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TO IMMEDIATE F C O (FOR RESIDENT CLERK)

[GLND U/N OF SMAY]

INFO PRIORITY ECGD

Mr. Tumbull  
~~Mr. Tumbull~~  
Economic Affairs B  
N=10 J.S.

YOUR TELNO 090 (NOT COPIED TO ECGD) : LEYLAND BUS

GRATEFUL YOU PASS FOLLOWING TO PEP1, DTI.

1. WE FIND YOUR PROPOSAL INGENIOUS BUT HAVE SOME DOUBT ABOUT WHETHER IT WOULD WORK IN PRACTICE.

2. TO TAKE YOUR POINTS SERIATIM:

A) LEYLAND HAVE DONE WELL TO GET THIS FAR. HOWEVER WE CANNOT YET BE CONFIDENT THAT THEY WILL SECURE THE PROJECT AS CURRENTLY ENVISAGED, SINCE:-

1) THEIR PROPOSALS HAVE STILL TO BE PUT TO THE COMMUNICATIONS MINISTRY FOR ENDORSEMENT. ALTHOUGH MINISTER SAMAK IS AWARE OF THEM AND MAY WELL GIVE THEMFA SMOOTH PASSAGE, HE MAY EQUALLY REVERT TO THE IDEA, WHICH HE MENTIONED SOME MONTHS AGO IN DISCUSSION WITH ME, OF SHARING THE CONTRACT BETWEEN THE TWO LEADING CONTENDERS (THOUGH IT IS DIFFICULT TO SEE HOW THIS COULD BE ARRANGED).

11) WE CANNOT ASSUME THAT AT THIS JUNCTURE THE CABINET WILL AGREE TO SO LARGE A PROJECT INCLUDING A SUBSTANTIAL FOREIGN EXCHANGE COMPONENT, SOMMAI IN PARTICULAR MAY OPPOSE IT (THERE HAVE ALREADY BEEN INDICATIONS OF THIS), ON THE GROUNDS THAT IT WOULD INCREASE THAILAND'S OVERSEAS DEBT SERVICE RATIO AT A TIME WHEN THE GOVERNMENT IS TRYING TO HOLD IT DOWN AND THAT IS EVEN IF HE ACCEPTS THAT THE BMTA'S OPERATION SHOULD BE REHABILITATED, THERE ARE CHEAPER (ALTHOUGH ARGUABLY LESS EFFECTIVE) OPTIONS. IN CONSIDERING THIS ISSUE, SOMMAI'S JUDGEMENT COULD BE INFLUENCED BY PERSONAL CONSIDERATIONS I.E. HIS PRO-JAPANESE STANCE AND HIS, AT TIMES STORMY, RELATIONSHIP WITH SAMAK.

111) EVEN IF LEYLAND'S PROPOSALS ARE APPROVED BY CABINET, THE THAIS COULD ON PAST FORM ENGINEER A DUTCH AUCTION IN THE HARD BARCAINING WHICH WOULD FOLLOW, LEAVING LEYLAND WITH A VERY MUCH SMALLER (IF ANY) SLICE OF THE CAKE.

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1V) LEYLAND MAY BE BEING USED AS A STALKING HORSE.

B) WITH THE EXCEPTION OF THE DEFENCE AND SECURITY FIELDS, THE THAI GOVERNMENT AND BUREAUCRACY DO NOT HAVE A GOOD REPUTATION FOR KEEPING SECRETS. THE GOVERNMENT WOULD INEVITABLY HAVE TO REVEAL DETAILS OF ANY CONFIDENTIAL UNDERSTANDING WITH HMG TO A NUMBER OF INTERESTED DEPARTMENTS (INCLUDING COMMUNICATIONS, FINANCE, NATIONAL ECONOMIC AND SOCIAL DEVELOPMENT BOARD AND THE PM'S OFFICE), AS WELL AS THE BMTA ITSELF. EXPERIENCE SUGGESTS THAT IT COULD NOT REMAIN CONFIDENTIAL FOR LONG. THE BMTA IN PARTICULAR WOULD BE ALMOST CERTAIN TO LEAK IT: IN THIS CONTEXT, SEE PARAGRAPH 3 BELOW.

