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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~836 7022~~ 218 2111/3

MO 5/14

8th October 1980

h.s.
The Defence Secretary's
Office was informed of the
P.A.'s agreement on Friday.
The new arrangements have now
been announced.

Prime Minister

*Hope that the Defence Secretary
may go ahead as he proposes? It
would seem sensible to do so.*

Dear Michael, *And*

HONG KONG GARRISON

Yes Mr.

And 8/x

In his minute of 22nd September my Secretary of State set out the objectives for the negotiations which Mr Hayhoe is now conducting with the Governor of Hong Kong.

/ The Defence Secretary has now received the attached telegram from Mr Hayhoe reporting complete success in securing our negotiating objectives. You will see that he has persuaded the Governor to drop the Hong Kong Government's proposal that their increased contribution to the costs of our Garrison should be staged over several years. He has therefore avoided the difficulty to which the Chief Secretary drew attention in his letter of 29th September to my Secretary of State.

My Secretary of State believes that excellent progress has been made by Mr Hayhoe and his team, and further detailed work is now going ahead on the text of the Memorandum of Understanding and relating documents embodying the new agreements. My Secretary of State would now like to authorize Mr Hayhoe at his meeting with the Governor on Friday morning to signify formally HMG's acceptance of the terms of the new Defence Costs Agreement, as set out in the attached telegram. Depending on the Governor's views, it may also be appropriate for us to make an announcement about the successful completion of this agreement and of HMG's intention in the light of this agreement to enlarge the permanent Garrison.

M O'D B Alexander Esq

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I am sorry that time is so short, but in the interests of reaching agreement on terms advantageous to us, (and also in our view fair to Hong Kong) we would propose, unless we hear to the contrary by 1600 tomorrow, Thursday, to give the go-ahead to Mr Hayhoe.

I am copying this letter to Stephen Gomersall (Lord Privy Seal's Office), Terry Mathews (Chief Secretary's Office) and to David Wright (Cabinet Office).

Yours ever,

David Owen

(D B OMAND)

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1-8 OCT 1988



(-3000)

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TEXT OF TELEGRAM FROM US OF S (ARMY) BARNEY HAYHOE MP
TO THE SECRETARY OF STATE FOR DEFENCE, 8 OCTOBER 1980

1 PD WE HAVE NOW COMPLETED TWO DAYS OF INTENSIVE NEGOTIATIONS WITH THE HONG KONG GOVERNMENT (HKG) PD MUCH WORK REMAINS TO BE DONE IN DRAFTING DETAILED ANNEXES TO THE MOU AND ON SIDE LETTERS BETWEEN OFFICIALS TO DEAL WITH THE QUOTE BUYING-IN UNQUOTE CMM INTERIM FINANCIAL ARRANGEMENTS FOR 1980/81 AND A NUMBER OF MINOR ISSUES PD HOWEVER CMM THE GOVERNOR AND EYE HAVE NOW AGREED AN APPROACH WHICH WOULD RESOLVE THE ISSUES STILL OUTSTANDING BETWEEN US PD HE PROPOSES CMM THEREFORE CMM TO DISCUSS WITH UMELCO THIS PM THE MAIN FEATURES OF THE PROPOSED NEW DEFENCE COSTS AGREEMENT (DCA) CMM AND ITS CONSEQUENCES PD PROVIDED THEY RAISE NO MAJOR OBJECTION CMM AND THEY ARE NOT EXPECTED TO CMM AND PROVIDED NO UNFORESEEN DIFFICULTIES ARISE IN THE DETAILED DRAFTING WORK CMM EYE SHOULD BE IN A POSITION TO SIGN AN MOU CMM SETTING OUT THE NEW DCA CMM ON FRIDAY BEFORE EYE LEAVE FOR LONDON

