weapons to additional countries would diminish the power of the United States and the Soviet Union, and rejected the view that an increase in the number of nuclear-weapon states would enhance the risk of nuclear war. China also postulated that the introduction of nuclear weapons to nations in the Third World could increase the opportunity for revolutionary change that would work to the benefit of the Third World.

(U) With the rise of the post-Mao leadership, increased emphasis was placed on economic modernization. The foreign

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exchange cost of modernization was seen to be great, and in 1979 Premier Hua Guofeng issued a directive to the Chinese government to increase China's foreign exchange earnings. The proposed expansion of economic activity also required increased energy supplies. To meet part of the projected increase in future energy requirements, China launched an ambitious civil nuclear power program. Because China had not developed its own technology for nuclear power generation, it decided both to import nuclear power plant equipment and technology and to develop its own industrial capabilities in nuclear power so that eventually it would be able to become self-sufficient in this area. To acquire this technology, China began negotiating with Western supplier governments.

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Evolution of PRC Nonproliferation Policy During the Period of U.S.-PRC Negotiations on the 1985 Nuclear Cooperation Agreement

(U) At the beginning of the Reagan Administration, the People's Republic of China expressed interest in acquiring U.S. nuclear power technology. The United States believed that discussion with the PRC on the terms for acquisition of U.S. civil nuclear technology would provide the United States with an opportunity to begin a dialogue on nonproliferation issues with the People's Republic of China. Preliminary discussions were held in Beijing in the fall of 1981 on the provisions of a possible U.S.-PRC nuclear cooperation agreement. Because of continuing U.S. concerns about China's nuclear export practices and its nuclear relationship with Pakistan, Secretary Shultz raised the question of China's nonproliferation policy in Beijing in February 1982, and the United States invited the Chinese government to send a team to the United States to discuss nonproliferation policy and nuclear cooperation issues in detail.

(U) The People's Republic of China accepted the U.S. invitation, and five rounds of negotiations were held between July 1983 and April 1984. In the course of these negotiations, the text of a proposed U.S.-PRC Agreement for Cooperation in the Peaceful Uses of Nuclear Energy was developed. Throughout these discussions, there was a continuing dialogue on the subject of nonproliferation policy. The U.S. side made clear to the Chinese in every round of negotiations that shared nonproliferation principles were an essential ingredient for bringing into force an agreement for cooperation as well as for the continuation of cooperation thereafter.

(U) In mid-1983, during the early stages of our negotiations on the text of an agreement, the Chinese informed the United States that China would join the International Atomic Energy Agency (IAEA) (which it did on January 1, 1984) and that upon its joining, the People's Republic of China would require IAEA safeguards for its

nuclear exports to nonnuclear weapon states. In September 1984, at the first IAEA General Conference attended by China as an IAEA member, the PRC representative announced the PRC's policy on safeguards:

"China will, in exporting its nuclear materials and equipment, request the recipient countries to accept safeguards in line with the principles established by the Agency's statute. In the same view, when importing nuclear material and equipment, China will also make sure that they are used for peaceful purposes."

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(U) The U.S.-PRC agreement for cooperation was signed on July 23, 1985, and transmitted to Congress the following day. Congress approved the agreement on December 16, 1985, but at the same time established a requirement for Presidential certifications and a report to Congress on China's nonproliferation policies and practices before the agreement could be implemented.

The Period Following Approval

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China's Growing Support for the Nonproliferation Regime:  
Adherence to the Treaty on the Non-Proliferation of Nuclear  
Weapons (NPT) and the CTBT

(U) China's attitude toward IAEA safeguards and the NPT continued to evolve throughout the 1980s and into the 1990's. In 1989, China concluded a voluntary safeguards agreement with the IAEA for the application of IAEA safeguards in China. In 1990, China for the first time attended an NPT review conference as an observer and in early 1992 the People's Republic of China became party to the NPT.

(U) During this period China also took further steps to strengthen the international nonproliferation regime. In November 1991, China informed the Director General of the IAEA that China would henceforth provide the IAEA information on its exports and imports of nuclear material. This commitment was made in the interest of assisting the IAEA safeguards activities. The Chinese correspondence with the IAEA was published as INFCIRC 207/Add.2 in December 1991. In 1993, China joined the United States and others in supporting a UN General Assembly resolution calling for the conclusion of a nondiscriminatory, multilateral and verifiable treaty banning the production of fissile material for nuclear weapons or other nuclear explosive devices. At



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the 1995 NPT Review and Extension Conference, China supported the U.S. effort to extend the NPT indefinitely. China also played a positive role in support of the U.S.-DPRK Agreed Framework under which the DPRK agreed to freeze and dismantle its nuclear program. In 1996, China announced a moratorium on nuclear explosive testing in July and signed the Comprehensive Test Ban Treaty (CTBT) in September.

