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PREM 19/2770

PART 3

CONFIDENTIAL FILING

UK / MALAYSIA RELATIONS

MALAYSIA

INTERNAL SITUATION

VISITS OF PM OF MALAYSIA
(in order: Report on electricity supply in Malaysia)

PART 1: AUG 1979

PART 3: AUG 1987

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
26.6.77		25.5.89					
27.8.77		5.6.89					
2.10.87		9.10.89					
19.1.88		13.10.89					
19.5.88		29.10.89					
19.7.88		PT3					
7.8.88		ENDS					
10.9.88							
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25.4.89							
27.4.89							

PREM 19/2770

PART 3 ends:-

CDP to fco 29.10.89

PART 4 begins:-

fco to CDP. 6.11.89



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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

29 October 1989

MALAYSIA: MR. ANWAR IBRAHIM

It has been suggested to the Prime Minister that she ought to see Mr. Anwar Ibrahim, the Minister of Education, briefly when he is next in London (which happens to be between 8-15 November), on the grounds that he is a very likely future Prime Minister of Malaysia. I should be grateful for advice on whether it would be a good idea for the Prime Minister to do this.

Bell

C. D. POWELL

R.N. Peirce, Esq.,
Foreign and Commonwealth Office.

R



The General Electric Company of Malaysia Sdn. Bhd.

P.O. Box 225-Jalan Sultan
46720 PETALING JAYA
Malaysia
Tel: 03-791 1388 Fax: 03-792 1350
Telex: MA 37617 GECMYA

24th October 1989

Mr Charles Powell
10 Downing Street
London

Dear

Charles,

Further to our discussions in Kuala Lumpur, I attach herewith the career background of the Minister of Education, the Honourable Mr Anwar Ibrahim. Mr Anwar Ibrahim will be in Paris from the 3rd - 16th November in his capacity as the newly appointed President of UNESCO. As I explained to you in Kuala Lumpur, I consider it would be very beneficial to the UK - Malaysia relationship both for the current and future if we could manage a courtesy call on the Rt. Hon. Mrs Margaret Thatcher for Mr Anwar Ibrahim. May I suggest suitable dates any time between the 8th - 15th November. I have discussed this with Mr Anwar Ibrahim and he could alter his movements to visit London specifically for this courtesy call. Self will be in London from the 28th October and will make contact with you to further consider this possibility.

You may be aware from Press reports now and then that Mr Anwar Ibrahim has been identified as one of the most likely candidates for the future leadership of Malaysia and his current Portfolio ie. Education is a possibility. He has always been very positive with regard to the UK - Malaysia ties and I consider the timing is appropriate for this courtesy call.

I hope you enjoyed your short stay in Malaysia and as our Prime Minister said in his dinner speech, "all of you must come back to Malaysia for a proper holiday in 1990!"

Best Regards.

Yours sincerely,

Am.

Tan Sri Datuk A P Arumugam
Executive Deputy Chairman

Head Office: WISMA GEC, Lot 6, Jalan 215-Templer, 46050 PETALING JAYA
Branches: Tingkat Bawah Bangunan Tabung Haji, Lot 50 Jalan Greenhall, 10200 PENANG — 57 Jalan Teluk Sisek, 25000 KUANTAN.
16 & 18 Lorong Taman Ipoh Satu, Taman Ipoh Selatan, 31400 IPOH — 5411-A Jalan Kuala Krai, 15050 KOTA BHARU
305 Jalan Ong Kim Wee, 75300 MALACCA — 228 & 230 Jalan Tun Abdul Razak, Bangunan Gim Siew, 80000 JOHORE BAHRU
62 Jalan Gaya, 88000 KOTA KINABALU.
Lot 244 Seksyen 49, Tingkat Bawah Jalan Tengku Abdul Rahman, 93100 KUCHING.

CURRICULUM VITAE

1. FULL NAME : Anwar Ibrahim
2. DATE OF BIRTH : August 10, 1947 (Cherok Tok Kun, Bukit Mertajam, Pulau Pinang)
3. MARITAL STATUS : Married with four children
- Dr. Wan Azizah bte. Dato' Dr. Wan Ismail -
(wife)
- Nurul Izzah (daughter)
Nurul Nuha (daughter)
Mohd. Ihsan (son)
Nurul Ilham (daughter)

4. ADDRESSES:

Office: Office of the Minister of Education,
Level 7, Block 'J' South,
Damansara Town Centre,
50604 Kuala Lumpur.

House : No: 8, Jalan Setiamurni 1,
Bukit Damansara,
50480 Kuala Lumpur.

5. EDUCATION:

5.1. Secondary Level

Malay College,
Kuala Kangsar. - (1960 - 1966).

5.2. Tertiary Level

B.A. (Hons) - Malay Studies.

University of Malaya, K.Lumpur (1967 - 1971).

6. ACTIVITIES

6.1. National Level

- (a) 1968 - 1969 - President of Malay Language Society, University of Malaya (PBMUM).
- (b) 1971 - 1972 - Founder and President of Malaysian Islamic Youth Movement (ABIM).
- (c) 1971 - 1974 - Board member of the Federal Land Consolidation and Rehabilitation Authority (FELCRS).
- (d) 1972 - 1976 - Member of the National Youth Consultative Committee.
- (e) 1972 - 1976 - President, Malaysian Youth Council.
- (f) 1982 - Now - Islamic Consultative Body Malaysia (Badan Perunding Islam)
- (g) 1988 - 1992 - President International Islamic University.

6.2. Regional Level

- (a) 1971 - Committee Member of Asian Youth Council.
- (b) 1973 - World Assembly of Youth (WAY).
- (c) 1976 - 1982 - Committee Member of the World Assembly of Muslim Youth for Asia and Pacific Region (WAMY).
- (d) 1986 - now - Member of South East Asian, Minister of Educational Council.

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6.3. International Level

- (a) 1972 - 1976 . - Chairman of the Advisory Committee to United Nation Secretary General (Youth Affairs).
- (b) 1977 - 1980 - Committee Member of The International Islamic Federation of Student Organisation (IIFSO) for Asia and Pacific Region.
 - Board of Trustee of IIFSO (1984)
- (c) 1981 - 1982 - Committee Member of The International Islamic Thought (IIIT).
- (d) 1981 - 1984 - Committee Member of The International Islamic Council.
- (e) 1982 - Now - Committee Member of The International Islamic Charitable Foundation.
- (f) 1987 - Now - Board of Trustee Intellectual Studies Foundation.
- (g) - Committee member of The World Council of Mosques.
- (h) 1988 - Now - Board of Trustee Institute for Policy Studies.
- (i) 1987 - 1990 - UNESCO Executive Board Member.
- (j) 1989 - now - President of the UNESCO General Conference.

7. POLITICAL CAREER

- (a) April 1982 - Elected as Member of Parliament Malaysia.
- (b) 1982 - 1983 - Appointed as Deputy Minister in the Prime Minister Department Malaysia.
- (c) 1982 - 1987 - Elected as the United Malaysian National Organization (UMNO) Youth Leader.
- (d) June 83-84 - Appointed as Minister of Culture, Youth and Sports Malaysia.
- (e) July 84-86 - Appointed as Minister of Agriculture Malaysia.
- (f) May 86-now - Appointed as Minister of Education Malaysia.
- (g) April 87-now - Elected as UMNO Vice President.

8. AWARDS

- (a) Doctorate Degree In Humanities, Honoris Causa from the Mindanao State University, Philippines.

9. AUTHOR

(Published book)

"Menangani Perubahan" (Managing Change) - year 1989

Original On:
COMMONWEALTH
CHOGM Pk. 16

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10 DOWNING STREET

From the Private Secretary

17 October 1989

Dear Stephen.

PRIME MINISTER'S MEETING WITH THE MALAYSIAN PRIME MINISTER

The Prime Minister had a talk with Dr. Mahathir in Kuala Lumpur this evening, ahead of the opening of the Commonwealth Heads of Government Meeting tomorrow. Dr. Mahathir had with him Dato Majid, Deputy Secretary General to the Ministry of Foreign Affairs, Cik Hamidah, Adviser to the Prime Minister and Dr. Dennis Ignatius, Ministry of Foreign Affairs.

Introduction

The Prime Minister congratulated Dr. Mahathir on the excellent preparations and arrangements for CHOGM and on the success of The Queen's State Visit to Malaysia.

Prospects for CHOGM

The Prime Minister asked how Dr. Mahathir saw the prospects for CHOGM. Dr. Mahathir said that everything seemed to be going quite smoothly so far. Senior officials were working on draft conclusions. They would probably come to Heads of Government with some square brackets but nothing drastic. The Prime Minister noted that we much preferred Dr. Mahathir's draft declaration on the environment to that prepared by the Commonwealth Secretariat. There must be adequate time for a full discussion of the environment and drugs.

The Prime Minister said that she hoped there would not be too much trouble over South Africa on this occasion. Things were moving forward there. Who would have thought two or three years ago that Namibia would now be approaching independence? There were very many other important issues to discuss and South Africa should not be allowed to dominate the meeting. Dr. Mahathir made no direct comment.

Commonwealth Secretary General

Dr. Mahathir said that neither of the candidates was willing to admit that the other had more support and withdraw his own name. He therefore intended to propose a restricted meeting of Heads of Delegation only after the scheduled session tomorrow

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afternoon, to decide how the problem of choosing a new Secretary-General should be handled. He thought it would eventually come to a secret ballot. He hoped other Heads of Government would trust him to be the only teller. He would not need to mention figures in making his report, only say which candidate had achieved more votes than the other. He would prefer to get the issue out of the way as early as possible in the meeting. The Prime Minister said she would be perfectly content with this procedure. We had no strong preference between the two candidates.

Pension for Commonwealth Secretary-General

Dr. Mahathir said that a decision was needed on the question of a pension for Sonny Ramphal. The Prime Minister said that the matter was not as clear cut as might be supposed. She had looked into the detail and discovered that Sonny Ramphal had already received two or three lump sum payments. Had these been devoted to acquiring annuities, they would have amounted to a very decent pension. She would let Dr. Mahathir have figures. It might still be appropriate to pay something: but in deciding how much, we ought to take into account what Ramphal had already received.

South East Asia

There was a brief exchange on Cambodia, without any very clear line emerging from Dr. Mahathir. It was important to stop the Khmer Rouge from dominating the government although they would have to have a role. Hun Sen was well in control in Phnom Penh and the Cambodian economy was doing better than that of Vietnam. In response to the Prime Minister's question about the Thai Government's views, Dr. Mahathir said that they were more interested in their concept of a "golden peninsular" with Thailand at the centre of everything, than they were on the future of Cambodia.

Dr. Mahathir said that Vietnam was gradually opening up and deserved some help with its economy. That would help solve the problem of the boat people: they would have no need to leave. He had recently made this point to Vice President Quayle, but the Americans were still obsessed with the problem of the MIA.

Dr. Mahathir claimed to have predicted the course of events in China. He saw no possibility of a more liberal minded government coming back. The problem was that the Chinese had no history of democracy.

The Prime Minister mentioned the problems of Sri Lanka where the outlook was bleak. Dr. Mahathir seemed to agree.

Bilateral Relations

The Prime Minister said that relations between Britain and Malaysia appeared excellent. We were bidding for and hoped

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to secure a number of civil projects: the Pergau Electricity Scheme, various hospitals and a new Islamic University, and had offered various amounts of ATP in support of our bids.

The Prime Minister continued that she hoped that Malaysia would soon issue a letter of intent for the purchase of Tornado. She was pleased that British companies were offering practical, on-the-job training to Malaysian engineering graduates.

Dr. Mahathir said that Malaysia was very keen to secure access for its students to a course run by Professor Batticharya at Warwick University in production engineering and design. The Prime Minister said she would be prepared to follow this up on return, but would need a note of precise details. Dr. Mahathir promised to supply this.

Dr. Mahathir referred to the Hill Road project, for which the United Kingdom had agreed to finance a feasibility study. If the project proved feasible he hoped that Britain would be prepared to contribute towards the cost of it. The Prime Minister said that this was something which could only be considered at the end of the feasibility study.

It was very evident that Dr. Mahathir did not want to pursue any detailed discussion of civil or military projects on this occasion.

Tropical Forests

The Prime Minister said she was glad to hear about the visit to Malaysia by a delegation from the ITTO. The United Kingdom was ready to contribute in any way it could to forestry conservation and management in Malaysia. Dr. Mahathir said there were some problems in this field, but generally he believed the situation was under control.

Drugs

There was a brief exchange on drugs before the Prime Minister and Dr. Mahathir proceeded to the signature of the bilateral Agreement of the Confiscation of the Assets of Drug Traffickers. Dr. Mahathir said that he thought a number of governments of smaller States of the Caribbean, and in Central and Latin America, would welcome the creation of an international force to deal with drug growers and the drug trade. The Prime Minister said there had been some discussion of this at the Economic Summit in July.

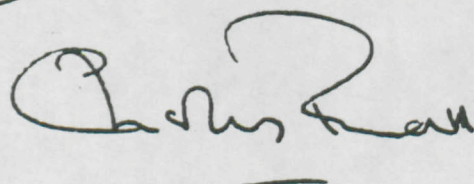
Follow Up

I should be grateful if you could let me have a note on the position as regards Ramphal's pension which I could hand to Dr. Mahathir's office this week. We shall also need to

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follow up the point about Warwick University once we have further details.

I am copying this letter to Brian Hawtin (Ministry of Defence), Neil Thornton (Department of Trade and Industry) and John Gieve (HM Treasury) and Trevor Woolley (Cabinet Office).

Yours sincerely,


(C. D. POWELL)

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

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CDP Can you link with
Brethly to Mchskv. CC/PC
CC/BO.

dti

the department for Enterprise

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

Andrew Turnbull Esq
Principal Private Secretary
10 Downing Street
London
SW1

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Enquiries
01-215 5000

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line

Our ref 215 5622

Your ref PE4ACF

Date

13 October 1989

See Andrew

BP CHEMICAL PROJECT IN MALAYSIA

Thank you for your letter of 4 October to Neil Thornton, requesting background information on the above project and advice as to whether it is a subject which the Prime Minister should take up in conversation with Dr Mahathir.

This US \$750m project is being pursued by BP in competition with groups led by Exxon (US), Idemitsu (Japan) and possibly others. The project will be located in Trengganu state and will utilise the state's substantial gas reserves to produce ethylene and polyethylene. BP are seeking both to invest in the plant and to supply the polyethylene technology licence.

It is unlikely that BP's involvement will lead to any UK equipment supply, although the project represents a significant opportunity for BP to break into Malaysia's growing petrochemical industry. We would therefore not recommend that the Prime Minister give the project priority in discussion with Dr Mahathir though there would be no bar to her raising it if the opportunity arises. There is in any case a rumour that a decision to approve the project was taken at a PETRONAS (Malaysian State Oil Corporation) board meeting on 11 October, or shortly thereafter, and that this will be followed by an announcement immediately before the Commonwealth Heads of Government Meeting, raising the possibility that the Prime Minister might be called upon to comment on BP's involvement.



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the department for Enterprise

The High Commissioner in Kuala Lumpur will bring the Prime Minister up to date before meeting Dr Mahathir, to supplement the briefing supplied by FCO. I attach a draft letter you may like to send to Mr Nicholson.

Yours etc

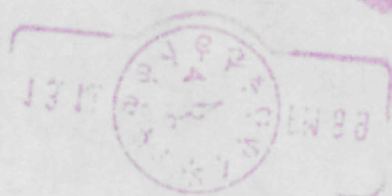
Ben

BEN SLOCOCK
Private Secretary

CONSERVATION



Recycled Paper



DRAFT LETTER

Charles Nicholson Esq
BP
Britannic House
Moor Lane
London
EC27 9BU

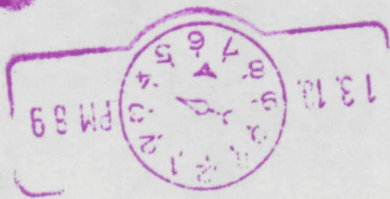
*I have already
written along the
lines.*

BP CHEMICAL PROJECT IN MALAYSIA

Thank you for your letter of 3 October. I can confirm that the chemical project will be included in the Prime Minister's briefing for discussion with Dr Mahathir. As I am sure you will appreciate, however, it is only one of a large number of subjects, so that I cannot be sure the Prime Minister will be able to raise it.

A TURNBULL

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

12 October 1989

I enclose a copy of a letter from the Prime Minister to Dr. Mahathir thanking him for sending her a copy of the recently published biography of him. I should be grateful if the text could be telegraphed to Kuala Lumpur for delivery before CHOGM.

C. D. POWELL

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

Kro



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10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

12 October 1989

Dear Prime Minister,

I was delighted to receive an advance copy of Robin Adshead's biography of you, which is to be published shortly. It is a most handsome volume. I have not had time to read it yet. But at a quick glance it seems to do justice to its eminent subject!

I am looking forward very much to returning to Malaysia for next week's Commonwealth Heads of Government Meeting - and to our own meeting on 17 October.

Warm regards.

Yours sincerely

Rajiv Gandhi

His Excellency Dato' Seri Dr. Mahathir bin Mohamed



Foreign and Commonwealth Office

London SW1A 2AH

9 October 1989

Jan Charles

Malaysia

Thank you for your letter of 2 October about Sir Nicholas Fairbairn MP. There have been developments.

Sir Nicholas telephoned our High Commissioner in Kuala Lumpur on 4 October to say that he was in Malaysia for several weeks with his wife during the State Visit and CHOGM. Also on 4 October, Sir Nicholas' secretary in London telephoned Lord Brabazon's Private Secretary to say that Sir Nicholas wished to inform the FCO that he would be in Malaysia throughout the period of CHOGM and the Royal Visit, that he would be meeting Dr Mahathir and members of the Malaysian Cabinet with a view to promoting (unspecified) British commercial and industrial interests and he wanted the High Commissioner to be alerted to his presence so that he could feed in the names of his contacts and get them invited to functions during the CHOGM and the Royal Visit.

The Prime Minister's briefing for her bilateral contacts with the Malaysians during CHOGM does not cover the privatisation of electricity supply in Malaysia. We decided against including it, both because the Malaysians' privatisation plans are still very unclear, and because there is no single British company or consortium behind which to put our weight. Lord Marshall (National Power) has recently visited Malaysia. Bewater are in discussion with Powergen, and, as Sir Nicholas' letter explains, the South of Scotland Electricity Board, Babcock Energy Ltd, Samuel Montagu and Bumitra Energy have made proposals. So Sir Nicholas is far from being the only British runner in this race. The DTI has tried to encourage a UK Ltd approach but the firms concerned are not finding it easy to get together. We suggest that the

/Prime Minister



Prime Minister should simply refer to British expertise in this area, and to the general British interest in Malaysian plans.

/ I enclose a draft reply to Sir Nicholas.

Yours ever

A handwritten signature in blue ink, appearing to read 'R N Peirce', with a long horizontal flourish extending to the right.

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM: *Ref 4-57 CDP.*
Private Secretary, No 10
DEPARTMENT: TEL. NO:

Reference

Your Reference

BUILDING: ROOM NO:

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO:

Copies to:

Sir Nicholas Fairbairn MP
House of Commons
London
SW1 0AA

PRIVACY MARKING

..... In Confidence

SUBJECT:

The Prime Minister has asked me to thank you for your letter (and enclosures) of 26 September, and to ~~reply on her behalf.~~

sk

The Prime Minister is most grateful to you for bringing her so comprehensively up to date on your business activities in Malaysia, on the eve of her own departure to Kuala Lumpur for the Commonwealth Heads of Government meeting. However, although she expects to meet Dr Mahathir for a discussion of bilateral UK/Malaysian affairs, it is unlikely that ~~time alone will permit a detailed survey of all aspects of our commercial relations.~~ That said, she naturally wishes you and other British bidders every success in your endeavours and hopes that her own visit will ~~create a climate in which British interests in Malaysia in this and other fields will be given a strong boost.~~ *contribute to the climate in which British interests in Malaysia in this and other fields will be given a strong boost.*

she will not be free to go into any detail in

finish

CAVEAT

Enclosures flag(s)

c: \updocs\ fairbair. dgg

DENGAN TANGAN

Bil kami: YCK:YMY:TC(Sec A B118)cc
 Bil tuan: 140642-V

Tarikh: 21 AUG 1989

Pendaftar Syarikat
 Tingkat 16 Bangunan Kuwasa
 Jalan Raja Laut
 50350 Kuala Lumpur

Diserahkan oleh:

PFA CORPORATE SERVICES SDN BHD
 19th Floor
 Bangunan Arab-Malaysian
 55 Jalan Raja Chulan
 50200 Kuala Lumpur

No Talipon: 2380266

Berkaitan:

BUMITRA ENERGY SDN BHD

No Syarikat: 140642 Kod: V

Taraf: *Syarikat bersendirian/~~www~~

Jenis: *Syarikat berhad menurut syer/
~~jaminan/Syarikat tidak berhad~~

* Dengan ini diserahkan dokumen/dokumen-dokumen berikut untuk pendaftaran.

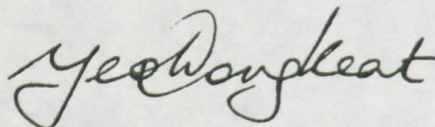
* Dengan ini dikembalikan dokumen/dokumen-dokumen berikut setelah dipinda seperti yang dikehendaki dalam surat tuan bertarikh

.....

Borang 49 bertarikh Julai 24, 1989.

* Disertakan bersama ini bayaran pendaftaran sebanyak \$.....10.00 (Wang Tunai)

Yang benar
 PFA CORPORATE SERVICES SDN BHD



YEOH CHONG KEAT
 Pengarah Eksekutif

lamp

✓ sk Pelanggan

* Potong yang mana tidak berkenaan.

Company No:

Companies Act 1965

Section 141(6)

140642

V

RETURN GIVING PARTICULARS IN REGISTER OF DIRECTORS, MANAGERS AND SECRETARIES
AND CHANGES OF PARTICULARSBUMITRA ENERGY SDN BHD
.....

DIRECTORS

Full Name	Nationality/ Race	Date of Birth	Residential Address	Business Occupation (if any)	Particulars of other Directorship	Nature of Appointment or Change and Relevant Date	IC or Passport No
Dato' Syed Hanzah bin Syed Abu Bakar	Malaysian Malay	22.10.32	12 Jalan Chan Chin Mool Off Jalan Seavoy 53200 Kuala Lumpur	Company Director	-	No Change	A1734772 (B)
Datin Normah bt Kamaruddin	Malaysian Malay	8.2.31	81 Jalan Satu Ampang Jaya 58000 Kuala Lumpur	Director	-	No Change	2820473 (B)
John Fairbairn	British	7.4.49	1 Brandon Close Camberley Surrey United Kingdom	Director	-	No Change	B065247 (F)
Tunku Khatijah bte Tun Abdul Rahman Putra	Malaysian Malay	8.10.33	18B Antah Towers Jalan Kuching 51200 Kuala Lumpur	Director	-	No Change	2698464 (B)
Shuaib Lazim	Malaysian Malay	23.11.38	74 Jalan Keramat Bujung, Dato Keramat 54000 Kuala Lumpur	Member of Parliament	-	No Change	A3435905 (P)
Amin Shah bin Hj Omar Shah	Malaysian Malay	28.5.54	85 Jalan Raja Abdullah 50300 Kuala Lumpur	Director	-	No Change	4633165 (B)
Mohd Aminuddin bin Mohd Rouse	Malaysian Malay	20.7.45	3 Lorong Ru Kedua Off Jalan Ampang 55000 Kuala Lumpur	Company Director	-	Resigned wef 21.7.1989	0819464 (B)

MANAGERS AND SECRETARIES

Office in Company	Full Name	Nationality/ Race	Residential Address	Other Occupation (if any)	Nature of Appointment or Change and Relevant Date	IC or Passport No
Managers	-	-	-	-	-	-
Secretaries	Jennifer Ng Lai Kun (f)	Malaysian Chinese	38 Jalan SS 23/5 47400 Petaling Jaya	Company Secretary	No Change	8254649(B)
	Yap Moh Yin (f)	Malaysian Chinese	14 Jalan Telawi Lapan Bangsar Baru 59100 Kuala Lumpur	Company Secretary	No Change	5650565(B)
	Chen Yen Mooi (f)	Malaysian Chinese	21 Jalan 9A Ampang Jaya 68000 Ampang Selangor	Company Secretary	No Change	5485519(B)

Dated this 24th day of July, 19 89

YAP MOH YIN:

Yap
.....
Signature of Director/Secretary

COMPANY NO: 140642-V

NAME OF CORPORATION: BUMITRA ENERGY SDN BHD

STATE OF REGISTERED
OFFICE OF CORPORATION: FEDERAL TERRITORY

TITLE OF DOCUMENT: FORM 49

LODGED ON BEHALF BY: PFA CORPORATE SERVICES SDN BHD
19TH FLOOR BANGUNAN ARAB-MALAYSIAN
55 JALAN RAJA CHULAN
50200 KUALA LUMPUR
TEL: 2380266

LODGED IN THE OFFICE OF
THE REGISTRAR OF COMPANIES
KUALA LUMPUR.

COMPANY NO: 177785-U

NAME OF CORPORATION: KUMPULAN ENERTEL SDN BHD

STATE OF REGISTERED
OFFICE OF CORPORATION: FEDERAL TERRITORY

TITLE OF DOCUMENT: FORM 49

LODGED ON BEHALF BY: PFA CORPORATE SERVICES SDN BHD
19TH FLOOR BANGUNAN ARAB-MALAYSIAN
55 JALAN RAJA CHULAN
50200 KUALA LUMPUR
TEL: 2380266

LODGED IN THE OFFICE OF
THE REGISTRAR OF COMPANIES
KUALA LUMPUR.

Company No:

Companies Act 1965

Section 141(6)

177785

U

RETURN GIVING PARTICULARS IN REGISTER OF DIRECTORS, MANAGERS AND SECRETARIES
AND CHANGES OF PARTICULARSKUMPULAN ENERTEL SDN BHD
.....

DIRECTORS

Full Name	Nationality/ Race	Date of Birth	Residential Address	Business Occupation (if any)	Particulars of other Directorship	Nature of Appointment or Change and Relevant Date	IC or Passport No
John Fairbairn	British	7.4.49	39C Lorong Titiwangsa Off Jalan Titiwangsa 53000 Kuala Lumpur	Company Director	-	No Change	B065247(P)
Datin Normah bt Kamaruddin (f)	Malaysian Malay	8.2.31	81 Jalan Satu Ampang Jaya 68000 Ampang	Company Director	-	No Change	2820473(B)
Amin Shah bin Hj Omar Shah	Malaysian Malay	28.5.54	85 Jalan Raja Abdullah Kampung Baru 50300 Kuala Lumpur	Company Director	-	No Change	4633165(B)
Lee Choong Lim @ Lee Tin Fook	Malaysian Chinese	30.10.32	25 Jalan Enam Taman Seputeh 58000 Kuala Lumpur	Company Director	-	No Change	2907661(B)
Sir Nicholas (Hardwick) Fairbairn of Fordell	British	24.12.33	Fordell Castle By Dunfermline Scotland United Kingdom	Queen's Counsel/ Member of Parliament	-	No Change	518694D(P)
Shusib Lazim	Malaysian Malay	28.11.38	74 Jalan Keramat Hujung Dato Keramat 54000 Kuala Lumpur	Member of Parliament	-	No Change	A3435905(P)
Mohd Aminuddin bin Mohd Rouse	Malaysian Malay	20.7.45	3 Lorong Ru Kedua Off Jalan Ampang 55000 Kuala Lumpur	Company Director	-	Resigned wef 21.7.1989	0819464(B)

DENGAN TANGAN

Bil kami: YCK:YMY:TC(Sec A K84)cc
 Bil tuan: 177785-U

Tarikh: 21 AUG 1989

Pendaftar Syarikat
 Tingkat 16 Bangunan Kuwasa
 Jalan Raja Laut
 50350 Kuala Lumpur

Diserahkan oleh:

PFA CORPORATE SERVICES SDN BHD
 19th Floor
 Bangunan Arab-Malaysian
 55 Jalan Raja Chulan
 50200 Kuala Lumpur

No Talipon: 2380266

Berkaitan:

KUMPULAN ENERTEL SDN BHD

.....
 No Syarikat: 177785 Kod: U

Taraf: *Syarikat bersendirian/~~www~~

Jenis: *Syarikat berhad menurut syer/
~~jaminan/Syarikat tidak berhad~~

- * Dengan ini diserahkan dokumen/dokumen-dokumen berikut untuk pendaftaran.
- * Dengan ini dikembalikan dokumen/dokumen-dokumen berikut setelah dipinda seperti yang dikehendaki dalam surat tuan bertarikh

Borang 49 bertarikh Julai 24, 1989.

- * Disertakan bersama ini bayaran pendaftaran sebanyak \$10.00 (Wang Tunai)

Yang benar
 PFA CORPORATE SERVICES SDN BHD

Yeoh Chong Keat

YEOH CHONG KEAT
 Pengarah Eksekutif

lamp

sk Pelanggan

- * Potong yang mana tidak berkenaan.

MANAGERS AND SECRETARIES

Office in Company	Full Name	Nationality/ Race	Residential Address	Other Occupation (if any)	Nature of Appointment or Change and Relevant Date	IC or Passport No
Managing Director	John Fairbairn	British	39C Lorong Titiwangsa Off Jalan Titiwangsa 53000 Kuala Lumpur	Company Director	No Change	B065247(P)
Secretaries	Yap Moh Yin (f)	Malaysian Chinese	14 Jalan Telawi Lapan Bangsar Baru 59100 Kuala Lumpur	Company Secretary	No Change	5650565(B)
	Jennifer Ng Lai Kun (f)	Malaysian Chinese	38 Jalan SS 23/5 47400 Petaling Jaya	Company Secretary	No Change	8254649(B)
	Chen Yen Mool (f)	Malaysian Chinese	21 Jalan 9A Ampang Jaya 68000 Ampang	Company Secretary	No Change	5585519(B)

Dated this 24th day of July, 19 89

YAP MOH YIN:

Y. M. Yin
.....
Signature of Director/Secretary



cc: FCO

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

9 October 1989

The Prime Minister has asked me to thank you for your letter (and enclosures) of 26 September. She is most grateful to you for bringing her so comprehensively up to date on your business activities in Malaysia. Although she expects to meet Dr. Mahathir for a brief discussion of bilateral United Kingdom/Malaysian affairs, there will not be time to go into any detail on our commercial relations. The Prime Minister naturally wishes you and other British bidders every success in your endeavours and hopes that her own visit will contribute further to a climate in which British interests in Malaysia flourish.

Charles Powell

Sir Nicholas Fairbairn, Q.C., M.P.

SD

RESTRICTED
SAVINGRAM

BAG

FROM UKDEL IMF/IBRD WASHINGTON

RESTRICTED

TO FCO SAVINGRAM NO 395 OF 6 OCTOBER 1989 AND SAVING (FOR INFO)
KUALA LUMPUR, BDDSEA BANGKOK, MANILA (FOR BUHLER, ASDB)

MALAYSIA - 1989 ARTICLE IV CONSULTATION

Summary

1. Another lacklustre discussion.

Detail

2. On 6 October the Board concluded the 1989 Article IV consultation with Malaysia. Before the meeting Ismael (Indonesia, representing Malaysia) circulated buff 89/177. Sixteen Directors spoke. Enoch intervened third.

3. Directors praised the remarkable performance of the Malaysian economy, and some referred to it as a model for other countries. Goos (Germany) noted that it proved that economic discipline did not hamper growth. Directors identified uniform areas requiring further improvement, being: i) further fiscal consolidation supported by VAT; ii) stronger monetary policy implementation; iii) improved labour market flexibility and iv) increased efficiency of investment.

UK Intervention

4. Enoch identified the challenge facing Malaysia as being the transition from cyclical recovery to sustained growth. Recent policies had provided the foundation for this, and the achievement in restructuring external debt to insulate the economy from world interest rate fluctuations had reduced external vulnerability. The staff analysis also showed reduced vulnerability to external price and demand developments.

5. But the staff projections for the future showed the critical importance of investment of both quantity and quality. Although the climate for both domestic and foreign investors, and investment efficiency, had

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MR. RICKETS

improved in recent years, Malaysia's ICOR still seemed to lag behind that of her neighbours.

6. Enoch said a continuing favourable climate for investment was therefore essential. This was helped by several factors. Generating the required domestic savings would be helped by further fiscal consolidation. On the expenditure side, further rationalisation of the public sector enterprises would help, whilst the unpredictability of revenue re-inforced the appropriateness of a VAT.

7. A tighter stance of monetary policy would also help, and in this context the margin between deposit and lending rates seemed to constrain the authorities and indicated a need for further strengthening of the financial system. Enoch also expressed concern that government recourse to the central bank was again growing despite improved debt finance methods.

8. Currently profit margins were being sustained, despite labour cost pressures, because of producer price increases, which were not reflected in the consumer price index because of favourable external factors. But the longer term implications were not favourable, and Enoch suggested that some comparative data for regional partners' labour costs might have been informative.

9. Enoch noted the imminent report of the NECC on post-NEP policy, and was encouraged by Ismael's report that investor demand showed no signs of diminishing despite the uncertainty surrounding future policy.

10. On the external side, Enoch recognised the authorities' desire for prudent reserves accumulation, but thought growth should not be unnecessarily restricted if reserves accumulation turned out stronger than expected.

Staff Responses

11. Neiss (Asian Department) said that the ICOR of Malaysia's neighbours was lower - down to 3.9 in Thailand compared with 5.5 in Malaysia. Malaysia's position reflected higher public sector activity, tighter regulations and a rigid labour market. He agreed with Enoch on the need for

greater effectiveness in monetary policy implementation: the Fund had offered technical assistance. On the NEP, the staff had detected no uncertainty effects on investment.

12. Ismael had little disagreement with Directors' comments, but noted the political sensitivity of the VAT issue, and the less than encouraging recent example given by the Japanese experience with introducing a sales tax.

SP CASSELL

MDH

MONETARY

[-]

ERD



MJ/AFC

CDN

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

25 September 1989

Dear Walter,

Thank you for your letter of 8 September reporting the outcome of your recent visit to Malaysia.

I very much welcome the good relationship that exists between the United Kingdom electricity supply industry and the Malaysians. I look forward to this being strengthened. If Dr. Mahathir raises with me the potential for UK input into the Malaysian privatisation, I will certainly be supportive.

Yours sincerely
Margaret Thatcher

The Lord Marshall of Goring, CBE, FRS.

✓



ELECTRICITY PRIVATISATION IN MALAYSIA

1. The Malaysian Government is currently considering a conceptual proposal for the privatisation of their electricity supply industry - Lembaga Elektrik Negara (LLN). The proposal has been prepared by Schrodgers and involve the National Power Division of the CEGB, and SEEBOARD.

2. UK Malaysian contacts in the field of electricity are good. In February, Hanifiah Omar, head of the Malaysian Government Privatisation Unit, visited the UK and met amongst others, the CEGB. To mark the successful visit, Cecil Parkinson wrote on 16 February to Dr Mahathir the Malaysian Prime Minister (copy of letter attached at Annex A).

3. Mr Moggie, the then Malaysian Energy Minister visited the UK in late May and held successful meetings with both Lord Marshall and in Cecil Parkinson's absence with Peter Morrison. (Mr Moggie has now been succeeded by Mr Vello.) Attached at Annexes B, C and D are the exchanges of correspondence between Cecil Parkinson and Lord Marshall. There does therefore appear to be a basis of real interest on which to do business, mainly in form (initially) of the provision of managerial advice and operating experience.

The 'National Power' proposal

4. This was presented to the Malaysian Minister of Energy and to the General Manager of LLN on 18 May. It suggests that the LLN be privatised quickly - and with British management assistance and potential equity participation. The main features of the proposals are:

- (i) that the electricity industry be retained in an integrated form;
- (ii) LLN would let an operating contract to a separate operating company, to run for 25 years. During this time the operating company would take responsibility for management of the LLN;
- (iii) the existing management of the LLN would remain in place but would own only part of the operating company, the majority would be held by the UK group (National Power, SEEBOARD) and the remainder by Bumitra, Malaysia's leading merchant bank).
- (iv) flotation of the LLN will be aimed at the creation of widespread public ownership - including a loyalty bonus, combined with major private placement (20% of the shares could be reserved for the UK group) and employee and management incentives. 51% of the equity will be sold initially. It is not yet clear whether the Government will introduce a 'golden share';



(v) a regulatory system will be established to protect the consumer from monopoly power, but incentives for profit and efficiency will be combined. The regulatory system will also include social service obligations covering rural supplies, safety etc.

5. The potential initial capital investment by National Power and SEEBOARD is some £200,000. Whilst the esi is still in public ownership any proposed investment would be covered by constraints of the need to receive consents from this Department and the Treasury. However, given the likely timescale, this is not likely to be a problem. The earliest estimate of when any call for funds would be needed is mid 1991, by which time National Power and SEEBOARD should be private sector companies, free to invest as they wish.

Other UK interests

6. Other British companies are also interested in the privatisation, but are not front runners. Bywaters, who were rebuffed earlier in the year, because they were seeking to offer the Malaysians a package involving the construction of plant rather than managerial expertise are now trying to arrange a package with PowerGen. Similarly Bumitra Energy a small company owned by John Fairbairn are apparently talking also to the SSEB.

Foreign interests

7. American Southern Electric, a consortium of US electricity utilities and the Japanese C'Itoh Corporation are also in touch with the Malaysians about developing proposals.

Recommendation

8. In the event that the Malaysians raise the issue UK involvement in their electricity privatisation proposals. We recommend that the Prime Minister should be supportive. Attached is a draft reply to Lord Marshall.



National Power

**Headquarters
National Power**

Sudbury House
15 Newgate Street
London EC1A 7AU

Telephone 01-634 6101
Fax 01-634 7034

From the Chairman
The Lord Marshall of Goring, Kt, CBE, FRS

Prime Minister
Re Energy Secretary
will let you have
advice on this

8 September 1989

CAD
079

The Rt. Hon. Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
London,
SW1
(Through The Rt. Hon. John Wakeham MP)

Dear Prime Minister,

I have just returned from Malaysia where I met the Prime Minister, the Minister of Finance, the Minister of Education, the Minister of Works, the Minister of Electricity and several senior civil servants.

Malaysian Government have firm plans to privatise their electricity industry, they have sought advice from the United Kingdom, and some months ago Cecil Parkinson asked me to talk with them and take an interest in this matter. From the discussion which followed I believe the Malaysians are strongly inclined to seek an association with a single strong overseas utility which has the technical expertise, experience, financial strength and research ability to help them - that, of course, means National Power.

Therefore, after we ourselves are privatised, I have some hope that the Malaysians will invite us to negotiate our participation in their privatisation process. I think it possible that this matter may be raised during your meetings with the Prime Minister this coming Autumn. If the subject does come up I would be grateful if you would give the idea your support and blessing. Of course, these proposals do not guarantee that British electrical equipment will be supplied to Malaysia, but it does give a pre-inclination for Malaysia and ourselves to buy the same kind of equipment with the same specification, so that management, maintenance, repair and operation have a great deal in common between ourselves and Malaysia. And since National Power is inclined to buy British it creates a good chance that Malaysia will buy British as well.

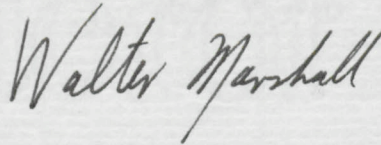
cont/d...

A number of other people are talking to the Malaysians about their privatisation programme, some British, some American, some Japanese, and the French in particular are making a strong bid to manage and supply their rural electrification scheme. But all these other proposals are from contractors, our proposal is from a utility whose primary interest is in the long-term management of the electrification scheme as a whole. We believe the Malaysians see that as a unique advantage.

Of course if your officials would like a briefing on further details my colleague Mr. John Anderson, Managing Director of BEI, would be happy to provide them.

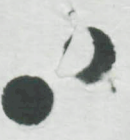
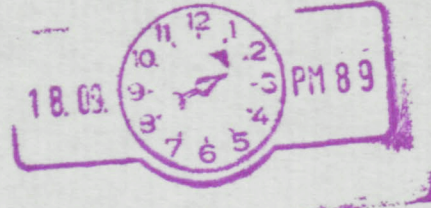
After our business discussions we visited Langkawi island. We inspected the new bungalows being prepared for the Commonwealth conference and we believe you will like them. We also believe they will be ready! But please avoid the beach because the sand-flies are vicious.

Yours sincerely,

A handwritten signature in cursive script that reads "Walter Marshall". The signature is written in dark ink and is positioned to the right of the typed name below.

Marshall of Goring

NAT IND : Gas-Reclm - PT17.





FILE
DA.
PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

12 July 1989

Anthony Coombs M.P., Chairman of the Parliamentary Human Rights Committee, has been in touch about the case of Derrick Gregory in Malaysia. He appears to be informed of the action which we have already taken to try and secure clemency for Gregory but feels that the Prime Minister ought to make a final plea to Dr. Mahathir, once more urging clemency. He asks for very urgent action since Gregory could be executed as early as tomorrow.

My impression is that we have really exhausted all the possibilities open to us and that a further appeal at this stage would not be productive. But if you disagree, could you let me have a very urgent draft message by this evening.

