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PS  
 PE/PDS  
 PS/MR LUCE  
~~MR ROBERTS~~  
 ED/ED  
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 PS | LADY YOUNG  
 SIR W HARDING  
 RESIDENT CLERK

COPIES TO:  
<sup>POWELL</sup>  
 MR COLES, NO. 10 DOWNING ST  
 MR ROBERTS, NEWS DEPT  
 SIR PERCY CRADOCK

**SECRET**

*Pl. keep on  
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HOFO 046/01

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 FM HONG KONG 311900Z JUL 84  
 TO IMMEDIATE F C O  
 TELEGRAM NUMBER 2182 OF 31 JULY

IMMEDIATE

ADVANCE COPY

FOLLOWING IS TEXT OF MY STATEMENT TO EXCO THIS EVENING

BEGINS:-

1. I ASKED TO SEE YOU ALL STRAIGHT AWAY BECAUSE THERE HAVE BEEN VERY IMPORTANT DEVELOPMENTS ON WHICH I WISHED TO SPEAK TO YOU PERSONALLY.
2. WE DISCUSSED AT OUR LAST MEETING THE LINE I WOULD TAKE IN PEKING WHEN I PRESENTED THE PRIME MINISTER'S LETTER. IN THAT LETTER WE PROPOSED TO THE CHINESE THAT WE SHOULD SET ASIDE THE LOCATION OF THE JOINT GROUP WHILE WE DISCUSSED COMPOSITION AND TERMS OF REFERENCE; WITH THE AIM OF LOOKING AT THE QUESTION AGAIN IN ALL ITS ASPECTS AND THE OTHER ASPECTS OF THE NEGOTIATIONS. WE COULD THEN ASSESS WHETHER THE AGREEMENT AVAILABLE WOULD BE AN ACCEPTABLE ONE.

I SPOKE FIRMLY TO THIS BRIEF ON MY ARRIVAL. THE CHINESE RESPONSE WAS SWIFT AND BLUNT. IT WAS CONVEYED TO SIR PERCY CRADOCK BY ZHOU NAN OUTSIDE THE FORMAL TALKS AND REINFORCED LATER IN THE DAY TO ME BY THE CHINESE FOREIGN MINISTER. THE MESSAGE WAS A SIMPLE ONE. UNLESS THE QUESTION OF THE LOCATION OF THE JOINT GROUP IN HONG KONG COULD BE SETTLED DURING MY VISIT THERE WOULD BE NO MOVEMENT ON OTHER MATTERS, AND, MORE SERIOUS, THE TALKS WOULD FAIL. IT HAD BEEN MADE



COULD BE SETTLED DURING MY VISIT THERE WOULD BE NO MOVEMENT ON OTHER MATTERS, AND, MORE SERIOUS, THE TALKS WOULD FAIL. IT HAD BEEN MADE CLEAR TO US ON MANY OCCASIONS THAT DENG HIMSELF ATTACHED GREAT IMPORTANCE TO LOCATION IN HONG KONG AND HE WAS IMPATIENT TO SECURE SUCH A CONCLUSION.

SOME OF THE BACKGROUND TO THIS WAS ALSO REVEALED INDIRECTLY TO US. IT WAS MADE CLEAR THAT CHINESE LEADERS, IN PARTICULAR, THE CHINESE PRIME MINISTER, WOULD BE LEAVING PEKING ON MONDAY (I.E. YESTERDAY) FOR IMPORTANT MEETINGS OUTSIDE PEKING DURING AUGUST. DENG WAS ALREADY IN BEIDAIHO. WE WERE TOLD THAT THERE WOULD BE FURTHER IMPORTANT MEETINGS IN SEPTEMBER. DECISIONS ON HONG KONG WOULD BE TAKEN AT THESE MEETINGS. THE MAIN ISSUES HAD THEREFORE TO BE BROUGHT TO A CONCLUSION DURING MY VISIT. THIS MESSAGE WAS REINFORCED BY THE CHINESE DECLINING TO GIVE ANY TIME FOR MY MEETING WITH PRIME MINISTER ZHAO, AND REMAINING SILENT ON THE IDEA OF A MEETING WITH DENG UNTIL OUR RESPONSE WAS KNOWN. ALSO CLEAR THAT THE CHINESE WERE THEMSELVES NERVOUS ABOUT DENG.

