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10 DOWNING STREET

THE PRIME MINISTER

22 September, 1980

Dear Sir Yue-Kong,

I have read with interest the statement which you made at the UNCTAD Committee on Shipping earlier this month. Thank you for sending me an advance copy.

I am sure you are well aware of my views and that of my Government on free and fair competition, in shipping as in other areas. As demonstrated at Geneva, HMG remains implacably opposed to any protectionist or discriminatory measures which would disrupt present flexible trading patterns and which would lead to higher transportation costs for all concerned.

It is gratifying to see that developed country unity was maintained in Geneva. I believe that the outcome of this Conference is as happy as we could have expected, given the diametrically opposed views of those represented.

I hope that eventually we may prevail upon the developing nations to recognise that our offers of cooperation and technical assistance are genuine, and that collaboration and not confrontation provides the best way of realising their natural aspirations.

Warm regards,  
Yours sincerely,  
Margaret Thatcher

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

Red



*From the Secretary of State*

Michael Alexander Esq  
Private Secretary  
10 Downing Street  
London, SW1

*Henry King*  
*Type for signature*

*Rund*

17 September 1980

*Dear Michael*

--- I attach a draft reply to Sir Yue-Kong Pao's letter about his statement to the recent UNCTAD Committee on Shipping. We have delayed replying to await the outcome of the Conference which concluded last Friday.

Sir Y K called on the Prime Minister in June 1979, shortly after UNCTAD V. However, it does not appear from the note of meeting that UNCTAD shipping issues were discussed.

The prestigious Association of Independent Tanker Owners is supported by shipowners operating bulk vessels under both national flags and flags of Convenience (FoC). Sir Y K himself, in common with most Hong Kong shipping magnates, uses the Liberian flag. He therefore takes a close personal interest in UNCTAD-inspired schemes to phase-out FoC and impose a bilateralist cargo-sharing regime in the hitherto freely competitive bulk trades. Sir Y K is aware that the United Kingdom and Intertanko are ad idem in resisting these UNCTAD ambitions. HMG has traditionally championed free and fair competition in shipping: we came out firmly against developing country protectionist proposals in Manila; and we stood our ground at last week's conference. We (and Sir Y K) are however in favour of improving developing country competitiveness by commercial means.

There is one point where we would take issue with Sir Y K's statement. He recommend - presumably tongue in cheek - that far from phasing-out FoC, more developing countries should open their registers. FoC does not necessarily equate with sub-standard vessels. Indeed the major FoCs Liberia and Panama have a better safety record than some conventional flag fleets. However, most developing countries would be totally unequipped to enforce safety standards if there was a large-scale transfer of vessels onto their registers. We would not therefore associate ourselves with any exhortations to increase the number of open registries.

*Yours sincerely*

*Catherine Capon*

CATHERINE CAPON  
Private Secretary

**DRAFT**

Addressed to :

Sir Y K Pao, CBE

Chairman

International Association of  
Independent Tanker Owners

20th Floor

Prince's Building

Hong Kong

**File No.**

Copies to :

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*(Initials and date)*

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Enclosures :

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DEPARTMENT OF TRADE

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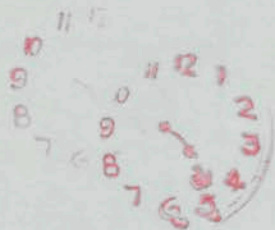
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17 SEP  
14 SEP 1980



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3 September 1980

I enclose a copy of a letter which the Prime Minister has received from Sir Y. K. Pao about the current meeting of the UNCTAD Committee on Shipping in Geneva. I have acknowledged Sir Y. K. Pao's letter, but I am confident the Prime Minister will wish to let him have a substantive reply. It would be helpful if you could provide the draft of such a reply, together with your comments on Sir Y. K. Pao's statement, by Monday, 15 September..

I am sending a copy of this letter and its enclosures to Stephen Gomersall (F.C.O.).

MICHAEL ALEXANDER

Stuart Hampson, Esq.,  
Department of Trade.

GB

FILE

VLB

3 September 1980

I am replying on the Prime Minister's behalf to your letter to her of 30 August, enclosing a copy of your speech to the UNCTAD Committee on Shipping. I shall of course bring your letter to the Prime Minister's attention and to the attention of the responsible departments here. A substantive reply to your letter will be sent to you as soon as possible.

