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Pome Mark

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MR FLESHER

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24/8.

HONG KONG: STATE OF THE NEGOTIATIONS

1. Since the dramatic developments during the Foreign Secretary's visit to Peking at the end of July the negotiations have inevitably become more humdrum. Zhou Nan has remained characteristically unhelpful although not totally intransigent. In the Working Group there has been a Chinese disposition to compromise. We have been ploughing slowly forward through a mass of detail.

2. Of the eight Annexes outstanding on 3 August, two important ones, namely the legal system and rights and freedoms, have now been satisfactorily settled. Of the rest, I do not expect public service, constitutional arrangements, or defence to present undue difficulties. Nationality is now being addressed in detail; I can see a solution based on parallel British and Chinese statements in memoranda linked to the agreement. This should preserve the position of BDTC's under another name, though without power to transmit to the next generation. That leaves land and civil aviation. Land has proved very complex and although some progress has been made there is still a good way to go. A land expert from Hong Kong has joined the Working Group. On civil aviation, an expert from the Department of Transport is talking with the Chinese but the issue has not yet got to the Working Group and I expect it to be perhaps the most protracted and intractable of all.

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3. On our own side, Ministerial decisions will be required on undertakings to the people of Hong Kong, ie immigration into the UK, and on pensions. On the first, there is a measure of agreement between the Foreign and Home Office but significant differences are likely to remain and these will have to be argued out in OD(K). We are trying for a meeting on 3 September. On pensions the questions are whether Her Majesty's Government should accept in principle a potentially very large contingent liability after 1997 in respect of pensions for the Hong Kong public service; what steps can be taken have the liability at least partly covered from Hong Kong resources before 1997; and what public assurances can be given when the draft agreement is published. The Foreign Secretary will be trying to talk to the Chancellor, who does not return until 10 September, and Ministers will probably wish to have at least a first look at the issue just before the Prime Minister's departure for South East Asia, ie about 10 or 11 September.

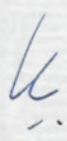
4. On the future timetable of the negotiations, the Chinese want to finish work by 10 September to give time for their leaders to scrutinise the papers and permit initialling before 25 September. We have made it plain that, although we should be delighted if that proved possible, we are not accepting these dates as deadlines. The Chinese are now clearly under some time pressure. To some degree this can work to our advantage. We are most unlikely to have settled everything by 10 September, but we want to be in a position

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then where we have cleared the undergrowth and reduced the outstanding points of difference to one or two crucial ones. It might then be open to the Foreign Secretary to offer to come out to Peking once again to conclude the negotiations. It is unlikely that the Chinese will want another visit before initialling but the offer should at least concentrate minds and promote progress.

5. As yet I do not see the end game clearly but I am reasonably confident that we can reach satisfactory conclusions by 30 September.


PERCY CRADOCK

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