Relations with Pakistan since China's adherence to the NPT

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These assurances were reflected in the public statement issued by the Chinese Foreign Ministry on May 11, 1996, and were reiterated in the plenary statement delivered by the head of the Chinese delegation to the 40th Session of the IAEA General Conference in September, and reaffirmed during Secretary Christopher's visit to Beijing on November 20, 1996.

(U) On the basis of a close review of all available information in this case, including the clarifications and assurances received from Chinese officials regarding past transfers and Chinese nuclear export control policies, the Secretary of State concluded in May 1996 that there was not a sufficient basis to invoke sanctions under the Export-Import Bank Act.

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(U) Since China's May 1996 commitment, we do not have a basis to conclude that China has reneged on that pledge. China, however, is continuing to provide assistance to safeguarded facilities in Pakistan. For example, under a 1991 contract, China is building the 300 MW Chasma power

reactor in Pakistan. We have not asked that China end safeguarded nuclear cooperation with Pakistan as a condition for implementing the peaceful nuclear cooperation agreement; but we have on numerous occasions warned China that the risk of providing assistance to the peaceful nuclear program of a country such as Pakistan that does not have "full-scope safeguards" is that some of this assistance will be diverted to unsafeguarded activities.

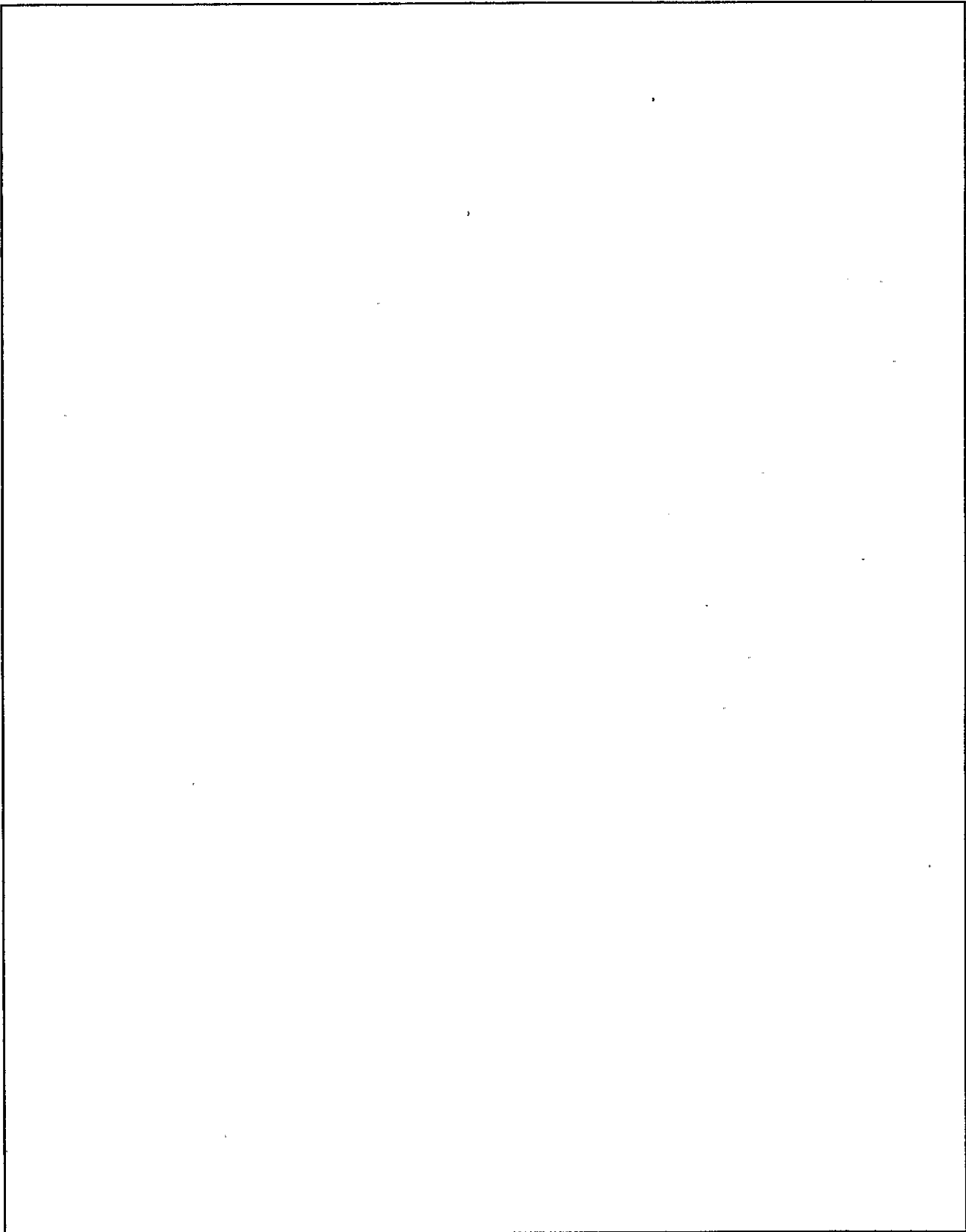
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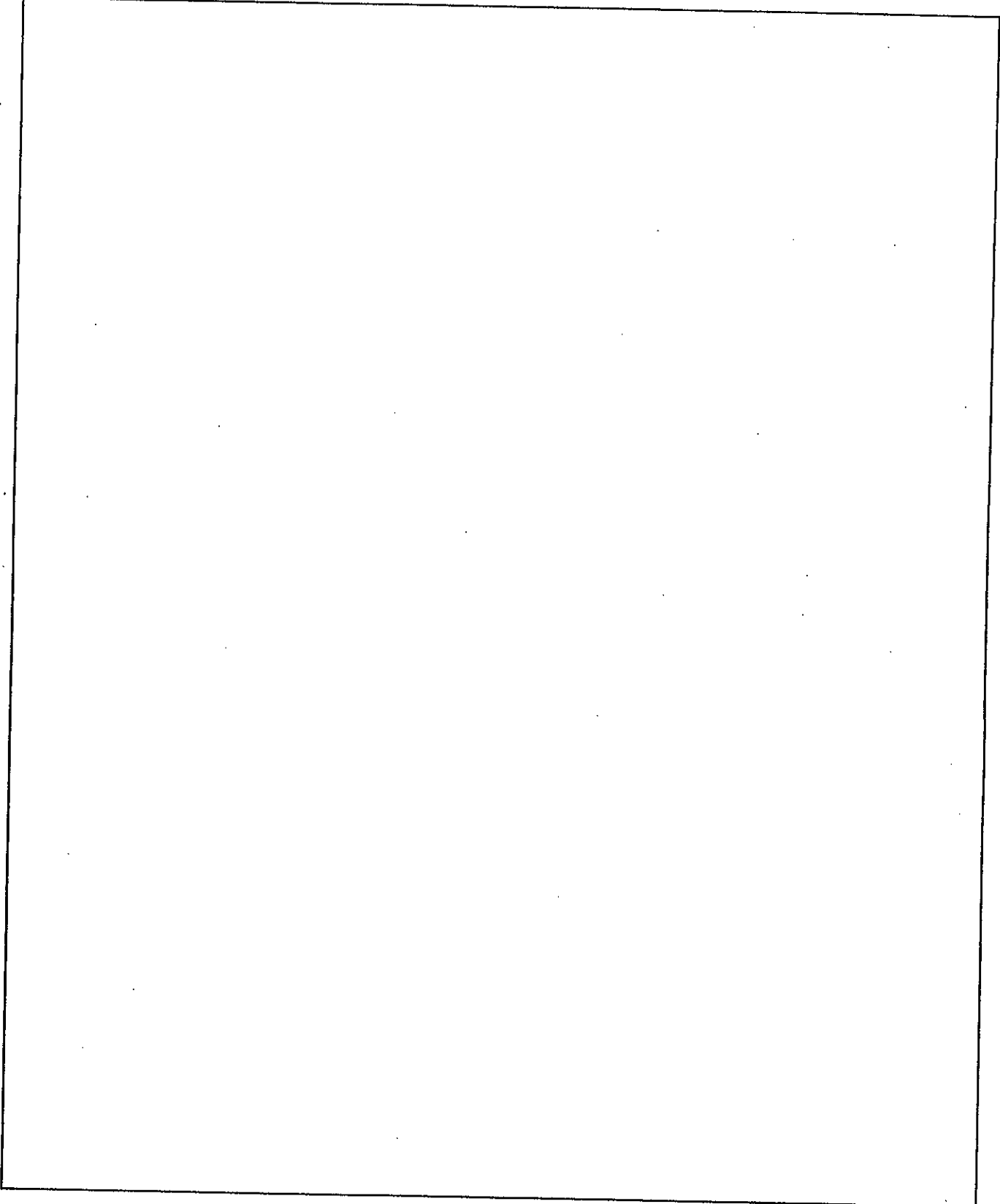
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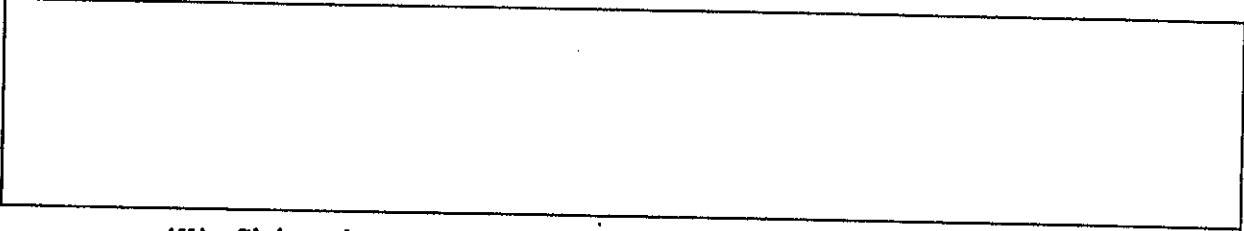
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(U) During our discussions with the Chinese we have emphasized the importance of preventing diversions of equipment and information from Pakistan's safeguarded facilities to their unsafeguarded operations.

