



PM/79/86

PRIME MINISTER

②

Prime Minister

[Signature]

Hong Kong: New Territories Leases

1. In my minute of 2 July I said that I had authorised the Ambassador in Peking to approach the Chinese on the question of land leases in the New Territories of Hong Kong, and undertook to keep you informed of developments.

2. The Ambassador took action on 5 July; on 24 September the Chinese gave him their reply. While friendly in tone it referred to the legal steps which we had in mind as "unnecessary and inappropriate" and warned of adverse repercussions should we persist. The reply recalled the remarks made to the Governor by Vice-Premier Deng Xiaoping in March, when he said that China regarded Hong Kong as Chinese territory but that when the time came to deal with this question in the future, the Chinese would take account of the special circumstances of Hong Kong and would not harm the interests of the investors. It suggested that these remarks should serve to stabilise the confidence of investors. I attach

/// copies of Peking telegrams Nos 825-827 containing, respectively, the Ambassador's report on his call at the Foreign Ministry, the text of the Chinese memorandum, and Mr Cradock's comments; / and of Hong Kong telegram No 1343 which records the Governor's views.

3. The Chinese response is disappointing, and the reasons for it are not altogether clear. It may be that they regard our proposal as premature, or that they consider the future of Hong Kong as a matter for their decision alone, and that they are unwilling to allow us to appear to be taking the lead in any way. They may also have in mind the implications for their relations with Taiwan. Whatever their reasons, the message is plain enough and there can be no question of going ahead with our original plans. However, the problem of the land leases will have to be solved sooner or later if confidence in Hong



Kong is to be maintained, and we will need to consider alternative ways of dealing with it in due course.

4. I am considering what, if any, response should be made to the Chinese, and in particular, how we should handle the question during Premier Hua Guofeng's visit. In the meantime, it is essential to maintain secrecy: a leak could be very damaging as well as embarrassing.

5. I am sending copies of this minute to our OD colleagues, to the Attorney-General and to Sir John Hunt.

A handwritten signature in black ink, consisting of a large, stylized 'C' followed by a horizontal line.

(CARRINGTON)

A handwritten signature in blue ink, appearing to be 'A. H.' or similar, written in a cursive style.

Foreign and Commonwealth Office

9 October 1979

9 OCT 1979



SECRET



Hong Kong II
filed to

10 DOWNING STREET

From the Private Secretary

18 October 1979

HONG KONG:
NEW TERRITORIES LEASES

Please add
to file title

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute to her of 9 October on this subject. She has taken note of its contents.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

M. O'D. B. ALEXANDER

G. G. H. Walden, Esq.,
Foreign and Commonwealth Office.

SECRET

L. Chin



PRIME MINISTER

PM/79/61

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 Prime Minister
 To note.

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Hong Kong: New Territories Leases

1. When you saw the Governor of Hong Kong on 15 June, we discussed briefly the question of land leases in the New Territories.
2. Most of the territory of Hong Kong (the new Territories) was leased from China for 99 years under an agreement signed in 1898. The Chinese consider all the treaties concerning Hong Kong, including that one, as "unequal" and do not recognise their validity. However, because of the 1898 Agreement, the many thousand land leases granted by the Crown in the New Territories are all written to end in 1997.
3. The ever shortening period of these leases is beginning to affect investment decisions. Unless something is done within the next few years, investment and confidence will be seriously affected. The problem is not yet acute. Nevertheless now is a particularly good time to tackle it. Our current relations with China are good. Leaders such as Deng have made it clear that they need Hong Kong's contribution to China's modernisation and want to preserve investment confidence. Both the Governor himself and our Ambassador in Peking strongly believe that such a favourable combination of circumstances may not recur.
4. The proposed solution to the land leases problem is that the Hong Kong Government should grant leases without a fixed term and alter existing leases to the same effect. At the same time, any legal obstacle on the British side to the Governor continuing to administer the New Territories after 1997 would be removed by an Order in Council. The Order would not have to be laid before Parliament. These moves would make it possible for British administration to continue beyond 1997 if the Chinese so wish. But they do not contradict the Chinese position on Hong Kong. Nor do they call for any response from the Chinese or any action by them. Nevertheless, we need to know that the Chinese are not going to give a public rebuff before going ahead.