(C.D. POWELL)

R.N. Peirce, Esq.,
Foreign and Commonwealth Office.



File

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 June, 1989.

**MALAYSIA
COMMUTATION PLEA BY THE PRIME MINISTER**

Thank you for your letter of 5 June proposing that the Prime Minister should be prepared to make a plea for commutation of the death sentences on eight British Dependent Territory Citizens from Hong Kong. The Prime Minister is content to do this, and the text enclosed with your letter may be used.

(C.D. Powell)

R.N. Peirce, Esq.,
Foreign and Commonwealth Office.

h

010

CCPC
①



Foreign and Commonwealth Office

London SW1A 2AH

5 June 1989

Law Charles *Yes* *Agree to make this plea?* *CD 5/6*

Miss Hau Tsui Ling, Au King Chor, Chan Yui Tim, Chow Sing, Ip Tak Ming, Lai Chi Ping, Ng Yiu Kwok and Yuen Kwok Kwan -

Sentenced to Death in Malaysia:

Possible Commutation Plea by Prime Minister

The above eight British Dependent Territory Citizens from Hong Kong were sentenced to death in Penang on 7 May 1985 for drug trafficking. After a hearing on 4 May 1989 the Supreme (Appeal) Court dismissed their appeals. This completed the judicial procedures. Their lawyers will be submitting a plea for commutation of the sentence to the Penang Pardons Board. The High Commission in Kuala Lumpur will be sending to the Ministry of Foreign Affairs a petition for clemency on humanitarian grounds in support of this plea. Such pleas by HMG are standard practice.

In 1986 the Prime Minister made a personal "last ditch" (but unsuccessful) plea to the Malaysian Prime Minister on behalf of Kevin Barlow, a dual UK/Australian citizen resident in Australia and travelling on an Australian passport. A similar plea has been agreed for Derrick Gregory should the Penang Pardons Board not commute his sentence. It would be difficult to justify doing less on behalf of British Dependent Territory Citizens (BDTCs) from Hong Kong. Any such perceived discrimination would go down extremely badly in Hong Kong and would be criticised here too.

The Penang Pardons Board may consider the pleas by the Eight at their meeting on 8 June, when the Gregory case will anyway be taken. In case this happens and the verdict goes against the Eight, execution could follow shortly afterwards. It would therefore be helpful to

/have



have the Prime Minister's contingency authority now to
make a final plea. Should the Pardons Board uphold the
death sentence, this would enable the High Commissioner
to deliver the plea without further urgent consultations,
and in good time before the date of the execution. I
/ enclose a draft text.

Yours ever

R N Peirce _____

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despach/note

TYPE: Draft/Final 1 +

FROM:

Reference

DEPARTMENT:

TEL. NO:

Your Reference

BUILDING:

ROOM NO:

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO:

Copies to:

PRIVACY MARKING

..... In Confidence

SUBJECT:

TEXT OF PLEA TO THE MALAYSIAN PRIME MINISTER AND TO THE GOVERNOR OF PENANG REQUESTING THE COMMUTATION OF DEATH SENTENCES PASSED ON THE "HONG KONG EIGHT" IN THE EVENT THAT THIS IS UPHOLD BY THE PENANG PARDONS BOARD.

CAVEAT

I know that the judicial process concerning Miss Han Tshi Ling, Au King Chor, Chan Yui Tim, Chow Sing, Ip Tak Ming, Lai Chi Ping, Ng Yiu Kwok and Yuen Kwok Kwan - all British Dependent Territory Citizens - has been completed, and I now understand that the Penang Pardons Board have rejected the plea for commutation on the death sentence passed on them for drug trafficking.

I naturally do not question the decisions of Malaysian courts. I do, however, urge you to consider whether, for humanitarian reasons, it would be possible to commute the death sentences. I have in mind particularly that, as they committed the offence before the death penalty for drug trafficking became mandatory in Malaysia, it may still be possible to exercise some discretion on this point.

Enclosures flag(s)

Yours sincerely

Margaret Thatcher



MEMAEL

cc FCO
DTI

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

3 June 1989

The Prime Minister has asked me to thank you for your letter of 19 May and to reply on her behalf.

The Prime Minister's meeting with the Prime Minister of Malaysia on 24 May was almost entirely about international issues on this occasion, and there was no opportunity to discuss projects such as yours. Lord Glenarthur, the Minister of State in the Foreign Office responsible for relations with Malaysia, did however remind Dr. Mahathir of Costain's aid-supported bid for the Sibu airport contract at a lunch on 26 May.

Both the Department of Trade and Industry and the High Commission in Kuala Lumpur will of course be doing everything they can to promote your company's prospects.

C. D. POWELL

P. J. Costain, Esq.

mem



Foreign and Commonwealth Office

London SW1A 2AH

2 June 1989

Prime Minister

You may like to
have this in
mind. CAS 2/6

Dear Charles

Case of Derrick Gregory

Apap.

In your letter of 30 August 1988 you confirmed that the Prime Minister would be prepared to make a plea to the Malaysian Prime Minister and to the Governor of Penang, requesting the commutation of the death sentence on Derrick Gregory, should the Penang Pardons Board uphold the sentence passed on him. The text of the plea was agreed at that time.

Our High Commission in Kuala Lumpur have reported that the Penang Pardons Board will consider Gregory's case on 8 June. The High Commissioner is holding the approved text of the Prime Minister's plea for use as necessary. I enclose a copy for ease of reference.

Eight Hong Kong belongers, who have also been convicted of drugs offences in Malaysia, may also have their appeal considered at the same Pardons Board meeting. I shall be writing to you separately on that case.

Yours ever
R N Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street


Text of plea to the Malaysian Prime Minister and to the Governor of Penang requesting the commutation of death sentence passed on Derrick Gregory in the event that this is upheld by the Penang Pardons Board.

I know that the judicial process concerning Derrick Gregory, a British citizen, has been completed, and I understand that the Penang Pardons Board have now rejected the plea for commutation of the death sentence passed on him for drug trafficking.

I in no way wish to question the decisions of Malaysian courts. I do, however, urge you to consider, for humanitarian reasons, whether it would be possible to commute the death sentence. I would ask you to bear in mind that Derrick Gregory committed the offence before the death penalty for drug trafficking became mandatory in Malaysia.

Yours sincerely

MARGARET THATCHER



MALAYSIA: Ceraian PT3





Foreign and Commonwealth Office

London SW1A 2AH

2 June 1989

Dear Charles

Malaysia: Letter to the Prime
Minister from P J Costain

In my letter of 23 ^{May} I promised a draft reply to Mr Costain's letter to the Prime Minister about the Costain Group's interest in contracts in Malaysia.

/ I now enclose one, agreed with the DTI.

I am copying this letter to Neil Thornton (DTI).

Yours ever

R N Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
PS/10 Downing Street

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:

Reference

PS/10 DOWNING STREET

DEPARTMENT:

TEL. NO:

Your Reference

BUILDING:

ROOM NO:

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

TO:

Copies to:

P J Costain Esq
Costain Group PLC
111 Westminster Bridge Road
LONDON SE1 7UE

SUBJECT:

PRIVACY MARKING

..... In Confidence

CAVEAT

The Prime Minister has asked me to thank you for your letter of 19 May and to reply on her behalf.

almost entirely

The Prime Minister's meeting with the Prime Minister of Malaysia on 24 May was ~~primarily~~ *almost entirely* about regional and international issues on this occasion, and there was no opportunity to discuss projects such as yours. Lord Glenarthur, the Minister of State in the Foreign Office responsible for relations with Malaysia, did, however, remind Dr Mahathir of Costain's aid-supported bid for the Sibiu airport contract at a lunch on 26 May.

Both the Department of Trade and Industry and the High Commission in Kuala Lumpur will of course be doing everything they can to promote your company's prospects.

Enclosures flag(s)

CP

MALAYSIA: Relatus P03



Like JR

PRIME MINISTER'S
PERSONAL MESSAGE



*SUBJECT cc route
GPS*

SERIAL No. 7101189 10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

26 May, 1989.

Dear Prime Minister,

When we met on Wednesday we briefly discussed the Hill Road project. I undertook to check the position.

Our understanding is that the Malaysian Government have not taken up our offer to finance a feasibility study. The Malaysian Ministry of Works has given approval for a company called Minconsult to undertake a survey together with an American company Aerial Terrain. Your Ministry of Finance and Minconsult are currently negotiating terms.

I much enjoyed our talk and look forward to seeing you in Malaysia in October.

Yours sincerely

Nayanshu

His Excellency Dato' Seri Dr. Mahathir bin Mohamed

Lo

celg

Foreign and Commonwealth Office

London SW1A 2AH

25 May 1989

*Dear Charles*Malaysia

Your letter of ~~24~~ ²⁴ May recording the substance of Dr Mahathir's call on the Prime Minister noted a difference of understanding with Dr Mahathir over progress on a feasibility study for the Hill Resort Road project. The Prime Minister undertook to check the situation and let Dr Mahathir have a note before his departure.

I enclose a draft letter from the Prime Minister: the post, ODA and DTI have been consulted. In brief, the Prime Minister was right, Dr Mahathir was wrong.

The letter should be delivered by hand to Dr Mahathir's Secretariat for the visit, which is in Room 701, Cadogan Place, Carlton Towers Hotel: telephone number 235-5411. Dr Mahathir departs on Sunday 28 May.

I am copying this letter to Myles Wickstead (ODA) and Ben Slocock (DTI).

*Yours ever**R N Peirce*

(R N Peirce)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

JR2 ATJ

DSR 1-1 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despach/note

TYPE: Draft/Final 1 +

FROM: Prime Minister
DEPARTMENT:
BUILDING:

TEL. NO:
ROOM NO:

Reference

Your Reference

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO:

Copies to:

Dato Seri Dr Mahathir Mohamad

PRIVACY MARKING

..... In Confidence

SUBJECT:

When we met on Wednesday we briefly discussed the Hill Road project. I undertook to check the position.

CAVEAT

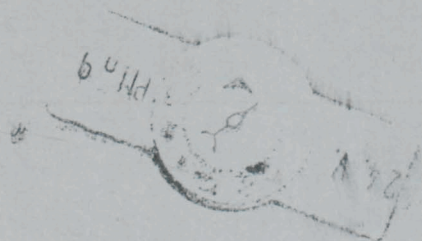
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I much enjoyed our talk and look forward to seeing you in Malaysia in October.

Enclosures flag(s)

Ch

MADRSIA : Relations PT3



CONFIDENTIAL



file
cc PC.
SUBJECT cc Market

Noty read

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

24 May 1989

See Bob.

PRIME MINISTER'S MEETING WITH DR MAHATHIR

The Prime Minister had a meeting this afternoon with Dr Mahathir, who was accompanied by the Malaysian High Commissioner and a Private Secretary. No one seemed to have told him about the formidable list of points that he was supposed to raise, as detailed in your letter of 23 May.

United Kingdom/Malaysian Relations

Dr Mahathir announced that everything was going swimmingly and there was no need to discuss our relations or the defence contracts.

He briefly mentioned the Hill Road Project, saying that a survey was being undertaken and pointed to the project being much more expensive than originally estimated. None the less, he intended to proceed with such parts of it as Malaysia could afford and hoped that we could provide ATP funds for this. The Prime Minister said, in some perplexity, that we had offered to finance a feasibility study but our offer had not been taken up. Dr Mahathir seemed certain that the Malaysian Government was already financing a survey by a British firm. The Prime Minister promised to look into this further and get a message to Dr Mahathir before he left the UK on Sunday explaining our understanding of the position.

Vietnamese Boat People

The Prime Minister described the difficulties being experienced in Hong Kong. Dr Mahathir took the view that the upsurge of boat people was probably an attempt to beat the gun of the forthcoming conference on refugees.

Regional Problems

Dr Mahathir expressed concern that events in China would follow the pattern of Burma, with the army mounting a bloody suppression against the students.

Dr Mahathir seemed fairly optimistic about Cambodia, without being specific.

CONFIDENTIAL

Dr Mahathir showed detailed interest in developments in the Middle East. The Prime Minister gave him an account of her meeting with Mr Shamir. She did not believe that Shamir was psychologically capable of taking the steps necessary to achieve a lasting solution to the Arab/Israel problem. But he might be able to get a preparatory process going. Dr Mahathir said that it was very important to take advantage of the new moderation shown by the PLO. The United States was not doing enough to put pressure on Israel. He hoped that the United Kingdom would encourage the Americans to be more active. He would like to see the United Nations Security Council more actively involved.

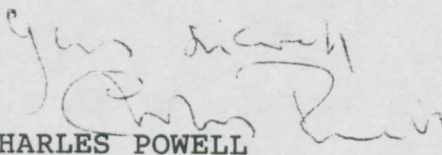
Dr Mahathir also showed interest in Namibia, on which the Prime Minister once again gave him an account of the situation. Dr Mahathir was emphatic about the need to increase the size of UNTAG. He referred to the low quality of SWAPO's leaders. One could not expect them to be very efficient or democratic. He very much doubted that SWAPO would win as much as two-thirds of the votes in the elections. There were bound to be several hitches and setbacks between now and November. But he agreed with the Prime Minister on the importance of a successful outcome.

Dr Mahathir urged that Britain and Malaysia should work more closely together on these international issues, particularly while Malaysia was a member of the Security Council. In general he would like to see the Permanent Members of the UN Security Council play a more active role, keeping the other members closely informed.

CHOGM

The Prime Minister referred to the dangers of a damaging split in the Commonwealth over the succession to Sonny Ramphal as Secretary General. Dr Mahathir said that, while Malaysia had no very strong view, there was something to be said for a new Secretary General: Ramphal had served for a considerable time. He thought Anyaoku probably had a small edge in terms of support. But there were attractions in keeping Ramphal on to avoid having to take sides. He believed that Rajiv Gandhi supported this, and probably one or two others. The Prime Minister commented that Mahathir would have a crucial role as Chairman of this year's CHOGM.

I am copying this letter to Brian Hawtin (Ministry of Defence), Neil Thornton (Department of Trade and Industry), Alex Allan (HM Treasury) and Myles Wickstead (Overseas Development Administration).


CHARLES POWELL

R N Peirce Esq
Foreign and Commonwealth Office



CF

Costains

Foreign and Commonwealth Office

London SW1A 2AH

23 May 1989

Dear Charles

off copy

Thank you for your letter of 22 May enclosing one to the Prime Minister from Mr P J Costain.

As you will have seen, the Prime Minister's briefing for the call by Dr Mahathir on Wednesday 24 May is already very long, despite radical pruning of initial Whitehall contributions. We had elected not to brief the Prime Minister to raise the Costains bid for the Sibu airport contract since she is already briefed to raise several other civil projects. Instead we propose to brief Lord Glenarthur to raise it when he sees Dr Mahathir at Lord King's lunch on Friday.

Should the Prime Minister wish to raise the Costains bid herself however, she might say that she understands the Malaysian Government has re-opened the contract on Sibu airport. (It was previously awarded to the Indians, who did not deliver). She might remind Dr Mahathir that Costains stand ready with HMG aid and ECGD assistance to negotiate a full turn-key contract for the design, construction and equipping of a new airport at Sibu.

We recommend against the Prime Minister raising the other bid mentioned in Mr Costains' letter, that for the Sri Manjong Hospital in Perak State. DTI are considering whether this is in direct competition with John Laing's "nucleus hospitals" scheme. The latter is a more promising proposition for which DTI want to reserve governmental backing; supporting Costains now might not therefore be in the UK's best overall interests.

I shall send you a draft reply to Mr Costain after we have seen your record of Dr Mahathir's call.

Townsend
B. Peirce

C D Powell Esq
10 Downing Street

(R N Peirce)
Private Secretary

MALAYSIA : Relations - P53

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MO 6/19/7L

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3

etc
23rd May 1989

Dear Charles,

VISIT OF PRIME MINISTER OF MALAYSIA

I have seen a copy of Bob Peirce's letter to you of today on this subject and would like to draw your attention to a recent development on the defence sales front which the Prime Minister will wish to be aware of.

The Malaysian Government have now decided on Prime Contractors for the submarine project (GEC/Marconi) and the two Military Bases (British Aerospace). However, Dr Mahathir has expressed some concern over the possibility of BAe bringing in their Dutch subsidiary, Ballast Meendham, over the heads of the Malaysian's preferred contractors, as the main sub-contractor for the Air Base contracts. BAe have already assured the Malaysian Defence Minister that they will consult fully with the Malaysian Government over the selection of sub-contractors and that Ballast Meendham would only be proposed where their expertise is clearly relevant. Moreover, there is certainly no intention to make the Dutch company responsible for the overall management of either project.

If this subject is raised by Dr Mahathir, the Prime Minister could say:

- she is pleased to hear that decisions have been taken on the Prime Contractors for some projects;
- Prime Contractors will consult with the Malaysian Government over the choice of main sub-contractors.

I am copying this letter to Bob Peirce (FCO) and Neil Thornton (DTI).

I M Woodman
(I M WOODMAN)
Private Secretary

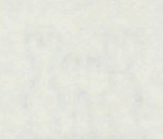
C D Powell Esq
10 Downing Street

MALAYSIA: Relations PT3

MINISTRY OF DEFENCE
MAIN BUILDING, WHITE HALL, LONDON SW1A 2JD
TELEPHONE 01-235 2111



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cc Backus

PRIME MINISTER

MEETING WITH MALAYSIAN PRIME MINISTER

You have a meeting with Dr. Mahathir tomorrow afternoon. GHF are providing tea. He will be accompanied by the Malaysian High Commissioner and by an Executive Assistant.

Since you last saw him, I gather Dr. Mahathir has regained his strength, and is now operating at full blast again. His political fortunes are also picking up: his party won an important by-election victory ten days ago on which you might congratulate him. The less happy development is the campaign by the Observer to cause trouble over Malaysian defence contracts by alleging payment of commissions, and accusing us of offering civil aid to "buy" the Tornado contract. I suggest that you say to him that everyone knows that Lonrho have a commercial interest in denigrating Tornado and trying to cause trouble. We are simply ignoring the story, and that seems to be the best course.

Dr. Mahathir's staff have provided a formidable list of matters he wants to raise. You will want to push the conversation along at a fair lick.

Defence Sales

Good progress is being made, and we hope the first contracts can be signed before long. You confirm our willingness to provide training, assistance and advice. ECGD will be considering what support it can offer.

Civil Aid

At your last meeting, you offered £68.25 million of ATP support for the Pergau hydro-electric scheme. A consortium led by Balfour Beatty have put in their bid, and are making a full presentation to the Malaysian Energy Minister on 2 June. Dr. Mahathir is said to be worried about

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- 2 -

the contract's price, but that is not a matter for you. You can say that we have every confidence in the consortium's expertise in large-scale hydro-electric work.

On the Hill Resort Road project, the Malaysians have still not taken up your offer of a feasibility study.

He may mention the efforts to persuade Lotus or Austin Rover to help in developing the Malaysian Proton Saga car. I do not think that you need do more than express polite interest.

CHOGM

You will wish to express pleasure that The Queen's State Visit to Malaysia has now been confirmed.

As regards the agenda, you will want to reinforce your earlier remarks about South Africa not dominating the agenda. The other main issues are likely to be the environment and drugs.

You might ask him about the progress with Pakistan's re-admission. It is important to get this settled before CHOGM. There is some evidence that the Malaysians are fed up with the Commonwealth Secretariat's insistence on trying to handle this.

You might ask his views on the question of the successor to Ramphal as Secretary-General. Mahathir is inclined to favour Anyaoku. You might see how he reacts to the idea of extending Ramphal's term of office.

Drugs

We are negotiating an agreement on confiscation of assets, and are waiting for the Malaysians to obtain a Cabinet mandate to finalise the text.

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Malaysian Students

I gather he may express concern about the effect on them of the Community Charge and the university lecturers' strike. You may reassure him on the first that full-time students will be liable for only 20 per cent of the Community Charge, and that will replace the rates which they are in effect paying through their rents at present. Students here for less than six months will not pay anything. On the strike, the Government helped end the dispute by making some extra cash available.

Cambodia

There is increasing talk of an international monitoring and peace-keeping force under UN auspices. Dr. Mahathir may refer to the possibility of an ASEAN contribution. You might say that we do not want to put our monitoring force in place until there is a comprehensive political settlement.

Vietnamese Boat People

You will want to impress on him the magnitude of the problem in Hong Kong. The Geneva Conference on Indo-Chinese refugees in June must produce a package of specific measures including repatriation of those who are not genuine refugees, with assurances that they will be well treated.

Namibia

Malaysia is currently on the Security Council, and also contributes troops to UNTAG. The UN plan now seems to be back on course. But Ahtisaari will need the full support of the Security Council in dealing with the very many problems which will certainly arise over the next few months.

Arab/Israel

Mahathir is apparently anxious for discussion in the Security

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- 4 -

Council to carry forward the peace process. While we certainly think that the Five Permanent Members have a role to play, the Americans are opposed to premature action in the Security Council which they see as only complicating their task. A resolution would all too likely attract an American veto. It might be better to go for informal consultations and a Presidential statement. You could tell him also about your meeting with Mr. Shamir.

There is more detailed briefing in the folder, together with a note on your last meeting with Dr. Mahathir, and the exchange of correspondence on the Rushdie affair - I recommend against referring to this.

CDP

CDP

23 May, 1989.

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Foreign and Commonwealth Office

London SW1A 2AH

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23 May 1989

Don Charles

Visit of Prime Minister of Malaysia

Dr Mahathir Mohammed is to pay a 30 minute call on the Prime Minister at 3.30 pm on Wednesday 24 May.

The Malaysians have given us notice of a formidable list of points that Dr Mahathir intends to raise. These are all covered below. But in view of the limited time, the Prime Minister may wish to concentrate on Defence Sales, Civil projects, CHOGM, and the Drugs Treaty. She might begin by congratulating Dr Mahathir on his ruling coalition's convincing 13 May by-election victory in the ethnic Chinese district of Bentong.

Defence Sales

The airservices dispute was resolved just before the Prime Minister's last meeting with Dr Mahathir on 15 March. On 31 March the Malaysian Finance Minister presented the Secretary of State for Defence with a list of the first six priority projects - Tornado aircraft, Air Defence Radars, a Command, Control, Communications and Intelligence System (C31), submarines and two Military Bases. Action is now in hand to set up the UK Project teams, define Malaysian requirements and proceed to contract action. A Malaysian Air Force team will be in the UK in late May to try to finalise the Air Force requirements.

The Prime Minister could say:

- she is pleased with progress and looks forward to signature of the first contracts.
- HMG's willingness to provide training, assistance and advice as promised in the MOU of September 1988.
- ECGD will be willing to consider what support it can give to British exporters and banks with credit facilities and/or a form of bridging or overdraft facility.

If Dr Mahathir mention's Adam Raphael's 7 May "Observer" article which alleges a link between the civil aid and the defence package which he claims was secured by large

/commission

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commission payments, the Prime Minister might say that the Government's response of ignoring the story seems to be working. Lonhro's vested interest in attacking Tornado deals is well known. We are grateful for Dr Mahathir's own relaxed and sensible reaction.

Civil Projects

The Prime Minister will recall making an informal offer of ATP support of up to £68.25 million for the Pergau hydro-electric scheme when she last saw Dr Mahathir on 15 March. We have also told the Malaysians that we might be prepared to provide additional ATP support in the form of a soft loan to cover the increase in the UK supported package since the original aid figure was calculated. The British Consortium, led by Balfour Beatty, presented their bid on 17 April; the Malaysian authorities are currently evaluating it. We understand that Dr Mahathir may raise the question of the contract price. Part of the problem is the difficult geological conditions on site. The consortium are planning to make a full presentation on the project to the Malaysian Minister of Energy, when he is in London on 2 June. The Prime Minister might note that HMG has every confidence in the expertise of the British Consortium, which brings together most of the major companies involved in large-scale hydro work, and express the hope that the contract can be negotiated speedily and successfully.

Dr Mahathir may raise the Hill Resort Road Project, a prospective £1 billion development with a possible UK content of between £150 and £300 million. If he does, the Prime Minister might refer to her offer of a feasibility study last September, which has not as yet been taken up by the Malaysians.

We understand that during his visit Dr Mahathir will be visiting Lotus Design and possibly Austin Rover to seek their cooperation on developing the Proton Saga, the Malaysian car launched on the UK market in March. He may raise this with the Prime Minister. She should be aware that Austin Rover were approached by the Malaysians 2 years ago about collaboration on engines, but saw insufficient potential to justify heavy commitment of human resources. That remains their view although they are willing to reopen discussions if the Malaysians so wish.

CHOGM

Dr Mahathir wishes to discuss the CHOGM agenda. He has clearly taken note of the Prime Minister's comments at their last meeting on why South Africa should not dominate the

/agenda

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agenda. He recently told our High Commissioner that he hoped that South Africa would be discussed in a balanced way and not to the exclusion of other matters. Recent events in Namibia have demonstrated the need for delicate handling of the issue, so close to the November elections.

The non-political agenda items of most interest to him are likely to be the environment (to which Malaysians want to give prominence) and drugs. The Prime Minister may wish to seek his views on these matters. We understand that the Malaysians and the Secretariat are working separately on first drafts of a wide-ranging political Declaration on the environment Dr Mahathir may decide to meet potential criticism on deforestation by tackling the problem head on, and arguing for assistance from the developed world in resolving it. The Prime Minister might ask that Britain be brought into the drafting stage of the Declaration as early as possible.

Dr Mahathir wants the re-admission of Pakistan to the Commonwealth to be stage managed before CHOGM. We have no evidence of any moves by Pakistan in recent weeks. The Prime Minister may wish to ask Dr Mahathir how Malaysian consultations with other Commonwealth countries have progressed. The Malaysians may be somewhat irritated by the Secretary General's insistence on master-minding re-admission himself.

Dr Mahathir, as host for CHOGM, will play an important part in the Secretary-Generalship issue. Dr Mahathir has told our High Commissioner that he favours Anyaoku. The Prime Minister may wish to ask for his assessment of Commonwealth support for Anyaoku.

The State Visit to Malaysia by the Queen and the Duke of Edinburgh prior to CHOGM has been announced, and arrangements are in hand. The Prime Minister might note that security aspects of both this and CHOGM will need consideration. Relevant parties here are already talking to the Malaysian security authorities, who may request the type of specialised support provided in Nassau and Vancouver. Should they do so costs and who should meet them will need careful consideration.

Drugs

A team of British officials visited Malaysia in October 1988 and opened negotiations on an agreement to trace, freeze and confiscate the assets of drug traffickers. There was substantial consensus but we are waiting for the Malaysians to get a Cabinet Mandate to finalise the text. The post in Kuala Lumpur advises that a mention by the Prime Minister is needed

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to get things moving. The present hold up is due to lack of legal staff and because the Malaysian MFA have given priority to drugs work with the US. In reinforcing the UK's wish to conclude this agreement the Prime minister might remind Dr Mahathir that the UK has given considerable aid to Malaysia in the anti-drugs field notably police sniffer-dog training.

Finally on the bilateral side we understand there is a chance that Dr Mahathir, always sensitive to the problems of Malaysian Students in the UK (about 7000, the largest overseas group after Hong Kong) will raise the possible effect on those students of the poll tax and the AUT Strike. The Prime Minister could reassure Dr Mahathir that full-time students including those from overseas will be liable for only 20% of the Community charge while short-term students here for less than six months are unlikely to be liable at all. The charge replaces the existing rates liability which students in any case pay indirectly through their rents. On the AUT Strike the Prime Minister might say that HMG have taken steps to try to end the dispute by making available extra cash. As a result AUT have been persuaded at least to modify their action and allow examinations to take place. The Government still hopes that lecturers will resume normal working in time to allow both home and overseas students to receive their degree qualifications at the usual time.

Dr Mahathir may want to refer to regional and international questions; notably Cambodia and Vietnamese boat people.

Following Vietnam's April announcement of troop withdrawal from Cambodia by the end of September, attention has focussed increasingly on the nature and scope of any international monitoring and peacekeeping force. Our preference is for such a force to operate under UN auspices, drawing on growing Security Council experience. We have been exploring the scope for UN involvement - which the Vietnamese continue to resist - through informal discussions with the other Permanent Members of the Security Council.

Dr Mahathir may refer to the possibility of ASEAN contributing to a monitoring or peacekeeping force, which ASEAN have discussed informally. We wish to encourage this type of cooperation. However, the Prime Minister may wish to sound a note of caution about putting a monitoring force in place without a comprehensive political settlement. International monitoring would confirm that withdrawal had taken place in the eyes of the world. But we do not want to give the Vietnamese a stamp of respectability unless they have played their full part in securing an acceptable international settlement. If asked, the Prime Minister might wish to be

/non-committal

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non-committal on the question of a British contribution to a monitoring/peacekeeping force. We first need to be clear about the precise composition, role and mandate of such a force.

Vietnamese Boat People

Dr Mahathir may ask what further pressure can be brought to bear on the Vietnamese Government to help resolve the boat people problem. We understand that the Thais are actively lobbying for support for a joint Western/ASEAN demarche in Hanoi. The Prime Minister will wish to emphasise that the situation in Hong Kong is becoming desperate and that we are anxious to work closely with Malaysia and other places of first asylum to find a durable and comprehensive solution. We want the Geneva Conference on Indo-Chinese Refugees in June to produce a package of specific measures. These should include firm repatriation arrangements applied within a fixed time-frame for all boat people who are screened out as non-refugees, and possibly a regional spillover centre for refugees. We would welcome Malaysian support for these objectives at the Coordinating Committee meeting in Geneva on 25/26 May.

A vital element in a durable solution will be to persuade the Vietnamese Government to accept responsibility for its own citizens and accept back all non-refugees with assurances that they will be properly treated on return. The Vietnamese should be told that they cannot expect international respectability unless they cooperate in this way. Withdrawal from Cambodia alone is not enough. If the West and ASEAN stand together, the Vietnamese, whose need for aid and credits is great, might give way.

The two international questions which Mahathir is expected to raise, given Malaysia's seat on the UN Security Council (assumed in January this year), are Namibia and Arab/Israel.

On Namibia, the Prime Minister may wish to welcome recent developments which have put the UN Plan back on course. Most SWAPO forces have returned to Angola and South African forces are once more restricted to base. This episode has demonstrated the depth of commitment of the parties involved to the independence process. But it has also shown the importance of ensuring that all undertakings in the UN Plan are met. The Prime Minister will wish to say that we are using our influence to this end and in support of the UN's efforts. Ahtisaari now has the difficult talks of carrying out the practical implementation of the Plan. The Security Council should give him every encouragement and be prepared for a constructive discussion of any further problems which may arise.

/On

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On Arab/Israel Dr Mahathir has said he will wish to discuss action in the UN Security Council to carry forward the peace process. The Malaysians understand that the Americans are blocking this. The Prime Minister might reply that we believe that the Security Council, and in particular the Five, have a key role to play in the peace process. An international conference under the auspices of the Five would be less prone to polarisation than one brokered by the two superpowers alone. But, as the Americans have recognised, an international conference is some way off. In the meantime, we favour using the Five as a forum for informal consultations. We see no need for a formal debate in the Council as a whole at this stage (having had one in the General Assembly in April). We hope the non-aligned members of the Council (currently being coordinated by Malaysia) will appreciate that such a debate would only be divisive, and risks courting an American veto, as happened in February. A Presidential statement, for which we have been working, and for which we are grateful for Malaysian cooperation seems a better idea.

I am copying this letter to Brian Hawtin, (MOD) and Neil Thornton, (DTI).

Yonson
R N Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

A/ 22 May 1989

I attach a copy of a letter which the Prime Minister has received from Mr. P. J. Costain.

I should be grateful if you could take this into account in your briefing and also provide a draft reply, to reach me by 5 June.

I am copying this letter to Neil Thornton (Department of Trade and Industry).

C D POWELL

R. N. Peirce, Esq.,
Foreign and Commonwealth Office

R1915

do PRS



DdeK/gmc/1070n

19th May 1989

The Rt. Hon. Margaret Thatcher MP
10 Downing Street
London
SW1

Costain Group PLC

111 Westminster Bridge Road,
London, SE1 7UE.
Telephone: 01-928 4977.
Telex: 8811804 Cosdon G.
Cables: Cosdown London SE1
Fax: 01-261 1841

Dear Prime Minister,

Malaysia
Costain International Limited

His Excellency the Prime Minister of Malaysia, Dr Mahathir, will be visiting England from 24th to 26th May 1989, and during that period he will, no doubt, be having meetings with yourself.

I thought it would be helpful if you were aware of the Costain Groups' interests in Malaysia in the event that these matters were raised during discussions with Dr. Mahathir.

For your information Costain International are discussing two specific projects with the Malaysian Authorities.

1. Ministry of Health - Sri Manjong Hospital, Perak State

On the specific request of the Malaysian Ministry of Health a full turnkey proposal has been prepared and submitted, relative to a 320 bed district hospital with specialist facilities. The package includes design, medical equipment and training, and there is a significant UK content. Discussions have been held with staff in various Malaysian Government agencies and negotiations are proceeding. ECGD support has been confirmed and an ODA aid grant has been applied for.

2. Ministry of Transport - Sibul Airport, Sarawak

A full turnkey proposal has been submitted to the Ministry of Transport for the design, construction and equipping of a new airport at Sibul. ECGD support has been confirmed as has an ODA aid grant of some £3.75 million.

In both instances we are offering up to date design and technology coupled with fast track implementation and maximum use of Malaysian resources and skills.

Any advice and assistance which could be given to us in support of our winning these projects would be greatly appreciated.

I will, if I may, telephone your private office on Monday 22nd May 1989 to provide any further information that may be needed.

Yours sincerely

P J COSTAIN

Registered Office:
111 Westminster Bridge Road,
London, SE1 7UE.
Registration No: 1393773-London



Costain International Limited.

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(69)
ack

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

27 April 1989

MALAYSIA

BK

You mentioned to me that Dr. Mahathir would be in London towards the end of May and would wish to see the Prime Minister. I am afraid it is not possible for the Prime Minister to offer Dr. Mahathir a meal on the days when he is here, but she could see him on Wednesday 24 May at 15.30.

C. D. Powell

R.N. Peirce, Esq.,
Foreign and Commonwealth Office.

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lv



10 DOWNING STREET

~~Amend~~

Charles
Wednesday
24 May
1530 - 1615

I am afraid ^{AD} 24/4

Mr Dr. Mahathir

of Malaysia will be
here from 23-28

May. He asks to

see the PM for

45 minutes or so

(unless we can do a working
lunch).

Can you offer a time? C.D.P.

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*File M
CPK*

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

25 April 1989

Thank you for your letter of 24 April about the Prime Minister's talk with Dr. Mahathir on 15 March. I certainly have no recollection of the Prime Minister raising training in the UK for graduating Malaysians with Dr. Mahathir and my notes contain no reference to it. I do not think that the Prime Minister was briefed to raise the matter and doubt that she would have done so out of the blue. It is always possible that I went to sleep or was otherwise distracted, but it sounds to me like confusion somewhere.

C D POWELL

Stephen Wall, Esq.,
Foreign and Commonwealth Office

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da

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cc PC



Foreign and Commonwealth Office

London SW1A 2AH

24 April 1989

Dear Charles,

Our High Commission in Kuala Lumpur tell us that the head of training in the Malaysian Public Services Department has told them that the Prime Minister raised training in the UK for graduating Malaysians with Dr Mahathir at their meeting in London on 15 March. Dr Mahathir apparently reported as much to his Cabinet on his return.

There is no mention of this topic in your letter to Bob Peirce of 15 March recording the Prime Minister's meeting. Can you recall whether the subject was touched on?

James
Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

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Cable SR
cc F103 +
DTI letter

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

21 April 1989

The Prime Minister has asked me to thank you very much for your letter of 19 April and your kind words about the support which the company has received from Ministers and officials in its efforts to win new business. She was sorry to hear about the outcome in Malaysia - and as you know she did twice raise the matter with Prime Minister Mahathir - but congratulates you warmly on the success in winning the contract for the cable from Hong Kong to Taiwan.

C. D. POWELL

A. S. Walsh, Esq.

CF PP.

R2014

STC PLC

CORPORATE HEADQUARTERS
10 MALTRAVERS STREET
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TELEX 22385 STC HO G

19th April 1989

The Prime Minister,
The Rt. Hon. Margaret Thatcher, MP
10 Downing Street,
London SW1

Dear Prime Minister,

at flat

Last December you sent a letter to Dr. Mahatir, Prime Minister of Malaysia, supporting STC's bid for an underwater fibre optic cable linking East and West Malaysia. In the past few days we have learned that STC has been unsuccessful and the contract has been awarded to NEC in Japan.

We fought hard for the project and our failure is a disappointment. It was a domestic procurement and I am sure you will be aware that in some countries these can have unconventional aspects.

We are maintaining a strong marketing effort in South East Asia and last week STC was awarded the contract to lay the undersea fibre optic cable from Hong Kong to Taiwan, value \$30M. HMG's support with the Taiwanese Government was extremely helpful in countering political actions by the Japanese at a critical point in the negotiations.

The purpose of this letter is to emphasise that the support we were given by HMG at all levels, political, diplomatic and commercial, was quite outstanding. We are most grateful for your personal intervention and for the help given to us by your Ministers and officials.

I am sorry we could not have better news.

*Yours Sincerely
Arthur Walsh*

A S Walsh
Chief Executive

Malaysia: Relat. 1-5
Pt 3

COMPTON

10

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2 cc PL
cc B1



Foreign and Commonwealth Office

London SW1A 2AH

Ms
Dr. Colin Chandler 13 April 1989

Dear Charles, Observer will NOT run the story, this week anyway. Mr. Rowland again tries to undermine British interests. CAP 13/4.

Aid to Malaysia

You will recall the correspondence last year about the negotiation of the Malaysian defence package. The ODA was drawn into the matter as a result of the Malaysians' insistence on inserting a reference to UK aid into the Protocol on the supply of defence equipment signed by Mr Younger in Kuala Lumpur in March 1988.

We made it clear to the Malaysians that there could, under international rules, be no linkage between the defence package and aid for civil projects; and the final Memorandum of Understanding on the defence package does not include any reference to aid. We did, however, recall to the Malaysians that we had already provided support through the Aid and Trade Provision for several projects in Malaysia and that we were ready to offer further support for contracts (through ATP grants plus ECGD export credit cover) of up to a total of £200 million for development projects to be agreed mutually between the two governments. In her letter of 8 August to Dr Mahathir, following her talks with him in Kuala Lumpur, the Prime Minister confirmed this offer and mentioned that further grant aid would continue to be available on a similar basis for development projects agreed between the two governments.

The matter may now resurface. Adam Raphael of the Observer met Mr Patten at a reception on Monday night and indicated that he had what he regarded as a very good story about private discussions between the Prime Minister and Dr Mahathir regarding the defence package and aid for Malaysia. (You will recall that Raphael had another article about defence sales in the Observer on 19 March - John Colston's letter to you of 20 March). Raphael also mentioned that he understood that the Japanese might raise the issue in the OECD. Raphael has subsequently contacted the ODA's Press Office, who followed the line set out below.

We should insist that there was no linkage between the defence contract and aid while acknowledging, if pressed, that the Malaysians did initially seek to establish such a link. I enclose a note with a suggested line to take, if required. This is based on the material in our files and largely follows a line agreed last October for possible defensive use but includes also some supplementary material. I am

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I am sending you (but not copy addressees), as background information, a dossier of relevant papers. The MOD are sending you separately a copy of the final Memorandum of Understanding on the defence package.

The ODA Press Office will refer any queries about discussions alleged to have taken place between the Prime Minister and Dr Mahathir to No 10.

I am copying this letter to Brian Hawtin (MOD), Neil Thornton (DTI), Alex Allan (HM Treasury) and Trevor Woolley (Cabinet Office).

Jaws,
Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

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MALAYSIA: DEFENCE PACKAGE AND AID FOR CIVIL PROJECTS

Line to Take (for defensive use only)

There is no connection between the defence package and civil aid.

Support for civil projects is provided through the Aid and Trade provision. Malaysia is an attractive market for UK companies seeking contracts for project work, and they often seek the support of HMG in providing concessional financing. Provided proposals put forward are acceptable under our normal criteria, we expect to continue to provide such assistance to help develop the Malaysian economy and Britain's involvement in it. The dramatic improvement in relations between Britain and Malaysia in the recent past is likely to be reflected in growing co-operation between our two countries in a number of fields.

The biggest ATP project we have agreed to date anywhere is a £200 million rural water supplies scheme in Malaysia, for which the UK contractor is Biwater. This was agreed in 1986 and almost £60 million of ATP support was allocated. A number of further proposals are currently under consideration.

(If appropriate) This is not a new story. The Guardian had an article on 27 June 1988 in which our position was made clear. The Guardian report said: "The one snag (to conclusion of the defence package) is a last-minute suggestion from the Malaysians that a deal should be associated with a substantial new tranche of British aid. The British Government's position is that to mix arms and aid is dangerous."

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(If pressed) It is understandable that the Malaysians should want to link their agreement to a major arms package to their objectives on other issues, such as aid (and air services). However we have made clear from the outset that there could be no such link.

(If necessary) The Japanese have not raised the matter in the OECD. If they did so, we would, of course, make clear that there was no link between the defence package and aid.

(If necessary) No defence contracts have been signed yet. These are a matter for commercial negotiation by the British companies concerned. HMG is helping finance project management only. (If necessary) HMG is not helping finance a sail training ship.