C) AS ALREADY REPORTED IN BANGKOK TELNO OTTER 119, LEYLAND HAVE TOLD US THAT ONLY THE QUESTION OF AID REMAINS OUTSTANDING IN THEIR DISCUSSIONS WITH THE BMTA EVALUATION COMMITTEE. WE HAVE NO REASON TO DISBELIEVE THEM. CLEARLY THERE MUST BE A LIMIT TO THE NUMBER OF OCCASIONS ON WHICH THE COMMITTEE IS WILLING TO MEET ON THIS ISSUE AND COME AWAY EMPTY-HANDED. IN OUR JUDGEMENT UNLESS A FIRM AID OFFER IS MADE WITHIN THE NEXT FEW DAYS, THERE WILL BE A REAL DANGER OF THE COMMITTEE LOSING PATIENCE WITH THE UK SIDE AND MOVING ON THE THE NEXT CONTENDER.

V3. SATURDAY'S BANGKOK NATION REPORTED, UNDER THE HEADLINE "LEYLAND WINS BMTA 'DEAL', THAT WELL INFORMED SOURCES (PROBABLY PICHATE) HAD INDICATED THAT THE BMTA HAD DECIDED TO AWARD THE CONTRACT FOR RESTRUCTURING THE AUTHORITY TO THE LEYLAND CONSORTIUM. THE ARTICLE READS, IN PART: "IT WAS AGREED YESTERDAY THAT ABOUT BAHT 11 BILLION WOULD BE REQUIRED FOR THE RESTRUCTURING PART OF WHICH WILL COME AS A GRANT FROM THE BRITISH GOVERNMENT. THE GRANT INCLUDES BAHT 300 MILLION FOR CONSULTANCY AND 2 YEARS OF SPARE PARTS FREE OF CHARGE. LEYLAND WILL PROVIDE A BAHT 300 MILLION GUARANTEE FOR ACQUISITION OF LAND FOR MAINTENANCE AND DEPOT FACILITIES. THE SOURCES SAID THAT THE BAHT 11 BILLION WILL COME FROM FINANCING SUPPORTED BY THE EXPORT CREDITS GUARANTEE DEPARTMENT OF THE BRITISH GOVERNMENT. THE FACILITY WILL CARRY 9 PER CENT INTEREST PER ANNUM AND A REPAYMENT PERIOD OF 10 YEARS".

4. AS THE AID INPUT OF BAHT 300 MILLION WHICH IS QUOTED ABOVE IS VERY CLOSE TO THE 210 MILLION WHICH YOU PREVIOUSLY HAD UNDER CONSIDERATION, IT WOULD APPEAR THAT LEYLAND HAVE, DESPITE WHAT THEY HAVE BEEN SAYING TO US, INFORMED THE EVALUATION COMMITTEE THAT THAT AMOUNT AT LEAST IS LIKELY TO BE OFFERED. HOWEVER THAT MAY BE, I DO NOT BELIEVE THAT AN OFFER OF THAT AMOUNT AT THIS STAGE WILL BE ENOUGH TO CLINCH THE DEAL. ESPECIALLY IN THE LIGHT OF THE LATEST BELGIAN POSITION, THIS WOULD AT BEST BE LIKELY TO STIMULATE THE THAIS TO HOLD OUT FOR MORE,

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AND COULD WELL CAUSE THEM TO MOVE ON TO NEGOTIATIONS WITH A RIVAL CONTENDER. IN MY JUDGEMENT, IF WE WANT LEYLAND TO STAY IN THE RACE, WE MUST BE PREPARED TO PUT UP AN OFFER IN THE REGION OF £20 MILLION. AS (FOR THE REASONS GIVEN IN PARA 2B. ABOVE) IT WOULD BE UNWISE TO SEEK THE SORT OF CONFIDENTIAL DEAL YOU HAVE SUGGESTED, I BELIEVE THAT WE MUST ALSO BE PREPARED TO ACCEPT THAT LEYLAND WOULD NOT NECESSARILY SECURE THE ENTIRE DEAL IN RETURN FOR OUR £20 MILLION; THEY SHOULD AT LEAST HOWEVER (IF THE DEAL DOES INDEED GO AHEAD) GET A SUFFICIENTLY SUBSTANTIAL SLICE TO MAKE AN OFFER OF THIS SIZE WORTH WHILE.

STAPLES

LIMITED  
SEAD  
TRED ← ODA  
PS  
MR MAUD  
MR WILSON

COPIES TO:-  
PS/S OF S DTI  
PS/NO 10 DOWNING ST.  
PS/CHANCELLOR OF EXCHEQUER  
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