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Testimony before the U.S.-China
Economic and Security Review Commission
Washington D.C.
“China’s Nonproliferation Practices”**

May 20, 2008

Chairman Reinsch, Commissioner Brookes, Commissioners of the U.S.-China Economic and Security Review Commission, I’d like to express my appreciation for the opportunity to appear before you today and discuss China’s nonproliferation practices. In my opening remarks I’d like to point out areas where the United States and China have successfully cooperated on matters of nonproliferation, areas of continuing concern, and some promising areas for new cooperation.

Let me say at the outset that the United States remains committed to working toward a relationship with China that enhances America’s security, addresses China’s legitimate concerns, and supports the security interests of our friends and allies. To that end, we continue to engage China on nonproliferation matters in a constructive and forthright manner – building upon shared interests when possible and raising concerns when necessary. We remain committed to expanding our areas of common interest with China, and improving our existing cooperation on nonproliferation. At the same time, we have serious concerns about the proliferation activities of certain Chinese entities and we continue, when necessary, to take action in response to those activities. We work constructively with China on a number of important proliferation issues, yet we also have made it clear that China must do more to halt the spread of WMD, missiles, and conventional weapons and related technologies.

Areas of Chinese Cooperation

The Government of China has come to recognize that it has a fundamental security interest in preventing the spread of weapons of mass destruction. In many ways, it has demonstrated its interest in becoming a responsible nonproliferation partner. It is now a party to many international nonproliferation instruments, including the Nuclear Nonproliferation Treaty (NPT), the Biological and Toxin Weapons Convention (BWC), the Chemical Weapons Convention (CWC), and is also a member of the Nuclear Suppliers Group (NSG) and the Zangger Committee. China has adopted export controls similar to the Australia Group control lists on chemical and biological related items, and has enacted missile-related export controls. And, the Government of China has approved a series of new laws and regulations designed to establish comprehensive national export control regulations.

China has cooperated in efforts to put pressure on Iran and North Korea via their role in the Six Party Talks. In the case of North Korea, China has made it clear that it does not condone Pyongyang's nuclear aspirations but admittedly has not actively cooperated to ensure closure of North Korean front companies inside China that facilitate proliferation or the Chinese companies that supply them. Following North Korea's missile launches of July 2006, and its October 2006 nuclear test, China joined in the Security Council's unanimous vote to adopt strong measures under UNSCR 1695 and UNSCR 1718, the latter of which imposed Chapter VII sanctions including a prohibition on transfers to North Korea of a broad range of conventional weapons, WMD-related items and luxury goods. China continues to serve as host to the Six-Party Talks, and has played a constructive role in formulating and implementing both the February 13, 2007 Initial Actions and the October 3, 2007 Second-Phase Actions agreements. With Chinese cooperation, the Six-Party process has brought us to the point where North Korea has agreed and begun to disable the three core facilities at Yongbyon -- the 5MW(e) Experimental Reactor, the Reprocessing Plant (Radiochemical Laboratory), and the Nuclear Fuel Rod Fabrication Facility. As we work to ensure that North Korea honors its commitments, continued Chinese support is pivotal in maintaining a united front.

With regard to Iran, China shares our goal of preventing Tehran's acquisition of a nuclear weapons capability. Though differences of opinion remain on how to best achieve this end, China has supported sanctions as a mechanism to increase pressure on Iran. China joined the other members of the Security Council in adopting UN Security Council Resolutions 1737 and 1747, and, just this March, UNSCR 1803. These Security Council resolutions impose a series of Chapter VII sanctions on Iran. Among other things, these resolutions require Member States to prevent the supply to Iran of certain items, technology, training or financial assistance that could contribute to its proliferation-sensitive nuclear activities or its development of a nuclear weapon delivery system. The resolutions also require Member States to freeze the assets of entities and individuals who are identified in the UNSCR Annexes as having a significant role in Iran's nuclear and missile programs, and those acting on their behalf, or owned or controlled by them. Moreover, these resolutions prohibit Iran from exporting arms, urge Member States to restrict heavy arms transfers to Iran, and call for vigilance in the activities of financial institutions in their territories with all banks domiciled in Iran and their branches and subsidiaries abroad. Resolution 1803 calls on states to inspect certain cargo to and from Iran to prevent trafficking in the items prohibited under the relevant resolutions, and also targets those who have assisted designated entities and individuals in evading or violating UNSC sanctions. As a member of the P5+1, China has reiterated that, should Iran continue to refuse verification and compliance negotiations, additional sanctions will be necessary to augment those already in place.

