

CONFIDENTIAL

PRIME MINISTER

MEETING WITH EXCO

You are to meet the Governor of Hong Kong and members of EXCO on Wednesday. A list of those attending is attached.

The original purpose of the meeting was to offer general reassurance about HMG's continued close interest, at the highest level, in Kong Kong's affairs. The meeting will now also have to deal with the Daya Bay/Guangdong nuclear power station problem.

① You will want to welcome this further meeting with EXCO and take the opportunity to say a kind word about Michael Sandberg and Oswald Cheung (who are retiring at the end of the year).

② You will then want to turn to conditions in Hong Kong and seek their views on confidence in the future. You will be able to reassure them that implementation of the Joint Declaration is going well. You should seek their assessment of the state of opinion in Hong Kong on direct elections (on which Ministers have of course taken no decisions). Do they think a consensus is likely to emerge? How do they estimate progress with drafting of the Basic Law? Do they have preliminary views on how and at what point a Chief Executive should be introduced into Hong Kong's government structure?

③ On Daya Bay, you will want to stress that we are discharging our responsibility for the safety of the people of Hong Kong, as far as it is in our power to do so. We have told the Chinese at the highest level that they must do everything possible to reassure Hong Kong opinion. We are satisfied that the Chinese are approaching questions of safety very seriously. The nuclear plant itself is French, and they have very high standards.

Other points which could be raised are Vietnamese refugees, the future of the British Garrison and the Nationality Order

CONFIDENTIAL

CONFIDENTIAL

- 2 -

in Council. Full briefing on these and the other points is attached.

The usual practice is to issue an agreed statement after meetings with EXCO. We shall have a draft ready.

CDP

CHARLES POWELL

9 September 1986

VC4AIT

CONFIDENTIAL

CONFIDENTIAL

ccf



Foreign and Commonwealth Office

London SW1A 2AH

8 September 1986

Dear Charles

Hong Kong: Call by the Governor and
Members of the Executive Council

The Governor and members of the Executive Council of Hong Kong will call on the Prime Minister on Wednesday 10 September. They will have met Mr Renton on the previous day, and they will call on the Foreign Secretary on 11 September, after his return from Washington.

/ I enclose briefing for the call on the Prime Minister. You will note that the Governor and the Unofficials will be accompanied by two official members of ExCo, as well as by two other supporting officials from the Hong Kong Government. Two of the Unofficials, Sir Michael Sandberg and Mr Oswald Cheung, will be returning at the end of the year.

returning?

The calls on Ministers were planned, at a time when there are no particularly contentious issues between London and Hong Kong, with the general objective of demonstrating HMG's continued commitment to Hong Kong's future and continued appreciation of ExCo's advice. They will offer a good opportunity to discuss the future constitutional development of Hong Kong, which will be the subject of a review by the Hong Kong Government in 1987 and which the Governor discussed with senior Chinese in Peking last week. The Governor and the Unofficials intend to brief the Prime Minister on the situation in Hong Kong and progress over Chinese drafting of the Basic Law for the territory after 1997. They will emphasise the importance of HMG maintaining a close and visible interest in Hong Kong and in the content of the Basic Law. They will wish to discuss our informal dialogue with the Chinese about future constitutional development in Hong Kong.

/The

CONFIDENTIAL



CONFIDENTIAL

The Governor and ExCo also plan to raise the construction of a nuclear power station at Daya Bay, close to Hong Kong, which has been the subject of intense political controversy in the territory. They will be seeking our assurance that our contacts with the Chinese and French Governments have satisfied us of the high priority to be given to safety in the construction and operation of the plant. The briefing covers this point in terms agreed with the other departments concerned.

When the Governor and Unofficials have called on No 10 in the past a statement has been issued after the meeting. We are discussing with the Governor the possible terms of such a statement, and I shall write to you again about this nearer the time of the meeting.

I am copying this letter and brief to Timothy Walker (DTI) and Geoff Dart (D/Energy).

James

Adrian

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

CONFIDENTIAL



CALL ON THE PRIME MINISTER BY THE GOVERNOR AND MEMBERS OF THE
EXECUTIVE COUNCIL (EXCO) OF HONG KONG
3PM - 10 SEPTEMBER 1986

Background

General

1. EXCO last visited the UK and called on the Prime Minister on 20 September 1984, just before the initialling of the text of the Sino-British Joint Declaration in Peking.
2. Two Unofficial members of EXCO are due to retire from the Council at the end of 1986: Sir Michael Sandberg and Mr O V Cheung. This has been announced in Hong Kong and their successors have been named.

