



FCS/82/202

LORD COCKFIELD

Yes Mr

UK/China Air Services

Prime Minister:
 Lord Cockfield's minute
 is attached. Of the options
 he proposes, the Foreign
 Secretary prefers the
 second, which would
 not involve a threat of
 withdrawal from the 1979
 Memorandum of Understanding
 on regional air services. Do
 you agree?

JF

3/12

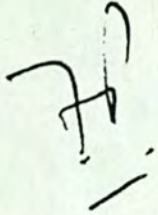
1. Thank you for your letter of 25 November about the forthcoming air services negotiations to be held with the Chinese. I am grateful to you for taking the trouble to spell out in such detail this complex issue.
2. I agree that we must make a major effort to secure a greater share of the available market for British airlines. I also see the force of the argument that in order to be sure of persuading the Chinese to negotiate a more equitable regime we might need to threaten to abandon the 1979 arrangements. However, having obtained the view of the Governor of Hong Kong and the Ambassador in Peking, I do not think that we should go that far. You will be aware of course of the important discussions with the Chinese on the future of Hong Kong. I believe that to take a very tough line over air services at this juncture would be linked in the Chinese mind to our position on the much wider question of the future status of Hong Kong. They will not wish to be seen, particularly now, to be going further than they have already in conceding that Hong Kong is foreign territory for air services purposes. In these circumstances, we could not assume that the Chinese would not react badly in the wider negotiations. Moreover the Chinese control the air traffic and air space over China

/and



and could call our bluff, in which case we could be left with no memorandum at all and in a position where Chinese 'face' over Hong Kong's status was at stake. My conclusion is therefore that any threat of withdrawal from the 1979 confidential Memorandum of Understanding involves a risk which would not be justified in the circumstances.

3. There does, however, in any case seem to be scope for successful negotiation on the lines of the second option you mention. The demand for air movements between Hong Kong and China is expanding. I see no reason why we should not argue strongly that it should be filled on a balanced basis between British and Chinese carriers. In taking this line we should make it clear to the Chinese that we would not agree to any increase in flights by Chinese carriers if there was no increase for British carriers. There is, I believe, some reason to think that this approach might work: the Chinese agreement to an early meeting represents a sudden shift in their ground which may indicate that they are looking for something from us. If this proves to be the case, it should be possible to exploit the situation to the benefit of our airlines.


(FRANCIS PYM)

Foreign and Commonwealth Office
3 December 1982