2 PD THE GOVERNOR AND EYE PROPOSE TO RESOLVE THE ISSUES SET OUT IN YOUR MINUTE TO THE PRIME MINISTER ON 22 SEP AS FOLLOWS
A PD HKG AGREE THAT IN FUTURE THEIR CONTRIBUTION SHOULD BE CALCULATED FROM ANNUAL TARGET COSTINGS CMM AND THAT THERE SHOULD BE RETROSPECTIVE ADJUSTMENTS TO CORRECT ANY DIFFERENCE BETWEEN ESTIMATE AND OUTTURN PD THEY DO NOT ANTICIPATE THAT OPERATING THIS NEW SYSTEM WILL GIVE RISE TO UNMANAGEABLE DIFFICULTIES WITH THEIR UNOFFICIALS PD THE SYSTEM WILL ENSURE THAT IN FUTURE WE RECOVER FROM HKG ON THE BASIS OF OUR ACTUAL FULL COSTS
B PD HKG ALSO AGREE THAT UNDER THIS ARRANGEMENT THEIR CONTRIBUTION TO THE COST OF EQUIPMENT AND STORES SHOULD BE CALCULATED FROM A RECORD OF ISSUES FROM UK AND PURCHASES IN HONG KONG AT TARGET OR INVOICE PRICES RESPECTIVELY PD TO LAUNCH THIS SYSTEM HKG WILL QUOTE BUY-IN UNQUOTE TO THE EQUIPMENT AND STORES ALREADY IN HONG KONG CMM AND THEY WOULD PREFER TO DO THIS WITH A SINGLE PAYMENT BEFORE THE END OF THIS FINANCIAL YEAR PD EYE UNDERSTAND THIS WILL BE CREDITED

to MOD as an appropriation-in-aid, and will therefore help with our cash limit difficulty. As a modest concession to the Hong Kong Government, who do not accept the accounting conventions adopted in our valuation of the stocks and assets, I have agreed that we should reassess

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THE RESIDUAL LIFE OF THESE ITEMS SO AS TO REDUCE THE TOTAL VALUATION FROM POUNDS 77M TO POUNDS 70M PD THIS COMPARES WITH MODS VALUATION OF POUNDS 65M

C PD HKG NO LONGER INSIST THAT THEY SHOULD BE ALLOWED TO STAGE THE LARGER CONTRIBUTIONS WHICH WILL BE DUE UNDER THE NEW ARRANGEMENTS PD THE GOVERNOR RECOGNISES THE SERIOUSNESS OF MODS BUDGETARY POSITION CMM AND HAS RESERVATIONS ABOUT THE POSSIBLE TRADE-OFFS FOR STAGING WHICH WE MIGHT HAVE CONTEMPLATED EG HKGS AGREEMENT TO PAY IN FUTURE 100 PERCENT OF THE COST OF WORKS PD FURTHERMORE CMM EYE THINK HE BELIEVES THAT THE PRESENT PREOCCUPATION IN HONG KONG WITH ILLEGAL IMMIGRATION AND ITS CONSEQUENCES WILL SPIKE CRITICISM OF THE SHARP INCREASE IN HKGS CONTRIBUTION TO GARRISON COSTS PD HE ACCEPTS THAT THE AGREEMENT WE HAVE REACHED IS A FAIR ONE CMM TAKING ACCOUNT OF THE WAY IN WHICH THE 1975 DCA HAS OPERATED

D PD HKG HAVE AGREED TO INTERIM FINANCIAL ARRANGEMENTS FOR 1980/81 CMM WHICH WILL MAXIMISE MODS RECEIPTS UNDER THE EXISTING DCA AND AGAIN WILL HELP WITH THIS YEARS CASH LIMIT PD THEY HAVE NOW CONCEDED OUR VIEW ON THE ALLOWANCE TO BE MADE FOR INFLATION OF EQUIPMENT AND STORES COSTS CMM AND AGREED OUR FIGURE OF POUNDS 9M FOR THIS ITEM WHICH COMPARES WITH THEIR FIGURE OF POUNDS 3M

3 PD TAKING ACCOUNT OF THE COST OF TEMPORARY REINFORCEMENTS AND THE ONE OFF PAYMENT FOR BUYING-IN CMM THIS SETTLEMENT WOULD PRODUCE RECEIPTS TO THE DEFENCE BUDGET OF APPROX POUNDS 120M IN 1980/81 CMM AND POUNDS 125M IN 1981/82 AT 1980 PRICE LEVELS PD THIS COMPARES WITH RECEIPTS OF POUNDS 45M IN 1979/80

4 PD THE GOVERNOR AND EYE HAVE YET TO AGREE THE TERMS OF THE MAIN MOU CMM BUT OFFICIALS ARE CLOSE TO AGREEMENT ON A TEXT WHICH THEY ARE SIGNALLING SEPARATELY TO MOD ASKING FOR ANY MAJOR COMMENTS BY 9 AM HONG KONG TIME ON FRI 10 OCT PD THE DETAILED ANNEXES ON FINANCIAL PROCEDURES AND WORKS WE PROPOSE TO SETTLE WITHOUT REFERENCE TO LONDON CMM BUT IT WILL BE POSSIBLE TO TIDY THEM UP BY CORRESPONDENCE BETWEEN HKG AND MOD OFFICIALS AFTER OUR RETURN

