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3006

PREM 19/3389

PART THREE

CONFIDENTIAL FILING

The Prime Minister's meetings and
correspondence with Sir Yue-Keng Pao,
a shipping magnate.

HONG KONG

PT 1: MAY 1979

PT 3: NOVEMBER 1986

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
4.11.86		22.5.89					
6.11.86		12.6.89					
17.11.86		28.6.90					
5.12.86		29.6.90					
16.1.87		3.7.90					
25.2.87		13.7.90					
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13.3.87		30.9.91					
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6.2.89							
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16.5.89							

PREM 19/3389

R 21/10
pp5

Prime Minister (S)

15 October 1991

The Rt. Hon. John Major, MP
Prime Minister
No. 10 Downing Street
London SW1
United Kingdom



Dear Mr. Prime Minister,

My family and I are extremely grateful for the very kind condolences which you sent us upon the passing of my beloved husband, Sir Yue-kong. Your sympathy and support has given us additional strength at this difficult time.

My husband led a full life, not the least because he had the fortune of having such wonderful friends like yourself. We will all miss him, and he will always be in our hearts.

Yours sincerely,

Sue-Ing Pao & Family



Cite MEM
all

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

30 September 1991

Dear Sir,

SIR Y K PAO

I understand that Sir Y K Pao's funeral will be held this Thursday, 3 October, in Hong Kong. I imagine the Governor will be attending. The Prime Minister would be grateful if he could formally present his condolences on that occasion.

J. S. Wall

J.S. WALL

Simon Gass, Esq.,
Foreign and Commonwealth Office

[Handwritten mark]



File MEM

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

30 September 1991

Dear Mr Heath,

The Prime Minister has asked me to thank you for your letter of 25 September and for telling him about the funeral service for Sir Y K Pao.

The Prime Minister was very sad to hear of Sir Y K's death and will be glad to have the information in your letter.

James Murray,
Stephen Wall
J.S. WALL

R. Heath, Esq.

MARINE NAVIGATION COMPANY LTD

Incorporated 1916.

52 ST. JOHN'S SQUARE
LONDON, EC1V 4NH

TELEPHONE: 071-490-3700
TELEFAX: 071-253-3777
CABLES: WOSHIP LONDON EC1
TELEX: 988425 WOSHIP G
983023 WOSHIP G

25th September 1991

OUR REF:

YOUR REF:

Dear

Prime Minister

R28

Sir Yue-Kong Pao, CBE, LLD, JP

You will probably have heard already the sad news that the Founder and former Chairman of World-Wide Shipping, Sir Yue-Kong Pao, CBE, LLD, JP, passed away peacefully at his home in Hong Kong on Monday, 23rd September, 1991, at the age of 73.

The funeral service will be held at 11.00 a.m. on Thursday, 3rd October, 1991 at the Hong Kong Funeral Home, 679, King's Road, Hong Kong.

Many of his acquaintances have expressed the wish to make a tribute to him; his family suggests that, in lieu of floral or other tributes, donations be made to :

The Community Chest of Hong Kong
World Trade Centre
PO Box 888
Hong Kong

or alternatively money may be remitted to :

The Hongkong and Shanghai Banking Corporation
Account No. 002-325363-002

but in either case specifying the name of the donor and that it is in memory of Sir Yue-Kong Pao.

Yours sincerely,

Ron Heath

R. Heath
Managing Director



SR

CF

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

25 September 1991

DEATH OF SIR Y.K. PAO

Thank you for providing a draft letter of condolence from the Prime Minister to Lady Pao. I enclose the signed letter from the Prime Minister and would be grateful if you could arrange for it to be delivered.

(J. S. WALL)

Christopher Prentice, Esq.,
Foreign and Commonwealth Office.

K



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

25 September 1991

Dear Lady Pao,

I was very sad to hear of the death of your husband. Sir Y K made a magnificent contribution to the development of Hong Kong and will always be remembered in this country for his untiring work in bringing Hong Kong, Britain and China closer together, not least through his tremendous support for the Sino-British Friendship Scheme.

I was so sorry that his illness prevented me from seeing Y K in Hong Kong earlier this month. But he was generous hearted to the end and it is that quality for which he will be most missed.

*Yours sincerely,
John Major*

Lady Pao

Sir Yue-Kong Pao C.B.E., L.L.D., J.P.

WORLD-WIDE SHIPPING GROUP

24th Floor, Wheelock House

20 Pedder Street

Hong Kong

Tel.: 8-8442288

Telex: HX73247

Fax.: 8-8100617

15th August, 1991.

The Rt. Hon. John Major, MP
Prime Minister
10 Downing Street
London SW1
ENGLAND

Dear Mr. Prime Minister,

Please let me apologise to you directly for not accepting an invitation from H.E. the Governor of Hong Kong to join a dinner party he is giving in your honour during your forthcoming visit to Hong Kong. I have advised the Governor's Office that I am presently not fully fit to attend social functions, especially in the evenings, and I do hope you will forgive me for not being present.

I would have liked very much to see you here in Hong Kong, and am therefore particularly sorry not to be able to avail myself of the opportunity. Should I feel better when you come, perhaps I can arrange to visit you briefly for a chat, and in this case I would liaise with Government House accordingly.

With all good wishes for a successful trip to China, and kind regards,

Yue Kong Pao
Y.K.

CF

Sir Yue-Kong Pao C.B.E., LL.D., J.P.

WORLD-WIDE SHIPPING GROUP
24th Floor, Wheelock House
20 Pedder Street
Hong Kong Tel.: 8-8442288
Telex: HX73247 Fax.: 8-8100617

29th July, 1991

See file attached.

The Rt. Hon. John Major, MP
Prime Minister
10 Downing Street
London SW1
England

2/18
J.M.
J

Dear Mr. Prime Minister ^{on return} ②

top enclosure

Thank you very much for your letter of the 15th July.

I have always been of the view that Hong Kong must try to maintain a close and amicable relationship with China built on mutual trust and goodwill. This seemed to me to be particularly important after the signing of the Sino-British Joint Declaration. Such a relationship will clearly not only be advantageous to Hong Kong, but also be of long-term benefit to Britain. I know there are still people who choose for Hong Kong to advocate a more antagonistic stand vis-a-vis China. I believe they are short-sighted and prejudiced. I hope you will do all you can to bring Hong Kong's relationship with China back to a basis of mutual respect, cooperation, and long-term vision strong enough to overcome the inevitable difference of opinion over technical matters that occur from time to time.

When you come to Hong Kong later this year, I would like to extend a very warm personal welcome to you here and hope that you might find a few moments for a private chat. Meanwhile, my family joins me in sending you all good wishes and our best regards.

Yours xel
Y.K.



Cole H
atw

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

15 July 1991

Dear Y.K.,

Thank you for your kind letter about the agreement with the Chinese government on Hong Kong airport. As you know, it was not an easy negotiation but I believe the outcome is in the best interest of Hong Kong - up to and beyond 1997.

I look forward to seeing you again soon - probably in Hong Kong.

Yours Ever,
John H.

Sir Y. K. Pao, C.B.E., LL.D., J.P.

JD/SH

Yue-Kong Pao C.B.E., LL.D., J.P.

WORLD-WIDE SHIPPING GROUP
24th Floor, Wheelock House
20 Pedder Street
Hong Kong Tel.: 5-8442288
Telex: HX73247 Fax: 5-8100617

5th July, 1991.

The Rt. Hon. John Major, MP
Prime Minister
No. 10 Downing Street
London SW1A 2AA
ENGLAND

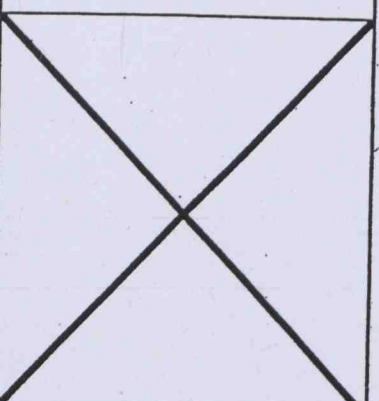
Dear Prime Minister,

May I send you congratulations on the successful conclusion on the negotiations with the Chinese Government over the new Hong Kong airport. I believe this to be a good agreement which will no doubt pave the way for a re-establishment of more harmonious relations between your Government and China for the benefit of all concerned.

I look forward to seeing you in Hong Kong before too long.

With kind regards and all good wishes to you and Norma,

*yours ever
Y.K.*

DEPARTMENT/SERIES <p style="text-align: center;">..... <i>PREM 19</i></p> PIECE/ITEM <i>3389</i> (one piece/item number)	Date and sign
Extract details: <p style="text-align: center;"><i>Letter from Wilkinson to Power dated 28 November 1990</i></p>	
CLOSED UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
TEMPORARILY RETAINED	<i>18/8/17</i> <i>Wayland</i>
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Enter the piece and item references, .
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R1/9

MARINE NAVIGATION COMPANY LTD

Incorporated 1916.

52 ST. JOHN'S SQUARE
LONDON, EC1V 4NH

TELEPHONE: 071-490-3700
TELEFAX: 071-253-3777
CABLES: WOSHIP LONDON EC1
TELEX: 886425 WOSHIP G
885023 WOSHIP G

OUR REF:

YOUR REF:

31st August 1990

Mr. Charles Powell
10 Downing Street
London S.W.1

Dear Mr. Powell,

With reference to our previous telephone conversations, just a note to say Sir Yue-Kong Pao will be returning to Hong Kong around the 12th September. Sir Yue-Kong fully appreciates the Prime Minister's heavy commitments and looks forward to seeing the Prime Minister during his future visits if a further meeting is not possible this time.

I hope you and Mrs. Powell had a good summer.

With best wishes,

Yours sincerely,

Nancy Chu

PRIME MINISTER

SIR Y. K. PAO

Y.K. Pao has been in touch to remind me that, at the end of your meeting with him, you said that you were sorry there was not time to discuss everything and would like to see him again. He is at your disposal: he is in Britain at least until the end of August.

I do not think you need give any priority to seeing him again since you in fact gave him very nearly an hour last time. But I thought you should know of the request and the fact that he is here through to the end of August.

C.D.P. ms
C.D.P.

C. D. POWELL

13 July 1990

c:\foreign\pao (kk)

of to keep



file MJ
CFO

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

3 July 1990

Dear Y-K,

Thank you very much for sending me a copy of your biography, which arrived only after I had the pleasure of seeing you again last Friday. I am delighted to have it and look forward to reading it during the summer break.

With warm regards from Denis and myself,

Yours sincerely
Margaret

Sir Y K Pao, CBE, JP.

hm

Sheel



File for

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

2 July 1990

I enclose a photograph taken during Sir Y.K.'s call on the Prime Minister which she has signed. I should be grateful if you would arrange to send it on to him.

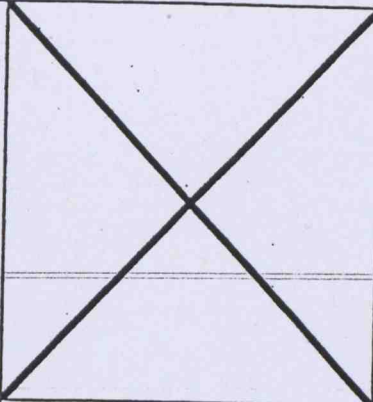
As I told you on the telephone, we sent five other copies down to him at the Berkeley Hotel, suite 504 on Friday night. You will wish to recoup them.

C. D. POWELL

Ms. Nancy Chu

Marine Navigation Co Ltd
52 St. John's Square
EC1V 4NH.

✓

DEPARTMENT/SERIES	PREM 19	Date and sign
PIECE/ITEM (one piece/item number)	3389	
Extract details:	Letter from Powell to Gass dated 29 June 1990	
CLOSED UNDER FOI EXEMPTION		
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958		
TEMPORARILY RETAINED		18/8/17 @Wayland
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PRIME MINISTER

MEETING WITH SIR Y K PAO

Y K Pao is coming in to see you tomorrow morning. He is here on a 'State Visit'. (He had to miss last year because of the kerfuffle following Tiananmen Square.)

He has asked to bring with him his third son-in-law, Edgar Cheng. He used to be a cancer specialist in the United States, but has now been brought back to Hong Kong to run the family's investments. He has also asked to bring two of his daughters, Anna and Bessie. I imagine you will want to agree to this, since the purpose is to keep him happy.

I don't think that Y K has any particular points to raise with you. His main wish is to brief you on his recent meeting with Deng Xiaoping. You will want to get his general impressions of morale in Hong Kong and of the prospects in China.

Sir Y K is no longer involved in Standard Chartered: and he has also sold his interest in Dragonair. He is a bit sore about Dame Lydia Dunn's elevation to the House of Lords, but I doubt he will raise that, particularly in front of the others.

C.P.P.

CHARLES POWELL

28 June 1990

eam c:\wpdocs\foreign\pao

Sir Yue-Kong Pao C.B.E., L.L.D., J.P.

24TH FLOOR, WHEELLOCK HOUSE
20 PEDDER STREET
HONG KONG

16th June, 1990.

R2/7

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
No. 10 Downing Street
London SW1
ENGLAND

Dear Prime Minister,

I wish to thank you once again for writing the foreword included in my biography entitled "The First Sea Lord". The book has just been published as enclosed, and I hope it will provide you with moments of reading pleasure.

With best personal regards to you and Denis,

yours sincerely
Y. K. Pao

*file Mrs
cc Sir PC*

MARGARET BELL

Sir Y. K. Pao has asked to see the Prime Minister in the week beginning 25 June. She always does see him if she possibly can. Could we find him 30/45 minutes that week please? If that is difficult, the last day or two of the preceding week might be possible.

CHARLES POWELL

3 May 1990



Foreign and Commonwealth Office

London SW1A 2AH

29 January 1990

Sir Y K Pao
OBELLD JP

CE/PC

WCK
2/1/89
C/S

Wteedok

20/1/89 HK
Jean Charles,

verbally?

Sir Y K Pao: Library Projects

You mentioned recently that Sir Y K Pao had raised with you the library projects in the UK and China that he is sponsoring.

Sir Y K originally proposed that the Ningbo University Library should be named after the Prime Minister and that a library, to be named after Deng Xiaoping, should be constructed at a British university. We gave our agreement in principle for these plans and last year we heard from Sir Y K that the Chinese Government too had given their blessing. The next stage was for us to contact the Chinese in Peking and for Sir Y K to make contact with the Universities Funding Council here to discuss a possible site for the Deng Xiaoping library. Then came the Peking massacre in June 1989. We told Sir Y K's office in Hong Kong that it no longer seemed right to go ahead because it was doubtful whether any British university would be ready to name a library after Deng. Sir Y K's office indicated that he shared our thinking.

If you reply to Sir Y K you might say that we have not yet contacted the Chinese because in present circumstances the proposal to establish a Deng Xiaoping library in Britain seems unlikely to get a positive reaction from the universities. The time is simply not yet right for a project of this kind. You might also mention our satisfaction that other areas of Sir Y K Pao's work, in particular the Sino-British Scholarship Scheme (which brings around 320 students a year to UK to study), continues uninterrupted.

Yours ever,

R. Howard Young

(R H T Gozney)
Private Secretary

C D Powell Esq
PS/10 Downing Street



hs

afu

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

29 January 1990

When we met in Hong Kong, you asked me where matters stood over the Deng Xiaoping Library, and I said that I would check. I have now done so and the answer is that matters are in suspense because we feel that in present circumstances the proposal to establish a Deng Xiaoping Library would be unlikely to get a positive reaction from the universities. The time is simply not right for a project of this kind. I think that will remain the case for some while yet. But meanwhile, we are all very grateful for the progress in other areas of your work, in particular the Sino-British Scholarship Scheme, which is doing very well.

The Prime Minister has asked me to send you her regards.

CHARLES POWELL

Sir Y. K. Pao, C.B.E., LL.D., J.P.

hs

RESTRICTED



file

*(Cit. foreign
Pao, das)*

10 DOWNING STREET
LONDON SW1A 2AA

bc; PC

From the Private Secretary

29 January 1990

CITIZENSHIP APPLICATION: MR RAYMOND PAO

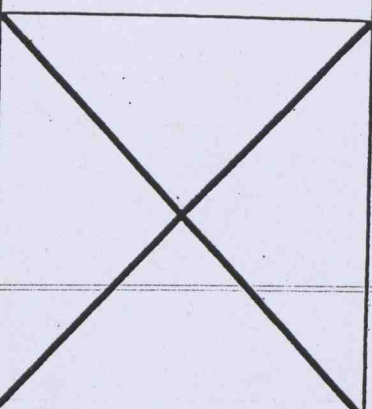
Thank you for your letter of 25 January about the handling of Mr Raymond Pao's citizenship. The Prime Minister has noted this.

C. D. POWELL

Peter Storr, Esq.
Home Office

RESTRICTED

DS

DEPARTMENT/SERIES <i>PREM 19</i> PIECE/ITEM <i>3389</i> (one piece/item number)	Date and sign
Extract details: <i>Letter from Storr to Powell dated 25 January 1990</i>	
CLOSED UNDER FOI EXEMPTION	
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WORLD-WIDE SHIPPING AGENCY LIMITED

8th Floor, Wanchang House,
20, Pedder Street, Hong Kong.
Tel: 9-6420606
Telex: HX72247 HX72488
Cable: WORLDWIDE HONG KONG
Fax No. 5-8100617 PANAFAX 0F400
5-8106150 NEFAX 16

R 6/11

From : H. Sohmer Date : 4/11 Ref : _____
Fax to : Mr. Charles Powell Attention : _____
No. of Pages : 1 (including this page)
London
Fax No. : (01-839-2417)

(If you do not receive all the pages, please telephone or telex us immediately)

Ri Hunter
CRON
6/11

mt

Mr Charles Powell
10 Downing Street
London W1

4th Nov 1989

Dear Charles,

Y.K. has asked me to solicit your kind assistance in passing the following message to the Prime Minister from him as follows.

"Dear Prime Minister,

May I please advise you that my family have decided to dispose of their shareholding in Hong Kong Dragon Airlines Ltd. yesterday. A public announcement will be made today, including the resignation of my son-in-law Helmut Sohmer as Chairman and Managing Director of the Airline effective on Monday, 6th November. The shares have been sold to Mr. Ronald K.Y. Chao, who already held 26.5 percent of the Airline, and who is the son of Mr. K.P. Chao, the original founder.