MICHAEL ALEXANDER

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

INTERNATIONAL ASSOCIATION OF INDEPENDENT TANKER OWNERS

(INTERTANKO)



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FROM THE OFFICE OF THE CHAIRMAN:

SIR YUE-KONG PAO, C.B.E., LL.D., J.P.

20TH FLOOR, PRINCE'S BUILDING,  
HONG KONG

30th August, 1980.

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

R1/9

*Dear Prime Minister,*

May I, in my capacity as Chairman of INTERTANKO (Association of Independent Tanker Owners), take the liberty of enclosing for your possible interest a copy of a speech which I will submit before the meeting of UNCTAD's Committee on Shipping in Geneva in early September, 1980. The speech sets forth my association's views on a current question which has an important bearing on international maritime transport. The UNCTAD Secretariat has already confirmed agreement to my presentation of the paper at a plenary session either on the 3rd or the 4th September, 1980.

INTERTANKO represents the interests of the majority of the world's independent tanker owners. The association provides a forum for airing the industry's views towards maritime issues and forms a basis for co-operation with other shipping bodies in maritime safety and anti-pollution matters.

INTERTANKO's current deepest concern is the implications of the UNCTAD proposals to phase out open registries and to implement a cargo-sharing regime in the bulk shipping trade, with the purported aim of developing Third World fleets. INTERTANKO is convinced that the existing competitive tanker market is functioning efficiently and economically and is concerned that the UNCTAD proposals, if implemented, would do irreparable harm to the efficacy of international bulk shipping without generating appreciable benefits elsewhere. Economic realities are also pointing to a resultant huge escalation of seaborne transportation costs which will inevitably be passed onto the consumers in developing and developed countries alike and fuel the already rampant global inflation.

Cont'd. 2/-



The Rt. Hon. Mrs. Margaret Thatcher, MP  
30th August, 1980  
Page 2

I hope I may be forgiven for imposing on you personally with my association's stand on these UNCTAD proposals which INTERTANKO believes go well beyond the realm of shipping and bring into question the freedom of international economy.

It is the sincere hope of INTERTANKO that our views may be favourably received in concerned quarters in your government and may evoke your positive support in a concerted effort to prevent these ill-conceived proposals from getting off the ground.

With kind regards,

*Yours Sincerely*  
*J. K. Pao*

Encl.

UNCTAD - Committee on Shipping - 4/9/80  
Submission on behalf of The International Association of  
Independent Tanker Owners (INTERTANKO)  
by the Chairman Sir Yue-Kong Pao, CBE, LLD, JP.

Thank you for giving me the opportunity to speak to you. My association does appreciate the consultative status it has with UNCTAD and the special arrangements made to allow for my submission today.

INTERTANKO represents the interests of nearly 300 tanker owners in 23 maritime countries who collectively control about 85 percent of the world's independent tanker tonnage. Our members come from traditional maritime countries ( such as Britain, Norway, Greece ) as well as from the newly emerging shipping centres in Asia and Africa. However, our membership does not differentiate between flags and is not all that concerned with the national background of individual owners. Instead, our association is principally interested in fair working conditions for the tanker industry, and the maintenance of efficient and economic tanker transport services throughout the world. Our members by definition do not include government-owned or -controlled entities, nor the oil companies. A great many of our members still represent family-owned concerns, several of whom - like my own fleet - were built up only in the last 20 - 30 years. INTERTANKO members value their independence, and while the association is fully supporting national and international measures at government level in the technical and safety fields, and on the questions of crew training and welfare, we are naturally less enthusiastic about government attempts to restrict the existing commercial and economic environment in which we do our business, and which has proven to be effective, economic, and resilient.

We believe and I trust the distinguished delegates will agree, that international tanker shipping is presently best characterised by a high degree of competition. No single tanker owner, not even major oil companies both as fleet owners and as charterers, can control the market. Supply and demand of tonnage in the major trading areas determine the freight rates on a daily - if not hourly - basis. An international shipbroking network with extensive communication facilities allows for requirements and availability of tanker tonnage to be known almost instantly to all participants, and an active spot market provides the flexibility to meet the uncertainties of trade volumes and of scheduling problems. The relative freedom of access to the market by newcomers, as well as the swift economic consequences following any business failures mean that the cost of oil transportation tends

to be always lower than it would be if international competition was to be reduced by measures such as the proposals presently before you for discussion. The cost of transporting one ton of crude from the Middle East to Europe was about US\$8.00, 25 years ago, and is the same today: it is worth noting that the value of the cargo carried on the other hand has increased by about twenty times during the same period.

