

Part . A

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Begins : 30/4/81.  
Ends : 8/5/81.

  
PO -CH /GH/0042  
  
PART A

Chancellor's (Howe) Papers:  
VISIT OF THE SULTAN OF  
BRUNEI MAY - JUNE 1981


PO -CH /GH/0042  
PART A

Disposal Directions : 25 Year

*[Signature]*

25/7/81

30/4/81

  
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VISIT OF THE SULTAN OF BRUNEI: 11 MAY to 5 JUNE 1981

Brunei: Political Background


1. Brunei is a sovereign state which has been in treaty relationship with the UK since 1847. Under a Treaty of Friendship signed in January 1979, and which will take effect on 31 December 1983, the UK will relinquish the responsibility for the conduct of Brunei's external affairs and the consultative commitment for her external defence which we retained under an Agreement of 1959, as amended in 1971. The Brunei Government insisted on this five year transition period to prepare themselves for resuming their international responsibilities.
2. Under the provisions of the 1979 Treaty and its associated Exchange of Notes, we are committed among other things to continue to provide British military loan service personnel to the Sultan's armed forces (the Royal Brunei Malay Regiment) after 1983; the current arrangements whereby Hong Kong provides judges to the Brunei High Court will be maintained; we have also provided a DS Counsellor to advise the Sultan on the establishment of his diplomatic service.
3. Under a separate arrangement, a battalion of Gurkhas is stationed in Brunei, paid for entirely by the Sultan. Although its potential role is limited by virtue of the terms of the

/1971 Agreement

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1971 Agreement to Brunei's external defence, the presence of British Gurkhas is seen (by the Bruneis) as an important element in maintaining the internal status quo. The Gurkha camp is in the middle of Shell's "oil town" at Seria. The arrangement under which we maintain the Gurkhas in Brunei expires in September 1983. No decisions have been taken about what happens thereafter. Although the Sultan has said he will wish to discuss this with us in due course, Ministers have taken no decision to review present plans for the withdrawal of the battalion. The British Army has the use of jungle training facilities in the State (guaranteed after 1983 by the 1979 Treaty).

#### Constitutional Arrangements

4. Brunei's first written Constitution was promulgated in 1959. In September 1962 the first elections for a Legislative Council were held in which all the elective seats were won by the People's Party of Brunei (PRB). After the Sultan had delayed summoning the Council, there was an uprising in December 1962, led by the PRB's military wing. The uprising was suppressed with the help of British Gurkhas from Singapore. The elective part of the Constitution was suspended and the PRB was declared illegal. Most of its leaders dispersed abroad. There has since been no free political activity. Power and patronage have since remained

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in the hands of the Royal Family. The government apparatus has remained largely a mechanism for implementing the Sultan's often arbitrary will.

Brunei Royal Family

5. The present Sultan succeeded his father, Sir Omar Ali Saifuddin, in 1967 on the latter's abdication. But Sir Omar continued until recently to be the effective ruler, his son deferring to him on all decisions of consequence. Sir Omar has been suspicious of all Brunei's neighbours and pursued in particular the long standing claim for the return of the Limbang district of Sarawak (one of the States of East Malaysia), thereby intensifying mutual distrust between Brunei and Malaysia. Sir Omar conducted a vigorous resistance both to innovation in internal policy and to change in Anglo-Brunei relations. Since the death of his wife in September 1979, he has however largely withdrawn from his central place in Brunei political affairs, although he continues to exert influence behind the scenes

[REDACTED]

Economy

6. Although Brunei's population is only just over 200,000, she is the second largest oil/LNG producer in



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of oil or equivalent in the form of LNG. (Shell, in partnership with the Brunei Government, controls the oil sector). Since the price of oil began to rise in 1973, Brunei's revenue has far out-stripped her spending capacity, despite considerable public sector expenditure, for example on telecommunications and on substantial fringe benefits for civil servants, and lavish provision for the armed forces. Subsidies have kept the rate of inflation to about 6% per year. It is nevertheless estimated that up to 75% of Brunei's revenue is invested abroad, a substantial proportion still being deposited in London through the Crown Agents *(see separate note attached)*. The consolidated revenue account at the end of 1980 was B\$13 billion (\$2.6 billion) in credit.