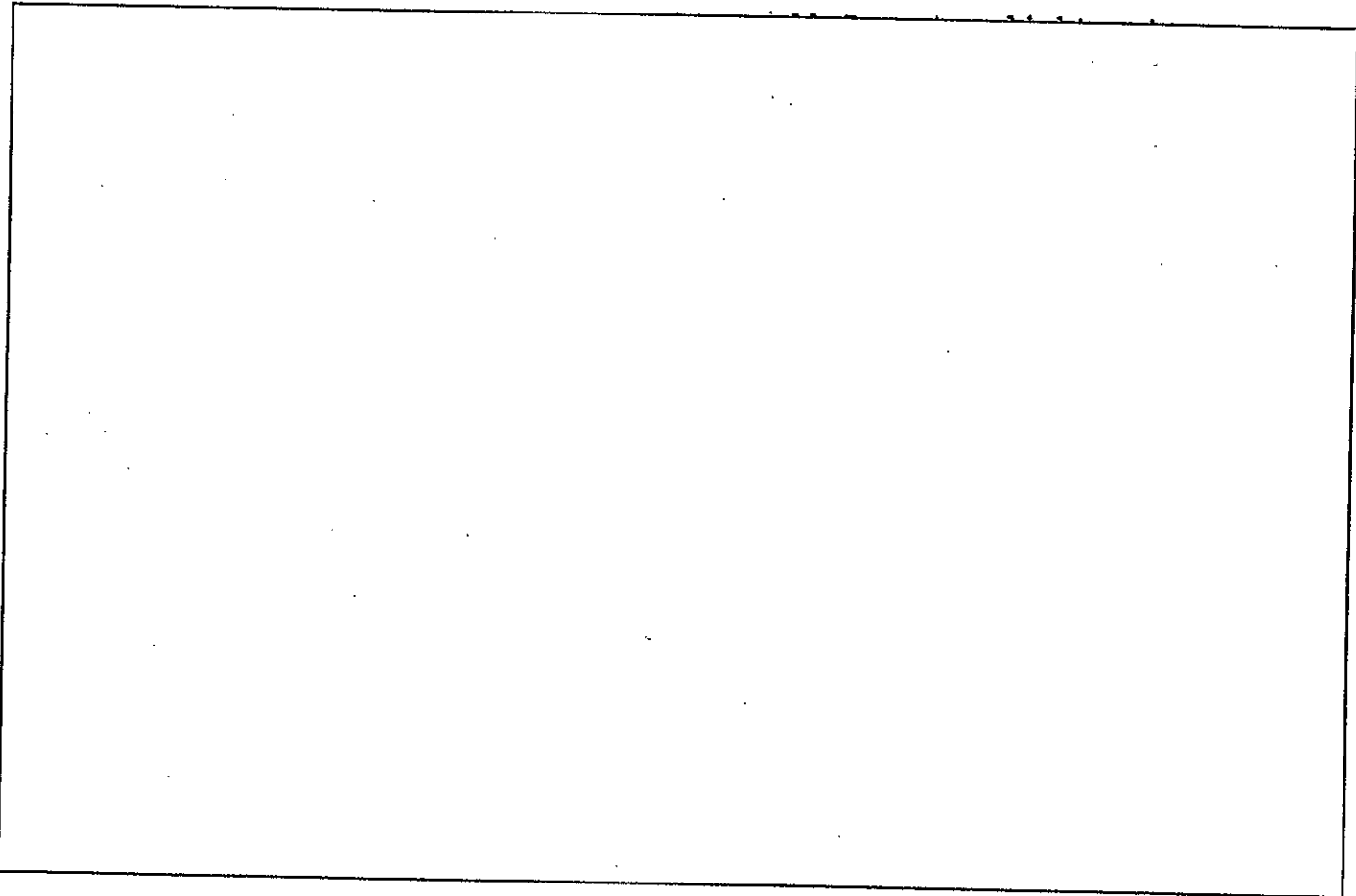
China's Nuclear Cooperation with Iran

(U) Chinese nuclear cooperation with Iran has always presented a different concern than that raised by Chinese nuclear cooperation with Pakistan. Whereas China had provided assistance over the years to Pakistan's nuclear weapons program, China's nuclear assistance to Iran has always, as far as we know, been limited to cooperation in the peaceful uses of nuclear energy and under IAEA safeguards. Nevertheless, because of long-standing U.S. concerns about Iran's intention to develop nuclear weapons, we believe that any nuclear assistance to Iran, whether or not subject to IAEA safeguards, would help to build an infrastructure that would be used by Iran to support nuclear weapons development. For this reason, we have urged China, as we have all other potential suppliers, to refrain from nuclear cooperation with Iran. This is a policy adopted by all other major nuclear suppliers except Russia and China.