We did not always have an easy time with the Airline, as you may remember, but I am most grateful and wish to thank you once again for your keen interest in and support of the venture during my involvement with it. Your personal encouragement was always very much appreciated.

With kindest regards and all good wishes,

Yours sincerely,
Y.K. Pao

Many thanks. May Anna and I also add our respects to the Prime Minister to those of Y.K. And of course kind regards to you and Carla from both of us!

Yours sincerely,
Helmut *Helmut*

WORLD-WIDE SHIPPING AGENCY LIMITED

20, Pedder Street, Hong Kong.
Tel. 2522222
Telex: 935333 WWSH HK
Cable: WWSH HK
FAX NO. 5-8100617 FAXALIX US 700
5-8100150 WWSH 15

26/11

From: H. Sommer
To: Mr. Charles Powell
Date: 11/11
No. of Pages: 1
Fax No.: (01) 870-2417

(If you do not receive all the pages, please telephone or telex us immediately)

Ri Hunter
CWA
6/ki

ms

Mr Charles Powell
10 Downing Street
London W1

Dear Sir,

Y.K. has asked me to solicit your kind assistance in passing the following message to the Prime Minister from him as follows:

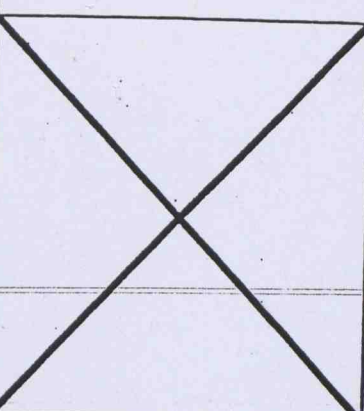
"Dear Prime Minister,
May I please advise you that my family have decided to discontinue their shareholding in Hong Kong Dragon Airlines Ltd. yesterday. A public announcement will be made today, including the resignation of my son-in-law Helmut Sommer as Chairman and Managing Director of the Airline effective on Monday, 24th December. The shares have been sold to Mr. Howard Chan, who is now Chairman and Managing Director of the Airline, and who is the son of Mr. K.P. Chan, the original founder.

We did not always have an easy time with the Airline, as you may remember, but I am most grateful and wish to thank you once again for your keen interest in and support of the venture during my involvement with it. Your personal encouragement was always very much appreciated.

With kindest regards and all good wishes,

Yours sincerely,
Y.K.

Many thanks. May Anna and I also add our respects to the Prime Minister. In these difficult times, please kind regards to you and Carla from both of us.
Yours sincerely,
Y.K.

DEPARTMENT/SERIES <i>PREM 19</i> PIECE/ITEM <i>3389</i> (one piece/item number)	Date and sign
Extract details: <i>Letter from Storr to Powell dated 12 June 1989</i>	
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file Mrs

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

27 May 1989

Thank you for your letter of 16 May about the applications made on behalf of Sir Y. K. Pao's grandchildren. The Prime Minister has noted this.

In the event, Sir Y. K. Pao has had to postpone his visit to London. But Mrs. Woo is here at present and it would be helpful if the Home Office could get in touch with her to arrange the meeting with a senior official which is suggested in your letter. I understand that she can be reached on 823 4225.

CHARLES POWWELL

Peter Storr,
Home Office.

QUOTE

Dear Prime Minister,

Due to the present situation, I am most sorry to have to cancel my trip to London and hope you would accept my deep apologies.

With warmest regards to you and Denis,

Y.K. Pao

UNQUOTE

MARINE NAVIGATION COMPANY LTD

Incorporated 1916.

52 ST. JOHN'S SQUARE
LONDON, EC1V 4NH

TELEPHONE: 01-490-3700
TELEFAX: 01-253-3777
CABLES: WOSHIP LONDON EC1
TELEX: 888425 WOSHIP G
883023 WOSHIP G

OUR REF:

YOUR REF:

22nd May 1989

Mr. Charles Powell
10 Downing Street
London S.W.1

Amanda
to note
QJ

Dear Mr. Powell,

Enclosed is an urgent message from Sir Yue-Kong Pao which we would be most grateful if you could kindly pass on to the Prime Minister.

I am most thankful to you for your kind assistance and please accept my sincerest apologies for the inconvenience caused.

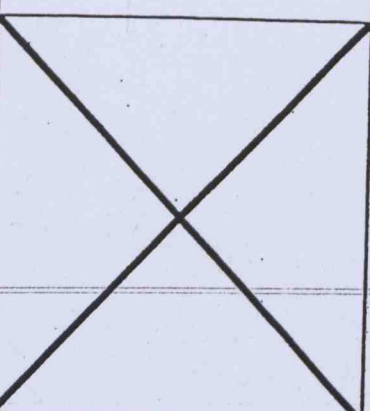
May I get in touch with you regarding the dinner for you and Mrs. Powell on Friday evening.

Kind regards,

Yours sincerely,

Nancy
Nancy Chu

P.S. I have been trying to telephone this morning but your switchboard has been very busy.

DEPARTMENT/SERIES <p style="text-align: center;"><i>PREM 19</i></p> <hr/> PIECE/ITEM <i>3389</i> (one piece/item number)	Date and sign
Extract details: <p style="text-align: center;"><i>Letter from Storr to Powell dated 16 May 1989</i></p>	
CLOSED UNDER FOI EXEMPTION	
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Instructions for completion of Dummy Card

Use black or blue pen to complete form.

Use the card for one piece or for each extract removed from a different place within a piece.

Enter the department and series,
eg. HO 405, J 82.

Enter the piece and item references, .
eg. 28, 1079, 84/1, 107/3

Enter extract details if it is an extract rather than a whole piece.
This should be an indication of what the extract is,
eg. Folio 28, Indictment 840079, E107, Letter dated 22/11/1995.
Do not enter details of why the extract is sensitive.

If closed under the FOI Act, enter the FOI exemption numbers applying to the closure, eg. 27(1), 40(2).

Sign and date next to the reason why the record is not available to the public ie. Closed under FOI exemption; Retained under section 3(4) of the Public Records Act 1958; Temporarily retained; Missing at transfer or Number not used.

MARINE NAVIGATION COMPANY LTD

Incorporated 1916.

52 ST. JOHN'S SQUARE
LONDON, EC1V 4NH

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TELEFAX: 01-253-3777
CABLES: WOSHIP LONDON EC1
TELEX: 888425 WOSHIP G
889023 WOSHIP G

OUR REF:

YOUR REF:

Now cancelled
CDD/5

5th May 1989

Mr. C.D. Powell
c/o 10 Downing Street
London S.W.1

Dear Mr. Powell,

With reference to our telephone conversation I am writing to confirm that Sir Yue-Kong Pao is delighted that you and Mrs. Powell will be able to join him for an informal dinner on Friday, 26th May, 7.30 p.m. for 8.00 p.m. (I have explained to Sir Yue-Kong that you will do your utmost to be there as early as possible but it is more likely to be near 8 o'clock rather than 7.30). The dinner will be held at Sir Yue-Kong's suite at The Berkeley, Wilton Place, Knightsbridge (Tel. No. 235 6000) and I would appreciate it if you could kindly let the Reception know upon arrival.

For your information Dr. Helmut Sohmen, Mr. Peter Woo, Mrs. Bessie Woo and Dr. Edgar Cheng will also join the dinner.

May I also thank you for arranging the appointment for Sir Yue-Kong, together with Mr. Woo and Dr. Cheng to see the Prime Minister on Thursday, 25th May at 9.30 a.m. We are most grateful for your kind assistance.

With best wishes,

Yours sincerely,

Nancy

Nancy Chu



FILE KK

cc PC

10 DOWNING STREET

LONDON SW1A 2AA

4 April 1989

From the Private Secretary

The Prime Minister has asked me to thank you for your letter of 31 March about the plans for the Margaret Thatcher library at Ningbo University. She received this on her return from Africa on 2 April. She has asked me to say that she is very happy with the proposed design and grateful to you for consulting her about it. She expresses her gratitude to you once again for your generosity in supporting this project.

The Prime Minister was also very glad to hear that progress has been made in securing written confirmation from the Chinese government for the Deng Xiaoping library to go ahead.

The Prime Minister is looking forward very much to seeing you in a few week's time and meanwhile sends you her warm regards.

(C. D. POWELL)

Sir Yue-Kong Pao, C.B.E.

SA

Sir Yue-Kong Pao C.B.E., L.L.D., J.P.

WORLD-WIDE SHIPPING GROUP
24th Floor, Wheelock House
20 Pedder Street
Hong Kong Tel.: 5-8442288
Telex: HX73247 Fax: 5-8100617

File 1

PRIVATE AND CONFIDENTIAL

31st March 1989

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
No. 10 Downing Street
London SW1
ENGLAND

Dear Prime Minister,

*Prime Minister
While very happy to
send up the design if you
want to see it I don't
think there is much scope to*

You have noted from my letter of 8th December 1987 that Mr. Deng Xiaoping had, during a private dinner party his family had with mine in Beijing in November 1987, verbally endorsed my proposed donation to establish in a British university a library to be named after him. Since then I had been trying to obtain the formal approval of the Chinese government for the proposed project and have received this approval only recently: I attach an English version (the translation is ours) of a telephone message I received on 16th February 1989 from Mr. Xu Jiatusun, Director of the New China News Agency (Hong Kong Branch).

*change it!
Agree
but I should
reply
then
you are
well*

I am sorry for not writing earlier since I last wrote to you on 5th February 1988 on this matter but you will surely appreciate that the written confirmation from the Chinese government for the project of the Deng Xiaoping library to go ahead is an important step.

As regards the Margaret Thatcher library to be constructed at Ningbo University, the architects from both China and Hong Kong have been working closely on the architectural design. They have now come up with a conceptual plan, based on which, the necessary detailed plans are to be drawn up.

*could
e
very
good?
OOO*

As you will see from the conceptual plan attached, there will be a gross area of 4,000 square metres which can accommodate 500 readers at a time. There is room for future expansion of such reading facilities in line with increased enrolment in the future.

3/4.

You may feel free to comment on this proposed design.

*Yes
no*

WORLD-WIDE SHIPPING GROUP
24th Floor, Wheelock House
20 Pedder Street
Hong Kong
Tel.: 5-8442288 Telex: HX73247

- 2 -

The Rt. Hon. Mrs. Margaret Thatcher

31st March 1989

As regards the siting of the Deng Xiaoping library, we have had earlier a list of those British higher educational institutions shortlisted by Sir Mark Richmond for the current exercise and I will be writing to him to finalize this matter.

With warmest regards to you and Denis,

Yours sincerely
J. K. Tso

Encl.



Faint, illegible markings or ghosting of text, possibly from the reverse side of the paper.

03 IV
b
PH 29

Telephone message to Sir Yue-Kong Pao
received from Mr. Xu Jiatun on 16th February 1989
(Translated by the Sir Yue-Kong Pao Office -
please refer to the original text attached)

Quote

First of all, let me send you Greetings of the Season and wish you and your family happiness and good health.

I have just received a telex from the Chinese Ministry of Foreign Affairs to the effect that your proposal to donate and establish a library each in China and Britain after the names of the Chinese and British top leaders has been accepted by the Government as a special case, subject to these terms:

- The Margaret Thatcher library, which is to be built at the Ningbo University, should be owned by the Chinese government and managed by the University;
- The Deng Xiaoping library should be constructed in a British university with substantial academic influence;
- The two libraries should be developed in and around the same period.
- The Deng Xiaoping library should be equivalent to the Ningbo University library in terms of size and quality of the building.

The telex also stated that the Ministry requests you to approach the British government to contact the Chinese government on this matter and designate the British authority responsible for carrying out the proposed project.

Xu Jiatun
16th February 1989
Unquote

Hang Kang - YK Pao
PR 3.





MEM

ck

10 DOWNING STREET

LONDON SW1A 2AA

17 March 1989

From the Private Secretary

Dear Peter,

CITIZENSHIP APPLICATION: MR. RAYMOND PAO

Thank you for your letter of 14 March about the citizenship application from Sir Y. K. Pao's nephew, Mr. Raymond Pao, which the Home Secretary may have to refuse. The Prime Minister has commented that the only possible course is to pass on the precise legal conditions, which leave us no option in this case, to Mr. Pao's solicitors. It be will for him to fulfil them. The Prime Minister has added that Sir Y. K. Pao is coming to see her soon and that she hopes that by then she will be in a position to tell him the outcome of the applications for citizenship made on behalf of his grandchildren. I should be grateful if you could let me know what the position is on this.

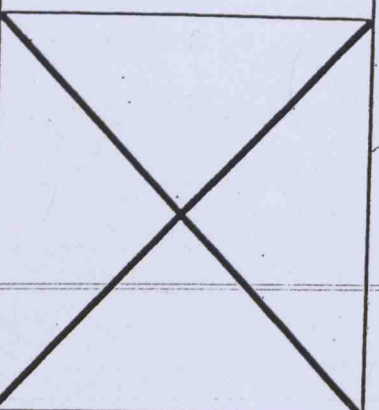
I am copying this letter to Stephen Wall (Foreign and Commonwealth Office).

Yours sincerely,

CHARLES POWELL

P. R. C. Storr, Esq.,
Home Office

ck

DEPARTMENT/SERIES <i>PREM 19</i> PIECE/ITEM <i>3389</i> (one piece/item number)	Date and sign
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File

DAS

cc FCO

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

7 February 1989

Dear Sir Y-K,

Thank you for your letter of 12 January. I was very pleased to learn that Dragonair have since December been able to operate charter services to Shanghai.

The correspondence between Dragonair and CAAC to which you refer in your letter was unfortunately not enclosed. But I have now looked into the matter further. I am advised that, although in October the authorities in Peking were blocking all requests for additional capacity on the Hong Kong-Shanghai route, there was no undue delay on their part once Dragonair were given permission by the Hong Kong authorities to approach them about charter services to Shanghai in early November.

As for the more general issues raised in your letter, the position is much as I explained in my letter of 17 October. Hong Kong's civil aviation policy remains under regular review in discussions between the Government here and the authorities in Hong Kong, taking due account of the extent to which Hong Kong enjoys autonomy in civil aviation matters.

On the question of routes to China, you will be aware that a round of talks was held in Peking in January. I understand that the talks were particularly difficult and that the Chinese authorities took a generally negative view

EA

of our attempts to secure more regular services for both Dragonair and Cathay Pacific. We expect to hold a further round of talks in the spring. The British negotiating team, including the Hong Kong Government representatives, will continue to press the case for approval to be given for Dragonair to operate scheduled services to a number of regional points in China as part of a new package of arrangements for services between Hong Kong and China. As for scheduled services to Peking and Shanghai to be operated by Dragonair, we remain as before ready to take these up with the Chinese authorities as and when the Hong Kong Government so request.

Warm regards,

Yours sincerely

Margaret Thatcher

Sir Y. K. Pao, C.B.E., J.P.

MARINE NAVIGATION COMPANY LTD ^{17/2}

Incorporated 1916.

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CABLES: WOSHIP LONDON EC1
TELEX: 888425 WOSHIP G
883023 WOSHIP G

OUR REF:

YOUR REF:

6th February 1989

Mr. Charles Powell
10 Downing Street
London S.W.1

Hema ✓ Thanks TG 7/2
en

Dear Mr. Powell,

Just a note to thank you very much for your kind assistance in arranging an appointment for Sir Yue-Kong Pao to see the Prime Minister at 10.00 a.m., Tuesday, 30th May. Sir Yue-Kong is travelling at the moment but I am sure he will be most grateful for your assistance and will look forward to seeing the Prime Minister then.

Best regard,

Yours sincerely,
Nancy

Nancy Chu

cefc



Foreign and Commonwealth Office

London SW1A 2AH

6 February 1989

Dear Charles

Dragonair

Thank you for your letter of 21 January enclosing a copy of a further letter to the Prime Minister from Sir Y K Pao. I enclose a draft reply, agreed with the Department of Transport.

Sir Y K Pao's latest letter covers very much the same ground as in his letter of 23 September. As you will be aware from our various exchanges on the wider picture, the position has not much changed. But as Sir Y K Pao reports, Dragonair are now operating charter services to both Peking and Shanghai. This is most welcome.

Sir Y K Pao's letter refers to correspondence between Dragonair and CAAC, questioning whether it was in fact the Chinese authorities who had blocked flights to Shanghai. The correspondence was not enclosed with Sir Y K Pao's letter. But it is now clear that the Hong Kong authorities did not in fact authorise Dragonair to approach the Chinese about chartered flights to Shanghai until early November, and that, on this occasion, the Chinese were not responsible for any undue delay in agreeing the flights.

As the draft reply makes clear, however, the Chinese authorities were, as recently as October, blocking all requests for additional capacity on the Hong Kong-Shanghai route. Indeed, there is a complex history to the question of services between Hong Kong and Shanghai: it has been a long and uphill battle over the years to secure rights for Hong Kong airlines to serve Shanghai (and other points in China) under the terms of the existing governmental agreements. We are making progress, albeit very slowly, but the Chinese authorities have always sought to extract a heavy price for their agreement to any services to China by Hong Kong airlines.

The same was true of the most recent round of bilateral talks held in Peking from 16-19 January, to which the draft reply refers. Very little progress was made, due not least to the generally negative attitude adopted so far by the Chinese negotiators. The Department of Transport has

/invited



invited a Chinese team to London in April for a further round. It is likely, however, that several more rounds of talks will be necessary before the Chinese authorities will settle on a new package of arrangements which we hope will benefit Dragonair, as well as the other airlines involved.

I am copying this letter to Roy Griffiths (Department of Transport).

Yours ever

A handwritten signature in blue ink, appearing to read 'R N Peirce', with a long horizontal flourish extending to the right.

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

filed on Hang Kong PT3 PMS Mtgs with Sir Ye-Pao.



DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:
PRIME MINISTER

Reference
ME3ARL

DEPARTMENT:

TEL. NO:

Your Reference

BUILDING:

ROOM NO:

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO:

Copies to:

Sir Y K Pao CBE JP
 World-Wide Shipping Group
 24th Floor Wheelock House
 20 Pedder Street HONG KONG

~~SUBJECT:~~

PRIVACY MARKING

..... In Confidence

DASATQ

CAVEAT

Thank you for your letter of 12 January. I was very pleased to learn that Dragonair have since December been able to operate charter services to Shanghai.

