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FM HONG KONG 070950Z NOV 84

TO PRIORITY FCO

TELEGRAM NUMBER 3401 OF 7 NOVEMBER

INFO PRIORITY PEKING

## FUTURE OF HONG KONG: PRIME MINISTER'S VISIT TO PEKING.

1. A VERY IMPORTANT ASPECT OF THE PRIME MINISTER'S VISIT TO PEKING TO SIGN THE AGREEMENT WILL BE THE IMPRESSION WHICH IT CREATES IN HONG KONG. THROUGHOUT THE NEGOTIATIONS WE EMPHASISED, BOTH IN PUBLIC AND IN THE DISCUSSIONS WITH THE CHINESE, THAT OUR CONCERN WAS FOR THE MAINTENANCE OF THE STABILITY AND PROSPERITY OF HONG KONG AND THE PRESERVATION OF THE FREEDOMS AND LIFESTYLE OF THE PEOPLE WHO LIVE HERE. WE SUCCESSFULLY RESISTED CHINESE PROPOSALS FOR WORDING IN THE AGREEMENT WHICH WOULD HAVE LAID EMPHASIS ON THE PROTECTION AND PROMOTION OF BRITISH ECONOMIC INTERESTS WHICH WOULD HAVE SUGGESTED THAT THIS WAS AMONG THE UK'S MAIN OBJECTIVES: THE ONLY REFERENCE TO THIS POINT IN THE DRAFT AGREEMENT IS IN PARA 3(9) OF THE JOINT DECLARATION WHICH SAYS THAT THE SAR 'MAY ESTABLISH MUTUALLY BENEFICIAL ECONOMIC RELATIONS WITH THE UK AND OTHER COUNTRIES, WHOSE ECONOMIC INTERESTS IN HONG KONG WILL BE GIVEN DUE REGARD'.

2. I CAN WELL UNDERSTAND THAT THE PRIME MINISTER WILL WISH TO TAKE THE OPPORTUNITY OF HER PEKING VISIT TO GIVE A FILIP TO SINO-BRITISH RELATIONS GENERALLY, AND TO SINO-BRITISH TRADE IN PARTICULAR. IF THERE ARE PROJECTS, CONTRACTS OR AGREEMENTS WHICH ARE LIKELY TO MATURE AT THE TIME WHEN SHE WILL BE IN PEKING I SHOULD CERTAINLY SEE NO OBJECTION TO THEM BEING SIGNED BY HER, OR IN HER PRESENCE. IT WILL HOWEVER BE EXTREMELY IMPORTANT, AGAINST THE BACKGROUND DESCRIBED ABOVE, TO AVOID GIVING THE IMPRESSION THAT ANY AGREEMENTS OR CONTRACTS WHICH MIGHT BE SIGNED ARE THE QUID PRO QUO FOR THE HONG KONG AGREEMENT AND THAT HMG ARE SOMEHOW BEING 'REWARDED' BY THE CHINESE FOR THEIR COOPERATIVE ATTITUDE OVER HONG KONG. IF THIS IS TO BE AVOIDED THE MAIN EMPHASIS OF THE VISIT WILL HAVE TO BE ON THE SIGNATURE OF THE AGREEMENT, AND ANY TRADE OR ECONOMIC ASPECTS SHOULD TAKE SECOND PLACE.

3. THE GUANGDONG NUCLEAR PROJECT IS A CASE IN POINT. I DO NOT UNDERESTIMATE THE IMPORTANCE OF THE PROJECT TO BRITISH INDUSTRY AND THERE WILL BE AN UNDERSTANDABLE WISH TO TRY TO CONCLUDE THE NEGOTIATIONS IN TIME FOR SOMETHING TO BE SIGNED DURING THE PRIME MINISTER'S VISIT. THE HONG KONG CONSIDERATIONS ARE DIFFERENT. THERE IS LITTLE ENTHUSIASM FOR THE PROJECT HERE. ON THE CONTRARY, THERE IS ANXIETY ABOUT THE SAFETY ASPECTS, A CONCERN THAT HONG KONG CONSUMERS MAY HAVE TO PAY TOO HIGH A PRICE FOR THE ELECTRICITY PRODUCED AND A BELIEF THAT GEC WOULD NOT BE IN THE RUNNING FOR THE TURBINE CONTRACT IF IT WERE NOT FOR THE HONG KONG CONNECTION. THERE IS THEREFORE A STRONG RISK THAT TO HIGHLIGHT THE GUANGDONG

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PROJECT DURING THE VISIT WOULD CREATE PRECISELY THE KIND OF SUSPICIONS WE SHOULD BE SEEKING TO AVOID (PARA 2 ABOVE). MOREOVER, THE EXECUTIVE COUNCIL WILL HAVE TO APPROVE THE CONTRACTS COVERING THE FORMATION OF THE JOINT VENTURE COMPANY AND THE SALE OF ELECTRICITY TO HONG KONG BEFORE THEY ARE SIGNED. THEY WILL WISH TO HAVE TIME TO EXAMINE ALL THE IMPLICATIONS CAREFULLY AND WILL RESENT BEING ASKED TO DO SO AGAINST ANY DEADLINE. THE ISSUES INVOLVED FOR PUBLIC UTILITIES IN HONG KONG GO WIDER THAN THE DAYA RAY PLANT.

4. FOR ALL THESE REASONS I WOULD RECOMMEND AGAINST MAKING GUANGDONG NUCLEAR PROJECT A MAJOR FEATURE OF THE PRIME MINISTER'S VISIT EVEN IF THE VARIOUS NEGOTIATIONS RELATING TO IT COULD BE COMPLETED IN TIME, WHICH I AM ADVISED IS VERY UNLIKELY. HAVING SAID THAT, I ENTIRELY ACCEPT THAT THE PRIME MINISTER WILL WANT TO USE THE OPPORTUNITIES PRESENTED BY HER DISCUSSIONS WITH CHINESE LEADERS TO CARRY THE NEGOTIATIONS FORWARD.

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