These Chapter VII sanctions imposed on Iran and the DPRK send a clear and compelling signal that the international community will not tolerate the proliferation of weapons of mass destruction. And it is up to the entire international community to remain unified and consistent in its message to North Korea and Iran that international concerns regarding their nuclear and missile ambitions must be resolved.

Beyond our cooperation in multi-lateral venues that address proliferation, there are a number of instances where the Chinese have expressed an interest in export control cooperation, including technical exchanges and training. To the extent that it is permissible within the law, we have endeavored to provide such assistance.

One such example is the State Department's Export Control and Related Border Security (EXBS) Program, which has supported training for Chinese licensing and enforcement officials. Since 2006, the EXBS program has coordinated two training events to help Chinese Customs officers identify controlled commodities. These events were sponsored by the Department of Energy's International Nonproliferation Export Control Program (INECP) and took place in Shanghai and Dalian, focusing on training Chinese frontline Customs enforcement officials and technical experts responsible for interdicting illicit shipments of WMD-related, "dual-use," strategic commodities. EXBS also plans to offer Chinese Customs seaport interdiction training at the working seaport in Charleston, South Carolina.

Other interdiction-related activities include China's participation in the Department of Homeland Security's Container Security Initiative and the Department of Energy's Megaports Initiative. Both initiatives are aimed at improving detection of radiological and nuclear items at seaports.

In the area of industry-related export control-related training, EXBS sponsored a successful "Industry-Government Forum" for Chinese inter-ministry participation in mid-January, and plans to work with China on its development of an industry "Internal Control Program." Additionally, in coordination with the EXBS program, the INECP program is collaborating with the China Atomic Energy Authority (CAEA) within the CAEA-DOE Peaceful Uses of Nuclear Technology (PUNT) framework on the development of technical guides on nuclear and nuclear dual-use materials, equipment and technology. It is expected that these guides will enhance the capacity of Chinese licensing and industry specialist to evaluate export license applications and train Chinese industry and enforcement officials.

For the future, we expect China will agree to further exchanges on a wide variety of legal regulatory, industry outreach and enforcement issues, including practical inspection, targeting, and investigation techniques.

In addition to bilateral training initiatives, we also hope that China will join the Proliferation Security Initiative (PSI), which was created by President Bush to facilitate cooperation in the interdiction of nuclear, chemical and biological weapons, their delivery systems, and related technologies. The hallmark of the PSI is the close, innovative interaction between diplomatic, military, intelligence, law enforcement, and economic tools to combat proliferation. The PSI has become an important tool to interdict shipments, disrupt networks, and hold companies accountable for their activities. Beijing has thus far been reluctant to join with the almost 90 nations participating in the PSI, citing legal concerns. It also is quite possible that Beijing feels it must take regional concerns into account regarding its participation in the PSI, even though we have

repeatedly clarified that PSI is not directed at any particular country. China's commitment and participation in the PSI effort would be in keeping with China's stated commitment to nonproliferation and would be a valuable contribution to international security. We will continue to address Beijing's concerns and emphasize that all PSI actions are taken in accordance with states' domestic authorities and international law.