The correspondence between Dragonair and CAAC to which you refer in your letter was unfortunately not enclosed. But I have now looked into the matter further. I am advised that, although in October the authorities in Peking were blocking all requests for additional capacity on the Hong Kong-Shanghai route, there was no undue delay on their part once Dragonair were given permission by the Hong Kong authorities to approach them about charter services to Shanghai in early November.

Enclosures flag(s)

As for the more general issues raised in your letter, the position ^{is} ~~remains~~ much as I explained in my letter of 17 October. Hong Kong's civil aviation policy remains under regular review in discussions between the Government here

and the authorities in Hong Kong, taking due account of the extent to which Hong Kong enjoys autonomy in civil aviation matters.

On the question of routes to China, you will be aware that a round of talks was held in Peking in January. I understand that the talks ^{were} ~~proved to be~~ particularly difficult and ^{that} the Chinese authorities took a ^{generally} ~~largely~~ negative ^{view of} ~~attitude to~~ our attempts to secure more regular services for both Dragonair and Cathay Pacific. ~~However,~~ We expect to hold a further round of talks in the spring. The British negotiating team, including the Hong Kong Government representatives, will continue to press the case for approval to be given for Dragonair to operate scheduled services to a number of regional points in China as part of a new package of arrangements for services between Hong Kong and China. As for scheduled services to Peking and Shanghai to be operated by Dragonair, we remain as before ready to take these up with the Chinese authorities as and when the Hong Kong Government so request.

CDO
- ..



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 January 1989

The Prime Minister has asked me to thank you for your letter of 12 January to which she will reply as soon as possible.

Charles Powell

Sir Yue-Kong Pao, CBE, JP.



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 January 1989

DRAGONAIR

I enclose a copy of a further letter to the Prime Minister from Sir Y.K. Pao. I should be grateful for a draft reply.

I am copying this letter and enclosure to Roy Griffins (Department of Transport).

Charles Powell

Bob Peirce Esq
Foreign and Commonwealth Office.



Foreign and Commonwealth Office

London SW1A 2AH

SECRET

16 January 1989

Dear Charles

Prime Minister

I don't think

Hong Kong: Air Services

we are going to get much further

Thank you for your further letter of 30 December about Hong Kong's aviation policies. Lyn Parker explained on the telephone that the Foreign Secretary wished to consider carefully all the implications of the Prime Minister's questions: and you agreed that a reply could await his return from the Gulf.

CAF 16/1

The Foreign Secretary fully agrees with the Prime Minister that the liberalisation of air services is an important objective to pursue in relation to Hong Kong as elsewhere. But in Hong Kong's case this must be balanced against the autonomy which Hong Kong has long enjoyed in areas such as civil aviation. The continuation of this autonomy after 1997 is provided for in the Sino-British Joint Declaration.

No. mt

The position was described in my letter to you of 14 October 1988. While we and the Department of Transport will press firmly for greater liberalisation in Hong Kong's civil aviation policies, we must do so in a way which does not call into question the degree of autonomy which Hong Kong possesses and must be able to defend in future. We are pressing ahead with our programme of establishing a network of Hong Kong Air Services Agreements, which in future Hong Kong can re-negotiate and amend without our direct involvement. To grant Hong Kong that autonomy with one hand and take it away with the other would make the territory highly vulnerable to self-interested pressures from the Chinese Government and civil aviation authorities after 1997. The same consideration applies of course to the general degree of autonomy enjoyed in practice by Hong Kong, and not just to civil aviation. Your letter of 17 October noted the Prime Minister's agreement that we cannot compel the Hong Kong authorities to pursue more liberal policies.

/Hong Kong's

SECRET

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SECRET

Hong Kong's autonomy bears on civil aviation policies in three ways:

- i) so far as the licensing and designation of Hong Kong airlines is concerned, decisions fall exclusively to the Hong Kong authorities. The "one airline per route" policy is a part of this. We and the Department of Transport have repeatedly urged our liberal policies upon the Hong Kong authorities and will continue to do so.
- ii) in our own bilateral negotiations with Hong Kong about services on the UK/Hong Kong route it follows from the position described above that the Department of Transport pursue discussion as they would with any other civil aviation partner. We have been seeking the most liberal arrangements possible, while the Hong Kong authorities, in contrast, have argued for significantly more conservative arrangements. The compromise now emerging while it falls short of our ideal objectives, contains useful steps from our point of view (scope for multiple designation and a substantial loosening of capacity controls).
- iii) in relations with those third countries with whom separated ASAs are not yet agreed, Hong Kong's conservative policies can contrast starkly with what the UK is seeking and can (in our view) work against Hong Kong's own interests. In these cases, the Department of Transport, with our support, take issue with the Hong Kong authorities and try to find a mutually tolerable line. Relations with four countries, with which negotiations are in train or imminent, raise problems at the moment:
 - (a) on Singapore, Hong Kong wish to cut back SIA operations through Hong Kong to the USA, although Cathay Pacific are successful exponents of the same sort of operations themselves.
 - (b) on the Soviet Union we have demonstrated to the Hong Kong Government that there would be substantial commercial benefits available to Cathay Pacific Airways through access to a fast routeing to and from Europe on the trans-Asian route over Siberia. (Dragonair are not at present involved since they are first seeking to develop as a regional airline). In return the

/Soviet Union

SECRET



SECRET

Soviet Union will expect to get access to Hong Kong for Aeroflot. Hong Kong have been resisting this, albeit on security as well as commercial grounds.

- (c) on Austria, the question at issue is renewal of the existing temporary arrangements (due to expire in March) whereby Lauda Air operate a weekly service to Hong Kong. Hong Kong have been resisting this in order to protect Cathay Pacific's service to Frankfurt. We are seeking to persuade the Hong Kong authorities that there would be long term benefits in renewing the Lauda Air service.
- (d) finally on China, there are many complex issues to be tackled, prime among which is the question of through running (allowing airlines to operate to and from the Chinese mainland through Hong Kong). We believe that a proper negotiated agreement to allow this could be formulated in a way which would not threaten Hong Kong's civil aviation autonomy, and could offer in return significant rewards for Hong Kong airlines from services to the Chinese mainland. (Amongst other things it may be the key to opening up the additional services which Dragonair wish to operate into the PRC).

The Prime Minister asked about the timing of the annual meeting with the Hong Kong authorities. This is the occasion when progress in air services negotiations with third countries and plans for new negotiations are reviewed. It has also proved useful as an occasion for seeking to clear the air on other aviation issues. As I mentioned in my letter of 14 October, we think it is tactically right to tackle these wider issues after discussions on the UK/Hong Kong route are completed (which we hope will be in mid-February).

We have agreed with Hong Kong that the annual meeting will take place in the week beginning 13 March. At that meeting, despite the resistance which they have encountered in the past, the Department of Transport will further question the Hong Kong Government's "one airline per route" policy and argue for a less restrictive charter policy.

/You

SECRET



SECRET

You refer in your letter to the policy unit which is being set up by the Hong Kong Government. This is being established primarily to give advice on issues related to the structure and functioning of government: a wide range of these have to be addressed in the run-up to 1997. The fact and the timing of its establishment are not directly connected with questions of civil aviation policy and it is in no sense therefore a device to deflect pressure. On the contrary, the Governor intends to make use of it to introduce new thinking.

You also asked for further information on Dragonair's charter services to China. You are correct in saying that approval for these services is given on a monthly basis by the Hong Kong aeronautical authorities. This is in accordance with their general policy on charter flights applied to all airlines. Dragonair have been given further approval to operate a series of charters to Peking and Shanghai during January. As I have already mentioned, in the Annual Review we shall be arguing for a less restrictive charter policy.

As for Dragonair's scheduled services to China, they will be on the agenda for the bilateral round with the Chinese now at last arranged to begin in Peking on 16 January. (We have been pressing for a meeting for nearly a year.) We will be seeking Chinese agreement for Dragonair to operate services to at least 10 regional cities on the mainland. But, as I mentioned above, there are many, complicated issues for discussion with the Chinese (covering UK as well as Hong Kong interests) and several rounds of talks will no doubt be needed to resolve them.

In all of the above, we need to keep very clearly in view where the British interest lies. On the bilateral route, a more liberal approach would provide broader opportunities for both UK and Hong Kong airlines and a better deal for the travelling public. In Hong Kong's relations with third countries, the adoption of more liberal policies by Hong Kong would allow for greater consistency in the UK/Hong Kong negotiating position and reduce the risk of an unhelpful position adopted by Hong Kong being played back against our own interests.

As for Dragonair's specific demands, we need to bear in mind that meeting them, at least as far as Chinese

/routes

SECRET



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SECRET

routes are concerned, may only be achievable at the expense of Cathay Pacific Airways' aspirations to increase their operations to China. As I noted in my letter of 14 October, CPA is British controlled through Swires, is an important customer of Rolls Royce and represents a very large British investment interest in Hong Kong. The British interest in Dragonair is much less substantial, and indirect.

The question of routes to China is also the subject of very sensitive and high-level lobbying in Peking by both CPA and Dragonair. We are aware from secret reports that much of what Dragonair has already secured is due to personal high-level intervention with certain senior members of the Chinese leadership and their relatives, apparently in the face of opposition from CAAC, the Chinese national carrier. All of this suggests that we would be treading on very uncertain ground if in our action with the Chinese authorities we appeared to take sides on behalf of one airline or the other.

In short, we shall continue to take every opportunity to urge Hong Kong to adopt a more enlightened aviation policy. We must, however, be wary of being drawn into the question of individual airlines' rights and we must be careful not to call into question Hong Kong's autonomy in aviation matters.

I am copying this letter to Roy Griffins (Department of Transport) and to Neil Thornton (Department of Trade and Industry).

Yours ever

R N Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

SECRET

Hong Kong: Sur Y. K.

100
M3



Mr. Charles Powell,

Draw

The attached were inadvertently omitted in my letter to the Prime Minister on 12th January, 1989 and I would be grateful if you could pass on these to her and also convey my apologies for any inconvenience caused.

Looking forward to seeing you in May,

With the Compliments of

15/2/89

Sir Yue-Kong Pao

ESP on

21/2

WORLD-WIDE SHIPPING GROUP
24/FLOOR, WHELOCK HOUSE
20 PEDDER STREET
HONG KONG

TEL. 5-8442288

Sir Yue-Kong Pao C.B.E., LL.D., J.P.

WORLD-WIDE SHIPPING GROUP
24th Floor, Wheelock House
20 Pedder Street
Hong Kong Tel.: 5-8442288
Telex: HX73247 Fax: 5-8100617

12th January 1989

The Rt. Hon. Margaret Thatcher, MP
Prime Minister
10 Downing Street
London SW1A 2AA
ENGLAND

200/1

Dear Prime Minister,

Dray

Let me first of all apologise for the late response to your letter of 17th October 1988. The last part of the year was quite hectic for me and only after the holidays and a family gathering in Hawaii do I find time to thank you for your kind interest in Dragonair as expressed in your note. I am very pleased that your own views on the need for more deregulation also in air services mirror mine and that particularly in light of your own Government's commitment to liberalisation, the Hong Kong "aviation policy" should be kept under review.

Dragonair of course has, since I last had the pleasure of talking to you, received permits on a month-to-month basis from both the Civil Aviation Administration of China and the Hong Kong Civil Aviation Department for non-scheduled services to Beijing (since October) and Shanghai (since December). Incidentally, I had been puzzled by the reference in your letter (also stated by Lord Brabazon in a response given to an enquiry by Mr. Bill Walker, MP) that it was CAAC which had blocked permits for Shanghai and not the Hong Kong authorities. I therefore asked Dr. Sohmen to clarify this allegation with the Director-General of CAAC and can do no better than to enclose the relevant correspondence. All I can say is that the H.K. Civil Aviation Department has repeatedly refused charter applications to both Beijing and Shanghai until recently.

We are also not satisfied that the H.K. Government continues to advise your Government not to negotiate traffic rights for Dragonair for scheduled services to Beijing and Shanghai in the forthcoming bilateral talks with the Chinese authorities to help us implement the valid licences we hold for both points. I am aware of the complicated situation surrounding this issue and involving Cathay Pacific as well as British Airways, but we do consider the approach arbitrary and unjustified. However, I hope that the negotiations will at least produce some new traffic rights for other destinations in China and help to correct the present imbalance of services overall between Chinese and British carriers.

...../2

WORLD-WIDE SHIPPING GROUP
24th Floor, Wheelock House
20 Pedder Street
Hong Kong
Tel.: 5-8442288 Telex: HX73247

- 2 -

The Rt. Hon. Margaret Thatcher, MP

12th January 1989

Thank you again for your concern and your support. May I also again send you good wishes for a successful and happy 1989, in which all my family join. I look forward to an opportunity to see you again later in the year.

With kind regards,

Yours sincerely
J. K. Tao

*With my best wishes to both
of you.*

Encl.

HONG KONG: SW Y. K. Pao

PT3

1952

1952

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Letter from CAAC Director-General to Dr H Sohmen

December 04, 1988

Dear Dr Sohmen

Thank you for your letter of November 03, 1988. I am pleased to learn that your charters are very successful.

However, we are astonished because it is said that CAAC do not support your Shanghai charters. In fact, our usual attitude is well-known that CAAC will consider the applications, taking into account the market demand, once permission has been obtained from the HK Government.

With regard to your Shanghai charters, CAAC has adopted a standpoint which is clearly reflected in our letters to Dragonair and the authorities concerned in London and Hong Kong.

In view of the above, it is totally groundless to say that CAAC do not give permission although HK CAD has approved. We would appreciate it very much if you would clarify this point during some appropriate occasions.

Regards,

Hu Yi Zhou, Director-General



中国民航

港龙航空公司总经理

苏海文先生：

你1988年11月3日给我的来函收悉。得知你们包机飞行很成功，我感到高兴。

有人说中国民航当局不支持你们飞行上海，我们感到吃惊。我们的一贯态度是人人皆知的，一俟你们的主管当局给予批准，根据市场的需求，中国民航当局将对你们的包机申请给予积极地考虑。

关于港龙到上海的包机飞行，中国民航的立场是清楚的，这在我们给伦敦、香港当局和港龙的信中已有充分证明。

因此，说已得到香港民航当局批准，而未得到中



中國民航

国民航当局同意的说法显然是毫无根据的，希望你能
在适当场合予以公正的澄清。

致崇高的敬意

中国民用航空局局长

一九八八年十二月四日



港龍航空 DRAGONAIR

Hong Kong Dragon Airlines Limited

19/F, Wheelock House, 20 Pedder Street, Hong Kong.

Tel: (5) 8105105 Telex: 80253 DRAGH HX Fax: (5) 8100370

3rd November 1988

Mr. Hu Yizhou
Director General
CAAC
Beijing

Dear Mr. Hu,

It was a great pleasure to meet you in Beijing in early October on the occasion of Dragonair's first non-scheduled flight to the capital city. I am happy to say that the series of flights in October have been extremely well patronised and that both your organisation and the Hong Kong Civil Aviation Department have given us permits to continue in November. We trust that the strong demand shown so far will mean that favourable consideration can also be given for extensions in future.

Our Mr. K.T. Chao is presently in Beijing to discuss the possibility of permits from CAAC for non-scheduled flights to Shanghai as well, following permission from Hong Kong CAD for us to discuss this matter with you. We hope you grant us these permits for at least 3 frequencies a week.

We are delighted that the Hong Kong Government have finally allowed us to speak to you on Shanghai. Only on the 17th October 1988 the U.K. Minister in charge of Shipping and Aviation, Lord Brabazon, had written to Mr. Bill Walker, a Member of Parliament who is interested in Dragonair affairs, to say that "the Hong Kong authorities would have been content for Dragonair to operate charter flights to Shanghai, but permission was not forthcoming from the Chinese side."

We were very much surprised about the latter statement, since to our knowledge CAAC had never discussed nor refused the possibility of Dragonair non-scheduled services. I would be grateful if you would confirm this to be the case, so we can take this up again with the Hong Kong authorities if their belief rested on a misunderstanding.

Thank you personally for your continued support, and with kind regards,

Yours sincerely,

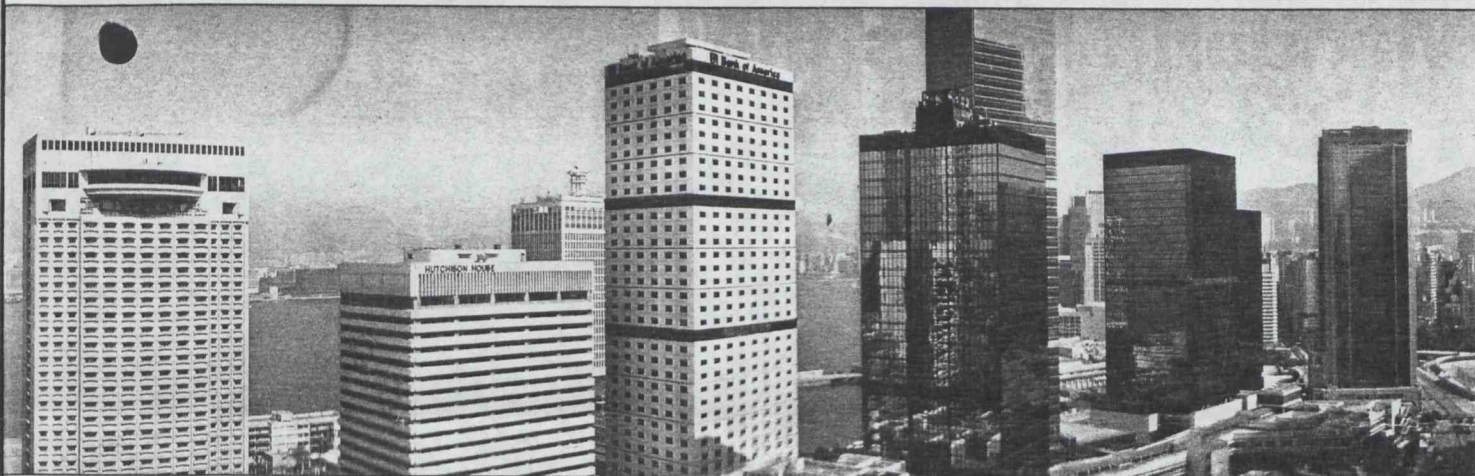
Helmut Sohmen
Managing Director

HS/rw



HONG KONG : SWYK.





