



10 DOWNING STREET

File VB

cc D/H

THE PRIME MINISTER

19 October 1981

Hong Kong

Dear Sir Y.K.

Thank you for your letter of 23 September and I must apologise for my late reply. As you probably know, I have been spending the last week in Blackpool and prior to that I was on an overseas visit.

I feel very honoured to be invited to launch one of your ships and although I am not able to do so in November, I would like very much to accept this kind offer for 1982. My diary, as you rather suspected, is very over-crowded but if you could give me some indication as to a date that would suit you I will do my best to fit in. I know you will understand if there is to be a slight delay.

Yours sincerely
Margaret Thatcher

Sir Y.K. Pao

SB

X

May 1981

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PRIME MINISTER

You have already seen Sir Y.K. Pao's letter inviting you to:

1. Sponsor and launch his first vessel built in Britain;
2. Launch one of his other vessels between February and April 1982.

You will remember that you told me that you could not possibly do anything further this November but would be happy to accept in principle the invitation for next year.

Before writing back to Sir YK, you ought to be aware of advice that I received today from the Department of Industry which is attached. I also attach an up-to-date copy of the 1982 diary. You will see you have a lot on and much will happen between now and then.

Do you still want to go ahead with this invitation?

E.S.
 They are bringing
 jobs to Britain.
 MB

9 October 1981

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212
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Secretary of State for Industry

Caroline Stephens
Private Secretary to the Prime Minister
10 Downing Street
London
SW1

7 October 1981

Dear Caroline

Tim Lankester wrote to Ian on 30 September about Sir Y-K Pao's invitation to the Prime Minister to launch one of his vessels currently being built by Austin and Pickersgill in Sunderland.

There is no reason in principle why the Prime Minister should not accept the invitation, provided that it can be fitted into her programme. Sir Y-K Pao's World Wide Shipping is the largest Hong Kong shipowner and is a valuable customer of British Shipbuilders. The Corporation has orders for 14 vessels from Hong Kong owners, 7 of which have been secured since Sir Y-K Pao's decision to order at the turn of the year, and the Hong Kong market currently represents a quarter of BS's order book.

Both Sir Y-K Pao and his rival Hong Kong shipowner, C Y Tung, are anxious to secure prestige launches for their British built vessels. Both have approached the Princess of Wales but neither occasion seemed appropriate for Her Royal Highness's first launch. Acceptance by the Prime Minister of Sir Y-K Pao's invitation will almost certainly bring a similar invitation from Tung, who is having two vessels built at Govan and two at Austin and Pickersgill, all due for launch before the end of 1982. The total value of the Tung orders is about £50 million, twice that of the Pao vessels. If the Prime Minister accepts Sir Y-K Pao's invitation, it might therefore be difficult for her to refuse a similar approach from Tung without causing offence.

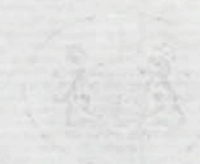
Yours ever

Catherine Bell

CATHERINE BELL
Private Secretary

X

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file 20
Hong Kong

10 DOWNING STREET

From the Private Secretary

30 September, 1981.

I enclose a letter from Sir Yue-Kong Pao asking the Prime Minister if she will launch one of his ships being built at Austin & Pickersgill. I should be grateful if you could advise Caroline Stephens whether this would in principle be a good idea.

[Handwritten scribble]

T. P. LANKESTER

Ian Ellison, Esq.,
Department of Industry.

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10 DOWNING STREET

From the Private Secretary

30 September, 1981.

I am writing on the Prime Minister's behalf, in her absence in Melbourne, to thank you for your letters of 18 and 23 September.

I am sure the Prime Minister will be interested to read your paper on "The North-South Dialogue in Shipping" which you enclosed with your first letter. She will also be very glad to hear that other Hong Kong shipping interests have followed in your footsteps and placed orders with British yards, and that the launch of your first ship at Austin and Pickersgill is on schedule. We will be in touch with you as soon as we have consulted the Prime Minister in response to your invitation that she should be the sponsor of this first vessel.

