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FM HONG KONG 140300Z JUL 84  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 1942 OF 14 JULY  
INFO IMMEDIATE PEKING

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FUTURE OF HONG KONG: MR LUCE'S DISCUSSIONS WITH EXCO.

1. MR LUCE HAD ALMOST THREE HOURS DISCUSSION WITH THE EXECUTIVE COUNCIL THIS MORNING. HE OUTLINED THE BACKGROUND TO THE MESSAGE FROM THE PRIME MINISTER WHICH IT WAS PROPOSED SHOULD BE TAKEN TO PEKING BY THE SECRETARY OF STATE DURING HIS VISIT AT THE END OF THE MONTH. MR LUCE LAID PARTICULAR EMPHASIS ON THE FOLLOWING POINTS:

- (A) IN VIEW OF DENG'S PERSONAL COMMITMENT TO THE LOCATION OF THE WORKING GROUP IN HONG KONG, IT DID NOT SEEM AT ALL LIKELY THAT THERE WOULD BE MUCH FLEXIBILITY ON THIS POINT.
- (B) EVERYONE INVOLVED IN LONDON WAS AWARE OF THE DAMAGE TO THE AUTHORITY OF THE HONG KONG GOVERNMENT WHICH A JOINT GROUP OF THE KIND ENVISAGED BY THE CHINESE WOULD CAUSE.
- (C) THERE WAS STRONG EVIDENCE THAT THE CHINESE MIGHT BE PREPARED TO DO WITHOUT AN AGREEMENT, AND IF NECESSARY MAKE GOOD THEIR THREAT TO IMPOSE THEIR SOLUTION FORCIBLY, IN SPITE OF THE DAMAGE THAT THIS WOULD DO THEIR OWN ECONOMIC AND OTHER INTERESTS.

2. IT WAS THEREFORE NECESSARY TO CONSIDER WHAT CARDS WE HAD TO PLAY AND HOW TO PLAY THEM. THERE WERE ONLY TWO: THE CHINESE DESIRE TO HAVE AN AGREEMENT IF AT ALL POSSIBLE, AND THEIR DESIRE TO SECURE OUR AGREEMENT TO BASING A JOINT GROUP IN HONG KONG. MR LUCE SAID THAT HE RECOGNISED THAT THERE WAS A REAL POSSIBILITY THAT THE WHOLE PACKAGE WHICH RESULTED FROM THE NEGOTIATIONS MIGHT HAVE TO BE REJECTED. BUT WE HAD TO CONSIDER WHETHER THERE WERE ANY CIRCUMSTANCES IN WHICH WE COULD AGREE TO BASING THE JOINT GROUP IN HONG KONG. MINISTERS IN LONDON HAD DECIDED THAT EVERY EFFORT SHOULD BE MADE TO AVOID HAVING TO CONCEDE THIS POINT. THIS SHOULD NOT HOWEVER BE ALTOGETHER EXCLUDED, IF THE AGREEMENT WAS SATISFACTORY IN OTHER RESPECTS, AND IF TOLERABLE TERMS OF REFERENCE COULD BE ACHIEVED. WE HAD ALSO TO CONSIDER THE EFFECTS OF REJECTION. THE CONSULTATIONS WITH HMA PEKING AND THE GOVERNOR HAD BEEN DESIGNED TO CONSIDER THE OPTIONS. OUTHRIGHT REJECTION AT THIS STAGE OF THE CHINESE PROPOSAL WOULD PROBABLY RESULT IN THE TALKS BEING STALLED AND, IN THE VERY LIMITED TIME STILL AVAILABLE, OPPORTUNITIES TO SECURE IMPROVEMENTS TO THE REST OF THE PACKAGE WOULD BE LOST.

3. THE DEVICE INCORPORATED IN THE PRIME MINISTER'S MESSAGE GAVE NOTHING AWAY. THE PACKAGE HAD TO BE ACCEPTABLE AS A WHOLE, AND THE MESSAGE WAS THEREFORE CONSISTENT WITH THE PRIME MINISTER'S MESSAGE OF LAST OCTOBER WHICH WAS THE BASIS OF THE PRESENT BRITISH NEGOTIATING POSITION. IN ADDITION TO DELIVERING THE MESSAGE, THE

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SECRETARY OF STATE WOULD MAKE CLEAR THAT THE BRITISH COULD NOT SIGN ANY PIECE OF PAPER. THE CHINESE DRAFTS WERE UNACCEPTABLE, AND WITHOUT REAL NEGOTIATION ON TEXTS, THERE WOULD BE NO POSSIBILITY OF AGREEMENT. WE MIGHT GET A HOSTILE RESPONSE, AND THE CONSEQUENCE OF THAT WOULD HAVE TO BE CONSIDERED WHEN THE TIME CAME, WITH THE ADVICE OF THE EXECUTIVE COUNCIL.