The Image Bank

Sohmen attacks govt policy

Dragonair still facing uphill climb

DRAGONAIR broke even for the first time in August but, according to managing director Helmut Sohmen: "One month in 12 isn't enough."

"It just proved it can be done with three aircraft flying on a sporadic basis," said Sohmen, adding that Dragonair needs more scheduled flights and rights to serve at least one or two major cities in the Far East if it is to reach profitability.

Sohmen said Dragonair is up against the government's policy of one airline per route, which he describes as "protectionism of the worst kind."

"Any second carrier has to look for secondary routes that Cathay Pacific has found too risky or too complicated to serve," he said. "The government should be impartial and not play favourites like they do now."

Sohmen said the government's policy is based on a belief that the market is static. "The government thinks that, if you give something to Dragonair it comes out of Cathay's pocket, which is wrong."

The government was using the international regulatory environment as an excuse to prohibit flights by Dragonair, said Sohmen, adding that the policy also kept foreign carriers out of Hong Kong. "It's unusual for Hong Kong, which prides itself on its *laissez-faire* economy."

"The UK has, itself, declared a policy in favour of more liberalisation."

"What surprises me is that the public doesn't seem to mind about aviation policy. I'm sure that, in another environment,

we would get a lot of public support."

Sohmen said that increased interest in travel to China, international business, Japanese promotion of outbound travel, relaxation of travel restrictions in Taiwan and the lifting of restrictions in Korea had all increased demand for air routes.

"The question everyone asks is, 'why are they [Cathay] afraid of a little competition from a small upstart airline?'"

"Cathay is extremely good and extremely competitive, but paranoid about Dragonair. We have a lot of financial muscle behind us, so we're not a fly-by-night operation."

Sohmen said Cathay had objected to Dragonair's request to fly to Sapporo, and then applied for the rights itself. Dragonair then objected, and the Air Licensing Authority will decide who gets the licence in November.

Dragonair is again applying for the right to fly to Beijing, after being granted charter rights to fly these during October.

Sohmen said the CAAC's scrapping of compatriot discounts was the "catalyst that got the government here to allow us those flights." The CAAC may introduce discounts after November.

"They [the Hong Kong government] will presumably look at demand, but they favour scheduled operations over charter, so that means they'd rather see Cathay getting extra flights rather than us," he added.

Dragonair also wants to fly to Shanghai, "but the Hong Kong government has said they will not recommend traffic rights to be granted."

"For some strange reason, the CAAC seems to accept competition." He said Dragonair was formed on the premise that it would be allowed to fly to Beijing after a written invitation was received from the head of the CAAC.

"The Chinese government seems to be more accommodating than our own government. They haven't asked for reciprocity in flights to Beijing," he said, adding that for every flight Cathay is granted into China, the CAAC is granted three to Hong Kong.

Dragonair has also applied for rights to Hiroshima and Sendai in Japan. However, it stopped flying to Chiang Mai in Thailand when it began flights to Pattaya.

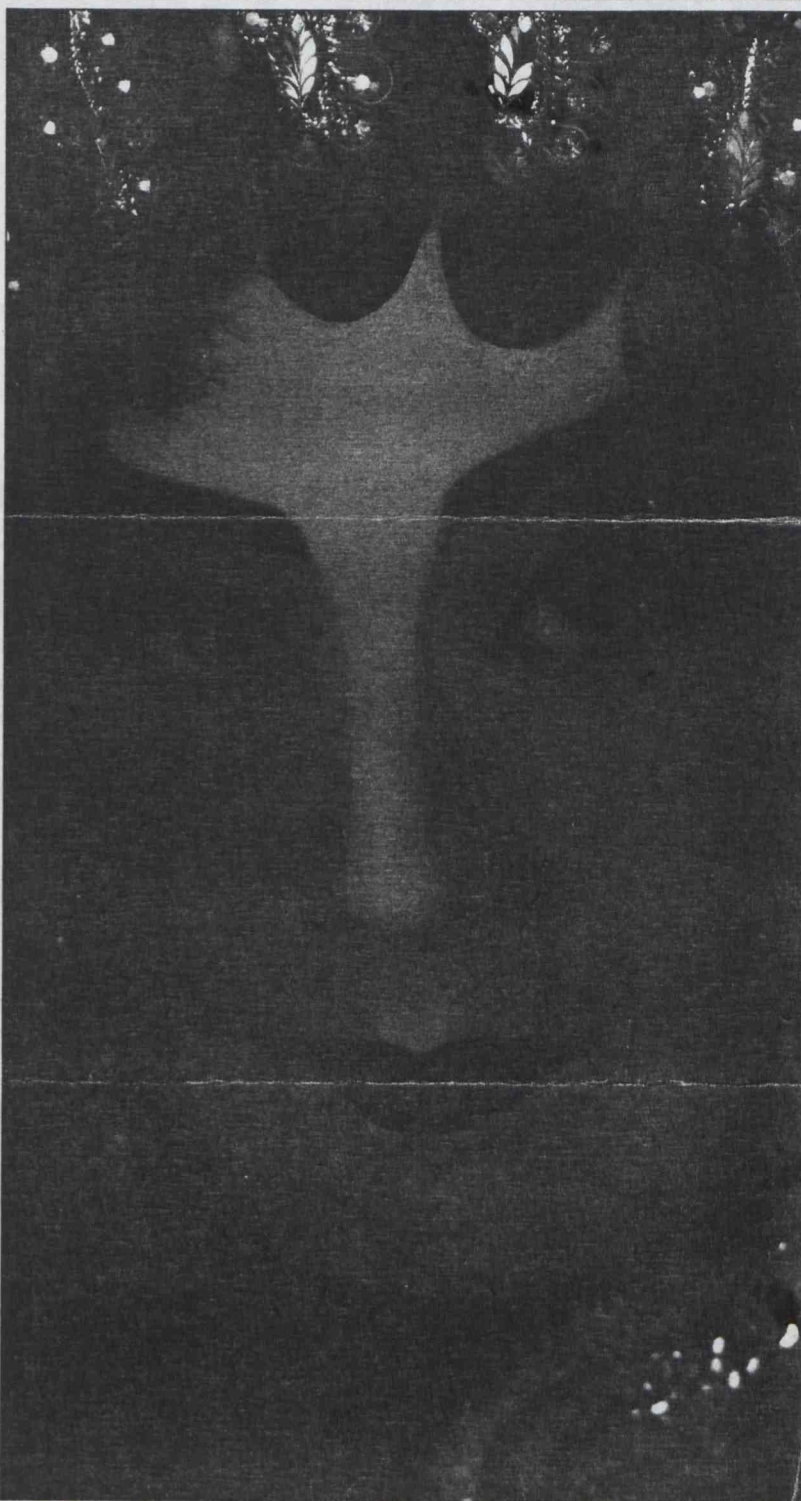
Sohmen said Dragonair is limited because its three Boeing 737 aircraft have a limited range. A fourth B737 will be leased in November.

Once Dragonair acquires larger aircraft it will expand beyond the Far East, according to Sohmen. "One route that always remains interesting is London," he said.

Dragonair's load factors average 60 percent on a year-round basis across the system, including charter and scheduled flights, and aircraft utilisation is between 7.3 and 7.8 hours per day.

Sohmen said it is difficult to stretch utilisation because passenger charter flights are not permitted to land at Kai Tak Airport for four hours every afternoon.

Sohmen admitted Dragonair was having trouble recruiting staff. "Experienced people, by definition, have to come from Cathay," he said.



Chinese opera performer

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file JASA PV

cc FCO

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

17 October 1988

Dear Bob,

DRAGONAIR

Thank you for your letter of 14 October about Dragonair, and the constraints on our taking action with the Hong Kong Government about its restrictive civil aviation policies. The Prime Minister is well aware that we cannot compel the Hong Kong authorities to act in this area, but she would certainly want them to be aware of our strongly-held views on deregulation. An early opportunity should be found to do this in whatever is the most appropriate forum.

The Prime Minister was not willing to accept the letter to Sir Y K Pao as drafted, but has signed the enclosed version which is not actually very different. I strongly advise that it be despatched. Meanwhile, the Department of Transport might like to amend Lord Brabazon's letter to Mr Bill Walker to include the second sentence of paragraph three of the letter to Sir Y K Pao.

I am copying this letter and enclosure to Roy Griffins (Department of Transport) and to Neil Thornton (Department of Trade and Industry).

yours sincerely,

C. D. POWELL

R. N. Peirce, Esq.
Foreign and Commonwealth Office

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OTS



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

17 October 1988

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DASAPR

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DITP

DTI

Dear Sir Y-K,

Thank you for your letter of 23 September following our meeting on 14 September when you mentioned some problems that Dragonair were experiencing with the Hong Kong authorities in gaining approval for charter services to Peking and Shanghai.

I am pleased to hear that agreement has now been reached with the Chinese and Hong Kong authorities for Dragonair to operate a series of charter services to Peking in October, although I understand that the Chinese could not agree to your operations to Shanghai. I wish Dragonair every success in developing the new services.

I understand your concerns about the application of Hong Kong's aviation policies, particularly as regards Dragonair's plans to operate scheduled services to Peking and Shanghai. Our own general policy is to encourage deregulation in the air services field and that has produced significant benefits for the United Kingdom. However, in circumstances where Hong Kong has to exercise greater autonomy in aviation matters in preparation for 1997, it must be for the Hong Kong Government

to decide how their policies should be developed in particular cases. I believe they have told you that the case you have made is kept under review. I can assure you that if, at a future date, the Hong Kong Government asked us to seek rights for Dragonair to operate scheduled services to Peking and Shanghai in bilateral talks with the Chinese, we would do all that we could to secure these for you.

Warm regards,

Yours sincerely

Margaret Thatcher

Sir Y. K. Pao, C.B.E., J.P.

World-wide Shipping Group

24th Floor

Wheelock House

20 Pedder Street

Hong Kong

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EL3DFP



bc PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

30 December 1988

HONG KONG: AIR SERVICES

Thank you for your letter of 29 December about our exchanges with the Hong Kong Government on air services. The Prime Minister finds this unsatisfactory and woefully unspecific. She wants to know when the annual meeting with the Hong Kong authorities will be held, what precise questions and proposals we shall put to them at it, and what progress can be expected in the meantime. She does not agree that the establishment of a unit in the Hong Kong Administration several months hence, with a remit then to start to consider whether a more liberal approach would be in Hong Kong's interest, is a welcome development: it appears to be a device to deflect pressure and push decisions off even further into the future. In relation to the paragraph dealing with Dragonair, she asks whether it is the case that approval for their charter flights to China is given on a monthly basis only; and whether any progress has been made on their application to operate scheduled services to important destinations in China.

I should be grateful for a reply by 6 January.

I am copying this letter to Roy Griffins (Department of Transport) and to Neil Thornton (Department of Trade and Industry).

(CHARLES POWELL)

R.N. Peirce, Esq.,
Foreign and Commonwealth Office.

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Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

What this actually

means is:

29 December 1988

liberalization of air services has been pushed off for further study by a unit which will not even be set up until the middle of next year.

Dragonair are still only getting permission for charter flights, not scheduled flights to China; and

Hong Kong: Air Services

You asked for a progress report on our exchanges with the Hong Kong Government concerning aviation policies, in the light of our correspondence about Dragonair resting with your letter of 17 October.

As foreshadowed in my letter of 14 October, the Department of Transport have, with our support, made a series of proposals to the Hong Kong Government for the adoption of more flexible policies in forthcoming bilateral air services negotiations with a number of countries. We await reactions from Hong Kong. As I mentioned in my letter, the natural occasion to pull these issues together will be the annual meeting which we hold with Hong Kong to review progress in air services negotiations with third countries. We plan to do this when the meeting takes place early next year.

The Governor has also told us in strict confidence that he is planning to ask the new unit which he is establishing within the Hong Kong Administration to consider complex policy issues to review Hong Kong's civil aviation policy as one of its first tasks, and consider whether a more liberal approach would be in Hong Kong's overall interest. Although the Unit will not be in operation until next Spring, this is a most welcome development and will provide us with further opportunities to feed in ideas based on UK experience. Any substantive policy proposals which might arise from this exercise would of course need to be considered further within the Hong Kong Government.

You may also welcome an update on Dragonair, since that prompted our earlier exchange. Dragonair currently operate scheduled services to three destinations (which will increase to four in February 1989 when they begin services to Nepal) and non-scheduled ones to ten others. They also have rights to fly to four other destinations which they do not currently serve and have been licensed by the Hong Kong Air Transport Licensing Authority on 23 other routes to which they have not yet obtained rights. Dragonair's application to fly charter services to Shanghai in December was approved.

on a monthly basis, not permanently. No wonder Sir Yk is unhappy. CDD 29/12

We need another letter to say that previous discussion we should be pulling it what would you? Where?

When? What progress is expected to take place in the meantime?

It is not a development at all.

Scheduled by who?

/I am

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I am copying this letter to Roy Griffins (Department of Transport) and to Neil Thornton (Department of Trade and Industry).

Yours ever

R N Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

Prime Minister

I think you missed the
second page of this minute.

As you will see, I have
done an alternative version of

the letter to Sir Y.K. -

marked C.D.P. version - but I

think meets your requirement. ^{Syred}

Agree to sign? ^{C.D.P.}

("Dear Sir Y.K." "Warm regards")

PRIME MINISTER

DRAGONAIR

You will recall that Sir Y K Pao raised with you the very restrictive policies applied by the Hong Kong Government to air services between Hong Kong and China. The Department of Transport subsequently spelled out the position in a minute to you. In short, while we do the negotiating for Hong Kong, they set the air services policy.

You commented that it was ridiculous that we should find ourselves negotiating on Hong Kong's behalf on a policy with which we fundamentally disagree. We spend a great deal of time and effort encouraging other Governments to deregulate and adopt more liberal air services policies. We should take the Hong Kong Government to task about its own highly restrictive policy.

The Foreign Office have now taken up the cudgels in a lengthy explanation of why we should not challenge Hong Kong's autonomy in this area of air services. They say that we cannot impose our views on Hong Kong (which you never suggested). They claim that highly-regulated aviation policies are still the norm in Asia. They point out that Cathay Pacific, which is the main beneficiary, represents very large British interests in Hong Kong. They advise against expressing any explicit disapproval of the Hong Kong Government's policies in correspondence with Sir Y K Pao, since this could be used against Hong Kong in a damaging way. They therefore suggest that you should sign the attached letter to Sir Y K Pao.

Agree to sign the FCO draft (the first)?

OR

No - we are getting too many complaints about the way Hong Kong is being run - we are trying to retain its British characteristics after 1997 - but letting them go now. It doesn't make sense. Must talk to F.C.S. me

Prefer an alternative version which adds the phrase towards the beginning of paragraph three: "our own general policy is to encourage deregulation in the air services field and that has produced significant benefits for the United Kingdom"?

C.D.P.

C. D. POWELL

14 October 1988

DASAPO



Foreign and Commonwealth Office

London SW1A 2AH

CONFIDENTIAL

14 October 1988

Dear Charles

Dragonair

You wrote to Roy Griffins on ¹⁴ October recording the Prime Minister's comments about the Hong Kong Government's "one airline per route" policy. I am replying, in terms agreed with the Department of Transport, because these raise general questions of our relationship with Hong Kong and its future under the Joint Declaration.

Hong Kong's position is of course unique. It will remain a dependent territory for another nine years, and for that time we will retain responsibility for its international relations. But in many areas, including civil aviation, the Hong Kong Government have for many years been responsible for formulating their own domestic policies. Where aviation routes to and from Hong Kong are still covered by UK Air Services Agreements, we thus have the task of negotiating with the other countries concerned on behalf of Hong Kong but on the basis of policies conceived locally. This unusual situation can give rise to certain inconsistencies of approach, which need to be addressed in consultation between HMG and the Hong Kong Government. But we should be damaging Hong Kong's interest if we sought to tackle these inconsistencies in ways which called into question the degree of autonomy which Hong Kong possesses and must defend in future.

We are now seeking, as we move towards 1997, to give clearer expression to Hong Kong's autonomy and to anticipate the arrangements set out in the Joint Declaration. After 1997 Hong Kong will be able to negotiate, conclude and renew its own ASAs (except for routes touching the mainland of China). To prepare for this we are already putting in place Hong Kong's own separate ASAs: three have been signed and more are in the pipeline. In future Hong Kong will re-negotiate and amend these ASAs without our direct involvement.

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Air services to China (which are of particular interest to Dragonair) will remain a special case. Hong Kong will not be able to have a formal ASA with China (of which it will be part) after 1997, any more than it can with the UK now. Until 1997 HMG will continue to take the lead in negotiations with China, in close consultation with the Hong Kong Government.

We can and do make known to the Hong Kong Government our views on their aviation policy and explain where we believe benefits could be achieved, for example by deregulation and a more liberal approach. However, in areas where Hong Kong has long enjoyed de facto autonomy, such as civil aviation, it could have damaging consequences for local confidence and for the degree of autonomy Hong Kong will be able to enjoy after 1997 if we sought to impose our views on Hong Kong. The civil aviation policy of the Hong Kong Government has to be based on their perceptions of their own best interests. This will include their own judgement of the competing claims of Cathay Pacific (which is, incidentally, British-controlled through Swires, an important customer of Rolls Royce and representative of very large British investment interests in Hong Kong) and Dragonair. The prospects for securing the degree of autonomy which we are seeking for Hong Kong in the future would be seriously threatened if we were to challenge it too vigorously now. And the consequences for the investment decisions of major companies, such as Swires, could be serious.

We also need to take account of the environment within which the Hong Kong Government formulate their policies. Hong Kong must compete in a part of the world where, for the most part, highly regulated aviation policies still prevail. More liberal attitudes are beginning to develop in Asia but these will be slow to progress. In the past the Hong Kong Government have judged that, given its relatively weak international position, the territory's best interests are served by placing emphasis on the development and protection of Cathay Pacific Airways. This is beginning to change, with the emergence of other Hong Kong airlines, such as Dragonair. Dragonair has been established on a number of international routes from Hong Kong.