#### Brunei's External Relations

7. Efforts in 1962/3, broadly supported by the then British Government, to incorporate Brunei into Malaysia along with Sarawak and Sabah failed because of differences over the status to be accorded to the Sultan and the revenue Brunei should make over to the Federation. The split between Singapore and Malaysia in 1965 further convinced Sir Omar that his decision to keep Brunei out of Malaysia had been correct. In this period, Sir Omar revived the claim to Limbang and, as a result, relations with Malaysia became distinctly cool. Alleged Malaysian involvement in 1973 in the escape of a group of political detainees from Brunei and subsequent evidence that elements


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in the Federal Government were sending PRB sympathisers to Libya for training led to severe deterioration in relations. All Brunei students were withdrawn from West Malaysia in 1973. In turn, from 1975 the Malaysians promoted discussions of the "Brunei question" in the United Nations Decolonisation Committee.

8. Relations with Malaysia have improved dramatically over the last two years. Malaysia welcomed the 1979 Treaty, and had already ceased pursuing Brunei matters at the UN. Hussein Onn's goodwill towards the Sultan has been greater than that of his predecessor as Prime Minister (Tun Razak), and paralleled by thickening up of contacts between the Sultan and the Royal Family of Malaysia (particularly on the "polo net"). This process culminated in July 1980 with the Sultan's first visit to Kuala Lumpur for 17 years and agreement on a Brunei request to open a Government Agency there. Lower level contacts have also developed rapidly.


9. Relations with Singapore have been uncomplicated and good, partly owing to the obvious superficial similarities of the position of the two States vis á vis Malaysia. The Singaporean armed forces have extensive jungle training facilities in Brunei. Lee Kuan Yew has felt able to offer the

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kind of frank political advice to the Sultan which the latter would have resented if tendered by any other of his neighbours.

10. Indonesia has been deeply distrusted since the 1962 rebellion which was supported by the Sukarno government in Jakarta. Successive Indonesian governments have allowed the leader of the revolt, Azahari, to remain there. President Soeharto has said privately for over a year that he would welcome better relations with Brunei in preparation for her full independence (and also her membership of ASEAN - the Association of South East Asian Nations comprising Indonesia, Malaysia, Singapore, Thailand and the Philippines). It was still, however, surprising that the Sultan invited himself to Jakarta in April, a visit which we (and the Indonesians) hope will signal a lasting improvement in relations.

11. Successive British Governments have impressed on the Sultan the advantages for Brunei, not least in terms of international acceptance of its independent status, of membership of the Commonwealth, the UN, and ASEAN. It has now been agreed that Brunei should participate before 1984 in all Commonwealth meetings whose subject matter lies within her competence. In practice this means all meetings other than at Heads of Government level. We hope Brunei will accept the invitation, which ASEAN are likely to extend, to participate in a quasi-observer status at the annual ASEAN ministerial meeting in Manila in June. The Royal  
/Family



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Family remain, however, apparently hesitant towards the UN, perhaps because it has in the past been critical about the State, particularly on decolonisation and human rights issues.

#### Human Rights

12. A State of Emergency has been in force in Brunei since the 1962 rebellion. This has enabled the detention of a number of prisoners without trial; most of those imprisoned in 1962/3 have been released, but a handful remain after almost 19 years, in addition to about 20 arrested in the mid-1970s. Successive British Governments have made representations to the Sultan about this issue, and these were renewed in November 1980. The Secretariat of the UN Human Rights Division has recently shown interest in the question (prompted by Amnesty International). We propose to use the Sultan's visit gently to remind him of our concern about the political prisoners. Otherwise, Brunei's human rights record is not bad, although the authoritarian and personal structure of the Sultan's government naturally inhibits open criticism in a small society where there are few opportunities outside the public sector.

#### Brunei's Future Problems

13. We have no reason to expect significant political difficulties within Brunei before we give up our responsibility for the conduct of external affairs. The internal

/scene



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scene has been quiet for many years. But there is a widespread expectation among Bruneis of conspicuous changes in 1984. This has been largely stimulated by the Sultan's perhaps injudicious use of the emotive word "merdeka" ("freedom" or "independence"). It is not clear that the Sultan understands this and although his visit to London perhaps tokens an acceptance of the need to be seen to be interested in, and even perhaps update, the unsophisticated structure of his government, it still seems most unlikely that he has any intention of actually devolving power from himself and the Royal Family. In particular, elections remain associated in their collective mind with the uprising of 1962.

14. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] We are accordingly urging the Sultan at least to broaden the base of Brunei political life by offering greater scope to the talents of the many young Bruneis who are sent for higher education abroad (mostly to the UK).

15. For the moment, however, the Sultan devotes most of his attention to military and security matters, seeing







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The Royal Brunei Malay Regiment alone absorbs some 34% of Government expenditure. It is moving towards being an efficient and technically well-provided force, but it will remain dependent on British expatriates in technical disciplines for the foreseeable future. At the same time, "Bruneisation" of the top command positions (the Commander is presently a Loan Service Officer) could in time provide the focus of opposition to the Sultan which has hitherto been lacking, should for example dissatisfaction develop with the expected lack of political development after full independence. This may explain, to some extent, the faith which the Sultan and his father have had in Gurkhas. Apart from the presence of our Gurkha battalion, the Sultan has his own Gurkha Security Force of about 600 under a British contract officer, recruited in Nepal from retired members of the British Brigade of Gurkhas. Its tasks are, in conjunction with the Royal Brunei Police, to guard the Sultan; to provide the security for important installations, such as the radio station and airport; and guard the political prisoners.

16. In this context, it is nevertheless reassuring that the Sultan has moved rapidly over the last year to improve

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his relations with Malaysia, and has even put out his first feelers towards Indonesia. Opposition elements in Brunei could not now expect any support from the Federal Government in Kuala Lumpur, or even from the State Government in Sarawak and Sabah, and certainly not from Indonesia.

SOUTH EAST ASIAN DEPARTMENT

30 April 1981

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30/4/81.

BRUNEI

B\$2.1 = US\$1

## THE ECONOMY

Brunei's economy is based almost exclusively on its oil and gas reserves, as its agricultural potential is largely undeveloped and the proposed industrial diversification under the First Development Plan has not materialised to any great extent. The oil industry accounts for more than 70% of the country's exports (US\$1,940 mn in 1979) and is managed by Brunei Shell Petroleum, jointly owned by Shell and the Brunei government. The oil is sold at a premium even though its quality is not particularly high. Production is currently running at 230,000 barrels per day and proven reserves are estimated at 1.5 bn barrels, sufficient to last 15-20 years at current production rates. Natural gas accounts for the bulk of the remainder of the country's exports (US\$680 mn) which is processed and exported (to Japan) by Brunei LNG, jointly owned by Shell, Mitsubishi and the Brunei Government.

Agriculture accounts for only 2% of GDP and its contribution to export earnings, particularly rubber, has declined in recent years and is now negligible. In addition to rubber, minor exports include pepper, logs and buffalo hides. Despite ambitious projects to promote agriculture little progress has been made.

Imports consist mainly of government purchases of capital goods such as machinery and transport equipment, although 80% of Brunei's food requirements are also imported. Imports exceeded exports temporarily in 1971, due mainly to plant and equipment purchased for a liquefied natural gas (LNG) plant but following the steep rises in oil prices in 1973 the trade surplus has grown rapidly (US\$2.3 bn in 1979). No balance of payments figures are available, but with substantial and steadily increasing trade surpluses over the last few years international reserves are understood to be at a very comfortable level.



The consolidated revenue account stood at US\$6.2 bn at end-1980, the result of accumulated budget surpluses over the past few years.

Following extensive investment in the country's economic and social infrastructure in the sixties and early seventies, the government introduced a development plan (1975-1979) where greater investment was focused on manufacturing, processing and agriculture. However progress towards this diversification has been slow; the country's Second Development Plan (1980-1984) has doubled public investment from a revised figure of B\$790 mn (US\$380 mn) under the first plan to B\$1,700 mn (US\$810 mn) in the second plan.

UK/BRUNEI TRADE

UK imports from Brunei are insignificant but the amount of our exports are quite reasonable as the table below shows. Our exports consist mainly of machinery, transport equipment, chemicals and manufactured goods.

	UK EXPORTS TO	£M	UK IMPORTS FROM
1978	16.3		0.4
1979	22.8		0.42
1980	23.1		0.9

*Am* —





30/4/81.

ANNEX 3

B

MEETING OF CHANCELLOR AND SULTAN OF BRUNEI: 12 MAY

Background Note on Crown Agents and Brunei.