J. P. LANKESTER

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

wh also

1. MR. ALEXANDER
2. PRIME MINISTER

Handwritten initials

(2)

Seen by the Prime Minister. [Signature]

I have acknowledged this letter from Sir Yue-Kong Pao which encloses a paper he has given on "The North-South Dialogue in Shipping". I have also sent a copy to the Foreign and Commonwealth Office and Department of Trade.

CONFIDENTIAL

Handwritten mark resembling the Greek letter pi (π)

30 September, 1981.

MISS STEPHENS

*Will do - see.
to things. no.*

Y-K Pao has written to the Prime Minister asking her to be the sponsor of one of his ships which is to be launched in November. I think he actually wants her to launch the vessel; if this is not possible, he wants her to launch another of his ships sometime between February and April 1982.

I have acknowledged the letter, and have sent a copy to the Department of Industry asking for their advice. They will write back to you, and then can I leave it to you to consult the Prime Minister as necessary?

R

30 September, 1981.

X

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

WORLD-WIDE SHIPPING GROUP
20/21ST FLOORS, PRINCE'S BLDG.
HONG KONG
TEL: H-242111

23rd September, 1981.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
No. 10 Downing Street
London S.W. 1
ENGLAND

228/9
110

Dear Prime Minister,

I am still grateful to you for your letter of 24th December, 1980 warmly endorsing my Group's move of ordering four new bulk carriers from Austin & Pickersgill. Since then other Hong Kong shipping interests have followed in our footsteps and placed more orders with British yards which no doubt is a good thing for the U.K. shipbuilding industry.

Construction work on our vessels is progressing well and you will be pleased to know that the launch of the first ship - Hull No. A&P-1415 - is scheduled to take place in November this year. It would be a deep honour for me and my Group indeed if you could accept my invitation to be Sponsor of this first vessel we have ordered from a U.K. yard in over a decade. Should November present some difficulties for you, we would be equally honoured if you could officiate at one of the three later vessels spread over the period between February and April, 1982.

I realize what commitment pressure you are under all the year round and should this prevent you from accommodating my request at all, then it is my wish to invite Miss Thatcher or Lady Howe to perform this important role for us and I would much appreciate your guidance as to what I should appropriately do.

Looking forward to the pleasure of hearing from you and with kindest regards,

Yours sincerely
J. K. Pao

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

WORLD-WIDE SHIPPING GROUP
20/21ST FLOORS, PRINCE'S BLDG.
HONG KONG
TEL: H-242111

18th September, 1981.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
No. 10 Downing Street
London S.W. 1
ENGLAND

Dear Prime Minister,

May I take the liberty of enclosing, for your possible interest, copy of a talk I gave in my capacity as Chairman of INTERTANKO (International Association of Independent Tanker Owners) at a recent conference of International Chamber of Commerce in Caracas. The paper, entitled "North-South Dialogue in Shipping", outlines the position our association takes towards what, I believe, is a major world issue today.

With warm personal regards,

Yours Sincerely
J. K. Pao

Encl.

Sir Yue-Kong Pao, CBE, LLD, JP.
Chairman, The International Association of Independent Tanker Owners
(INTERTANKO), and
Founder, World-Wide Shipping Group

"The North-South Dialogue in Shipping"

Mr. Chairman, (Your Excellency), Ladies and Gentlemen,

It is a pleasure to be in Caracas and an honour to speak on behalf of Intertanko at this prominent gathering. We must indeed be grateful to the International Chamber of Commerce for bringing us together.

After the Chairman's flattering introduction you might perhaps want to hear more about how one builds up a shipping fleet, and makes it the world's largest in 26 years. This would mean talking about my own Group however, and not about Intertanko; so allow me to be a little less specific and instead use my private story only as a backdrop for the larger scene. I am at least in a position to say with conviction that it can be done, and my remarks therefore have a basis in actual experience and are not the unrealistic expectations of an idealist. There seem to be a few of the latter in the shipping world today, and this fact is creating a number of problems for our industry. It is probably one of the reasons also why we are assembled here. The other reason, and I believe a very significant one, is the poor market situation; we had much less need for international conferences 10 years ago when the market was booming, and I believe that much of the present-day confrontation will fade away again when the situation has improved.