/There

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There have however been occasions, in recent negotiations which the Department at Transport have conducted on behalf of the Hong Kong Government, when we and the Department of Transport believe the adoption of a more liberal and flexible position by Hong Kong would have assisted both its interests and our own. There would be advantage for both if we took this up more systematically with Hong Kong, and we are preparing to do this. We plan to do so first of all in the context of preparation for imminent negotiations with a number of third countries. We then propose to pull the issues together at the next of the annual meetings which aviation officials from London and Hong Kong hold to review their negotiations with third countries. This is due to take place early next year, by which time our separate review of bilateral air services should have been completed. We are likely to make better progress if it is clear that we are pursuing the wider issue of Hong Kong's civil aviation policy separately from our bilateral interests.

These contacts will of course be confidential. In the meantime we would advise most strongly against expressing explicit disapproval of the Hong Kong Government's policies in open correspondence with any third party. This could be used against Hong Kong in a very damaging way. We hope the Prime Minister can agree, in the light of the above explanation, that the two draft letters prepared by the Department of Transport can issue without amendment.

I am copying this letter to Roy Griffins (Department of Transport) and Neil Thornton (Department of Trade and Industry).

Yours ever

R N Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

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HONG KONG : SW YK Pao PT3



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be: PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

4 October 1988

DRAGONAIR

Thank you for your letter of 3 October dealing with Dragonair's complaints about the Hong Kong Government's "one air line per route" policy.

BF | The Prime Minister has commented that it is ridiculous that we find ourselves negotiating on Hong Kong's behalf on a policy with which we fundamentally disagree. We spend a great deal of time and effort encouraging other Governments to deregulate and adopt more liberal air services policies. She thinks that we should take the Hong Kong Government to task about its present highly restrictive policy, which must be damaging to its reputation. She would like to see us start early discussions with the Hong Kong Government to press them in this direction. She would also wish the two draft letters enclosed with yours to be revised to bring out more fully our own support for deregulation and our hope that the Hong Kong Government can be persuaded to adopt a more open approach.

I am copying this letter to Bob Peirce (Foreign and Commonwealth Office) and Neil Thornton (Department of Trade and Industry).

Charles Powell

R. J. Griffins, Esq.,
Department of Transport.

CONFIDENTIAL



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref: C/PSO/10514/88
C/PSO/11006/88

Your ref:

C D Powell Esq
Private Secretary
10 Downing Street
LONDON
SW1A 2AA

3 - OCT 1988

Dear Charles

DRAGONAIR

Prop.

I am replying to your letter of 14 September to Bob Peirce at the FCO about the Prime Minister's meeting with Sir Y K Pao on the same date, and to your letter of 29 September attaching a follow-up letter from Sir Y K. As you know, Sir Y K is Chairman of Hong Kong Dragon Airlines (Dragonair). On 14 September, he indicated to the Prime Minister that the Hong Kong authorities were blocking his airline's attempts to run charter flights between Hong Kong and Peking/Shanghai. He has subsequently expressed his wider concern about Hong Kong's "one airline per route" policy which hinders his airline's aspirations to operate scheduled services to the two points in China. The Prime Minister has asked for a report on the position. You had earlier written to me on 1 September about a report the Prime Minister had received from Bill Walker MP about his visit to Peking and Hong Kong in July and raising points on Dragonair's scheduled services to China. It may be convenient if I cover all these matters in this letter.

Sir Y K has raised similar points with the Prime Minister on previous occasions. As the Prime Minister pointed out at the meeting, the United Kingdom supports Dragonair's efforts to develop its operations to China, but in negotiating rights for Hong Kong airlines we are bound in the context of our overall approach to Hong Kong to be governed by Hong Kong's own aviation policies. Whilst the UK remains ultimately responsible for Hong Kong's international aviation relations until 1997, we are committed by the provisions of the Sino-British Joint Declaration on Hong Kong to extend to Hong Kong maximum autonomy in the conduct of its own aviation affairs. Hong Kong's present aviation policies, unlike ours, are on traditional lines favouring a high degree of regulation. Indeed in current negotiations about the UK/Hong Kong route, Hong Kong have been resisting our more liberal proposals.

As a general rule, the Hong Kong authorities have decided that only one Hong Kong based airline should be allowed to operate scheduled services on any one route. This is derived from their view that with Hong Kong's relatively small domestic base for traffic (about 5 million people), Hong Kong airlines are better employed in competing with foreign airlines rather than with each other. The Hong Kong Government's practice is to consider the operation of a second Hong Kong airline on any route only in circumstances where more competition is required in the public interest and where the demand for travel is sufficient to sustain a second operation. This "one airline per route" policy has been the basis on which services to China have been developed in recent years and has brought into the open conflicts between Cathay Pacific Airways (who already serve Peking and Shanghai) and Dragonair who would like to operate to both points, having received route licences from the Hong Kong licensing authorities in August 1987. The licensing authorities in Hong Kong are independent of the Hong Kong Government so the granting of a licence does not prejudice the subsequent decision on whether a Hong Kong airline should be designated to operate on a particular route. So far the Hong Kong Government has not been prepared to countenance a second scheduled operation to these two destinations. It is our overall policy that Hong Kong should be allowed so far as possible to determine where its own best interests lie. Applying this maxim to civil aviation we have to accept that this is a matter for the Hong Kong Government to determine.

HMG will remain responsible for negotiations with the Chinese authorities on scheduled services up until 1997, but steered by the Hong Kong Government so far as services to and from Hong Kong are concerned. We have embarked on a substantial round of talks in which we are attempting to redress the existing imbalance in our arrangements with the Chinese and as part of this approach we are seeking rights for Dragonair to operate up to ten regional points on the Chinese mainland. If Hong Kong changes its mind about seeking rights for Dragonair to operate to Peking and Shanghai, we would naturally do our best to secure them, either in the present negotiations or subsequently, depending on the timing of the Hong Kong decision. Unfortunately, at present, we have no reason to expect that the Hong Kong Government will change its mind.

The second element of the market is the development of non-scheduled (charter) services. HMG is not involved in the negotiation of charter arrangements for Hong Kong. For many years, the Hong Kong authorities have had full responsibility for determining their own charter policies and in deciding applications made by Hong Kong and foreign airlines to operate charters to and from Hong Kong. Their policy is to allow charters only if it can be demonstrated that the scheduled services cannot satisfy demand. This is the policy Hong Kong applies in deciding whether charter flights should be operated to the Chinese mainland. Dragonair have been given permission to operate charters to a number of Chinese regional cities but only very recently to Peking.

The Hong Kong authorities gave Dragonair permission in August to approach the Chinese authorities about the prospects for operating a series of charter flights to Peking and Shanghai this October. (Sir Y K seems to have been unaware of this when he saw the Prime Minister on 14 September.) Chinese permission was given on 13 September in respect of Peking (but not Shanghai) and on 19 September Dragonair applied to the Hong Kong authorities for permission to operate eight services to Peking during October. Permission was granted on 21 September and the first service will operate on 5 October. This is encouraging for Dragonair who will no doubt seek approval to operate further charters in November and subsequently. Decision on this will rest with the Chinese and Hong Kong authorities. The Chinese authorities demanded a high price for allowing these services for Dragonair and seven extra Cathay Pacific services and the Hong Kong authorities have agreed to an extra twenty-one services by the Chinese airline in return for the extra fifteen services allowed to the Hong Kong airlines. Sir Y K suggests that the extra services demanded by the Chinese airline (CAAC) were in response to Cathay's plans and not at all to Dragonair's, but the Hong Kong Government have told us that the deal was done as a package taking account of the new services for Hong Kong airlines as a whole.

Dragonair's efforts to develop a niche in the market alongside the extensive route network of the incumbent airline, Cathay Pacific have been hampered by Hong Kong's policies (both the "one airline per route" policy for scheduled services and the priority Hong Kong gives to scheduled over charter services). Nonetheless, Dragonair's route network is gradually expanding with services to destinations in Thailand, Japan, Malaysia as well as China. They will shortly start services to Guam and we are currently negotiating rights for them to operate scheduled services to Nepal and Bangladesh.

/ I attach a draft letter which the Prime Minister may wish to send to Sir Y K Pao mentioning the helpful developments on charter services. I am attaching also the draft of a letter / which Lord Brabazon proposes to send to Mr Bill Walker, subject to the Prime Minister's agreement.

I am copying this letter to Bob Peirce (FCO) and to Neil Thornton (DTI).

Yours sincerely
Roy Griff

R J GRIFFINS
Private Secretary



MINISTER FOR AVIATION
AND SHIPPING

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Bill Walker Esq MP
House of Commons
LONDON
SW1A 0AA

Thank you for your report and recommendations on air services matters arising from your recent visit to Peking and Hong Kong. I apologise for the delay in replying but I wanted to give your report careful study.

Before commenting on the report it may be helpful if I explain a little of the background to the UK/Hong Kong/PRC air services relations. As I am sure you are aware, the Sino-British Joint Declaration on the Question of Hong Kong, which sets out the broad arrangements for the resumption of the exercise of sovereignty over Hong Kong by China in 1997 and for at least 50 years thereafter, provides Hong Kong with a high level of autonomy across the board including the conduct of its own aviation affairs after 1997. In preparation for this, we are making arrangements now to give Hong Kong greater autonomy in the aviation sector wherever this is possible and, in this context, we are conducting a review with Hong Kong of UK/Hong Kong air services relations.

We have also embarked on a series of negotiations with bilateral partners to give Hong Kong its own air services agreements which we expect will continue after 1997. Given Hong Kong's unique position vis-a-vis China, this will not be possible in the case of Hong Kong's relations with China. For the time being Hong Kong airlines' rights to operate to the Chinese mainland will continue to be negotiated by the UK. In negotiations with China, as with any other country, we have a particular responsibility to act in the best overall interests of British aviation which in this case means keeping a balance between the interests of UK and Hong Kong airlines. But of course I must look to the Hong Kong Government to advise on the rights that should be sought for Hong Kong airlines having regard to Hong Kong's overall aviation interests and their view of what might

be achievable in negotiations. The bilateral arrangements with the Chinese authorities have not been satisfactory in the past from Hong Kong's point of view and we have started discussions with China in which we will seek to achieve a better balance of opportunities.

I note your particular concern that scheduled rights are not being negotiated with China for Dragonair to operate scheduled services to Peking and Shanghai. The Hong Kong Government have so far taken the view that they do not wish us to seek rights for a second Hong Kong airline to serve these particular points alongside Cathay Pacific. I understand that the Hong Kong authorities have explained their policy to Dragonair and that the airline has been assured that the position is kept under review. If at a future date the Hong Kong authorities want us to seek rights for Dragonair to operate scheduled services, we should of course do all that we can to secure them in negotiation with the Chinese authorities. We made a start last year in opening up bilateral discussions with them on a substantial expansion of opportunities for UK and Hong Kong airlines, including Dragonair, on whose behalf we are seeking rights to operate to up to 10 regional cities in China. We expect to resume talks with the Chinese authorities in the near future. Your report has therefore been most timely in preparation for the second round.

In the meantime, the Hong Kong authorities have approved an application from Dragonair to operate a series of charter flights to Peking during October. Dragonair already operate similar services to other points in China.

I have taken careful note of your comments about offering aid and training schemes to China, indirectly linking them to air services agreements and aircraft sales. I should emphasise that air services arrangements need to be considered on their own merits and should not be linked with any other possible deals or sales. This is because air service rights are increasingly valuable, since they grant a continuing right to carry traffic to and from the UK; this makes them inappropriate for trading against a one-off project with a finite value. Nevertheless, I am letting David Young have a copy of your report, with a copy of this letter, so that he is aware of the proposals you put forward.

LORD BRABAZON OF TARA

HOVA KONA: Suw Yik Pao PMS.



HOVA KONA: Suw Yik Pao PMS.

PRIME MINISTER

DRAGONAIR

You will remember that Sir Y. K. Pao raised with you problems being experienced by Dragonair in Hong Kong. In essence he claimed that he was unable to get licences to run scheduled services from Hong Kong to Peking and Shanghai because the Hong Kong government operated a one airline per route policy and applied it exclusively in favour of Cathay Pacific.

The attached letter from the Department of Transport shows that his allegation is well founded. While we are the ones who negotiate with the Chinese, the policy is set by the Hong Kong government and they do indeed operate a policy of strict regulation. There seems to be no inclination on our part to persuade them to change this. Consequently our line is that we would be perfectly happy to negotiate rights for Dragonair with China if the Hong Kong authorities asked us to do so. But we do not feel under any moral obligation or policy constraint to urge the Hong Kong government to adopt a more liberal air services policy.

I am bound to say I have some sympathy with Sir Y. K.'s complaint. We cannot tell the Hong Kong government what to do in this area. But we spend our time encouraging other governments to adopt more liberal air services policies and I do not see why we should not do the same with Hong Kong, making clear to the government that we find the present highly restrictive policy distasteful and bad for Hong Kong's reputation in the world.

Agree that I should ask departments to consider follow up action on these lines? It would not benefit only Dragonair but potentially other airlines which might emerge in Hong Kong as well.

CDP

(C. D. POWELL)

30 September 1988

Y
 00 - it is ridiculous
 to negotiate for Hong Kong on a policy
 with which we disagree. not



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

29 September 1988

DRAGONAIR

I enclose a copy of a letter to the Prime Minister from Sir Y. K. Pao about Dragonair. This has reinforced the Prime Minister's earlier concerns that the Hong Kong Government are not dealing with this matter in a fair way. You will wish to take account of this latest letter in the reply which you are preparing to my account of the Prime Minister's discussion with Sir Y. K. recently.

CHARLES POWELL

Roy Griffins, Esq.,
Department of Transport.

File Xho
ack PC
no ack

● Sir Yue-Kong Pao C.B.E., LL.D., J.P.

WORLD-WIDE SHIPPING GROUP
24th Floor, Wheelock House
20 Pedder Street
Hong Kong Tel.: 5-8442288
Telex: HX73247 Fax: 5-8100617

See by CDP

23rd September, 1988.

Charles Powell, Esq.
10 Downing Street
London SW1A 2AA
ENGLAND

Dear Charles,

On my return to Hong Kong I wanted to thank you again for your assistance for and during my recent meeting with the Prime Minister. I did very much enjoy my conversation with the Prime Minister; she is always most refreshing to talk to.

Thank you and Carla also for joining me for lunch with my daughters and sons-in-law. We were all so happy that Carla enjoyed her trip to Hong Kong. I know Anna promised to keep an eye on your son while here, and to help as necessary; but we hope to see you in Hong Kong also before too long for a visit!

I asked Helmut to send you a copy of his Dragonair statement on the grant of charter permits to Beijing for the airline for October. You may have seen it on your return. I am sorry to say that we are still some way away from the competitive environment in Hong Kong which the Prime Minister said she also strongly favoured. Despite undoubted strong demand on the Beijing route and a willingness on the part of the Chinese authorities to allow Dragonair to fly there without reciprocal concessions being demanded, the Hong Kong Government keeps on insisting that they will not negotiate traffic rights for the airline to Beijing and Shanghai, although we hold licences for both routes. The H.K. Government's so-called Aviation Policy is used time and again to protect Cathay Pacific which - with net profits in excess of HK\$2 billion last year - does not particularly appear to need cuddling against a small carrier like Dragonair which is trying hard to provide new services to new destinations in Asia for the travelling public but does so at a considerable loss to-date. In fact, Hong Kong is losing commercial opportunities to foreign carriers because Cathay Pacific does not necessarily want to, or in fact can fly other than the trunk routes which give it certain profits.

Cont'd. 2/-

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Charles Powell, Esq.
23rd September, 1988
Page 2

Thank you for your interest in these matters, and with kind regards, also to Carla, and from the girls,

Yours sincerely
J. H. Tao

Encl.

港龍航空 DRAGONAIR

Hong Kong Dragon Airlines Limited

19/F., Wheelock House, 20 Pedder Street, Hong Kong.
Tel: (5) 8105105 Telex: 80253 DRAGH HX Fax: (5) 8100370

23rd September 1988

PRESS STATEMENT

The Curious Logic of the Hong Kong Government's Aviation Policy

On the 20th November 1985, the then Financial Secretary Sir John Bremridge, announced the Hong Kong Government's new "Air Transport Policy" in the Legislative Council. This was done, he said, because two new airlines had been formed and had applied for licences for scheduled services. The Government had to reconsider its policy in relation to air services matters in the "interests of the travelling public and shippers, ... and in view of the highly regulated nature of the international air transport industry". "After all," Sir John stated, "air traffic rights are not available to all and sundry."

In essence, the Aviation Policy stipulates that the Hong Kong Government will only designate one Hong Kong airline per route, unless there are circumstances where it was judged that "more competition was needed in the public interest, and the traffic was sufficient to sustain a substantial operation by more than one airline".

The Aviation Policy also mentioned that the Hong Kong Government would not pay an excessive price to any other country, if that other country demanded such a price as a concession to grant new traffic rights, or to allow a Hong Kong airline to be designated on an already existing route.

The Aviation Policy was re-affirmed by the new Financial Secretary, Mr Piers Jacobs, in the Legislative Council on 18th February 1987. He embellished on Sir John's statements by saying that where no bilateral air services existed, the Hong Kong Government would request the British Government to open negotiations to conclude new arrangements, or would consider to ask the British Government to seek rights for new routes or for additional carriers under existing bilateral arrangements to help airlines implement their licences for scheduled operations. But, Mr Jacobs added, these processes could take time as international negotiations were often slow and cumbersome. They are indeed, so far the Hong Kong Government has not managed to obtain one single new traffic right for

...2



Dragonair not already contained in existing agreements.

Mr Jacobs also re-emphasised that the Hong Kong Government would only be willing to make recommendations to the British Government if it thought that the price to be paid for new designations or new routes was not too high. That price could be seen to be "too high", he said, if for example it meant that the introduction of a second airline would "be at the expense of the incumbent Hong Kong airline which had invested heavily in aircraft, personnel, support, services, promotion etc. in order to develop the route," or if the incumbent airline would need to reduce its existing level of services simply to accommodate the second airline - especially when the second airline could not match the incumbent's "already established standards". Otherwise the outcome, he prophesied, could be a loss of Hong Kong's share of the passenger and cargo traffic on a particular route.

