cc PC

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Prime Minister.

Agree that attached paper should be discussed with EXCO and passed to Chinese?

A.J.C. 1/3

PM/84/39

PRIME MINISTER

Future of Hong Kong: Working Paper on Civil Aviation

1. One of the remaining working papers to be tabled in the talks on the future of Hong Kong concerns civil aviation. I now attach a draft, prepared jointly by FCO and Department of Transport officials.

2. The paper aims to ensure the continued prosperity of the Hong Kong based civil aviation industry (in particular the Hong Kong based airline Cathay Pacific Airways) and the provision of adequate air services to and from Hong Kong after 1997. This presupposes the maximum autonomy for the Hong Kong SAR in all matters concerning civil aviation. Such an objective is entirely consistent with our general political aim of ensuring that Hong Kong will enjoy the highest possible degree of autonomy, and that existing economic and commercial structures will as far as possible be preserved.

3. The paper seeks to establish an autonomous regime for Hong Kong civil aviation after 1997 so that the issuing of airline licences and permits is the sole responsibility of the local Hong Kong SAR authorities and traffic rights between Hong Kong and foreign countries (including the UK) are negotiated quite separately from traffic rights between the rest of China and foreign countries. This is not the mirror image of current arrangements since Hong Kong traffic rights are at present negotiated together with UK traffic rights by the Department of Transport. And to give the scheme a reasonable chance of success we would have to be prepared to devolve responsibility for Hong Kong traffic rights to the Hong Kong Government well in advance of 1997 so as to pave the way for a smooth transition.

/4. The UK

4. The UK interest in an autonomous Hong Kong civil aviation regime after 1997 is very considerable. Cathay Pacific Airways is substantially owned and controlled in the UK by John Swire and Son and it is entirely dependent for its revnue (currently about £500 million per annum) on the enjoyment of traffic rights on routes to and from Hong Kong. If we do not succeed in establishing effective autonomy for Hong Kong in this area in the post-1997 period, it must be expected that sooner or later the central Chinese authorities will have CPA replaced on the routes it currently operates by the Chinese state airline CAAC. And quite apart from the losses to CPA and the damage to confidence which the prospect of this would imply, an airline service would result which would not adequately meet Hong Kong's needs.

5. So far as UK based airlines serving Hong Kong (currently BA and BCal) are concerned, there is also considerable advantage in the UK having to negotiate traffic rights after 1997 with an autonomous Hong Kong civil aviation regime which is likely to be more interested in the services offered by our airlines than the central Chinese authorities. But UK-based airlines' interests will of course have to be safeguarded in any arrangements which we make for greater autonomy for Hong Kong in civil aviation matters in the interim period.

6. With your agreement (Mr Coles's letter of 15 February to my Private Secretary), the paper has been shown by officials to Sir Adrian Swire, Deputy Chairman of John Swire and Son, who own Cathay Pacific Airways. He is content with the general approach, and the wording of the paper takes into account his views on the future evolution of his company.

/7. I am

7. I am copying this minute and enclosure to the Secretary of State for Transport. Provided that you and he are content, we hope to give this paper to the Chinese in advance of the 10th round of negotiations on 16/17 March, having first discussed its contents with EXCO.

GEOFFREY HOWE

Foreign and Commonwealth Office
1 March 1984

FUTURE OF HONG KONG: WORKING PAPER ON CIVIL AVIATION

THE CHINESE PLAN

1. The SAR would retain Hong Kong's status as a free port and continue a free trade policy. Existing economic and trading systems and methods of management would remain unchanged. There would be financial independence.

2. Using the name Hong Kong, (China) the Hong Kong SAR would on its own maintain and develop economic relations with foreign countries and regions and the relevant international organisations. It would have the power to enter into its own negotiations with foreign parties on matters relating to economy, culture and tourism and to sign relevant bilateral agreements under the name of Hong Kong (China). The SAR could be a member of the Chinese Delegation at international organisations and conferences whose participants were limited to states, but could express its views under the name Hong Kong, (China). It could on its own joint international organisations and conferences not limited to states.

IMPLICATIONS

3. China's adherence to the Chicago, Warsaw and other international conventions relating to civil aviation matters would extend to the Hong Kong SAR which would be represented as part of the Chinese Delegation to the ICAO in such a way that it could express seprately the particular views of Hong Kong, (China). Arrangements would have to be made for the maintenance of existing rights enjoyed by airlines having their principal place of business in Hong Kong under the International Air Services Transit Agreement (IASTA).

4. The Hong Kong SAR would have the exclusive authority to negotiate and sign all bilateral air service agreements and associated arrangements in respect of routes and services between Hong Kong and foreign countries including the United Kingdom. When

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the Hong Kong SAR was established, the provisions of existing air service agreements and associated arrangements then applying to Hong Kong would remain in force (subject to the agreement of other parties) unless and until renegotiated. Designation under such agreements would be the exclusive right of the Hong Kong SAR.

5. Existing Hong Kong legislation covering civil aviation would remain in force. The Hong Kong SAR would continue to maintain an aircraft register under its own legislation. The government of the SAR would have the exclusive authority to approve and to refuse registrations and to enforce safety requirements concerning aircraft registered.

6. The Hong Kong SAR would have the exclusive authority to license operations to, from and within Hong Kong by airlines having their principal place of business in Hong Kong. All such licenses would be granted under the laws and procedures of the SAR.

7. The Hong Kong SAR would have the exclusive authority to issue the permissions governing the conditions under which airlines not having their principal place of business in Hong Kong might operate services to and from Hong Kong. All such persmissions would be granted under the law of the SAR. They would only be available where reciprocal traffic rights or other arrangements acceptable to the Hong Kong SAR had been secured in negotation with the other authorities concerned.

8. The conditions under which airlines having their principal place of business in the SAR and airlines based elsewhere in China might operate between the SAR and other points in China would be determined through negotiation between the appropriate authorities of the Central People's Government and those of the Hong Kong SAR.

9. The Hong Kong SAR would have the exclusive responsibility for the operation of Hong Kong international airport and any other airport within the territory of the SAR. Its duties would include the provision of air traffic services within the Hong Kong (China) flight information region and any other responsibilities allocated under the regional air navigation planning procedures of ICAO.

cc PC

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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

A J Coles Esq
10 Downing Street
LONDON SW1

2 March 1984

nbpm
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Dear Mr Coles,

FUTURE OF HONG KONG: WORKING PAPER ON CIVIL AVIATION

The Secretary of State has seen the Foreign and Commonwealth Secretary's minute of 1 March to the Prime Minister and is content that the paper enclosed with it should go forward to EXCO and be given to the Chinese.

I am copying this letter to Peter Ricketts.

Yours sincerely,

Diah Nichols

MISS D A NICHOLS
Private Secretary

SECRET

Hong Kong future 12

file

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10 DOWNING STREET

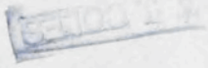
From the Private Secretary

2 March 1984

Future of Hong Kong:
Working Paper on Civil Aviation

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute of 1 March and agrees, subject to the views of the Secretary of State for Transport, that the Working Paper on Civil Aviation annexed to the minute may be discussed with EXCO and given to the Chinese.

I am copying this letter to Dinah Nichols (Department of Transport).



Peter Ricketts, Esq.,
Foreign and Commonwealth Office

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