5 PD EYE THINK THIS WILL BE AN EXCELLENT AGREEMENT FOR MOD CMM AND ALSO FAIR TO HONG KONG GOVERNMENT PD IF YOU AND OUR COLLEAGUES IN LONDON AGREE CMM EYE SHOULD BE GRATEFUL FOR YOUR APPROVAL TO SIGN THE MAIN MOU ON FRI CMM AND TO ANNOUNCE YOUR AGREEMENT TO THE ENLARGEMENT OF THE PERMANENT GARRISON BY ONE INFANTRY BATTALION AND OTHER SMALLER UNITS AS RECOMMENDED BY THE CHIEFS OF STAFF PD IT WOULD BE MOST HELPFUL TO HAVE YOUR REPLY BY 9 AM HONG KONG TIME ON FRI 10 OCT 6 PD EYE SHALL BE DISCUSSING WITH THE GOVERNOR THE TERMS OF A PUBLIC

STATEMENT OF OUR AGREEMENT WHICH WILL REITERATE HER MAJESTYS GOVERNMENTS CONTINUED COMMITMENT TO THE SECURITY AND INTEGRITY OF HONG KONG CMM ANNOUNCE OUR INTENTION TO ENLARGE THE PERMANENT GARRISON CMM ACKNOWLEDGE OUR WILLINGNESS IN THE FUTURE TO PROVIDE TEMPORARY REINFORCEMENTS TO THE GARRISON WHERE NECESSARY CMM APPROPRIATE AND POSSIBLE CMM AND ANNOUNCE THE AGREEMENT ON NEW FINANCIAL ARRANGEMENTS FOR THE FUTURE CMM WHICH WILL ENSURE HKG CONTRIBUTES TO GARRISON COSTS ON A MORE REALISTIC BASIS THAN BEFORE PD THE GOVERNOR

HAS NOT YET DECIDED WHETHER HE WOULD PREFER TO ISSUE THIS STATEMENT ON FRI CMM OR TO WAIT UNTIL SOME TIME NEXT WEEK PD EYE THINK WE CAN AGREE TO EITHER CMM AND THAT SINCE PARLIAMENT IS IN RECESS WE SHOULD ISSUE THE STATEMENT SIMULTANEOUSLY IN LONDON PD OFFICIALS WILL BE SIGNALLING DRAFT TEXTS OF THE STATEMENT TO MOD FOR YOUR APPROVAL WHEN THE GOVERNOR AND EYE HAVE AGREED ITS TERMS

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Hong Kong

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALING 01-218 2111/3

M: 5/14

1st October 1980

Barney

MBRA

Paul

THE HONG KONG GARRISON

Thank you for your letter of 29th September.

I note what you say about the possible consequences for the Defence Budget in 1981/82 of a concession to the Hong Kong Government on staging, and I agree with you that our objective should be to negotiate an agreement without staging. I have passed on your views to Barney Hayhoe who is already in Hong Kong. We must not, however, lose sight of the potential advantages to us of a new Defence Costs Agreement of the kind in prospect, and I suggest, therefore, that we should wait until Barney reports on the progress of negotiations before we decide finally, what we can accept on the details of a new agreement.

I am copying this letter to the Prime Minister and the Lord Privy Seal, and to Sir Robert Armstrong.

Paul

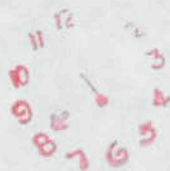
John

Francis Pym

The Rt Hon John Biffen MP

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-2 OCT 1988





Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Francis Pym MC MP
Secretary of State
Ministry of Defence
Main Building
Whitehall
London SW1A 2HB

29 September 1980

Dear Francis

NBPN yet

Paul 29/9

THE HONG KONG GARRISON

You sent Geoffrey Howe a copy of your minute of 22 September to the Prime Minister about Barney Hayhoe's forthcoming negotiation in Hong Kong on the new Defence Costs Agreement. I have since seen Ian Gilmour's minute of 23 September.

I am sure you are right to plan to continue to resist Hong Kong pressure to stage the larger payments which will be due under the new Agreement. They can certainly afford to pay on the new basis from the outset, and while I appreciate that the increase may cause them some political difficulty, it is a function solely of the degree to which they have been under-paying because the existing Agreement failed to reflect the true costs of the garrison. Moreover, our negotiating hand is a strong one, given that they have sought the stationing of a fifth battalion.

