

**SECRET**

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DESKBY 191500Z  
FM HONG KONG 191300Z APR 84  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 1078 OF 19 APRIL  
INFO IMMEDIATE PEKING

FUTURE OF HONG KONG: CONSULTATION WITH EXCO  
SUMMARY

1. THE SECRETARY OF STATE HAD A TWO AND A HALF HOUR MEETING WITH THE EXECUTIVE COUNCIL THIS MORNING. HE GAVE THEM A SUMMARY ACCOUNT AND ASSESSMENT OF HIS DISCUSSIONS WITH CHINESE LEADERS. HE ALSO OUTLINED HIS THINKING ON THE WAY AHEAD. THE UNOFFICIALS EXPRESSED APPRECIATION FOR THE SECRETARY OF STATE'S FIRMNESS IN ARGUING THE BRITISH CASE IN PEKING AND AGREED GENERALLY WITH THE STRATEGY HE HAD OUTLINED. THEY ARGUED HOWEVER THAT WE WERE ATTACHING UNDUE SERIOUSNESS TO THE CONSEQUENCES OF A CHINESE UNILATERAL ANNOUNCEMENT IN SEPTEMBER - IF WE HAD FAILED TO REACH AGREEMENT BY THEN. THEY EMPHASISED THE VERY GREAT IMPORTANCE OF THE NATIONALITY ISSUE. THE TEXT OF THE DRAFT UNVEILING STATEMENT WAS AGREED.

DETAIL

2. THE COUNCIL HAD HAD AN OPPORTUNITY TO READ THE RECORDS OF THE SECRETARY OF STATE'S DISCUSSIONS WITH WU XUEQIAN, JI PENGFEI AND ZHAO ZIYAND BEFORE THE MEETING. I HAD ALSO GIVEN THEM A PRELIMINARY ACCOUNT OF THE DISCUSSION WITH DENG. THE SECRETARY OF STATE DESCRIBED THE ATMOSPHERE IN THE NINE HOURS OF MEETINGS DEVOTED TO THE HONG KONG QUESTION ON IT HAD BEEN BUSINESSLIKE. THERE HAD BEEN NO CONFRONTATION, AND THE LEVEL OF TENSION WAS LOW EVEN WHEN DEALING WITH QUESTIONS WHICH WERE DIFFICULT FOR THE CHINESE SUCH AS ITEM 2 AND THE NATURE AND FORM OF OUR DRAFT AGREEMENT. HE HAD ARGUED THE BRITISH CASE STRONGLY ON THE TIMETABLE AND THE UNREASONABLENESS OF THE CHINESE SUGGESTION THAT THERE SHOULD BE AN AGREED TEXT OF AN AGREEMENT BY JUNE IN ORDER TO MEET THEIR SEPTEMBER DEADLINE FOR A SIGNED AND FINAL AGREEMENT. HE HAS STRESSED THE NEED FOR DETAIL IN THE AGREEMENT; AND THE REQUIREMENT THAT IT SHOULD BE BALANCED AS REGARDS OBLIGATIONS AND BINDING. HE HAD ALSO STATED THE BRITISH CASE FIRMLY ON THE IMPORTANT OUTSTANDING ISSUES OF NATIONALITY, THE PUBLIC SERVICE, CONSTITUTIONAL ARRANGEMENTS AFTER 1997 AND THE STATIONING OF CHINESE TROOPS IN HONG KONG.

3. THE SECRETARY OF STATE SAID THAT ITEM 2 (ARRANGEMENTS FOR THE PERIOD BEFORE 1997) HAD ASSUMED GROWING IMPORTANCE IN THE CHINESE POSITION. IN WARNING THEM OF THE DANGERS OF THEIR IDEAS ON A JOINT GROUP HE HAD CONCENTRATED ON THEIR WISH TO SEE SUCH A GROUP ESTABLISHED IN HONG KONG. **SECRET**

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4. THE SECRETARY OF STATE SAID THAT THE CHINESE HAD MADE SOME MOVES IN OUR DIRECTION:

(A) ON THE TIMETABLE DENG HAD ABANDONED THE SEPTEMBER DEADLINE FOR A FINAL SIGNED AGREEMENT AND HAD ACCEPTED OUR CASE FOR AIMING AT A DRAFT AGREEMENT TO BE PUBLISHED IN SEPTEMBER WITH DEBATE BY PARLIAMENT IN NOVEMBER AND SIGNATURE BY THE END OF THE YEAR.