Confidence

3. Superficially confidence within Hong Kong is high. The economy is strong, with a growth rate of 5-6% forecast for this year, and the stock market at an all time high. But the general mood is volatile and there are clear undercurrents of anxiety. Hong Kong newspaper polls indicate a lessening of confidence in the future. Many of those who can are making contingency arrangements to be able to leave in future if they so decide. Hong Kong opinion is watching Chinese actions, particularly on the drafting of the Basic Law (para 11), and the Daya Bay issue (paras 13-17), very closely.

Implementation of Joint Declaration

4. Implementation of the Joint Declaration, in both the Sino-British Joint Liaison Group and the Sino-British Land Commission, is in general going very smoothly.

5. In four meetings since July 1985, the Joint Liaison Group has successfully tackled a number of important issues including:

- (a) Hong Kong's participation in the GATT as a separate contracting party;
- (b) transitional arrangements for identity and travel documentation for Hong Kong residents;
- (c) principles underlying the establishment of a separate Hong Kong shipping register;
- (d) principles underlying the establishment of separate Air Service Agreements for Hong Kong (the first such ASA has already been negotiated with the Netherlands and is to be signed later this month).

The Joint Liaison Group has conducted its work in a generally cooperative and friendly atmosphere. Some sensitive subjects have come up, notably the development of representative government at the second meeting in November 1985. But discussion of these has not impaired the general atmosphere or progress on other matters.

6. The working of the Land Commission has been remarkably smooth. An excellent relationship has developed, and agreement has been reached on many points allowing for a continued smooth pattern of land administration and sales. The property market is healthy.

Constitutional Development

7. This is likely to remain the most difficult Hong Kong issue for several years to come. Our continuing process of developing a more representative system of government in Hong Kong has periodically aroused strong Chinese suspicion that we are planning to introduce a full Westminster-style system in Hong Kong before 1997. The Chinese are concerned that this will:

- (a) introduce instability in Hong Kong through political infighting;
- (b) preempt the Basic Law which they are now drafting, which will prescribe Hong Kong's political system post-1997 within the general provisions of the Joint Declaration .

The Chinese are particularly concerned that next year's public review of Hong Kong's present system (a review to which we are committed) should not introduce changes incompatible with the first draft of the Basic Law to be published in 1988.

8. We have sought to reassure the Chinese that we are proceeding cautiously and prudently in building on Hong Kong's existing, unique, system and are fully mindful of the need to ensure that the system that evolves, and the system to be laid down in the Basic Law, are compatible. To help achieve this compatibility we have embarked upon a process of informal dialogue with the Chinese. In May the Foreign and Commonwealth Secretary met the Chinese Foreign Minister and handed over detailed papers summarising:

- (a) Hong Kong's present system;
- (b) the areas where compatibility needs to be achieved between the present system and the structure described in the Joint Declaration;
- (c) the current state of opinion in Hong Kong on the political structure issue.

9. Discussion with Chinese Ministers during a visit by the Governor to Peking between 29 August and 2 September has indicated that the Chinese are thinking seriously about these problems. The Governor was given indications of current Chinese thinking which will help us develop the dialogue a stage further.

10. An issue of particular concern to the Chinese is whether direct elections to LEGCO will be introduced as a result of the 1987 Review. They have expressed the firm position that we should take no decision on direct elections before the publication of the draft Basic Law in 1988. We have made clear that we are committed to considering this question in the context of the review, and cannot seek to prejudge how Hong Kong public opinion will view the issue. If there was a clear consensus in favour of direct elections it would be politically difficult and damaging not to respond accordingly. It is however helpful that the Basic Law drafting Committee will be issuing a preliminary report on the political structure in mid-1987. This will be available at the same time as the HKG Green Paper and may assist the emergence of a consensus acceptable to both the British and Chinese sides.

11. Meanwhile the Chinese are proceeding with their drafting of the Basic Law. They are consulting a wide range of Hong Kong opinion (both through Hong Kong membership of the drafting committee and the creation in Hong Kong of a broadly-based consultative committee to sound out Hong Kong opinion as drafting proceeds).

12. EXCO have welcomed Ministers' planning assumption that there should be a British Governor in Hong Kong up to 1997. Hong Kong are now beginning detailed planning on how and when a Chief Executive might be introduced into the present structure, with a view to easing transition to the new post-1997 system laid down in the Joint Declaration. Ministers and EXCO will be closely consulted on this as planning proceeds.

Daya Bay

13. GEC hopes to sign by 25 September a contract worth some £250M for the supply of turbine generators for a nuclear power station at Daya Bay (50km from Hong Kong) in Guangdong Province, China. Framatome (France) is supplying the nuclear reactors. The Midland Bank is the lead bank in an associated loan agreement. Most of the electricity will be sold to Hong Kong, and the plant will be 25% owned by Hong Kong interests.