CONFIDENTIAL

CONFIDENTIAL

SPC



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-218 2111/3

MO 6/19/7L

11th April 1989

CD 114/4

Dear Charles,

MALAYSIA

As you know, the ODA is putting together background briefing material and a suggested line to take should the journalist, Adam Raphael, publish a story in this Sunday's 'Observer' about concessions allegedly offered by the Prime Minister to Dr Mahathir in relation to the defence procurement deal.

ODA will be sending you copies of various documents except for the MOU on defence procurement signed by the two Prime Ministers on 27th September 1988. Because there was no need for the ODA to have a copy of that document, the MOD undertook to send you a copy and this is attached. You will see that the MOU makes no mention of any link to civil aid, landing rights for MAS or the sail training ship (the only possible concessions about which allegations might be made) and is therefore a useful document in that it follows the logic of the line to take being put together by the ODA.

I am copying this letter (without attachment) to Richard Gozney (FCO), Neil Thornton (DTI) and Myles Wickstead (ODA).

*Yours sincerely,
John Colston.*

(J P COLSTON)
Private Secretary

Charles Powell Esq
10 Downing Street

CONFIDENTIAL

MEMORANDUM OF UNDERSTANDING
BETWEEN
THE GOVERNMENT OF
THE UNITED KINGDOM OF GREAT BRITAIN AND
NORTHERN IRELAND
AND
THE GOVERNMENT OF MALAYSIA
CONCERNING
DEFENCE EQUIPMENT PROCUREMENT AND RELATED SERVICES

SHORT TITLE
"THE UK/MALAYSIA PROCUREMENT PROGRAMME MOU"

CONTENTS

1. INTRODUCTION
2. SCOPE
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11. INTELLECTUAL PROPERTY RIGHTS
12. SECURITY
13. COUNTERTRADE
14. AMENDMENTS AND DISPUTES
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1. INTRODUCTION

1.1 The Government of Malaysia (hereinafter referred to as 'the Malaysian Government') and the Government of the United Kingdom of Great Britain and Northern Ireland (hereinafter referred to as 'the United Kingdom Government'), having made arrangements in a Protocol dated 23 March 1988 concerning the supply of equipment, services and facilities (hereinafter referred to as 'the Programme') elaborate these arrangements into this Memorandum of Understanding (hereinafter referred to as 'the MOU').

1.2 For the avoidance of any doubt, it is hereby agreed that this MOU will come into effect on the date of its signing and will remain in force until terminated according to the provisions of Clause 15.

2. SCOPE

2.1 This MOU will cover the arrangements relating to the supply of those equipment, services and facilities listed in Annex A to this MOU and as may be amplified by mutual agreement.

2.2 The details of the support and assistance which the United Kingdom Government intends to provide in support of the Programme are set out in this MOU. The details and any payments to be made in respect of such support and assistance to be provided in relation to each individual procurement will be contained in individual Supplements to this MOU and which cumulatively constitute the Programme.

2.3 Contracts for the individual procurements of equipment listed in Annex A will be identified under the terms of the MOU and will be known as Designated Contracts. A Designated Contract will be on the terms and conditions to be agreed upon by the parties thereto and will include the following clause:

'This Contract is a Designated Contract under the Memorandum of Understanding Between The Government Of The United Kingdom Of Great Britain And Northern Ireland And The Government Of Malaysia Concerning Defence Equipment Procurement And Related Services signed on 27 September 1988.'

3. RECIPROCAL TRUST AND MUTUAL RESPECT

The relationship between the two Governments is based upon trust and the recognition on the one hand of the desire of the United Kingdom Government to see that the requirements of the Malaysian Government are faithfully and carefully executed by those United Kingdom defence equipment suppliers involved (hereinafter referred to as 'the United Kingdom Suppliers'), and on the other hand by the Malaysian Government to make certain that the Programme is run smoothly.

4. APPOINTMENT OF PRIME CONTRACTOR

4.1 The United Kingdom Government will nominate a company acceptable to the Malaysian Government as the prime contractor for the sale of equipment covered by this MOU to the Malaysian Government.

4.2 Any Designated Contract for the procurement of any equipment under this MOU will be executed between the Malaysian Government and the prime contractor.

5. GENERAL ASSISTANCE AND SUPPORT

5.1 The United Kingdom Government will render the Malaysian Government the support and assistance outlined in this Clause 5.

5.2 Upon notification by the Malaysian Government to the United Kingdom Government of the Malaysian Government's intention to procure any of the equipment listed in Annex A to this MOU, the United Kingdom Government will assist the Malaysian Government:

- (a) by establishing a dedicated Project Office in the United Kingdom Ministry of Defence (hereinafter referred to as 'UKMOD') to co-ordinate the activities of the UKMOD in support of the programme and subsequently to monitor the activities of the United Kingdom Suppliers under Designated Contracts concluded; and
- b) by establishing a UKMOD Team (hereinafter referred to as 'the Team') in Malaysia to provide the United Kingdom Suppliers and the Malaysian Government with such in-country assistance as may be detailed in this MOU and the Supplements and subsequently to monitor the progress and performance of the United Kingdom Suppliers under the Designated Contracts concluded.

5.3 Prior to any individual procurement and the conclusion of any Designated Contract for such procurement, the United Kingdom Government will at the request of the Malaysian Government assist the Malaysian Government -

(a) by supplying the Malaysian Government with a list of United Kingdom Suppliers (in order of ratings) who, in the opinion of the United Kingdom Government, having regard to the experience, technical and financial capacity of such Suppliers, would be suitable for the intended purchase;

(b) by advising the Malaysian Government-

(i) on the quality control standards to which the United Kingdom Suppliers are cleared for equipment or services adopted for the United Kingdom Armed Forces;

(ii) on the reasonableness of the prices quoted by the United Kingdom Suppliers;

(iii) whether the delivery period proposed by the United Kingdom Suppliers are realistic; and

(iv) on the training and the maintenance programme required to enable the Malaysian Government to efficiently utilise the equipment to be procured;

- (c) in providing a Quality Assurance service equivalent to that applied to similar purchases made by the UKMOD; and
- (d) at any time, subject to their available resources, at the request of the Malaysian Government, make available any advice and assistance to enable the Malaysian Government to effectively negotiate and conclude any Designated Contract.

5.4 Each Government recognises that the prime responsibility of equipment training rests with the United Kingdom Suppliers. Such equipment training shall consist of the following:

- (a) technical and technological aspect of training including maintenance, overhaul, repair of equipment as identified and procured or to be procured under the Programme; and
- (b) training packaged to the equipment projects such as artillery, submarine and Tornado projects and such other projects as are identified in the Programme.

For this purpose, the United Kingdom Government will cause the United Kingdom Suppliers to provide adequate and relevant facilities and assistance to the Malaysian Government.

5.5 For the purpose of providing further equipment training, which will be mutually agreed upon by the two

Governments, the United Kingdom Government will provide the training of personnel from the Malaysian Armed Forces provided similar equipment is in use by the United Kingdom Armed Services.

5.6 In addition to the training referred to in Clauses 5.4 and 5.5, the United Kingdom Government will make available training, which will be mutually agreed upon by the two Governments, in the United Kingdom of personnel of the Malaysian Armed Forces in strategic and operational concept and the application of theories and strategies in operations up to the level to be determined by the two Governments.

5.7 The training referred to in Clauses 5.5 and 5.6 will be made available by the United Kingdom Government on the request of the Malaysian Government. In this regard, the United Kingdom Government will make available United Kingdom Armed Forces instructors (hereinafter referred as 'Loan Personnel') to assist with training in Malaysia. The terms and conditions for the services of the Loan Personnel, indemnity provisions and costs for such Loan Personnel would be the subject of separate arrangements between the United Kingdom Government and the Malaysian Government which will be based on the Exchange of Notes between the Government of Great Britain and Northern Ireland and the Government of Malaysia signed in Kuala Lumpur on 28 March 1973 as amended by a further Exchange of Notes on 4 March 1988.

5.8 Each Government recognises that the prime responsibility for in-service support rests with the United Kingdom Suppliers. Nonetheless the United Kingdom Government, having regard to experience with equipment of the United Kingdom Armed Forces will on request -

- (a) advise on proposals from United Kingdom Suppliers concerning the requirements for spares during the lifetime of equipment ordered; and
- (b) advise on the number and qualifications of the personnel necessary to service and maintain the equipment.

6. NOTIFICATION OF REQUIREMENTS
BY THE MALAYSIAN GOVERNMENT

For the purpose of Clause 5, the Malaysian Government will-

- (a) inform the United Kingdom Government of the requirements of the Malaysian Armed Forces for equipment and services for the Programme as outlined in this MOU or as otherwise arranged, so that where appropriate, the United Kingdom Government may offer timely advice on suitable United Kingdom solutions to meet those requirements; and
- (b) notify the United Kingdom Government in reasonable time of any assistance they may wish to request in pursuance of notified requirements and where relevant define their technical conditions.

FUNDING

7.1 The total payments for any equipment procured under this MOU will be provided by the Malaysian Government but in the event that there is any shortfall in the funding, the United Kingdom Government will assist in the arrangement of financial facilities to be provided by a United Kingdom bank or a group of United Kingdom banks and the United Kingdom Government will ensure that the interest to be charged will be at concessionary rates.

7.2 The financial facilities to be arranged with the assistance of the United Kingdom Government will be in currencies to be mutually agreed upon between the United Kingdom Government and the Malaysian Government.

8. MANAGEMENT FEE

8.1 In consideration of the assistance and support which the United Kingdom Government will provide under this MOU and the Supplements, the United Kingdom Government will be entitled to recover from the Malaysian Government a management fee of one per centum (1%) of the aggregate value of all Designated Contracts.

8.2 Upon notification by the Malaysian Government to the United Kingdom Government of the Malaysian Government's intention to procure any of the equipment listed in Annex A to this MOU, the Malaysian Government will pay to the United Kingdom Government one million pounds Sterling (£1 million) within thirty (30) days of such notification and thereafter, subject to clause 8.3, further payments calculated at one per centum (1%) of the aggregate value of each Designated Contract will be made by the Malaysian Government to the United Kingdom Government within thirty (30) days of the signing of each Designated Contract.

MOU, provided that such loss or liability is not due to the negligence or wilful conduct of any personnel, servant or agent of the United Kingdom Government.

10.3 Where there has been release of information by the United Kingdom Government to the Malaysian Government relating to any Designated Contract under this MOU, if the owner of the information which has been released suffers damage through unauthorised disclosure or use of the information by the Malaysian Government or anyone to whom the Malaysian Government has disclosed the information, the Malaysian Government will, without prejudice to any rights the injured owner may have, compensate the owner as if there had been an unauthorised disclosure or use by the Malaysian Government of such information communicated directly to the Malaysian Government by the owner.

11. INTELLECTUAL PROPERTY RIGHTS

The Malaysian Government recognises that technical information which may be released as a result of the activities of the United Kingdom Government under this MOU may be subject to intellectual property rights. The Malaysian Government accordingly will be responsible for protecting information received in pursuance of this MOU whether received from a United Kingdom Supplier under a Designated Contract or from the United Kingdom Government under this MOU from unauthorised usage and personnel.

12. SECURITY

12.1 The Malaysian Government will observe the levels of security classification for Equipment, Training, Information and other services as may be notified separately.

8.3 The one million pounds Sterling (£1 million) will constitute part of the management fee calculated at one percentum (1%) of the aggregate value of all Designated Contracts.

9. JOINT COMMITTEE

The two Governments will each nominate a Programme Director and the two Programme Directors will meet as the need arises to review progress of the Programme. The venues and timings of meetings of the Programme Directors will be agreed between the two Governments. Either of the two Governments may at any time call a meeting of the two Programme Directors to discuss any major point of pressing concern including disputes relating to interpretation of the MOU.

10. LIABILITY AND INDEMNITY

10.1 The United Kingdom Government and the Malaysian Government will waive any claim which either may have against the other, their officers, servants or agents in respect of any injury (including injury resulting in death), loss or damage whatsoever, other than those caused by wilful conduct or gross negligence, which are suffered by them or by their respective officers, servants or agents in connection with the implementation of this MOU or its Supplements save as expressly provided otherwise in any separate arrangements negotiated in pursuance of this MOU.

10.2 The Malaysian Government will hold the United Kingdom Government harmless from any and all loss or liability arising in connection with any claim for infringement of a patent or use of any other intellectual property rights arising as a result of the performance of the United Kingdom Government's services for the benefit of the Malaysian Government under this

12.2 The Malaysian Government will, in accordance with its national procedures, afford substantially the same degree of protection as is given by the United Kingdom Government to all classified aspects of the Equipment, Training and Information entrusted to it. Details of the United Kingdom Government's degree of protection afforded by its security are given in Annex B. The Malaysian equivalent security classifications are as follows:-

<u>United Kingdom</u>	<u>Malaysia</u>
Secret	Secret ('Rahsia')
Confidential	Confidential ('Sulit')
Restricted	Restricted ('Terhad')

12.3 Both parties will protect any classified information to which it may be given access arising from experience with the equipment by either party. Further both parties shall not pass to any Third Party any equipment or associated information whether classified or not, supplied under this MOU, its Supplements or Designated Contracts without first obtaining the written consent of the other.

12.4 Requests for visits by personnel of one country to an establishment of the other country will be coordinated through normal channels, and will conform with the established visit procedures of the host country. Request for visits under this MOU will cite the MOU as the basis for such requests. Lists of personnel who are required to visit on a continuing basis will be submitted through official channels in accordance with established visit procedures.

12.5 All such visiting personnel will comply with all security and other relevant regulations of the host country.

12.6 The provisions regarding security will continue to apply after any termination of, or withdrawal from, this MOU.

13. COUNTERTRADE

In substitution of the undertaking of the United Kingdom Government to purchase items produced by the Malaysian Defence Industry provided for in the Protocol, the two Governments hereby agree that each Designated Contract will contain provisions relating to Countertrade in the amount to be agreed upon between the United Kingdom Suppliers and the Malaysian Government.

14. AMENDMENTS AND DISPUTES

14.1 This MOU may be amended with the mutual consent in writing of both Governments.

14.2 Any disagreement regarding the interpretation of this MOU will be resolved by consultation between the two Governments without reference to a third party or international tribunal.

15. VALIDITY

15.1 This MOU will remain in effect until terminated by joint decision of the two Governments, but in the event that either Government finds it necessary to discontinue its participation under this MOU before a joint decision on termination is taken, it will give notice in writing to the other Government, at least three (3) months before the effective termination date. The two Governments will meet immediately and consult together to enable them to evaluate the consequences of termination of the MOU, and in the spirit of

cooperation, to take any action necessary to alleviate problems arising from termination.

15.2 Notwithstanding the provision of Clause 15.1, the termination of the MOU will not affect any Designated Contract and its associated Supplements which have been signed and they will continue until due discharge by performance.

Signed in duplicate on

.....
For the GOVERNMENT
OF MALAYSIA

.....
For the GOVERNMENT
OF THE UNITED KINGDOM
OF GREAT BRITAIN AND
NORTHERN IRELAND

SECRET

FIRST PRIORITYLIST IAIR FORCE

1. 12 x Tornado Aircraft IDS including trainer and ECR Variants and Simulators.
2. 2 x Martello 3 D Radar.
3. 1 x Battery Rapier Blind Fire of 12 Fire Units.
4. Weapon Load and Sea Eagle Anti Ship Missiles.
5. Electronic/Avionic upgrade for A4 and F5E Aircraft.

ARMY

6. 2 x Regt 155mm Medium Gun (40-9=31 guns).
7. 1 x Regt 105mm Light Guns (20 guns).
8. Equipment for Locating Artillery.
9. Project Gemas.
10. Project Mersing.
11. Communication Equipment (Army and Air Force).
12. 1 x Regt Javelin/Star Streak
(2 Btys of 48 Launchers)

NAVY

13. 1 x Refurbished Submarine (EX RN).
14. Infrastructure/Simulation Facilities.
15. 6 x WASP Helicopter (update heli).

ARMED FORCES HEADQUARTERS

16. An integrated Command, Control, Communications and Intelligence System (C³I) with application to naval and land forces as well as Air Defence.

1 of 2

SECRET

SECRET

SECOND PRIORITY

LIST II

ARMY

1. LAW (Light Anti-Tank Weapon) Qty 200.
2. Engineer Equipment-Bridging:
 - a. Class 60 Tac Bridge (12)
 - b. Floating Bridge (4)
 - c. 3 Ton Tipper (15)
3. Training Equipment:
 - a. SMART (11 sets)
 - b. ADT3 (2 Domres)
4. Vehicles:
 - a. 3 Ton or 4 Ton GS Cargo (500)
 - b. 3/4 Ton GS Cargo (500)

NAVY

5. 1 x New Submarine inclusive of infrastructure.
6. Surface Ship (1 unit) - OPV.

LIST III

ARMY

1. 1 Bty Javelin/Star Streak (24 Launchers).

NAVY

2. Surface Ship (2 units) OPV.
3. Naval Air Wing infrastructure.

2 of 2

SECRET



Foreign and Commonwealth Office

London SW1A 2AH

11 April 1989

mt
Prime Minister

Dear Charles

Not exactly a sparkling display by Balfour Beatty
08/11/89

ATP Malaysia: Pergau Hydro-Electric Project

You will recall that, when she saw Dr Mahathir on 15 March, the Prime Minister informally conveyed the offer of a package of financial support for the off-shore portion of this project, with a grant element of 35%, up to a maximum of £68.25 million.

The ATP offer was based on an estimate by Balfour Beatty, the lead contractor, of UK and eligible EC content amounting to a maximum of £195 million and an overall contract price of £316 million. We had not intended making an aid offer until the consortium had final prices but there was very strong pressure from them for an early offer and we accepted, in good faith, their assurance that £195 million was a maximum figure.

After the offer had been made, Balfour Beatty submitted revised figures which showed a very large increase in cost. The contract is now expected to consist of UK and eligible EC content of £282 million, with an overall contract price of £397 million. The new figures would imply an ATP contribution of £98.7 million, some 45% more than the ATP offer already made. Balfour Beatty have acknowledged that the costs presented earlier had been on the basis that they were the maximum figures likely in practice.

At this increased cost the project no longer looks economically viable, since the provision of gas turbines would be a cheaper alternative means of meeting demand for electricity. The increased ATP requirement will put severe pressure on the ATP budget to the possible exclusion of other business. Despite this, it would be extremely difficult not to support the project if the UK consortium succeeds in its negotiations.

/We



We are therefore proposing to authorise our High Commissioner in Kuala Lumpur to send a further letter to the Malaysians which reaffirms the informal offer made by the Prime Minister (which for Consensus reasons cannot be openly acknowledged) while leaving open the option of a soft loan (with a 35% grant element) to fill the gap that might still exist after negotiations. We assume the Malaysians will be surprised at the extent to which the UK consortium's price exceeds the price estimates given in a 1988 feasibility study, and that they will be aggressive in negotiating for reductions. We are simultaneously instituting our own value for money investigation, which will be very rigorous and will, we hope, be ready within a few days. We shall be putting the conclusions of our investigation to the consortium, making it clear to them that we shall not be ready to provide aid at a level higher than is consistent with the findings of the investigation.

As Balfour Beatty now accept, their failure to provide us with accurate cost estimates at the time we were considering the case for aid for the project has placed us in a very difficult position. This is all the more regrettable in view of the pressure they exerted in order to get a quick and favourable decision on ATP support before the meeting last month of the two Prime Ministers. However we shall make every effort, particularly by means of our value for money investigation, to retrieve the situation as far as possible.

I am copying this letter to Neil Thornton (DTI) and Jonathan Taylor (HM Treasury).

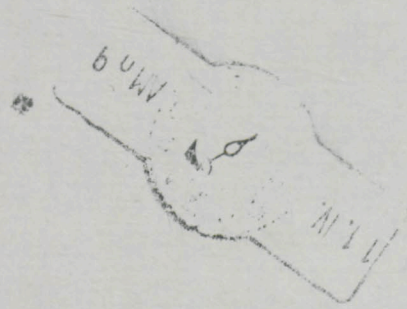
Yours sincerely

R N Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

MALAYSIA: Relations
Pt 3



cc P/C



Foreign and Commonwealth Office

London SW1A 2AH

10 April 1989

CDP
1/4.

Dear Charles

We received today via the Malaysian High Commission the attached self-explanatory letter from Dr Mahathir Mohamad to the Prime Minister. As you see it has been considerably delayed in reaching us.

Yours ever

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street



copy (2)

Richard
 CD
 7/4.
 Mr

MO 6/19/7L

PRIME MINISTERMALAYSIA

1. As I mentioned this morning at Cabinet, I paid a visit to Kuala Lumpur last Friday in the course of my visit to Australia and South East Asia. I am writing to note for the record the outcome of the visit.

2. I met the Malaysian Defence Minister and the members of the Malaysian Defence Council for a formal session in which a number of issues were discussed, with predictable predominance being given to the defence procurement package. The Malaysian Defence Minister also hosted a dinner on 31st March at which all the members of the Defence Council were present with their wives. The atmosphere of the official and social events was particularly cordial and frank and reflected the vastly improved relationship between the two countries.

3. I also met the Malaysian Finance Minister, Mr Daim, and was handed a letter which specified the defence projects to be afforded priority treatment by the Malaysian Government. These are:-

- the Tornado IDS aircraft (number unspecified but believed to be 8) from BAe.
- Marconi Martello Air Defence Radars (number unspecified but believed to be 2) from GEC-Marconi.
- a submarine project (again, vague as to quantity) from VSEL.



- a co-ordinated command, control, communications and intelligence system with multi-service application, from GEC-Marconi.
- the 'Mersing' special forces base, from John Laing Plc and the so-called GEMAS project for military workshops and ranges from Trafalgar House.

Our estimate of the total value of these projects is £1.25Bn approx.

4. This is excellent news and represents a major step forward in the defence sales package. The Defence Export Services Organisation is now co-ordinating the efforts required to get to the stage of contract negotiations for the companies involved.

5. During my meeting with Mr Daim, and as requested by our High Commission, I took the opportunity to ask about the state of two civil projects. For the first of these, the Pergau hydro-electric scheme in which Balfour Beatty and GEC have a strong interest and for which £68.5M of ATP is pledged, Daim said that the contract would be awarded to the British consortium. However for the submarine cable project, for which STC had been competing and about which you wrote to Dr Mahathir, the news was not so good. Daim said that the Japanese firm would get the contract because its price was about £1.0M less than that of STC.

6. On Sunday I bade Dr Mahathir farewell at Heathrow. The Malaysian Prime Minister appeared relaxed and fit after his holiday in Spain and Morocco. He agreed that the defence business should lead to wider co-operation (indeed this was already happening). When I expressed disappointment at the outcome of the submarine cable project, Dr Mahathir, perhaps predictably, said in effect that we could not expect to win them all.



7. I believe that it will be essential for Ministers to sustain close contacts with their counterparts in Malaysia if we are to maintain the momentum of this package. It would, I believe, be extremely helpful in this context if you were able to spare an hour, during your visit to Kuala Lumpur for the CHOGM this autumn, to see something of the Malaysian Armed Forces. If you are content I will seek to find a suitable opportunity.

8. I am copying this minute to Geoffrey Howe, David Young and John Major, and to Sir Robin Butler.

A.Y.

Ministry of Defence

6th April 1989



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

4 April 1989

EL
PRIME MINISTER'S
PERSONAL MESSAGE

SERIAL No. T 66a/89

SUBJECT cc Mather
OPS

cc Backup

Dear Prime Minister,

At our meeting on 15 March, you handed me a personal letter on the subject of the author Salman Rushdie and his book "The Satanic Verses". It is clear that this is a matter of great personal importance to you, and I have carefully examined the points you raise.

I very much regret that you have taken such exception to the attitude of the Western democracies on this affair. I must emphasise that the British Government do not in any way condone or endorse Mr. Rushdie or the content of his book. I am well aware of the distress it has caused to you and to so many in the Islamic world. We suffered a similar experience over the film "The Last Temptation of Christ" which was deeply offensive to many Christians.

Freedom of expression in this country, within the bounds of British law, is a fundamental right to which we do indeed attach major importance. We are not seeking to impose alien systems or values on the Muslim world or indeed on anyone. Nor do we seek to force other countries to publish or condone The Satanic Verses. We understand and respect the right of any country to approach it within the framework of their own laws and customs. But we do absolutely reject Ayatallah Khomeini's claim to be able to sentence a British citizen, or a citizen of any other country, to death. This has nothing to do with relations between Christians and Muslims, or with the West trying to impose its thinking on the Islamic world.

It is a simple matter of respect for international law, and national sovereignty. Nothing can justify incitement to murder. I know that many Islamic governments, including your own, have refused to endorse Ayatollah Khomeini's threats.

I am sorry you feel that Western-controlled world media have made a particular target of the Muslim world, because this is certainly not the case. This century has seen a growing understanding between the nations, cultures and religions of the world, and we must continue to work to improve that understanding. The British Government and people have a deep respect for the Islamic faith, for its lasting contribution to world civilisation and for the role it plays in the world today. We count many Islamic countries, especially your own, among our very good friends. And we now number more than two million Muslims among our fellow citizens here in Britain.

Islam, like Christianity, is a religion of tolerance. This sad affair must not be allowed to impair all our efforts to improve understanding between the Islamic world and the West. Our great religions will survive long after this book is forgotten.

Warm regards

Yours sincerely

Margaret Thatcher

His Excellency Dato' Seri Dr. Mahathir bin Mohamad

KK



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 April 1989

MALAYSIA

The Prime Minister has signed the reply to Dr. Mahathir's letter about "The Satanic Verses". I enclose her letter, which is modified only very slightly from the draft you sent me. I should be grateful if it could be delivered as soon as possible.

(C. D. POWELL)

R. N. Peirce, Esq.,
Foreign and Commonwealth Office.

ES

CONFIDENTIAL

case ✓



Foreign and Commonwealth Office

London SW1A 2AH

3 April 1989

Dear Charles

Prime Minister's Meeting with the
Malaysian Prime Minister

In your letter of 15 March you enclosed a letter about "The Satanic Verses" which Dr Mahathir handed the Prime Minister at their meeting that morning. You reported the following day that Datuk Arumugam claimed the letter was a sop to the UMNO Youth Organisation, and no more than a protocol reply was required.

We are not convinced by Arumugam's claim. The evidence is that Dr Mahathir personally holds many of the views expressed in the letter. He is inclined to blame British and Western values for the ills of the Third World and his extreme anti-Zionism was clearly revealed by his reaction to President Herzog's visit to Singapore in 1987 (the second paragraph on page 4 is a veiled reference to Israel). We therefore recommend a reasoned reply, as originally requested, and enclose a draft accordingly.

Yours ever
R N Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

Malaysia UK / Malaysia Role
Part 3.

JOHN B. HARRIS, JR. (1914-1992)

1975-1976



DRAFT: minute/letter/teleletter/despach/note

TYPE: Draft/Final 1 +

FROM:
Prime Minister
DEPARTMENT:

TEL. NO:

Reference

BUILDING:

ROOM NO:

Your Reference

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

TO:

Copies to:

Dr Mahathir bin Mohamad
Prime Minister of Malaysia

To Visme

SUBJECT:

EL3DLG

PRIVACY MARKING

..... In Confidence

CAVEAT

At our meeting on 15 March, you handed me a personal letter on the subject of the author Salman Rushdie and his book "The Satanic Verses". It is clear that this is a matter of great personal importance to you, and I have carefully examined the points you raise.

I very much regret that you have taken such exception to the attitude of the Western democracies on this affair. I must emphasise that the British Government do not in any way condone or endorse Mr Rushdie or the content of his book. I am well aware of the distress it has caused to you and to so many in the Islamic world.

Freedom of expression in this country, within the bounds of British law, is a fundamental right to which we do indeed attach major importance. However, I assure you that we are not seeking to impose alien systems of values on the Muslim world. Nor do we seek to force

We suffered a similar experience over the film "The Last Temptation of Christ" which was heavily censored.

Enclosures flag(s)

offering no new chapters.

or added on anyone

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

PRIVACY MARKING

.....

In Confidence

other countries to publish or condone The Satanic Verses. We understand and respect the right of any country to approach it within the framework of their own laws and customs. ^{But} ~~However,~~ ^{do} we absolutely reject Ayatollah Khomeini's claim to be able to sentence a British citizen, or a citizen of any other country, to death. This has nothing to do with relations between Christians and Muslims, or with the West trying to impose its thinking on the Islamic world. It is a simple matter of respect for international law, and national sovereignty. Nothing can justify incitement to murder. I know that many Islamic governments, including your own, have refused to endorse Ayatollah Khomeini's threats.

^{an} ^{sorry} ^{you} ^{feel}
~~I was especially saddened to hear you suggest that~~
 Western-controlled world media have made a particular target of the Muslim world, ^{because this} This is certainly not the case. This century has seen a growing understanding between the nations, cultures and religions of the world, and we must continue to work to improve that understanding. The British Government and people have a deep respect for the Islamic faith, for its lasting contribution to world civilisation and for the role it plays in the world today. We ^{can't} ~~could~~ many Islamic countries, especially your own, among our very good friends. And we now number more than two million Muslims among our fellow citizens here in Britain.

Islam, like Christianity, is a religion of tolerance. This sad affair must not be allowed

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

PRIVACY MARKING

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In Confidence

to impair all our efforts to improve understanding
between the Islamic world and the West. I hope that
~~you and I, Prime Minister, can through our personal~~
~~exchanges achieve a clear perspective on this~~
~~important issue and so contribute to calming the~~
~~feelings it has aroused worldwide.~~

great religions ~~of~~ our religions
~~we for two days to be~~
~~damaged by such~~ will survive
long after this book is
forgotten.



MURRAY
 R
 ams
 pc

10 DOWNING STREET

LONDON SW1A 2AA

16 March 1989

From the Private Secretary

Dear Bob,

PRIME MINISTER'S MEETING WITH
 THE MALAYSIAN PRIME MINISTER

I had a brief talk with Datuk Arumugam this afternoon. He told me that Dr. Mahathir had very much enjoyed the meeting with the Prime Minister and had been gratified at the trouble she had taken to call on him. He had subsequently sent further instructions to Kuala Lumpur on the opening of negotiations on the defence package.

I said to Arumugam that we had been rather rocked by the severity of Dr. Mahathir's letter on the "Satanic Verses". Arumugam claimed that it was not Mahathir's letter. It was a sop to the UMNO Youth Organisation and reflected their views. He had agreed to send it to diffuse their intention to demonstrate against the book. No more than a protocol reply was required. I do not know to what extent this is an accurate account.

I am copying this letter to Brian Hawtin (Ministry of Defence).

Yours sincerely,

CHARLES POWELL

R. N. Peirce, Esq.,
 Foreign and Commonwealth Office

CONFIDENTIAL



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

SUBJECT ^{file}
ce MASTER ^{APC}

File: MALAYSIA
Visits of Malaysian PM
Part 3.

15 March 1989

cc Backup

Dear Bob,

PRIME MINISTER'S MEETING WITH THE MALAYSIAN PRIME MINISTER

The Prime Minister had a talk with Dr. Mahathir this morning at the Malaysian High Commission in Belgrave Square. The Malaysian High Commissioner and one of Dr. Mahathir's Private Secretaries were also present. The Prime Minister commented that she found Dr. Mahathir fit and in good form.

Introduction

The Prime Minister complimented Dr. Mahathir on his remarkable recovery. She thanked him for Malaysia's help with the preparatory conference on Vietnamese boat people. She remarked on the arrival in showrooms today of the Proton car. Dr. Mahathir commented, in relation to this last point, that press comments suggested that the Proton was seen as a threat.

Bilateral Relations

The Prime Minister said that she was very glad that the Air Services dispute had been resolved in a way which was satisfactory to both airlines and would avoid damaging disputes in future. Dr. Mahathir said that Malaysia was finding it difficult to obtain the aircraft to service the additional frequencies. MAS had two 747-400 aircraft on order but delivery had been delayed and it was virtually impossible to find aircraft to lease.

The Prime Minister continued that she hoped that rapid progress could now be made on implementation of the defence sales package. It was for the Malaysians to tell us what their priorities were. But she assumed that Tornado, Rapier, the Martello Radar and Command/Control/Communications systems were high on the list. Dr. Mahathir said that the Malaysian military were working on their priorities. He was awaiting their recommendations.

The Prime Minister said that she hoped progress would also be made on civil projects. She recalled that, at their last meeting, she and Dr. Mahathir had discussed the Hill Road Project. Dr. Mahathir commented that there had been some problem in arranging a survey. There was also a tendency to criticise the project as a waste of money. But without it, the hill areas of Malaysia would never be opened up. He was confident the project would go ahead. The Malaysian government would try to minimise damage to forests.

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The Prime Minister said that she was grateful for Dr. Mahathir's intervention on the east/west submarine and telecommunications project. Dr. Mahathir said that he was not sure where this stood. He thought that STC were still talking to STM.

The Prime Minister said that we had just taken the decision to make ATP support available for the Pergau hydro-electric scheme in which major British companies were involved. We were able to offer a package of financial support for the off-shore element of this project, with a grant element of 35 per cent, up to £68.25 million. Dr. Mahathir expressed appreciation.

Dr. Mahathir commented that Malaysia was also intending to privatise Kuala Lumpur airport. There were only two tenders for the contract and BAA were well placed. He hoped for a decision soon. The Prime Minister said that she was glad that conditions now seemed favourable for major civil and defence projects to move ahead.

Malaysia Internal

Dr. Mahathir confirmed that the new Agong would take office on 26 April and would, of course, welcome The Queen on her State Visit. The Prime Minister said that The Queen was much looking forward to this.

The Prime Minister enquired about progress in resolving the problem of the judges. Dr. Mahathir said that the new Lord President was hastening cases but there was still a heavy backlog.

Dr. Mahathir volunteered that the Malaysian economy was doing very well and Malaysia was settling down politically.

CHOGM

The Prime Minister said that she understood that Pakistan was anxious to return to the Commonwealth and that Dr. Mahathir was taking steps to contrive this. —Dr. Mahathir confirmed that he had spoken to both the Indian and Pakistani governments in the hope of being able to ease Pakistan's passage back. Pakistan did not want to seem to be begging for membership. The Prime Minister commented that Benazir Bhutto had made a good start. Personal relations between her and Rajiv Gandhi were good. Dr. Mahathir agreed but predicted renewed problems with India in the longer term. It would be best to get Pakistan back into the Commonwealth now before the situation deteriorated. The Prime Minister asked whether Rajiv Gandhi had agreed to this. Dr. Mahathir replied that, as far as he could gather, Gandhi was content.

The Prime Minister enquired about the position with regard to Fiji. She thought it would be better to bring Fiji back into the Commonwealth sooner rather than later if that were possible. Dr. Mahathir said that he had recently seen Natwar Singh to try to make him understand Fiji's problems. Ratu Mara needed support and advice. Dr. Mahathir stopped

ort of commenting directly on the question of Fiji's return to the Commonwealth.

The Prime Minister hoped that South Africa would not dominate the agenda of CHOGM. There were important changes taking place and the Namibia Agreement was of great significance. The Namibia elections would follow hard on the heels of CHOGM. The Commonwealth should not take any action which gave South Africa an excuse to interrupt or delay its disengagement from Namibia. Meanwhile, she would be urging Mr. Gorbachev to ensure that the Cubans in Angola kept to their side of the agreement.

Brunei

The Prime Minister commented that the Sultan of Brunei appeared to be taking more of a role in regional affairs. Dr. Mahathir confirmed this.

Cambodia

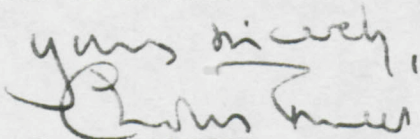
The Prime Minister observed that it was very difficult to pin down Prince Sihanouk on practical matters. She thought it would be difficult to reach a settlement in Cambodia. Dr. Mahathir said that Prince Sihanouk had been too optimistic about the prospects. He had adopted a high and mighty attitude and had dismissed the efforts of the JIM. In his view there would need to be a strong participation by the United Nations in any settlement, to ensure that the Khmer Rouge did not once again dominate. He had the strong impression that the Vietnamese were now genuinely keen to withdraw from Cambodia.

Rushdie

The Prime Minister said that we were grateful for Malaysia's moderate stance over the Satanic Verses. She could well understand how offended Muslims felt by Rushdie's book. But she believed that the great religions were strong enough to endure such attacks. We could not accept that the leader of another country could issue an edict for the murder of one of our citizens. Dr. Mahathir said that there had been only minor demonstrations in Malaysia. The Government had taken no action other than to ban the book. He had set out his personal views in writing. He handed the Prime Minister his letter.

I enclose a copy of this. As you will see it is cast in exceptionally strong language which was not reflected in any way in Dr. Mahathir's demeanour at the meeting itself. I do not know whether he has written in these terms for the record or whether his letter reflects his strong personal feelings on the matter. The Prime Minister wishes to sent a reasoned reply. I should be grateful for a draft.

I am copying this letter to Alex Allan (H M Treasury), Brian Hawtin (Ministry of Defence), Neil Thornton (Department of Trade and Industry) and Myles Wickstead (Overseas Development Administration).

yours sincerely,

C. D. POWELL

R. N. Pierce, Esq.,
Foreign and Commonwealth Office



file

10 DOWNING STREET

Duty Clerk

Pl. keep body

of

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M
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Cliff
27/1

NW Adams, JCHU

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The original is being taken by
me to Singapore, for onward
transmission to Malaysia.

10 DOWNING STREET
LONDON SW1A 2AA

Russell Baker
24/1

THE PRIME MINISTER

26 January 1988
FAF 08712

Dear Prime Minister,

I am very pleased indeed that our two Governments are to co-operate to meet Malaysia's defence needs. This important initiative has my full backing and support; it will strengthen the links between our two Armed Forces, whose co-operation is already of long-standing. And it will also be a further step, following your own very successful visit to the United Kingdom last year, in building up the relations between Britain and Malaysia.

I send you my best wishes for the success of our co-operation in this field, together with my warm regards.

Yours sincerely
Margaret Thatcher

His Excellency Dato' Seri Dr. Mahathir bin Mohamed

MALAYSIA: MEETING WITH DR. MAHATHIR

1. Pleased to see again. Compliment on economic performance. Look forward to seeing him in London in September for working lunch.
2. Sympathy for difficult internal problems. Need for friends - one purpose of your visit.
3. Welcome progress made on defence package. Would mark a very important step in co-operation between Britain and Malaysia. Hope agreement can be signed in September. Our aid package cannot be linked to defence sales. But a firm commitment nonetheless, with promise

to find further support for eligible projects if and when initial £200 million exhausted.

3. Welcome his advice on Thailand visit and on Cambodia.

4. Word about significance of 1992.

5. (If raised by Mahathir). On air services, the essential step is for MAS to talk to BA. We have reason to believe that such talks could make progress.

6. Recognise and welcome Malaysia's bid for Security Council seat. First step is to get support of regional group. But if there is a vote, we would give Malaysia's candidacy very careful consideration.

7. Look forward to CHOGM in Kuala Lumpur. Hope we can stick to format used at Vancouver, ie. a 5-6 day meeting with short retreat in mid-week.

8. Welcome Malaysia's decision to ratify Investment Promotion and Protection Agreement. Want to see more British investment in Malaysia. Know that several British companies are pursuing contracts in particular

STC's bid for the submarine cable contract.

9. Grateful for co-operation on drugs and commitment to negotiated bilateral agreement on confiscation of assets.

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TO DESKBY 071130Z BANGKOK
TELNO 381
OF 071027Z AUGUST 88
INFO DESKBY 071130Z KUALA LUMPUR

FOR CHARLES POWELL FROM RESIDENT CLERK
YOUR TELNO 552 AND KUALA LUMPUR'S TELNO 413:
MALAYSIAN DEFENCE PACKAGE.
1. WE HAVE THE NECESSARY WHITEHALL CONSULTATION IN HAND
AND WILL REPLY AS SOON AS POSSIBLE ON 8 AUGUST.
IN THE MEANTIME ANY COMMENTS WHICH YOU HAVE ON KUALA LUMPUR'S
PROPOSED TEXT WOULD BE WELCOME BY 080800Z.

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TELEGRAM

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FLASH

KUALA LUMPUR

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TO FCO

REPEAT FOR INFORMATION

FOLLOWING FROM CHARLES POWELL

FCO TEL NO 382 TO BANGKOK: MALAYSIAN DEFENCE PACKAGE

I am sure that the Prime Minister will accept the amendments proposed in paragraph 1a, b and c of telegram under reference. I do not (repeat not) think that she would wish to make the addition proposed in paragraph 2 of that telegram. Please now deliver the message as amended as soon as possible. Signed original will follow by bag.

C.D.P.
S/R.