General

1. The Crown Agents have acted for the Government of Brunei for 90 years. Liaison is now maintained through a Representative <sup>office</sup> of this in Singapore established in 1973.

The Crown Agents provide financial, buying, inspection and Engineering Advisory services, and are trying to secure work for relatively new services such as training and health. A Crown Agents commissioning team has been appointed to the major new Brunei Hospital Project.

Importance of Brunei to the Crown Agents

2. Total Crown Agents revenue from business with 35 Brunei clients in 1980 was £3.2m (1979: £2.9m), representing nearly half of all Crown Agents' revenue from the Asia and Pacific region, and just over 10% of Crown Agents' revenue worldwide. Financial services accounted for 52% of total revenue in 1980, procurement for 32%, and inspection for 3%.

Financial Services.

3. The Crown Agents Investment <sup>division</sup> ~~Mission~~ manages a significant proportion of the foreign exchange reserves of Brunei, which total some £3-4 billion. 80% of the total assets are invested in bonds, and 20% in sterling. A proportion of the assets is managed in competition with Morgan Grenville, James Capel and the Hong Kong and Shanghai Bank. The activities of all the Fund Managers are supervised by an Investment Advisory Board which meets twice yearly in Brunei.

Buying and Inspection of Goods.

4. The Crown Agents act in this capacity for the majority of Brunei Government Departments. Notable clients include the Royal Brunei Malay Regiment, the Electrical Department, the Telecommunications Department, and the Royal Brunei Police Force. The Crown Agents have a strong traditional link with the supply of Brunei's defence requirements, the most valuable on-going contract being for the procurement of a Rapier Missile system.

Engineering Advisory Services.

5. Crown Agents have been involved mainly on the electrical and telecommunications side, and in recent years have successfully completed contracts for the creation of a colour TV service and the installation of a Standard 'B' Earth Satellite Station. Future prospects currently being pursued are the preliminary planning

/contract



contract for an external broadcasting service, and the consultancy on a Standard 'A' Earth Satellite Station.

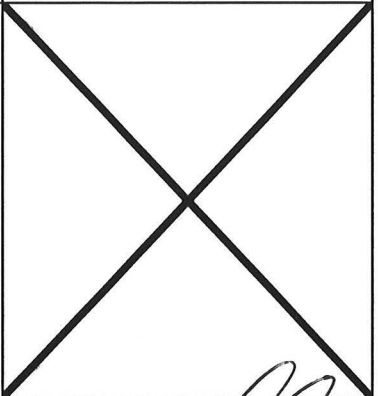
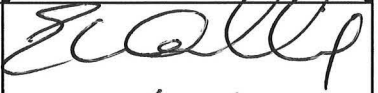
The Future.

6. A critical development for the Crown Agents in Brunei has been the arrival of the American Bechtel Corporation who have been retained as Project Managers/ Technical Advisers to the Philippine Construction Company building the Sultan's new palace(Istana). The presence in depth of this specialist staff represents in the short term a considerable threat to Crown Agents' future engineering involvement in Brunei, and could conceivably affect levels of their traditional business there.

Investment and Crown Agents Department  
Overseas Development Administration  
April 1981





DEPARTMENT/SERIES ..... T639 ..... PIECE/ITEM ..... 32 ..... (one piece/item number)	Date and sign
Extract details: ANNEX 4 FOLIO 15	
CLOSED UNDER FOI EXEMPTION ..... s40(2) .....	 13/5/16
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
TEMPORARILY RETAINED	
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NUMBER NOT USED	
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DOCUMENT PUT IN PLACE (TNA USE ONLY)	

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**Instructions for completion of Dummy Card**

Use black or blue pen to complete form.

Use the card for one piece or for each extract removed from a different place within a piece.

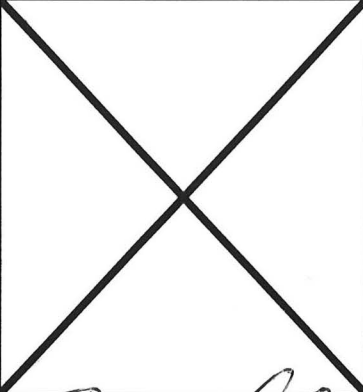
Enter the department and series,  
eg. HO 405, J 82.

