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SECRET DEDIP

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PP CANBERRA

GRS 765

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FM FCO 161652Z APR 84

TO PRIORITY CANBERRA (PERSONAL FOR HIGH COMMISSIONER)

TELEGRAM NUMBER 266 OF 18 APRIL

AND TO PRIORITY OTTAWA, WELLINGTON (PERSONAL FOR HIGH COMMISSIONERS

INFO PRIORITY HONG KONG, PEKING (PERSONAL FOR AMBASSADOR)

FUTURE OF HONG KONG: BRIEFING OUR ALLIES

1. YOU MAY USE THE FOLLOWING TO BRING YOUR SENIOR OFFICIAL CONTACTS UP TO DATE.

2. THE TWELTH ROUND (11/12 APRIL) WAS AGAIN DESCRIBED BY BOTH SIDES AS USEFUL AND CONSTRUCTIVE. THE ATMOSPHERE WAS GENERALLY GOOD THOUGH THERE IS NO DOUBT THAT THIS ROUND WAS MORE DIFFICULT THAN THE LAST. THE CHINESE TOOK A VERY FIRM LINE ON CERTAIN ASPECTS OF THEIR POSITION. THE NEXT ROUND WILL BE ON 27/28 APRIL.

3. WE STARTED DISCUSSION OF AGENDA ITEM 2, (ARRANGEMENTS BETWEEN NOW AND 1997), THOUGH THE CHINESE HAVE CONFIRMED THAT CERTAIN QUESTIONS LEFT OVER FROM AGENDA ITEM 1 CAN BE DISCUSSED PARALLEL. IN ADDITION, THE CHINESE COMMENTED ON OUR PROPOSALS FOR FOREIGN REPRESENTATION IN THE FUTURE SAR AND CLARIFIED THEIR VIEWS ON CIVIL AVIATION AND ON SHIPPING.

4. THE CHINESE DESCRIBED THE PERIOD BETWEEN THE SIGNING OF A SINO-BRITISH AGREEMENT ON HONG KONG AND 30 JUNE 1997 AS THE 'TRANSITION PERIOD'. ALTHOUGH THEY ACKNOWLEDGED THAT WE WOULD REMAIN RESPONSIBLE FOR MAINTAINING ECONOMIC AND SOCIAL STABILITY THROUGHOUT THIS PERIOD, THEY SAID THAT BRITAIN AND CHINA SHOULD CO-OPERATE DURING THE 'TRANSITION' TO MAINTAIN HONG KONG'S STABILITY AND PROSPERITY AND TO ENSURE SPECIFICALLY THAT:

(A) HONG KONG REMAINED A SEPARATE TARIFF AREA, AND A BENEFICIARY UNDER GATT AND OTHER PREFERENTIAL ECONOMIC ARRANGEMENTS:

(B) THE CHINESE WERE KEPT FULLY INFORMED OF, AND THE HONG KONG BRANCH OF THE BANK OF CHINA INVOLVED IN, KEY MONETARY MATTERS



RELATING TO HONG KONG.

(C) OTHER MEASURES CONDUCIVE TO HONG KONG'S LONG TERM ECONOMIC PROSPERITY WERE PRUDENTLY HANDLED.

THEY SUGGESTED THAT ALL THESE OBJECTIVES COULD BEST BE MET BY THE ESTABLISHMENT IN HONG KONG OF A PERMANENT SINO-BRITISH JOINT GROUP, WITH APPROPRIATE SUB-GROUPS DESIGNATED TO STUDY SPECIFIC AREAS. THE JOINT GROUP WOULD BE A LIAISON BODY. ITS ESSENTIAL TASK WOULD BE TO ENSURE BOTH THE IMPLEMENTATION OF THE SINO-BRITISH AGREEMENT AND A SMOOTH TRANSFER OF GOVERNMENT.