Coming just after the formation of Dragonair, the Government's message was clear: where Cathay Pacific was flying a route, had "invested" in it, and provided "established standards", no other airline had a chance to be designated, irrespective of whether it held licences to that route. For Dragonair this meant: select places where Cathay Pacific does not fly, pioneer and invest only in secondary routes Cathay has neglected, be satisfied with monthly charter permits, don't rock the boat. In other words, what is good for Cathay Pacific must be good for Hong Kong. Cathay Pacific's investment in routes was to be protected from local competition although Cathay Pacific's annual profits show that its investments have been amortized many times over. By contrast, if Dragonair cannot manage to break even because there is neither the time nor the inclination to negotiate new traffic rights, that is a commercial risk Dragonair's shareholders just have to take. Let Hong Kong's valuable traffic rights not be squandered away to all and sundry!

Just to show how strongly Cathay Pacific felt challenged by Dragonair despite the protection afforded it by the Aviation Policy, they objected to Dragonair's licence applications even when they had no intention to fly to certain destinations: take Manchester, Phuket, Chiangmai, Kagoshima, Kumamoto, Nagasaki, Oita, or Sapporo.

The Aviation Policy of Hong Kong is premised on a belief in static rather than expanding markets and single - rather than multi-designation

bilateral agreements. The resultant monopolistic local market situation is in turn justified by the "complexity of the international regulatory environment". The Aviation Policy is retrograde, outdated, anti-competitive and unfair, and Hong Kong is left well behind the more liberal regimes being promoted in many other nations, including prominently the United Kingdom but now also conservative aviation countries like Japan or Australia.

Let us look at the facts on the Beijing route in light of the Aviation Policy statements, to identify Government's double standards.

The present UK/PRC air services agreements provide for single designation, with British Airways as the designated carrier. When Cathay Pacific was allowed to fly to Beijing twice a week from April 1986, British Airways was forced to give up the right to carry passengers between Hong Kong and Beijing - and has not so far regained it. Commercial agreements between Cathay Pacific and CAAC have since resulted in additional frequencies for both carriers per week, some seasonally-adjusted, but all on a scale of 1 to 3 in favour of CAAC (Cathay presently flies three a week and CAAC 10). Whenever Cathay Pacific adds another frequency, CAAC adds three more - that is the "price" to be paid by Hong Kong for the privilege of additional flights for Cathay, evidenced again by CAAC's request (as reported in the Hong Kong press on 23 September 1988) that it wishes to add 22 new frequencies Beijing/Hong Kong in October for Cathay Pacific's additional 7 in that month.

Since its formation in 1985, Dragonair has been told that CAAC would welcome the airline in Beijing. No conditions were attached to that invitation. Dragonair after two contested hearings and despite Cathay Pacific's strong objections, in August 1987 obtained licences for Beijing and Shanghai from Hong Kong's Air Transport Licensing Authority (ATLA) for scheduled operations to Beijing and Shanghai. ATLA found that there was strong demand on the routes, that smaller aircraft flying more often would provide greater benefits to the travelling public than wide-bodies with fewer services, and that the addition of Dragonair on the Beijing route in particular would not conceivably produce "uneconomic overlapping" with CAAC and Cathay Pacific. That there is still strong

demand for Beijing was reconfirmed this week by the Hong Kong Secretary for Economic Services, Mrs Anson Chan, and is in fact evidenced by long waiting-lists for seats and indeed now by the extra permits granted to Cathay Pacific and Dragonair for October.

The Hong Kong Government has publicly stated that it will not recommend to the British Government to negotiate traffic rights for Dragonair on Beijing and Shanghai even though the situation on these routes squarely meets the exemption provision in Sir John Bremridge's statement that "traffic was sufficient to sustain a substantial operation by more than one Hong Kong airline."

In light of its stated further policy to favour scheduled over non-scheduled operations at all times, the Hong Kong Government has since August 1987 and until this week also refused to entertain repeated requests from Dragonair for charter operations to Beijing and Shanghai. Only when domestic fares in China were revised upwards recently and more demand on direct routes materialised, and Cathay Pacific had difficulties obtaining permits for additional frequencies from CAAC, did the Hong Kong Government consent to allow Dragonair to discuss with CAAC a strictly limited number of flights. Dragonair obtained such CAAC permission without any reciprocal concessions being required from Hong Kong.

So, contrary to the principles enunciated in its own Aviation Policy, the Hong Kong Government acts to stifle Dragonair's justified claims to be considered for designation on Beijing and Shanghai, while agreeing to pay an exorbitantly high price to China (in terms of additional CAAC frequencies) for each extra frequency secured for Cathay Pacific. At the same time, Mrs Anson Chan is publicly lamenting the serious imbalance in the respective entitlements of CAAC and Cathay Pacific on the route. It is protectionism of the very worst kind: to stifle domestic competition and the healthy growth of a local business for the benefit of foreign interests.

This, in Dragonair's view, is not a policy designed to protect Hong Kong's overall position, but in fact is unduly damaging to the normal development of an airline owned and operated in Hong Kong, and with a proven willingness and ability to invest in and generally promote better air services for Hong Kong and its people - an objective that is in fact enshrined as a goal in the legislation that has established ATLA.

The guidelines laid down in the Aviation Policy, which itself is only an administrative pronouncement without any legal foundation, are contrary in both spirit and letter to the laws which govern the licensing arrangements, and the Government's consistent refusal to meet its legal obligations arising from the grant of route licences by ATLA is an attempt to subvert the quasi-judicial authority of ATLA by administrative action.

Dragonair has never been asking for hand-outs or for special treatment, only for the fair chance to maximise the commercial opportunities that are increasingly becoming available and which will get lost to others if the arbitrary and unnecessary refusals continue - as we have witnessed again this week.

Dragonair will continue to press its just case.

Sir Yue-Kong Pao C.B.E., LL.D., J.P.

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Rui Anshu (2)

*It seems as though
23rd September, 1988.*

The Rt. Hon. Margaret Thatcher, MP
Prime Minister
10 Downing Street
London SW1A 2AA
ENGLAND

*Dragonair are rather
hard done-by. I have
asked DOT for a
draft reply.
OBD 27/9.*

Dear Prime Minister,

Thank you very much for again sparing me some of your precious time during my visit last week. It was a pleasure to see you again after some time and to learn from you of the progress the British Government continues to make at home and abroad.

May I also thank you for your words of encouragement for our Dragonair and your strong insistence that there should be more competition. Although the Hong Kong Civil Aviation Department this week finally granted Dragonair permits for eight charter flights to Beijing only for October, it did so very reluctantly and in a public statement again emphasised that this should in no way be construed as a sign that the H.K. Government would give up its "one airline per route" aviation policy. In other words, the H.K. Government will not advise your Government to recommend that HMG should negotiate traffic rights to Beijing and Shanghai for Dragonair, although we have obtained licences from the H.K. Air Transport Licencing Authority for these routes in August 1987. Although the Government here admits that there is sufficient demand to warrant additional services, it prefers to award more permits to Cathay Pacific rather than to Dragonair, even though such a move triggers three-for-one requests from CAAC for additional flights under the current bilateral arrangements. On the other hand, the extra Dragonair flights have not made reciprocal concessions necessary. While we obtained eight permits for our smaller aircraft (Boeing 737) in October, Cathay Pacific was given permission for 7 extra flights with wide-body jets, and CAAC has now requested 22 extra flights for October, thus seriously worsening the existing serious imbalance of flights between the Hong Kong and Chinese carriers.

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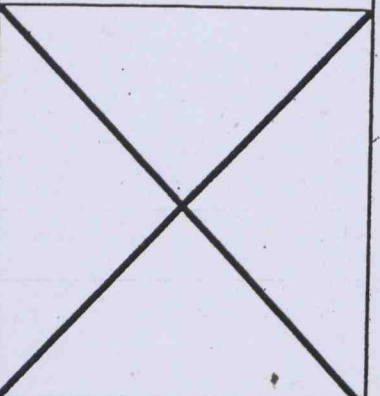
The Rt. Hon. Margaret Thatcher, MP
23rd September, 1988
Page 2

You will appreciate my own frustration about this policy which certainly not only damages our own commercial interests but all of Hong Kong's. I sometimes think that other countries are being more attractive due to their efforts in liberalising air services than the "free trade" Hong Kong.

My family and I were delighted about the "Museum of the Moving Image" opening last week and I do hope it will become an important addition to the cultural activities on the South Bank and help preserve part of the Nation's heritage in the years to come.

With kind regards and best wishes,

Yours sincerely
Y. K. T. Cao

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COPC



Foreign and Commonwealth Office

London SW1A 2AH

15 September 1988

Dear Charles

COPC
16/9Dragonair

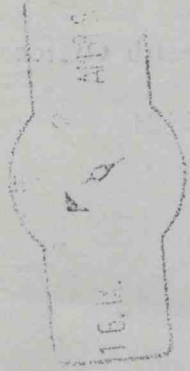
Thank you for your letter of 14 September. The questions you raise are ones of civil aviation policy which is very much for the Department of Transport. They are also the Department in the lead on the negotiations, on which you have asked for a report. We have therefore agreed with the Department of Transport that they should reply to your letter. We shall of course offer them advice on those aspects that concern the Foreign Office.

I am copying this letter to Roy Griffins (Department of Transport).

Yours ever

(R N Peirce)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street



Faint, illegible text, possibly a date or reference number, located in the upper left quadrant.



SUBJECT
CE MASTER

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

14 September 1988

SIR Y K PAO

When Sir Y K Pao saw the Prime Minister this morning he raised the matter of his shareholding in Standard Chartered Bank. As you know, he is not always the easiest person to understand. But the points he seemed to be making were first that he had expressed dissatisfaction with the Chief Executive of Standard Chartered very soon after he took his original shareholding and urged that he be replaced, but the other directors had been very slow in acting on this. Second, he had been thwarted in his intention to buy more shares and take effective control of Standard Chartered by the enormous length of time which the necessary procedures and investigations had taken. On top of all this was that the value of his investment had been halved. He would certainly not support the forthcoming Standard Chartered rights issue. (In a separate conversation he told me that he would probably dispose of his shares, but he did not say this to the Prime Minister.)

The Prime Minister limited herself to saying that she was sorry to hear that Sir Y K's investment had lost so much of its value, particularly after all he had done for the United Kingdom. She understood that the bank was now doing better and she hoped this would be reflected in an increase in the share price.

I am copying this letter to Alex Allan (H M Treasury).

C. D. POWELL

John Footman, Esq.,
Bank of England

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SLHAZU



ale
SUBJECT
cc MASTORC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

14 September 1988

DRAGONAIR

When Sir Y K Pao came to see the Prime Minister this morning, he talked at length about the problems of Dragonair. He claimed in particular that their application to operate charter services from Hong Kong to Peking and Shanghai was being blocked by the Hong Kong authorities, who in turn tried to shelter behind the British authorities. The Prime Minister said that she would ask for fuller briefing from Departments on the problems. She understood that we were supporting Dragonair in its attempt to secure rights to operate scheduled services to points on the Chinese mainland other than Peking and Shanghai.

The Prime Minister finds it hard to understand how the Hong Kong government's apparent policy of allowing only one carrier per point can be reconciled with Hong Kong's reputation for free enterprise. She is also not clear in her mind precisely where the responsibility for negotiating with the Chinese on all this lies. Her instinct is that some of Sir Y K's complaints are justified. She would like a full report on the present state of negotiations as soon as possible, together with advice as to whether the Hong Kong authorities are behaving in a proper way towards Dragonair.

I am copying this letter to Roy Griffins (Department of Transport).

C. D. POWELL

R. N. Pierce, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

to

PRIME MINISTER

SIR Y.K. PAO

Sir Y.K. is coming to see you tomorrow, the first time for almost a year. He is claiming that he intends to retire from active business commitments when he reaches 70 in October.

① You will want to ask him about developments in China. There have been stories in the press that Zhao Ziyang is losing influence and may be replaced, but I have not seen this reflected elsewhere.

② You will also want to ask about progress with the Basic Law drafting committee, emphasising how important it is to secure the right outcome. This is absolutely crucial to future confidence in Hong Kong.

Dragonair

Sir Y.K. Pao and his family feel they are being badly treated over Dragonair, with HMG and the Hong Kong Government endlessly passing the buck one to the other, and Cathay Pacific blocking them at every turn through their influence in EXCO. This is no doubt exaggerated, but there does seem to be a grain of truth, particularly in the refusal of the Hong Kong Government to allow Dragonair charter flights from Hong Kong to Peking and Shanghai, on the grounds that there should only be one carrier per point. This is hardly the free enterprise for which Hong Kong is famous. You may want to seek assurances from the Transport Secretary and Foreign Secretary after the meeting that the Hong Kong authorities are playing fair on this.

Standard Chartered

You will want to read the Bank of England note on this (in folder). Sir Y.K. is thoroughly disgruntled with the decline in the value of his shares and is refusing to participate in the rights issue. The Board have decided to go ahead

regardless, which will have the effect of reducing his shareholding. He has told me that he plans to get rid of it altogether.

British Nationality for his grandchildren

One of his daughters - Bessie Woo - has recently applied for British nationality for her three children. The application is with the Home Office who will be submitting it to Mr. Renton. The response is likely to be that they must undergo a longer period of residence, although they will probably get it in the end. It could be argued that the Home Office are being too bureaucratic about this and dragging out the agony unnecessarily. But it's probably best to say to Y.K. only that you know the Home Office are considering the application and will reply in due course.

There are one or two other points covered in the FCO's note in the folder.

CD?

CDP

13 September, 1988.



Foreign and Commonwealth Office

London SW1A 2AH

CONFIDENTIAL

13 September 1988

Dear Charles

Sir Y K Pao

Sir Y K Pao is calling on the Prime Minister at 9.30 am on 14 September. You might find it helpful to have a brief note on the topics which are likely to come up in the course of the meeting.

BASIC LAW

Sir Y K Pao is one of eight Vice Chairmen of the Basic Law Drafting Committee, although he does not appear to have played a very active part in the drafting process. The Prime Minister may nevertheless wish to emphasise that we have been carefully following the public debate over the draft Basic Law and have been working hard to ensure that the Chinese authorities are aware of the concerns of the Hong Kong people. The outcome of the drafting exercise will have a crucial effect on how Hong Kong people view the future of the territory.

DRAGONAIR

Dragonair is a British airline operating in Hong Kong. Sir Y K Pao controls about 35% of the total shareholding. Dragonair serves Thailand on a regular basis and has ambitions to expand its scheduled and non-scheduled services to other regional destinations, including China. One of our objectives in the forthcoming intergovernmental talks with China on air services is to secure rights for Dragonair to operate scheduled services to five points on the Chinese mainland other than Peking and Shanghai (already served by Cathay Pacific). If asked, the Prime Minister could emphasise that we will continue to support Dragonair in its desire

/to

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to establish scheduled services to China. If pressed about charter flights to Peking and Shanghai, she would have to say that this is a decision for the Hong Kong Government (whose policy is generally that there should be only one carrier per point). - why?

NINGBO UNIVERSITY

Sir Y K Pao paid for the construction of a new university at Ningbo, his place of birth. There are now 2,000 students already studying there and further expansion is underway. Sir Y K Pao has proposed that the Ningbo University library (to be completed in 1990) should be named after the Prime Minister. If asked, the Prime Minister could make it clear that we are ready to make a contribution of books to the library. The British Council are in touch with the Chinese State Education Commission about this. The Council could also arrange a formal link between Ningbo and a university in Britain.

SINO BRITISH FRIENDSHIP SCHOLARSHIP SCHEME (SBFSS)

The SBFSS is jointly funded by the State Education Commission, the ODA and the Sir Y K Pao foundation. In 1987/88, its first year of operation, 336 students came to Britain under the scheme. Further expansion is planned. But Sir Y K Pao has expressed concern about the level of fees charged by universities to visiting scholars and the cost of English language training for Chinese students here. If raised, the Prime Minister could reassure Sir Y K Pao that we are aware of these problems and that we are seeing what can be done to alleviate them.

CAMBRIDGE OVERSEAS TRUST

It is possible that Sir Y K Pao may also refer to the newly established Cambridge Overseas Trust, which is chaired by the Prince of Wales and in which both Sir Y K Pao and the Foreign Secretary are participating as trustees. The Prime Minister can certainly express her welcome for this worthwhile cause, the purpose of

/which

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which is to promote the placing of overseas students at Cambridge University. (Sir Y K Pao is also a trustee of the Cambridge Commonwealth Trust, an older creation, which does the same thing for Commonwealth students.)

Yours ever

R N Peirce

(R N Peirce)
Private Secretary

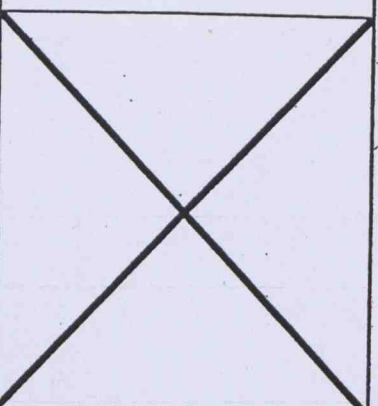
C D Powell Esq
10 Downing Street

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12th. 1898
M. A. P. H. R. E.



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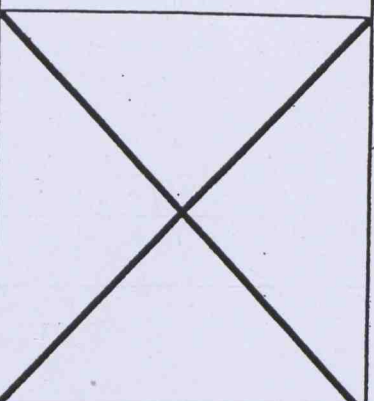
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Instructions for completion of Dummy Card

Use black or blue pen to complete form.

Use the card for one piece or for each extract removed from a different place within a piece.

Enter the department and series,
eg. HO 405, J 82.

Enter the piece and item references, .
eg. 28, 1079, 84/1, 107/3

Enter extract details if it is an extract rather than a whole piece.

This should be an indication of what the extract is,
eg. Folio 28, Indictment 840079, E107, Letter dated 22/11/1995.
Do not enter details of why the extract is sensitive.

If closed under the FOI Act, enter the FOI exemption numbers applying to the closure, eg. 27(1), 40(2).

Sign and date next to the reason why the record is not available to the public ie. Closed under FOI exemption; Retained under section 3(4) of the Public Records Act 1958; Temporarily retained; Missing at transfer or Number not used.



9.30 on
Wed. 14th
Sept. ?

Th.
22/7

10 DOWNING STREET

~~Letter~~

~~Letter~~
first copy

Sir Yk Rao will

now be here from

12-14 September

we may would like

to see him. Can

you give me a

time please.

