

11 September 1984

MR POWELLOD(K) 12 SEPTEMBER - HONG KONG: PENSIONS

1. The text we have agreed with the Chinese on pensions contains a clear undertaking that the SAR will pay pensions to Hong Kong civil servants on terms no less favourable than before. The Foreign Secretary is not recommending that HMG should accept a contingent liability if the SAR were to default. We should note that a problem could arise in the future; but that would be for the government of the day to decide.

2. What we are concerned with at this meeting, therefore, is not money but words, ie the terms of the statement we should make when the agreement is made public. The question is whether we use the first formula, which includes the word "responsibilities", or the second which does not contain that word and is altogether more cagey.

3. Our main concern, as I see it, is that, without misleading, we should try to give the maximum possible assurance to the Hong Kong civil servants. The administration of Hong Kong will depend crucially on them and their morale in the years ahead. It can be argued that the word "responsibilities" could arouse false expectations and on examination provoke only disappointment. But the

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Governor and EXCO, who are the best judges of likely Hong Kong reactions, nevertheless strongly urge the first formula. We have a respectable answer to questions, as set out in paragraphs 6 and 7 of the Foreign Secretary's minute.

4. I hope, therefore, the Prime Minister can agree to the Foreign Secretary's recommendation.

5. The Chancellor is likely to argue for the second formula.

cc.
PERCY CRADOCK

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