5. ON LAND (WHICH THE CHINESE HAVE ALWAYS REGARDED AS AN APPROPRIATE MATTER FOR DISCUSSION UNDER AGENDA ITEM 2) THE CHINESE ACCEPTED THAT IN THE INTEREST OF ECONOMIC DEVELOPMENT, THE HONG KONG GOVERNMENT COULD GRANT LAND LEASES IN THE WHOLE OF HONG KONG RUNNING BEYOND JUNE 1997. BUT THIS SHOULD BE ON THE PREMISE THAT BRITAIN ACCEPTED CHINA'S RESUMPTION OF SOVEREIGNTY FROM 1 JULY 1997. ACCORDINGLY, THERE WOULD BE A NEED FOR SINO-BRITISH CONSULTATIONS, BOTH ON THE NUMBER OF LAND LEASES TO BE GRANTED ANNUALLY AND ON THE APPORTIONMENT OF THE REVENUE TO BE DERIVED FROM SUCH LEASES.

6. THE CHINESE CONFIRMED THAT FOREIGN REPRESENTATION IN THE SAR AFTER 1997 COULD CONTINUE ESSENTIALLY AS NOW. THEY HOPED THAT BRITAIN WOULD PLAY AN ACTIVE ROLE IN THE DEVELOPMENT OF THE SAR. NEVERTHELESS THERE WAS SOME DIVERGENCE OF VIEW AS TO HOW THIS MIGHT BEST BE ACHIEVED.

7. ON CIVIL AVIATION, THE CHINESE REITERATED THAT THE SAR WOULD HAVE CONSIDERABLE AUTONOMY. BUT THEY SAW CIVIL AVIATION MATTERS AS INEXTRICABLY BOUND UP WITH THE QUESTION OF SOVEREIGNTY. THUS, ALTHOUGH IN PRINCIPLE THE SAR COULD NEGOTIATE, SIGN AND RENEW RELEVANT CIVIL AVIATION AGREEMENTS/CONVENTIONS, IT COULD DO SO ONLY ON THE BASIS OF A CASE-BY-CASE APPRAISAL, AND NOT THROUGH STANDING AUTHORITY DEVOLVED BY THE CENTRAL PEOPLE'S GOVERNMENT.

8. SHIPPING WAS MORE STRAIGHT FORWARD. THE ONLY REAL DIFFICULTY REMAINING FOR US HAD BEEN THE CONTINUING APPLICATION TO HONG KONG AFTER 1 JULY 1997 OF INTERNATIONAL AGREEMENTS/CONVENTIONS



LIMITED TO STATES, AND CURRENTLY EXTENDED TO HONG KONG BY VIRTUE OF BRITAIN'S PARTICIPATION IN THEM. THE CHINESE AGREED THAT WE AND THEY COULD TOGETHER DEVISE METHODS TO SOLVE ANY PROBLEMS STEMMING FROM A TRANSFER OF SOVEREIGNTY IN CONSULTATION WITH THE OTHER PARTIES CONCERNED.

9. SOME OF THE LATEST CHINESE PROPOSALS, (EG ON SHIPPING AND LAND), CONTAIN WELCOME FEATURES. BUT DIFFICULTIES REMAIN. THE CHINESE HAVE SO FAR REJECTED OUR CONTENTION THAT CIVIL AVIATION COMES WITHIN THE SCOPE OF ECONOMIC AUTONOMY FOR THE SAR. THERE IS ALSO A DIFFERENCE OF VIEW AS TO HOW BRITAIN CAN BEST ASSIST WITH THE FUTURE DEVELOPMENT OF THE SAR. MOST DIFFICULT OF ALL ARE THE CHINESE IDEAS ON CONSULTATIVE MACHINERY DURING THE 'TRANSITION PERIOD', WHICH COULD WELL DEVELOP INTO A DEMAND FOR AN EFFECTIVE SAY IN HONG KONG'S ADMINISTRATION UP TO 1997.

11. WE SHALL BE IN TOUCH LATER ABO THE SECRETARY OF STATE'S VISIT TO CHINA AND HONG KONG.

HOWE

**FUTURE OF HONG KONG**

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ED/ED

ED/FED

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