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Foreign and Commonwealth Office

London SW1A 2AH

17 December 1981

*Dear John,*

Prime Minister's Meeting with Sir Y K Pao: 1630,  
17 December

I sent you yesterday a brief for this meeting. Among other points this covered the question of the future of Hong Kong in which Sir Y K naturally takes a close interest.

The brief mentions that Sir Y K has recently been in Peking where he saw Chinese leaders, including Deng Xiaoping. In strict confidence Sir Y K has told the Governor of Hong Kong a little about his discussions in Peking. He took the opportunity of mentioning the likely effect on confidence in the Territory of the approach of 1997. He also had a general discussion with Deng covering a number of international matters, including relations between China and the United States. He claims to have got the impression that, because of disenchantment with the United States, China would be interested in achieving a closer relationship in the political and commercial fields with the UK.

We hope that Sir Y K will expand on this when he sees the Prime Minister. He may well throw in his own ideas on possible implications for Hong Kong and its future. It would be very helpful if you could let us have a fairly full record of what he says on these points and in particular of exactly what line the Chinese leaders took with him. I imagine that the Prime Minister will wish to be fairly non-committal in expressing to Y K Pao our thoughts on the future of Hong Kong, and our reactions to whatever suggestions he brings from China.

*Yours ever*  
*Roderic Lyne*

(R M J Lyne)  
Private Secretary

John Coles Esq  
10 Downing Street

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PRIME MINISTER'S MEETING WITH SIR Y K PAO, 17 DECEMBER

POINTS TO MAKE

1. Hear you have recently been in Peking. How was your visit?

FUTURE OF HONG KONG

2. Useful to hear Sir Y K's views. How much pressure is there on investor confidence in Territory from uncertainty over future?

PRIME MINISTER'S VISIT TO CHINA [If raised]

3. Timing for visit to Peking not yet decided. Shall of course want to talk to Chinese leaders about Hong Kong. But will have to move with care. Important also to avoid arousing expectations of imminent solution.

GOVERNORSHIP OF HONG KONG

4. Appointment is subject to The Queen's approval. We hope to make an announcement before Christmas.

PROPOSED LAUNCH OF SHIP IN SHANGHAI

5. Grateful for suggestion. Not possible to make any decision until firm decision is made on visit to China.

SEPARATE HONG KONG REGISTER


6. (If raised) Separate Hong Kong register not in our or Hong Kong's interest. Would only draw further unjustified accusations from UNCTAD that Hong Kong flag of convenience.

STATE OF RELATIONS WITH CHINA

7. Relations with China never better.

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PRIME MINISTER'S MEETING WITH SIR Y K PAO, 17 DECEMBER

ESSENTIAL FACTS

FUTURE OF HONG KONG

1. Sir Y K Pao was in Peking recently where he saw Chinese leaders including Deng Xiaoping. He will probably want to tell the Prime Minister about this.

PRIME MINISTER'S VISIT TO CHINA

2. Sir Y K Pao is aware of the possible visit to Peking by the Prime Minister next Autumn. The visit has not yet been agreed. If it does take place, the question of Hong Kong is bound to arise and there is no harm in saying so to Sir Y K Pao.

GOVERNORSHIP OF HONG KONG

3. The Prime Minister has agreed to Lord Carrington's selection of Sir Edward Youde to succeed Sir Murray MacLehose, whose term expires in April 1982. The Queen's approval to the appointment is awaited. It is hoped that Her Majesty's approval can be obtained in time to enable a public announcement on 21 December.

Sir Edward Youde is at present Deputy to the PUS and Chief Clerk, Foreign and Commonwealth Office.

PROPOSED LAUNCH OF SHIP

4. In call on Prime Minister on 17 July, Sir YK said that, if she visited China in 1982, he would be pleased if she could launch one of his ships, 'United Enterprise', being built in Shanghai. (He also suggested possibility that, in return, wife of a Chinese dignitary might launch one of his ships being built in the UK). Correspondence on subject, most recently letter of 3 December from Prime Minister to Sir Y K, saying that, as there had so far been no

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detailed discussions of her possible visit with Chinese authorities, it would be premature for Sir Y K Pao to raise with them his launching of 'United Enterprise'. However, Prime Minister apparently willing to consider launching the ship, and HM Embassy in Peking do not think proposal would be unacceptable to Chinese.