(B) DESPITE THEIR INITIAL REJECTION OF OUR DRAFT THEY HAD IN EFFECT AGREED THAT BOTH DRAFT AGREEMENTS SHOULD REMAIN ON THE TABLE FOR FURTHER NEGOTIATION.

(C) THEY HAD STATED THAT AN AGREEMENT BETWEEN THE TWO GOVERNMENTS WOULD BE BINDING: THAT IT WOULD HAVE AN EQUALLY BINDING ANNEX OR ANNEXES: AND THAT THE ANNEXES COULD CONTAIN THE POINTS AGREED BETWEEN THE TWO SIDES IN DISCUSSION OF THE WORKING PAPERS. IT WOULD HOWEVER BE NECESSARY TO PRESS THE CHINESE FOR FURTHER CLARIFICATION ON ALL THESE POINTS.

(D) ON ITEM 2 THERE HAD BEEN SOME SHIFT IN THE CHINESE POSITION WHEN DENG HAD SUGGESTED THAT THE JOINT GROUP MIGHT BE PERIPATETIC, MEETING IN HONG KONG, PEKING AND LONDON. IT WOULD BE NECESSARY TO CONSIDER ALL THE IMPLICATIONS VERY CAREFULLY BEFORE DECIDING ON OUR POSITION. TO ENSURE THAT THERE WAS NO MISUNDERSTANDING THE SECRETARY OF STATE HAD EXPLAINED THIS TO ZHOU NAN ON THE WAY TO AIRPORT.

(E) DENG HAD ALSO MADE A DELPHIC REMARK ABOUT THE PUBLIC SERVICE, SUGGESTING THAT THERE MIGHT BE WIDER SCOPE FOR EMPLOYMENT OF EXPATRIATES AT ALL LEVELS. THE SIGNIFICANCE OF THIS WOULD NEED TO BE EXPLORED FURTHER.

5. THE SECRETARY OF STATE SAID THAT THE CHINESE HAD BEEN PARTICULARLY TOUGH ON:

(A) ITEM 2.

(B) THE STATIONING OF CHINESE TROOPS IN HON KONG (THE SECRETARY OF STATE HAD EMPHASISED BRITISH CONCERN AND DENG HAD ACCEPTED THAT THE MATTER COULD BE FURTHER DISCUSSED.

(C) THEIR REACTION TO OUR POSITION ON NATIONALITY. THEY HAD HOWEVER AGREED THAT THIS TOO COULD BE FURTHER DISCUSSED.

(D) THEIR UNWILLINGNESS TO BE FORTHCOMING ON CONSTITUTIONAL ARRANGEMENTS.

6. THE SECRETARY OF STATE 'S GENERAL ASSESSMENT WAS THAT THE CHINESE WANTED AN AGREEMENT. WHILE THEIR APPROACH WAS DIFFERENT FROM THAT OF THE BRITISH SIDE THERE HAD BEEN SOME SHIFT IN OUR DIRECTION. THE VISIT HAD INDICATED WAYS IN WHICH WE MIGHT BE ABLE TO ACHIEVE AN ACCEPTABLE AGREEMENT. THERE WOULD BE A NEED FOR CONSIDERABLE RECASTING OF THE BRITISH (OR THE CHINESE) DRAFT. THERE WERE STILL DIFFICULT ISSUES OBTRUDING, IN PARTICULAR ITEM 2, NATIONALITY AND CONSTITUTIONAL ARRANGEMENTS. THERE WAS ALSO A NEED TO FIND A WAY ROUND CHINESE INSISTENCE THAT POST - 1997 ARRANGEMENTS WERE A MATTER FOR DECLARATION BY THEM AND NOT FOR AGREEMENT WITH HMG. BUT WITH ARGUMENT AND SKILL IT SHOULD BE POSSIBLE TO FIND A SATISFACTORY WAY OF DEALING WITH THESE QUESTIONS.