VISIT OF PM TO S E ASIA

MALAYSIA

Background Brief: (Trade and Investment)

The Malaysian Economy recovered significantly in 1987, with GDP growth registering 4.7% against an increase of 1.2% in 1986. In 1987, UK visible exports increased from £227m to £258m, UK imports also increased from £350m to £397m, leaving the overall visible balance still in Malaysia's favour. Major UK exports include Electrical and industrial machinery, power generating machinery and chemicals. Major UK imports include Crude Rubber, cork and timber products and electronic and electrical equipment. UK's market share is 4.5% {Japan (26%), USA (16%), Singapore (13%), W Germany (4.5%), France (2.1%) and Italy (1.3%)}. However, according to Malaysian figures, UK is third largest investor in manufacturing (after Singapore and Japan). UK current project interests include:-

- Biwater Rural Water Supply Project (value £410m). First major Government contract since end of 'Buy British Last' Directive, 1981-83.
 - North-South Toll Road (value £1,000m). Concession agreement now signed between Malaysian government and United Engineers (UE) consortium (which includes Taylor Woodrow International).
 - Supply of Railway Sleeper Coaches (value £12.2m). BREL pursuing contract. DTI currently considering BREL's ATP application.
 - Upgrading of Air-Traffic Control facilities (value £12m). CAA won consultancy (value £0.5m) for above. UK companies (Plessey, Marconi, Cossor) well placed to pursue main contract.
 - Supply of generating sets for Sandakan Power Station (value £4.6m). NEI due to sign contract imminently.
 - East/West Malaysia submarine telecommunications cable (value £46 million). UK bidder is STC. HMG have given ATP support in grant form. STC in strong contention with NEC (Japan) as main rivals (also aid supported).
 - Hospitals: Both Laing and Costain are promoting hospital projects with values of £100 million and £300 million respectively. The Laing approach is based on a DHSS copyright system called "Nucleus".
- OT2/2c
July 1988



CABLE AND WIRELESS PUBLIC LIMITED COMPANY

MERCURY HOUSE · THEOBALDS ROAD · LONDON WC1X 8RX · TEL 01-242 4433 · TELEX 23181 CANDW G · FAX 01-831 6921

28th July 1988

Jonathan Solomon, M.A.
Director, Corporate Strategy

CONFIDENTIAL

Mr. Charles D. Powell,
Private Secretary, Foreign Affairs,
10 Downing Street,
London SW1

Dear Mr. Powell,

1. Following a note from Datuk A.P. Arumugam, Brian Pemberton, our Joint Managing Director, has asked me to let you have some information on the relations between Cable and Wireless and STM (Syarikat Telekom Malaysia Berhad), in case the subject comes up during the Prime Minister's visit to Malaysia next week.

2. We are still in discussion with STM, but have not been able to conclude a deal in our mutual interest so far. The facts are as follows:-

- (i) On 2nd April 1987, STM and Cable and Wireless signed a Memorandum of Understanding aimed at internationalising the Kuantan/Kota Kinabalu cable. Our Chairman, Sir Eric Sharp, met the Prime Minister of Malaysia, the Minister of Communications, Leo Moggie, and the Chairman of STM, who all assured him of their support.
- (ii) All was set for establishing a Joint Venture company to construct the K/KK cable and to link it via the Philippines to Hong Kong, thereby connecting Malaysia to our Global Digital Highway via Japan, and making Malaysia a hub centre of the ASEAN region. We even sought permission from the Philippines Authorities for such a cable system.

Jonathan Solomon, M.A.
Director, Corporate Strategy

- (iii) Unfortunately, the STM Board for a variety of reasons, external to the merits of the case, was unable to decide positively and the Chairman of STM was induced to sign a letter to Sir Eric turning off the Joint Venture. STM also officially notified the PTTs of the Region that they had broken off relations.
- (iv) Despite this turn off, we responded in late 1987 and early 1988 to requests from within Malaysia to reconsider the JV.
- (v) In recent times - perhaps thanks to the closer liaison between HMG and the Government of Malaysia - there has been a reignition of our relations.
- (vi) There have been positive signals from STM, Leo Moggie and Datuk Arumugam.

3. Our formal position is relatively straightforward. If the Government of Malaysia and STM can be persuaded to conclude a package deal for Cable and Wireless:

- (a) to construct and operate the cable systems to make Malaysia a hub in the region, and to connect it to our Global Digital Highway in Joint Venture with STM along the lines of the signed MOU.
- (b) to operate a VSAT system within Malaysia.
- and (c) to take up a 20% equity position in STM prior to general flotation.

We will be only too pleased to send a high level delegation to conclude matters in the mutual interest of both sides.

Jonathan Solomon, M.A.
Director, Corporate Strategy

4. Mrs. Thatcher has already done a great deal to put Cable and Wireless back on the map. If she were able to give her seal to a deal along the above lines, I am sure that neither HMG nor the Government of Malaysia will be disappointed.

I am copying this letter to Sir Eric Sharp and to Brian Pemberton here.

Best wishes,

Jonathan Solomon

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the department for Enterprise

CCP

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 0AA

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5422
Our ref PS3BEZ
Your ref
Date 27 July 1988

Dear Charles

I know that the Prime Minister's short stop-over visits to Malaysia and Singapore are not project-related, but I wonder whether you might draw her attention to two projects (one in each country) which this Department considers to be of commercial and industrial importance to British industry, and for which she might usefully voice support for the British bids if both timing and opportunity permit. The project in Malaysia is the East-West submarine telecoms cable (UK value £46 million) where our offer of concessional finance in support of STC's bid has now been matched by the Japanese, who are working hard to undermine the British company's bid.

The project in Singapore - Pulau Seraya Power Station, Phase II (value about £100 million) - is being pursued by two British companies (GEC and NEI, NEI having supplied Stage I), and it would be very helpful if the Prime Minister were to express the hope that one of the British companies will succeed in obtaining the order for Phase II.

Yours

Jeremy Godfrey

JEREMY GODFREY
Private Secretary

the
Enterprise
initiative



CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

27 July 1988

Dear Charles

Prime Minister's visit to South East Asia

This letter contains briefing for the Prime Minister's visits to Singapore, Kuala Lumpur and Thailand. I enclose personality notes on the Prime Minister's main interlocutors, a short note on the projects she will visit in Singapore, and background notes on trade and on Cambodia.

The lunch on board HMS Ark Royal is informal. Although some senior Singaporean Ministers will be present, issues of substance are unlikely to come up. The Prime Minister may wish to discuss with the Admiral her likely visit to the Armilla Patrol. In the late afternoon the Prime Minister will give an interview to the Singapore Broadcasting Corporation, for which briefing has been provided separately. She will travel on the Mass Rapid Transit (Singapore's underground), attend a Commissioning Ceremony for the "Teleview" 2-way Videotex system and visit a St Michael shop. Brief notes are enclosed. At the "Teleview" ceremony the Prime Minister will say a few words. A text has been provided.

The Prime Minister's objectives in Singapore will be to demonstrate Britain's high technology capacities and the country's relevance in the modern world. In her talks with Lee Kuan Yew she will wish to exchange views with a lively and informed interlocutor on world and regional issues and seek to modify his view of Britain as a declining power with an outdated social system.

The only substantive talks will be at the informal "round the pool" dinner with Lee Kuan Yew. Lee will look forward to a wide-ranging discussion of international issues, including the current state of East/West relations (including arms control), Southern Africa, The Gulf and international trade and economic issues. Lee's views on these subjects are not dissimilar from the Prime Minister's. There are no particular points that need to be made: Lee will be more interested in the Prime Minister's personal impressions of, for instance, her dealings with Reagan and Gorbachev. In Singapore's international economic dealings, Lee is concerned by the risks to Singapore's impressive economic recovery (GDP growth 8.8% in 1987 from -1.5% in 1985) from any growth in protectionism. The Prime Minister may wish to stress how much we value Singapore's commitment to free trade; to assure Lee that the

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EC has no plans to emulate the US decision to graduate Singapore from GSP and to welcome Singapore's positive response to recent initiatives for informal contact between the OECD countries and Asian newly-industrialising economies.

Lee may want to take this opportunity to justify to the Prime Minister his handling of recent security-related events in Singapore. In May and June 1987 22 people (mostly youngish, middle class professionals) were detained without trial under the Internal Security Act for an alleged Marxist conspiracy. Six of these (some of whom had in the interim been released and re-arrested) remain in detention. In May this year, a US Diplomat, Hendrickson, was expelled for allegedly attempting to interfere in Singapore's political process (the Singaporeans compare his behaviour unfavourably with that of the former British High Commissioner). In June, his alleged agent, the leading Lawyer Francis Seow, was detained under the ISA. (Seow was released on 16 July).

These measures no doubt reflected Lee's view that Singapore is a vulnerable society whose survival depends on consensus and respect for authority - confucian notions. They have also been seen as a prelude to a possible early general election (one is due before the end of 1989, but there have been suggestions that it could be held as early as the autumn of this year). But the notion that Singapore is seriously threatened by middle class Marxists or that the US was trying to undermine Singapore's stability is not very credible. There has been a good deal of international criticism (the Twelve made their concern at the detentions known in the margins of EC/ASEAN Foreign Ministers Meeting on 2-3 May) and some strain in Singapore's relations with the United States.

The Government have come under some pressure (from MPs and the public) to express concern to the Singapore Government. We have declined to do so and see no need for the Prime Minister to raise the matter herself. If Lee refers to it she might say that there are British critics, including some from the legal profession, who find it difficult to understand the justification for such tough measures. In response to press enquiries the Prime Minister might admit the concerns that exist in the UK but add that she has no wish to involve herself in Singapore's internal politics.

The Prime Minister will wish to take up Lee's views of Britain, which are in many ways out-of-date. Our High Commissioner wrote to Lee in June enclosing a positive article from "Fortune International" magazine entitled "Britain is Back". Lee replied on 14 June expressing scepticism about the irreversibility of Britain's recovery so long as the Labour Party remained committed to welfarism and to rejection of the

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"enterprise culture". In a more recent exchange with visiting British MPs Lee underlined his preoccupation with consensus by suggesting that progress in the UK depended on the leaders of the two main parties agreeing on means of tackling social problems.

The Prime Minister will wish to be aware of Lee's particular concerns in the Asia/Pacific area. His close relationship with Prime Minister Ratu Mara of Fiji may encourage him to seek the Prime Minister's views on the situation there. In replying the Prime Minister will wish to bear in mind that Fiji's new Internal Security laws have been consciously modelled on Singapore's own Internal Security Act.

Singaporeans have always feared that racial conflict or political upheaval in Malaysia might undermine their own hard-won integrity. They have been worried by Dr Mahathir's long drawn-out struggles with his Malay rivals (at times playing on emotive racial issues) and his campaign against the Judiciary (see paragraph 18 below). Lee expressed his anxieties on recent events in Malaysia to a group of British MPs, including Julian Amery and Lord Carver earlier this month. Lee is also concerned by economic dislocation and bureaucratic inertia in the Philippines. He fears that Mrs Aquino's achievements are ephemeral and that she is losing the confidence of the merchant classes. He favours American ideas for a concerted international aid initiative. Lee also fears that a failure of the current US/Filipino negotiations over Clark Air Base and Subic Bay Naval Base might precipitate a US withdrawal from the Western Pacific, which would compel Japan to assume a role as guarantor of security for which (because of her militarist past) she would be unsuited. The Prime Minister may wish to say that we support the retention of US bases in the Philippines; to assure Lee that we are aware of no US intention to withdraw and to encourage him to galvanise ASEAN into explicitly supporting the bases and distancing itself from woolly declarations in support of NAM language on zones of peace (ZOPFAN) and nuclear weapon free areas (SEANWFZ). Proposals for such zones in South East Asia have been current for a number of years. The ASEAN Summit in Manila in December issued a Declaration containing a commitment to intensify efforts towards establishing them. But among ASEAN countries at least Thailand and Singapore are hesitant. It would be difficult for a SEANWFZ to satisfy the UK's general criteria, on, for instance, NCND.

There are no bilateral issues of substance. However, the Prime Minister may wish to consider enlisting Lee's support in keeping the Kuala Lumpur CHOGM to the Vancouver format rather than the Nassau format (paragraph 14 below refers). She may

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also wish to assure Lee of our continued commitment to the Five Power Defence Arrangements by referring refer to the likelihood of informal Ministerial discussions in the margins of the forthcoming "Lima Bersatu" Air Defence Exercise. (See Australia brief for background) I enclose, at Annex C, a note on bilateral trade.

Our High Commissioner will probably raise with the Prime Minister his firm view that British enterprise is too passive and is being marginalised in Singapore and elsewhere. He has argued that we should change our traditional emphasis on support for direct exports to a strategy of "global awareness" under which we might promote direct new investment overseas, and encourage companies to set up regional offices. In fact, promotion of outward investment is a part of our global export promotion strategy and will be looked at again in the context of Lord Young's "export initiative", to be made public in the Autumn. Mr Pike has suggested a permanent product design centre in Singapore to improve the profile of British technology. This poses a number of difficulties, but a British exhibit will be mounted at a design forum in Singapore in September and the possibility of a series of targeted seminars is being pursued.

MALAYSIA

The only engagement is talks over tea at Dr Mahathir's residence.

The Prime Minister's objectives should be to continue the process of improving bilateral relations (which has been unsuccessfully pursued by her earlier visit to Malaysia and the Foreign Secretary's in April this year) and to consolidate her good personal relations with Dr Mahathir. She may wish to use this opportunity to invite Dr Mahathir personally to the small working lunch that she had agreed to give him on 27 September this year during a private visit that he will be making to London. Depending on the progress of negotiations, the Defence Package will probably dominate. Up-to-date briefing will be provided nearer the time. Suitable international topics will be the Toronto Summit and its effects on the developing countries, developments in the USSR (with which Malaysia is attempting to improve trade links), Afghanistan and Cambodia. On the Toronto Summit the Prime Minister may wish to draw attention to progress on agriculture and the need to continue momentum in the GATT Uruguay Round. She might also seek allay fears that 1992 will create a protectionist EEC by pointing out that the pressures within the Community favour liberalism rather than protectionism and that completion of the internal market will foster increased growth which, in turn, will increase demand for commodities and manufactured products from developing countries.

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Copyrights Convention, and recommend early Malaysian agreement to the draft bilateral copyright protection treaty which we have put forward. Without such an agreement Malaysia's copyright laws do not protect UK works unless first published in Malaysia. The Prime Minister might also refer to our continued commitment to the FPDA, our gratitude for training opportunities in Malaysia for UK forces, and the welcome development of our cooperation on drugs. In April, the Foreign Secretary and his Malaysian counterpart agreed in principle to negotiate a bilateral agreement on the confiscation of drug traffickers' assets. Action has awaited the introduction, in mid-July, of suitable Malaysian domestic legislation. We have now proposed to the Malaysians that negotiations should begin in October. The Prime Minister should have in mind the consular case of the British drug trafficker, Derrick Gregory, whose plea for commutation of his death sentence is to be considered by the Penang Pardons Board. If, as seems likely, the Pardons Board reject the plea, the Prime Minister has agreed in principle to a personal intervention with the Malaysian Prime Minister.

Dr Mahathir will be pleased to hear a reaffirmation of our determination to welcome Malaysian students, symbolised by the Foreign Secretary's announcement in April of two prestige fellowships. HMG currently provides £2.7 million a year under various award schemes to help over 700 Malaysian students study in the UK. The Malaysians remain very sensitive to any increases in education costs in the UK, and have been alarmed by a recent University Grants Committee recommendation that there be a 7% increase for overseas students. The Prime Minister might say that academic institutions set their own fees. Full-time (including overseas) students will pay only 20% of the Community Charge.

The Prime Minister should know that recent internal developments in Malaysia have attracted critics from the public, Parliament and senior legal circles. In April 1987 an unsuccessful attempt to oust Mahathir from the leadership of his overwhelmingly Malay political party (UMNO) led to the establishment of a second UMNO party. This unprecedented collapse in the public consensus among Malays gave rise to much racially divisive politicking which affected the Chinese and Indian communities and gave Mahathir a pretext, in October and November, to detain 119 people, including senior opposition figures, under the Internal Security Act (77 have since been released). The Judiciary have also become involved, notably in a case in which a court ruled that Dr Mahathir's party was illegal. Since March this year Mahathir has therefore also taken on the Judiciary and has worked successfully for the suspension of the Lord President and five Supreme Court judges.

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Under bilateral issues, Dr Mahathir is likely to raise Airline Malaysian Systems' desire for a sixth and seventh weekly frequency to London, which the Malaysians have linked to the defence package. Under the terms of our bilateral Air Services Agreement it is for the airlines (MAS and BA) to make joint recommendations to Governments on any increase in capacity, and then for Governments to decide the matter. The airlines have repeatedly failed to agree the level of traffic demand on the route (most recently in June) to justify an increase in capacity, and the Malaysians are now likely to press for Government to Government talks. If Dr Mahathir raises this, the Prime Minister might say that we will consider any request for talks carefully. In fact, we are bound to agree to them under the Air Services Agreement (ASA) if the Malaysians make a formal request. It remains our view that the only sensible way of conducting air services relations is on the basis of genuine mutual benefit. This line may need revision in the light of developments on the Defence Package.

Dr Mahathir may refer to Malaysia's candidacy for a UN Security Council Seat in 1989/90, on which they have lobbied us hard. The Prime Minister will wish to rehearse our policy that it is for regional groups (in this case the African and Asian Group) to decide among themselves which member countries to put forward as candidates. Any advance commitment of support might suggest we were attempting to manipulate the Security Council's membership for our own ends. But if the Group cannot agree and it comes to a vote at UNGA we will give Malaysia's candidacy very careful consideration. Dr Mahathir may also raise dates for CHOGM and a possible State Visit by The Queen afterwards. The Prime Minister will want to explain our wish to avoid the Nassau format at CHOGM, (straddling a week-end retreat), which Ramphal has sought to revive and to state our strong preference for a meeting in the week of 16 October on the pattern of the Vancouver meeting. The Queen would welcome an invitation to stay on for a State Visit. For planning purposes we need as much notice as possible. We understand that a formal invitation may not be possible until six months beforehand, but would welcome informal confirmation that one is planned as soon as the CHOGM dates are fixed.

The Prime Minister may wish to raise the healthy state of bilateral trade (see note enclosed) and our continuing major role as an investor (third largest overall). In this context she will wish to commend Malaysia's recent decision to ratify the bilateral Investment Promotion and Protection Agreement signed in 1981. This will be seen by potential UK investors as an important development. She might also urge Malaysia to adopt membership of the Phonogram Convention and International

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VISIT OF MALAYSIAN PRIME MINISTER: MEETING WITH THE PRIME MINISTER

1. DR MAHATHIR CALLED ON THE PRIME MINISTER AT 1200 ON 27 SEPTEMBER. FOLLOWING THE SIGNATURE OF THE DEFENCE MOU (COPY BY BAG) THERE WAS A SESSION OF TALKS, WHICH CONTINUED OVER LUNCH. DR MAHATHIR WAS ACCOMPANIED BY THE MALAYSIAN ATTORNEY-GENERAL, THE CHIEF SECRETARY TO THE GOVERNMENT AND THE MALAYSIAN HIGH COMMISSIONER. GILLMORE WAS ALSO PRESENT.
2. DEFENCE SALES. THE PRIME MINISTER SAID THAT THE MALAYSIANS WOULD NO DOUBT LET US KNOW HOW THEY WISHED TO PROCEED WITH THE PURCHASE OF THE ITEMS OF DEFENCE EQUIPMENT ON THE LIST ATTACHED TO THE MEMORANDUM OF UNDERSTANDING. WE WOULD BE READY TO SET UP A PROJECT TEAM TO HELP THEM ESTABLISH PRIORITIES, IF THAT WAS THEIR WISH. DR MAHATHIR CONFIRMED THAT THE MALAYSIAN GOVERNMENT WOULD INDEED LIKE THIS. HE MADE NO MENTION OF APPOINTING A PRIME CONTRACTOR.
3. CIVIL AID. THE PRIME MINISTER LOOKED FORWARD TO DISCUSSING WITH THE MALAYSIANS THEIR PRIORITIES WHEN IT CAME TO CIVIL PROJECTS. DR MAHATHIR SAID THAT THERE WERE SEVERAL MAJOR PROJECTS PENDING. ONE OF THE MOST IMPORTANT WAS THE HILL ROAD PROJECT, INTENDED TO OPEN UP THE MALAYSIAN HIGHLANDS FOR FARMING AND INDUSTRY AS WELL AS TOURISM (AND THE CONSTRUCTION OF AN INTERNATIONAL ISLAMIC UNIVERSITY). WHILE IT WAS A DIFFICULT PROJECT, AND WOULD NEED TO BE VERY CAREFULLY ENGINEERED TO AVOID A REPETITION OF THE PROBLEMS EXPERIENCED WITH THE EAST-WEST HIGHWAY, THE MALAYSIAN GOVERNMENT ATTACHED GREAT IMPORTANCE TO IT. THE PRIME MINISTER SAID THAT THE UNITED KINGDOM WOULD BE HAPPY TO CONTRIBUTE TO A FEASIBILITY STUDY.
4. DR MAHATHIR ADDED THAT THE MALAYSIAN GOVERNMENT ALSO GAVE A VERY HIGH PRIORITY TO THE PROPOSED SAIL TRAINING SHIP. THEY HOPED THAT THIS COULD BE COMPLETED IN TIME FOR THE QUEEN TO INAUGURATE IT DURING CHOGM IN OCTOBER, 1989. THEIR ADVICE FROM THE SHIPYARD WAS THAT IF AN ORDER WAS PLACED NOW, THE SHIP COULD

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BE COMPLETED IN TIME. THE PRIME MINISTER SAID THAT WE WOULD GIVE VERY RAPID CONSIDERATION TO HOW WE MIGHT CONTRIBUTE TO THIS PROJECT. THE MALAYSIAN HIGH COMMISSIONER SHOULD KEEP US INFORMED ABOUT HIS DISCUSSIONS WITH THE SHIPYARD.

5. MALAYSIAN ECONOMY. MR MAHATHIR SAID THAT THE MALAYSIAN ECONOMY WAS DOING VERY WELL, WITH GROWTH OVER THE FIRST SIX MONTHS OF 1988 RUNNING AT AN ANNUAL RATE OF 9 PER CENT. A GRATIFYING SHARE OF THIS WAS COMING FROM MANUFACTURED GOODS. HE MADE PARTICULAR REFERENCE TO THE MALAYSIAN-MANUFACTURED CAR, WHICH HE HOPED WOULD BE AVAILABLE IN EUROPE SHORTLY.

6. AIR SERVICES. DR MAHATHIR SAID THAT THE EXPANSION OF THE TOURIST INDUSTRY HAD A HIGH PRIORITY FOR MALAYSIA. IN THIS CONTEXT, THE FAILURE OF THE NEGOTIATIONS BETWEEN BRITISH AIRWAYS AND MAS TO REACH AGREEMENT ON ADDITIONAL FREQUENCIES FOR MAS WAS VERY DISAPPOINTING. BRITISH AIRWAYS HAD PUT FORWARD CONDITIONS WHICH WERE UNACCEPTABLE: INDEED, THEY HAD EVEN CHALLENGED MAS'S EXISTING RIGHTS, ARGUING FOR INSTANCE THAT IF A NON-STOP B747 FLIGHT WAS INTRODUCED, THE NUMBER OF PASSENGERS MUST BE RESTRICTED. THE FACT WAS THAT BRITISH AIRWAYS CHOSE NOT TO UTILISE THEIR RIGHTS FULLY, BECAUSE THEY PREFERRED TO CONCENTRATE ON SINGAPORE, BUT WERE UNFAIRLY REFUSING TO ALLOW MAS TO EXPAND. MALAYSIA'S REAL PROBLEM WAS THAT IT WAS CAUGHT BETWEEN SINGAPORE AND BANGKOK. BRITISH AIRWAYS CHOOSE TO DIRECT THEIR FLIGHTS TO SINGAPORE. AS A CONSEQUENCE, IT WAS SINGAPORE AIRLINES WHICH OBTAINED ADDITIONAL RIGHTS EVEN THOUGH MANY OF THEIR PASSENGERS WERE MALAYSIAN. THE PRIME MINISTER SAID THAT THE GOVERNMENT COULD NOT TELL BRITISH AIRWAYS WHAT TO DO. SHE HAD UNDERSTOOD THAT BRITISH AIRWAYS FELT THERE WAS NOT FULL RECIPROCITY IN THEIR AGREEMENT WITH MAS. BUT SHE WOULD HAVE ENQUIRIES MADE OF THE AIRLINE TO ESTABLISH EXACTLY WHAT THEIR POSITION WAS, AND WHY THE OBSTACLES MENTIONED BY DR MAHATHIR HAD SO FAR PROVED INSURMOUNTABLE.

7. TROPICAL TIMBER. DR MAHATHIR REFERRED TO INTERNATIONAL CRITICISM OF MALAYSIA'S LOGGING INDUSTRY. MALAYSIA HAD TO EXTRACT SOME ECONOMIC ADVANTAGE FROM ITS FORESTS, BUT TOOK GREAT CARE TO REPLANT AREAS WHICH HAD BEEN CUT. THE PRIME MINISTER REFERRED TO THE ENVIRONMENTAL CONSEQUENCES OF INDISCRIMINATE DESTRUCTION OF TROPICAL FORESTS, PARTICULARLY IN BRAZIL.

8. CHOGM. THE PRIME MINISTER THANKED DR MAHATHIR FOR HIS HELP OVER THE DATES FOR CHOGM IN 1989. SHE ENQUIRED WHETHER THERE WOULD BE A NEW AGONG BY THE TIME OF THE CHOGM. DR MAHATHIR CONFIRMED THAT THE PRESENT AGONG'S TERM OF OFFICE WOULD EXPIRE IN THE SPRING OF 1989.

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9. EUROPEAN COMMUNITY. THE PRIME MINISTER ENQUIRED ABOUT DR MAHATHIR'S VISIT TO BRUSSELS. DR MAHATHIR SAID THAT IT HAD BEEN DIFFICULT TO GET PEOPLE TO TALK ABOUT ANYTHING EXCEPT THE PRIME MINISTER'S RECENT SPEECH ABOUT EUROPE. HE HAD BEEN DISSATISFIED BY HIS DISCUSSIONS WITH THE COMMISSION, AND PARTICULARLY BY CHEYSSON'S CONSTANT LECTURING. THE PRIME MINISTER SAID THAT THERE WERE UNDOUBTEDLY SOME IN THE COMMUNITY WHO WANTED TO ERECT NEW BARRIERS AGAINST THE OUTSIDE WORLD AS THEY DISMANTLED THE BARRIERS WITHIN EUROPE. BRITAIN WAS THOROUGHLY OPPOSED TO THIS, AND WOULD FIGHT TO KEEP EUROPE OPEN TO THE REST OF THE WORLD.

10. CAMBODIA. DR MAHATHIR REFERRED TO HIS RECENT CONTACTS WITH PRINCE SIHANOUK. SIHANOUK SEEMED CONFIDENT THAT HE WOULD BE ABLE TO CONTROL THE VARIOUS FACTIONS IN CAMBODIA AFTER A SETTLEMENT, BUT HE (MAHATHIR) WAS SCEPTICAL OF THIS. DR MAHATHIR ALSO STRESSED THE NEED FOR A UN FORCE IN CAMBODIA TO SUPERVISE VIETNAMESE WITHDRAWAL. WITHOUT THIS THE KHMER ROUGE WOULD ALMOST CERTAINLY TAKE OVER. HE ACKNOWLEDGED, HOWEVER, THAT THE KHMER ROUGE COULD NOT BE LEFT OUT OF OUR CALCULATIONS. THE ESSENTIAL STEP WAS TO GET RID OF POL POT AND HIS IMMEDIATE SUPPORTERS. THERE WERE OTHERS IN THE KHMER ROUGE WITH WHOM IT WOULD BE POSSIBLE TO WORK. THE PRIME MINISTER REFERRED TO HIS COMMENTS DURING HER VISIT TO THAILAND ABOUT THE NEED FOR THE FIVE PERMANENT MEMBERS OF THE UN SECURITY COUNCIL TO TAKE A MORE ACTIVE INTEREST IN CAMBODIA. THE FOREIGN SECRETARY WOULD BE PURSUING THIS DURING HIS VISIT TO NEW YORK FOR THE UN GENERAL ASSEMBLY.

11. MALAYSIA INTERNAL. THE MALAYSIAN ATTORNEY GENERAL GAVE A BRIEF ACCOUNT OF DEVELOPMENTS IN THE CASE OF FIVE SUPREME COURT JUDGES HAD SUBMITTED ITS REPORT TO THE AGONG ON 26 SEPTEMBER. THE GOVERNMENT HAD NOT SEEN THE REPORT, AND DID NOT KNOW WHAT WAS IN IT. NOR WAS THE AGONG REQUIRED TO CONSULT THEM. THE CONSTITUTION REQUIRED HIM TO ACT ON THE ADVICE OF THE TRIBUNAL. DR MAHATHIR COMMENTED THAT, WHATEVER THE OUTCOME, HIS DETRACTORS WOULD CONTINUE TO CRITICISE HIM. THIRTEEN MEMBERS OF HIS PARTY HAD RECENTLY DEFECTED IN PARLIAMENT. BUT THIS DID NOT WORRY HIM: HE HAD A VERY SUBSTANTIAL MAJORITY. HIS SUBSEQUENT COMMENTS INDICATED A CONTINUING DISSATISFACTION WITH THE CONDUCT OF THE MALAYSIAN JUDICIARY AND ITS LACK OF EFFICIENCY. HE ACKNOWLEDGED THAT THE POSSIBILITY OF RESTORING APPEALS TO THE PRIVY COUNCIL IN SOME CASES REMAINED IN HIS MIND. BUT HE EVIDENTLY DID NOT WISH TO PURSUE IT.

12. COMMENT. THE ATMOSPHERE WAS FRIENDLY THROUGHOUT THE TALKS, WHICH WERE HELD, EXCEPTIONALLY, IN THE CABINET ROOM. DR MAHATHIR SEEMED PLEASED BY HIS RECEPTION. AS TO FOLLOW-UP ACTION, WE ARE

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CONSIDERING URGENTLY WITH ODA, DTI AND THE MOD WHAT SUPPORT WE MIGHT OFFER TO THE SAIL TRAINING SHIP PROJECT. A MAJOR OBSTACLE IS THAT, PACE DR MAHATHIR, THE SHIPYARD HAVE RULED OUT COMPLETION OF THE SHIP BEFORE EARLY 1990. THE MALAYSIAN HIGH COMMISSIONER IS AWARE OF THIS, AND WE SHALL SUGGEST TO HIM THAT THE THOUGHT BE CONVEYED URGENTLY TO DR MAHATHIR. ON AIR-SERVICES, THE PRIME MINISTER HAS ASKED THE TRANSPORT SECRETARY TO WRITE TO LORD KING TO ASK FOR BRITISH AIRWAYS ASSESSMENT OF THE PROBLEMS IN THEIR NEGOTIATIONS WITH MAS, MAKING IT CLEAR THAT AN EARLY EQUITABLE SETTLEMENT WOULD BE IN THE THE INTERESTS OF ALL CONCERNED. IF FACED BY ENQUIRIES ON THE ISSUE (OUR TELNO 436) YOU SHOULD EMPHASISE THAT THERE CAN BE NO QUESTION OF ANY LINKAGE BETWEEN AIR SEVICES AND THE DEFENCE PACKAGE. HOWEVER, YOU MAY GO ON TO SAY THAT AIR SERVICES WERE AMONG A NUMBER OF BILATERAL AND REGIONAL ISSUES DISCUSSED BY THE TWO PRIME MINISTERS.

13. THE FOREGOING ACCOUNT OF THE MEETING IS DETAILED AND SENSITIVE AND MUST BE HANDLED ACCORDINGLY.

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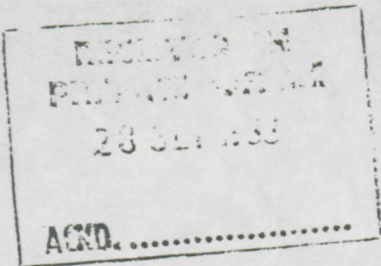
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MR GRAHAM-HARRISON, EAD, ODA

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NJWN

Mr Colvin, SA DG W/E



10 DOWNING STREET
LONDON SW1A 2AA

27 September, 1988.

From the Private Secretary

Mr Colvin, SA DG

- c.c. Minister
- Mr. [unclear]
- Mr. [unclear]
- Mr. [unclear]
- Mr. [unclear]
- Mr. [unclear]
- Mr. [unclear]

for follow-up
action please

- Mr McLaren
- Mr Beecher MA(G)
- Mr Teasdale

Arrived at 27/9

Dear Lynn

PRIME MINISTER'S MEETING WITH THE PRIME MINISTER OF MALAYSIA

The Prime Minister met Dr. Mahathir this morning to sign a Memorandum of Understanding establishing a framework for the future sale of British defence equipment to Malaysia. Following the signing ceremony, the Prime Minister made a few brief remarks. I enclose a copy of her text. She did not use it absolutely verbatim, but made all the points in it. It may go some way to meet the Malaysians' wish that the Prime Minister should repeat the points about civil aid in her letter of 8 August to Dr. Mahathir.

The Prime Minister subsequently had a session of talks with Dr. Mahathir which continued over lunch. Dr. Mahathir was accompanied by the Malaysian Attorney General, the Chief Secretary to the Government and the Malaysian High Commissioner. Mr. David Gillmore was also present.

Defence Sales

The Prime Minister said that the Malaysians would no doubt let us know how they wished to proceed with the purchase of the items of defence equipment on the list attached to the Memorandum of Understanding. We would be ready to set up a project team to help them establish priorities, if that was their wish. Dr. Mahathir confirmed that the Malaysian Government would indeed like this. He made no mention of appointing a prime contractor.

Civil Aid

The Prime Minister continued that we looked forward to discussing with the Malaysians their priorities when it came to civil projects. Dr. Mahathir said that there were several major projects pending. One of the most important was the Hill Road project, intended to open up the Malaysian Highlands for farming and industry as well as tourism (and the construction of an International Islamic University). While it was a difficult project, and would need to be very

carefully engineered to avoid a repetition of the problems experienced with the East-West Highway, the Malaysian Government attached great importance to it. The Prime Minister said that the United Kingdom would be happy to contribute to a feasibility study.

Dr. Mahathir added that the Malaysian Government also gave a very high priority to the proposed Sail Training Ship. They hoped this could be completed in time for The Queen to inaugurate it during CHOGM in October, 1989. Their advice from the shipyard was that if an order was placed now, the ship could be completed in time (in fact, I believe the shipyard say it cannot be done before early 1990). The Prime Minister said that we would give very rapid consideration to how we might contribute to this project. The Malaysian High Commissioner should keep us informed about his discussions with the shipyard.

Malaysian Economy

Dr. Mahathir said the Malaysian economy was doing very well, with growth over the first six months of 1988 running at an annual rate of 9 per cent. A gratifying share of this was coming from manufactured goods. He made particular reference to the Malaysian-manufactured car, which he hoped would be available in Europe shortly.

Air Services

Dr. Mahathir said that expansion of the tourist industry had a high priority for Malaysia. In this context, the failure of the negotiations between British Airways and MAS to reach agreement on additional frequencies for MAS was very disappointing. British Airways had put forward conditions which were unacceptable: indeed, they had even challenged MAS's existing rights, arguing for instance that if a non-stop B747 flight was introduced, the number of passengers must be restricted. The fact was that British Airways chose not to utilise their rights fully, because they preferred to concentrate on Singapore, but were unfairly refusing to allow MAS to expand. Malaysia's real problem was that it was caught between Singapore and Bangkok. British Airways chose to direct their flights to Singapore. As a consequence, it was Singapore Airlines which obtained additional rights even though many of their passengers were Malaysian.

The Prime Minister said that the Government could not tell British Airways what to do. She had understood that British Airways felt there was not full reciprocity in their agreement with MAS. But she would have enquiries made of the airline to establish exactly what their position was, and why the obstacles mentioned by Dr. Mahathir had so far proved insurmountable.

Tropical Timber

Dr. Mahathir referred to international criticism of Malaysia's logging industry. Malaysia had to extract some

economic advantage from its forests, but took great care to replant areas which had been cut. The Prime Minister referred to the environmental consequences of indiscriminate destruction of tropical forests, particularly in Brazil.

CHOGM

The Prime Minister thanked Dr. Mahathir for his help over the dates for CHOGM in 1989. She enquired whether there would be a new Agong by the time of CHOGM. Dr. Mahathir confirmed that the present Agong's term of office would expire in the Spring of 1989.

European Community

The Prime Minister enquired about Dr. Mahathir's visit to Brussels. Dr. Mahathir said that it had been difficult to get people to talk about anything except the Prime Minister's recent speech about Europe. He had been dissatisfied by his discussions with the Commission, and particularly by Cheysson's constant lecturing. The Prime Minister said there were undoubtedly some in the Community who wanted to erect new barriers against the outside world as they dismantled the barriers within Europe. Britain was thoroughly opposed to this, and would fight to keep Europe open to the rest of the world.

Cambodia

Dr. Mahathir referred to his recent contacts with Prince Sihanouk. Sihanouk seemed confident that he would be able to control the various factions in Cambodia after a settlement, but he (Mahathir) was sceptical of this. Dr Mahathir also stressed the need for a UN force in Cambodia to supervise Vietnamese withdrawal. Without this, the Khmer Rouge would simply take over. He acknowledged, however, that the Khmer Rouge could not be left out of our calculations. The essential step was to get rid of Pol Pot and his immediate supporters. There were others in the Khmer Rouge with whom it would be possible to work. The Prime Minister referred to her comments during her visit to Thailand about the need for the Five Permanent Members of the UN Security Council to take a more active interest in Cambodia. The Foreign Secretary would be pursuing this during his visit to New York for the UN General Assembly.

Malaysia Internal

The Malaysian Attorney General gave a brief account of developments in the case of the judges. The Tribunal which had been set up to deal with the case of five Supreme Court judges had submitted its report to the Agong on 26 September. The Government had not seen the report, and did not know what was in it. Nor was the Agong required to consult them. The Constitution required him to act on the advice of the Tribunal. Dr. Mahathir commented that, whatever the outcome, his detractors would continue to criticise him. Thirteen members of his Party had recently

defected in Parliament. But this did not worry him: he had a very substantial majority. His subsequent comments indicated a continuing dissatisfaction with the conduct of the Malaysian judiciary and its lack of efficiency. He acknowledged that the possibility of restoring appeals to the Privy Council in some cases remained in his mind. But he evidently did not wish to pursue it.

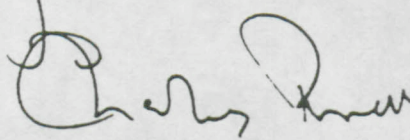
Follow-up

The Prime Minister wishes us to follow up expeditiously the points on air services and the Sail Training Ship.

On air services, she would be grateful if the Transport Secretary would write straightaway to Lord King to ask for British Airways' assessment of the problems in their negotiations with MAS and how they might be resolved, making clear that the Government would favour an early settlement of the problem.

On the Sail Training Ship, the Prime Minister thinks that we must be prepared to help, although we should seek substantial financial contributions from the main British companies likely to benefit from the defence package. I should be grateful if this could be pursued urgently by the Foreign and Commonwealth Office, Ministry of Defence and Department of Trade and Industry. X

I am sending copies of this letter to Brian Hawtin (Ministry of Defence), Neil Thornton (Department of Trade and Industry), Carys Evans (Chief Secretary's Office, HM Treasury), Roy Griffins (Department of Transport) and Trevor Woolley (Cabinet Office).

Yours sincerely,


C.D. Powell

Lyn Parker, Esq.,
Foreign and Commonwealth Office



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

8 August 1988

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Sent to post
Lead/OWD
reps
for please
9/10/8

pa.
JD
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Dear Prime Minister,

It was good of you to ~~receive me during my~~ brief stop in Kuala Lumpur and I was very glad that we were able to have a good talk, although in the time available we were unable to go into some of the matters as fully as I would have liked. I was very interested by your full account of recent developments in Malaysia and glad that you felt able to confide in me. I have, as you requested, kept what you told me to myself but have noted the action taken by the King. Your advice on Cambodia was very useful. I have subsequently met Prince Sihanouk and talked to General Prem, whose views were very much the same as yours. I will bear in mind in particular your point about the need to persuade the Chinese government to reduce their support for the Khmer Rouge.

One of the matters which we were not able to discuss as fully as I had hoped is our intention to increase our co-operation. I was glad to be able to confirm the assurance that we have already given your government that seventy million pounds of grant aid in association with one hundred and thirty million pounds of ECGD cover will be available for civil projects. I want to underline that further grant aid will continue to be available on a similar basis for development projects agreed upon between our two governments.

I am looking forward to your visit in September when we can continue discussions over lunch. I hope that the Memorandum of Understanding on the defence package can be signed at that time.

With renewed thanks for your hospitality and warm regards.

Yours sincerely

Rajendra Shaha

His Excellency Dato' Seri Dr. Mahathir bin Mohamed

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10 DOWNING STREET
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7 August 1988

Wife

From the Private Secretary

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Miss [unclear]
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Dear Bob,

PRIME MINISTER'S MEETING WITH THE MALAYSIAN
PRIME MINISTER

The Prime Minister had a meeting with the Malaysian Prime Minister in Kuala Lumpur on 6 August, between her visits to Australia and Thailand. Dr. Mahathir was accompanied by his Foreign Minister, the Secretary General to the Foreign Ministry and two other officials. Our High Commissioner was also present.

Dr. Mahathir's visit to London

The Prime Minister opened by saying how much she was looking forward to Dr. Mahathir's visit to London in September when she would like to give a lunch for him. She wondered whether he would prefer a small working lunch or a larger occasion. Dr. Mahathir indicated that he would prefer the former.