The arguments we face today in international shipping are, simply put, that some aspiring new entrants to the shipping industry want short-cuts to success; the established market participants on the other hand overreact to what they believe is a threat to their existence. Neither side is correct, and the matter has unfortunately become so entangled in political, social and technical issues that the basic objectives

are being forgotten; as a result, we seem to be shouting louder at each other while moving away from practical solutions.*

Let me briefly explain what I mean. The shipping industry, especially bulk shipping, has traditionally been based on a competitive environment supported by a high degree of private enterprise, a great many participants moving freely in and out of the market, a minimum of rules and regulations (other than for technical requirements), and an extensive and fast information network provided by the shipbroking community. Such an environment means benefits as well as drawbacks — the benefits being that the drive towards greater profitability tends to produce greater efficiency and therefore lower cost, while the drawbacks were the probably insufficient attention paid by the industry to ecological and social necessities. Even our critics should however admit that many of these modern concerns are very recent indeed, and that the industry is responding to them fully. Needless to say, all accidents should be avoided and Intertanko and its members are on record in their commitment to maritime safety and pollution prevention. We support the efforts of IMCO and continue to argue for a speedier ratification and implementation of existing conventions, despite the sizable costs associated with them, certainly for the tanker owners. IMCO must however now concentrate on helping to implement the existing conventions rather than initiate new ones.

"Lack of safety" should therefore not be used to condemn the whole shipping industry indiscriminately for irresponsibility, nor should it be used to blacken the otherwise outstanding economic performance of world shipping, nor as an excuse for challenging the competitive structure of our business. This would mean throwing out the baby with the bathwater. Let us keep working on eliminating accidents, but let us also keep them in perspective.

* Refer Intertanko, "Cargo Sharing and the Role of the Developing Countries in Tanker Shipping" Submission to UNCTAD, Committee on Shipping, 9th Session, Geneva, 1-12 Sept., 1980.

Individual shipowners usually pride themselves on their commercial flexibility and mental agility – abilities necessary to survive in the competitive arena where developments occur fast and responses need to be correspondingly prompt. We have however not yet fully digested some of the more fundamental political and economic changes in the world situation which started in the 1950's and 1960's with the emergence of many new sovereign states, and which were intensified in the 1970's by the so-called oil crisis. These changes provided the foundation of the current unease in the world which is encapsulated in the term "North-South dialogue" (a more accurate expression might in fact be "North-South disagreements") and which overshadows so much of how international business can be planned, including shipping. They have altered some of the traditional parameters for our industry: there is more direct involvement by national governments in shipping assets at the expense of private entrepreneurs, there is a greater interference by governments generally also in commercial decision-making (sometimes accelerated by the need to bail out financially troubled private interests), there is a trend towards selectivity in the acceptance of tonnage for the movement of cargoes based on political criteria, there is the outright refusal to let owners seek the most cost-efficient way of operation while often at the same time proclaiming the strategic need for a national maritime presence. Mr. Chairman, you are more intimately familiar with some of these problems in your country than I am, living in Hong Kong, but I would like to suggest that they are not isolated aberrations of one government or the other but symptoms of the difficulties the world faces in trying to adapt an increasingly complex global economic interdependence to the historical accident of states and their undoubted rights to the exercise of national sovereignty. As shipowners, we are trying to continue providing an essential and cost-effective service, while also trying to convince all local and supranational politicians and civil servants that this objective can best be achieved still, and national aspirations for economic growth and prosperity be most successfully met over the long run, if the bulk shipping industry is left exposed as much as possible to the market forces. No one participant in the shipping markets, not even government-

owned fleets or the fleets of the international oil companies have been able really to affect the aggregate supply and demand situation for tonnage, and it should therefore be fairly obvious that any attempts to distort the market balance will require tremendous resources, or alternatively create idle capacity. Intertanko has tried to demonstrate this in a study we submitted to UNCTAD last year entitled "Cargo Sharing and the Role of the Developing Countries in Tanker Shipping." The cumulative effect of efforts by several countries to interfere with market factors, unless they are very well coordinated or follow the same regime, could well produce serious dislocations in the smooth flow of world trade.