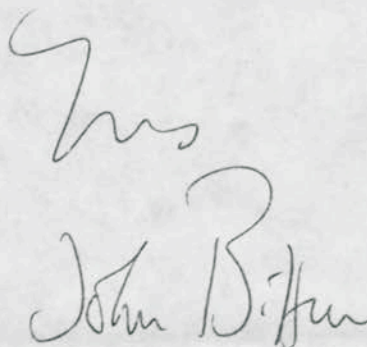
I have some difficulty with the compromise on which you suggest that Barney Hayhoe might in the last resort fall back if it were to become clear that an Agreement without staging was unattainable. As I understand it, the suggestion is that he would accept a reduced Hong Kong contribution in 1981-82, and perhaps 1982-83, provided that the reductions did not exceed the benefits, suitably discounted, which would accrue from an agreement that Hong Kong should meet full works programme costs in future years.

In normal circumstances, I would be content with such an elegant solution. But we have yet to agree on the Defence Budget total for 1981-82, a year in which the public expenditure position will be particularly difficult. We are discussing the proposals for reductions which I have had to put to you, and you have warned me

that they would cause difficulty (and that you may in fact wish to seek a substantial increase). If Barney Hayhoe were to concede staging at 50% in 1981-82 (which is I understand what the Hong Kong Government have sought) the loss to the Defence Budget - net of the saving on works - would be some £30 million, which you would presumably plan to cover by adjustments to the Defence programme. In present circumstances, I have to say that the benefit of such adjustments ought to accrue to the UK, rather than the Hong Kong, taxpayer.

It follows that I believe Barney Hayhoe should continue to insist that the Hong Kong contribution should remain at the established level of 75%.

Copies of this letter go to the Prime Minister and the Lord Privy Seal.

A handwritten signature in cursive script, appearing to read 'John Biffen', is written in dark ink. The signature is fluid and somewhat stylized, with a large initial 'J' and a long, sweeping underline.

JOHN BIFFEN

SECRET



14

10 DOWNING STREET

From the Private Secretary

29 September, 1980.

The Hong Kong Garrison

The Prime Minister has seen the Defence Secretary's minute to her of 22 September on this subject. She agrees that Mr. Hayhoe may negotiate with the Governor of Hong Kong on the basis set out in paragraph 6 of that minute.

I am sending copies of this letter to George Walden (Foreign and Commonwealth Office) and John Wiggins (HM Treasury).

M. O'D. B. ALEXANDER

B.M. Norbury, Esq.,
Ministry of Defence.

SECRET

ARB



Prime Minister

HONG KONG GARRISON

I have seen the minute from the Secretary of State for Defence to you of 22 September. I am generally content with what he proposes.

2. I am grateful for what he says about the possibility of staging the increase in the Hong Kong contribution to the cost of the garrison. The suggested compromise could well be helpful to the Governor in persuading the Unofficial Members of the Executive and Legislative Councils (UMELCO) to agree to the very large increase in the defence budget.

3. I know that the Parliamentary Under Secretary of State for Defence is fully aware of Hong Kong's other difficulties, particularly over the method to be used to update the cost of the garrison. There would be real difficulties for the Governor in an arrangement which opened the territory's defence contributions and its component parts to annual scrutiny by the Finance Committee of the Legislative Council. I hope that any new scheme can avoid this.

4. I am copying this minute to the Secretary of State for Defence and to the Chancellor of the Exchequer.

I.H.S.

23 September 1980



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MO 5/14

PRIME MINISTERTHE HONG KONG GARRISON

In my minute of 30th July I undertook to report on our discussions with the Hong Kong Government (HKG) in August and to propose objectives for the negotiations which Barney Hayhoe will conduct with the Governor in Hong Kong during the week beginning 6th October.