5. With the agreement of the previous Government, the Governor took the first step in telling the Chinese what we were thinking of doing during his visit to Peking in March. He deliberately put the matter in general terms and treated it in a low key. The indications are that the Chinese may not have fully understood what we are intending to do. I have, therefore, agreed that we should follow up the Governor's exploratory move by telling the Chinese in more detail what we propose to do. Clearly we cannot go ahead with the Order in Council unless we are satisfied that the Chinese have understood what we propose to do, have had time to consider it, and to object if they wish. The Ambassador in Peking hopes to take action in the next week. The Chinese reaction to this further approach by the Ambassador should make this clear.

6. If the Chinese do not object to what is proposed, we should make the Order in September so that something can be said about the future of the leases in the Governor's Legislative Council statement in Hong Kong in October. If the Chinese do react unfavourably, our approach will have been made in private and no harm to our relations will have been done.

7. I shall keep you and our colleagues in OD, to whom I am sending copies of this minute, informed. I am also sending a copy to the Attorney-General and to Sir John Hunt.

(CARRINGTON)

Foreign and Commonwealth Office

2 July 1979

2 JUL 1974

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456
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SECRET

Hong Kong HS
9



10 DOWNING STREET

From the Private Secretary

5 July 1979

Hong Kong: New Territories Leases

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute (PM/79/61) of 2 July about the land leases in the new territories of Hong Kong.

The Prime Minister has taken note of the further action which Lord Carrington proposes to take in this matter.

I am sending copies of this letter to the Private Secretaries to the other members of OD, to Bill Beckett (Law Officers' Department) and Martin Vile (Cabinet Office).

B. G. CARTLEDGE

J.S. Wall, Esq.,
Foreign and Commonwealth Office.

WB

SECRET

SECRET

AMENDED DISTRIBUTION: 24/9/79

196

GR 658

SECRET

TOP COPY

DESKBY HONG KONG 241100Z
FM PEKING 240935Z SEP 79
TO IMMEDIATE FCO
TELEGRAM NUMBER 825 OF 24 SEPT 79
AND TO IMMEDIATE HONG KONG

HKK 20/1		
RECEIVED IN THE FCO NO. 51		
25 SEP 1979		
LESA	INDEX	PA
No	7259	2

NEW TERRITORIES LEASES

See 196

195

1. I WAS SUMMONED TO THE FOREIGN MINISTRY ON 24 SEPTEMBER BY ASSISTANT FOREIGN MINISTER SONG, WHO READ OUT TO ME THE REPLY TO OUR PROPOSAL OF 5 JULY AND THEN HANDED ME A MEMORANDUM GIVING THE TEXT (SEE MIFT)

2. I UNDERTOOK TO TRANSMIT THIS. GIVING MY PRELIMINARY AND PERSONAL REACTION I SAID THAT, WHILE THE FRANKNESS OF THE CHINESE COMMENTS WOULD BE APPRECIATED, I FOUND IT A DISAPPOINTING REPLY. AS HAD EARLIER BEEN MADE PLAIN, WE APPRECIATED THE STATEMENT BY VICE-PREMIER DENG IN MARCH AND THIS HAD HAD A GOOD EFFECT. BUT, THERE WAS A SHORT TERM PROBLEM ABOUT LAID LEASES WHICH COULD NOT BE DEALT WITH BY GENERAL ASSURANCES. IT WAS IN ORDER TO MEET THIS PROBLEM AND THE NEED FOR SOME LEGAL TIDYING UP ON OUR SIDE THAT WE PUT FORWARD OUR PROPOSALS. WE WERE STILL FACING A PROBLEM WHICH WOULD BECOME MORE ACUTE AS TIME WENT ON. BOTH SIDES HAD AN INTEREST IN THE CONTINUING PROSPERITY OF HONG KONG. DID THE CHINESE GOVERNMENT CONSIDER THAT ANY OTHER MEASURES MIGHT BE TAKEN THAT WERE NOT "UNNECESSARY AND INAPPROPRIATE" AND COULD MR SONG EXPAND ON THE REASONS FOR THE CHINESE GOVERNMENT'S OBJECTIONS?

3. SONG REPLIED THAT THE GIST OF THE CHINESE POSITION WAS IN THE MEMORANDUM. CHINA AND BRITAIN BOTH SUPPORTED THE PROSPERITY AND FURTHER DEVELOPMENT OF HONG KONG. THE CHINESE GOVERNMENT HAD GIVEN CONSIDERATION TO THE MEASURES THAT WE PROPOSED TO MAINTAIN CONFIDENCE, BUT TOOK THE VIEW THAT, SO LONG AS BOTH SIDES COOPERATED, CONFIDENCE COULD BE MAINTAINED.