I do not wish to be misunderstood, Mr. Chairman; I am not arguing against the right of anyone, be they private individuals, public corporations, national governments, or supranational organisations, to engage in the bulk shipping trades. We have to accept that greater government involvement in shipping is an established fact; that many of the emerging nations — especially those with large raw material exports — do consider shipping a natural extension of their supply function; that not only the cost, but the availability of skilled seafaring manpower will mean a further shift in shipping away from the developed countries to centres in the Third World; that more extensive international regulation of our business — some would say over-regulation — is here to stay. No other organisation is probably better equipped to help in this task than the International Chamber of Commerce whose membership includes representatives from both the North and the South, and whose pragmatic outlook and concern with practical solutions can probably best serve to defuse the polemic that has crept into the latest deliberations of international shipping policies.

If we take as our premise that there are no serious barriers to entry in shipping (and that where they are found to exist they should be eliminated) and proceed from there to an acceptance of the demands of many developing countries for a presence in shipping, then we must come

to the conclusion that it would be best to cooperate with such aspirations. Surely this should be the most cost-effective way to integrate newcomers into the established framework of international shipping without straining their patience or making life more difficult for ourselves. This is why Intertanko and a number of other shipping organisations have argued that there is no need radically to change the system and forcefully and arbitrarily create special niches for these new interests by cargo preference or cargo sharing, but that the existing system is in fact better able to accommodate them, and incidentally also provides better chances for profitability and adequate investment returns. There may of course be voices arguing that national prestige or strategic military considerations alone justify maritime engagements, but then we shift the argument onto another level on which neither I as a private shipowner, nor Intertanko as an organisation of independent tanker owners can contribute usefully — this field we gladly leave to the politicians.

Cooperation in shipping can take many forms and need not be limited to the concept of "joint ventures," which suggests a formalised structure in which the interests of respective parties are properly safeguarded and their rights and obligations legally prescribed in great detail. A great many normal business transactions constitute "cooperation", even though both parties would see them as nothing else but attractive commercial propositions. In this area we probably do in fact often run the risk of reading too much into the terminology, or alternatively seek reassurance by elaborate nomenclature, or demand special schemes publicly to demonstrate our good faith and our achievements. "Technology transfers", "development assistance", "project finance", "management training" are all slogans which sound impressive but sometimes only hide the failure of normal commercial activity behind the façade of bureaucratic respectability. One explanation why it is so difficult to get good descriptions of successful shipping ventures between the developed and the developing world, or why they are not publicised, is that the parties want to keep their agreements and operations out of the limelight for good commercial

reasons. Another reason is that the need to arrange each venture to suit individual circumstances makes generalisations difficult if not meaningless, and therefore the formulation of recipes risky.

What are normally clearly identifiable are the absolute hurdles to cooperation — tight restrictions imposed by legislation and/or administrative procedures — and no businessman worth his salt will waste time pondering about them; instead he will try to make them "relative" obstacles by finding a way around them.

However, since I have been asked to set the scene for the following presentations and discussions, it may be useful to let you have my personal but very generalised checklist on the items I think are essential for the contemplation and effective realisation of joint ventures in shipping (in the broad sense I would like this term to be understood), if only to give my colleagues on the panel a chance to disagree with me!

Firstly, and I repeat myself, both parties must realise that there are no shortcuts to success. This applies however conducive the operational environment (in which I would include legislative, fiscal, manpower and technical conditions), or however strong the political support. Effectiveness in shipping depends on the full understanding of the complexities involved in acquiring, managing, and employing a ship, and no amount of easy finance, plentiful supply of labour, or cargo availability will alter the fact. No doubt you can think of appropriate examples to obviate the need for me to illustrate this point. Equally, where joint ventures are entered into simply because one party thought of using the other as such a shortcut, they will also not last very long. Joint ventures must have as a base not only the preservation of the respective interests of the parties but the conviction that cooperation is supported by a communality of interest. This in turn presupposes a certain equality in the contributions the parties can bring to the common enterprise, although these obviously need not be of the same kind in fact in the context of our discussions they will most likely be very different

