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DD 070100Z PEKING

GRS 844

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DESKBY 070100Z HONG KONG AND PEKING

FM FCO 061330Z APL 84

TO IMMEDIATE HONG KONG

TELEGRAM NUMBER 650 OF 6 APRIL

AND TO PEKING

A. & C. 2
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f.a.

FUTURE OF HONG KONG: VISIT TO LONDON BY EXCO UNOFFICIALS

1. AS FORECAST IN HONG KONG TELNOS 864 AND 885, THIS WAS NOT AN EASY VISIT. UNOFFICIALS SHOWED CLEARLY THEIR CONCERN, OFTEN EXPRESSED IN EMOTIONAL TERMS, THAT ON THE ONE HAND THE CHINESE WERE NOT TO BE TRUSTED AND ON THE OTHER THAT OUR STRATEGY MIGHT LEAD TO THE EROSION OF OUR BOTTOM LINE. MINISTERS

EXPLAINED FIRMLY THAT THEY DID HAVE A BOTTOM LINE BASED ON THE NEED AN ARRANGEMENT WHICH COULD HONOURABLY BE RECOMMENDED TO PARLIAMENT, . THEY AVOIDED GOING INTO SPECIFICS ON THIS. AT SOME STAGE WE MIGHT HAVE TO ENVISAGE A DECISION THAT THAT CRITERION COULD NOT BE MET THROUGH NEGOTIATION AND TO ACCEPT A BREAK IN THE TALKS, EVEN THOUGH THE CONSEQUENCES OF CONFRONTATION WOULD BE VERY SEVERE.

2. MINISTERS STRESSED HOWEVER THAT WE HAD NOT REACHED THE END OF THE PROCESS OF EXPLORING WHETHER A SATISFACTORY AGREEMENT COULD BE BUILT ON THE CHINESE PROPOSALS. NEGOTIATION OF AN AGREEMENT ITSELF WOULD BE A VITAL PART OF THIS. FOR THAT PURPOSE IT WAS ESSENTIAL TO PUT IN OUR OWN DRAFT OF AN AGREEMENT, AS COMPLETE AS POSSIBLE, BEFORE MY VISIT TO PEKING. ONE PURPOSE OF THAT VISIT WOULD BE TO ARGUE STRONGLY FOR OUR DRAFT AGREEMENT AND TO KEEP IT ON THE NEGOTIATING TABLE. WE SHALL HAVE TO DECIDE OUR STRATEGY IN PEKING IN THE LIGHT OF THE CHINESE REACTION.

AGREEMENT AND ANNEXES

3. UNOFFICIALS AGREED THAT THE QUOTE MAXIMALIST UNQUOTE DRAFT AGREEMENT SHOULD BE PRESENTED TO THE CHINESE AS QUICKLY AS

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POSSIBLE WITH A SPECIMEN ANNEX. THE REMAINING ANNEXES COULD ALSO BE PRESENTED, BEFORE MY VISIT, AS SOON AS THEY WERE REVISED. THE ONLY ONES WHICH WOULD BE HELD UP WOULD BE THOSE ON WHICH SUBSTANTIVE DISCUSSION WITH THE CHINESE WAS STILL IN PROGRESS: NATIONALITY, CIVIL AVIATION AND SHIPPING. SEPARATE INSTRUCTIONS ARE BEING SENT TO PEKING ON THIS.

AGENDA ITEM 2.

4. UNOFFICIALS EXPRESSED CONCERN ABOUT THE RISK OF THE CHINESE BEING GIVEN A SAY IN ARRANGEMENTS BEFORE 1997 AND FOR THIS REASON WERE AGAINST OUR PROPOSING INSTITUTIONALISED MACHINERY TO COVER ITEM 2 POINTS. IT WAS AGREED THAT WE SHOULD APPROACH THIS ITEM VERY CAUTIOUSLY AND FOR THE MOMENT SHOULD MERELY ENCOURAGE THE CHINESE TO PUT FORWARD THEIR IDEAS SO THAT WE COULD ASSESS BETTER HOW WE MIGHT TURN DISCUSSION OF ITEM 2 TO OUR ADVANTAGE.

TIMETABLE

5. ON THE TIMETABLE FOR TALKS AND THE PROCESSING OF AN AGREEMENT, UNOFFICIALS STATED THAT THEY COULD NOT AGREE TO ANY CHANGE IN THE STRATEGY PROPOSED BY MINISTERS IN MARCH INVOLVING:

- (A) PRELIMINARY MINISTERIAL STATEMENT:
- (B) PUBLICATION OF A DRAFT AGREEMENT ALLOWING FOR DISCUSSION IN HONG KONG:
- (C) DEBATE IN PARLIAMENT:
- (D) SIGNATURE OF AN AGREEMENT:
- (E) RATIFICATION ONLY AFTER THE APPEARANCE OF A SATISFACTORY BASIC LAW.