Enter the piece and item references, .  
eg. 28, 1079, 84/1, 107/3

Enter extract details if it is an extract rather than a whole piece.  
This should be an indication of what the extract is,  
eg. Folio 28, Indictment 840079, E107, Letter dated 22/11/1995.  
Do not enter details of why the extract is sensitive.

If closed under the FOI Act, enter the FOI exemption numbers applying to the closure, eg. 27(1), 40(2).

Sign and date next to the reason why the record is not available to the public ie. Closed under FOI exemption; Retained under section 3(4) of the Public Records Act 1958; Temporarily retained; Missing at transfer or Number not used.

DEPARTMENT/SERIES ..... T639 ..... PIECE/ITEM ..... 32 ..... (one piece/item number)	Date and sign
Extract details: ANNEX 4 FOLIO 16	
CLOSED UNDER FOI EXEMPTION ..... s40(z) .....	E. Ollip 13/5/16
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
TEMPORARILY RETAINED	
MISSING AT TRANSFER	
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30/4/81

## PROGRAMME FOR VISIT OF THE SULTAN OF BRUNEI

Week 1

Monday 11 May

11.30 am Courtesy call by Mr Blaker to discuss programme.  
A small lunch (Mr Blaker and SEAD), (Grosvenor House Hotel)

Tuesday 12 May

AM Cabinet Office. Call on Sir Robert Armstrong, briefing by Mr Wade-Grey (DUS).

Lunch: Free.

3.00 pm Chancellor of Exchequer.

3.30 pm Sir K Couzens, KCB, 2nd Permanent Secretary, Treasury.

Wednesday 13 May

9.40 am Foreign and Commonwealth Office.

9.45 am - 10.00 am Permanent Under-Secretary of State.

10.00 am Sir E Youde.

11.00 am Secretary of State.

Lunch: ASEAN Heads of Mission (Claridges Hotel)

5.00 pm Secretary of State for Education and Science.

Thursday 14 May

~~AM 10.30 a.m.~~

Ministry of Defence. Call on Secretary of State and Chief of the General Staff. Briefing on organisation of MOD and relationship with armed services.

1 p.m. for 1.15 p.m. Lunch: Hosted by Mr Nott. (Savoy Hotel)

/Week 2

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Thursday 28 May

AM

Metropolitan Police Commissioner.  
Followed by lunch(?)

Week 4

Monday 1 June

10.00 or 10.30 am  
.1.00 for 1.15 pm

Department of Trade.  
Lunch: Hosted by Lord Carrington. (1 Carlton Gardens)

Tuesday 2 June

10.30 am

Commonwealth Secretariat. Call on Secretary-  
General. Beforehand, Sir L Allinson (AUSS)  
or Mr Barltrop (Head of Commonwealth Co-ordination  
Department).  
Lunch: Given by Mr Ramphal at his residence.  
Talks to continue briefly after lunch.

Wednesday 3 June

Visit to local authority. (Expected to be  
Basildon, Essex) (From 11 a.m.)

Thursday 4 June

10.00 a.m.  
(At Bahrain Helipad)

Full day visit to Ministry of Defence establishment  
(Probably Army Aviation School)

Friday 5 June

Evening

Lunch: Hosted by Mr Blaker to review programme.  
Reception given by Brunei Government Agency for  
participants in course. (Venue to be arranged).



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Week 2

Monday 18 May

10.45 am Department of Education and Science (briefing on higher education). Mr R H Bird, Deputy Secretary.

1.00 for 1.15 pm Lunch: Hosted by Governor of Bank of England. (Governor's Dining Room)

Tuesday 19 May

10.10 am Department of Environment: to discuss relationship between central and local government, town and country planning and housing.  
Lunch: included.

Wednesday 20 May

11.30 am Department of Energy.  
Lunch: Hosted by Secretary of State, and to include Shell Representative. (1 Carlton Gardens)

2.20 pm Visit to Parliament (FCO top for questions).  
*Sir Charles Fletcher-Cooke*  
~~Sir A Royle~~ MP to escort.

Thursday 21 May

10.00 am Visit to BBC.  
Lunch: included. (Television Centre, Wood Lane)

Week 3

Monday 25 May Public Holiday

Tuesday 21 May Public Holiday

Wednesday 27 May

10.00 am Minister and officials in Home Office.  
1.10 pm Lunch: Buckingham Palace with HM The Queen (to include Prince Mohamed and Prince Jefri).