2. We have now given the HKG illustrative estimates of the cost of the garrison which should form the basis for negotiation of a new Defence Costs Agreement (DCA): £136m (including £14.5m on works) in 1981/82 rising to £155m (including £21m on works) in 1985/86. We do not propose to enshrine such estimates in the new DCA as a baseline for calculating the HKG's annual contribution because adopting such a device in the 1975 Agreement has led to the HKG's share being underestimated. Instead the HKG's contribution should be calculated from annual target costings, with retrospective adjustment to correct any difference between estimate and outturn. Naturally this approach is not favoured by the HKG, but I believe that it is saleable, and that it should be our essential objective to secure it.
3. I believe that we can also reach agreement with the HKG on realistic provision for expenditure on equipment and stores. The HKG have already proposed that such items for the Garrison should be logged as they are issued from the UK or purchased locally and this seems to us a simple and satisfactory way to ensure that we recover each year 75% of our actual expenditure. To start with we shall have to negotiate suitable terms under which the HKG 'buys into' the existing stocks and assets at 75% of their assessed value, either with an initial lump sum or by spreading payment including interest over several years.
4. The major issue for negotiation will be over the HKG's wish to stage the very much larger contributions due under the new DCA, as they were permitted to do under the 1975 agreement when their contribution rose from 50% in the first year to 62%



in the second and 75% thereafter. They argue that this will be essential to persuade the Unofficials that the new financial arrangements are fair, and that Hong Kong can afford them. We have so far resisted these arguments, pointing out that we must satisfy Parliament the HKG is making the contribution which it contracted to make in 1975. For their part, the HKG have understandably reminded us that their agreement to the 75%/25% apportionment was given on the basis of different assumptions about the cost of the Garrison to those we are adopting now.

5. I recognise that, as the Lord Privy Seal has pointed out in his minute of 5th August, the effect of the new DCA on the Hong Kong defence budget will be considerable, and that we should not entirely rule out some form of staging. We do have some room for manoeuvre given the HKG's willingness in recent discussions to consider paying for expenditure on works, without seeking any contribution from us, if this was likely to secure a concession from us which is important to them. They could justify this publicly in Hong Kong on the grounds that property occupied by the Garrison would be surrendered to the HKG when it was no longer required, as has been the case in the past.

6. What I propose therefore is that Barney Hayhoe should try to negotiate an agreement without staging as I have outlined, unless it becomes clear that refusal to agree to staging is preventing agreement. If that should happen I suggest that he should be authorised to concede a measure of staging as long as concessions of the same value can be obtained from the HKG, for example an undertaking by them to bear the works costs.

7. I am copying this minute to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer, and I should be glad to know that they and you are content with the approach I propose. If you are I shall so instruct Barney Hayhoe, and ask him to report by telegram from Hong Kong, when the shape of an achievable deal becomes clear.

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Ministry of Defence

22nd September 1980



22 SEP 1980

9 10 11 12 1
8 7 6 5 4 3 2



Hagley
MAP

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Francis Pym MP
Secretary of State for Defence
Main Building
Whitehall
London SW1

6 August 1980

Dear Francis,

THE HONG KONG GARRISON

I have seen a copy of your minute of 30 July to the Prime Minister about the discussions you are having with the Hong Kong Government on the size and cost of the Hong Kong garrison.

I am content with the line you propose to take on future financial arrangements.

I am sending copies of this letter to the Prime Minister, to other members of OD, and to Sir Robert Armstrong.

John Biffen

JOHN BIFFEN

- 7 AUG 1980





Prime Minister

LPS does not want Mr Pym
to mess too hard a
bargain in Hong Kong.

mb

MA
6/8

Secretary of State for Defence

HONG KONG GARRISON

I have seen your minute of 30 July to the Prime Minister and her Private Secretary's reply of 4 August. I do not dissent on the procedure you propose.

I know that in the talks you will be taking full account of Hong Kong's problems. The defence costs issue has to be seen against the absorption by Hong Kong of about a quarter of a million immigrants from China in 2 years, with the additional problem of a large-scale influx of refugees from Vietnam, of whom nearly 40,000 remain in the territory. Hong Kong accept that they must pay a major share of the defence costs which at present are largely devoted to tackling the problem of immigration. But they also rightly maintain that HMG, as the metropolitan power with responsibility for defence of the colony must still contribute a significant proportion. Hong Kong are now being asked to increase their share more than twofold.

The increase is in fact mainly caused by the revised costing which your officials have produced for the present garrison. When the existing Defence Costs Agreement was negotiated in 1975, the Governor of Hong Kong was able to convince the Unofficial Members of the Executive and Legislative Councils that the figures then used were correct. He is now being asked in effect to go back on this and to argue that the new costing is accurate and fair. This will not be an easy task. It is therefore essential that the new figures should be as accurate as possible. The Hong Kong
/Government

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Government have queried a number of major items in the figures which have been produced so far. There needs to be an agreed new costing before a fair share-out of contributions can be made.