Secondly, there must be a suitable environment which facilitates joint operations. This of course brings us back into the political and legal arenas. We could spend hours debating the merits or demerits of particular legal institutions, tax incentives, flag benefits, other financial opportunities without at the end being able to produce a set-up that is not so idealistic as to be impractical for most applications. The parties themselves and their legal and financial advisers will have to do their homework, and should be prepared to abandon a scheme if there arise serious doubts about its foundations. When management needs to worry all the time about staying within the right side of the law, it will not be able to cope as successfully with the existing business challenges, with predictable results. I think I should remind you that in shipping individual relationships still play a prominent role. It is important also that the parties contemplating joint ventures are to a large extent compatible. The inability to reach decisions because of personality conflicts, cultural differences or other internal squabbles will clearly not help in achieving greater profitability for the joint undertaking.

Thirdly, the parties must each know what they are talking about, and a degree of professionalism in the human element involved in any joint venture is essential. Where this is not present, or not yet present, the parties would be well advised to be less ambitious and either restrict themselves to the necessary educational effort (without any real thought of commercial reward), or look for partners with an equal level of expertise to retain a better balance of negotiating power. It may sound harsh or unkind to say that one of the parties is not fully proficient, even though it may not necessarily be fully aware of this; the fact remains that not all parts of the world have so far enjoyed the same prosperity and standards of living and education, and differences do exist. Rather than making the mistake of being overconfident, the situation should be openly analysed and the joint efforts proposed be fully in line with the available competence, while setting up ways and means of developing the existing potential to the fullest. In other words, where joint ventures are contemplated between parties of markedly different technical or professional backgrounds, their operational scale and the ambitions of both partners should reflect

this difference and be content with satisfying the basic needs.

Crew and management training is an obvious example. Great things will then come more easily later.

Fourthly, there must be an essential complementarity in the respective input by the partners. You will say this must be self-evident; still one does notice occasions when this postulate seems not to have been heeded. I have personally been approached with proposals for joint efforts which on review revealed that my organisation was meant to do all the donkey work for only a half share or less of the eventual profits, and even then I had to be careful sometimes in phrasing my refusal!

Fifthly, joint shipping undertakings to be successful must be built on mutual trust. This is not to say that each partner can take the other's word for granted nor that there is no need for normal commercial procedures. In fact, joint ventures might require an even greater degree of arm's length dealing among the partners than with outsiders. What is necessary is a consensus in outlook and in operating practices which has to be shared by all levels of management, or the stresses of the daily shipping crises will soon create a gap wide enough to swallow the joint edifice. The mutual trust of the partners must be publicised effectively to the outside and become contagious also to the financiers, business partners and governmental authorities with whom the joint venture is dealing. It is not an easy thing to achieve but in my mind this is the most important aspect of any joint venture which will solve a great number of other apparent incompatibilities and which, if absent, will doom any common enterprise to failure even when the other criteria are present that should make it a success. I do not personally believe (and I consider my own Group and other Intertanko members have put this to the test) that there are insuperable problems in joint ventures involving partners from different locations, of different size, or of different economic

backgrounds. In actual fact, such differences do not only likely strengthen the complementarity of the parties' input, but will be the type of joint undertaking most needed in the immediate future to bridge the North-South gap.

Finally, any joint venture in shipping must have a clear centre for decision-making and vessel management which the parties must agree on from the start and support throughout its existence. Any doubts about organisational authority for policy formulation and administrative affairs will slow the response-capability of the venture, will likely increase the risk of internal conflict, and aggravate any external pressures bearing on it. It is a question of the individual situation as to who is best suited to provide ultimate management, and no hard and fast rules can be suggested as objective criteria for selection; however, in many instances the lack of attention paid to this problem has produced unnecessary difficulties, while of course in other cases the choice is a natural one in following the proven expertise of one of the partners. Where government agencies are involved as joint venture parties with private interests it is also often necessary to determine in advance the official lines of communication and responsibility and to identify the functionaries actually in a position to authorise action promptly. I cannot overemphasise the importance of quick decision-making in the shipping business, and the necessity to build a structure that allows for this. Where complicated bureaucratic procedures need to be followed under existing legislative or administrative rules to obtain approvals for even routine decisions, arrangements should be made to provide special facilities to suit the needs of the management in the joint enterprises, bearing in mind that in the competitive world of shipping to be successful means to be as good as the next owner without such handicaps. The degree of commitment to shipping ventures by governments and their agencies can often be measured by the flexibility they show in streamlining their own processes. It can be accomplished, and I have seen a number of examples where it has been done even in countries not otherwise renowned for their administrative efficiency.