Oh

22/7

6/7
MRS. GAISMAN

Sir Y.K. Pao has cancelled his visit to Britain in July. He is likely to approach us again for a meeting with the Prime Minister in mid-September or mid-October (after the Party Conference).

C D P

C. D. POWELL

5 July 1988

Prime Minister

①

Sir Yue-Kong Pao C.B.E., LL.D., J.P.

CDP
9/2

WORLD-WIDE SHIPPING GROUP
24th Floor, Wheelock House
20 Pedder Street
Hong Kong Tel.: 5-8442288
Telex: HX73247 Fax.: 5-8100617

ccgo

5th February 1988

PRS

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
No. 10 Downing Street
London SW1
ENGLAND

MR 9/2

Dear Prime Minister,

First of all, please accept my apologies for not writing this letter earlier because of my leave of absence: I came back from a trip only recently.

Thank you for your most encouraging letter of 15th December, responding to the proposed Deng Xiaoping library to be established in a U.K. university.

-Aap.

On the question of choice of university for the Deng Xiaoping library, I have written to Sir Mark Richmond and he has come back with some very useful suggestions which I am now seriously considering. I will, of course, keep you informed of further developments in this respect.

As regards the proposed Margaret Thatcher library at Ningbo University, I am vigorously pursuing the matter, in particular, the initial planning of the project. Once the details, including the date of completion, are worked out, I will let you know.

Meanwhile, Sue joins me in sending warmest regards to you and Denis and wish you and your family all the best for the "Year of the Dragon".

Yours sincerely
Y K Pao

HONG KONG: Y. K. PAO Pt. 3.

1951 3001-55 12



File SLH
cc PC

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

15 December 1987

Dear Y.K.,

Thank you for your letter of 8 December. I very much enjoyed our talk. I agree that the understanding reached between the United States Administration and Congress was a step in the right direction but needs to be followed up and made firm. Meanwhile, I am glad to say that our own economic performance remains very strong.

I was most interested to read what you had to say about your meeting with Mr. Deng Ziaoping and relieved to hear of his intention to carry on in his present posts for some time yet.

We are all very grateful for your outstanding generosity over the library and I am sure that Geoffrey Howe is right in suggesting that you should discuss the choice of university with Sir Mark Richmond. I am delighted that good progress is being made also with the Margaret Thatcher library at Ningbo University. It is very good of you to name this after me and I shall follow its progress with great interest.

Denis and I send you and all your family warm good wishes for Christmas and the New Year.

Y. K. Pao
Margaret

Sir Y. K. Pao, C.B.E., J.P.

Simon

● Sir Yue-Kong Pao C.B.E., LL.D., J.P.

WORLD-WIDE SHIPPING GROUP
24th Floor, Wheelock House
20 Pedder Street
Hong Kong Tel.: 5-8442288
Telex: HX73247 Fax: 5-8100617

PRIVATE AND CONFIDENTIAL

8th December, 1987

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
No. 10 Downing Street
London SW1
ENGLAN

Dear Prime Minister,

Let me thank you again for sparing time from your heavy schedule to receive me on 23rd October when I was in London. As usual, I both enjoyed and benefited from our exchange of views.

We touched on the question of the huge U.S. budget and trade deficits as a major source of the world's economic woes and it was gratifying to read in last month's papers about the first step in some corrections being taken in Washington. I am certain your public and private promptings will have done a lot to bring about these results. However, the move can only be viewed as a short-term palliative and there is a clear need for more intensive measures still to come.

You may like to know that during my recent visit to Beijing, my wife and I and my daughter Anna had a private dinner with Mr. Deng Xiaoping and his family on the 13th November. Mr. Deng seemed well satisfied with the recently concluded 13th Party Congress and he was also visibly pleased with what he personally achieved on that significant occasion: the bringing about of an orderly transition of the nation's top level leadership. This is something he wishes to see carried out as thoroughly as possible and my belief is that in about three year's time, he himself will bow out from the one or two remaining posts he still retains.

While he was in a jovial mood, I brought up my proposed donation of a library in his name to a U.K. university and, not unexpectedly, he verbally agreed. I had earlier also talked this over with Geoffrey Howe and he gave me the name of Sir Mark Richmond as the right person to contact on the choice of the university. I will of course do this shortly.

Cont'd. 2/-

WORLD-WIDE SHIPPING GROUP
24th Floor, Wheelock House
20 Pedder Street
Hong Kong
Tel.: 5-8442288 Telex: HX73247

The Rt. Hon. Mrs. Margaret Thatcher, MP
8th Dec., 1987
Page 2

As you have kindly agreed, a similar building being proposed for the Ningbo University will be known as the Margaret Thatcher Library. I had mentioned the proposal to the Mayor of Ningbo who is currently on a business trip to Hong Kong and shall let you know as soon as detailed plans are drawn up and a date of completion is known and I trust you will be pleased with these developments.

With kind regards and all good wishes to you and Denis,

Yours Sincerely
J. H. Taw

PRIME MINISTER

MEETING WITH SIR Y. K. PAO

You have a brief meeting with Sir Y. K. Pao first thing tomorrow morning. He is bringing his son in law with him.

So far as we can establish, he has no particular points to raise. He is evidently worried about what is happening in the stock market. You may wish to say some re-assuring words about the underlying strength of the British economy.

He has recently been in Peking. You might ask his views on how the Chinese leadership will look after the forthcoming Party Conference. The strong likelihood is that Zhao Ziyang will be General Secretary and Li Peng will succeed him as Prime Minister.

You might also ask about developments in Hong Kong. He is to be Chairman of one of the groups which will look at the draft of the basic law as a whole. He takes the view that Western style democracy is not appropriate for Hong Kong.

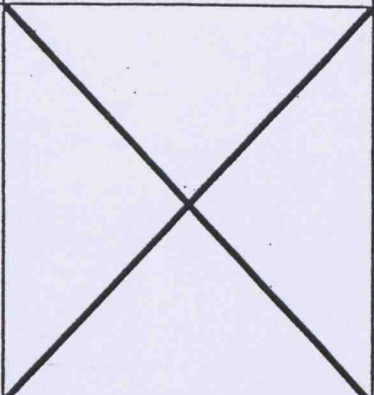
You might ask about his tankers in the Gulf. He indicated some concern to Percy Cradock about them. But since they are not British flagged, we cannot offer protection of the Armilla Patrol.

C.D.P.

CHARLES POWELL

22 October 1987

A The National Archives

DEPARTMENT/SERIES <i>PREM 19</i> PIECE/ITEM <i>3389</i> (one piece/item number)	Date and sign
Extract details: <i>Minute from Cradock to Powell dated 22 October 1987</i>	
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PRIME MINISTER

MEETING WITH SIR Y. K. PAO

Sir Y. K. Pao is coming to see you first thing tomorrow. He has asked whether, at the beginning of the meeting, he could bring in two of his daughters and a son-in-law simply to shake hands and have a photograph. I thought that you would be ready to agree to this.

You will want to get his assessment of the situation in China, in particular whether the set back to the reformers with Hu Yaobang's dismissal was only temporary. You will also want to enquire about the work of the Basic Law drafting group and the state of confidence in Peking.

The first students under the Sino-British Friendship Scholarship scheme, established by Sir Y.K. Pao will arrive this autumn.

There is nothing new to report on the Ningbo Steelworks. You explained earlier to Sir Y.K. that we cannot give ATP. But we have offered to consider funding a small separate project in the same reason.

Sir Y.K. is funding the setting up of a new University in Ningbo. The ODA and British Council are looking at ways of supporting it.

e.d.p.

(C. D. POWELL)

14 July 1987



Foreign and Commonwealth Office

London SW1A 2AH

14 July 1987

Dear Charles

CJP
14/7

Call by Sir Y K Pao on the Prime Minister, 15 July

You asked today for some background on Sir Y K Pao's interest in China.

Sino British Friendship Scholarship Scheme

Sir Geoffrey Howe, Sir Y K Pao and Vice Premier Li Peng signed a memorandum on 9 June 1986, establishing the Sino-British Friendship Scholarship Scheme, under which China and the Sir Y K Pao Foundation will pay £1.4 million per year, and Britain (the ODA) will pay £700,000, to provide 420 PhD and research level scholarships in the UK each year for 10 years. The first Chinese students will arrive for this autumn's academic year. Sir Y K Pao chaired the second meeting of the Supervising Commission in Hong Kong on 2 June. Nothing controversial was raised.

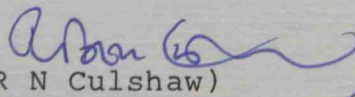
Ningbo Steelworks

Sir Y K Pao (who comes from Ningbo) is promoting this project: its estimated costs are £1 billion. He was told in 1986 by the Prime Minister and other Ministers that we cannot provide ATP; the minimum grant allowed under OECD consensus rules would be about £300 million. The Embassy told the Chinese this in January, but said that we might consider funding a small separate project in the region if it could be done without breaching international obligations. There has been no response.

Ningbo University

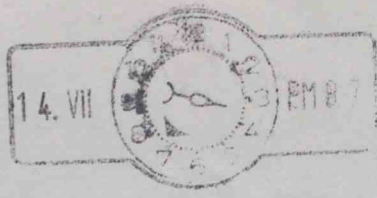
Sir Y K Pao has also funded the setting up of a new University in Ningbo. Mr George Walden attended the inauguration in November. The ODA are looking at ways of supporting the University (eg provision of books) within their existing programmes, and have asked the British Council in Peking to discuss this with the State Education Commission.

Yours ever


(R N Culshaw)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

Foreign and Commonwealth Office
London SW1A 1AA





10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

14 July 1987

Dear Sir Yue-Kong,

Thank you for your kind letter of 24 June and your kind message of congratulations.

I am very grateful for everything which you and your family are doing to help in the difficult transition in Hong Kong and for your declaration of confidence in the future. We of course remain firmly committed to the faithful implementation of the Joint Declaration, and shall continue to do all we can to secure a bright future for the territory.

I am pleased to hear that Dragonair is continuing to expand its operations and is establishing new air links with China. The British Government will continue to give Dragonair support in developing their plans in bilateral negotiations with the Chinese.

I look forward to our meeting 15 July.

Warm regards,

Yours sincerely
Raymond Hunt

Sir Y K Pao, CBE, LLD, JP.



9R
Foreign and Commonwealth Office

London SW1A 2AH

13 July 1987

Dear Charles

Letter to the Prime Minister from Sir Y K Pao

Thank you for your letter of 6 July enclosing Sir Y K Pao's letter of 24 June to the Prime Minister. I enclose a self-explanatory draft reply, prepared in conjunction with the Department of Transport: it has not been seen by the Foreign Secretary.

We are currently seeking traffic rights for Dragonair to serve up to five points on the Chinese mainland, but not Peking or Shanghai. Dragonair's application for licences to serve Peking and Shanghai is entirely a matter for the Hong Kong Air Transport Licensing Authority, an independent statutory body. If a licence is granted then the Hong Kong Government will let us know whether they wish us to seek traffic rights for Dragonair. Sir Y K will of course be fully aware of this, and we see no need for the Prime Minister to include it in her reply.

I am sending a copy of this letter and enclosure to Jenny McCusker (Department of Transport).

Yours ever

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

PS I am sorry that this draft
did not reach Number Ten at
the end of last week

RM

DS Form 1 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:
PRIME MINISTER
DEPARTMENT:

TEL. NO:

Reference

BUILDING:

ROOM NO:

Your Reference

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO:

Sir Y K Pao CBE LL D JP
 c/o Mrs N Chu
 Marine Navigation Co Ltd
 1st Floor, Dewhurst House
 24 West Smithfield, LONDON EC1A 9BD

Copies to:

SLHALG

PRIVACY MARKING

..... In Confidence

CAVEAT

Thank you for your letter of 24 June and your kind message of congratulations.

grateful for meeting with you & your family are doing to help in the difficult transition period in Hong Kong

I am very glad that you continue to see a future for yourself and your family in Hong Kong. We of course remain firmly committed to the faithful implementation of the Joint Declaration, in the interests of the stability and prosperity of Hong Kong. *and that* We will continue to do all we can to secure a bright future for the territory.

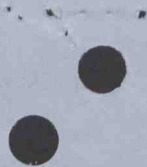
declaration of confidence in the future.

I am pleased to hear that Dragonair is continuing to expand its operations and is establishing new air links with China. The British Government will continue to give Dragonair support in developing their plans in bilateral negotiations with the Chinese.

Enclosures flag(s)

I look forward to our meeting on 15 July.

CDP



Su Y-K PAO

~~10/7~~
13/7



10 DOWNING STREET
LONDON SW1A 2AA

~~Asst Sec~~
lv

From the Private Secretary

6 July, 1987.

I attach a copy of a letter to the Prime Minister from Sir Yue-Kong Pao.

I should be grateful if you could provide a draft reply for the Prime Minister's signature, to reach me by as soon as possible please.

A copy of this letter and its enclosure goes to Jenny McCusker (Department of Transport).

(C.D. Powell)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

P.S. The Prime Minister
is seeing Sir Y.K. on
18 July.

lv

Sir Yue-Kong Pao C.B.E., LL.D., J.P.

POS

not in CF

K1017

WORLD-WIDE SHIPPING GROUP
24th Floor, Wheelock House
20 Pedder Street
Hong Kong Tel: 5-8442288
Telex: HX73247 Fax: 5-8100617

30th June, 1987.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
No. 10 Downing Street
London SW1
ENGLAND

CM

Dear Prime Minister,

I trust you have received my letter of 24th June, 1987 on the moves the Hong Kong Dragon Airlines Ltd. is taking in the expansion of its services network.

As was probably apparent, the word "affiliations" in the 16th line of the second paragraph was a misprint of the word "applications" and I am just writing to offer my apologies for the mistake.

With kind regards,

yours sincerely
J. K. Pao

Sir Yue-Kong Pao C.B.E., LL.D., J.P.

WORLD-WIDE SHIPPING GROUP
24th Floor, Wheelock House
20 Pedder Street
Hong Kong Tel: 5-8442288
Telex: HX73247 Fax: 5-8100617

24th June, 1987.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
No. 10 Downing Street
London SW1
ENGLAND

Dear Prime Minister

You will know that your splendid re-election for a third term in office was most positively welcome by the Hong Kong business community. We see your victory not only as a confirmation of the success of your policies in the United Kingdom but as an affirmation that the close ties between the United Kingdom and the People's Republic of China will continue to prosper - to the benefit also of Hong Kong and its people.

I and my family remain committed to the longer-term future of Hong Kong and we are making every effort to support government in this somewhat difficult transition period. My investments in Hong Kong in recent years, I believe, speak for themselves, and I will go on working to build even more bridges between the U.K. and China. Our little airline, Dragonair, is also gradually expanding into China, and this is another illustration of Hong Kong enterprise pioneering new services to everybody's advantage. I do sincerely hope that further bilateral discussions on modifications to the current air services agreement will result in Dragonair obtaining traffic rights to some of the Chinese destinations as already mentioned in your letter of the 13th March this year. Dragonair is also re-applying for Hong Kong licences to serve Beijing and Shanghai, and I have no doubt that, should these affiliations be successful, the airline will over time have a considerable impact on the further strengthening of British/Chinese trade and service links. Thank you for all your support.

With great pleasure I look forward to meeting you again on the 15th July.

With all good wishes and kind regards,

Yours sincerely
Y. K. Pao

MARINE NAVIGATION COMPANY LTD

Incorporated 1916.

1ST FLOOR, DEWHURST HOUSE,
24, WEST SMITHFIELD,
LONDON, EC1A 9BD

TELEPHONE: 01-236-7771
CABLES: WOSHIP LONDON EC1
TELEX: 888425 WOSHIP G
883023 WOSHIP G

(F)

OUR REF:

YOUR REF:

29th April, 1987

Mrs. Tessa Gaisman
Personal Assistant to the Prime Minister
10 Downing Street
London S.W.1

Dear Tessa,

With reference to our telephone conversations yesterday Sir Yue-Kong Pao fully understands that the Prime Minister's very heavy schedule prevents her from receiving him during his forthcoming visit to London from Wednesday, 6 May to Wednesday, 13 May, however, should any time slot becomes available unexpectedly we would be very grateful if you could kindly let us know.

With kind regards,

Yours sincerely,
Mancy

P.S. I know you are very busy so please note there is no need to acknowledge this letter. Thank you.

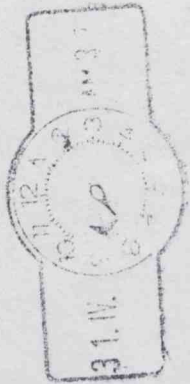
Spoke ✓

MARINE NAVIGATION COMPANY LTD

100, BROADWAY, LONDON, E.C. 4, ENGLAND

TELEGRAMS: "MARINE" LONDON
TELEPHONE: 3000

OUR REF: 100
YOUR REF:



①

10.00 - 10.30

Tuesday 12th May

see main way
to TG 29/4/87

- 1. MR POWELL
- 2. PRIME MINISTER

Sir Y K Pao will be in London from 6-13 May. He has asked if he could come to see you but has not indicated whether it is about anything specific. I am not sure whether you usually see him when he is over here, but would you like me to find a slot for him?

Yes

OScola

TG

PP

1 April 1987



10
c Fco
Tpt

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

13 March 1987

Dear Sir Yue-kong,

Thank you for your letter of 23 February letting me know of recent developments in Hong Kong concerning Dragon Airlines.

I note your concern that all possible support should be given to your efforts. As I am sure you will appreciate, it is for the Government of Hong Kong in the first instance to determine what policy they wish to follow in the designation of Hong Kong-based airlines, and I understand that the Financial Secretary has recently made a public statement setting out that policy.

However, you may be sure that if the Hong Kong Government so request, HMG will certainly do its best to negotiate any new international traffic rights which may be required to enable Dragon Airlines to expand their scheduled services. Indeed we have already been successful in obtaining rights for Dragon Airlines to serve Thailand and, as you are already aware, other important negotiations are in prospect.

Meanwhile I hope Dragon Airlines will continue to enjoy every success.

Best wishes

Yours sincerely

Ronald Reagan

Sir Y.K. Pao, C.B.E.



Foreign and Commonwealth Office

London SW1A 2AH

12 March 1987

Don Charles

Your letter of [✓]25 February enclosed a copy of a letter from Sir Y K Pao to the Prime Minister about support for Hong Kong Dragon Airlines Ltd.