14. Since Chernobyl there has been great concern in Hong Kong about the implications for the territory of an accident at Daya Bay. A coalition of anti-nuclear groups claimed to have collected over a million signatures against the project and presented them to the Chinese in August. The issue has been widely viewed as a litmus test of China's attitude to Hong Kong opinion in the run-up to 1997.

15. The Chinese have emphasised that their civil nuclear programme will go ahead. Since Hu Yaobang's visit to UK in June, we have urged them to publicise measures to ensure the safe construction and operation of the plant. They have done so, and have followed closely the concern in Hong Kong.

16. Missions from Hong Kong's Legislative Council (LegCo) (led by Miss Tam and Mr Allen Lee, the ExCo Unofficials) visited countries with nuclear power programmes in August. They have published a report making observations on safety, but taking no explicit stand on the desirability of the project for Hong Kong. They are to visit Peking between 15 and 18 September to discuss their Report with the Chinese. Contracts should be signed shortly thereafter; it is presentationally helpful that the Chinese should have agreed to listen to LegCo's views before formally going ahead with the project. The majority view in LegCo seems to be that the Chinese are committed to the project and that Hong Kong's representations should now concentrate on making it as safe as possible.

17. EXCO will be looking for an assurance from the Prime Minister that HMG is fully discharging its responsibility for the safety of the people of Hong Kong in this matter, and that on this basis we are content for the project to proceed. The line to take covers these points.

Vietnamese Refugees

18. EXCO may voice concern that Hong Kong's Vietnamese refugee population has increased slightly this year (now 8500) despite our continuing efforts to secure resettlement for the refugees in third

countries. In response to a Home Affairs Select Committee recommendation HMG decided last year to accept 500 additional refugees from Hong Kong for resettlement in the UK, and to use this initiative to stimulate other countries also to do more for Hong Kong. The 500 have almost all now been taken, and FCO and Home Office Ministers will be considering what additional measures can be taken to help Hong Kong. We are also approaching the main resettlement countries and UNHCR to see what if any measures can be devised to counter the continuing outflow from Indochina of those who seem more to be economic migrants rather than genuine political refugees.

Future of British Garrison

19. The current British garrison in Hong Kong will need to be withdrawn in or by 1997. This will be a very sensitive issue in Hong Kong. On the one hand Hong Kong are now expanding their police force to take over the garrison's internal duties, on the other they see the garrison as a continuing symbol of HMG's political commitment to Hong Kong up to 1997.

20. A more immediate problem lies in the negotiations which are due to take place next year between HMG and Hong Kong to replace the present Defence Costs Agreement, which is due for renewal. The present agreement (for 1981-7) apportioned garrison costs in the ratio 75:25 between Hong Kong and HMG. There are already signs that Hong Kong opinion (which EXCO will reflect) is unhappy with this apportionment and will seek to have it revised next year (particularly as Hong Kong will bear the full costs of police expansion); and that the negotiations will be very difficult.

Nationality Order in Council

21. Following publication of the draft Hong Kong (British Nationality) Order in October 1985 the Hong Kong Legislative Council made three requests in relation to the Order:

- (a) that there should be an endorsement in British National (Overseas) passports to show that the holder does not require a visa or entry certificate to visit the UK;
- (b) that former servicemen in Hong Kong who fought in its interests during World War II should be granted British citizenship; and
- (c) that BDTCS in Hong Kong who were not ethnically Chinese and who had no other form of nationality, should be granted full British citizenship in 1997.

The requests were widely supported in Hong Kong, including by the unofficial members of EXCO.

22. The Government has agreed to meet, so far as is possible under existing legislation, the first two requests. After careful consideration the Government concluded that it would not be right to meet the third, because arrangements in the Order and in the Joint Declaration fully met the Government's commitments to provide all BDTCS in Hong Kong with the right to a home, with a clear form of nationality and with assurances that their children and grandchildren could become British overseas citizens if they would otherwise be stateless.

23. This response was seen by some in Hong Kong, particularly members of ethnic minority communities, as unsatisfactory. It has, however, been accepted by and large. It is nevertheless still possible that British citizenship for the ethnic minorities will re-emerge in the future as a contentious issue in Hong Kong.



