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Foreign and Commonwealth Office

London SW1A 2AH

4 May 1984

Dear John,

Hong Kong: Call by Lord Kadoorie

Your letter of 1 May asked for a short brief on subjects which Lord Kadoorie might be expected to raise with the Prime Minister when he calls on 8 May.

I enclose a brief on the future of Hong Kong and investment protection and promotion in China. The Department of Trade and Industry will be sending briefing on the Guangdong Nuclear Power Project separately to you; this will take account of the note which Lord Kadoorie delivered to No 10 this evening.

I am copying this letter to Callum McCarthy (Department of Trade and Industry).

Yours ever,  
P F Ricketts

(P F Ricketts)  
Private Secretary

A J Coles Esq  
10 Downing Street

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LORD KADOORIE'S CALL ON THE PRIME MINISTER: 8 MAY 1984

## POINTS TO MAKE

## A. FUTURE OF HONG KONG

1. Sir Geoffrey Howe visited Peking 15-18 April. Held discussions with Chinese leaders, including Deng Xiaoping, on all aspects of future of Hong Kong. Progress made, but some difficult issues still remain.
2. Sir Geoffrey also visited Hong Kong and made statement on 20 April about our approach in negotiations. Confirmed that it is no longer realistic to think of agreement providing for continued British administration after 1997.
3. Our impression is that statement was received relatively calmly in Hong Kong, despite continuing underlying anxiety and concern. Believe that lifting of veil has been generally welcomed. Is this right?
4. Talks with Chinese continuing. Last round 27/28 April. 14th round on 9/10 May.

## B. INVESTMENT PROTECTION AND PROMOTION IN CHINA

5. Regret we do not consider it feasible to negotiate a UK/China Investment Protection and Promotion Agreement (IPPA) that will extend to Hong Kong. The Chinese view of the status of Hong Kong (as part of China) rules this out.

## C. ISSUE OF BRITISH PASSPORTS TO HONG KONG CITIZENS (DEFENSIVE)

6. Aware nationality is very sensitive issue in Hong Kong. Raised on many occasions by Unofficial members of EXCO. We are working for agreement which will encourage all Hong Kong people to continue to live and work in territory.

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LORD KADOORIE'S CALL ON THE PRIME MINISTER: 8 MAY 1984

## ESSENTIAL FACTS

## A. FUTURE OF HONG KONG

1. The Prime Minister is fully aware of the background to the subject. Lord Kadoorie is not privy to confidential information about the talks in Peking.

## B. INVESTMENT PROMOTION AND PROTECTION IN CHINA

2. Investment Promotion and Protection Agreements (IPPAs) are intended to stimulate flow of new investment between the two signatory states. They provide for the protection of existing and future investment under the law of the host country, for the payment of prompt, adequate and effective compensation in the event of expropriation; and for the independent settlement of investment disputes. We have 22 IPPAs, 16 of which have been ratified.

3. Mr Channon raised the possibility of concluding an IPPA during his visit to China in February and received a favourable response. Since then Lord Kadoorie has asked if a UK/China IPPA would be extended to cover Hong Kong investments in China. In most of our IPPAs there is an Article which provides for extension to Dependent Territories, but we have already agreed with the Hong Kong Government that it would be impossible to seek to apply this to Hong Kong in the context of a UK/China IPPA. The irreconcilable views of the British and Chinese Governments on the status of Hong Kong rule this out.

4. We have considered whether there is any other way to give a degree of protection to Hong Kong investment in China in the period up to 1997. Hong Kong take the view that there is not, and that there is no great pressure from local businessmen for this. They consider that the best protection for such investments is a viable project, satisfactory to both parties and covered by proper contractual arrangements.

Hong Kong Department  
May 1984

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