This is, indeed, an area where we have to move cautiously. The Department of Transport advise we must avoid taking a position in the debate on Hong Kong's aviation policy, not least in the light of the Hong Kong Financial Secretary's re-affirmation on 18 February of Hong Kong's single designation policy, which led to a further outburst from Dragon Air. Accordingly, the enclosed draft reply has been kept brief.

I am copying this letter and the draft to Richard Allan.

Don Charles

R N Culshaw

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:
Prime Minister
DEPARTMENT:

TEL. NO:

Reference

Your Reference

BUILDING:

ROOM NO:

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO:

Copies to:

Sir Y K Pao
Chairman and Chief Executive
Hong Kong Dragon Airlines Ltd

To issue

EWBBVK

SUBJECT:

PRIVACY MARKING

..... In Confidence

Thank you for your letter of 23 February letting me know of recent developments in Hong Kong concerning Dragon Airlines.

CAVEAT

I note your concern that all possible support should be given to your efforts. As I am sure you will appreciate, it is for the Government of Hong Kong in the first instance to determine what policy they wish to follow in the designation of Hong Kong-based airlines, and I understand that the Financial Secretary has recently made a public statement setting out that policy.

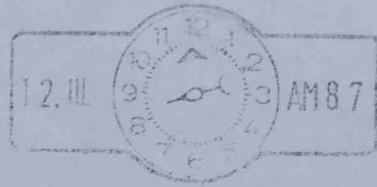
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Enclosures flag(s)

Meanwhile I hope Dragon Airlines will continue to enjoy every success.

CSA

HONG KONG : Y K Pao PT3





10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

25 February 1987

BR 11
I enclose a copy of a letter to the Prime Minister from Sir Y. K. Pao about Hong Kong Dragon Airlines Ltd. As you will see he expresses the hope that more support will be given to the airline's efforts to become as successful as Cathay Pacific.

I recall that this is an area where we have to move cautiously. I should be grateful for a draft reply from the Prime Minister in suitable terms. You will of course want to consult the Department of Transport to whom I am sending a copy of this letter.

(Charles Powell)

R. N. Culshaw, Esq., M.V.O.,
Foreign and Commonwealth Office.

BM



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

25 February 1987

I am writing to thank you for your letter of 23 February to the Prime Minister about Hong Kong Dragon Airlines Limited. I shall draw this to her attention as soon as possible and I am sure that she will want to reply personally.

(Charles Powell)

Sir Y. K. Pao, C.B.E., J.P.

BM

620
Sir Yue-Kong Pao C.B.E., LL.D., J.P.

LEAF
WORLD-WIDE SHIPPING GROUP
24th Floor, Wheelock House
20 Pedder Street
Hong Kong Tel: 5-8442288
Telex: HX73247 Fax: 5-8100617

23rd February, 1987.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
No. 10 Downing Street
London SW1
ENGLAND

Dear Prime Minister,

May I take this opportunity to let you know that Hong Kong Dragon Airlines Ltd., the new Hong Kong based air carrier I am chairing has just announced our increase in its paid-up share capital from HK\$200 million to \$400 million to demonstrate our shareholders' commitment to the future of the airline. I am enclosing for your interest copy of a statement I made to the media on the occasion of the Directors Meeting held on 21st February, 1987 voicing our objections to the Hong Kong Government's aviation policy.

I do hope that we shall be given more support for our efforts as time goes on to allow the airline to become as successful as Cathay Pacific, and then also to be in a better position to contribute to the economic prosperity of Hong Kong and to British aviation and aerospace interests in general.

Thank you for your interest and with kind regards.

Yours sincerely
J. K. Pao

Encl.

Statement by Sir Yue-Kong Pao
Chairman and Chief Executive
Hong Kong Dragon Airlines Ltd.

21st February 1987

I am very happy to advise that at the Dragonair Board of Directors' Meeting just held, Directors were informed of the successful increase in the paid-up share capital of the company from HK\$200 million to HK\$400 million. This is evidence of the commitment of shareholders in the company's future and will give Dragonair the necessary enlarged financial base to continue with fleet growth and route expansion. Just for reference, let me mention that when Cathay Pacific went public a year ago, its paid-up capital was HK\$530 million.

As you know, Dragonair was recently awarded 21 additional licenses by the Air Transport Authority for China, Japan, Guam, Dhaka and Kathmandu, and is of course keen on trying to implement them to add to the 10 destinations presently being served. A fourth boeing 737 aircraft is expected to join the fleet in September this year, and a commitment was made to order two new MD-11 aircraft costing about HK\$1.5 billion.

There has been much media comment lately about aviation in Hong Kong in general, and about Dragonair's efforts to have the restrictive aviation policy changed, which generally permits designation of only one airline per route. We believe that this policy is not in the public interest, stifles competition and consumer choice, and unfairly benefits one private airline at the expense of the other. The policy is discriminatory, arbitrary, and protectionist in nature, and the arguments advanced in its favour by the Hong Kong Government are not at all convincing. It is a policy pursued by fewer and fewer other countries and will tarnish the reputation of Hong Kong as a centre of free trade and minimal Government intervention in commercial affairs. China is allowing new airlines to set up and to compete; and the British Government is leading the battle for liberalisation in aviation in Europe.

Why should the Hong Kong Government wish to block local Hong Kong investors from participating fully in all the traffic rights to which Hong Kong is entitled as a community, when these investors are willing to take the not inconsiderable

market risks in pioneering new services for the benefit of that community? Why should Cathay Pacific have to worry about local competition from a new entrant when it proudly proclaims its capability to successfully compete with the world's other large and established airlines?

Dragonair is a truly Hong Kong airline in all respects; why should it have to take second or third place after foreign airlines in Government's consideration? I would like to earnestly encourage Government to reconsider its policy, not only in the interests of Dragonair but of Hong Kong as a whole. Dragonair is providing new jobs and services; it is a responsible and financially sound company and a reliable operator. Its shareholders are prepared to take the long view and have demonstrated again today that they accept the necessary and high start-up costs. What they wish in return is to be given fair and equal treatment.

Thank you.



de DSA

cto

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

16 January 1987

Dear Sir Y.K.,

Thank you for writing to me about the Inauguration of Ningbo University. George Walden had already reported to me what a great success the occasion was - and fitting recognition of your tremendous generosity to your birthplace.

Thank you very much in addition for sending me the "Yu Yee". Its message is just what I need.

Denis joins me in sending you and your family best wishes for 1987.

Warm regards,

Yours sincerely

Raymond Walker

—

Sir Yue-Kong Pao, C.B.E.

✓

JANICE

Andy asked if we could hang on to this for a while, pending the arrival of the souvenir glass, before acknowledging Sir Y K's letter.

Barbara

30/12

Andy

Price consent to wait - or should we now act.?

PAB

✓ C.P. Wait till it comes on

J.P. 15/1

Can the pm thanks for a gift
which hasn't arrived? Or better
for me to write?

Andy.

Sir Yue-Kong Pao C.B.E., LL.D., J.P.

WORLD-WIDE SHIPPING GROUP
24th Floor, Wheelock House
20 Pedder Street
Hong Kong Tel: 5-8442288
Telex: HX73247 Fax: 5-8100617

19th December, 1986.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
No. 10 Downing Street
London SW1
ENGLAND

Dear Prime Minister,

I am writing this to thank you again most sincerely for arranging for Mr. George Walden to join the Inauguration Ceremony of the University of Ningbo on 26th November. The occasion was indeed honoured by his presence and his excellent speech in Chinese was especially appreciated by the large audience of a few thousand including Vice Premier Wan Li, who gathered there that cold but sunny morning to celebrate the birth of the city's first full scale university.

It may interest you to know that on the same afternoon, the foundation stone was laid for a secondary school which is a re-development of the primary school I went to as a boy some 60 years ago. A number of my old schoolmates in those days were with me on this festive occasion. Additionally, a new concrete 4-mile road, built with my donation and named after my late father, celebrated its completion. So this amounted to a quite happy and memorable day for my family.

Being a sports enthusiast, I also donated a swimming pool complex to the city of Hangzhou, the capital of my native province, Zhejiang where young athletes have excelled in recent years in international swimming and diving contests. George Walden and I and the whole guest party attended the foundation laying of this facility on 25th November en route from Hong Kong to Ningbo.

As 1986 draws to a close and another year, a significant one, is dawning in about two weeks, I would request you to accept from me as a souvenir a glass encased "YU YEE", carved out of a special kind of wood produced in Shandong Province to wish you "Everything as Desired" (for the year 1987) which is exactly what the piece is called.

With warmest Greetings of the Season to you and Denis,

Yours sincerely
Y. K. Pao

P.S. The parcel will arrive at a slightly later date.

HONG KONG : YIC Pao A3



Foreign and Commonwealth Office

London SW1A 2AH

5 December 1986

cc PC
②

Prime Minister
You will find Mr
Walden's minute of
interest.
Dear Charles, CD 5/12

ms

may record abt
Hep
Pt 2

Sir Y K Pao: Ningbo University

When the Prime Minister saw Sir Y K Pao on 13 October he told her that the university which he was donating to China would be opened at the end of November. Sir Y K went on to say that he would very much welcome it if the Prime Minister would nominate a representative to attend the opening ceremony. The Prime Minister nominated Mr Walden as Minister with responsibility for universities and as a Chinese speaker.

Mr Walden has duly been to China and Hong Kong and has sent Sir Geoffrey Howe a minute recording his impressions (copy enclosed). In the Secretary of State's view the visit was clearly worthwhile and the FCO will be following up Mr Walden's suggestions for ways in which we might help the university. In the meantime Sir Geoffrey Howe is most grateful to Mr Walden for having undertaken this visit.

I am copying this letter to Rosemary Hussain (DES).

Yours ever

(Signature)

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

CONFIDENTIAL

FED
 PS PS/Mr Barton
 PS/Mr Barton
 Mr Gillmore
 Dr Wilson
 HND

cc Secretary of State
 for Trade and Industry

Secretary of State
 for Employment

SIR GEOFFREY HOWE

At the Prime Minister's suggestion, I accompanied Y K Pao last week at the opening of the new University of Ningbo he has just donated to China. He was keen that I should report back to you and the Prime Minister. I also visited both the English and Chinese Universities in Hong Kong, and a number of institutes in Peking, where I discussed our student exchanges with China.

I found the trip worthwhile educationally, politically, and commercially. Y K Pao was accompanied by several other big businessmen from Hong Kong ("the Ningbo Gang" as Deng Xiao-ping apparently calls them), by the Head of the NCNA in Hong Kong, and by a small group of British businessmen and bankers. The inauguration of the new University went well: it is a good building, and already has nearly 300 students. Y K Pao is genuinely popular in his birthplace, both as the "local boy who made good", and as a generous benefactor. His visit was big news, and he was clapped in the streets.

He was well received by the Chinese Government - by Vice Premier Wan Li in Ningbo, and by Gu Mu, a Senior State Councillor with responsibilities for the 14 designated coastal cities, who entertained us in Peking. In discussion with Wan Li and Gu Mu, in my speech, and in local press interviews, I stressed our readiness to take part in the economic development of the Ningbo area, which is one of the 14.

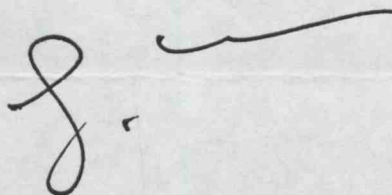
Development is only just getting off the ground. But I was impressed by the local officials - younger, more technocratic and more open than the party bureaucrats of recent times. The British bankers saw real opportunities in the steel works, the new port and telecommunications, though there were doubts about the adequacy of the local infrastructure to carry a big expansion. They also thought that Y K Pao was asking for unrealistically large amounts

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soft money for the steelworks; he himself mentioned this to me only in passing.

In Peking, Gu Mu suggested to me that Britain had become a member of the "Ningbo Gang". I didn't contradict him. There was no other foreign presence at the University ceremony there, and I believe we should look for inexpensive ways to strengthen our foothold in the area. I suggested to the Ambassador that we should find ways of helping the University with its supplies of English books, and try to facilitate the appointment of some more British teachers in the University. Y K Pao told me that this would be particularly welcome. Whatever we do should be targeted as far as possible towards our own economic advantage: we could for example try to find British economists who could both teach, do research on the Ningbo area and be an informal point of contact for British commercial interests. The Ambassador said that he will be visiting the area soon to keep up a British presence.

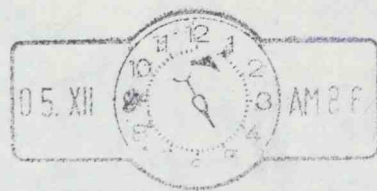


GEORGE WALDEN

2.12.86

CONFIDENTIAL

HONG KONG - UK PAO PT 3





10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

17 November 1986

The Prime Minister has asked me to thank you very much for your letter of 14 November. She would be perfectly content for you to read out her message when you address the gathering at Ningbo.

(Charles Powell)

Sir Y. K. Pao, C.B.E., J.P.

2

Sir Yue-Kong Pao C.B.E., LL.D., J.P.

WORLD-WIDE SHIPPING GROUP
24th Floor, Wheelock House
20 Pedder Street
Hong Kong Tel.: 5-8442288
Telex: HX73247 Fax.: 5-8100617

14th November, 1986.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
No. 10 Downing Street
London SW1
ENGLAND

Dear Prime Minister,

It was a deep pleasure to receive and read your letter of 6th November, 1986 and I want to say how grateful I am for your nominating Mr. George Walden to represent the British Government at the Inauguration of the University of Ningbo on 26th November.

The occasion will no doubt be honoured by Mr. Walden's presence and this will indeed symbolize a closer tie between Britain and China in the areas of education and culture.

May I thank you further for your kind wishes in the last paragraph of your letter and, with your permission, I will read your message out when I address the gathering during the ceremony.

Once again my thanks and kind regards,

Yours sincerely
J. Y. Pao

*May I add my warm congratulations
on Mark's engagement.*

HONG KONG : Sur Y. C. Pao PT3





10 DOWNING STREET
LONDON SW1A 2AA

VC
file
af0

THE PRIME MINISTER

6 November 1986

Dear Sir Yue-Kong,

Thank you for your letter of 8 October, inviting me to nominate a member of the Government to attend the inauguration of Ningbo University.

I am pleased to say that Mr. George Walden, the Parliamentary Under Secretary in the Department of Education and Science with special responsibilities for universities (who is, incidentally, a Chinese speaker) has agreed to represent the Government on this occasion.

I also understand that Mr. Walden would like to make a brief speech in Chinese at the inauguration in order to mark the strengthening of Sino-British cooperation in the field of education. He would be happy to meet Vice-Premier Wan Li, and to call on the State Education Commission in Peking, if his programme allows. He also hopes to visit Hong Kong and Hong Kong University on his way back.

May I take this opportunity to wish Ningbo University every success, and to hope that it will play an important role in strengthening relations between Britain and the People's Republic of China.

Warm regards
Yours sincerely
Margaret Thatcher

Sir Y.K. Pao, C.B.E., J.P.

MR POWELL



70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

From the Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A086/3195

6 November 1986

Dear Rosemary,

Mr Walden's Visit to China: 24-30 November

Thank you for your letter of 4 November. Sir Robert Armstrong has no objection to Mr Walden flying from Hong Kong to Ningbo in an aircraft chartered by Sir Y K Pao, and to his staying overnight at Ningbo as a guest of Sir Y K Pao, on the understanding that:

- a. Mr Walden is flying to Hong Kong at public expense;
- b. there are no direct scheduled flights from Hong Kong to Ningbo;
- c. it would be extremely difficult for Mr Walden's itinerary to accommodate indirect scheduled flights from Hong Kong to Ningbo;
- d. Sir Y K Pao is arranging accommodation in Ningbo for all those overseas visitors attending the inauguration.

I am copying this letter to Charles Powell (No 10) and Robert Culshaw (Foreign and Commonwealth Office).

Yours sincerely,

Traver Woolley

(T A Woolley)
Private Secretary

Mrs Rosemary Hussain
APS to Mr George Walden
Department of Education and Science



Foreign and Commonwealth Office

London SW1A 2AH

4 November 1986

ccpc

Dear Charles

Inauguration of Ningbo University:
Sir Y K Pao's letter

Your letter of 29 October asks for confirmation that Mr Walden, Parliamentary Under Secretary in the Department of Education & Science, has agreed to represent the Government on the occasion of the inauguration of Ningbo University, China, on 26 November. I confirm that he has agreed to attend the inauguration.

/ I enclose a draft reply from the Prime Minister to Sir Y K Pao.

Yours ever

R N Culshaw

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

DSR 11 (Revised Sept 85)

DRAFT: ~~XXXX~~/letter/~~XXXX~~/dispatch/~~XXXX~~

TYPE: Draft/~~XXXX~~

FROM:
Prime Minister

Reference

DEPARTMENT:

TEL. NO:

Your Reference

BUILDING:

ROOM NO:

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO:
 Sir Y K Pao
 Worldwide Shipping Group
 24th Floor, Wheelock House
 20 Pedder Street
 HONG KONG

Copies to:

VEZANK To [unclear] on.

PRIVACY MARKING

..... In Confidence

CAVEAT

SUBJECT:

Thank you for your letter of 8 October, inviting me to nominate a member of the Government to attend the inauguration of Ningbo University.

I am ^{*pleased to say*} happy to be able to tell you that Mr George Walden, the Parliamentary Under Secretary in the Department of Education and Science with special responsibility for universities, (who is, incidentally, a Chinese speaker) has agreed to represent the Government on this occasion.

I also understand that Mr Walden would like to make a brief speech in Chinese at the inauguration in order to ^{*make*} the strengthening of Sino-British co-operation in the field of education. He would be happy to meet Vice-Premier Wan Li, and to call on the State Education Commission in Peking, if his programme allows. He also hopes to visit on his way back. Hong Kong and Hong Kong University

Enclosures flag(s)

May I take this opportunity to wish Ningbo University every success, and to hope that it will play an important role in strengthening Sino-British relations.

relations between Britain & the People's Republic of China. a.

HONG KONG

Y K 180

PTZ



● PART 2 ends:-

CDP to fco 29/10/86

PART 3 begins:-

fco to CDP 4/11/86

Grey Scale #13



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