

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

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FM FCO
TO DESKBY 280100Z KUALA LUMPUR
TELNO 277
OF 271715Z JUNE 88

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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TO DESKBY 280100Z KUALA LUMPUR

TELNO 279

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.

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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.

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ADDITIONAL

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MR CAINES, ODA
MR IRETON, ODA

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.

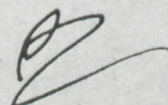
The Government of Malaysia will purchase from sources in the United Kingdom a range of equipment, services and facilities for the use of the Malaysian Armed Forces, the key elements of which are listed in the Annex to this document. The priority to be attached to the items of equipment, will be determined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

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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

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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.....

YM TENGKU DATUK AHMAD

NAME

RITHAUDDEN

NAME

RT HON GEORGE YOUNGER TD MP

MINISTER OF DEFENCE

SECRETARY OF STATE
FOR DEFENCE

TITLE

TITLE

FOR THE GOVERNMENT
OF MALAYSIA

FOR THE GOVERNMENT OF
GREAT BRITAIN AND
NORTHERN IRELAND

[Handwritten signature]