CHOGM

The Prime Minister said that she was also very much looking forward to CHOGM in Kuala Lumpur in the autumn of 1989. She understood that the Malaysian Government intended to invite The Queen to pay a State Visit to Malaysia at the same time. She believed that such an invitation would be welcomed. Dr. Mahathir indicated that he would indeed like to invite The Queen but had hesitated to do so until the dates for CHOGM had been settled. The preferred time for the latter now seemed to be either the third or fourth week of October. The Prime Minister said that she could probably manage either but would prefer the third week. In any event she would need to be back in London for Cabinet on the Thursday of the fourth week. She hoped that we could continue with the same duration and format as for CHOGM at Vancouver. Dr. Mahathir said that it might be necessary to find dates which spanned the third and fourth weeks of October.

The Prime Minister asked how Dr. Mahathir would like to use the short time available for their talk. For her part she would very much welcome his advice on Cambodia, she would like to discuss

the defence package and she would be interested in anything which Dr. Mahathir wished to tell her about developments in Malaysia. She hoped that on this they could talk as old friends. Dr. Mahathir indicated that he would also like to raise air services.

Situation in Malaysia

Dr. Mahathir gave the Prime Minister a lengthy account of developments in Malaysia. He particularly asked that this be kept confidential and it was agreed that nothing would be written down. The essence was that the dispute with the Lord President and the Judges was more between them and the King than with Dr. Mahathir himself, who was haplessly caught in the middle. In order to preserve the constitutional niceties he could not publicly explain the true position. The result was that he and Malaysia were getting a very bad press, which was in turn deterring foreign investment. The King was expected to reach a decision on the Lord President's future later in the day (he has, of course, subsequently decided to dismiss him).

Dr. Mahathir said that he was considering whether to restore provision for certain cases to be heard by the Privy Council. Malaysian judges were getting very lax. They were far behind with their cases and often failed to write their opinions or judgements. They needed the discipline of a higher review body.

The Prime Minister commented that the present difficult situation was clearly a great weight on Dr. Mahathir's mind. She would not of course mention anything of what Dr. Mahathir had told her to the press. If asked, she would say that the matter of the judges was being dealt with by the Head of State in accordance with the Constitution and that everyone including Dr. Mahathir was anxious that the matter should be fully and properly resolved. Dr. Mahathir indicated assent to this. The matter was not in fact raised in the Prime Minister's subsequent press conference.

Cambodia

The Prime Minister said that she would be seeing Prince Sihanouk while in Thailand, and Cambodia was bound to be one of the main issues for discussion with the Thai government. The Cambodian people had been subjected to appalling brutality. The aim now must be to achieve secure, stable and reasonable government in Cambodia. But it was hard to see who could provide this. Prince Sihanouk appeared to be the only person with any prospect of uniting the various factions, but the proposals which he had put forward were not at all realistic.

Dr. Mahathir said that the most urgent aspect was to prevent the Khmer Rouge from obtaining a dominant voice in a future government of Cambodia. From that point of view there was, perhaps, some logic in Prince Sihanouk's proposals: the Khmer Rouge had in practice been able to gather support and were the most successful of the factions, and Sihanouk's proposals would automatically constrain their influence. But he agreed that the proposals were scarcely realistic.

Less enthusiastic than the Thais.

The Prime Minister said that it seemed likely that any solution would require the United Nations to play a role. Dr. Mahathir said there would certainly need to be some form of international supervision, and it was also important to persuade China to end its support for the Khmer Rouge. He thought this might be possible: the Chinese were becoming more willing to listen to the views of others. They knew that the Khmer Rouge were a bad lot. As for Sihanouk, the trouble was that you could never hold him to anything. He was not a consistent person and his main motivation was a strong desire to return to Cambodia. There was a distinct possibility that he might do a deal with the existing regime in Phnom Penh.

Defence Package

Because of the time spent on these other issues, the defence package was reached only in the last five minutes of the meeting. The Prime Minister said that we were anxious to reach agreement on the defence package which would mark a new stage in co-operation between Britain and Malaysia. At the same time we had tried hard to produce proposals for civil aid which would be satisfactory to Malaysia. This would, of course, be quite distinct from the defence package. We had offered seventy million pounds of ATP and one hundred and thirty million pounds of ECGD cover for civilian projects. If further important projects came forward after this had been used up, then we would of course consider providing assistance for them.

Dr. Mahathir said that Malaysia was seeking a higher proportion of aid. If the defence package went through, it would impose a very heavy and continuing financial burden on the Malaysian economy. For many years to come, defence expenditure would be vastly increased. There was already a backlog of development projects which had been held back by the economic difficulties of the last few years and he was anxious to finance these. The point about parallelism caused him no difficulty. But he would like to know the terms we had in mind for the one hundred and thirty million pounds of extra credit cover. These must be attractive. He hoped that we would be ready to negotiate them on a realistic basis. The Prime Minister commented that we hoped to be able to sign the defence package at the time of Dr. Mahathir's visit in September. Dr. Mahathir did not comment.

Air Services

The Prime Minister said that her understanding was that if MAS entered into further talks with British Airways, not just on the frequency of services but also on other matters such as co-operation on tourism, there was a good prospect they could make progress. The Foreign Minister told the Prime Minister after the meeting that the Malaysians had hoped for agreement to give a political dimension to the discussions. The Prime Minister reminded him that British Airways was now in the private sector. We could not negotiate on their behalf.

I am copying this letter to Brian Hawtin (Ministry of Defence), Alex Allan (HM Treasury), Neil Thornton (Department of Trade and Industry), Roy Griffins (Department of Transport) and Trevor Woolley (Cabinet Office).

Yours sincerely,
C.D. Powell

(C.D. POWELL)

R.N. Peirce, Esq.,
Foreign and Commonwealth Office.

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FOLLOWING FOR PRIVATE SECRETARY FROM CHARLES POWELL.

PRIME MINISTER'S MEETING WITH DR. MAHATHIR.

1. THE PRIME MINISTER HAD A GOOD TALK WITH DR MAHATHIR. MUCH OF THE HOUR WAS TAKEN UP WITH HIS EXPLANATION OF THE BACKGROUND TO RECENT EVENTS IN MALAYSIA. HE APPEARED RATHER BELEAGUERED AND GLAD TO HAVE THE OPPORTUNITY TO UNBURDEN HIMSELF. IT WAS AGREED TO SAY TO THE PRESS, IF ASKED, ONLY THAT THE MATTER

OF THE JUDGES WAS BEING DEALT WITH BY THE HEAD OF STATE IN ACCORDANCE WITH THE CONSTITUTION AND THAT EVERYONE INCLUDING THE (MALAYSIAN) PRIME MINISTER WAS ANXIOUS THAT THE MATTER SHOULD BE FULLY AND PROPERLY RESOLVED.

2. THE OTHER MAIN SUBJECT DISCUSSED WAS CAMBODIA. THE PRIME MINISTER SAID THAT THE AIM MUST BE TO SECURE STABLE AND REASONABLE GOVERNMENT IN CAMBODIA AND SOUGHT DR MAHATHIR'S ADVISE ON HOW THIS COULD BE ACHIEVED. SHE DOUBTED THE REALISM OF PRINCE SIHANOUK'S PROPOSALS. DR MAHATHIR AGREED ON THIS LAST POINT. THE MOST URGENT ASPECT WAS TO PREVENT THE KHMER ROUGE FROM OBTAINING A DOMINANT VOICE IN THE FUTURE GOVERNMENT OF CAMBODIA. EFFORTS SHOULD BE MADE TO DISSUADE THE CHINESE FROM CONTINUING THEIR SUPPORT FOR THE KHMER ROUGE. ANY SOLUTION WOULD REQUIRE SOME FORM OF INTERNATIONAL SUPERVISION.

3. THE PRIME MINISTER CONFIRMED THAT WE WERE LOOKING FORWARD TO CHOGM IN KUALA LUMPUR. THERE WAS SOME DISCUSSION OF WHETHER IT SHOULD BE THE THIRD OR FOURTH WEEK OF OCTOBER 1989.

THE PRIME MINISTER MADE CLEAR THAT SHE WOULD NEED TO BE BACK IN LONDON FOR CABINET ON THE THURSDAY OF THE FOURTH WEEK. SHE EXPRESSED A PREFERENCE FOR THE VANCOUVER FORMAT AND DURATION. SHE TOLD DR MAHATHIR SHE THOUGHT THAT THE QUEEN WOULD WELCOME AN INVITATION TO PAY A VISIT TO MALAYSIA IN CONJUNCTION WITH CHOGM.

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4. DR MAHATHIR RAISED THE AIR SERVICES AGREEMENT. THE PRIME MINISTER SAID THAT THERE SHOULD BE FURTHER TALKS BETWEEN BRITISH AIRWAYS AND MAS. IF THESE WERE BROADENED TO INCLUDE OTHER ASPECTS SUCH AS COOPERATION ON TOURISM, THERE WAS A GOOD PROSPECT THEY COULD MAKE PROGRESS. THE FOREIGN MINISTER TOLD THE PRIME MINISTER AFTER THE MEETING THAT THE MALAYSIANS HAD HOPED FOR AGREEMENT TO GIVE A POLITICAL PUSH TO THE NEGOTIATIONS. THE PRIME MINISTER GAVE HIM NO ENCOURAGEMENT.

5. DR MAHATHIR DID NOT (REPEAT NOT) RAISE THE ISSUE OF VIETNAMESE BOAT PEOPLE.

6. ON THE DEFENCE PACKAGE, WE ARE CLEARLY NOT THERE YET. THE PRIME MINISTER SAID THAT WE HAD DONE OUR BEST TO PUT TOGETHER A SATISFACTORY PACKAGE OF AID AND CREDIT. ONCE IT WAS EXHAUSTED WE WOULD BE PREPARED TO CONSIDER AID FOR FURTHER PROJECTS. DR MAHATHIR WAS VISIBLY DISAPPOINTED THAT THE PRIME MINISTER DID NOT HAVE MORE TO OFFER. WHILE HE APPEARED TO ACCEPT THAT WE WERE UNLIKELY TO IMPROVE ON THE SPLIT BETWEEN #70 MILLION ATP AND #130 ECGD COVER, HE INSISTED THAT THE TERMS FOR THE ECGD COVER MUST BE ATTRACTIVE AND HOPED THAT THE UK WOULD BE READY TO NEGOTIATE ON A REALISTIC BASIS. HE DID NOT REACT EITHER WAY

WHEN THE PRIME MINISTER SAID THAT WE HOPED TO SIGN THE MOU IN SEPTEMBER.

7. THE PRIME MINISTER THINKS THAT WE MUST MAKE EVERY EFFORT TO CLINCH THIS IN THE NEXT TWO WEEKS OR SO. HOW WE DO SO MUST DEPEND IN PART ON THE SOUNDINGS WHICH THE HIGH COMMISSIONER WILL TAKE TO ESTABLISH MALAYSIAN REACTIONS TO TODAY'S DISCUSSION. BUT THE IMMEDIATE REQUIREMENT IS FOR A FORM OF WORDS FOR THE PRIME MINISTER TO USE IN HER THANK YOU LETTER TO DR MAHATHIR, TO CONVEY THE STRONG AND CLEAR IMPRESSION THAT THERE (NEXT WORD UNDERLINED) WILL BE FURTHER SUPPORT FORTHCOMING ONCE THE INITIAL OFFER IS USED UP. I SHOULD BE GRATEFUL IF YOU COULD TELEGRAPH ADVICE TO US IN BANGKOK ON 8 AUGUST.

8 THE PRIME MINISTER INVITED DR MAHATHIR TO LUNCH ON 27 SEPTEMBER. DR MAHATHIR INDICATED THAT HE WOULD PREFER A SMALL WORKING LUNCH TO A LARGER OCCASION.

9. FCO RESIDENT CLERK PLEASE ADVANCE TO PRIVATE OFFICES OF MOD, TREASURY, DTI, ODA.

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DEFENCE PACKAGE: ARTICLE IN 'THE GUARDIAN'

1. THE FOLLOWING PIECE APPEARED IN THE FRONT PAGE OF TODAY'S 'GUARDIAN' UNDER THE HEADING 'POUNDS 1 BILLION ARMS DEAL NEARER'.

2. BEGINS.
BRITAIN IS NEGOTIATING A WEAPONS SALE OF AIRCRAFT, MISSILES, AND GUNS FOR THE MALAYSIAN ARMED FORCES WORTH WELL OVER POUNDS 1 BILLION.

THE ONE SNAG IS A LAST-MINUTE SUGGESTION FROM THE MALAYSIANS THAT A DEAL SHOULD BE ASSOCIATED WITH A SUBSTANTIAL NEW TRANCHE OF BRITISH AID. THE BRITISH GOVERNMENT'S POSITION IS THAT TO MIX ARMS AND AID IS DANGEROUS.

MORE PROGRESS IS EXPECTED BEHIND THE SCENES TODAY WHEN THE MALAYSIAN DEFENCE MINISTER, ABDULLAH AHMAN BADAWI, VISITS THE BRITISH ARMY EQUIPMENT EXHIBITION AT ALDERSHOT. THE GROUNDWORK WAS LAID DURING LAST YEAR'S VISIT TO LONDON BY THE MALAYSIAN PRIME MINISTER, DR MOHAMAD MAHATHIR, AND IT CAME CLOSE TO SIGNATURE LAST MARCH WHEN THE DEFENCE SECRETARY, MR GEORGE YOUNGER, WAS IN KUALA LUMPUR.

THE MAIN ELEMENTS ARE: TORNADO BOMBERS BUILT BY THE TRI-NATIONAL PANAVIA CONSORTIUM IN WHICH BRITISH AEROSPACE AND ROLLS ROYCE WORK WITH GERMAN AND ITALIAN FIRMS, RAPIER AIR DEFENCE MISSILES ALSO MADE BY BRITISH AEROSPACE, RADARS, AND FH70 HOWITZERS. THE TORNADO, WHICH HAS SOLD WELL IN THE MIDDLE EAST, ESPECIALLY SAUDI ARABIA, WOULD ENHANCE THE CAPABILITY OF THE MALAYSIAN AIR FORCE, CURRENTLY EQUIPPED WITH US A-4 GROUND ATTACK AIRCRAFT SIMILAR TO THOSE USED BY THE ARGENTINIANS IN THE FALKLANDS, AND F-5 FIGHTERS.

ALTHOUGH THE TORNADO HAS ALSO BEEN DEVELOPED AS A LONG-RANGE AIR DEFENCE FIGHTER FOR THE RAF, IT IS THE BASIC LOW-LEVEL BOMBER VERSION WHICH INTERESTS THE MALAYSIANS.

WITHIN THE PANAVIA CONSORTIUM, THE FAR EAST IS USUALLY A GERMAN SALES RESPONSIBILITY. HOWEVER, THIS DEAL IS BEING HANDLED AT GOVERNMENT LEVEL AND IS REALLY THE FIRST TANGIBLE RESULT OF THE IMPROVED RELATIONS BETWEEN MALAYSIA AND BRITAIN FOSTERED LAST YEAR BY DR MAHATHIR, WHO WAS RECIPROCATING MRS THATCHER'S VISIT TO KUALA LUMPUR TWO YEARS EARLIER.

ENDS.

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PLEASE REPORT ANY REACTIONS BY IMMEDIATE TELEGRAM.

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TO DESKBY 280100Z KUALA LUMPUR

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OF 271900Z JUNE 88

MIPT: MALAYSIA DEFENCE PACKAGE

1. FOLLOWING ARE TEXTS OF TWO LETTERS FOR DAIM:

I) FROM SECRETARY OF STATE FOR DEFENCE TO MALAYSIAN FINANCE MINISTER:

1. I MUCH ENJOYED OUR DISCUSSIONS IN KUALA LUMPUR IN MARCH, TO WHICH YOU REFERRED IN YOUR LETTER OF 23 MARCH. YOU RAISED THE QUESTION OF AID FOR CIVIL PROJECTS. WE HAVE, OF COURSE, CONSIDERED THIS SERIOUSLY, NOT LEAST BECAUSE WE ARE VERY KEEN TO CONTINUE AND DEVELOP THE COMMERCIAL RELATIONSHIP BETWEEN OUR TWO COUNTRIES. I THINK YOU WILL KNOW THAT THE LINKING OF AID TO PROJECTS IS GOVERNED BY INTERNATIONAL RULES WHICH WOULD PRECLUDE THE SORT OF ARRANGEMENT WHICH YOU SEEMED TO ENVISAGE AT OUR MEETING. HOWEVER, I ASSURE YOU, ON BEHALF OF MY GOVERNMENT, THAT WE WILL CONTINUE TO EXPLORE NEW AVENUES OF COOPERATION BETWEEN OUR TWO COUNTRIES.

2. I WILL CONTINUE TO GIVE MY PERSONAL SUPPORT AND BACKING TO THIS.

II) FROM YOURSELF TO MALAYSIAN FINANCE MINISTER:

1. AS YOU WILL KNOW, THE BRITISH GOVERNMENT HAVE PROVIDED FINANCIAL SUPPORT THROUGH OUR AID AND TRADE PROVISION (ATP) FOR SEVERAL PROJECTS IN MALAYSIA OVER THE LAST FEW YEARS. WE HAVE FURTHER CONSIDERED THE QUESTION OF ATP ON THE BASIS OF OUR ENHANCED COOPERATION IN SEVERAL AREAS RELATING TO THE DEVELOPMENT OF MALAYSIA IN GENERAL, AND TAKING INTO ACCOUNT WHAT WE KNOW OF MALAYSIA'S REQUIREMENTS FOR FURTHER ELIGIBLE PROJECTS. I HAVE BEEN INSTRUCTED TO CONFIRM THAT WE ARE WILLING TO OFFER FURTHER SUPPORT FOR CONTRACTS (THROUGH ATP GRANTS PLUS NORMAL ECGD EXPORT CREDIT COVER) OF UP TO A TOTAL OF PDS 200 MILLION, FOR DEVELOPMENT PROJECTS TO BE AGREED MUTUALLY BETWEEN OUR TWO GOVERNMENTS.

2. WE LOOK FORWARD TO ENTERING INTO EARLY DISCUSSION WITH A VIEW TO IDENTIFYING ELIGIBLE PROJECTS.

PAGE 1
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3. IN ANSWERING ANY PRESS ENQUIRIES YOU SHOULD STICK TO THE LINE GIVEN IN OUR TELNO 244. IF PRESSED ON A POSSIBLE LINK WITH AID, YOU SHOULD ADD THE FOLLOWING:
BEGINS.

AID IS NOT USED FOR MILITARY PURPOSES OR TO HELP WIN CONTRACTS FOR MILITARY GOODS.
ENDS.

HOWE

YYYY

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MR GRAHAM-HARRISON, EADD, ODA

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SECRET

PROTOCOL

MALAYSIAN DEFENCE PROCUREMENT PROGRAMME

The Government of Malaysia and the Government of the United Kingdom of Great Britain and Northern Ireland, having regard to:

the friendly relations between the two countries and the desire of the Government of Malaysia to purchase defence equipment for the Malaysian Armed Forces from United Kingdom sources

have reached the following understanding.

The Government of Malaysia will purchase from sources in the United Kingdom a range of equipment, services and facilities for the use of the Malaysian Armed Forces, the key elements of which are listed in the Annex to this document. The priority to be attached to the items of equipment, will be determined by the Malaysian Government.

The two Governments will mutually agree on :

- a. items of equipment to be added to the list at Annex
- b. alterations in the quantities of agreed items
- c. prices of items of equipment.

The Government of the United Kingdom will bring to bear the resources of its Ministry of Defence on the overall

C4.



Programme in order to grant facilities including, but not necessarily limited to:

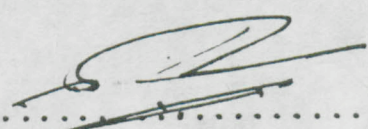
- a. Aid in support of non-military aspects under this Programme, the type, terms and conditions of which shall be mutually determined by both Governments. Her Majesty's Government has taken note of the Malaysian Government's desire that this grant should amount to no less than 20% of the value of defence equipment and this will be discussed in the context of the Memorandum of Understanding.
- b. training of Malaysian personnel in theoretical and operational concepts and in operation, maintenance, overhaul and repair of the equipment specified herein.
- c. the purchase by the British Ministry of Defence, either directly or through its suppliers, of items produced in whole or in part, by the Malaysian Defence Industry subject to the agreement of terms and conditions;
- d. direct assistance to Syarikat Malaysia Explosives to upgrade its defence production capacity with a view to penetrating the export market.
- e. through the British companies involved in the specified equipment, including major sub-contractors as well as prime contractors, and

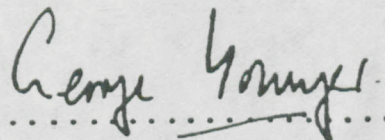
C. Y. [Signature]

through other infrastructure projects as may be mutually agreed, the transfer of sophisticated and advanced technology with the objective of further developing the defence industrial base of Malaysia.

The two Governments hereby undertake to commence the Programme forthwith and draft and agree an overall Memorandum of Understanding encompassing and elaborating this Protocol for signature as soon as possible. Separate arrangements to cover discrete aspects of the overall project may also be required in the form of a separate Memorandum of Understanding or by supplements to the overall Memorandum of Understanding.

SIGNED IN KUALA LUMPUR THIS 23rd DAY OF MARCH 1988

SIGNED 

SIGNED 

NAME Y.M. TENGKU DATUK AHMAD RITHAUDDEN

NAME RT HON GEORGE YOUNGER TD MP SECRETARY OF STATE FOR DEFENCE

TITLE MINISTER OF DEFENCE

TITLE

FOR THE GOVERNMENT OF MALAYSIA

FOR THE GOVERNMENT OF GREAT BRITAIN AND NORTHERN IRELAND



ANNEX TO PROTOCOL

KEY PROJECTS

- An Integrated Air Defence Project comprising :
 - 12 Tornado aircraft
 - 6 Batteries of Rapier Blindfire missile systems
 - 2 Martello 3D radars

- An integrated Command, Control, Communications and Intelligence System (C³I) with application to naval, land and internal security forces as well as Air Defence

Q.Y.
B

PRIME MINISTER

MEETING WITH THE PRIME MINISTER OF MALAYSIA

You are to call on Dr. Mahathir at the Malaysian High Commission tomorrow morning. He has been spending a few days here as part of his convalescence, following his heart by-pass operation. He is thereafter travelling on to Morocco and Spain, before returning to London for a few more days.

The main recent development has been the successful conclusion of the air services negotiations. A deal has been worked out which is satisfactory to both airlines. It involves some behind the scenes financial support from BAE and GEC. The result should be to enable the defence sales package - which was being held hostage to a resolution of the air services dispute - to go ahead.

I have spoken to Dr. Mahathir's closest advisor. What follows is agreed between us as the general direction which your talk with him might take.

You will want to start by expressing your concern about Dr. Mahathir's health and wishing him a speedy recovery. You might also congratulate him on the success of the recent preparatory Conference on Vietnamese boat people, which was well chaired by Malaysia. You might also welcome the Malaysian government's restrained reaction to the Rushdie affair.

You should go on to say how very pleased you are that the air services dispute has been resolved in a way which is satisfactory to both airlines, and which should avoid damaging disputes in future. You now look forward to progress on the wider commercial front. In particular you hope that rapid progress can be made on implementation of the defence sales package. (In fact the Malaysian Finance Minister has already issued a letter authorising the opening of the discussions).

It is for the Malaysians to say what their priorities are, but we assume that Tornado, Rapier and the Martello radar are high on the list.

You should go on to mention a number of civil contracts. (Dr. Mahathir will be expecting this and surprised if you do not mention them.) You could thank him for his very positive response to your message of last Christmas about STC's bid for the East/West Malaysian Submarine and Telecommunications contract. You might ask him about the point reached in discussions with Trafalgar House on the Hill Road project, which is a particular interest of his. You should mention the Pergau Hydro Electric scheme in which major British companies are taking a close interest. You can tell him that we shall be able to offer a package of financial support for the offshore element of this project, with a grant element of 35 per cent, up to £68.25 million. This will be news to him and very welcome.

Moving on to political topics, you will want to say that you know how much the Queen is looking forward to her State Visit to Malaysia just before CHOGM.

You might enquire how the affair of the Judges has finally been resolved.

You will want to ask him about his plans for CHOGM. You welcome the initiatives he is taking to secure Pakistan's return to the Commonwealth. You hope that sanctions against South Africa will not dominate the agenda. There are positive developments in South Africa and it is vital that the Commonwealth does not rock the boat just as South Africa is dis-engaging from Namibia. You will want to ask whether he has any particular intentions vis-a-vis Fiji. You will want to enquire about reports that he plans an environment initiative at CHOGM.

Depending on how the conversation goes, you could also seek his opinion on the succession to Sonny Ramphal as Commonwealth

Secretary-General. One option is for Ramphal himself to continue for some time longer.

This will probably be enough but if there is time, you might also ask for an assessment of developments in Brunei.

C.D.P

C. D. POWELL
14 MARCH 1989



Foreign and Commonwealth Office

London SW1A 2AH

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14 March 1989

Dear Charles

Visit of Prime Minister of Malaysia

The Prime Minister will call on Dr Mahathir Mohammed, the Prime Minister of Malaysia, at the Malaysian High Commission at 9 am on Wednesday 15 March. I enclose a biographical note on Dr Mahathir.

Dr Mahathir is still convalescing after quintuple bypass surgery following a heart attack suffered on 18 January. The Prime Minister might like to wish him a speedy recovery and a restful holiday in Spain (where he will be travelling on 16 March). In the intitial courtesies she might also like to add a word of congratulation on the success of the recent Preparatory Conference on Vietnamese Boat People, which was well chaired by Malaysia.

You will be aware that despite his ill-health and the private nature of his visit, Dr Mahathir specifically let it be known that he would welcome this meeting with the Prime Minister, and that the air services dispute would be his principal concern. In welcoming last week's solution to this dispute, the Prime Minister will wish to express the hope that the Malaysian Government will now begin to award defence sales contracts to Britain in accordance with the MOU signed by herself and Dr Mahathir last September (see para below). She will wish to note how much relations with Malaysia have improved in the past few years and reaffirm Britain's commitment to furthering this improvement.

Air Services Dispute

The Prime Minister will recall that the Malaysian Government put all its weight behind MAS, the national airline, in its request for sixth and seventh weekly frequency from Kuala Lumpur to London. Agreement was

/reached

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reached between government negotiators and the airlines at midnight on Friday 10 March, on a sixth frequency for MAS to London, and on the conditions for triggering a seventh (and any subsequent) frequencies. These conditions will be based either on rights for BA to points beyond Kuala Lumpur, or on a royalty payment by MAS to BA (the airlines are working on a figure of two million pounds sterling for the seventh frequency). The agreement is a balanced one and provides opportunities for both airlines.

Defence Sales Package

The Malaysians linked the granting of MAS's request to the award of defence sales contracts to British companies, expected under the terms of the Memorandum of Understanding signed by the Prime Minister and Dr Mahathir when they last met on 27 September 1988. The Malaysian Government indicated that it would not sign a single contract until the flight frequency problem was resolved. However, some useful preparatory work with the Malaysian Armed Forces (themselves frustrated by the delay) has been going on.

Under GATT Britain could not accept such linkage. Nonetheless the Prime Minister could say that with the air services problem now solved, she hopes the way is clear for the expected contracts to be awarded to British firms. It is for the Malaysians to decide priorities, but MOD expect that the first contracts will be for Tornado aircraft, Martello radars, 105 mm guns and for C31 command and control communications equipment.

Bilateral Trade continues to rise although in 1988 there was a visible trade balance of £214m in the Malaysians' favour. The invisible trade balance however remains greatly in our favour and is estimated by the Malaysians at some £400m per annum.

The Prime Minister could take this opportunity to further our interest in three contracts all of which are at a critical stage. The Prime Minister will recall writing to Dr Mahathir on 23 December, pressing STC's case to be awarded the East-West Malaysia Submarine Telecommunications contract. We believe the letter and Dr Mahathir's intervention prevented award of the

/contract

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contract to NEC, their Japanese rivals. There has since been a rebid, but we understand STC are well placed against NEC. The Prime Minister could thank Dr Mahathir for his personal interest in this contract and again emphasise:

- (a) the importance she places on this £41 million contract;
- (b) STC's technical excellence;
- (c) our excellent (revised and improved) ATP supported finance offer.

The Prime Minister might refer to our offer of ATP support for Laing's proposal for 11 district hospitals based on the nucleus design. Dr Mahathir will recall visiting such a hospital at Maidstone in mid-1987. Laings have a Letter of Intent from the Minister of Health which we hope will soon be translated into a contract (total size about £100 million, with UK content £40 million and £14 million ATP grant).

The Prime Minister might mention our close interest in the important Pergau hydroelectric scheme (about £200 million UK content) and the track record and expertise of the UK consortium (Balfour Beatty, GEC, Cementation). She could add that we are giving urgent consideration to an aid package under the Aid and Trade Provision in Line with the Malaysian timetable of placing contracts by June.

The Queen and Duke of Edinburgh are to pay a State Visit to Malaysia just before CHOGM. A new Agong has just been elected to serve from 26 April. The Prime Minister could say that the Queen will shortly be replying to the current Agong's invitation. The new Agong (the Sultan of Perak) is a well respected UK trained lawyer and former Lord President of the Malaysian Federal Court. But he is alleged to have had differences with Dr Mahathir in the past. The Prime Minister may wish to say merely that we hope the State visit will cement the new and excellent relations between the UK and Malaysia.

/CHOGM

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CHOGM

Malaysia will host the next CHOGM which starts on 18 October this year. The Prime Minister could say that she is very pleased that Malaysia has thus so publicly reaffirmed her commitment to the Commonwealth. She could remind Dr Mahathir of the need to avoid sanctions against South Africa again dominating the agenda. The Commonwealth must not rock the boat just as South Africa is disengaging from Namibia (the Namibian elections are scheduled for 1 November). More attention should be paid to new non-political agenda items. We understand Malaysia has in mind an initiative on the environment, perhaps focusing on the study of Climatic Change and Sea Level Rise.

The Prime Minister could look forward to welcoming Pakistan back into the Commonwealth at CHOGM (Dr Mahathir is clearly taking a personal interest in ensuring early agreement of Commonwealth members).

Human Rights

There is some concern in this country about detentions without trial and restriction orders in Malaysia. Of the 119 people detained in 1987 only two remain in detention - opposition leader Lim Kit Siang and his son. Concern here focuses on Christian campaigners who, since their release from detention, have been subject to severe restriction orders. The wife and 8-year old daughter of one are in Britain and have applied for asylum (this should not be revealed to the Malaysians). Supporters of those affected have plans to embarrass Mahathir's Government in the run-up to CHOGM and the State Visit. Domestic measures against Christians in particular will arouse strong emotions in this country and some other members of the Commonwealth. The Prime Minister may not judge it appropriate to raise these matters in a call of this sort.

Satanic Verses

As an Islamic country Malaysia has banned the book. Apart from a small, peaceful demonstration outside the British High Commission (which the Malaysians handled correctly) this has not been an issue between us.

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I am copying this letter to Brian Hawtin (MOD),
Neil Thornton (DTI) and Roy Griffins (DTp).

Yours ever

R N Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB
01 276 3000

ccf.c

2

My ref :

Your ref :

Ri Amin

ago

B/B

mr

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign & Commonwealth Office
Downing Street
LONDON
SW1A 2AH

Dear Geoffrey

13 MAR 1989

UK/MALAYSIA AIR SERVICES

Prop

In my letter of 6 March I outlined the approach which my negotiators would be taking in the air services talks on 9 and 10 March. This letter is just to record that, as you will already have heard, agreement was reached, on the lines which I had suggested.

The new agreement provides for a more liberal approach to capacity on the UK-Malaysia route, provides for services to and from regional airports in both countries as well as between London and Kuala Lumpur, provides for British airlines to operate services farther east and south from Kuala Lumpur to balance MAS' ability to feed traffic from those areas into the trunk route, and it is cast in terms intended to be durable, with sufficient flexibility to avoid need for repeated air services negotiations.

The agreement allows MAS to introduce a sixth weekly frequency straight away and for seventh and further frequencies to follow as the market grows. But it also allows scope, as I suggested in my earlier letter, for inter-airline arrangements for earlier introduction of a seventh frequency in return for monetary compensation for an initial period and there is an understanding between BA and MAS on the terms of such compensation (though the details of an agreement remain to be settled between them).

I am sending copies of this letter to the Prime Minister, George Younger, David Young, and to Sir Robin Butler.

[Handwritten signature]

Paul

PAUL CHANNON

MALAYSIA: Ceratons PT3



POST OFFICE
GENERAL POST OFFICE
LONDON

MM

[Faint, illegible text and lines, possibly bleed-through from the reverse side of the page]



PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T51A/89.

SUBJECT
ce MASTER
OPS
PRIME MINISTER
MALAYSIA

11 March 1989

The Rt Hon Mrs Margaret Thatcher
Prime Minister of Great Britain
and Northern Ireland
LONDON

Dear Prime Minister

Although I shall be meeting you in London, I think it will not be opportune for me to speak on this subject. Besides I do not think I will have the time to say all the things I wish to say. So I am preparing this letter so that the opportunity will not just pass by.

I am I think not a Muslim fanatic. Yet I find I cannot condone the writings of Salman Rushdie in his book, "The Satanic Verses". And I find the attitude of the "Western Democracies" most patronising, arrogant and insensitive.

I know how much you value human rights and the freedom of expression. But does freedom of expression confers the right to insult with impunity? What Rushdie has done is to insult 1 billion people about a matter most sensitive and close to their hearts, their religion.



**PRIME MINISTER
MALAYSIA**

The attachment of the Muslims to their religion is not the same as that of the average modern Christian to his. Not all Christians are angered by insults to Christianity.

But it is well to remember that Islam has been around only 1400 years. The faith and the fervour of Muslims are as strong as the faith and the fanaticism of the Christians of the fifteenth century. Of course, our behaviour is also influenced by the mores of the time. We are more tolerant than the 15th Century Christians. We do not have inquisitions, we do not burn heretics at the stake, we do not torture those who blaspheme, we do not hound the new Muslim sects as you did the Protestants, and we do not indulge in pogroms. Our behaviour is more civilised than Christians when Christianity was 1400 years old.

But are Muslims expected to accept every system of values that you invent for yourself? Are we expected to discard our codes in favour of every new idea that you espouse? Are you conferred a divine right to determine how the human race of whatever religion or stage of development should behave?



PRIME MINISTER
MALAYSIA

To return to the freedom of expression which is seemingly such an obsession with the West. If you look at the facts you will realise that your espousal of it is because you are in a position to flay the rest of the world for not practising your code in accordance with your current judgement.

The West controls the world media and denies others access to it. Everyday the Western-controlled media becomes bigger and more powerful. The power is, of course, abused. Slanted reporting, absolute lies, sensationalism, exposures, etc. create havoc with the image of particular countries or people. The Muslims are a particular target. They are made out to be cruel brutes given to all kinds of savagery. But compare this to the cruelty of Christians - 50 million killed in the last war including some 8 million Jews. For these you blame particular individuals, not the whole race.

Against this abuse of the freedom of expression the Muslims have no real answer. They cannot use freedom of expression to defend themselves. They have to put up with the scurrilous misrepresentation of themselves. But the book "The Satanic Verses" by Salman Rushdie is the last straw.



PRIME MINISTER
MALAYSIA

Your belief in this so-called freedom of expression for one disillusioned and misguided man is stronger than your belief in the value of good relations with 1 billion souls. You probably think that it is noble and worth the souring of relations with 1 billion Muslims to defend a principle that you believe in.

Well, if you believe that this one man's freedom of expression is so important, then you cannot blame Muslims if their reaction is based on their faith, the basis of their value system. After all there have been others who, out of political revenge only, have crossed boundaries in order to assassinate or to kidnap. The West did not look unkindly towards these breaches.

In our value system, which we think is no inferior to yours, freedom of expression does not include blasphemy and insulting others. If anyone transgresses then he must be punished. What punishment and how it will be meted out depends on the circumstances. And the circumstances are aggravated because the Western (Christian) nations choose to protect the culprit so strongly - preferring to break diplomatic relations rather than withdraw and ban the offending book. If you think your principle is sacrosanct, then Muslims must consider the injunctions of their religion even more inviolable.



PRIME MINISTER
MALAYSIA

At the UN I appealed for closer relations between Jews, Muslims and Christians. But your freedom of expression continuously prevents this. The denigration of Islam and the Muslims goes on and on and prevents any understanding. And now there is this book by Salman Rushdie, which you must publish and sell to uphold a principle even if it perpetuates the enmity between states and between peoples.

Many countries have banned this book, not all of them Muslim countries. But Christians cannot find it in their hearts to save their relationship with 1 billion people.

Prime Minister, I am much saddened.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Mahathir', with a long horizontal flourish extending to the left.

(DR. MAHATHIR BIN MOHAMAD)

file DTS

bc: PC

PRIME MINISTER

You will want to know that agreement was reached during the night on the problem with Malaysia over air services. Provided it sticks, it should not be an issue when you see Dr Mahathir on Wednesday.

C. D. POWELL

11 March 1989



Foreign and Commonwealth Office

London SW1A 2AH

9 March 1989

Rie Rie

9/3
mt

Law Charles

Malaysia: Election of New Agong

The Prime Minister will wish to be aware that on 2 March the Sultan of Perak was elected Agong in the traditional conclave of Malaysia's state rulers. He will be installed on 26 April 1989. The Yang Di-Pertuan Besar of Negri Sembilan was elected Deputy Agong. Both will serve for a period of five years.

This is good news. The Sultan of Perak, a former Lord President of the Malaysian Federal Court, trained in law at Nottingham University and Lincolns Inn, where he is an active member. He is very well disposed towards the UK, and will be a marked improvement on his dangerously eccentric predecessor. He will be a good host for The Queen at CHOGM and on Her related State Visit to Malaysia this Autumn.

We shall arrange a message of congratulations from The Queen at the time of his accession.

Yours are
R N Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

SUBJECT
UMASTER
OPS

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PRIME MINISTER
MALAYSIA

8 March 1989

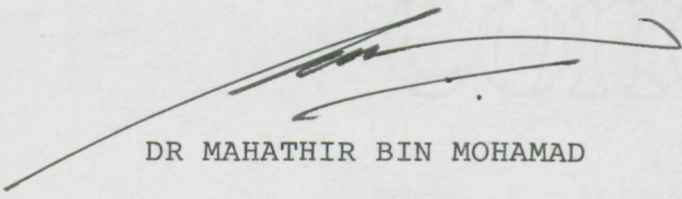
PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T47B/89

The Rt Hon Margaret Thatcher
Prime Minister
LONDON

Dear Prime Minister

Thank you very much for your good wishes for my speedy recovery. I am quite well now and hope to return to work soon.

*Best regards,
Yours sincerely,*


DR MAHATHIR BIN MOHAMAD



Handwritten initials

FCS/89/042

SECRETARY OF STATE FOR TRANSPORT

Handwritten initials: CJP, 8/3

UK/Malaysia Air Services

- not clear*
1. Thank you for your letter of 6 March.
 2. We clearly need to reach agreement on the air services issues as soon as possible, so as to clear the way for progress on the defence contracts. I hope that the package outlined in your letter will allow both sides to reach agreement. You will now know from Charles Powell's letters of 3 and 5 March that it will be important to make progress during this round. Failing that, we may well need to be in touch again, but meanwhile I am content with your approach.
 3. I am sending a copy of this minute to the Prime Minister, George Younger, David Young and to Sir Robin Butler.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
8 March 1989

MALAYSIA: Relations. P3

07. III
A
P. B

cc/c
②



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB
01 276 3000

My ref:

Your ref:

Five Minister
I have said that
you will want a
solution to be in
sight by the
time you see
Dr. Mahathir on 16
March
cap

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AH

Dear Geoffrey

Yes not.

- 6 MAR 1989

MALAYSIA: AIR SERVICES

As you know, air services negotiations with the Malaysians are due to be held in London on 9 and 10 March. The Malaysians are demanding that MAS should be allowed to operate sixth and seventh weekly frequencies to London. You and colleagues may like a summary of how we intend to tackle the talks.

Next week's talks follow preparatory discussions between BA and MAS (the only two airlines operating between the UK and Malaysia). These preparatory discussions have by now made considerable progress in identifying the main issues for next week's talks. But they have taken longer than might have been expected because the Malaysians have repeatedly sought to avoid discussion of the air services issues and sought instead to create linkages with completion of defence and other contracts being negotiated with other UK interests. We shall be seeking early agreement with the Malaysians, next week if possible. Agreement could take longer if the Malaysians again seek to avoid serious discussion of the aviation issues but I am encouraged to hear that Daim, the Malaysian Finance Minister, has recently given assurances that the Malaysian team will be coming for a serious and constructive negotiation.