Real Concerns Remain

The proliferation policies of the Government of China have improved. However, a number of Chinese entities continue to supply items and technologies useful in weapons of mass destruction, their means of delivery, and advanced conventional weapons to regimes of concern. We continue to find that China has important deficiencies in translating its declared nonproliferation objectives into its export control system, particularly with regard to thorough implementation, transparent enforcement and possibly, willingness.

We continue to engage the Chinese government in an effort to halt commercial transactions that violate UNSC Chapter VII sanctions, nonproliferation norms, and Chinese law, but our efforts are met with mixed results. We still observe Chinese firms and individuals transferring a wide variety of weapons-related materials and technologies to customers around the world that we judge would use or retransfer the weapons in a manner that threatens regional stability and international security – including to Burma, Cuba, Iran, Sudan and Syria.

In addition, we have raised with the Chinese government our concerns that Chinese seaport facilities and international airports are transit and transshipment points for governments and entities that wish to ship sensitive materials to programs of proliferation concern. Certainly we would hope that China wishes to avoid a global reputation as a safe transit and transshipment point for foreign proliferators.

Judging the extent to which the Chinese government or Chinese officials are witting of the proliferation activity of Chinese entities is difficult given the lack of transparency noted earlier. One factor enabling proliferation activities is the decentralization that has become a key feature of China's economic reform. We simply do not know enough about China's export control regime, and cannot assess the level of control or awareness that Chinese officials have over increasingly free-wheeling companies that trade in dual-use materials applicable to WMD and their delivery systems. These transfers remain a serious concern, and we will continue to press Chinese officials to be vigilant and act vigorously to investigate and enforce their export control regulations.

We are particularly concerned that Chinese firms have continued to supply Iran with a range of conventional military goods and services in contravention of the restrictions within these UN Security Council Resolutions. Inevitably, some of this weaponry has found its way to insurgents and militants operating in Iraq, as well as Hizballah terrorists in the Levant. The United States has sanctioned a number of Chinese

entities under the Iran and Syria Nonproliferation Act and Executive Order 13382 for the sale of items on multilateral control lists or items with the potential to make a material contribution to ballistic or cruise missile programs or WMD programs.

With specific reference to conventional weapons, China, like many other countries, views its trade in conventional weapons as helping nations to meet their perceived defense needs and asserts that these transfers are in accordance with international norms. Despite this assertion, evidence indicates that Iran has transferred Chinese weapons to Shia militants in Iraq as well as terrorist groups such as Hizballah. For example, the Misagh-1 (the Iranian version of a Chinese MANPADS with Chinese components) was used in Iraq in 2004. In 2006, a Chinese C-802 anti-ship cruise missile, which has been supplied only to Iran in the region, was used by Hizballah to attack an Israeli naval vessel. China appears to accept at face value the end-use assurances and pledges against retransfers it receives from its customers, despite the fact that some of its customers have links to terrorists and have records as unreliable end-users, such as Iran. Nevertheless, China has demonstrated sensitivity to growing international concerns about recipients of some of its arms sales, notably Sudan. We continue to seek greater Chinese cooperation in curtailing transfers to state sponsors of terrorism and in stricter and more uniform application of its export control safeguards.

We have discussed with China the importance of addressing its weak export control enforcement and detection capabilities in order to rein in the proliferation activities of certain Chinese companies. If China is to have in place a rigorous export control system, it must devote additional resources, increased enforcement, rigorous implementation of catch-all provisions, and more investigations and prosecutions of violators of its export control laws. Moreover, we have encouraged China to share timely and substantive information on actions the government has taken in response to U.S. demarches. A level of transparency in China's nonproliferation activity is absolutely essential; heretofore this has been notably lacking. We will continue, as warranted, to impose sanctions against Chinese entities engaged in proliferation and will continue to highlight our ongoing concerns about China's proliferation record with the Chinese government.