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7. IN CONCLUSION THE SECRETARY OF STATE SAID THAT HE HAD ARRIVED IN PEKING SOMEWHAT PESSIMISTIC. THERE HAD BEEN DANGER THAT THE CHINESE WOULD REJECT MAJOR ELEMENTS OF THE BRITISH POSITION OUT OF HAND AND THERE WAS DOUBT WHETHER HE WOULD SEE DENG. AS IT WAS THE VISIT HAD OPENED UP GROUND THAT IT MIGHT BE POSSIBLE TO EXPLOIT. IT WOULD NOW BE NECESSARY TO EXPLORE CAREFULLY THE WAY AHEAD WITH THE CONTINUING AIM OF ACHIEVING AN AGREEMENT WHICH MET THE BRITISH OBJECTIVES. THE MAIN OBJECTIVE REMAINED UNCHANGED: TO SEE WHETHER IT WOULD BE POSSIBLE TO REACH AN AGREEMENT WHICH HMG COULD HONOURABLY COMMEND TO HONG KONG AND TO PARLIAMENT.

8. AFTER EXPRESSING A WARM APPRECIATION FOR THE SECRETARY OF STATE'S EFFORTS IN PEKING, SIR S Y CHUNG SAID THAT HE HAD ATTEMPTED TO DRAW UP A BALANCE SHEET FOR THE VISIT. AS FAR AS HE COULD SEE HMG HAD GIVEN AWAY NOTHING. BUT NEITHER HAD THE CHINESE, THOUGH THEY HAD SHOWN INDICATIONS OF FLEXIBILITY. HE REMAINED CONCERNED ABOUT CHINESE MOTIVES. WHILE THEY WERE STILL INSISTING THAT THE PERIOD BEFORE 1997 SHOULD BE REGARDED AS A TRANSITION PERIOD IN WHICH THEY WOULD BE ABLE TO INFLUENCE POLICY. ON THE AGREEMENT, SIR S Y RECALLED THE VIEW OF THE UNOFFICIALS THAT THE BRITISH DRAFT SHOULD BE REGARDED AS THE BOTTOM LINE. THE FACT THAT IT HAD BEEN AGREED THAT BOTH DRAFTS SHOULD REMAIN ON THE TABLE STRONGLY SUGGESTED THAT THE OUTCOME WOULD BE A COMPROMISE BETWEEN THE TWO. SIR S Y REMAINED CONCERNED ABOUT THE ABSENCE OF ANY PROTECTION FOR GHK PEOPLE OF HONG KONG IN THE AGREEMENT. ON CONSULTATIVE MACHINERY, HIS OBJECTION WAS NEITHER TO THE NAME OF THE PROPOSED BODY NOR TO ITS LOCATION IN HONG KONG BUT TO THE FACT THAT ANY MACHINERY OF THE KIND PROPOSED WOULD PROVIDE OPPORTUNITIES FOR CHINESE INTERFERENCE.

9. OTHER MEMBERS AGREED GENERALLY WITH SIR S Y'S COMMENTS, PARTICULARLY AS REGARDS THE IMPORTANCE OF SECURING AN AGREEMENT ON THE LINES OF THE BRITISH DRAFT, AND THE RISKS INVOLVED IN ACCEPTING JOINT CONSULTATION ON THE LINES PROPOSED BY THE CHINESE.