My officials will be working to a flexible negotiating brief, as is normal in air services negotiations, but it may be useful if I outline here the main features:

- (i) an agreed package will need to provide new opportunities for both sides on a broadly balanced basis. The airline talks suggest what such a package might be. MAS, who already operate five services a week between Kuala Lumpur and London want to add a sixth and seventh frequency. BA, who operate only four frequencies a week

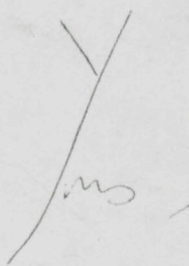
using smaller equipment (Tristars rather than 747s), are seeking, rather than to expand on the trunk route, to develop services beyond Kuala Lumpur to points farther south and east. It is traffic from these points that fuels MAS's services on the trunk route and BA need access to them if their trunk route service is to be competitive;

(ii) we hope to construct an agreement which provides scope for the immediate aims of both airlines but which also provides scope for future developments; if we are successful in building flexibility into an agreement we may hope to avoid further confrontations and attempts by the Malaysians to establish linkages with other UK commercial interests;

(iii) although we are looking for an agreement in which the new opportunities opened up for the two sides are broadly balanced, we may find that the only path to early agreement is one which involves some form of monetary compensation from MAS to BA for an initial period. This sort of compensation is not a solution in itself but it may prove a key part of unlocking an early agreement. It is a well understood part of air services arrangements (for example, MAS and Qantas reached an agreement including compensation late last year).

These are important objectives for us and ones which we must strive to secure if we are not to have a repeat of recent experiences the next time the Malaysians want to secure more frequencies from us. If it proves not possible to do the deal in one round, I shall be looking for early resumed talks in Kuala Lumpur.

I am sending a copy of this letter to the Prime Minister, George Younger, David Young and to Sir Robin Butler.



PAUL CHANNON



10 DOWNING STREET

LONDON SW1A 2AA

5 March 1989

From the Private Secretary

FILE
DA
PC

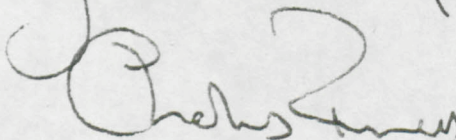
Dear Bob,

DR. MAHATHIR

I wrote to you on 3 March about the report that Dr. Mahathir would be visiting London from 13-16 March inclusive. The Prime Minister would be willing to call on Dr. Mahathir at 1615 on Thursday 16 March for up to one hour. I should be grateful if you would propose this to the Malaysians. It would also be helpful to have details well in advance of exactly where the meeting will take place.

I should also be grateful for appropriate briefing, particularly on the air services dispute. I understand there are to be government to government talks on this problem in the course of the week. I think the Prime Minister would very much hope that a solution would be in sight by the time she meets Dr. Mahathir.

I am copying this letter to Roy Griffins (Department of Transport).

Yours sincerely,


(C.D. POWELL)

R.N. Peirce, Esq.,
 Foreign and Commonwealth Office.

CONFIDENTIAL

dh



ADP

Time available

is 1600 - 1730

3/11 on 16/3 (that

10 DOWNING STREET includes
(travel time)

Dominic

Don

1 year we are
going to have to
find time for
him or between
13-16 March. Probably
a tea-time. So
will have to
go to him am.



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 March 1989

MALAYSIA

Datuk Arumugam telephoned me from Kuala Lumpur this evening.

Arumugam said that he had seen Dr Mahathir today. He was recovering quite well and would return to work for an hour or so a day from next Monday. He was still strongly committed to seeing the defence contracts through. The prospects for the STC contract, about which the Prime Minister had written to him, were good. But he had been concerned and disheartened to learn that the question of landing rights was still not resolved. I said that we all knew the difficulties. But there were Government to Government talks next week and we must hope they would make progress.

Arumugam then said that Dr Mahathir would be coming to Europe to convalesce, mostly in Spain. However, he would be passing through London briefly from 13 to 16 March and staying in the Malaysian High Commission's guest house in Knightsbridge (I think he described it as York House). He thought Dr Mahathir would like to see the Prime Minister briefly while he was here, although it might be difficult for him to leave the house. I said that I was sure the Prime Minister would do her best to see him and would be prepared to call on him if that was easier. I suggested that Arumugam talk to our High Commissioner more formally about the arrangements. I would meantime consult the Prime Minister.

CHARLES POWELL

R N Peirce Esq
Foreign and Commonwealth Office

PRIME MINISTER

You will want to see the attached letter recording my talk with Datuk Arumugam, who is Dr Mahathir's confidant. As you will see, Dr Mahathir will be passing through London in mid-March as part of his convalescence and rather hopes to see you. I think a meeting would be very helpful, if you can manage it. Mahathir will apparently be more or less confined to barracks while here because of his health and will be staying at a house in Knightsbridge. Would you be prepared to go to see him there, for instance to have tea one afternoon?

C.D.P.

Yes mt

CHARLES POWELL

3 March 1989

1. CHARLES POWELL
2. PRIME MINISTER

1. Nicholas Fairbairn is seeing you on Thursday in the House after Questions.
2. He was in Malasia recently and was appointed Chairman of ENNERTEL LIMITED, a United Kingdom company which is the holding company for all the privatisation operations in Malasia. Members of its Board include the Finance Minister of Malasia and members of the Prime Minister's family.
3. He also saw Doctor Mahathir, in connection with these matters. Nicholas wants to speak to you about the vast potential for UK exports and involvement in Malasia.
4. You will remember that he sent you papers about these Malasian privatisation and health projects before you visited Malasia in the summer.

M.B

MARK LENNOX-BOYD
30 January 1989



Blk Who
asir/c

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

26 January 1989

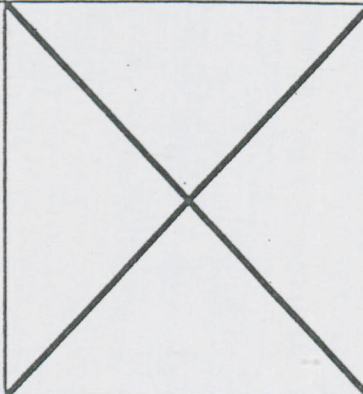
ILLNESS OF DR. MAHATHIR

The Prime Minister has seen Kuala Lumpur telegram No. 44 about Dr. Mahathir's operation. She would be very grateful if our High Commissioner could send Dr. Mahathir some flowers in her name.

CHARLES POWELL

R. N. Peirce Esq
Foreign and Commonwealth Office

The National Archives

DEPARTMENT/SERIES <i>PREM 19</i> PIECE/ITEM <i>2770</i> (one piece/item number)	Date and sign
Extract details: <i>Telegram No 44 dated 25 January 1989</i>	
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RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	<i>28/10/2016</i> <i>J. Gray</i>
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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.



Foreign and Commonwealth Office

London SW1A 2AH

19 January 1989

*Den Charles*Illness of the Malaysian Prime Minister

You know that the Malaysian Prime Minister was admitted to hospital on 18 January with chest pains. It is still unclear whether he suffered a heart attack. According to our High Commission, his condition is stable but potentially serious.

The relationship between the Prime Minister and Dr Mahathir has, of course, been instrumental to the improvement in Anglo/Malaysian relations, symbolised by the Memorandum of Understanding on defence sales which they both signed on 27 September last year. We believe that the Prime Minister should respond promptly to the news of Dr Mahathir's illness, and I enclose a draft message in the form of a telegram to post.

A sudden deterioration in Dr Mahathir's condition cannot be ruled out. The draft telegram therefore includes a second message for use if and when necessary.

*Young and
Boyle*

(R N Peirce)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

RESTRICTED



file DS3AF1

bc = PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

19 January 1989

Dear Mr. Peirce

ILLNESS OF THE MALAYSIAN PRIME MINISTER

Thank you for your letter of 19 January enclosing a draft message from the Prime Minister to Dr Mahathir, wishing him a speedy recovery from his illness, but including also a contingency message in the event of his demise. The message of good wishes can certainly issue as drafted. I would prefer the contingency message to read as follows:

"I was shocked and saddened to learn of the sudden death of the Prime Minister. Dr Mahathir was a statesman of great skill and renown, playing a very influential part on a wide number of international issues. He made a major contribution to building up the excellent relations which now exist between Britain and Malaysia. I admired and respected him greatly as a colleague and friend. I send you my deepest sympathy at this difficult time."

Yours sincerely

pp C. D. POWELL

R. N. Peirce, Esq.
Foreign and Commonwealth Office

RESTRICTED

OUTWARD TELEGRAM

	Classification	Caveat	Precedence
	CONFIDENTIAL		IMMEDIATE
TC	SECURITY CLASSIFICATION	CONFIDENTIAL	
CAVEAT	PRIVACY MARKING/RESTRICTIVE PREFIX	IMMEDIATE	
FM	FM (post)	FCO	
TO	TO (precedence/post)	IMMEDIATE KUALA LUMPUR	
TELNO	TELNO/TELELETTER		
OF	OF (Time of origin)	Z (Month)	(Year)
AND TO	AND TO (precedence/post)		
	AND TO SAVING		
INFO	INFO (precedence/post)		
	INFO SAVING		

Distribution:-

YOUR TELNO 29: ILLNESS OF DR MAHATHIR

1. We believe it is important to respond rapidly to the news of Dr Mahathir's illness. Please convey through appropriate channels the following personal message to Dr Mahathir from the Prime Minister as soon as possible.

BEGINS

I was greatly concerned by news of your illness, and I send you my very best wishes for a full and speedy recovery.

ENDS

2. If the worst happens, you have discretion to deliver the following message from the Prime Minister to the Malaysian government.

BEGINS

I was shocked and saddened to learn of

		Catchword: the	
File number	Department	Drafted by: (block capitals)	Telephone no

the sudden death of the Prime Minister
Dr Mahathir was a statesman of ^{SKM skill at} renown, and
~~is a sad loss to international counsels.~~
He was ~~also a principal author of the excellent~~ ^{had a very high pr in both in} relations which now exist between Britain
and Malaysia. I send you my deepest sympathies
at this difficult time.

ENDS

ms
on
hill
e. M.M.

I advised e. M.M.
to go to
y. M.M.

pleas
reg
e. M.M.
for
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me

NOTHING TO BE WRITTEN IN THIS MARGIN

CONFIDENTIAL

CB SM



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

23 December 1988

Dear Stephen,

MALAYSIA: STC SUBMARINE CABLE PROJECT

Thank you for your letter of 23 December proposing a message from the Prime Minister to Dr. Mahathir to salvage the British bid for the submarine cable project in Malaysia which the Japanese are apparently about to steal from under our noses.

The Prime Minister has signed the message with some very minor amendments. I enclose a copy and would be grateful if you would telegraph the text to Kuala Lumpur straight away. The signed original could follow in slower time.

I am copying this letter and enclosure to Neil Thornton (Department of Trade and Industry).

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'C. D. Powell'.

C. D. POWELL

Stephen Wall, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL



File CCL
cc DTI
no

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T201188

23 December 1988

Dear Prime Minister,

SUBJECT
CC MASTER
OPS

Over recent months, the political and commercial relations between our two countries have continued to move forward very well, a development which I very much welcome. In a sense, the transformation was symbolised by our joint signature of the defence Memorandum of Understanding when you were over here in September. I was able to assure your Government that £70 million of grant aid in association with £130 million of ECGD cover will be available for civil projects; and that further grant aid will continue to be available on a similar basis for development projects agreed between the two governments. I am also pleased that, following your meeting with Lord Young, the concerns of Proton's Japanese partners over the terms on which the Malaysian National Car would enter the United Kingdom have been satisfactorily resolved.

Against this most encouraging background, I was therefore concerned to learn of possible difficulties during the final stages of the evaluation of bids for your new East/West Submarine Telecommunications Cable project. This is an important project for both our countries, as we recognised in our offer of grant support of 30.1 per cent of the value of the British content of STC Submarine Systems' contract, up to a maximum of £13.545 million. Within the last few days, our High Commissioner has been instructed to renew that offer which would otherwise have expired on 23 December 1988. But Mr. Spreckley has since had

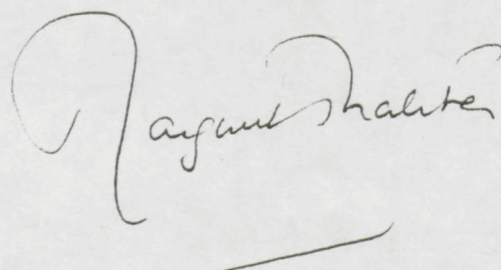
SA

indications that STC has not been invited for negotiations on the contract. STC and their agents are understandably surprised at this, having received the clear impression that they were the most competitive bidder on both price and technical grounds.

I am writing to underline the importance which we attach to this project and to express the hope that it will prove possible for our two countries to cooperate in realising it. I need hardly stress our complete confidence in STC. As you may know, they are likely to be the major beneficiaries of the letter of intent signed on 21 December for a new US-Japan fibre optic cable, a striking testimony, if one were needed, to the company's capability and high reputation.

With warm good wishes for the New Year.

Yours sincerely


Rajmoukhalite

His Excellency Dato' Seri Dr. Mahathir bin Mohamed



Foreign and Commonwealth Office

London SW1A 2AH

23 December 1988

*Dear Charles,*Malaysia: STC Submarine Cable Project

In Lord Young's absence abroad, the Department of Trade and Industry have requested our urgent assistance in sending a high level message to the Malaysian Prime Minister in an attempt to rescue the British bid for this project which is in danger of being awarded to a Japanese company despite being superior technically and in terms of price. We believe that, to stand any chance of success, the message ought to go from the Prime Minister herself.

STM, the Malaysian national telecommunications company, needs an optical fibre submarine telecommunications cable (1500 kms) to link peninsular Malaysia with Sabah. STC bid in January for this project, which is worth £46 million (UK content £45 million). It is an important contract for the British company because it will fill a gap in their production schedules before work on other contracts comes on stream in 1990. The contract would constitute a substantial element of STC's workload for next year.

In support of the STC bid, an ATP grant of £13.5 million, (30.1 per cent of the UK content) was offered to the Malaysian Government on 18 March and subsequently renewed.

STC's competitors were originally AT and T (USA), Submarcom (France) and NEC/Fujitsu (Japan). NEC have since emerged as the only serious rivals. We understand that a recommendation to the Malaysian Treasury, supported by outside consultants, by the STM Board in favour of STC was not accepted. Although STC's proposal was judged superior on both price and technical grounds, with Japan and the UK offering equivalent concessional finance, NEC, not STC, were invited by the STM Chairman for negotiations beginning on 22 December.

The High Commission strongly suspect that Daim, the Minister of Finance, is behind these developments. Although STC's advisors are working hard to get the decision reversed, the High Commission agree with the company that our best hope of rescuing the bid lies with an urgent intervention at the highest political level.

/I enclose

CONFIDENTIAL



/ I enclose a draft letter which, if the Prime Minister agrees, our High Commissioner in Kuala Lumpur might deliver personally to Dr Mahathir on 30 December when he has a call.

Yours,

Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:
Prime Minister
DEPARTMENT:

TEL. NO:

Reference

BUILDING:

ROOM NO:

Your Reference

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

PRIVACY MARKING

..... In Confidence

CAVEAT

Enclosures flag(s)

TO:

Copies to:

The Hon Dato Seri Dr Mahathir Bin Mohamad
Prime Minister
MALAYSIA

SL3 BGA

SUBJECT:

Over recent months, it ~~has been gratifying~~ to observe ^{to} how political and commercial relations between our two countries have continued to expand. ^{more formal despatch very well, a development which I very much welcome.}

In a sense, the transformation was symbolised by our joint signature of the defence Memorandum of Understanding when you were over here in September. ~~I was also delighted that~~ I was able to assure your Government that £70 million of grant aid in association with £130 million of ECGD cover will be available for civil projects; and that further grant aid will continue to be available on a similar basis for development projects agreed between the two governments. I also ~~know that~~ ^{am also pleased} my ~~colleague, David Young, was very pleased that,~~ ^{Mr, Lord} following your meeting with ~~him,~~ ^{Lord Young} the concerns of Proton's Japanese partners over the terms on which the Malaysian National Car would enter the United Kingdom have been satisfactorily resolved.

^{this was encouraging} Against such a positive background, I was therefore concerned to learn of possible difficulties during

/the

the final stages of the evaluation of bids for your new East/West Submarine Telecommunications Cable project. This is an important project for both our countries, as we recognised in our offer of grant support of 30.1 per cent of the value of the British content of STC Submarine Systems' contract, up to a maximum of £13.545 million. Within the last few days, our High Commissioner has been instructed to renew that offer which would otherwise have expired on 23 December 1988. But Mr Spreckley has since had indications that STC has not been invited for negotiations on the contract. STC and their agents are understandably surprised at this, having ^{received no clear} formed the impression that they were the most competitive bidder on both price and technical grounds.

I am writing to underline the importance which we attach to this project and to express the hope that it will prove possible for our two countries to cooperate in realising it. I need hardly stress our complete confidence in STC ~~who~~, ^{as} you may know, ^{are} likely to be the major beneficiaries of the letter of intent signed on 21 December for a new US-Japan fibre optic cable, a striking testimony, if one were needed, to the company's capability and high reputation.

with ~~was~~ good work
for the new year.



Foreign and Commonwealth Office

London SW1A 2AH

2 November 1988

Bob
cepk
Den Archer

ms

Prime Minister 4.

Visit of Malaysian Prime Minister: 24-28 September

The Prime Minister will wish to be aware of the enclosed thank-you letter from Dr Mahathir, passed to us by the Malaysian High Commission on 26 October.

The letter is welcome confirmation that Dr Mahathir values his dialogue with the Prime Minister and the steadily improving bilateral relationship. We see no need to reply to what is, essentially, a thank-you note.

Townsend

Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street



T

PRIME MINISTER
MALAYSIA

12 October 1988

The Rt Hon Margaret Thatcher
Prime Minister
LONDON

Dear Prime Minister,

I would like to thank you for the hospitality which your Government and you yourself extended to me and my delegation recently.

I found the discussions and the visits to the Clyde and other facilities both interesting and instructive.

I would also like to thank you for the ready agreement to part finance the purchase of the sailing training ship and your undertaking to extend further aid in the development of Malaysia.

I am enclosing a newspaper cutting which substantiates what I have been telling you. I was recently informed that one judge has reserved judgement on seventy cases, some of which were heard ten years ago. It is impossible for the Government to do anything about them without being accused of interfering with the judiciary. I suppose Malaysians will just have to suffer in silence when the judiciary fails in its duty.

Yours sincerely,

(DR MAHATHIR BIN MOHAMAD)

AROUND THE COURTS

Jailed 10 years but he walks out free man

IPOH, Mon. — An unemployed man was today sentenced to 10 years' jail by the Sessions Court for causing the death of a girl 10 years ago.

Lim Siew Ang, 35, however, walked out of court a free man as Sessions Court judge Puan Rahmah Hussein ordered the sentence to commence from the date of arrest — Dec 21, 1978.

Lim was found guilty of causing the death of Tiang Ah Heong, 14, in a shed at the back of her house in Sitiawan in December, 1978.

The court was told that Lim and Tiang were neighbours. As a result of a misunderstanding, Lim and his brother attacked the girl and slashed her on the face and neck with a parang.

The girl died in hospital. Lim and his brother Lim Kee Ong surrendered to police shortly after the incident.

Kee Ong was sentenced to 10 years' jail when he pleaded guilty to culpable homicide not amounting to murder.



C D Powell Esq
10 Downing Street
LONDON
SW1A 2AA

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref: C/PSO/11477/88

Your ref:

26 OCT 1988

Dear Charles

MALAYSIA

I refer to your letter of 27 September to Lyn Parker at the FCO reporting on the Prime Minister's meeting with Dr Mahathir on the same day.

Dr Mahathir again raised the question of air services and MAS's request for additional frequencies to London. The Prime Minister wanted this to be followed-up with BA and asked my Secretary of State to write to Lord King for an assessment of the problems in BA's talks with MAS and how they might be resolved.

Mr Channon has now heard back from Lord King. For convenience, I attach a copy of his letter. Lord King writes that far from putting obstacles in the way to reaching an agreement, BA have been making strenuous efforts to find a broad based solution, which the Prime Minister commended to Dr Mahathir when they met in Kuala Lumpur at the beginning of August. The airline meetings in September were constructive (albeit BA had to make all the running) and BA left on the table some longer-term ideas for developing the route, under which benefits could be expected to flow to both airlines. The airlines also discussed possible short-term marketing arrangements. BA will be letting MAS have a detailed paper on their longer-term proposals and we expect the airlines to meet again in the second half of November.

We believe that BA want to see an early, mutually acceptable solution to the problem and that they are working hard to achieve a negotiated settlement. My Secretary of State met the Malaysian Transport Minister, Dr Ling, on 18 October when it was accepted that the airlines should get on with the task. We shall need to see what emerges from the next airline meeting to judge whether sufficient progress has been made to make it worthwhile to have early Government talks with the Malaysians. We shall, of course, continue to keep in close touch with BA.

I am sending a copy of this letter to Lyn Parker and to Brian Hawtin (Ministry of Defence), Neil Thornton (Department of Trade and Industry), Carys Evans (Chief Secretary's Office, HM Treasury) and to Trevor Woolley (Cabinet Office).

Yours sincerely
Roy Griffin

R J GRIFFINS
Private Secretary

PO Box 10
Heathrow Airport (London)
Hounslow
TW6 2JA

Telephone: 01-759 5511
Cables: Britishair
Telex: 8813983 Bawysc G

Chairman
Lord King of Wartnaby

10 October 1988

The Rt Hon Paul Channon MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London SW1P 3EB.

Dear Paul



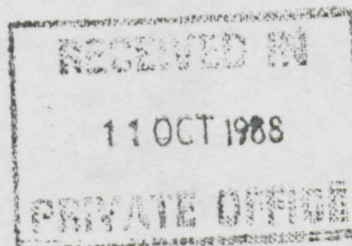
MALAYSIA

Thank you for your letter of 6 October telling me about the Prime Minister's discussions with Dr Mahatir on air services with Malaysia.

I am sorry to hear Dr Mahatir's suggestion that the airline talks failed due to British Airways unreasonable demands - this could not be further from the truth.

As you know, MAS are seeking additional frequencies to London from April 1989. Under the terms of the current ASA with Malaysia they do not have a case for operating more services. Nevertheless, British Airways has always been prepared to hold discussions to try to reach a negotiated solution which would be mutually beneficial to both airlines.

At the recent talks, although MAS agreed with us that both airlines could benefit from a negotiated arrangement, they still did not put forward any proposals of their own in order to reach a settlement. Faced with this rather negative MAS position, British Airways put forward a number of reasonable options for them to consider. However, in view of the complexity of any possible solutions, both airlines agreed that further evaluations and negotiations were necessary.



British Airways Plc.
Registered office:
Speedbird House,
Heathrow Airport (London)
Hounslow TW6 2JA.
Registered in England No. 1777777

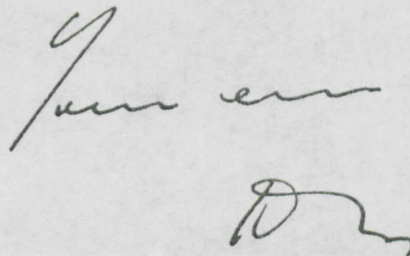
- 2 -

Our assessment of the talks is that they were constructive. Both airlines agreed to evaluate the ideas that were put forward by British Airways and agreed tentative dates for resumed negotiations in November. However, MAS subsequently changed their minds and advised us that they could not commit themselves to a date for a further round of talks without their government's prior agreement.

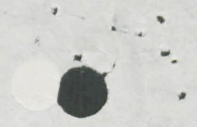
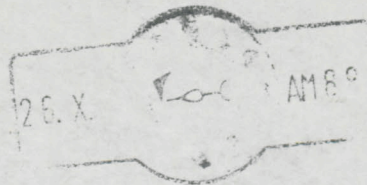
At present we are waiting to hear from MAS whether and when they can meet us. In the meantime we shall be giving MAS a more detailed outline of the options we discussed to help them with their evaluations.

You have my assurance that British Airways is willing to reach an equitable agreement with MAS. However our experience with them indicates that MAS do not want to negotiate about air services but just expect to be given whatever they are seeking.

It would help considerably to take the matter forward if you could continue to impress on MAS through the Malaysian Government that a successful resolution of the problem depends upon the willingness of both sides to negotiate.

A handwritten signature in dark ink, appearing to be 'G. ...', with a second, smaller signature below it.

MAKASSA: Kelakom PTB.



MEETING-RECORD

SUBJECT

CC MASTER

FILE
JD3 BHW

cc: PC

10 DOWNING STREET

LONDON SW1A 2AA

27 September, 1988.

From the Private Secretary

Dear Lynn,

PRIME MINISTER'S MEETING WITH THE PRIME MINISTER OF MALAYSIA

The Prime Minister met Dr. Mahathir this morning to sign a Memorandum of Understanding establishing a framework for the future sale of British defence equipment to Malaysia. Following the signing ceremony, the Prime Minister made a few brief remarks. I enclose a copy of her text. She did not use it absolutely verbatim, but made all the points in it. It may go some way to meet the Malaysians' wish that the Prime Minister should repeat the points about civil aid in her letter of 8 August to Dr. Mahathir.

The Prime Minister subsequently had a session of talks with Dr. Mahathir which continued over lunch. Dr. Mahathir was accompanied by the Malaysian Attorney General, the Chief Secretary to the Government and the Malaysian High Commissioner. Mr. David Gillmore was also present.

Defence Sales

The Prime Minister said that the Malaysians would no doubt let us know how they wished to proceed with the purchase of the items of defence equipment on the list attached to the Memorandum of Understanding. We would be ready to set up a project team to help them establish priorities, if that was their wish. Dr. Mahathir confirmed that the Malaysian Government would indeed like this. He made no mention of appointing a prime contractor.

Civil Aid

The Prime Minister continued that we looked forward to discussing with the Malaysians their priorities when it came to civil projects. Dr. Mahathir said that there were several major projects pending. One of the most important was the Hill Road project, intended to open up the Malaysian Highlands for farming and industry as well as tourism (and the construction of an International Islamic University). While it was a difficult project, and would need to be very

carefully engineered to avoid a repetition of the problems experienced with the East-West Highway, the Malaysian Government attached great importance to it. The Prime Minister said that the United Kingdom would be happy to contribute to a feasibility study.

Dr. Mahathir added that the Malaysian Government also gave a very high priority to the proposed Sail Training Ship. They hoped this could be completed in time for The Queen to inaugurate it during CHOGM in October, 1989. Their advice from the shipyard was that if an order was placed now, the ship could be completed in time (in fact, I believe the shipyard say it cannot be done before early 1990). The Prime Minister said that we would give very rapid consideration to how we might contribute to this project. The Malaysian High Commissioner should keep us informed about his discussions with the shipyard.

Malaysian Economy

Dr. Mahathir said the Malaysian economy was doing very well, with growth over the first six months of 1988 running at an annual rate of 9 per cent. A gratifying share of this was coming from manufactured goods. He made particular reference to the Malaysian-manufactured car, which he hoped would be available in Europe shortly.

Air Services

Dr. Mahathir said that expansion of the tourist industry had a high priority for Malaysia. In this context, the failure of the negotiations between British Airways and MAS to reach agreement on additional frequencies for MAS was very disappointing. British Airways had put forward conditions which were unacceptable: indeed, they had even challenged MAS's existing rights, arguing for instance that if a non-stop B747 flight was introduced, the number of passengers must be restricted. The fact was that British Airways chose not to utilise their rights fully, because they preferred to concentrate on Singapore, but were unfairly refusing to allow MAS to expand. Malaysia's real problem was that it was caught between Singapore and Bangkok. British Airways chose to direct their flights to Singapore. As a consequence, it was Singapore Airlines which obtained additional rights even though many of their passengers were Malaysian.

The Prime Minister said that the Government could not tell British Airways what to do. She had understood that British Airways felt there was not full reciprocity in their agreement with MAS. But she would have enquiries made of the airline to establish exactly what their position was, and why the obstacles mentioned by Dr. Mahathir had so far proved insurmountable.

Tropical Timber

Dr. Mahathir referred to international criticism of Malaysia's logging industry. Malaysia had to extract some

economic advantage from its forests, but took great care to replant areas which had been cut. The Prime Minister referred to the environmental consequences of indiscriminate destruction of tropical forests, particularly in Brazil.

CHOGM

The Prime Minister thanked Dr. Mahathir for his help over the dates for CHOGM in 1989. She enquired whether there would be a new Agong by the time of CHOGM. Dr. Mahathir confirmed that the present Agong's term of office would expire in the Spring of 1989.

European Community

The Prime Minister enquired about Dr. Mahathir's visit to Brussels. Dr. Mahathir said that it had been difficult to get people to talk about anything except the Prime Minister's recent speech about Europe. He had been dissatisfied by his discussions with the Commission, and particularly by Cheysson's constant lecturing. The Prime Minister said there were undoubtedly some in the Community who wanted to erect new barriers against the outside world as they dismantled the barriers within Europe. Britain was thoroughly opposed to this, and would fight to keep Europe open to the rest of the world.

Cambodia

Dr. Mahathir referred to his recent contacts with Prince Sihanouk. Sihanouk seemed confident that he would be able to control the various factions in Cambodia after a settlement, but he (Mahathir) was sceptical of this. Dr Mahathir also stressed the need for a UN force in Cambodia to supervise Vietnamese withdrawal. Without this, the Khmer Rouge would simply take over. He acknowledged, however, that the Khmer Rouge could not be left out of our calculations. The essential step was to get rid of Pol Pot and his immediate supporters. There were others in the Khmer Rouge with whom it would be possible to work. The Prime Minister referred to her comments during her visit to Thailand about the need for the Five Permanent Members of the UN Security Council to take a more active interest in Cambodia. The Foreign Secretary would be pursuing this during his visit to New York for the UN General Assembly.

Malaysia Internal

The Malaysian Attorney General gave a brief account of developments in the case of the judges. The Tribunal which had been set up to deal with the case of five Supreme Court judges had submitted its report to the Agong on 26 September. The Government had not seen the report, and did not know what was in it. Nor was the Agong required to consult them. The Constitution required him to act on the advice of the Tribunal. Dr. Mahathir commented that, whatever the outcome, his detractors would continue to criticise him. Thirteen members of his Party had recently

defected in Parliament. But this did not worry him: he had a very substantial majority. His subsequent comments indicated a continuing dissatisfaction with the conduct of the Malaysian judiciary and its lack of efficiency. He acknowledged that the possibility of restoring appeals to the Privy Council in some cases remained in his mind. But he evidently did not wish to pursue it.

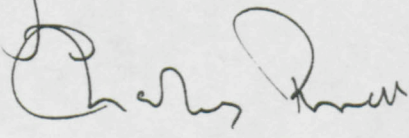
Follow-up

The Prime Minister wishes us to follow up expeditiously the points on air services and the Sail Training Ship.

On air services, she would be grateful if the Transport Secretary would write straightaway to Lord King to ask for British Airways' assessment of the problems in their negotiations with MAS and how they might be resolved, making clear that the Government would favour an early settlement of the problem.

On the Sail Training Ship, the Prime Minister thinks that we must be prepared to help, although we should seek substantial financial contributions from the main British companies likely to benefit from the defence package. I should be grateful if this could be pursued urgently by the Foreign and Commonwealth Office, Ministry of Defence and Department of Trade and Industry.

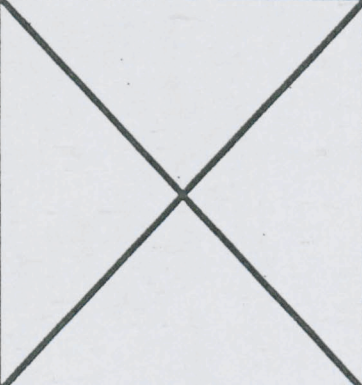
I am sending copies of this letter to Brian Hawtin (Ministry of Defence), Neil Thornton (Department of Trade and Industry), Carys Evans (Chief Secretary's Office, HM Treasury), Roy Griffins (Department of Transport) and Trevor Woolley (Cabinet Office).

Yours sincerely,


C.D. Powell

Lyn Parker, Esq.,
Foreign and Commonwealth Office

A The National Archives

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FRAME EXTERNAL

EC/MALAYSIA: VISIT OF PRIME MINISTER MAHATIR 23 SEPTEMBER

SUMMARY

1. MAHATIR HAD TALKS WITH CHEYSSON AND DE CLERCQ COVERING, INTER ALIA, 1992, URUGUAY ROUND, AGRICULTURE AND TEXTILES.

DETAIL

2. PRIME MINISTER MAHATIR HAD JOINT TALKS WITH COMMISSIONERS CHEYSSON AND DE CLERCQ LASTING SOMETHING OVER AN HOUR. MAHATIR WAS ACCOMPANIED BY HIS MINISTERS OF TRADE AND PRIMARY INDUSTRIES, THE DEPUTY FOREIGN MINISTER AND THE ATTORNEY GENERAL.

3. MAHATIR EXPRESSED CONCERN THAT 1992 WOULD BRING ABOUT A PROTECTIONIST COMMUNITY. CHEYSSON AND DE CLERCQ SPOKE AT LENGTH TO REASSURE HIM THAT THIS WOULD NOT BE THE CASE. DE CLERCQ DID MAKE CLEAR THE COMMISSION VIEW THAT THERE WOULD BE NEED FOR RECIPROCITY, AT LEAST FOR SECTORS WHERE NO GATT RULES EXISTED E.G. SERVICES. MAHATIR'S FEARS WERE NOT PUT AT REST AND HE EXPECTED IN PARTICULAR A CONTRACTION OF EUROPEAN INVESTMENT IN ASEAN. CHEYSSON POINTED TO THE EC/ASEAN JOINT INVESTMENT COMMITTEE PROGRAMME, DESCRIBING IT AS A 'SUCCESS STORY'.

4. ON THE URUGUAY ROUND, MAHATIR WAS KEEN FOR ASEAN COUNTRIES TO PARTICIPATE FULLY BUT HE CRITICISED THE COMMUNITY'S OFFER ON TROPICAL PRODUCTS, AS BEING TOO LIMITED AND BLAMED THE INDUSTRIALISED COUNTRIES FOR THE GENERAL LACK OF PROGRESS. LIM, MINISTER FOR PRIMARY INDUSTRIES WARNED THAT THE SOUTH WAS LOSING PATIENCE. THE COMMISSION POINTED OUT THAT THE COMMUNITY'S WAS THE ONLY PROPOSAL SO FAR ON TOPICAL PRODUCTS AND, AS A GENERAL POINT CHEYSSON ADVISED THE MALAYSIANS AGAINST RELIANCE ON COMMODITIES. THE MALAYSIANS WERE ALSO CONCERNED ABOUT THE STALEMATE IN AGRICULTURE

PAGE 1
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UNDER THE URUGUAY ROUND. IN RESPONSE CHEYSSON SET OUT THE REFORMS BEING IMPLEMENTED BY THE COMMUNITY IN AGRICULTURE. MAHATIR CRITICISED THE LIMITED ACCESS FOR MALYSIAN TEXTILES TO THE EUROPEAN MARKET, BUT THE COMMISSION POINTED OUT THAT THE EXISTING MALAYSIAN QUOTAS WERE NOT YER FULLY UTILIZED.

5. THE MALAYSIANS PUT TWO SPECIFIC DEMANDS. THEY ASKED FOR AN INCREASE ON THEIR 86,000 TONS QUOTA FOR PLY WOOD, AND THEY ASKED THE COMMISSION TO CONSIDER IN FUTURE ANY MEASURE WHICH MIGHT HAMPER THE IMPORT INTO THE COMMUNITY OF MALAYSIAN VEGETABLE OIL.

HANNAY

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ccBlyf

PRIME MINISTER

MEETING WITH DR MAHATHIR

You are to receive Dr Mahathir on Tuesday for lunch, preceded by the signing of a Memorandum of Understanding covering defence sales.

Signature Ceremony

The signature ceremony will be at 1200 in the Pillared Room, provided it is finished by then. The press will be present. You and Dr Mahathir will sign and exchange instruments in the normal way. You will each then wish to say a few words: a suggested text for you is attached. Our side, Lord Glenarthur, | Lord Trefgarne, | Sir Colin Chandler, Mr Gillmore and Mr Breslin (from our High Commission in Kuala Lumpur) will be present, as well as a number of Malaysian officials.

Talks

These will follow the signing ceremony and continue over lunch. Dr Mahathir will have his Attorney-General, | Chief Secretary and High Commissioner. David Gillmore will also be present. There is briefing in the folder. The main subjects are:

- the defence package. It will be up to the Malaysians to say how they want to proceed with the purchase of items on the list. We will set up a project team to help them. Dr Mahathir will probably revert to the questions of aid for civil projects and air services;
- civil projects. We are ready to provide £70 million ATP grant and £130 million of associated ECGD cover, with further grant aid to continue to be available on a similar basis for development projects agreed upon between the two Governments. There are some quite good projects around: a new airport in Sarawak, some hospital

projects and a submarine cable project. But Dr Mahathir himself seems to favour something called the Hill Road project. This bodes to be very expensive - £1 billion - and would put our ATP funds under severe pressure. But if Dr Mahathir presses for it, you could offer a UK contribution to a feasibility study;

- he is also likely to try to press for extra frequencies for MAS on the route to London. Talks between the airlines have not gone well, probably because the Malaysians believe their best chance lies in squeezing a political concession out of us. You will need to remind Dr Mahathir that we cannot force BA to do things: and you hope he will encourage MAS to pursue their discussions with BA, including BA's request for additional rights in SE Asia to balance the MAS request. Agreement between the airlines is essential;
- internal developments. He will want to bring you up to date on developments over the judges. The Lord President has been dismissed and a tribunal is sitting on the conduct of the other judges. It is apparently likely to find in favour of at least some of the judges;
- Malaysian economy. This is continuing to grow very fast. Mahathir is very exercised about proposals to put a levy on exports of tropical timber, to go towards research into the effects of depletion of tropical forests;
- CHOGM. You will want to thank him for taking account of your concerns over dates (18-24 October) despite the inconvenience to Malaysia;
- Cambodia. Mahathir has recently seen Sihanouk who comes here in October. You will want to ask his views on the prospects. The Foreign Secretary will pursue your proposal for closer engagement by the Five Permanent Members of the UN Security Council when he visits New York next week;

CONFIDENTIAL

- 3 -

- 1992. Mahathir will have been in the FRG and Belgium before coming here. He is concerned about the implications of 1992 for countries outside the EC. You will want to reassure him;

- Privy Council. If he mentions his suggestion that provision be made for certain cases to be heard by the Privy Council, you can say that we would be happy to discuss this;

- Sail Training Ship. He has asked us to pay up to half the £3 million cost of a sail training ship which he wants by the time of CHOGM. We are looking to see what we can do.

C.S.P.

CHARLES POWELL

24 September 1988

EAMABL

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Foreign and Commonwealth Office

London SW1A 2AH

CONFIDENTIAL

23 September 1988

Don Charles

Visit of Malaysian Prime Minister: Briefing

This letter constitutes the briefing for the Prime Minister's talks and working lunch with Dr Mahathir on 27 September. It concludes with a few remarks for the Prime Minister's use at the signing ceremony of the Defence MOU. I enclose personality notes on the Malaysian Chief Secretary, Attorney-General and High Commissioner, all of whom will be accompanying Dr Mahathir throughout.

The defence package is likely to dominate the discussions. In that context Dr Mahathir may well refer to aid for civil projects and air services. He may also raise 1992, imports of tropical timber, and recent internal developments in Malaysia involving the judiciary. The Prime Minister will wish to raise recent exchanges over CHOGM. Cambodia and Vietnamese boat people may also come up.

The Protocol for a defence package signed by the Defence Secretary and his Malaysian counterpart on 23 March included 12 Tornado aircraft, 6 batteries of Rapier blind fire missile systems, 2 Martello radars and an integrated C3I system. The list attached to the MOU which the two Prime Ministers will sign reflects this list, except that the number of Rapier batteries has been reduced to one and further items (including 2 submarines, 3 surface ships of the Corvette class and the construction and equipping of 2 military bases in Malaysia) have been added. The Malaysians intend to fund these items by increased oil liftings (details of which are still under discussion and are not mentioned in the MOU). The estimated total value of the package is £2.5 billion (although no figures are being given publicly, and we would prefer not to dispute the

/Malaysian

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Malaysian wish to quote the earlier estimate of £1 billion for the time being). Dr Mahathir has been under considerable pressure from within his Cabinet to trim the list and place some of the work elsewhere. There is particularly strong competition from the Dutch and Germans over the submarines. We should naturally express considerable concern at any suggestion from the Malaysians that the list be pruned.

Once the MOU is signed it is up to the Malaysian Government to say how it wishes to proceed with the purchase of items on the list. We will then set up a project team (for which the Malaysians are paying a management fee) to establish Malaysian priorities. Contracts will be placed by the Malaysian Government with a UK prime contractor, expected to be GEC. Contracts are expected to be placed over a 3 year period, perhaps beginning in early 1989. The whole programme is likely to last for 10 years.

On civil projects, we do not expect Mahathir to re-open the position reached following the Prime Minister's visit to Kuala Lumpur in August - ie that HMG are ready to provide £70 million ATP grant and £130 million of associated ECGD cover, and that further grant aid will continue to be available on a similar basis for development projects agreed upon between our two Governments. A number of British companies are pursuing potential business under the £200 million umbrella. Many ideas are still at an early stage but the following are sufficiently advanced to warrant a mention if a suitable opportunity occurs:

- (a) Costains: new airport at Sibul (Sarawak): UK content circa £11 million; financing offer under the £200 million made informally on 22 September.
- (b) Laing and Costains are both pursuing major nucleus hospital projects. Laing's proposal appears the more advanced. It would be useful to know which is favoured by Dr Mahathir.