CALL ON THE PRIME MINISTER BY THE GOVERNOR AND MEMBERS OF THE
EXECUTIVE COUNCIL (EXCO) OF HONG KONG
3PM - 10 SEPTEMBER 1986

Points to Make

General

1. Always welcome opportunity to meet members of EXCO and hear views on current developments. Practice of close consultation with EXCO reinforced during two years of hard negotiations on future of Hong Kong. Ministers have then and since much valued views of Unofficials on Hong Kong issues. Take this opportunity to thank two retiring Unofficials, Sir Michael Sandberg and Mr Oswald Cheung, for their distinguished service over past decade.

Confidence

2. Understand that Hong Kong people's confidence in future likely to remain fragile as we move towards 1997. But believe economy currently strong and performing well. Grateful for EXCO's assessment of current state of confidence and Hong Kong's people's main worries about the future.

Implementation of Joint Declaration

3. Believe implementation has gone very well since Joint Declaration entered into force. Good progress in Joint Liaison Group and Land Commission. British Government determined to make maximum effort to ensure that smooth implementation continues. Confident Chinese Government feel the same. Have received firm assurances from Chinese leaders on this score.

Constitutional Development

4. As EXCO are aware, embarked on informal dialogue with Chinese on future development of Hong Kong's political system. Governor's

visit to Peking last week was significant step forward. However Chinese also used that visit to reaffirm opposition to introduction of direct elections before Basic Law is published.

5. Ministers have of course taken no firm view on direct elections or other questions to be examined in 1987 review. Decisions must be taken in light of views expressed by Hong Kong people in course of review. What are EXCO's views on current state of opinion in Hong Kong: in particular, will a consensus on direct elections emerge in 1987 Review?

6. Chinese appear to be considering issues involved in Hong Kong's future political evolution both seriously and intelligently; and in the process consulting Hong Kong people widely, which we have welcomed. We recognise that in light of our responsibility for Hong Kong we shall need to follow evolution of Basic Law very closely and do all we can to influence it towards compatibility with present structure of government. How does EXCO view current developments in process of drafting Basic Law?

7. Ministers have with your advice made a planning assumption that there should be a British Governor in Hong Kong up to 1997. Much detailed work to be done on how and when Chief Executive should be introduced into the existing system: a complex and delicate issue on which HMG will of course need EXCO's advice. Would welcome any preliminary views you may have.

Daya Bay

8. Appreciate that ExCo and the people of Hong Kong are looking to HMG for assurances about the Daya Bay project. As part of our overall responsibilities for Hong Kong we acknowledge our responsibility for the safety of its people. I can tell you that we have discharged it fully. I stressed to Hu Yaobang in June need to be alive to the concerns of the Hong Kong community about Daya Bay, and to take steps to allay those fears. Our Ambassador in Peking has made these points to Chinese authorities on several occasions.

9. As report of the UMELCO fact-finding teams recognises, no one can give an assurance that any power station will be entirely problem-free. Against very low probability of accidents if safety aspects are properly observed, must be set the undoubted benefits of nuclear power. We believe that this balance of risk and benefit is acceptable for us, as do China and most major industrial economies.

10. The Chinese are relying on French nuclear expertise. French companies have a successful record in designing and building PWR reactors safely in many countries, all of which have no doubt required to be fully satisfied as regards safety standards. Although all the arrangements for operating the plant are not yet in place I can say that, on the basis of our contacts with the Chinese authorities we are satisfied that they are approaching questions of safety with the utmost seriousness. Had we seen any reason to doubt that the Daya Bay plant would be designed, built and operated to a proper standard of safety we should naturally have taken the matter up with the French and Chinese Governments on our own behalf and on behalf of Hong Kong. We are therefore content that the project should go ahead.

Points to Make (Defensive)

Vietnamese Refugees

11. Very conscious of burdens Hong Kong has continued to bear since Geneva Conference convened (as result of a British initiative) in July 1979. Have made a further initiative over past 12 months to relieve Hong Kong of part of this burden and to persuade others to help as well. But if - as seems likely - overseas resettlement is becoming a less viable solution as time goes on, we shall need to consider with other governments concerned what other means can be found to reduce this problem.

Future of British Garrison

12. Withdrawal of garrison between now and 30 June 1997 will require careful planning. Shall take full account of Hong Kong views and interests as planning proceeds. Recognise that



negotiations on new defence costs agreement next year will be sensitive in current political climate in Hong Kong: confident that we will reach agreement acceptable to both sides.

Nationality Order in Council

13. Request for British citizenship for ethnic minorities in Hong Kong very difficult for HMG. Sure you understand reasons why we felt it not right to meet that request.

14. [If necessary] Can repeat assurance that if British nationals in Hong Kong were to come under pressure to leave, would expect the Government of the day to consider sympathetically their case for admission to the UK.