10. APART FROM CLARIFICATIONS, OTHER POINTS RAISED INCLUDED:  
(A) THE SECRETARY OF STATE WAS ASKED ABOUT THE REACTION TO THE IDEA OF AN UNVEILING STATEMENT. HE SAID THAT HE HAD EXPLAINED THE NEED FOR SUCH A STATEMENT TO JI PENGFEI WHO HAD APPEARED TO ACCEPT IT. HE HAD THEREFORE NOT RAISED THE MATTER WITH OTHER CHINESE LEADERS. ZHOU NAN HAD HOWEVER RAISED IT WITH HIM AND HAD BEEN LESS THAN ENTHUSIASTIC. THE CHINESE REACTION TO THE ACTUAL STATEMENT REMAINED TO BE SEEN.  
(B) MEMBERS ASKED WHETHER THE CHINESE REALISED THAT THE PRESENT DRAFT AGREEMENT REPRESENTED THE BRITISH BOTTOM LINE. THE SECRETARY OF STATE SAID THAT THEY CERTAINLY KNEW THAT HMG ATTACHED IMPORTANCE TO ALL THE POINTS INCLUDED IN THE DRAFT. THOSE POINTS WOULD CONTINUE TO BE PRESSED THOUGH THE PRECISE FORM AND LANGUAGE MIGHT HAVE TO BE CHANGED. AT THE END OF THE DAY A JUDGMENT WOULD REMAIN WHETHER THE OUTCOME OF THE NEGOTIATIONS MET HMG'S REQUIREMENTS. SECRET-3-

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(C) IT WAS SUGGESTED THAT THE CHINESE WISH TO MAINTIAN HONG KONG'S PROSPERITY IN THE PERIOD UP TO 1997 COULD BE USED AS POWERFUL LEVERAGE TO SECURE CHINESE AGREEMENT TO THE KIND OF ARRANGEMENTS WE WERE SEEKING POST - 1997. THE SECRETARY OF STATE AGREED THAT THIS MIGHT GIVE US SOME BARGAINING POWER. BUT IT SHOULD NOT BE OVERESTIMATED. OUR MAIN CONCERN UNDER ITEM 2. WAS TO PREVENT CHINESE INTERFERENCE.

11. FOR THE DISCUSSION ON STRATEGY SEE MIFT.

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DESKBY 191500Z

FM HONG KONG 191125Z APR 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 1079 OF 19 APRIL

INFO IMMEDIATE PEKING

MIPT: FUTURE OF HONG KONG: CONSULTATION WITH EXCO: THE WAY AHEAD

1. IN INTRODUCING THE DISCUSSION THE SECRETARY OF STATE SPOKE ON THE FOLLOWING LINES:-

(A) THE EXTENT OF PROGRESS MADE ON THE TIMETABLE SHOULD NOT BE MISUNDERSTOOD. WE HAD PUSHED THE CHINESE BACK ON THEIR SEPTEMBER DEADLINE, BUT WE WOULD STILL NEED TO AIM TO COMPLETE A DRAFT AGREEMENT IN SEPTEMBER. THE DEADLINE THEREFORE REMAINED THOUGH WE BELIEVED IT WAS BEGINNING TO EXERT PRESSURE ON THE CHINESE AS WELL AS ON THE BRITISH SIDE. IT WAS IMPORTANT TO REALISE THAT IT WOULD NOT BE POSSIBLE TO AMEND A DRAFT AGREEMENT PUBLISHED IN SEPTEMBER: IT WOULD HAVE TO BE ACCEPTED OR REJECTED.

(B) IN ORDER TO GET THE RIGHT AGREEMENT, INCLUDING ALL POINTS OF SUBSTANCE IMPORTANT TO US WE WOULD NEED TO ENGAGE THE CHINESE IN A BATTLE OF MOVEMENT. WE SHOULD BE READY TO CHANGE THE FORM RAPIDLY IF THIS COULD BE DONE WITHOUT CHANGING THE CONTENTS. THE CRUCIAL THING WOULD BE TO SECURE THE INCLUSION OF OUR POINTS OF SUBSTANCE AND TO ENSURE THAT OBLIGATIONS UNDERTAKEN BY HMG WERE MATCHED BY OBLIGATIONS ON THE CHINESE SIDE.

(C) HMG WOULD NEED FREEDOM TO OPERATE TACTICALLY WITHIN THE AGREED STRATEGY. IT WOULD NOT BE PRACTICABLE FOR THERE TO BE CONSULTATION WITH EXCO ON EVERY TACTICAL POINT. BUT EXCO WOULD OF COURSE BE KEPT VERY CLOSELY INFORMED.