/(c)

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- (c) STC are neck and neck with the Japanese (NEC) for a submarine cable project with a UK content of £45 million. The Prime Minister may wish to offer strong support for STC, a world leader in this field, and emphasise that the UK aid offer made in March of £13.5 million is firm. This represents the same degree of concessionality as that offered by the Japanese.

Dr Mahathir, for his part, may well press us to give the highest priority to the 200 kilometre "Hill Resort Road" project. Trafalgar House have had a first look at this scheme, which they say could cost £1 billion, with a UK content of £350-400 million which, of course, would far exceed the funding we have so far offered and would put the ATP provision under considerable pressure even if implemented over several years. As described, the project appears to be very costly in relation to its potential benefits. Nevertheless, if Dr Mahathir is insistent, it would be desirable to avoid giving a negative response without offering further scrutiny of its merits, and not least because there may be some industrial or commercial value for the UK. The road will certainly require careful investigation. The Malaysians are already in touch with potential consultants, including Rendel, Palmer & Tritton (who are themselves in close touch with Trafalgar House). If Dr Mahathir persists, the Prime Minister might wish to offer a UK contribution to feasibility work.

We have also been invited by the Malaysians to contribute up to half of the cost of a £3 million sail training ship which they would like to have ready by the time of next year's CHOGM. If Dr Mahathir raises this, the Prime Minister may wish to tell him that we have only just received the request, and that it is being looked at urgently by the Departments concerned.

The Malaysians have at no stage suggested bluntly that the fate of the defence package depends on concessions over air services. However, there continue to be hints that unless there is progress over extra frequencies for Malaysian Airline Systems, contracts under the defence package may not come to fruition. The Prime Minister will not wish to raise the subject. But

/if

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if Dr Mahathir does so, she may wish to remind him that, as a private company, British Airways is no longer subject to direction by HMG. A prerequisite for the granting of additional frequencies to MAS is therefore agreement between the two airlines. A broad-based commercial solution with benefits for both sides offers the best prospect. BA put forward some ideas on these lines during the airline talks in Kuala Lumpur on 16/17 September, including the possibility of extra rights for BA in SE Asia to balance extra frequencies for MAS to London. MAS did not take these up (which suggests that they still expect to get what they want through a political decision). We hope that Dr Mahathir will encourage MAS to continue the dialogue with BA and to be more creative. If Dr Mahathir raises the possibility of Government level talks, the Prime Minister might say that we would of course respond to a call by the Malaysians for talks within the framework of the Air Services Agreement, but that such talks could not be expected to make progress in the absence of any agreement between the airlines.

Dr Mahathir's discussions in the FRG and Belgium (which he is visiting before coming to the UK) are likely to focus on 1992. If he raises the subject, the Prime Minister may wish to say that we are aware of the concerns of ASEAN countries about the possible effects on them of completing the Single Market. She might take the opportunity to say that - far from damaging their trade with the Community - the Single Market will create enormous opportunities for third countries. The Community will remain open: it would be inconsistent to raise external barriers as internal ones are removed. The Single Market will be a contribution to global liberalisation: we look to others to open up their markets in the context of the Uruguay Round.

Dr Mahathir may raise his concerns about the pressure from the vociferous international environmental lobby on the trade in tropical timber - one of Malaysia's major exports. He will be aware of the proposal presently being considered by the UK Timber Trade Federation and their Dutch counterpart for introducing an import levy on tropical timber, the proceeds of which

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would go to the International Tropical Timber Organisation (ITTO) for research purposes. (UK and Malaysia are members of ITTO, which aims to safeguard tropical timber as a sustainable and tradeable resource.) This proposal has not been formally put to the British Government, so we cannot comment on its details. However, it would be at the UK trade's discretion to adopt such a system voluntarily.

Time may not permit a lengthy discussion of internal developments in Malaysia. However, we are informed that Dr Mahathir is bringing the Attorney-General with him because he wishes to amplify his remarks to the Prime Minister on 6 August (your letter to me of 8 August) about the reasons for his present difficulties with the judiciary. Those difficulties have continued (see Kuala Lumpur telegram no 502 enclosed). The Lord President has been dismissed by the Agong, and a further tribunal has been set up to consider the fate of 5 Supreme Court judges, subsequently suspended, who ruled on 2 July to prevent the tribunal appointed to consider the Lord President's future from submitting its recommendations. This second tribunal seems likely to find in favour of at least some of the plaintiffs. Without volunteering an opinion on the case's likely outcome, the Prime Minister may nevertheless wish to suggest to Dr Mahathir that a favourable decision would do much to allay concern among potential investors in Malaysia, as well as in legal circles.

Dr Mahathir may also mention his suggestion that provision for certain cases to be heard by the Privy Council might be restored. It is at present unclear whether such a move would require amendments to UK law. The Prime Minister may wish to say that we would be happy to discuss with the Malaysians the question of such a change and its likely modalities.

The Prime Minister may wish to express gratitude to Dr Mahathir for meeting our request that CHOGM dates be brought forward, despite the inconvenience to his Government of having to reschedule presentation of the budget. We understand his reasons for wanting a longer CHOGM than at Vancouver and we appreciate that it would be no more than, in effect, 6 working days. Our

/understanding

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understanding from the Malaysian MFA is that CHOGM will start on the afternoon of Wednesday 18 October and finish on the morning of Tuesday 24 October. The Prime Minister may wish to confirm this timing. If Dr Mahathir wishes to discuss agenda items, the Prime Minister might explain that the agenda may be discussed at the Senior Officials Meeting in the Seychelles in November but is not due to be compiled by the Commonwealth Secretariat until next year.

Prince Sihanouk of Cambodia has just paid an official visit to Malaysia (8-11 September) and apparently struck Dr Mahathir as coherent and consistent. In view of Prince Sihanouk's forthcoming visit to London (25-26 October), the Prime Minister may wish to ask Dr Mahathir how he now assesses the Cambodian situation, in the light of the Prince's visit. We understand that Dr Mahathir is particularly concerned about the threat of civil war after Vietnamese withdrawal. As far as British policy is concerned, the Prime Minister might recall her speech at Site B in August (the unacceptability of the return of the Pol Pot regime) and her suggestion that the five permanent members of the UN Security Council should take a closer interest in a political settlement. We have been following this up. British officials were in Moscow last week talking to the Soviet Deputy Foreign Minister about the recent Sino-Soviet bilateral on Cambodia in Peking. The Foreign Secretary will be talking to a number of the leading players at the forthcoming UNGA and will raise the issue informally with the Five for the first time.

On Vietnamese boat people, the Prime Minister might tell Dr Mahathir that we are inviting a Vietnamese delegation to London for round two of our bilateral talks on repatriation in mid-October. Like Malaysia, we want early progress on this issue, in our case in order to relieve the severe pressure on Hong Kong. We are prepared, like Malaysia, to consider limited reintegration assistance via UNHCR to get worthwhile results. We are also ready to participate in a second international conference on Indo-China refugees in 1989 which the Malaysians are proposing, although it will need careful preparation. We see no inconsistency between the bilateral and multilateral approaches; indeed the former could assist the latter if we can persuade the Vietnamese to cooperate.

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/ I attach a note of remarks that the Prime Minister
may care to make at the signing ceremony.

I am copying this letter to Brian Hawtin (MOD).

Yours ever
R N Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

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TAN SRI DATUK SALLEHUDDIN MOHAMED
PSM KMN JMN DIMP SIMP PMN

Chief Secretary to the Government since 1984.

In his mid-fifties, born in Raub, Pahang. Degree in economics from University Malaya. On completion of his studies, he joined the Civil Service as development officer with the Rural and Industrial Development Authority. He subsequently held various posts in the Public Service Department and was Deputy Secretary General at Ministry of Finance. In 1981, he undertook an advanced management training course at Harvard and on his return to Malaysia was appointed Director General of the Economic Planning Unit in the Prime Minister's Department. In September 1984 Sallehuddin replaced Hashim Aman (qv) as Chief Secretary to the Government, the top civil service appointment.

Intelligent and with a pleasant personality, Sallehuddin appears to have the respect and confidence of Prime Minister Mahathir.

Undertook a COI Category 1 visit in 1987.

Married Puan Sri Datin Hafash, who is Deputy Director in charge of teacher training at the Ministry of Education.

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TAN SRI DATUK ABU TALIB BIN OTHMAN
PSM DMPN DCSM JSM KMN PPT DPMS

Attorney General since September 1980

Born 1938 in Malacca. Educated in Seremban, and at Lincoln's Inn. Called to the English bar 1962. Joined Government service 1963, and rose to position of senior Federal Counsel. Appointed Solicitor General in 1979, and then Attorney General 1980.

Intelligent, and pleasant company, he is nevertheless regarded by many in the legal profession as having risen too far too fast. He is close to the Prime Minister, and has been criticised for some decisions which have shown a clear political bias - in 1985 he said that there would be no prosecutions in Malaysia over the BMF affair, and more recently he has been seen as a Government agent in its attempts to reduce the independence of the judiciary. Engaged in a heated public exchange on this issue in January 1988 with the Lord President, Tan Salleh Abas (qv).

Married to Puan Sri Datin Azizah. Two children, a boy and a girl.

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DATO' MON BIN JAMALUDDIN, HIGH COMMISSIONER FOR MALAYSIA

Dato' Mon has been Malaysian Ambassador in Vienna since September 1985. He was born in Selangor on 17 September 1934. He obtained Bachelor of Arts (Honours) from the then University of Malaya in Singapore.

Dato' Mon joined the Ministry of Foreign Affairs in 1959. He has served in various capacities in the Malaysian missions in Jakarta, Karachi, Tokyo, Bangkok, Vientiane, New Delhi (as High Commissioner) and in the Headquarters of the Ministry of Foreign Affairs. His most recent appointment at the MFA was as Deputy Secretary-General (Political) from 1982-85.

Dato' Mon is not in very good health. He is awaiting an operation to improve his circulation and is on a strict diet. His wife is a lively and charming woman and a keen bridge player.

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cc: PC



Foreign and Commonwealth Office

London SW1A 2AH

22 September 1988

Dear Charles

Visit of Malaysian Prime Minister

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In your letter of 20 September, you asked for suggestions on who on our side should attend the signing ceremony of the defence MOU on 27 September.

Lord Glenarthur and David Gillmore will represent the FCO. It will be particularly useful for Lord Glenarthur to meet Dr Mahathir in advance of his planned visit to Malaysia in November. Lord Trefgarne (who will greet Dr Mahathir on arrival on 24 September) will attend, along with Sir C Chandler, who would like to be accompanied by Mr Breslin, Counsellor (Defence Supply) in Kuala Lumpur who has been closely involved in the deal.

The briefing for the visit will include a form of words for the Prime Minister's use at the signing ceremony.

Yours ever

Bob Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

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MALAYSIA Kelantan pr 3



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FM KUALA LUMPUR
TO IMMEDIATE FCO
TELNO 505
OF 200310Z SEPTEMBER 88

DR MAHATHIR'S CALL ON THE PRIME MINISTER: GENERAL BACKGROUND

1. DR MAHATHIR'S POLITICAL SITUATION HAS NOT GREATLY CHANGED SINCE MRS THATCHER VISITED HIM HERE ON 6 AUGUST. THE RESULT OF THE JOHORE BY-ELECTION WAS A SHARP RAP OVER THE KNUCKLES BY A RACIALLY MIXED AND UNUSUALLY SOPHISTICATED ELECTORATE, AND SEEMS TO HAVE BROUGHT ABOUT SOME RETHINKING ON TACTICS. THE PRIME MINISTER CERTAINLY CANNOT AFFORD A STRING OF RESULTS LIKE THIS. TALK OF POSSIBLE DISCUSSIONS BETWEEN DR MAHATHIR AND HIS MALAY OPPONENTS IS SPREADING AND IT MAY BE THAT HE FEELS THAT THE TIME FOR A CONCILIATORY GESTURE HAS COME.

HOWEVER, THIS WOULD BE UNCHARACTERISTIC, AND TALK OF THIS NATURE IN THE PAST HAS COME TO NOTHING. THE TRIBUNAL CONSIDERING THE CASE OF THE FIVE SUSPENDED SUPREME COURT JUDGES IS EXPECTED TO DELIVER ITS REPORT SOON. WE UNDERSTAND THAT THIS TRIBUNAL HAS BEEN CONDUCTED IN A MUCH MORE BALANCED AND MEASURED WAY BY THE PARTICIPANTS THAN WAS THE CASE WHEN THE FORMER LORD PRESIDENT WAS JUDGED, AND THAT IT MAY BE THAT NOT ALL OF THE JUDGES ARE DISMISSED. DR MAHATHIR CONTINUES TO BE IN COMPLETE CONTROL.

2. THE ECONOMY STILL LOOKS HEALTHY AND ONE REPORT IS THAT GROWTH IN THE FIRST SIX MONTHS WAS AT AN ANNUAL RATE OF 9%. EXPORTS, BOTH COMMODITY AND INDUSTRIAL, ARE INCREASING RAPIDLY.

3. IN OUR BILATERAL RELATIONSHIP, AGREEMENT ON THE DEFENCE PACKAGE MEMORANDUM OF UNDERSTANDING, WHICH IS TO BE SIGNED ON 27 SEPTEMBER, MARKS A GREAT STEP FORWARD. THE PROGRAMME OF RE-EQUIPMENT SUGGESTED IN THE MOU WILL BIND US TO MALAYSIA IN THE DEFENCE FIELD FOR THE NEXT TEN YEARS OR SO. THE AIR DEFENCE EXERCISE UNDER THE FIVE POWER DEFENCE ARRANGEMENT AT THE BEGINNING OF THE MONTH DEMONSTRATED THAT OUR CO-OPERATION IS VALUED AND THE PERFORMANCE OF THE RN AND RAF FORCES INVOLVED MADE A DEEP IMPRESSION.

4. OUR BILATERAL TRADE IS INCREASING. OUR EXPORTS TO MALAYSIA ARE UP BY 27% BY COMPARISON WITH LAST YEAR. WE HAVE HOPES OF OBTAINING SOME MAJOR CONTRACTS FOR CIVIL PROJECTS OVER THE NEXT FEW YEARS.

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5. IT WILL NOT BE ALL PLAIN SAILING. THE MALAYSIAN DEMAND FOR THE 6TH AND 7TH AIR FREQUENCIES TO LONDON REMAINS ON THE TABLE (AND WILL SURELY BE ON DR MAHATHIR'S AGENDA FOR THE LUNCH). ALTHOUGH THE TWO AIRLINES HAVE MADE A BROADER COMMERCIAL ARRANGEMENT, THIS HAS A LONG WAY TO GO BEFORE ANYTHING WHICH MIGHT SATISFY THE REQUIREMENTS OF BOTH COULD EMERGE. THE DEFENCE PACKAGE ITSELF WILL NO DOUBT GIVE RISE TO REGULAR DIFFICULTIES. IN ADDITION, THERE ARE MANY INTERNATIONAL ISSUES, BOTH ECONOMIC AND POLITICAL, ON WHICH WE DO NOT AGREE.

6. NEVERTHELESS, THE RELATIONSHIP IS IN BETTER SHAPE THAN IT HAS BEEN FOR MANY YEARS AND WE CAN LOOK FORWARD TO CHOGM AND THE IMPORTANT VISITS TO MALAYSIA NEXT YEAR WITH SOME CONFIDENCE.

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~~NO. 10 DOWNING ST
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DESO, MOD~~

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SEC(O)(C), MOD
MR CCW ADAMS, RM 22 DTI VIC ST

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

20 September 1988

VISIT OF THE MALAYSIAN PRIME MINISTER

We now envisage the following arrangements for Dr. Mahathir's visit on 27 September. The signing of the MOU will take place at 12 o'clock. We hope it will be in No.10: but if work on the Pillared Room has not been completed by then, we may need to hold the ceremony in No.12. The press will be present. I should be grateful for suggestions as to who should be present for the signing on our side: I would have thought it should include both a Foreign Office and a Defence Minister as well as one or two senior officials from each, including Sir Colin Chandler. After the signing there will be a celebration glass of champagne.

Thereafter the Prime Minister will take Dr. Mahathir and his party to another room for a talk before continuing over a working lunch. The Prime Minister wishes to keep this very small. In the Foreign Secretary's absence, she would be grateful if Mr. Gillmore would attend.

The briefing for Dr. Mahathir's visit will I hope include a suggested form of words for the Prime Minister to use at the signing ceremony.

(C.D. POWELL)

R.N. Peirce, Esq.,
Foreign and Commonwealth Office.

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FM KUALA LUMPUR
TO IMMEDIATE FCO
TELNO 502
OF 190745Z SEPTEMBER 88

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OUR TELNOS 415 AND 431: MALAYSIAN JUDICIARY
SUMMARY

1. THE TRIBUNAL APPOINTED TO INVESTIGATE ALLEGATIONS AGAINST THE FIVE SUSPENDED SUPREME COURT JUDGES BEGAN PROCEEDINGS ON AUGUST 29, AND SHOULD FINISH THIS WEEK WITH THE AGONG'S DECISION FOLLOWING A FEW DAYS LATER. LOCAL OPINION IS THAT SOME AND PERHAPS ALL HAVE A CHANCE OF REMAINING IN OFFICE.

DETAIL

2. THE FIVE SUPREME COURT JUDGES: TAN SRI WAN SULAIMAN PAWAN TEH, DATUK GEORGE SEAH, TAN SRI EUSOFFE ABDOOKADER, TAN SRI MOHAMED AZMI KAMARUDDIN AND TAN SRI WAN HAMZAH SALLEH, WERE SUSPENDED ON 6 JULY. THEY WERE ALL ALLEGED TO HAVE ATTENDED AN EMERGENCY SITTING OF THE SUPREME COURT IN KUALA LUMPUR ON 2 JULY WHICH DID NOT HAVE THE PERMISSION OF THE ACTING LORD PRESIDENT, AND THEN TO HAVE ISSUED AN ORDER RESTRAINING THE TRIBUNAL WHICH HAD BEEN CONVENED TO DECIDE THE POSITION OF THE FORMER LORD PRESIDENT TUN MOHD SALLEH ABAS. GEORGE SEAH AND TAN SRI WAN SULAIMAN WERE FURTHER ACCUSED OF ABSENTING THEMSELVES FROM THE SCHEDULED SITTING OF THE SUPREME COURT IN KOTA BARU ON THE SAME DAY WITHOUT REASONABLE GROUNDS AND TAN SRI WAN SULAIMAN WAS ACCUSED OF DIRECTING THEM TO DO SO.

3. A TRIBUNAL WAS DULY APPOINTED, (COMPOSITION IN TUR) AND BEGAN ITS PROCEEDINGS ON 29 AUGUST. THE TRIBUNAL PROCEEDINGS HAVE NOT TO BE OPEN TO THE PUBLIC NOR HAVE ORGANISATIONS SUCH AS THE MALAYSIAN BAR COUNCIL, THE LAW ASIA OR INTERNATIONAL BAR ASSOCIATION BEEN ALLOWED TO MONITOR THEM. HOWEVER THE ACCUSED JUDGES WERE EVENTUALLY ALLOWED THE REPRESENTATION AND WITNESSES THEY ASKED FOR. AFTER SUBMISSIONS FROM COUNSEL OBJECTING FIRST THAT HE HAD EXPRESSED VIEWS ON QUESTIONS OF LAW WHICH MIGHT PREJUDICE HIS OBJECTIVITY AND SECOND THAT HE MIGHT BE REQUIRED AS A WITNESS, THE CHAIRMAN OF THE TRIBUNAL, TAN SRI HASHIM, STEPPED DOWN. HIGH COURT JUDGE DATUK EDGAR JOSEPH JR, ALREAJY A TRIBUNAL MEMBER, TOOK OVER AS CHAIRMAN. IN THE EVENT TAN SRI HASHIM WAS NOT CALLED AS A WITNESS.

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4. THE LEGAL ARGUMENTS ARE SAID TO HAVE CENTRED ON:

- INTERPRETATION OF THE LAW CONCERNING THE COMPOSITION AND SITTINGS OF THE SUPREME COURT AND THE EXERCISE OF THE POWERS AND DUTIES OF THE LORD PRESIDENT DURING INCAPACITY OR ABSENCE.
- EVIDENCE THAT THE SUSPENDED JUDGES HAD QUOTE CONSPIRED UNQUOTE TO ISSUE AN INTERIM ORDER ON 2 JULY.
- WHETHER THE JUDGES HAD SHOWN AN QUOTE IMPROPER MOTIVE UNQUOTE WHEN THEY DISREGARDED A SUPREME COURT CASE WHICH HELD THAT AN INVESTIGATORY TRIBUNAL WAS NOT AMENABLE TO AN ORDER OF PROHIBITION.
- THE MEANING OF THE TERM QUOTE GROSS MISBEHAVIOUR UNQUOTE AND
- THE ''PROBATIVE VALUE'' OF THE EVIDENCE OF FORMER LORD PRESIDENT TUM MOHAMED SUFFIAN WHO WAS CALLED AS AN EXPERT WITNESS ON THE CUSTOMS, PRACTICES AND CONVENTIONS OF THE FEDERAL (NOW SUPREME) COURT. HE APPARENTLY ARGUED THAT IN URGENT CASES A SUPREME COURT CAN ACT AS A COURT OF ORIGINAL JURISDICTION, SO IF THE COURT HAD NOT BEEN CONSTITUTED THE JUDGES WOULD NOT HAVE BEEN CARRYING OUT THEIR DUTIES.

5. A BAR COUNCIL STATEMENT ON THE PREVIOUS TRIBUNAL'S REPORT ON TUN SALLEH ABAS HAS CLAIMED THAT THE PROCESS WAS PREJUDICED FROM THE OUTSET.

COMMENT

6. THERE IS A GROWING BELIEF THAT THREE OF THE JUDGES AND PERHAPS TAN SRI WAN SULAIMAN AND GEORGE SEAH AS WELL COULD BE LET OFF. THE TWO FOREIGN JUDGES ARE SAID TO FEEL THE CHARGES TO BE TRIVIAL. THE MALAYSIAN MEMBERS OF THE TRIBUNAL MAY HAVE FELT UNDER POLITICAL PRESSURE TO FIND THEIR COLLEAGUES GUILTY, BUT PERHAPS LESS SO TODAY THAN A FEW WEEKS AGO. AMONGST OTHER REASONS, THERE COULD BE EMBARRASSMENT IF THE MALAYSIAN MEMBERS OF THE TRIBUNAL DECIDED ONE WAY AND THE FOREIGN MEMBERS THE OTHER SEMI COLON THE TUN SALLEH CASE WAS ONE IMPORTANT FACTOR IN UMNO BARU'S DISMAL FAILURE IN THE JOHORE BAHRU BY-ELECTION SEMI COLON AND THERE IS A GENERAL MOOD THAT ENOUGH DAMAGE HAS ALREADY BEEN DONE TO MALAYSIAN CREDIBILITY, NOT LEAST AMONGST POTENTIAL INVESTORS. THE ACCUSED JUDGES HAVE HELPED THEIR CHANCES BY FOLLOWING TRIBUNAL PROCEDURES, AND ISSUING NO PROVOCATIVE STATEMENTS.

7. MORALE IN THE JUDICIARY IS AT A LOW EBB AND DELAYS IN BRINGING CASES TO TRIAL, ESPECIALLY APPEALS, HAVE INCREASED PARTLY BECAUSE THE TRIBUNALS HAVE TIED UP A LARGE NUMBER OF MALAYSIA'S SENIOR JUDGES. INEVITABLY IT IS BELIEVED THAT THE LEGAL SYSTEM HAS

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BECOME POLITICALLY BIASED AND THAT SOME NEWLY APPOINTED JUDGES OWE THEIR POSITION MORE TO THEIR POLITICAL VIEWS THAN THEIR COMPETENCE. IT IS STRONGLY RUMOURED THAT THE PRIEM MINISTER'S DEPARTMENT HAVE PUT TOGETHER A LIST OF LAWYERS WHO HAVE SUPPORTED TUN SALLEH AND THAT THEY WILL BE DENIED GOVERNMENT WORK IN THE FUTURE. IT IS ALSO LIKELY THAT COMMERCIAL CLIENTS WOULD PREFER TO USE INFLUENTIAL PRO-GOVERNMENT LAWYERS IF THEIR CASE HAS P POLITICAL IMPLICATIONS.

8. THE INITIAL ANGER FELT BY THE LEGAL PROFESSION HERE HAS WEAKENED INTO DESPONDENCY, THOUGH THE BAR COUNCIL IS CONSIDERING A PUBLIC MOCK TRIBUNAL TO DEMONSTRATE TUN SALLEH'S INNOCENCE. TUN SALLEH HIMSELF IS DUE TO GIVE A LECTURE AT UNIVERSITY COLLEGE LONDON ON 4 NOVEMBER AND ALSO AT HARVARD IN DECEMBER. HE IS ALSO APPARENTLY CONSIDERING THE OFFER OF A YEAR'S FELLOWSHIP AT HARVARD.

9. THE WHOLE EPISODE HAS UNDOUBTEDLY DAMAGED THE MALAYSIAN JUDICIARY'S REPUTATION FOR INDEPENDENCE BUT - ESPECIALLY IF THE PRESENT TRIBUNAL FINDS IN FAVOUR OF THE FIVE ACCUSED JUDGES - THE WOUND MAY NOT BE MORTAL.

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①

PRIME MINISTER

LUNCH FOR DR. MAHATHIR

You are giving lunch to Dr. Mahathir on 27 September. He will be accompanied by the Malaysian Attorney General - to explain to you in confidence the further developments in the case involving the Malaysian Chief Justice - the Malaysian High Commissioner here and the head of the Prime Minister's office.

You need to decide who should be present on our side. You have in the past kept it very restricted with Dr. Mahathir. Neither the Foreign Secretary nor the Defence Secretary is available. In the circumstances you may prefer to have no-one else at all except me to take a note. But other possibilities are Sir Colin Chandler and David Gillmore.

Would you like to add them or keep it small?

1. What David Gillmore would
be a good idea.

CD?

mt

CHARLES POWELL

19 September 1988

EL3DAC

MR. POWELL

Lunch for Prime Minister of Malaysia
Tuesday, 27 September

Is this the guest list for the lunch for
PM of Malaysia:

Prime Minister

Prime Minister of Malaysia

High Commissioner for Malaysia

Malaysian Attorney General

Chief Secretary of the Malaysian Government

Sir Colin Chandler

Mr. David Gillmore

Mr. Charles Powell

Sue

—

19 September 1988

OUT TELEGRAM

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FM	4	FM DTI		
TO	5	TO KUALA LUMPUR		
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AND TO	8			
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	11	FM ADAMS, DTI PEP		
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	13	MALAYSIAN HILL RESORT ROAD PROJECT		
	14			
	15	I attended a lunch on 8 September given by Eric Parker,		
	16	Chief Executive of Trafalgar House, for Samy Vellu,		
	17	Malaysian Minister of Works. Arumugan was also present.		
	18			
	19	2. Vellu said that the Malaysian Cabinet had now		
	20	approved the HRR project and that a photographic survey		
	21	would now be put in hand. He sought to justify the		
	22	road more in terms of agricultural development than		
	23	tourism. He emphasised that the Government was very		
	24	aware of environmental factors both in the design of		
	25	the road and in controlling the remote areas which		
///	26	would become accessible to entrepreneurs. He played		
//	27	down the role of the Italians whom he said had not put		
/	28	any proposals forward. He appeared ill-briefed on how		
	29	Mahathir would play the project at his forthcoming		
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YYYY			Catchword: discussion	
MAIN	File number	Dept DTI, PEP	Drafted by (Block capitals) C C W ADAMS	Telephone no 215 5462
ADDITIONAL	Authorised for despatch by: <i>C.C.W.A</i>		Initials	Date/time 151700Z
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OUT TELEGRAM (CONT)

	Classification RESTRICTED	Caveat	Precedence
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<p>For distribution order see Page</p>		<p>Catchword: respecting</p>	

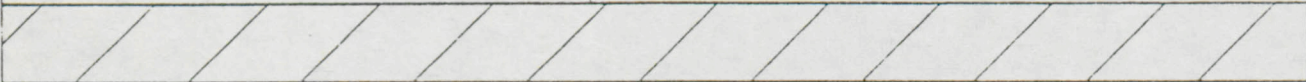
OUT TELEGRAM (CONT)

	Classification RESTRICTED	Caveat	Precedence
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1 respecting Malaysian susceptibilities.
 2
 3 5. We made it clear to TH that pounds 400 million
 4 UK content was beyond our reach for this type of
 5 project. If it was scaled down and perhaps shared
 6 with another source of concessionary finance (such
 7 as the Italians) than we could consider it.
 8
 9 6. It would be useful to have your assessment of
 10 how far you think Mahathir is likely to press this
 11 project with Mrs Thatcher. If he is going to ^{it will,} ~~then,~~
 12 despite the considerable uncertainties surrounding
 13 the project (cost, viability etc), ~~it will~~ presumably
 14 be difficult for the Prime Minister to temporize.
 15 We therefore have a choice between a positive approach
 16 qualified by the need for a feasibility study and an
 17 outright statement to the effect that we do not see
 18 this as an eligible project for ATP.
 19
 20 7. Our preliminary thinking is that, although the
 21 developmental case is likely to be weak, the industrial
 22 and commercial case is moderately strong. Mahathir's
 23 apparent firm support for the project also suggests
 24 that if we turn it down there will be a political and
 25 commercial cost (not least in the context of the
 26 defence package). We are therefore proposing to brief
 27 the Prime Minister defensively but, if Mahathir raises
 28 the project, to seek his views on the project's
 29 priority and, if he places it high on his list, to
 30 offer to part-finance studies of the sort proposed by
 31 TH with an ATP grant (probably 35 per cent). We
 32 would hope at least to ensure that the project was
 33 properly appraised as ^{well} ~~well~~ as securing a firm position
 34 for us in it should we decide to go ahead. If the

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OUT TELEGRAM (CONT)

	Classification RESTRICTED	Caveat	Precedence
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1 studies suggest that the project's justification is
 2 weak then we would have to work on the Malaysians to
 3 accept the logic of not proceeding or at least of our
 4 disengaging. We recognise that such a course would
 5 not be easy. The alternative of refusing to become
 6 involved now at a critical stage in the negotiation
 7 of the defence package does however seem to us even
 8 less attractive. And even if the MOU on the latter
 9 is signed this month the defence contracts will not
 10 be in the bag for sometime.

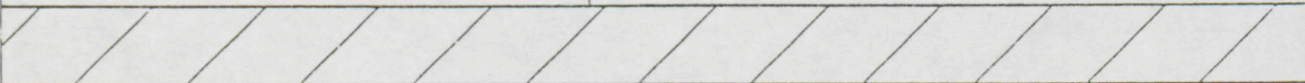
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- 19 MR DELL
- 20 MR ADAMS, PEP
- 21 MR WHEELER, PEP1
- 22 DR PALMER, PEP3
- 23 MR COLVIN, SEAD, FCO
- 24 MR MANNING, ODA
- 25 MR GRAHAM-HARRISON, ODA
- 26 SIR COLIN CHANDLER, DESO, MOD
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File

PM



be:PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

15 September 1988

VISIT OF THE MALAYSIAN PRIME MINISTER

I have seen Kuala Lumpur telegram number 493 saying that Dr. Mahathir would like the Malaysian Attorney General included in the Prime Minister's lunch for him. I am sure that the Prime Minister would be content with this.

C. D. Powell

R. N. Peirce, Esq.,
Foreign and Commonwealth Office.

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CONFIDENTIAL
FM KUALA LUMPUR
TO DESKBY 150900Z FCO
TELNO 493
OF 150820Z SEPTEMBER 88

DR MAHATHIR'S VISIT TO LONDON

1. I HAVE BEEN TOLD, AND THE MFA HAVE CONFIRMED, THAT THE ATTORNEY-GENERAL (TAN SRI DATO' ABU TALIB BIN OTHMAN) IS JOINING THE PRIME MINISTER'S PARTY. I UNDERSTAND THAT IT IS DR MAHATHIR'S WISH THAT HE SHOULD BE INVITED TO LUNCHEON AT NO 10 AS WELL. THIS MAKES FOUR ON THE MALAYSIAN SIDE, THE OTHER TWO BEING THE SECRETARY- GENERAL OF THE GOVERNMENT TAN SRI SALLEHUDDIN, AND THE MALAYSIAN HIGH COMMISSIONER.

2. ONE REASON FOR THE ATTORNEY-GENERAL'S PRESENCE IS TO LEND LEGAL APPROVAL TO THE MOU, BUT THE MAIN PURPOSE IS FOR HIM TO BE ABLE TO TELL THE PRIME MINISTER ABOUT DEVELOPMENTS HERE IN THE CASES OF THE FORMER LORD PRESIDENT AND THE FIVE SUSPENDED JUDGES SINCE MRS THATCHER'S VISIT ON 6 AUGUST.

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Foreign and Commonwealth Office

London SW1A 2AH

5 September 1988

Dear Charles

Mr R N Peirce
5/9.Harrison and Crosfield in Malaysia

I enclose a copy of a self-explanatory minute by David Gillmore reporting a conversation with Mr George Paul, the Chairman of Harrison and Crosfield.

As you will see, the information in this minute is extremely sensitive. A premature leak of the company's intentions would cause it grave damage in the stock market. Knowledge of this matter has been kept to an extremely limited circle in the Foreign Office. I should be most grateful if you could take similar precautions.

The Foreign Secretary thinks that the Prime Minister should be aware of this matter. The news will break only a few days before Dr Mahathir leaves for London. It is likely to be extremely unwelcome to him and his government. That said, there seems to us to be nothing that we can or should do about it. The issue is essentially a commercial matter for the company.

Yours ever

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street



SECRET AND PERSONAL ^B

HARRISON AND CROSFIELD IN MALAYSIA

1. Mr George Paul, Chairman of Harrison and Crosfield, came to see me on 25 August. He was accompanied by Mr Andrew Smith of Barings, who are financial advisers to H & C. They gave me in strict confidence an account of their future plans to dispose of their equity in Harrisons Malaysia Plantations Berhad, a joint venture with a state-owned Malaysian corporation.
2. The background in summary is as follows. Harrison and Crosfield were until the early 80s the largest British plantation company in Malaysia. Others like Sime Derby had been sold off and Guthries had been taken over by Malaysian interests in a dawn raid in the City. After prolonged and difficult negotiations with the Malaysian authorities. Harrison and Crosfield, who held 80 per cent of the equity in their huge Malaysian operation, agreed to sell down to a Malaysian parastatal organisation, PNB, 50 per cent of the equity, retaining for themselves 30 per cent in a newly structured company known as Harrisons Malaysia Plantations Berhad. I cannot recall the sums involved but recall that they were considerable - well over 100 million pounds. Following this major shake-up, the Malaysian company has continued to do well under the chairmanship of Tun Ismail, a redoubtable former Governor of the Malaysian Central Bank and the Prime Minister's brother-in-law. Tun Ismail has shown every indication of being extremely proud of this model of Malaysianisation in cooperation with a British company of high repute.
3. Mr Paul told me that the company now wishes to sell off its remaining 30 per cent holding. The reasons are apparently twofold. Much of the company's shareholder funds are accounted for by H & C's 30 percent holding in HMPB. This is a matter of increasing concern to shareholders, who rightly understand that, to some extent, those funds are heavily tied down and probably worth less than their nominal value in market terms. The second, and probably more important, reason is that Tun Ismail over the years has been able increasingly to oust expatriate managers in favour of Malaysians. As a consequence, H & C think that HMPB is not as well managed as they would like. Mr Paul will be seeing Tun Ismail in Kuala Lumpur on 7 September and will put to him H & C's proposal to sell its equity. According to Mr Smith, this may have to be done quickly in order to seize a possible window of opportunity in the tricky business of finding buyers. But the Malaysians have the right of first refusal on the equity, which they can exercise within 14 days.
4. I told Mr Paul that I thought that H & C's plans would cause some distress to the Malaysian Government (the effective majority shareholder in HMPB). Harrisons is a household name in Malaysia and a major disinvestment of this kind - according to Mr Smith,

/the

SECRET AND PERSONAL



SECRET AND PERSONAL

the 30 per cent H & C holding has a book value now of £180 million - could cause political ripples and thus would be singularly unfortunate in the period before Dr Mahathir's visit to London, at which we hope he will sign the MOU on the defence sales package.

1 September 1988

D H Gillmore

SECRET AND PERSONAL



FILE

KKIADK

bc PC

10 DOWNING STREET
LONDON SW1A 2AA

5 September 1988

From the Private Secretary

MALAYSIAN DEFENCE PACKAGE

Thank you for your letter of 2 September about signature of the Memorandum of Understanding on the Malaysian Defence Package. The Prime Minister is content to sign if that is what Dr. Mahathir wants.

I am copying this letter to Brian Hawtin (Ministry of Defence).

(C. D. POWELL)

R. N. Peirce, Esq.,
Foreign and Commonwealth Office.



Foreign and Commonwealth Office

London SW1A 2AH

2 September 1988

1
a p e

Dr Mahathir
Content to sign?

Dear Charles

Yes no

2/9

Malaysian Defence Package

In your letter of 30 August you sought early guidance on whether it would be appropriate for the Prime Minister to fall in with Dr Mahathir's wishes by agreeing to sign the memorandum of understanding on the Defence Package.

It is unusual for memoranda of this kind to be signed by Prime Ministers. However, there is no objection in principle to their doing so, and the Foreign Secretary sees no reason not to oblige Dr Mahathir in this way.

Yours ever

Or could we witness signature by the Foreign Minister?

R N Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

MALAYSIA: Relater AT3

POSTAGE AND TELEGRAPH OFFICE

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

30 August 1988

CASE OF DERRICK GREGORY

You wrote on 25 August to Andy Bearpark about the Prime Minister making a plea for commutation of the death sentence on Mr Derrick Gregory if the Penang Pardons Board uphold the sentence passed on him.

The Prime Minister is willing to make a plea and is content with the text enclosed with your letter. The latter may now be sent to our High Commissioner in Kuala Lumpur to use at the appropriate moment.

Charles Powell

Bob Peirce, Esq.,
Foreign and Commonwealth Office.

DC

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file

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

30 August 1988

Dear Bob,

MALAYSIA

Thank you for your letter of 30 August about the visit of Datuk Arumugam. He duly came to see me this morning, mostly to discuss the programme for Dr. Mahathir's visit in September, for which he appears to have assumed the prime responsibility on Dr. Mahathir's instructions. The particular points which we covered were:-

Signing of the Memorandum of Understanding

Arumugam said that Dr. Mahathir had twice commented that he would like to sign the MOU himself which would mean the Prime Minister would have to sign for the United Kingdom. Was this acceptable? I said that it would be a bit unusual for the Prime Minister to sign an MOU of this sort: a more normal procedure would be for senior officials to sign in the presence of the two Prime Minister's. Arumugam said that he thought that Dr. Mahathir would consider this as second best. But in that event, it would probably be the Chief Secretary to the Malaysian Government who would sign. I said that I would consult the Prime Minister and let him know her view not later than 5 September. I should be grateful for some early advice on whether it would be appropriate for the Prime Minister to sign and, if not, who would sign on our side. Since dictating this, I have in fact spoken to the Prime Minister who is willing to sign if that is considered appropriate.

Timing of signature ceremony

Arumugan had proposed 1130. I said I thought 12 o'clock would be adequate. After a short celebratory drink, the two Prime Ministers and those involved in the lunch could then retire for a talk which could continue over lunch.

Working lunch

Arumugan accepted that it should be a maximum of three a side. Dr. Mahathir would be accompanied by the Malaysian High Commissioner and by either the Chief Secretary (if

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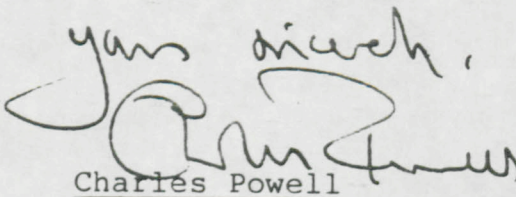
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he had signed the MOU) or by the Secretary General of the Malaysian Ministry of External Affairs.

Arumugam went on to press the claims of the Hill Resort Road Project mentioned in your letter. By his account the project had already been put out to tender and the Italians were strong competitors. But if we were prepared to make ATP available, Dr. Mahathir would be ready to suspend the tendering procedure and award the contract worth some £200 million direct to a British firm. He (Arumugam) had already been in touch with Trafalgar House and Mr Eric Fletcher of that company had visited Kuala Lumpur at the weekend. A report from them was now awaited. I said that we were aware of this project which would be considered alongside other possibilities.

The subject of air services was not raised.

I am copying this letter to John Colston (Ministry of Defence) with an additional copy for Sir Colin Chandler.

Yours sincerely,

Charles Powell

Bob Peirce Esq
Foreign and Commonwealth Office.

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

30 August 1988

Dr Arumugam

requested I understand that Datuk Arumugam, Chairman of GEC Malaysia and confidant of Dr Mahathir, is calling on you this morning. He is likely to be positive about Dr Mahathir's visit and signature of the MOU on 27 September provided Dr Mahathir's hope that some of the ATP funds we have offered can be found for the Hill Resort Road (Sir C Chandler's letter to David Gillmore of 15 August, copied to you). There is also a suggestion that a contribution to a sail training ship project would go down particularly well. DTI and ODA officials were in Kuala Lumpur last week to discuss project business and established that the Malaysians attach priority to the Hill Resort Road project. A paper outlining the proposal, in which Trafalgar House are known to be interested, will reach the DTI today. You may wish to tell Arumugam that we will be considering project business in general in the light of the visit of officials.