SECRET

THE HONG KONG QUESTION WAS COMPLEX, NOT ONLY A QUESTION OF SINO BRITISH RELATIONS, BUT ONE IN WHICH THE OUTSIDE WORLD WAS INTERESTED. ANY MEASURES WHICH PREJUDICED CHINA'S POSITION ON HONG KONG WOULD HAVE REPERCUSSIONS IN THE WORLD. THE BRITISH SIDE HAD PROBABLY GUESSED THE LIKELY CHINESE RESPONSE WHEN THEY PUT THE PROPOSALS FORWARD. IF THE BRITISH SIDE DID NOT FOLLOW CHINESE ADVICE THEY COULD GUESS WHAT CHINESE REACTION WOULD BE AND THAT WOULD NOT ASSIST CONFIDENCE. BOTH SIDES SHOULD TRY TO ENCOURAGE THE FURTHER DEVELOPMENT OF HONG KONG, ON THE BASIS THAT CHINA'S POSITION WAS NOT PREJUDICED.

4. I EXPLAINED THAT THIS WAS PRECISELY WHAT WE HAD TRIED TO DO. INVESTORS IN HONG KONG LOOKED NOT ONLY AT CHINESE STATEMENTS BUT ALSO AT THE HARD LEGAL POSITION AND NATURALLY ASKED WHAT THEIR ASSETS WERE WORTH AS THE TIME FRAME SHORTENED. I FEARED THAT IF WE DID NOTHING NOW, CONFIDENCE WOULD BEGIN TO WANE, NOT PERHAPS TOMORROW BUT VERY SOON, AND ONCE THAT BEGAN TO HAPPEN, IT WOULD BE VERY DIFFICULT TO RESTORE. THAT WAS AND REMAINED OUR PROBLEM. I HOPED THAT BOTH SIDES COULD KEEP IN TOUCH ON THIS AND ANY OTHER PROBLEMS AFFECTING HONG KONG AND ASKED WHETHER THERE WOULD BE ANY PARALLEL MESSAGE VIA THE NCHA IN HONG KONG.

5. SONG SAID THAT THEY WOULD BE INFORMING NCHA IN HONG KONG BUT THE FORMAL REPLY WAS THE ONE HE WAS DELIVERING. HE AGREED THAT WE SHOULD MAINTAIN CLOSE CONTACT. IF WE HAD ANY VIEWS OR SUGGESTIONS WE SHOULD PUT THEM FORWARD. HE AGAIN DREW OUR ATTENTION TO DENG'S REMARKS IN MARCH AND SAID SPECIAL WEIGHT SHOULD BE ATTACHED TO THEM.

6. I SAID THAT WE NOTED AND GREATLY APPRECIATED THOSE REMARKS BUT THE FACT WAS WE STILL HAD A PROBLEM.

CRADOCK

FILES:
HEAD OF HKGD
HEAD OF FED
FS
FS/LFS
FS/MR BLAKER
FS/PUS
SIR A. DUFF
SIR E. YOUDE (PERSONAL)
MR CORTAZZI

S E C R E T
(AMENDED DISTRIBUTION 24 SEPTEMBER)

(K10)

CR 400

TOP COPY

SECRET
DESKBY HONG KONG 241100Z
FM PEKING 240050Z SEP 79
TO IMMEDIATE FCO
TELEGRAM NUMBER 826 OF 24 SEPT 79
AND TO IMMEDIATE HONG KONG

HKK 040/1		NO. 51
25 SEP 1979		
INDEX	PA	REGISTRY
No	929	&

Set 124

(K14)

MIPT: NEW TERRITORIES LEASES

ON JULY 5, 1979 YOUR EXCELLENCY TOLD THE CHINESE GOVERNMENT OF SOME LEGAL STEPS WHICH THE BRITISH SIDE INTENDED TO TAKE IN OCTOBER FOR SOLVING THE QUESTION OF LEASES FOR LAND IN THE NEW TERRITORIES. ON THE INSTRUCTIONS OF THE CHINESE GOVERNMENT HERE IS OUR REPLY:

THE CHINESE GOVERNMENT'S POSITION ON THE QUESTION OF HONG KONG IS CONSISTENT AND CLEAR, AND IT IS WELL KNOWN TO THE BRITISH GOVERNMENT. IN A CONVERSATION WITH SIR CRAWFORD MURRAY MACLEHOSE, THE GOVERNOR OF HONG KONG, IN MARCH, VICE-PREMIER DENG XIAOPING REAFFIRMED THAT HONG KONG IS PART OF CHINA'S TERRITORY AND ALSO POINTED OUT THAT, WHEN THE TIME COMES TO DEAL WITH THIS PROBLEM IN FUTURE, WE WOULD TAKE INTO ACCOUNT THE SPECIAL CIRCUMSTANCES IN HONG KONG AND WOULD NOT HARM THE INTERESTS OF THE INVESTORS. VICE-PREMIER DENG'S REMARKS WERE A STATEMENT OF THE CHINESE GOVERNMENT'S POSITION SINCE THEY WERE OF GREAT WEIGHT AND SHOULD SERVE TO STABILIZE THE CONFIDENCE OF THE INVESTORS. THE CHINESE GOVERNMENT CONSIDERS AS UNNECESSARY AND INAPPROPRIATE THE LEGAL STEPS THAT THE BRITISH SIDE NOW PROPOSES TO TAKE REGARDING THE TERM OF ADMINISTRATION OF THE NEW TERRITORIES BY THE GOVERNOR OF HONG KONG AND THE QUESTION OF LEASES FOR LAND IN THE NEW TERRITORIES. THEREFORE, THE CHINESE GOVERNMENT URGES THE BRITISH SIDE TO DESIST FROM TAKING THE PROPOSED ACTIONS, FOR THE REPERCUSSIONS THEREFROM WOULD ADVERSELY AFFECT THE INTERESTS OF BOTH THE CHINESE AND BRITISH SIDES.

S E C R E T

WE APPRECIATE YOUR EXCELLENCY'S COMMUNICATING TO THE CHINESE GOVERNMENT THE IDEAS AND INTENDED STEPS OF THE BRITISH SIDE AND SOLICITING OUR OPINION. NOW WE HAVE SINCERELY AND FRANKLY STATED THE OPINION OF THE CHINESE GOVERNMENT. THIS WILL AVOID MISUNDERSTANDING AND SERVE TO STRENGTHEN OUR COOPERATION. THE CHINESE SIDE HOPES THAT OUR TWO SIDES WILL CONTINUE TO MAKE EFFORTS TO FURTHER IMPORVE OUR ALREADY GOOD RELATIONS. YOUR EXCELLENCY IS REQUESTED TO CONVEY TO THE BRITISH GOVERNMENT THE ABOVE POSITION OF THE CHINESE GOVERNMENT.

CRADOCK

F I L E S

HD/TK & GD



SECRET

No 10

GPS 375
SECRET

DESKBY HONG KONG 241233Z
FM PEKING 241145Z SEP 79
TO IMMEDIATE FCO
TELEGRAM NUMBER 827 OF 24 SEPT 79
AND TO IMMEDIATE HONG KONG

MY TWO IPTS: NEW TERRITORIES LEASES

1. THIS IS A DISAPPOINTING REPLY AND A MORE THOROUGH REJECTION THAN I PERSONALLY HAD ENVISAGED. I FEARED THAT THE PASSAGE ON CONTINUING ADMINISTRATIVE POWERS MIGHT WELL STICK IN THE CHINESE GULLETS BUT THE WHOLE PROPOSAL IS HERE REBUFFED AS "UNNECESSARY AND INAPPROPRIATE" AND A FIRM WARNING ADDED OF THE EFFECTS IF WE PERSIST.

2. THE CHINESE APPEAR TO BE UNWILLING TO UNDERSTAND THE NEED FOR BRITISH LEGISLATIVE MEASURES (AS OPPOSED TO GENERAL CHINESE STATEMENTS) IN ORDER TO REASSURE INVESTORS. THEY APPEAR TO WISH TO KEEP THEIR OPTIONS OPEN AND TO AVOID A SITUATION IN WHICH THE BRITISH SEEM TO BE TAKING THE LEAD ON THE FUTURE OF THE COLONY AND CHINA ACQUIESCES. THEY SEEM PARTICULARLY NERVOUS ABOUT THE EFFECT OF THIS ABROAD. HERE THEY MAY BE THINKING OF THEIR IMAGE IN NON-ALIGNED COUNTRIES, BUT THEY WILL ALSO HAVE IN MIND THE EFFECT ON THEIR RELATIONS WITH TAIWAN.