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(U) China has provided Iran with four small research reactors and related nuclear fuel. All of these reactors and their fuel are subject to IAEA safeguards and have been inspected regularly by the IAEA. The reactors are: two sub-critical assemblies, both use natural uranium fuel, one is moderated by light water, the other by graphite; a zero power reactor (ZPR) which uses natural uranium fuel and is moderated by heavy water; and a miniature neutron source reactor, which uses less than one kilogram of highly enriched uranium. None of these reactors pose any direct proliferation risk as they do not produce significant quantities of plutonium. The ZPR and the two sub-critical assemblies, however, could enable Iranian personnel to learn design principles that could be of some, albeit marginal, utility in future efforts to design and construct indigenously a larger reactor for plutonium production.



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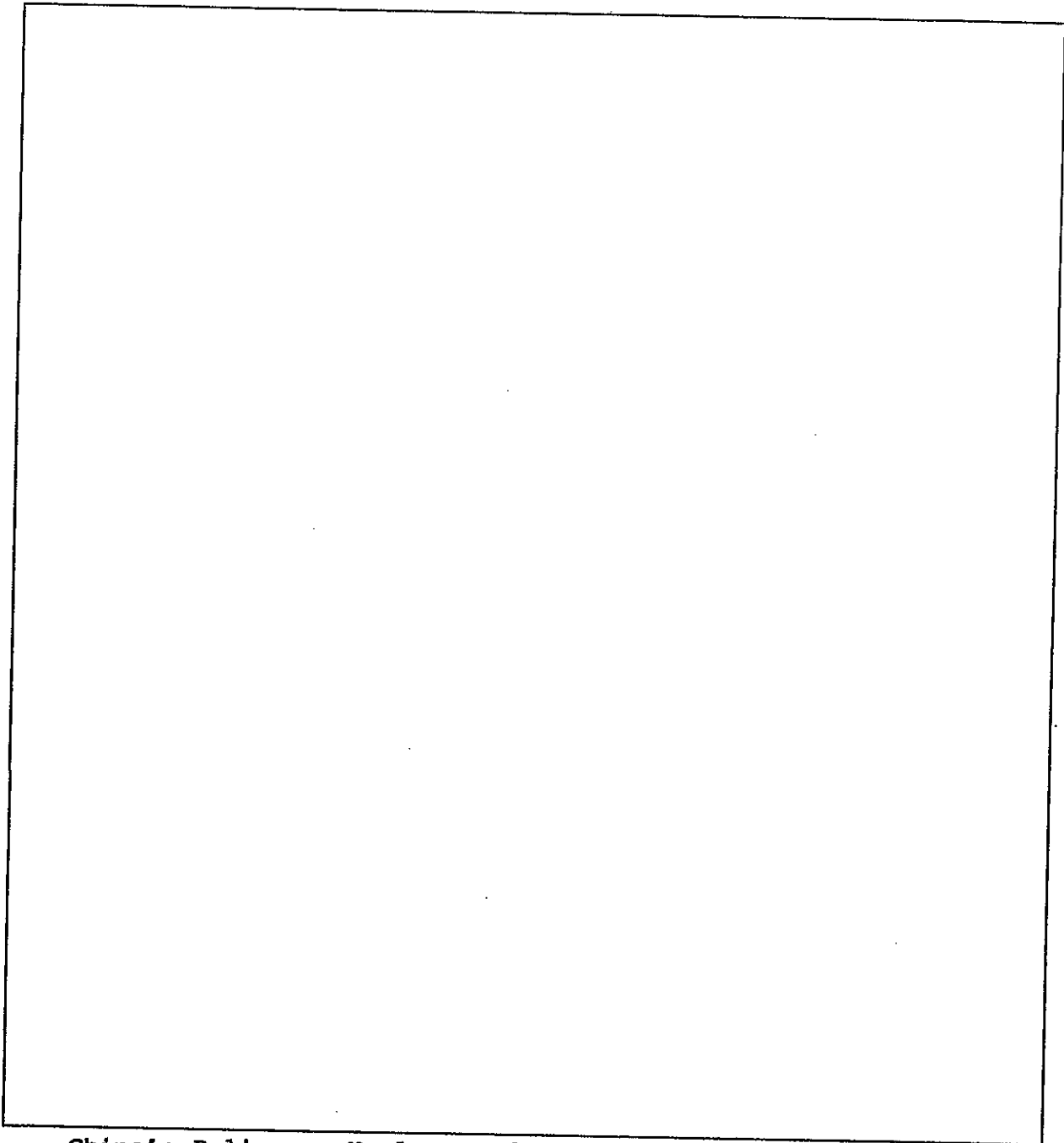