Arumugam may raise air services. You might tell him that we are in continuing touch with British Airways who have taken a constructive attitude towards the possibility of further, wider-ranging talks with Malaysian Airline Systems.

Yours ever

R N Peirce

(R N Peirce)
Private Secretary

C D Powell Esq
10 Downing Street

R 26/8
①



Foreign and Commonwealth Office

London SW1A 2AH

25 August 1988

Dear Andy
Yes not
Prime Minister
Content with
this text?

R 26/8

Case of Derrick Gregory

In his letter of 19 July, Charles Powell said he thought that the Prime Minister would be prepared to make a plea on Mr Gregory's behalf if the Penang Pardons Board upheld the death sentence. I enclose a draft text of such a plea, on which I should be grateful for your agreement.

Once it is approved, we propose to submit the text to the High Commission in Kuala Lumpur, for use without further instruction. Should the Pardons Board uphold the death sentence, this would enable the High Commissioner to deliver the plea well before the date of the execution. As you may recall, in the case of Kevin Barlow, a dual Australian/British citizen, for whom the Prime Minister lodged a similar plea in 1986, the Pardons Board decision came two weeks before the execution date and the Prime Minister's personal plea was delivered only the day before Barlow was executed. We clearly wish to ensure that the Prime Minister's plea is delivered in good time.

Yours ever
Bob Peirce

(R N Peirce)
Private Secretary

P A Bearpark Esq
10 Downing Street

Text of plea to the Malaysian Prime Minister and to the Governor of Penang requesting the commutation of death sentence passed on Derrick Gregory in the event that this is upheld by the Penang Pardons Board.

I know that the judicial process concerning Derrick Gregory, a British citizen, has been completed, and I understand that the Penang Pardons Board have now rejected the plea for commutation of the death sentence passed on him for drug trafficking.

I in no way wish to question the decisions of Malaysian courts. I do, however, urge you to consider, for humanitarian reasons, whether it would be possible to commute the death sentence. I would ask you to bear in mind that Derrick Gregory committed the offence before the death penalty for drug trafficking became mandatory in Malaysia.

Yours sincerely
MARGARET THATCHER

Handwritten initials: P. f. u. and a signature.

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FM KUALA LUMPUR
TO IMMEDIATE FCO
TELNO 452
OF 250745Z AUGUST 88

YOUR TELNO 366 AND MY TELECON WITH COLVIN (SEAD): PRIME MINISTER'S LUNCH WITH DR MAHATHIR

1. I HAVE HEARD UNOFFICIALLY THAT DR MAHATHIR PLANS TO BE ACCOMPANIED TO LUNCH BY MALAYSIAN HIGH COMMISSIONER IN LONDON AND EITHER TAN SRI SALLEHUDDIN (CHIEF SECRETARY TO THE GOVERNMENT) OR DATO' YUSOF HITAM (SECRETARY-GENERAL, MFA). WE EXPECT OFFICIAL CONFIRMATION EARLY NEXT WEEK. GRATEFUL TO KNOW HOW WE WOULD MATCH THAT LINE UP. (SALLEHUDDIN WILL BE IN LONDON FOR A MEETING OF EUROPEAN HEADS OF MISSION).

2. DR MAHATHIR CERTAINLY WISHES TO SIGN THE MOU WITH MRS THATCHER. BUT HE WILL ACQUIESCE IF WE CONSIDER THAT THE MOU SHOULD BE SIGNED BY OTHERS, WITH MRS THATCHER AND DR MAHATHIR PRESENT. HOW DO YOU WISH TO PLAY THIS? ON TIMING, WOULD IT BE APPROPRIATE TO SIGN THE MOU, SAY, HALF AN HOUR BEFORE LUNCH? THE MALAYSIANS ARE NOW FINALISING MAHATHIR'S PROGRAMME AND I SHOULD BE GRATEFUL FOR EARLY GUIDANCE ON THESE TWO POINTS.

3. WE HAVE BEEN ASKED WHETHER PRIME MINISTER AND HIS PARTY COULD BE TREATED AS HMG'S GUESTS FOR PART OF THIS VISIT ON 26 AND 27 SEPTEMBER. THERE WILL BE A MAXIMUM OF SIX IN THE PARTY, POSSIBLY FEWER.

SPRECKLEY

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

10 August 1988

DR. MAHATHIR'S VISIT TO LONDON

I have seen Kuala Lumpur telegram no. 420 about the Prime Minister's lunch with Dr. Mahathir on 27 September. The Prime Minister assures me that Dr. Mahathir indicated a preference for a small working lunch which I suggest should be a maximum of three aside.

You may like to instruct our High Commissioner to confirm this to the Malaysians.

C. D. Powell

Bob Peirce, Esq.,
Foreign and Commonwealth Office.

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CONFIDENTIAL
FM KUALA LUMPUR
TO PRIORITY FCO
TELNO 420
OF 090850Z AUGUST 88

DR MAHATHIR'S VISIT TO LONDON

1. WHEN THEY MET ON 6 AUGUST THE PRIME MINISTER SAID TO DR MAHATHIR THAT SHE WAS LOOKING FORWARD TO RECEIVING HIM FOR LUNCH DURING HIS PRIVATE VISIT TO LONDON IN SEPTEMBER. WE HAVE TOLD THE PRIME MINISTER'S OFFICE AND THE MINISTRY OF FOREIGN AFFAIRS THAT THIS LUNCH WILL BE ON 27 SEPTEMBER. I UNDERSTAND THAT THE TWO PRIME MINISTERS AGREED THAT IT WOULD BE A SMALL WORKING LUNCH BUT THIS EXCHANGE DID NOT TAKE PLACE IN MY HEARING AND I AM NOT SURE WHAT IS MEANT BY THIS. IT WOULD BE HELPFUL AND AVOID POSSIBLE MISUNDERSTANDING IF I WERE NOW INSTRUCTED TO TELL THE MINISTRY OF FOREIGN AFFAIRS EXACTLY WHAT WE PROPOSE AND ASK THEM TO CONFIRM THAT IT IS ACCEPTABLE TO DR MAHATHIR.

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br. MALAYSIA note file
original on FOR. POL.
Pm's visit to Australia etc
may '88



to PC
High Com.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

7 August 1988

Dear Bob,

PRIME MINISTER'S MEETING WITH THE MALAYSIAN
PRIME MINISTER

The Prime Minister had a meeting with the Malaysian Prime Minister in Kuala Lumpur on 6 August, between her visits to Australia and Thailand. Dr. Mahathir was accompanied by his Foreign Minister, the Secretary General to the Foreign Ministry and two other officials. Our High Commissioner was also present.

Dr. Mahathir's visit to London

The Prime Minister opened by saying how much she was looking forward to Dr. Mahathir's visit to London in September when she would like to give a lunch for him. She wondered whether he would prefer a small working lunch or a larger occasion. Dr. Mahathir indicated that he would prefer the former.

CHOGM

The Prime Minister said that she was also very much looking forward to CHOGM in Kuala Lumpur in the autumn of 1989. She understood that the Malaysian Government intended to invite The Queen to pay a State Visit to Malaysia at the same time. She believed that such an invitation would be welcomed. Dr. Mahathir indicated that he would indeed like to invite The Queen but had hesitated to do so until the dates for CHOGM had been settled. The preferred time for the latter now seemed to be either the third or fourth week of October. The Prime Minister said that she could probably manage either but would prefer the third week. In any event she would need to be back in London for Cabinet on the Thursday of the fourth week. She hoped that we could continue with the same duration and format as for CHOGM at Vancouver. Dr. Mahathir said that it might be necessary to find dates which spanned the third and fourth weeks of October.

The Prime Minister asked how Dr. Mahathir would like to use the short time available for their talk. For her part she would very much welcome his advice on Cambodia, she would like to discuss

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the defence package and she would be interested in anything which Dr. Mahathir wished to tell her about developments in Malaysia. She hoped that on this they could talk as old friends. Dr. Mahathir indicated that he would also like to raise air services.

Situation in Malaysia

Dr. Mahathir gave the Prime Minister a lengthy account of developments in Malaysia. He particularly asked that this be kept confidential and it was agreed that nothing would be written down. The essence was that the dispute with the Lord President and the Judges was more between them and the King than with Dr. Mahathir himself, who was haplessly caught in the middle. In order to preserve the constitutional niceties he could not publicly explain the true position. The result was that he and Malaysia were getting a very bad press, which was in turn deterring foreign investment. The King was expected to reach a decision on the Lord President's future later in the day (he has, of course, subsequently decided to dismiss him).

Dr. Mahathir said that he was considering whether to restore provision for certain cases to be heard by the Privy Council. Malaysian judges were getting very lax. They were far behind with their cases and often failed to write their opinions or judgements. They needed the discipline of a higher review body.

The Prime Minister commented that the present difficult situation was clearly a great weight on Dr. Mahathir's mind. She would not of course mention anything of what Dr. Mahathir had told her to the press. If asked, she would say that the matter of the judges was being dealt with by the Head of State in accordance with the Constitution and that everyone including Dr. Mahathir was anxious that the matter should be fully and properly resolved. Dr. Mahathir indicated assent to this. The matter was not in fact raised in the Prime Minister's subsequent press conference.

Cambodia

The Prime Minister said that she would be seeing Prince Sihanouk while in Thailand, and Cambodia was bound to be one of the main issues for discussion with the Thai government. The Cambodian people had been subjected to appalling brutality. The aim now must be to achieve secure, stable and reasonable government in Cambodia. But it was hard to see who could provide this. Prince Sihanouk appeared to be the only person with any prospect of uniting the various factions, but the proposals which he had put forward were not at all realistic.

Dr. Mahathir said that the most urgent aspect was to prevent the Khmer Rouge from obtaining a dominant voice in a future government of Cambodia. From that point of view there was, perhaps, some logic in Prince Sihanouk's proposals: the Khmer Rouge had in practice been able to gather support and were the most successful of the factions, and Sihanouk's proposals would automatically constrain their influence. But he agreed that the proposals were scarcely realistic.

The Prime Minister said that it seemed likely that any solution would require the United Nations to play a role. Dr. Mahathir said there would certainly need to be some form of international supervision, and it was also important to persuade China to end its support for the Khmer Rouge. He thought this might be possible: the Chinese were becoming more willing to listen to the views of others. They knew that the Khmer Rouge were a bad lot. As for Sihanouk, the trouble was that you could never hold him to anything. He was not a consistent person and his main motivation was a strong desire to return to Cambodia. There was a distinct possibility that he might do a deal with the existing regime in Phnom Penh.

Defence Package

Because of the time spent on these other issues, the defence package was reached only in the last five minutes of the meeting. The Prime Minister said that we were anxious to reach agreement on the defence package which would mark a new stage in co-operation between Britain and Malaysia. At the same time we had tried hard to produce proposals for civil aid which would be satisfactory to Malaysia. This would, of course, be quite distinct from the defence package. We had offered seventy million pounds of ATP and one hundred and thirty million pounds of ECGD cover for civilian projects. If further important projects came forward after this had been used up, then we would of course consider providing assistance for them.

Dr. Mahathir said that Malaysia was seeking a higher proportion of aid. If the defence package went through, it would impose a very heavy and continuing financial burden on the Malaysian economy. For many years to come, defence expenditure would be vastly increased. There was already a backlog of development projects which had been held back by the economic difficulties of the last few years and he was anxious to finance these. The point about parallelism caused him no difficulty. But he would like to know the terms we had in mind for the one hundred and thirty million pounds of extra credit cover. These must be attractive. He hoped that we would be ready to negotiate them on a realistic basis. The Prime Minister commented that we hoped to be able to sign the defence package at the time of Dr. Mahathir's visit in September. Dr. Mahathir did not comment.

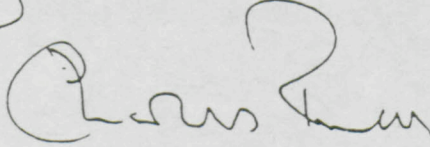
Air Services

The Prime Minister said that her understanding was that if MAS entered into further talks with British Airways, not just on the frequency of services but also on other matters such as co-operation on tourism, there was a good prospect they could make progress. The Foreign Minister told the Prime Minister after the meeting that the Malaysians had hoped for agreement to give a political dimension to the discussions. The Prime Minister reminded him that British Airways was now in the private sector. We could not negotiate on their behalf.

CONFIDENTIAL

- 4 -

I am copying this letter to Brian Hawtin (Ministry of Defence), Alex Allan (HM Treasury), Neil Thornton (Department of Trade and Industry), Roy Griffins (Department of Transport) and Trevor Woolley (Cabinet Office).

Yours sincerely,


(C.D. POWELL)

R.N. Peirce, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

PRIME MINISTER'S

SUBJECT
CC MASTER
OPS

file

PERSONAL MESSAGE

UNCLASSIFIED

SERIAL No. T120c/88

122226
MDADAN 5191

UNCLASSIFIED
FM CABINET OFFICE LONDON
TO IMMEDIATE KUALA LUMPUR
TELNO U/N
OF 010150Z AUGUST 88
INFO IMMEDIATE FCOLN

ADVANCE COPY

FOLLOWING FOR HIGH COMMISSIONER FROM CHARLES POWELL, AIRBORNE

PLEASE PASS FOLLOWING MESSAGE FROM THE PRIME MINISTER TO DR.
MAHATHIR.

MESSAGE BEGINS

I READ THE NEWS OF THE TRAGIC ACCIDENT AT THE JETTY OF THE
BUTTERWORTH FERRY JUST AS I WAS LEAVING SINGAPORE FOR AUSTRALIA.
WE SHARE YOUR DISTRESS AND DENIS AND I SEND YOU OUR DEEPEST
SYMPATHY FOR THE HEAVY LOSS OF LIFE AND THE MANY INJURED.
I SHOULD BE GRATEFUL IF YOU WOULD PASS ON MY CONDOLENCES
TO THE VICTIMS AND THEIR FAMILIES.
YOURS SINCERELY,
MARGARET THATCHER

MESSAGE ENDS

YYYY

DISTRIBUTION 3

ADVANCE 3

HD/SEAD
PS NO.10 DOWNING ST

RESIDENT CLERK

NNNN

PAGE 1
UNCLASSIFIED

For Malaysia: relations
file
original on FOR POL: PM's
visit to Australia etc may 88

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LNCYAN 4704 SVLNAN 4875
CONFIDENTIAL
FFFF ADVANCE COPY TO NO 10 PLEASE
DD 061430Z CAOFF
FM BANGK TO FCOLN
061230Z AUG
GRS 647

CONFIDENTIAL
FM BANGKOK
TO DESKBY 061430Z FCO
TELNO 552
OF 061230Z AUGUST 88
INFO DESKBY 070200Z KUALA LUMPUR

FOLLOWING FOR PRIVATE SECRETARY FROM CHARLES POWELL.

PRIME MINISTER'S MEETING WITH DR. MAHATHIR.

1. THE PRIME MINISTER HAD A GOOD TALK WITH DR MAHATHIR. MUCH OF THE HOUR WAS TAKEN UP WITH HIS EXPLANATION OF THE BACKGROUND TO RECENT EVENTS IN MALAYSIA. HE APPEARED RATHER BELEAGUERED AND GLAD TO HAVE THE OPPORTUNITY TO UNBURDEN HIMSELF. IT WAS AGREED TO SAY TO THE PRESS, IF ASKED, ONLY THAT THE MATTER

OF THE JUDGES WAS BEING DEALT WITH BY THE HEAD OF STATE IN ACCORDANCE WITH THE CONSTITUTION AND THAT EVERYONE INCLUDING THE (MALAYSIAN) PRIME MINISTER WAS ANXIOUS THAT THE MATTER SHOULD BE FULLY AND PROPERLY RESOLVED.

2. THE OTHER MAIN SUBJECT DISCUSSED WAS CAMBODIA. THE PRIME MINISTER SAID THAT THE AIM MUST BE TO SECURE STABLE AND REASONABLE GOVERNMENT IN CAMBODIA AND SOUGHT DR MAHATHIR'S ADVICE ON HOW THIS COULD BE ACHIEVED. SHE DOUBTED THE REALISM OF PRINCE SIHANOUK'S PROPOSALS. DR MAHATHIR AGREED ON THIS LAST POINT. THE MOST URGENT ASPECT WAS TO PREVENT THE KHMER ROUGE FROM OBTAINING A DOMINANT VOICE IN THE FUTURE GOVERNMENT OF CAMBODIA. EFFORTS SHOULD BE MADE TO DISSUADE THE CHINESE FROM CONTINUING THEIR SUPPORT FOR THE KHMER ROUGE. ANY SOLUTION WOULD REQUIRE SOME FORM OF INTERNATIONAL SUPERVISION.

3. THE PRIME MINISTER CONFIRMED THAT WE WERE LOOKING FORWARD TO CHOGM IN KUALA LUMPUR. THERE WAS SOME DISCUSSION OF WHETHER IT SHOULD BE THE THIRD OR FOURTH WEEK OF OCTOBER 1989.

THE PRIME MINISTER MADE CLEAR THAT SHE WOULD NEED TO BE BACK IN LONDON FOR CABINET ON THE THURSDAY OF THE FOURTH WEEK. SHE EXPRESSED A PREFERENCE FOR THE VANCOUVER FORMAT AND DURATION. SHE TOLD DR MAHATHIR SHE THOUGHT THAT THE QUEEN WOULD WELCOME AN INVITATION TO PAY A VISIT TO MALAYSIA IN CONJUNCTION WITH CHOGM.

4. DR MAHATHIR RAISED THE AIR SERVICES AGREEMENT. THE PRIME MINISTER SAID THAT THERE SHOULD BE FURTHER TALKS BETWEEN BRITISH AIRWAYS AND MAS. IF THESE WERE BROADENED TO INCLUDE OTHER ASPECTS SUCH AS COOPERATION ON TOURISM, THERE WAS A GOOD PROSPECT THEY COULD MAKE PROGRESS. THE FOREIGN MINISTER TOLD THE PRIME MINISTER AFTER THE MEETING THAT THE MALAYSIANS HAD HOPED FOR AGREEMENT TO GIVE A POLITICAL PUSH TO THE NEGOTIATIONS. THE PRIME MINISTER GAVE HIM NO ENCOURAGEMENT.

5. DR MAHATHIR DID NOT (REPEAT NOT) RAISE THE ISSUE OF VIETNAMESE BOAT PEOPLE.

6. ON THE DEFENCE PACKAGE, WE ARE CLEARLY NOT THERE YET. THE PRIME MINISTER SAID THAT WE HAD DONE OUR BEST TO PUT TOGETHER A SATISFACTORY PACKAGE OF AID AND CREDIT. ONCE IT WAS EXHAUSTED WE WOULD BE PREPARED TO CONSIDER AID FOR FURTHER PROJECTS. DR MAHATHIR WAS VISIBLY DISAPPOINTED THAT THE PRIME MINISTER DID NOT HAVE MORE TO OFFER. WHILE HE APPEARED TO ACCEPT THAT WE WERE UNLIKELY TO IMPROVE ON THE SPLIT BETWEEN £70 MILLION ATP AND £130 ECGD COVER, HE INSISTED THAT THE TERMS FOR THE ECGD COVER MUST BE ATTRACTIVE AND HOPED THAT THE UK WOULD BE READY TO NEGOTIATE ON A REALISTIC BASIS. HE DID NOT REACT EITHER WAY

WHEN THE PRIME MINISTER SAID THAT WE HOPED TO SIGN THE MOU IN SEPTEMBER.

7. THE PRIME MINISTER THINKS THAT WE MUST MAKE EVERY EFFORT TO CLINCH THIS IN THE NEXT TWO WEEKS OR SO. HOW WE DO SO MUST DEPEND IN PART ON THE SOUNDINGS WHICH THE HIGH COMMISSIONER WILL TAKE TO ESTABLISH MALAYSIAN REACTIONS TO TODAY'S DISCUSSION. BUT THE IMMEDIATE REQUIREMENT IS FOR A FORM OF WORDS FOR THE PRIME MINISTER TO USE IN HER THANK YOU LETTER TO DR MAHATHIR, TO CONVEY THE STRONG AND CLEAR IMPRESSION THAT THERE (NEXT WORD UNDERLINED) WILL BE FURTHER SUPPORT FORTHCOMING ONCE THE INITIAL OFFER IS USED UP. I SHOULD BE GRATEFUL IF YOU COULD TELEGRAPH ADVICE TO US IN BANGKOK ON 8 AUGUST.

8. THE PRIME MINISTER INVITED DR MAHATHIR TO LUNCH ON 27 SEPTEMBER. DR MAHATHIR INDICATED THAT HE WOULD PREFER A SMALL WORKING LUNCH TO A LARGER OCCASION.

9. FCO RESIDENT CLERK PLEASE ADVANCE TO PRIVATE OFFICES OF MOD, TREASURY, DTI, ODA.

TONKIN

YYYY

SVLNAN 4875

IN



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

19 July 1988

CASE OF DERRICK GREGORY

Thank you for your letter of 18 July about the case of Derrick Gregory. I think that the Prime Minister would be prepared to make a plea on Mr. Gregory's behalf if the Pardons Board uphold the death sentence. She would wish to base such a plea principally on the argument that the offence took place before the death sentence became mandatory for drug trafficking.

(CHARLES POWELL)

R.N. Peirce, Esq.,
Foreign and Commonwealth Office.

CONSULAR IN CONFIDENCE

RESTRICTED



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 July 1988

VISIT OF DR. MAHATHIR

BM I mentioned that we had heard that Dr. Mahathir would pay a private visit to the UK on 25-28 September. The Prime Minister would be able to give a small working lunch for him on Tuesday 27 September at 1230 for 1300. You might include this in the briefing for the Prime Minister's visit to Kuala Lumpur. Nearer the time it would be helpful to have suggestions as to who else should be present.

(CHARLES POWELL)

R.N. Peirce, Esq.,
Foreign and Commonwealth Office.

RESTRICTED

OTS

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ech

*bc PC
Sue G
TG.*

Die Linster ①



Foreign and Commonwealth Office
London SW1A 2AH

Agree to make a personal plea for clemency for Gregory (as you did for Barlow)?

18 July 1988

Dear Charles

Derrick Gregory, sentenced to death in Malaysia: possible commutation plea by Prime Minister

The Prime Minister is already aware of the case of Derrick Gregory, sentenced to death in Penang on 6 March 1987 for drug trafficking. After his appeal hearing on 18 April 1988 the Supreme (Appeal) Court confirmed his sentence. This completed judicial procedures. Gregory and his lawyer have now put in a plea for commutation of sentence to the Penang Pardons Board. In support of Gregory's plea, the High Commission have sent to the MFA a petition for clemency to commute the sentence on humanitarian grounds.

CDD 10/7

Yes - on the point below

Such pleas by HMG are standard practice, and are also made on behalf of Hong Kong belongers for whom we are responsible. A similar plea was made in 1986 on behalf of Kevin Barlow, a dual Australian/British citizen for which the Prime Minister's approval was also sought and given.

Mr Barlow held dual citizenship, but was resident in Australia and travelled on an Australian passport. The pleas on his behalf were unsuccessful. Two days before his execution, the High Commission informed us that the Australian Prime Minister intended to make personal "last ditch" pleas on Barlow's behalf. The Prime Minister decided to do likewise, and our High Commission passed urgent messages from her to the Malaysian Prime Minister and to the Governor of Penang. Barlow was nevertheless executed the following day.

As the Prime Minister pleaded on Barlow's behalf, there is likely to be considerable comment by press and public if she does not similarly plead for Derrick Gregory, a mono-British citizen and UK resident, whose family live here. The Foreign Secretary recommends that if the Pardons Board uphold the death sentence, the Prime Minister should make a plea on Mr Gregory's behalf. There is no doubt about his guilt. But there are extenuating circumstances. Medical evidence, although disputed during his trial, suggests mental debility and he was arguably not fully aware of the implications of what he was doing. Furthermore, the offence took place before the death sentence became mandatory for drug trafficking.

[This seems to me the strongest point.]



The Foreign Secretary would be grateful for the Prime Minister's views in principle now because the Penang Pardons Board may meet at any time to consider Gregory's plea, and his execution could follow soon after. In the Barlow case, the Pardons Board decision came two weeks before the execution date and the Prime Minister's personal plea was delivered only the day before Barlow was executed. Action may therefore be needed at very short notice, possibly during the Parliamentary recess. The Prime Minister will, of course, herself be visiting Malaysia briefly on 6 August on her way back from Australia.

Yours ever

(R N Peirce)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

Charles Tuesday 27th September
12. noon + lunch?
T.G. 19/7

(1)

PRIME MINISTER

cc Mrs Gaisman

DR. MAHATHIR

Dr. Mahathir will be on a private visit to London from 25 to 28 September and has asked whether he could see you at that time. It is not a very easy one for you but it might be possible to fit in a meeting if not a small lunch. Agree to see him?

C D P

y.
10
mt

C D POWELL

14 July 1988



me R2CSJ
etc

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 May 1988

MALAYSIA

The Prime Minister has received a number of requests from MPs and companies to telephone Dr. Mahathir, or send him a further message, to salve his anguish at the recent BBC Newsnight programme about him. It has been suggested that without such action the substantial defence contracts which we are engaged upon negotiating could be at risk.

The Prime Minister has replied to these suggestions that she does not think it would be appropriate to telephone Dr. Mahathir out of the blue. She has also said that she has only recently sent him a warm message, reflecting the good state of our relations since his visit here. She has suggested that those concerned should make their disquiet known directly to the BBC.

The Prime Minister is inclined to think that we should nonetheless put the Government's concern formally on record with the BBC. This will be particularly important if contracts are, after all, lost because of this incident. It would also be helpful in the context of our relations with the Malaysians to say that we had taken some action. She recognises the difficulties of the Government seeming constantly to be in the position of complaining about the BBC. But the Prime Minister thinks that a straightforward letter from the Foreign Secretary or the Defence Secretary to Mr. Hussey setting out our understanding of Dr. Mahathir's reaction and the damage which this could do to our substantial commercial interests is fully justified.

The Prime Minister has subsequently discussed this with the Foreign Secretary who is inclined to agree. He will apparently be seeing Mr. Birt of the BBC next week and intends to raise the matter with him then and subsequently with Mr. Hussey.

I am copying this letter to Brian Hawtin (Ministry of Defence).

Charles Powell

A.C. Galsworthy, Esq., CMG,
Foreign and Commonwealth Office.

CF



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10 DOWNING STREET

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T6A/88

THE PRIME MINISTER

19 January 1988

SUBJECT CC OPS
MASTER

Dear Prime Minister,

Thank you for your kind message of greeting for the New Year. I share your wish that the good relations which exist between Britain and Malaysia will be further consolidated through practical co-operation in 1988 and beyond.

With warm good wishes.

Yours sincerely
Nagant Mahathir

His Excellency Seri Dr. Mahathir bin Mohamed

P
m



Foreign and Commonwealth Office

London SW1A 2AH

RK Dixon

15 January 1988

Dear Tanveer

New Year Message to the Prime Minister from the
Prime Minister of Malaysia

In her letter of 5 January you asked for our views on whether the Prime Minister should respond to a New Year greeting which she has received from the Prime Minister of Malaysia.

As Dr Mahathir suggests, his visit to the United Kingdom in July 1987 was a significant step in the improvement of bilateral relations. It is welcome that Dr Mahathir has acknowledged this. He will no doubt be gratified by a reply which echoes his sentiments in general terms; and may take amiss the absence of one. I enclose a draft.

Yours Sincerely
RK Dixon

(R K Dixon)
Assistant Private Secretary

Mrs J K Richards
10 Downing Street

DRAFT: minute/letter/teleletter/despach/note

TYPE: Draft/Final 1+

FROM:
The Prime Minister

Reference
MS2AKV

DEPARTMENT: **TEL. NO:**

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO:
Dato' Seri Dr Mahathir Bin Mohamad,
Prime Minister of Malaysia

Your Reference

Copies to:

32

PRIVACY MARKING

.....In Confidence

CAVEAT.....

SUBJECT:

Thank you for your kind message of greeting for the New Year. I share your wish that the good relations which exist between Britain and Malaysia will be further consolidated through practical co-operation in 1988 and beyond.

With love good wishes
~

Enclosures—flag(s).....



SEND
for advice
CCPS

10 DOWNING STREET
LONDON SW1A 2AA
5 January 1988

PS/Lord
Glenalton

Dear Russell,

Russell Dixon
APS S/1

I attach a New Year greeting from Dr. Mahathir of Malaysia. The Prime Minister does not normally respond where she has herself already sent a greeting. But you may wish to consider whether any reply should be sent in this case. Could you let me know please.

Yours sincerely
Janis

J.K. RICHARDS Mrs.

Russell Dixon, Esq.,
Foreign and Commonwealth Office.

SUBJECT CC
OVS
MASTER



DS
PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T179/87

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

2 October 1987

Dear Prime Minister,

Thank you for your kind letter of 17 August. I was very glad to be able to welcome you to the United Kingdom in July and am delighted that you were pleased with your programme. I share your view that the relations between our two countries greatly benefited from your visit and are strong. We now look forward to carrying forward with you some of the opportunities for collaboration which were identified in the course of your visit.

Thank you also for letting me have your impressions of Mr Gorbachev. His initiatives deserve - and are getting from me - close attention. There is much to welcome in what he is trying to do internally which is genuinely courageous. However, there is much less evidence of intention to change the Soviet Union's traditional foreign policy objectives and methods. We must wait and see how far Soviet words are matched by deeds, for example, over Cambodia and Afghanistan.

I look forward to the discussions which Heads of Government will have in Vancouver, and hope it will be possible for us to have another talk in the margins there. Southern Africa will, of course, be one of the important matters on our agenda. I noted the reference in your CP/ speech to doubting Margarets. A good phrase, if rather surprising: I scarcely think I'm best known for my doubts! But let there be no doubt about my determination to see an

GC

end to apartheid. Our position on punitive economic sanctions is well known. I am convinced that they would make contacts between the South African Government and representative black leaders more difficult, lead to more divisiveness and violence, drastically affect the well-being of the black people of South Africa whom we most want to help and hinder efforts to end apartheid. I am much more concerned to take positive action: Britain is contributing in a major way to reducing the economic dependence of the neighbouring states on South Africa, and to improving the educational and training opportunities for black South Africans. We shall also go on pressing the South African Government to create the conditions in which genuine dialogue can take place, not least by releasing Nelson Mandela. So you will see that our aim is the same as yours, and shared with the rest of the Commonwealth. We differ only about the best means of achieving it.

Warm regards,

Yours sincerely

Margaret Thatcher

His Excellency Dato' Seri Dr Mahathir bin Mohamed



Foreign and Commonwealth Office

London SW1A 2AH

1 October 1987

Joan Markes

/ I enclose a letter to the Prime Minister from the Prime Minister of Malaysia, Dr Mahathir Mohamad. Although dated 17 August the letter was delivered to us by the Malaysian High Commission only on 11 September.

/ I attach a draft reply.

Joan Markes *R N Culshaw*
(R N Culshaw)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

SUBJECT COPY
MASTER

PRIME MINISTER'S RESTRICTED

PERSONAL MESSAGE

SERIAL No. T 168A/17

012547
MDHOAN 0250

RESTRICTED
FM FCO
TO DESKBY 280100Z KUALA LUMPUR
TELNO 293
OF 271800Z AUGUST 87

(20)
for with other PPs
JD 3/9

(3) FAF 012/1

YOUR TELNO 326 AND TELECON DENNIS/CORNER OF 27 AUGUST: NATIONAL DAY MESSAGES

1. AT THE APPROPRIATE TIME PLEASE DELIVER THE FOLLOWING MESSAGE FROM THE PRIME MINISTER TO DR MAHATHIR:
BEGINS:

ON BEHALF OF THE PEOPLE OF THE UNITED KINGDOM MAY I EXTEND MY CONGRATULATIONS AND BEST WISHES TO YOU AND ALL THE PEOPLE OF MALAYSIA ON THIS, THE 30TH ANNIVERSARY OF MALAYSIA'S INDEPENDENCE. I LOOK FORWARD TO CONTINUING TO BUILD ON THE WARM AND FRIENDLY RELATIONS BETWEEN OUR TWO COUNTRIES WHICH WERE DEMONSTRATED SO CLEARLY DURING YOUR RECENT SUCCESSFUL VISIT HERE.
SIGNED MARGARET THATCHER
ENDS.

2. PLEASE ALSO DELIVER THE FOLLOWING MESSAGE FROM MRS CHALKER (IN THE SECRETARY OF STATE'S ABSENCE ON LEAVE) TO THE FOREIGN MINISTER:
BEGINS:

I AND MY COLLEAGUES FROM THE UK'S COMMONWEALTH PARLIAMENTARY ASSOCIATION ARE TODAY DELIGHTED TO BE IN KUALA LUMPUR TO WITNESS THE CELEBRATIONS OF THE 30TH ANNIVERSARY OF MALAYSIA'S INDEPENDENCE. I WISH YOU A HAPPY DAY AND GOOD LUCK AND PROSPERITY IN THE YEAR AHEAD.
MESSAGE ENDS.

HOWE

YYYY

DISTRIBUTION

MAIN 36

LIMITED
PROTOCOL DEPT
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PS

PS/MRS CHALKER
PS/LORD GLENARTHUR
MR GILLMORE
MR MCLAREN

NNNN

FAF 012/1		
RECEIVED		
03 SEP 1987		
DESK OFFICER	REGISTRY	
INDEX	PA	Action Taken
	✓	82 4/9



088
601 PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

26 August 1987

MALAYSIAN NATIONAL DAY MESSAGE

// The Prime Minister has approved the draft message attached to your letter of 24 August which may now be despatched to Malaysia.

P. A. Bearpark

Robert Culshaw, Esq., M.V.O.,
Foreign and Commonwealth Office.

088

088



Foreign and Commonwealth Office

London SW1A 2AH

24 August 1987

Dear Mark

Yes

Prime Minister ①

Agree to send the message attached?

MOR 25/8

Malaysian National Day Message

In recent years the Prime Minister has sent a message to the Malaysian Prime Minister Dr Mahathir to mark Malaysia's National Day on 31 August. The Foreign Secretary recommends that we do so again this year.

A message from Mrs Thatcher this year would be particularly appropriate in view of Dr Mahathir's recent and successful visit here at her invitation, and would set the seal on our greatly improved relations with Malaysia.

I enclose a draft message for the Prime Minister's approval.

Yours ever

(R N Culshaw)
Private Secretary

M Addison Esq
PS/10 Downing Street

UNCLASSIFIED

IMMEDIATE

ZCZC

UNCLASSIFIED

FM FCO

TO IMMEDIATE KUALA LUMPUR

TELNO

OF 191210Z AUGUST 1987

MESSAGE FROM PRIME MINISTER TO DR MAHATHIR

1. Please arrange for the following message to be passed to Dr Mahathir in time for Malaysia's national day.

Begins:

On behalf of the people of the United Kingdom may I extend my congratulations and best wishes to you and all the people of Malaysia on this, the 30th anniversary of Malaysia's independence. I look forward to continuing to build on the warm and friendly relations between our two countries which were demonstrated so clearly during your recent successful visit here.

Signed Margaret Thatcher

Ends

HOWE

YYYY

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UNCLASSIFIED

IMMEDIATE

PS/NO 10

PS

PS/MRS CHALKER

PS/LORD GLENARTHUR

NNNN

SUBJECT U OPS
MASTER



PRIME MINISTER'S
PERSONAL MESSAGE
PRIME MINISTER
MALAYSIA

SERIAL No. T16318/87
17 August 1987

The Rt. Hon. Margaret Thatcher, M.P.
Prime Minister of the United Kingdom
of Great Britain and Northern Ireland
LONDON

Dear Prime Minister,

I would like to take this opportunity to express my sincere appreciation and gratitude to you, Prime Minister, and to the British Government for the generous and kind hospitality extended to me and members of my delegation during my official visit to the United Kingdom from 20-26 July, 1987.

The visit has been most useful in further developing and enhancing our bilateral relations. The talks I had with you and your Cabinet colleagues, as well as the separate discussions held between our respective Ministers, revealed the deep commitment on both sides to work for better relations. This certainly augurs well for the future relationship of our two countries.

I am very pleased with the discussions I had with leading members of the British business community, the mass media and the tourist industry. The Business Seminar held on Malaysia encouraged me to think that British investors are looking seriously at Malaysia following upon the recent liberalisation measures by my government.



I was happy with all the visits arranged to various facilities. I was impressed by the concept behind the Maidstone Hospital. In addition, the visits to British Aerospace complex at Hatfield, and Cambridge Instruments and P.A. Technology at Cambridge, if I may say so, renewed my faith in the leading edge of British technology.

You may recall we had an interesting discussion on General Secretary Gorbachev's internal reforms in the Soviet Union and his foreign policy postures. I have just completed my visit to the Soviet Union where I had the opportunity to meet with Mr. Gorbachev. As it turned out we had a rather lengthy discussion on many issues.

The General Secretary spoke with a lot of enthusiasm about "glasnost" and "perestroika". He appeared determined to effect changes within his country. He gave me the impression that the next two to three years would be crucial to his leadership.

I was impressed by the international implications of "perestroika". Mr Gorbachev's bold initiatives on nuclear disarmament are part of this. The General Secretary's Vladivostok statement on Asia and the Pacific can have positive influence in the quest for the settlement of regional disputes such as Kampuchea and Afghanistan, a point I made in Moscow.

I think we should take Mr. Gorbachev seriously. It would be a significant opportunity lost, perhaps even a serious miscalculation, if the West is overly guarded in its response to his overtures.

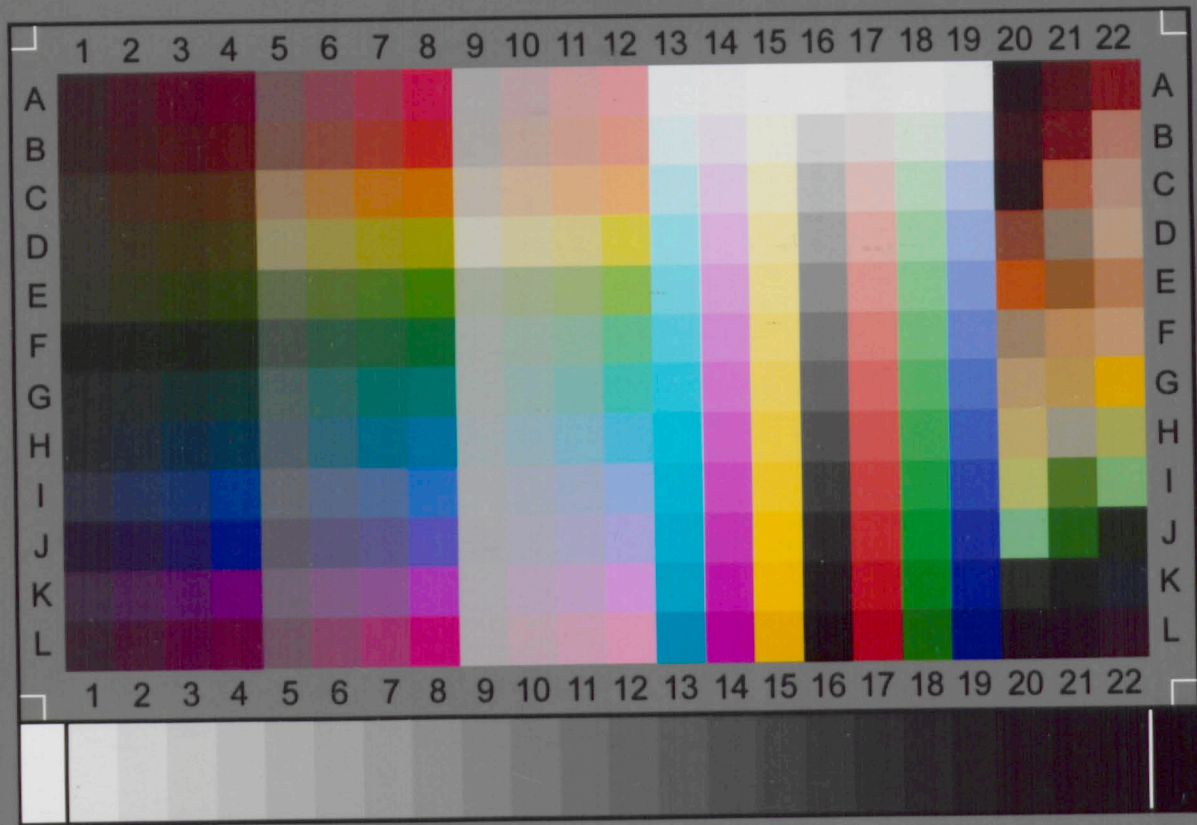


Lastly, on behalf of my wife and the Malaysian delegation I would like to once again express my deep and sincere appreciation for your generous hospitality during the course of my official visit to the United Kingdom.

With best regards,
Yours sincerely,

A handwritten signature in black ink, appearing to read 'Mahathir', with a long horizontal line extending to the right.

(DR. MAHATHIR BIN MOHAMAD)



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2009:02



IT-8 Target

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