So much for what I consider self-evident guidelines for the establishment of all joint ventures, and particularly those bringing together partners from rather different social and economic backgrounds. You will have to forgive me for not having gone into greater detail but I am always afraid that too many technicalities create a risk of losing sight of the essentials, and in our case the specifics cannot in any event be applied universally.

One overriding problem we face today in shipping generally, and which affects not only newly emerging shipping operations but even those in established shipping centres, is the multitude of regulations promulgated in recent years by IMCO as well as by individual countries in the technical field. I have already mentioned Intertanko's total support for improved safety on vessels, but we are rather worried about the frequently haphazard way in which the new rules are put into practice. This is often caused by the lack of adequately experienced government personnel to administer the new rules locally, and can result in as much market distortion or discrimination as legal measures designed specifically to provide protected markets for certain types of tonnage. We must of course accept that the costs of providing things like improved port facilities and inspection systems, slop reception stations or contingency equipment to deal with pollution incidents are substantial, and that many developing countries may therefore not really consider them as top priorities - given the need to adjust national economies to absorb for example the energy price shocks, or to cope with other urgent infrastructural developments. A better North-South dialogue seems necessary at times before the rush into the prescription of improved technical standards, to ensure that the new rules can be applied everywhere. Shipping does not easily separate into small parcels to suit individual differences in the local conditions, but must be treated on a truly global and uniform basis. Better communication between various United Nations agencies should also be encouraged (for shipping especially between UNCTAD, IMCO and ILO) so that the programmes of one do not run counter to the aspirations of the other, cause duplication or inconsistency, and thereby increase the cost of compliance without assuring commensurate benefits to the end-consumers. ICC here again can play a vital informative role to convey practical suggestions from

the business community to governments around the world and through them to the international agencies. There has been too much politicalisation lately of discussions which by and large should have been dealt with on a limited technical basis; there have been too many proposals not fully supported by comprehensive cost-benefit analyses, or by studies into the macro-economic effects of any decisions to be reached. The case has in my opinion not been proven that the present organisation of the bulk shipping markets produces identifiable and measurable disadvantages or that free-flag operations do in fact limit the growth of shipping operations in the developing world (empirical evidence suggests that the opposite has happened, with emerging nations' fleets growing faster than those in traditional maritime countries). I believe that all nations should be satisfied in noting the dramatic increase in the world bulk trade during the past few decades at substantially reduced costs to their shippers, and concentrate individually on promoting whatever shipping aspirations there may be within their confines (as register states, as fleet operators, as service or management bases, as suppliers of seafarers, as shipbuilders and shiprepairers) rather than wait for the uncertain outcome of longwinded international debates on these subjects. In this connection it was interesting to learn that Sri Lanka had decided to establish a shipping register that welcomes non-nationals; that despite many years of promotion, a separate Hong Kong register has not been found feasible although the UNCTAD "link theory" should favour one; that countries like China, Korea or the Ivory Coast make determined efforts to enlarge their ownership and fleets and also try to take a larger share of the cross-trades; that many raw-material producing developed countries have either reduced their original targets for fleet growth and size or have seen their existing tonnage shrink substantially — all developments that seem to be moving contrary to the arguments advanced in UNCTAD.

Let me conclude by saying that economic reality is like a tide that will at the end always breach even the most carefully planned political dams put in its way; I am therefore arguing that rather than spending our time fruitlessly plugging the holes, we should work together to harness the power of the tide for the benefit of all of us — those who provide the service as well as those who use it, which in shipping means literally every consumer in the world.

Thank you, Mr. Chairman