3. WE SHALL NEED TO THINK CAREFULLY ABOUT OUR FORMAL RESPONSE. GIVEN THE FIRMLINESS OF THE CHINESE LINE, IT WOULD, I THINK, BE UNWISE TO TRY AT ONCE TO ARGUE THROUGH THE WHOLE ISSUE AGAIN. BUT OUR IMMEDIATE AIM, I SUGGEST, SHOULD BE AT LEAST TO KEEP A DIALOGUE GOING AND KEEP THIS REBUFF SECRET. WE SHALL ALSO NEED TO CONSIDER WHAT REFERENCES WE MAKE TO THE SUBJECT IN THE TALKS WITH EITHER HUA GUOFENG OR HUANG HUA IN LONDON. I DOUBT IF WE CAN AVOID IT. WE MIGHT CONSIDER A RESPONSE WHICH INCLUDED THE FOLLOWING POINTS:

- A. WE APPRECIATE THE FRANKNESS WITH WHICH THE CHINESE HAVE GIVEN US THEIR VIEWS ON HONG KONG.
- B. THE PROSPERITY OF HONG KONG IS OF DIRECT CONCERN TO BOTH SIDES.

/C. DESPINE

SECRET

C. DESPITE HELPFUL WORDS BY DENG, WE STILL FACE A PROBLEM. OUR PROPOSALS FOR SOLVING IT HAVE NOT SO FAR MET WITH CHINESE APPROVAL. THEY NEED NOT FEAR THAT WE WOULD ACT IN DISREGARD OF THEIR OPPOSITION. BUT WE SHOULD CONTINUE TO EXCHANGE VIEWS ON WHAT OUGHT TO BE DONE.

D. IN THE MEANTIME IT IS OF GREAT IMPORTANCE THAT THIS FACT OF OUR DIFFERENCES OF VIEW DOES NOT LEAK IN ANY WAY.

CRADOCK

FIKRS

HARGD (HD)

FRD (")

PS

PS/LPS

PS/MRBLAKER

PS/PUS

SIR ADUFF

MR CORTAZZI

SIR E YOUDE (PERSONAL)

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SECRET

HCFO 014/27

PP - F C O

PP - PEKING

GR 600

ADVANCE COPY

Hd/HK/GD
Ad/FED

S E C R E T

FM HONG KONG 270645Z SEP

TO PRIORITY FOREIGN AND COMMONWEALTH OFFICE
TELEGRAM NUMBER 1343 OF 27 SEPTEMBER, 1979.
INFO PRIORITY PEKING.

PEKING TELNOS 825, 826 AND 827: NEW TERRITORIES LEASES.

1. THE CHINESE ARE ENTITLED TO THEIR VIEW THAT THE LEGAL MEASURES WE PROPOSED TO MEET THE PROBLEM OF THE LEASES ARE "INAPPROPRIATE" AND, AT ANY RATE FOR THE MOMENT "UNNECESSARY". BUT IT IS NONSENSE TO CLAIM OR IMPLY THAT THIS IS BECAUSE THE PROBLEM HAS ALREADY BEEN COVERED BY DENG'S STATEMENT. THE LATTER, WITH ITS ASSURANCE TO INVESTORS, APPEARED TO REFER TO THE CONSEQUENCES OF POLITICAL CHANGE IN THE DISTANT FUTURE (HE DID NOT KNOW WHETHER IT WOULD BE BEFORE OR AFTER 1997 OR EVEN IN THE NEXT CENTURY). BUT THE LENGTH OF LEASE WE CAN ISSUE IS NOW LESS THAN 18 YEARS AND BY THE TIME IT IS REDUCED TO 15 WILL PROGRESSIVELY DETER NEW INDUSTRY AND DRIVE EXISTING INDUSTRY ELSEWHERE. UNLESS THE CHINESE ARE CONTENT TO SEE INVESTMENT AND PRODUCTION IN HONG KONG FALL OFF (AND THIS WAS NOT DENG'S VIEW), THE PROBLEM CAN BE LEFT FOR A YEAR OR TWO BUT NOT MUCH MORE BECAUSE ONCE THE PROCESS OF DECLINE IS STARTED IT WILL BE HARD TO REVERSE, AND SINGAPORE OR MANILA, NOT CHINA, WILL BE THE GAINERS. SO IF THE SOLUTION WE HAVE SUGGESTED IS UNACCEPTABLE ANOTHER MUST BE FOUND FAIRLY SOON.