THERE WAS A SECOND PART TO THIS PROPOSITION. THIS WAS THAT THEY COULD DELAY THE SETTING UP OF THE GROUP IN HONG KONG UNTIL 1986. SO FAR, NOT SO GOOD. IN RESPONSE TO THE STRONG CASE I HAD MADE FOR THE GROUP CONTINUING AFTER 1997 (THE MIRROR IMAGE - THE POINT TO WHICH SIR S Y ATTACHED SO MUCH IMPORTANCE) THEY WOULD ALSO AGREE TO IT CONTINUING IN EXISTENCE UNTIL THE YEAR 2000. THIS WAS THE FURTHERS THEY WOULD GO. THE SIGNIFICANCE OF THE YEAR 2000 WAS APPARENTLY WISEORCENTURYWOULD BE T

WE WERE THEREFORE FACED WITH THE PROSPECT OF BREAKDOWN. VERY CLEAR THAT CHINESE WERE NOT BLUFFING. THEY MADE IT CLEAR THAT THE DEAL WAS OFF IF WE HAD INSISTED ON RETURNING TO LONDON AND REFLECTING AT LEISURE. I THOUGHT IT RIGHT TO TURN AN ULTIMATUM INTO AN OPPORTUNITY; TO MAKE A MAJOR PUSH ON OUR MAIN POINTS AT A TIME WHEN THEY WERE CLEARLY UNDER PRESSURE FROM THEIR LEADERSHIP. IN CONSULTATION WITH THE PRIME MINISTER, I FOUGHT FOR THREE OBJECTIVES. THE FIRST WAS TO DELAY THE ARRIVAL OF THE GROUP IN HONG KONG FURTHER. THE SECOND WAS TO OBTAIN TERMS OF REFERENCE WHICH WOULD MAKE IT UNMISTAKABLY CLEAR THAT IT WAS TO HAVE NO PART IN THE ADMINISTRATION OF HONG KONG, AND WOULD DIVIDE ITS ACTIVITIES INTO TWO PERIODS, IN ORDER TO LEAVE THE MORE SENSITIVE ISSUES UNTIL LATER. THRIDLY TO COUPLE ANY DECISION ON LOCATION OF THE JOINT GROUP WITH OUR KEY REQUIREMENTS ON THE MAIN AGREEMENT. OTHER ISSUES INCLUDED:

- NUMBER OF MEMBERS OF THE JOINT GROUP
- HOW MANY SUPPORTING STAFF
- APPOINTMENT OF MEMBERS

I WILL NOT GO INTO DETAIL ON HOW THESE OBJECTIVES WERE ACHIEVED. ON SUNDAY I HAD TWO PERSONAL MEETINGS IN RESTRICTED SESSION WITH FOREIGN MINISTER WU AND A MEETING ON MONDAY WITH PREMIER ZHAO. IN THE MEANTIME THE TWO DELEGATIONS DIVIDED UP INTO WORKING GROUPS ON THE MAIN AGREEMENT AND ON THE JOINT LIAISON GROUP. THE SITUATION WAS DEVELOPING BY THE HOUR AND IT WAS ONLY ON MONDAY EVENING THAT THE DOCUMENTS WERE COMPLETED IN PREPARATION



GROUP. THE SITUATION WAS DEVELOPING BY THE HOUR AND IT WAS ONLY ON MONDAY EVENING THAT THE DOCUMENTS WERE COMPLETED IN PREPARATION FOR THE MEETING WITH DENG.

THE RESULTS ARE RECORDED IN THE PAPERS BEFORE YOU. AS YOU WILL SEE FROM THE TEXT OF THE MAIN AGREEMENT WE ACHIEVED:

(A) THE REMOVAL OF LANGUAGE FROM THE CHINESE DRAFT WHICH WAS PREJUDICIAL TO OUR POSITION ON THE STATUS OF HONG KONG:

(B) A PROVISION THAT BOTH THE JOINT DECLARATION AND ITS ANNEXES WILL BE STIPULATED IN THE BASIC LAW:

(C) A PROVISION RECORDING THE (NEXT WORD UNDERLINED) AGREEMENT OF BOTH SIDES THAT THE JOINT DECLARATION AND ITS ANNEXES WILL BE PUT INTO EFFECT. IN OTHER WORDS LEGALLY BINDING:

(D) A PROVISION RECORDING THAT THE JOINT DECLARATION AND ITS ANNEXES WILL BE EQUALLY BINDING. MOREOVER, ANNEXES ARE ANNEXES: THE CONCEPT OF A SEPARATE EXCHANGE OF NOTES AND PROTOCOL HAS GONE.

IN RETURN WE HAD TO DROP THE ELABORATION OF THE CHINESE 12 POINTS FROM THE MAIN AGREEMENT IN EXCHANGE FOR AGREEMENT TO BRING THE 12 POINTS INTO LINE WITH THE ANNEXES. BUT THIS IS OFFSET BY THE PROVISIONS I HAVE JUST DESCRIBED WHICH MAKES THE ANNEXES AS BINDING AS THE MAIN AGREEMENT. WE WERE ABLE TO ACCEPT THE TITLE OF JOINT DECLARATION ONCE IT WAS AGREED THAT EVERYTHING WAS BINDING: THE WHOLE IS NOW A LEGALLY-BINDING INTERNATIONAL AGREEMENT.