An area of potential concern is possible additional Chinese support for Pakistan's civil nuclear program. As a member of both the NPT and the NSG, China has shown its commitment to enforcing international nonproliferation and export control norms. When China joined the NSG in 2004, it made a statement regarding the safeguarded nuclear facilities in Pakistan it would continue to support as "grandfathered." These are: the Karachi nuclear power plant; Chasma nuclear power plants 1 and 2; and Parr research reactors 1 and 2. Recently, Pakistan has expressed interest in increasing domestic nuclear power generation and has made overtures to China for support. This is something we continue to watch closely to ensure both that China abides by its commitments to the NSG and to ensure that ongoing Chinese cooperation with Pakistan does not support Pakistan's un-safeguarded nuclear weapons program.

Areas of Promising New Cooperation

Sanctions, of course, always remain an option to deter proliferating behavior. We have made an effort to use these sanctions in a targeted and constructive way. Avoiding those sanctions is a strong inducement for legitimate Chinese corporations to enact and enforce rigorous nonproliferation policies. As an alternative to sanctions, we have worked to encourage China to become a willing partner in addressing a common nonproliferation agenda.

Mr. Chairman, to this end, I would like to discuss one particular initiative that my bureau has pursued. As I have already noted, there are a number of Chinese entities who, after being sanctioned by the U.S. for proliferation related activity, have seen their international reputations damaged and their exports dramatically reduced. Several Chinese firms sanctioned under U.S. law or Executive Order have expressed an interest in taking actions that would result in relief from the sanctions. We can leverage this desire by Chinese firms to come out from under sanctions and advertise the tangible benefits that can accrue to companies that wish to abandon proliferation.

As part of a broader nonproliferation strategy that we devised last year, we held discussions with two major Chinese companies – the China North Industries Corporation (NORINCO) and the China Great Wall Industries Company (CGWIC) – both of whom have been sanctioned repeatedly in the past for proliferation-related activities. We have made absolutely clear to these entities that any trade in technologies useful in WMD programs or delivery systems would constitute proliferation-related behavior, and would subject them to possible future sanctions. We also continue to make it clear to them that any conventional arms transfers to countries such as North Korea and Iran are equally unacceptable. But, we have indicated that their decision to cease such proliferation activity would be recognized by the United States. A commitment to end their proliferation-related activity and concrete, positive action towards this end would likewise increase prospects that Western companies and international financial institutions would have no concerns in developing broad economic and trade ties with these Chinese companies.

The response of NORINCO and CGWIC has been very encouraging. Both companies have adopted comprehensive internal compliance programs and are implementing policies to ensure that inadvertent transactions do not occur. NORINCO, for example, has committed to refrain from selling armaments to North Korea or Iran and claims to have turned down over \$100 million in potential contracts with sanctioned regimes. And there are indications that the positive results are not limited only to these two companies. I fully anticipate that if tangible benefits of a solid nonproliferation record begin to accrue, additional Chinese companies will seek to emulate the nonproliferation policies of NORINCO and CGWIC.

This effort is, of course, only in its early stages. We need to ensure that these entities actually perform as they have pledged. We need to make sure they do not simply spin-off their proliferation-related activity to subsidiaries or sister companies so that the problem remains under another guise. And, these companies need to demonstrate that

they are committed to the path of good corporate citizenship over the long haul. However, the possible impact of success would be dramatic. To have a commitment from a company such as NORINCO, a firm that has been sanctioned seven times since 2001, to get out of the proliferation business is a very positive development and one that could serve as an example to other Chinese companies. I am guardedly optimistic that our efforts can bring about meaningful results.

Conclusion

The United States will continue to press China to implement effectively its export control regulations, eliminate loopholes, and reign in the proliferation activities of certain companies. And we will continue to work with Chinese entities that have a serious desire to become good corporate citizens of the international business community. Continued proliferation by Chinese entities to countries of concern is neither in U.S. interests, nor China's. Working together, we can build upon our shared commitment to ensure an end to such proliferation activity.