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China's Policy on Nuclear and Dual-Use Export Controls

(U) China has taken significant steps in 1997 to implement nuclear and nuclear-related dual-use export controls. On May 27, 1997, China issued a "State Council Notice Regarding Strict Implementation of China's Nuclear Export Policy." This notice stated China's policy of "not advocating, not encouraging, and not carrying out nuclear weapons proliferation, and not assisting other countries in

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developing nuclear weapons." In addition, the notice stated China's nuclear export policy that nuclear export items are to be used only for peaceful purposes, exported under IAEA safeguards, and transferred to a third party only with China's permission. The notice highlighted China's policy not to provide assistance to any nuclear facility which does not accept IAEA safeguards.

(U) The State Council Notice was sent to all Chinese government ministries and non-governmental entities, and directed that the export of nuclear materials, nuclear technology, and non-nuclear materials used in reactors would be exclusively undertaken by China National Nuclear Corporation (CNNC) and other Government-designated corporations. The notice provided for a system of peaceful-use guarantees, end-use certificates, and supervision by relevant government departments over all nuclear-related exports to both nuclear and non-nuclear facilities. The notice also specifically covered the transfer of nuclear technology, as well as the exchange of technical personnel or technical information.

(U) The State Council Notice also provided that specific lists of items covered (including nuclear materials, nuclear facilities and relevant technologies, non-nuclear materials used in reactors, and nuclear-related dual-use equipment, materials, and related technology) would be published by the Ministry of Foreign Affairs, the Ministry of Foreign Trade and Economic Cooperation, and the China Atomic Energy Authority. In our ongoing consultations on nuclear cooperation and export controls, the Chinese side stated that in June 1997 it had published a list of nuclear-related dual-use items and that this list is identical to the dual-use list created by the Nuclear Suppliers Group (NSG), as published in IAEA INFCIRC 254, Part 2.

(U) While the State Council Notice was a significant step forward, the United States continued to urge China to promulgate detailed nuclear and dual-use export controls. On August 1, China announced that the State Council had approved in principle nuclear export control regulations, and these regulations were promulgated by China on September 10.

(U) The new nuclear export control regulations restate China's nuclear export policy that: (1) all exports are for peaceful purposes only; (2) recipients must accept IAEA safeguards; and (3) no reexport to a third country without Chinese government approval. The regulations require

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assurances on physical protection and reaffirm China's policy of prohibiting assistance to unsafeguarded nuclear facilities. The control list issued with the regulation was later described by Chinese officials as identical to the trigger list created by the NSG, published in IAEA INFCIRC 254, Part 1. An export control licensing system has been established which provides for review of nuclear export control applications. License applications are reviewed by the China Atomic Energy Authority, the State Commission of Science, Technology and Industry for National Defense, the Ministry of Foreign Trade and Economic Cooperation, and when appropriate the Ministry of Foreign Affairs. Civil and criminal penalties are included for violators of the regulation. The regulations also provide that if the government of the recipient country violates a guarantee made in accordance with these regulations or if there is a danger of proliferation, the relevant Chinese government departments may terminate the relevant exports.

(U) China has also publicly announced that it plans to promulgate a final set of regulations covering the export of nuclear-related dual-use items by mid-1998, and has stressed that the May 1997 State Council Notice established controls on such items in the interim.