OTHER SHIPPING MATTERS

5. Sir Y K Pao is Chairman of INTERTANKO (International Association of Independent Tanker Owners) and head of World-Wide Shipping Group, whose large fleet mainly registered in Liberia. Thus supports open registries. UK in favour of countries being free to register ships on their own terms, subject to their ability to enforce internationally agreed safety, social and environmental standards. We believe maritime safety should be pursued in its own right, not by attacking open registries, as developing countries and communist bloc have done at UNCTAD.

6. In context of UNCTAD attacks on open registries, Sir Y K Pao has publicly suggested separate Hong Kong register. At present Hong Kong port of registry under British flag on same lines as London or Liverpool. His aim is to make it possible to employ either non-British National or non-British certificated officers on Hong Kong registered ships. Would allow some flag of convenience ships to move to Hong Kong register. Hong Kong's marine administration do not have resources to cope with any major expansion of register. [NOT FOR USE] Moreover under present law, impossible to set up separate Hong Kong register under British flag.

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7. On 18 September, Sir Y K wrote to the Prime Minister with copy of his speech at the Caracas Conference of the International Chamber of Commerce. This dealt largely with the importance of collaborative ventures in shipping, but did mention the desirability of separate Hong Kong register. In speech Sir Y K also called for end to politicisation of shipping issued. His call (with which HMG agree) endorsed by final declaration of Caracas Conference.

SHIPBUILDING

8. Since 1960s, Sir Y K's company has obtained majority of new vessels from Japanese yards. However, in January 1981, Sir Y K placed £23 million order for general cargo vessels with British Shipbuilders' subsidiary Austin and Pickersgill - his first order in UK for some time. Intervention fund grants enabled Austin and Pickersgill to quote competitive price. Vessels due for delivery in 1982.

Hong Kong and General Department  
Foreign and Commonwealth Office

16 December 1981

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SIR YUE-KONG PAO CBE LLD JP

Born 1918 Zhejiang Province, China. Educated Shanghai and went into banking. Took refuge in Hong Kong in 1949, entering import/export business. Purchased first ship in 1955 and formed World-Wide Shipping Group, now the world's largest independent, of which he is Chairman and President.

Banker by origin and instinct, remains a Director of Hongkong and Shanghai Banking Corporation. Takes keen interest in Intertanko (representing 80% of world's independent tanker tonnage) of which he is Chairman. Rumoured to be trying to bring dry bulk tonnage under the wing of Intertanko which would give it even greater influence. Recently joined Hong Kong Shipowners Association but stands aloof from Liberian Shipowners Association although most of his fleet flies Liberian flag.


Guest of President and Mrs Marcos at UNCTAD V. Invited to President Reagan's Inauguration. On visiting terms with Chinese leadership where a cousin is Minister of Tourism. (Has \$50 million shipping joint venture with China). Visited China in early December. Frequent contacts with British Ministers and called on Prime Minister in June 1979, November 1980 and July 1981.

CBE 1976. Knighted 1978.

Married, four daughters.

PRIME MINISTER

Your meeting with Sir Y.K. Pao

1. He is coming for an off the record, informal,  

2. Just to remind you about your commitment to launch one of his ships on 12 March. The launch is at 1530 followed by a champagne tea and you depart at 1700. The morning will be taken up with official visits and a Conservative Party lunch. Please do not commit yourself to staying any longer at the launch than from 1530-1700.

e.s.

15 December 1981



re B

MR. COLES

Sir Y.K. Pao, who is Chairman of World-wide Shipping, is coming to see the Prime Minister on Thursday 17 December, as he has recently been to China. He is a friend of the Prime Minister's and she is launching one of his ships next year. In addition he is a generous donator to the Conservative Party. But in the past Michael always sat in on the meetings so you should be aware that this one is taking place. I have not requested any briefing for the Prime Minister.

F/c-o. briefing will ~~was~~  
held on Wednesday night.

10 December 1981

A.S.C. <sup>15.</sup>/<sub>12</sub>