4. IN THE SUBSEQUENT DISCUSSION, THE MAIN POINTS OF INTEREST WERE AS FOLLOWS:

- (A) SIR S.Y. CHUNG, WITH SUPPORT FROM A NUMBER OF OTHER MEMBERS, SAID THAT THE MESSAGE SHOULD INCLUDE A REFERENCE TO THE TIMING OF THE SETTING UP OF ANY JOINT GROUP. AS EXPECTED, HE ADVOCATED STRONGLY SEEKING CONTINUATION OF THE JOINT GROUP AFTER 1997: IT MIGHT START WORK FOR 5 YEARS BEFORE 1997 AND CONTINUE FOR 5 YEARS AFTERWARDS. HE SUGGESTED THAT CHINESE ASSERTIONS ABOUT THE GROUP NOT CONSTITUTING CONDOMINIUM COULD BE USED IN SUPPORT OF THIS PROPOSAL. SIR S.Y. ALSO REFERRED TO THE BRIEF WAVE OF OPTIMISM WHICH HAD BEEN ENGENDERED IN BUSINESS CIRCLES BY A RUMOUR TO THE EFFECT THAT THERE WOULD BE A RESIDUAL BRITISH PRESENCE AFTER 1997 THROUGH THE JOINT GROUP. SIR S.Y. ALSO REPORTED A RUMOUR TO THE EFFECT THAT MR XU JIATUN (DIRECTOR OF NCNA HONG KONG) HAD PROPOSED CONTINUATION OF THE JOINT GROUP POST-1997 TO THE EDITOR OF THE MING PAO.
- (B) SIR S.Y. AND A NUMBER OF OTHER MEMBERS ASKED WHAT THE BRITISH GOVERNMENT'S POSITION WOULD BE IF THE CHINESE SIMPLY DECLINED TO ACCEPT THE PROPOSAL TO SHELVE DISCUSSION OF LOCATION. ON THE OTHER HAND, MR SANDBERG THOUGHT THAT THE PRESSURES OF TIMING AND THE NEED FOR AN AGREEMENT OPERATED ON THE CHINESE AS WELL AS ON THE BRITISH. HE STRESSED THAT CHINESE IDEAS FRIGHTENED THE BUSINESS COMMUNITY VERY MUCH BECAUSE THEY TENDED TO DASH HOPES OF AT LEAST A FEW YEARS OF GOOD GOVERNMENT FREE FROM INTERFERENCE FROM PEKING.
- (C) MISS MARIA TAM SUGGESTED THAT THE REFERENCE TO DISCUSSION OF THE FUNCTIONS OF THE GROUP WAS INADEQUATE AND SHOULD BE EXPANDED TO INCLUDE A SPECIFIC REFERENCE TO SUBJECT MATTER. EVEN IF WE WERE OBLIGED TO ACCEPT THE GROUP IN HONG KONG, WE SHOULD BE ABLE TO RETAIN CONTROL OF THE SUBJECTS DISCUSSED, IF NECESSARY BY SIMPLY REFUSING TO BE PRESENT IF THE CHINESE SOUGHT TO DISCUSS SUBJECTS WHICH WERE UNACCEPTABLE.
- (D) MR T.S. LO WONDERED WHETHER DENG'S ATTACHMENT TO THE JOINT GROUP AND ITS LOCATION IN HONG KONG WAS NOT THE OUTWARD SIGN OF A STRUGGLE ON DENG'S PART TO FIGHT OFF OPPOSING FACTIONS. HE THOUGHT IT UNWISE TO GO TO THE WALL ON THIS SUBJECT.

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(E) MR F.W. LI, SUPPORTED BY THE ACTING FINANCIAL SECRETARY AND OTHERS, SAID THAT IT WAS UNWISE TO SPEAK OF THE GROUP HAVING "POWERS" (PARA 5 OF THE PRIME MINISTER'S MESSAGE) SINCE IT WAS OUR CONTENTION THAT IT SHOULD NOT IN FACT HAVE ANY POWERS AT ALL.

(F) THE ACTING FINANCIAL SECRETARY SUGGESTED A POSSIBLE COMPROMISE: COULD WE NOT HAVE THE JOINT GROUP MEETING IN LONDON, PEKING AND HONG KONG FOR THE FIRST FEW YEARS OF ITS LIFE AND CONSIDER HAVING ITS PERMANENT LOCATION SHIFTED TO HONG KONG MUCH NEARER 1997.

5. THE MINISTER UNDERTOOK TO REPORT THE DISCUSSION AND THE VARIOUS SUGGESTIONS WHICH HAD BEEN MADE. I SUMMARISED THE DISCUSSION BY SAYING THAT THE COUNCIL DID NOT MUCH LIKE THE JOINT GROUP AT ALL; WE SHOULD CERTAINLY AVOID HAVING IT LOCATED IN HONG KONG IF AT ALL POSSIBLE; IF THIS PROVED UNAVOIDABLE, EVERY EFFORT SHOULD BE MADE TO MITIGATE THE DAMAGING EFFECT THROUGH TIGHT TERMS OF REFERENCE AND TIGHT CONTROL OF THE SUBJECTS DISCUSSED.

6. FOR DISCUSSION ON TEST OF ACCEPTABILITY SEE MIFT.

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