(D) THE SECRETARY OF STATE HIMSELF WOULD CONTINUE TO BE PERSONALLY AND CLOSELY INVOLVED. THERE MIGHT WELL BE A NEED FOR HIM TO VISIT PEKING AGAIN BEFORE SEPTEMBER. THERE MIGHT ALSO BE A NEED FOR A FURTHER UNVEILING STATEMENT DURING THE SUMMER. THE SECRETARY OF STATE DID NOT, HOWEVER, WISH TO BE HELD TO THIS.

(E) BEFORE THE TEXT OF A DRAFT AGREEMENT WAS PUBLISHED WE WOULD NEED TO HAVE CONVINCED OURSELVES THAT EVERYTHING POSSIBLE HAD BEEN ACHIEVED: WE WOULD HAVE TO BE SURE THAT WE HAD SQUEEZED THE CHINESE LEMON DRY. SIR S Y CHUNG HAD RAISED THE POSSIBILITY OF GETTING AN AGREEMENT WHICH WAS BINDING IN MORE THAN WORDS. THE TRUTH WAS THAT NO AGREEMENT BETWEEN SOVEREIGN STATES COULD CONTAIN EFFECTIVE GUARANTEES OF PERFORMANCE. THIS WAS ONE REASON WHY THE AGREEMENT WOULD HAVE TO BE CLEAR AND SUFFICIENT.

(F) THE BRITISH OBJECTIVE WAS CLEAR AND HAD NOT CHANGED. WE WOULD HAVE TO GO ON PRESSING TO GET THE BEST AGREEMENT POSSIBLE. THE FORM AND SHAPE OF THAT AGREEMENT WERE LESS IMPORTANT THAN THE CONTENT.

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(G) AS REGARDS ITEM 2 WE SHOULD PERSUADE THE CHINESE THAT THERE WAS A CERTAIN BALANCE BETWEEN OUR DEPENDENCE ON CHINESE GOOD FAITH AFTER 1997 AND CHINESE DEPENDENCE ON OUR GOOD FAITH BEFORE THAT DATE. IT WAS CLEAR THAT THERE WOULD BE A NEED FOR CONSULTATION WITH THE CHINESE. IT WAS NOW NECESSARY TO MAKE A CAREFUL STUDY OF WHAT THAT CONSULTATION SHOULD BE ABOUT, IN ORDER TO SEE WHETHER IT COULD BE MADE TO SERVE OUR INTERESTS AND FEND OFF CHINESE INTERFERENCE. THE CHINESE HAD SAID THAT THEY WERE NOT SEEKING ANY KIND OF CONDOMINIUM IN HONG KONG BEFORE 1997 BUT THAT THEY NEEDED TO LEARN HOW HONG KONG WORKED BEFORE RESUMING SOVEREIGNTY. WE WOULD NEED TO SEE WHETHER IT WOULD BE POSSIBLE TO FIND WAYS OF EDUCATING THEM AS TO WHAT WAS MEANT BY THE HIGH DEGREE OF AUTONOMY NOW ENJOYED BY HONG KONG WITHOUT PROVIDING OPPORTUNITIES FOR CHINESE INTERFERENCE.

2. SIR S Y CHUNG SAID IT WAS DIFFICULT TO COMMENT ON THE STRATEGY OUTLINED BY THE SECRETARY OF STATE WITHOUT KNOWING THE REACTION IN HONG KONG TO THE UNVEILING STATEMENT HE WOULD MAKE THE FOLLOWING DAY. HE ACCEPTED THAT HMG WOULD HAVE THEIR OWN VIEWS ABOUT TACTICS. AT THE END OF THE DAY THE UNOFFICIALS WOULD HAVE TO CONSIDER WHATEVER DRAFT AGREEMENT HAD BEEN ACHIEVED AND DECIDE WHETHER THEY COULD ACCEPT IT. IF THEY FOUND IT UNACCEPTABLE, AND HMG NEVERTHELESS WENT AHEAD, THEY WOULD WISH THEIR POSITION TO BE MADE KNOWN PUBLICLY. IN THE MEANTIME HE WAS CONCERNED ABOUT THE SECRETARY OF STATE'S STATEMENT THAT IT WOULD NOT BE POSSIBLE TO AMEND A DRAFT AGREEMENT AFTER IT HAD BEEN PUBLISHED.