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Chinese Participation in International Export Control Regimes

(U) China has historically resisted participation in international nonproliferation and export control regimes. Indeed, it was not until 1992 that China became a member of the NPT. However, in May of 1997, after significant U.S. discussion on the importance of participation in international export control regimes, China attended the NPT Exporters Committee meeting (also known as the Zangger Committee) as an observer. The Chinese attended the October 16 meeting as a full member.

(U) Chinese membership in the Zangger Committee is particularly important because it is the first international export control organization that China has joined. Membership in the Zangger Committee will expose China to constructive interactions in a multilateral forum, familiarize China with international export control norms and practices, and continue to develop Chinese expertise in this area.

Status of China's Nonproliferation Policies and Practices Today

(U) The Administration's goals during our consultations with China on nonproliferation and nuclear cooperation have been consistent with the goals of the 1985 and 1990 legislation establishing certification requirements for implementation of the 1985 agreement. These goals have been to: (1) terminate Chinese assistance to Pakistan's unsafeguarded and nuclear explosive program, (2) curtail Chinese nuclear cooperation with Iran's peaceful safeguarded nuclear program, (3) establish an effective Chinese nuclear and dual-use export control system, and (4) get China to join multilateral export control efforts. Obtaining these objectives would significantly strengthen the international

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nuclear nonproliferation regime and would lay the basis for satisfying the statutory requirements for implementing the 1985 agreement.

(U) With respect to satisfaction of these objectives (and the present status of Chinese policies and practices), China has taken the following steps:

-- (U) China declared publicly on May 11, 1996, that it will not assist unsafeguarded nuclear facilities. We have no direct evidence that China has transferred equipment or material to Pakistan's unsafeguarded nuclear program since that time, and we have no basis for concluding that China is not honoring its pledge.

-- (U) China's State Council has issued a public notice in May 1997 providing guidance to non-governmental entities and all ministries, commissions and other agencies under the State Council on China's nuclear export control policies. This notice states that China's policy is not to assist other countries in developing nuclear weapons, and that Chinese nuclear exports are to be used only for peaceful purposes, under IAEA safeguards, subject to retransfer controls, and may not be provided to an unsafeguarded nuclear facility. The notice covers nuclear technology, exchange of technical personnel and technical information, and dual-use items and technology.

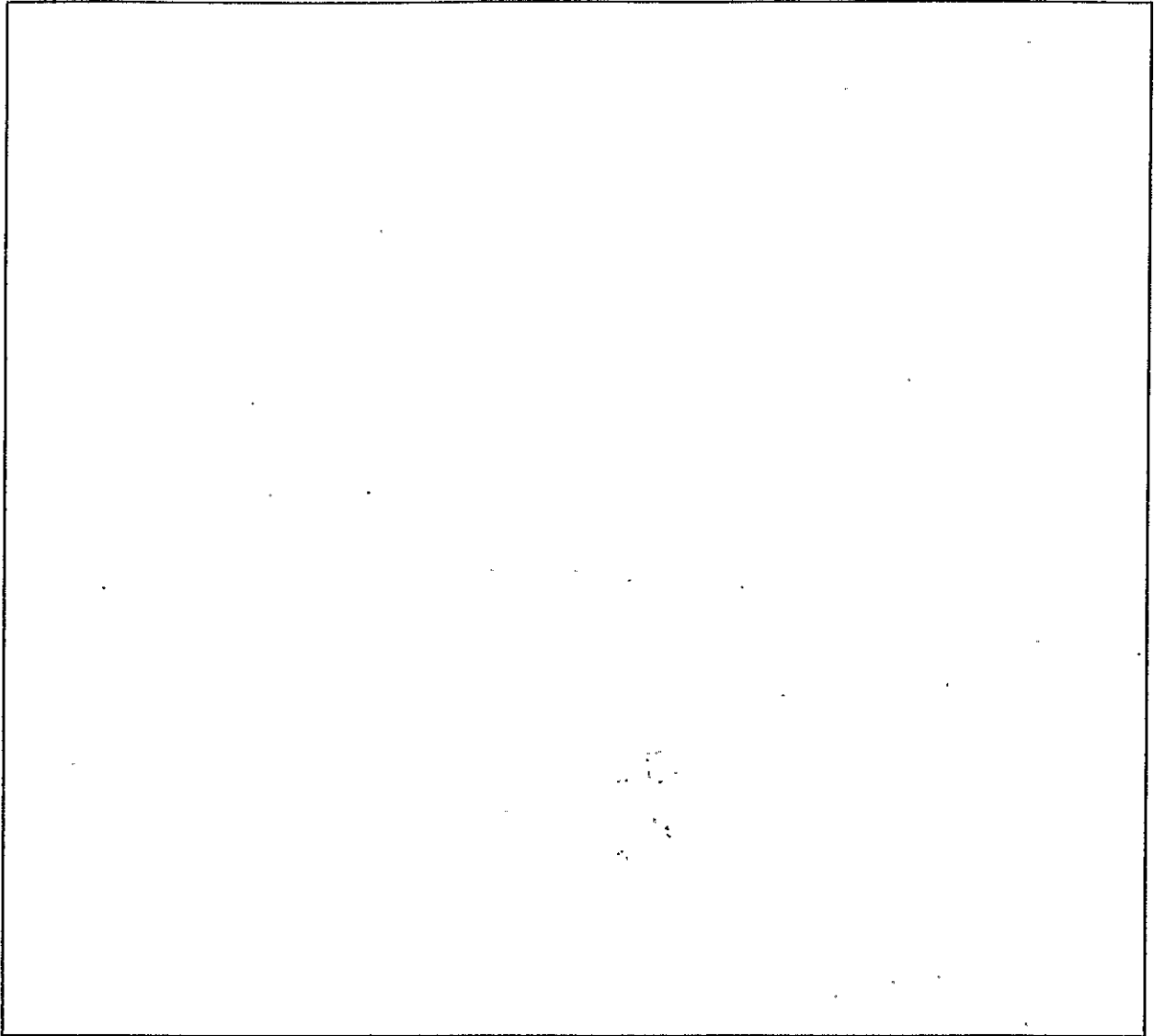
-- (U) China published detailed nuclear export control regulations in September 1997 which contain a list of controlled nuclear items that are identical to the trigger list of the Nuclear Suppliers Group. China's public notice of May 1997 references a list of controlled dual-use items that is identical to the list adopted by the Nuclear Suppliers Group. China has publicly stated it will publish regulations covering the export of dual-use items by mid-1998, and stated that all government departments have the authority to exercise "catch-all" controls on nuclear dual-use items. China has declared that it strictly prohibits transfers of nuclear weapon-related technology and does not provide assistance to nuclear explosive activities in addition to unsafeguarded nuclear facilities.