ON THE JOINT LIAISON GROUP I FOUGHT HARD TO POSTPONE THE ESTABLISHMENT OF THE GROUP IN HONG KONG. 1 JULY 1988 WAS THE FURTHEST I COULD PUSH THEM AND EVEN THAT HAD TO BE NEGOTIATED WITH PREMIER ZHAO HIMSELF. BUT IN RETURN WE OBTAINED EXPLICIT UNDERTAKINGS IN THIS TEXT THAT THE GROUP WILL NOT BE AN ORGAN OF POWER: THAT IT WILL PLAY NO PART IN THE ADMINISTRATION OF HONG KONG: THAT IT WILL HAVE NO SUPERVISORY ROLE: AND THAT THE MEMBERS AND STAFF OF THE GROUP WILL ONLY CONDUCT ACTIVITIES WITHIN THE FUNCTIONS OF THE GROUP. ZHAO AGREED THAT ALL THIS WOULD BE MADE PUBLIC. THE DOCUMENT RECORDING THIS (BASICALLY OUR DRAFT), WILL ALSO BE AN ANNEX AND WILL THUS BE LEGALLY BINDING TOO. THE GROUPS OPERATIONS ARE DIVIDED INTO TWO PERIODS WITH THE MORE SENSITIVE SUBJECT - THE TRANSITION IN 1997 COMING INTO THE SECOND HALF, I.E. FROM 1991 ONWARDS.

I NOW COME TO THE POINT TO WHICH SIR S Y ATTACHES GREAT IMPORTANCE  
CHINESE AGREEMENT THAT THE GROUP SHOULD CONTINUE ITS WORK UNTIL THE YEAR 2000. I TRIED HARD FOR 2002 BUT THE CHINESE WERE IMMOVABLE ON THIS. THEY PRESSED HARD TO LIMIT ITS FUNCTIONS AFTER 1997. I SUCCESSFULLY RESISTED THIS LIMITATION.

THE BALANCE SHEET THUS LOOKS LIKE THIS. FIRSTLY, WE AVOIDED BREAKDOWN, THE CONSEQUENCES OF WHICH WOULD HAVE BEEN INCALCULABLE. THERE IS NO DOUBT THAT THIS IS WHAT WOULD HAVE FACED US IF WE HAD NOT MOVED DURING MY VISIT ON THE LOCATION OF THE JOINT LIAISON GROUP IN HONG KONG. SECONDLY, WE HAVE AGREED THE TEXT OF A LEGALLY BINDING



NOT MOVED DURING MY VISIT ON THE LOCATION OF THE JOINT LIAISON GROUP IN HONG KONG. SECONDLY, WE HAVE AGREED THE TEXT OF A LEGALLY BINDING INTERNATIONAL AGREEMENT WHICH MEETS OUR ESSENTIAL REQUIRMENTS AND HAVE ENSURED THAT ITS PROVISIONS AND THOSE OF ITS ANNEXES WILL BE STIPULATED IN THE BASIC LAW. THIRDLY, WE HAVE HAD TO GIVE ON THE LOCATION OF THE GROUP IN HONG KONG, BUT WE HAVE DELAYED ITS ESTABLISHMENT HERE UNTIL 1988: BOUND IT HARD AND FAST TO NON-INTERVENTION: AND EXTENDED ITS LIFE TO 2000.


THERE IS STILL IMPORTANT WORK TO BE DONE ON THE ANNEXES. BUT I HAVE DENG'S ASSURANCE THAT THE CHINESE WILL APPROACH THIS IN THE SAME COOPERATIVE SPIRIT AS THE MAIN AGREEMENT. I TRUST YOU WILL AGREE THAT AS A PACKAGE THAT IS A VERY RESPECTABLE RESULT AND ONE WHICH WILL PAVE THE WAY TO AN AGREEMENT WHICH WILL PROVE ACCEPTABLE IN HONG KONG.

COMMENT

THE ABOVE TEXT WAS CAREFULLY PREPARED FOR THE CONFIDENTIAL DISCUSSION WITH EXCO AND REFLECTS THE REALNTY OF THE TOUGH NEGOTIATIONS WE HAD WITH THE CHINESE. BUT IT SHOULD NOT REPEAT NOT BE USED IN PUBLIC IF WE ARE TO AVOID INFRINGING THE OBLIGATION OF CONFIDENTIALITY.

YOUDE

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 FURTHEST THEY WOULD GO. THE SIGNIFICANCE OF THE YEAR 2000 WAS APPARENTLY HISTORIC: IT WOULD BE THE START OF A NEW CENTURY.

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