3. FURTHER DISCUSSION CONCENTRATED ON THE TIMETABLE AND THE IMPORTANCE OF THE CHINESE DEADLINE. A NUMBER OF MEMBERS ARGUED THAT THE SECRETARY OF STATE HAD EXAGGERATED THE DANGERS INVOLVED IN FAILURE TO MEET THE SEPTEMBER DEADLINE. THEY SUGGESTED THAT IF THE CHINESE DID MAKE A UNILATERAL ANNOUNCEMENT IT WOULD NOT CONTAIN MUCH MORE THAN THE 12 POINTS. HMG MIGHT THEN MAKE THEIR OWN ANNOUNCEMENT AND THE WORLD WOULD SEE THAT THE TWO SIDES WERE NOT REALLY SO FAR APART. IN SOME MEMBERS' VIEW, A UNILATERAL CHINESE ANNOUNCEMENT WOULD NOT NECESSARILY BE THE END OF THE ROAD. THE CHINESE WANTED AN AGREEMENT AND WOULD RETURN TO THE NEGOTIATING TABLE. THEY MIGHT EVEN BE READY TO ACCEPT OUR DRAFT AGREEMENT. THE SECRETARY OF STATE MADE IT CLEAR THAT, IN MINISTERS' CONSIDERED VIEW, THE SEPTEMBER DEADLINE WAS SERIOUS. THE CHINESE MEANT WHAT THEY SAID AND WOULD MAKE A UNILATERAL ANNOUNCEMENT IF A DRAFT AGREEMENT HAD NOT BEEN COMPLETED BY SEPTEMBER. IT WOULD THEN BE VIRTUALLY IMPOSSIBLE TO GET THEM BACK TO THE NEGOTIATING TABLE. THE RESULTING SITUATION WOULD BE VERY SERIOUS INDEED. HE STRESSED THAT IF IT CAME TO A CHOICE THE CHINESE WOULD GIVE THE RECOVERY OF SOVEREIGNTY PRIORITY OVER THE CONCLUSION OF AN AGREEMENT WHICH WOULD MAINTAIN HONG KONG'S PROSPERITY.

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4. MR T S LO MADE A PREPARED STATEMENT ON NATIONALITY, ARGUING THE NEED TO MAKE CONTINGENCY PLANS IN CASE OF FAILURE TO ACHIEVE AN ACCEPTABLE AGREEMENT BY SEPTEMBER. IN THAT EVENT HMG WOULD HAVE CONSIDER THEIR OBLIGATIONS TO THOSE OF BRITISH NATIONALITY. THE CONSEQUENCES WOULD BE VERY SERIOUS IF 3 MILLION BDTC'S LOST THEIR EXISTING RIGHTS THROUGH THE RENUNCIATION OF SOVEREIGNTY. SIR S Y CHUNG ADDED THAT HE DID NOT CHALLENGE HMG'S RIGHT TO RETURN THE TERRITORY OF HONG KONG TO CHINA. THE QUESTION WAS WHETHER HMG COULD FORCE PEOPLE WHO DID NOT WISH TO DO SO TO LIVE UNDER COMMUNISM. THE SECRETARY OF STATE SAID THAT CONTINGENCY PLANNING WOULD CERTAINLY INCLUDE THE QUESTION OF NATIONALITY. THE ISSUE REQUIRED VERY CAREFUL CONSIDERATION. THIS ASSURANCE WAS ACCEPTED.

5. IN CONCLUSION THE SECRETARY OF STATE SAID HE HOPED THAT THE BROAD STRATEGY HE HAD OUTLINED, WHICH INCLUDED CONTINUING CONSULTATION WITH EXCO THOUGH NOT ON EVERY TACTICAL POINT, WAS ACCEPTABLE TO THE COUNCIL. TWO MEMBERS RAISED OBJECTIONS ALTHOUGH IT WAS CLEAR FROM THE EARLIER DISCUSSION THAT THEY CONTINUED TO HAVE MISGIVINGS ON SOME ASPECTS.

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