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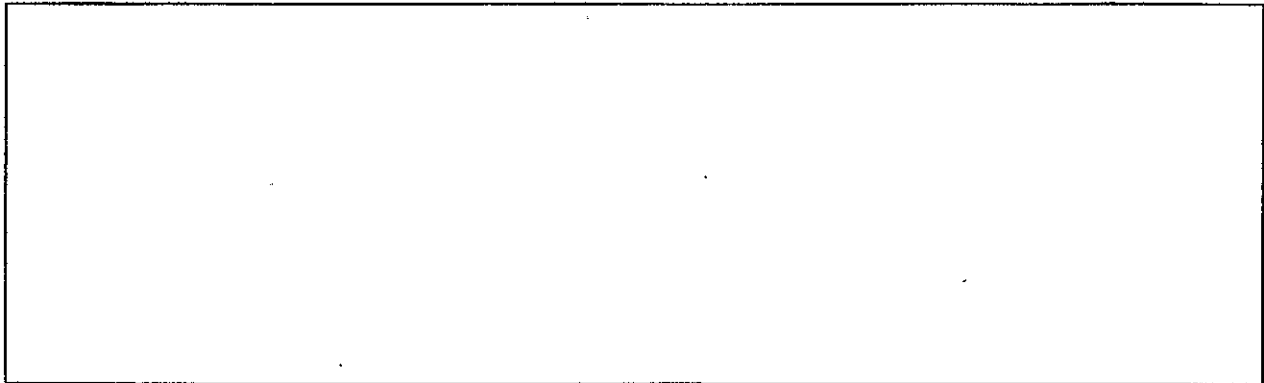
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-- (U) China attended the May 1997 meeting of the Zangger Committee as an observer, and attended the Zangger Committee at its October 16 meeting as a member.



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(U) In summary, we believe that each of the U.S. objectives set forth above has been met, and that China has provided "clear and unequivocal assurances that it is not assisting and will not assist any nonnuclear-weapon state, either directly or indirectly, in acquiring nuclear explosive devices or the materials and components for such devices." In our view, these assurances are consistent with the requirements of Public Laws 99-183 and 101-246. The USG intends to continue monitoring closely Chinese nuclear cooperation with third countries to assure that China carries out its stated policy. We also believe that continued and regular nonproliferation consultations with the People's Republic of China will offer the best opportunity to ensure a continued common understanding in this area and, through these interactions, to exert increased U.S. influence over the future direction and implementation of PRC nonproliferation policy.

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