In any event the effect on the Hong Kong defence budget will be considerable. I believe therefore that it is important at this stage not entirely to rule out some form of staging of the increased payments along the lines of the system which was agreed in 1975.

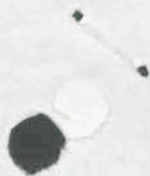
I am copying this minute to the Prime Minister, other members of OD and to Sir Robert Armstrong.

l. 119.

5 August 1980

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76 AUG 1980



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TMP



cc Ho
LCO
FLO
HM
WPO
WPS
DOT
CO

10 DOWNING STREET

From the Private Secretary

4 August 1980

The Prime Minister has seen the Secretary of State for Defence's minute (MO 5/14) of 30 July, about the Hong Kong Garrison.

She is content that discussions should be carried forward on the basis summarised in paragraph 4 of the Secretary of State's minute.

I am sending copies of this letter to the Private Secretaries to the other Members of OD and to David Wright (Cabinet Office).

M. A. PATTISON

B.M. Norbury, Esq.,
Ministry of Defence.

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ls



Prime Minister

①

MO 5/14

Yes - it is reasonable not.

Agree that discussions should be carried forward on the basis summarised in para 4 below?

Print 1/8

PRIME MINISTER

THE HONG KONG GARRISON

The Foreign Secretary and I have been in touch about the provision of short-term reinforcements for the garrison in Hong Kong. Although the Governor expects the garrison to be able to cope throughout the summer without further reinforcements, we have agreed that if the security situation so demands then we can provide a further infantry battalion for the autumn. I intend that we should reach agreement with the Hong Kong Government in the autumn on the size of the long term resident garrison, and on the associated problem of the workings of the Defence Costs Agreement negotiated by our predecessors with the Hong Kong Government in 1975.

Size of the Garrison

2. When we agreed to send reinforcements last year we set in hand a joint review with the Hong Kong Government (HKG) of the longer term force level required to cope with the growing internal security task ensuing from population growth and to reduce the burden of anti-illegal immigration operations. The conclusion is that, in addition to continued strengthening of the police and other local forces, it is necessary to increase the military garrison by one battalion (plus supporting elements) to a new total of five. The Chiefs of Staff endorsed the military case for such an increase but I explained to the Governor earlier this year that, while I accepted this military case, I could not make any commitment until satisfactory financial arrangements had been made.



Financial Arrangements

3. The Defence Costs Agreement (DCA) now provides for Hong Kong to bear 75% of the assessed cost of a specific garrison fixed in 1975 (four battalions plus supporting elements of all three Services). Revision of the DCA would be needed in any event for an enlarged garrison and it is the Governor's preference to have a new agreement rather than a separate arrangement to cover additional units. We too believe the DCA needs revision because its financial provisions do not now reflect the true cost of the garrison. We believe that cost to be about £100 million at 1979-80 prices (but excluding works expenditure which is handled separately and which is not a problem in this context). The equivalent total arrived at under the terms of the present DCA is some £50 million. We are still seeking agreement with the HKG over some of the figures but it is clear that the 75% HKG contribution is now being calculated by reference to too low a figure; the difference is partly due to insufficient provision for inflation, but more importantly to the fact that the estimate made in 1975 for expenditure on the supply of equipment and stores proved to be too low. The progressive reduction of the garrison post-1975 to the level set in the DCA was a complicating factor.

4. We have had exploratory talks with the HKG and the next round of discussions is planned for 6th-8th August. The aim will be to reach agreement on figures and on the outline of a new DCA. As regards the latter, I believe that Hong Kong must bear 75% of the full costs of the future garrison, whether enlargement proceeds or not, and that adequate arrangements must be made for the periodic updating of these costs. With enlargement, the HKG will face a contribution in 1981-82 of some £91 million (excluding works) compared with £37.5 million in 1979-80 (plus £7.5 million which they have paid under a separate arrangement for reinforcements). On the assumption that a new DCA will not take effect until 1st April 1981, it will also be necessary to agree improved financial arrangements for 1980-81. We will therefore be asking the Hong Kong Government to accept a sharp increase in their contribution for the cost of the garrison, and we will doubtless come under pressure to consider staging it. I believe that we must resist this pressure.



5. I should be grateful to know that you are content for discussions to continue along these lines. I shall report further after the talks next month when I hope to be able to propose firm objectives to be secured in the next and, I hope, final round of discussions scheduled for October.

6. I am sending copies of this minute to the other members of OD and to Sir Robert Armstrong.

FD

Ministry of Defence

30th July 1980