2. IT IS HARD TO BELIEVE THAT THE MFA DID NOT UNDERSTAND ALL THIS. SO I PRESUME THAT APART FROM AN UNWILLINGNESS TO TAKE A DIFFICULT DECISION BEFORE IT IS ABSOLUTELY UNAVOIDABLE, THIS RATHER UNGRACIOUS AND CERTAINLY IRRELEVANT REPLY TO A REASONABLE PROPOSAL IS TO GAIN TIME, ON THE PRINCIPLE THAT THE LATER THE PROBLEM IS DEALT WITH, THE EASIER IT WILL BE TO DO SO ON THEIR TERMS - PROBABLY WITHOUT ANY VERY CLEAR IDEA AT THE MOMENT WHAT THESE MIGHT BE:

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3. BUT WHATEVER THEIR REASONS FOR REJECTING OUR PROPOSAL TO ACT NOW, THEY WILL FIND THAT AS TIME PASSES PRESSURE WILL MOUNT ON THEM FROM THEIR OWN TRADING ORGANISATIONS AND BUSINESS CONTACTS IN HONG KONG TO SOLVE THE PROBLEM. AS AN EXTENSIVE MORTGAGE HOLDER THE BANK OF CHINA WILL HAVE A SPECIAL INTEREST. OF COURSE PARALLEL PRESSURES WILL MOUNT ON US.

4. THERE COULD BE OTHER AND LESS OBTRUSIVE WAYS OF HANDLING THIS PROBLEM IF THE CHINESE WISH TO TAKE THE INITIATIVE (OUR PROPOSAL WAS DESIGNED TO ENABLE THEM TO KEEP OUT OF IT) AND I SHOULD BE SURPRISED IF SOONER OR LATER AND THROUGH ONE CHANNEL OR ANOTHER WE DO NOT GET HINTS OF WHAT POSSIBILITIES THE CHINESE HAVE IN MIND. SO I SUGGEST THAT THERE IS NO NEED TO TAKE THIS REPLY TOO TRAGICALLY, MARKET FORCES ARE ON OUR SIDE. THE IMPORTANT THING IS THAT THE PROBLEM HAS BEEN SQUARELY PUT TO THE CHINESE. I AGREE WITH THE AMBASSADOR THAT WE SHOULD NOT ARGUE ABOUT THEIR REPLY, AND I SUGGEST NO FORMAL OR INFORMAL REPLY IN PEKING IS NECESSARY.

5. HOWEVER, WE MUST PUT ON RECORD AGAIN WITH THE CHINESE THE REALITY AND IMPORTANCE OF THIS PROBLEM AND THAT SOLUTION WILL NOT WAIT INDEFINITELY. I THEREFORE SUGGEST THAT HUA SHOULD BE TACKLED DURING HIS VISIT RATHER ALONG THE LINES OF MY PARA 1 AND THAT THIS SHOULD BE AT S OF S LEVEL. SO AS NOT TO GIVE IT UNDUE PROMINENCE IT COULD BE INCLUDED IN A GENERAL TALK ABOUT HONG KONG AND MENTIONED WITH IMMIGRATION AS AN UNRESOLVED PROBLEM.

6. IN VIEW OF THE IMPORTANCE OF SECRECY I DO SUGGEST THAT APART FROM THE APPROACH SUGGESTED ABOVE, NEITHER IN PEKING NOR IN LONDON SHOULD DISCUSSION OF THIS SUBJECT BE INITIATED WITH THE CHINESE OR ANYONE ELSE. IF THE CHINESE RAISE IT, WE SHOULD REPLY ALONG THE LINES OF MY PARAGRAPH 1.

7. I WOULD PREFER NOT TO ASK THE CHINESE TO MAINTAIN SECRECY (PEKING TELNO 827 PARA 3(D)). IT WOULD LOOK WEAK AND THEY ARE GOOD AT KEEPING SECRETS. ON THE OTHER HAND WE SHOULD TAKE SPECIAL STEPS TO GUARD OUR OWN SECURITY.

MACLEHOSE