THE UNOFFICIALS SAID THAT THEY WOULD LIKE TO ADD TO THIS STRATEGY A SECOND STATEMENT ON QUOTE UNVEILING UNQUOTE BETWEEN STAGES (A) AND (B).

6. DURING MR LUCE'S DISCUSSION WITH THE UNOFFICIALS HE ASKED THEM TO CONSIDER AN ALTERNATIVE STRATEGY ON RATIFICATION WHICH MIGHT GET ROUND THE CHINESE OBJECTION TO DELAY AND GAIN ADVANTAGE FOR US. THIS WOULD INVOLVE, AFTER SIGNATURE, AN ACT OF PARLIAMENT ENABLING THE EXECUTIVE AT A LATER DATE TO PASS AN ORDER IN COUNCIL WHICH WOULD TRANSFER SOVEREIGNTY TO CHINA, WITHOUT ANY FURTHER REFERENCE TO PARLIAMENT. THIS ARRANGEMENT

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SHOULD ENABLE US TO ARGUE MORE STRONGLY WITH THE CHINESE FOR A DETAILED AGREEMENT TYING PEKING DOWN ON THE BASIC LAW. DESPITE MUCH ARGUMENT, THE UNOFFICIALS CONSISTENTLY OPPOSED THIS PROPOSAL, ON THE GROUNDS THAT CONTROL OVER THE FINAL ACTION WOULD BE REMOVED FROM PARLIAMENT TO THE EXECUTIVE. AT THE MEETING WITH THE PRIME MINISTER THEY RESTATED THEIR OBJECTION. OUR DISAGREEMENT WITH EXCO ON THIS POINT, IF UNRESOLVED, WILL PUT SERIOUS CONSTRAINTS ON OUR HANDLING OF OUR DISCUSSIONS DURING MY VISIT TO PEKING. IT IS IMPORTANT THAT HE HAS SOME LATITUDE IN ORDER TO PRESS THE CHINESE ON OTHER FEATURES OF THE TIMETABLE AND TO ARGUE FOR A DETAILED AGREEMENT. WE HAVE AGREED WITH THE GOVERNOR THAT IT WILL BE IMPORTANT TO TRY TO CONVINCE EXCO ON THIS POINT.

BEGIN UNDERLINING NATIONALITY CEASE UNDERLINING

7. AS EXPECTED, THE UNOFFICIALS WERE PARTICULARLY FORCEFUL ON THE QUESTION OF NATIONALITY. THEY HAVE TWO MAIN CONCERNS. ON THE ONE HAND THEY WANTED US TO MAINTAIN OUR POSITION IN NEGOTIATION WITH THE CHINESE. ON THE OTHER THEY WANTED REASSURANCE BY THE BRITISH GOVERNMENT THAT, NO MATTER WHAT THE OUTCOME OF THE NEGOTIATIONS, THE EXISTING RIGHTS OF BDTCS WOULD NOT BE ERODED. MINISTERS EXPLAINED THAT I WOULD PRESS OUR ORIGINAL PROPOSALS ON THE CHINESE BUT THAT WE WOULD NEED TO RECONSIDER THE POSITION IN THE LIGHT OF PEKING'S RESPONSE.

BEGIN UNDERLINING UNVEILING CEASE UNDERLINING

8. UNOFFICIALS STRESSED THAT THEY WISHED TO SEE IN ADVANCE THE TEXT OF THE APRIL UNVEILING STATEMENT (AND OF ANY OTHER LATER STATEMENT). IT WAS EXPLAINED THAT THE STATEMENT WOULD HAVE TO TAKE INTO ACCOUNT THE RESULT OF THE PEKING VISIT. EXCO WOULD HAVE A CHANCE TO DISCUSS IT WITH ME DURING MY MEETING WITH THEM ON 19 APRIL.

HOWE

FUTURE OF HONG KONG

LIMITED

ED/ED

ED/FED

ED/PLANNING STAFF

ED/PUSD

D/ED/PUSD

RES.B. (MR WALKER)

LEGAL ADVISER (MR FREELAND)

PS

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PS/MR LUCE

PS/PUS

SIR J BULLARD

SIR W HARDING

MR WILSON

MR WRIGHT

SIR C TICKELL

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