Thursday



8/5/81.

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See 11/5

1. MR ST CLAIR
2. CHANCELLOR

See Annex 1, §11  
Do they, will they  
(when?) send a  
Fin. Min. to (FM)?

Though Brunei do not  
attain full independence until  
they will attend Commonwealth  
mtgs, including the CFM  
in September, under an  
special arrangement  
until then.

Copied to:  
PS/FST  
PS/Sir D Wass  
Sir K Couzens  
Mr Hancock  
Mr Mountfield  
Mr F E R Butler

1. Mr Bonney
2. File

VISIT OF THE SULTAN OF BRUNEI RT 12/6

Brunei, a sovereign state which has been in treaty relationship with the UK since 1847, is to become fully independent on 31 December 1983. As part of the preparation for the transition to full independence, the Sultan, His Highness Sir Muda Hassanal Bolkiah Mu'izzaddin Waddaulah, is to visit London from 11 May to early June to study the political institutions and system of Government in the UK.

2. The Sultan has asked to pay a short courtesy call on the Chancellor and this has been arranged for 3pm on Tuesday, 12 May at No 11 Downing Street. Immediately after this call, the Sultan is to call on Sir K Couzens and Mr F E R Butler for a general discussion on the role of the Treasury in the UK economy.

BRIEFING MATERIAL

GENERAL

3. The Sultan should be addressed as "Your Highness". As a Moslem, he should not be offered alcoholic drinks. However, he has no objection to others consuming alcohol in his presence.

POLITICAL

4. A background brief prepared by the FCO on Brunei's political background, constitutional arrangements and external relations is attached as Annex 1.

ECONOMIC

5. A note on the Brunei economy, including a piece on UK/Brunei trade, is attached as Annex 2. As the note shows, the economy is based almost exclusively on oil and gas reserves. The oil industry, managed by a joint Shell/Brunei consortium, accounts for over 70% of exports and liquid natural gas exports for the bulk of the rest.





CROWN AGENTS

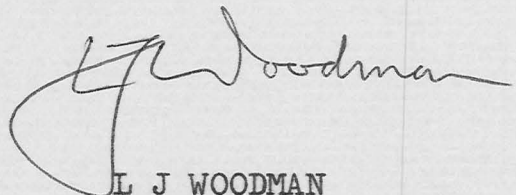
6. A note is attached (as Annex 3) covering all the main areas of the Crown Agents' important relationships with Brunei. Crown Agents' business with clients in Brunei accounts for just over 10% of their total revenue worldwide. The note has been deliberately cast as a background note on which the Chancellor may draw should details of Crown Agents services come up for discussion. The Crown Agents have asked that the figures contained in the note should not be quoted to the Sultan, and for the Chancellor to avoid initiating any discussion on the role of the American Bechtel Corporation (see last paragraph of note).

7. There are no points concerning the Crown Agents which we would wish the Chancellor to raise. However, if the Sultan should raise the subject the Chancellor might like to say something like: "Recognise importance of long-standing relationship with the Crown Agents which we hope will continue to flourish in the future as in the past".

OTHER BRIEFING

8. Also attached are a personality note on the Sultan (Annex 4) and a copy of his programme while in the UK (Annex 5).

9. Mr St Clair will be in attendance at this call.



L J WOODMAN  
8 May 1981

X 4005



British Aims in Brunei(a) Political

To encourage Brunei to prepare for full independence. In particular:

- (i) Brunei's relations with her neighbours should continue to be developed. In addition to her application to join the Commonwealth in 1984 we hope that her relations with ASEAN can be strengthened, and that she will in due course choose to join the United Nations.
- (ii) Internal stability should be safe-guarded by a greater degree of participation in Government by Bruneis.
- (iii) British expatriates in the civil service and armed forces should as far as possible be replaced in an orderly fashion by Bruneis. Considerable progress has already been made in this direction, particularly in the civil service.

(b) Economic

To preserve, up to and after 1983, a climate in which Brunei Shell Petroleum can continue to prosper.

(c) Trade

To maintain our position in Brunei's market.

(d) Military

To help develop and maintain the RBMR as a small but efficient and integrated military force able to defend Brunei against internal disorder or limited external aggression.

(e) Human Rights

To persuade the Sultan to take account of human rights considerations, and particularly to release some at least of the 30 odd political detainees.