INTERTANKO has submitted to your secretariat a position paper which outlines the peculiar characteristics of the tanker market, explains the benefits of an active and competitive tanker spot market, and warns of the negative impact which would result from the creation of protected area - whether this be done by providing only selective access to the industry, by general cargo preference arrangements, by financial support for inefficient operators, arbitrary restrictions on the choice of flag or operating base, or by other methods. I need not repeat our detailed conclusions here but would only wish to stress that INTERTANKO fully appreciates and supports the justified aspirations of developing countries and their nationals to work towards obtaining a larger percentage of the world tanker trade. We are however strongly opposed to the proposed structural changes to bring this about, when such changes in our view disregard the very real economic achievements of the tanker industry.

A similar position was also taken by INTERTANKO some years ago against the intended tanker flag preference legislation in the United States: on the other hand our members have repeatedly re-affirmed their willingness to assist interested parties in developing countries with the build-up of bulk shipping operations by the transfer of know-how, the joint establishment of new businesses, the training of local personnel in the more specialised management and technical functions required in tanker shipping. It should be well realised in your deliberations that in terms of skilled manpower there are no shortcuts to success in the tanker industry, and that even the ready availability of both capital and of cargoes is by itself not always sufficient to build up and maintain an efficient shipping enterprise when the basic human expertise is lacking. We in INTERTANKO also believe that such co-operation between existing tanker firms and new aspirants in the developing world on a private enterprise/commercial basis would be economically more viable in the long run than any governmental measures designed to protect new ventures by national legislation. INTERTANKO believes that the existing example of such co-operation agreements clearly

demonstrate the validity of this assertion. On behalf of our members, I can only again assure the distinguished delegates of our readiness to pursue this avenue, since we also well realise that our own future success must be linked to greater diversity among the industry's participants in line with the evolution of world trade generally and the increasingly stronger involvement therein by the developing countries. Quite a few of them have already made impressive headway in shipping also in the last decade, as the annual growth rate in the fleets of the third world shows, and we are in no doubt whatsoever that this trend will in any event continue.

The question of cargo sharing in the bulk trades is now also being linked to the issue of phasing out open registries. While INTERTANKO considers the idea of cargo sharing to be of immense economic importance, we are conscious that the call for the phasing out of the open registries is motivated more by political considerations. As I mentioned in the beginning, INTERTANKO is not generally concerned with flag issues although of course the choice of flag - where such is possible - can be of great relevance to the individual owner for a number of reasons. That tonnage registered in the so-called flags-of-convenience countries has steadily increased during the past few decades is surely dramatic proof that they have provided a highly needed alternative to the more traditional registers, many of which in fact have become more liberal in permitting national owners to "flag out" to assume that the elimination of open registries would either produce better opportunities for the developing countries to participate in bulk shipping, or force a return of flag-of-convenience tonnage to traditional maritime registers would, in our view, be overlooking the convincing evidence of the important role the open registry fleets have played, particularly in the development of world bulk cargo movements, and the inability of many countries to develop or even to maintain national fleets in the face of the pressures provided by international competition and the vagaries of the shipping markets. As with cargo sharing, we believe that any restrictions on owners' flexibility to choose the most cost-effective basis for their operations, including the choice of flag, will ultimately also result in increased transportation costs and therefore higher total expenditures for the supply of wet and dry bulk cargoes throughout the world. One would assume that this cannot be in the interests of consumers in both developed and developing countries. Rather than the phasing out of the few existing open registries, INTERTANKO would recommend instead that serious

consideration be given particularly by developing countries to the possibility of establishing open maritime registers in order to generate additional national revenue as well as to prepare the ground for a more intensive development of their own national maritime aspirations. The need to provide adequate legislation and administration, adequate labour supplies, and a stable investment climate to attract shipowners would probably better assist in the promotion of local maritime interests able to participate in international shipping, and thereby help these countries in gradually achieving a more active participation in world bulk transportation.

The Executive Committee and the Council of INTERTANKO are meeting here in Geneva at this very time, and have confirmed their concern that the proposals before you, if implemented, would do irreparable harm to the efficacy of international bulk shipping without appreciable benefits elsewhere. I have been requested to convey these fears to you in the hope that INTERTANKO's views can also be taken into account when you decide on these very important issues.