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PRIME MINISTER

CIVIL AVIATION: MALAYSIA AND SINGAPORE

The meeting is to consider how we can make a drive to settle the civil aviation dispute with Malaysia and Singapore before your visit. It will be attended by Mr Ridley, Mr Channon and Mr Renton each with one official.

You have seen Mr Ridley's minute (A), the Foreign Secretary has now also minuted (B), and there is a note recording Ian Sproate's views (C).

The Malaysian and Singapore cases are different. In the Malaysian case there is a substantial risk to our other commercial interests if the dispute is not settled: the Malaysians are quite likely to act irrationally and increase the pressure: but the shape of a possible deal is fairly clear. In the Singapore case, there are important domestic political considerations in relation to our airports policy: time is needed for further detailed negotiations: and there seems no immediate risk of retaliation against British trade interests. The first point on which agreement might be sought is whether it makes sense to go all out to settle the Malaysian dispute while taking the Singapore one in rather slower time.

On Malaysia, there are two points to consider:

(i) the elements of a possible agreement. It seems clear that the discriminatory tax being imposed by the Malaysians is costing BA a good deal more than would a fifth frequency. The basis of a deal seems therefore to lie in asking Malaysia to lift their discriminatory tax now in return for a firm agreement in principle to a fifth frequency in 1987. In practice we might have to shorten the gap between these two moves and possibly even accepting that they would be simultaneous. You will want to discover how far the Transport Secretary thinks we can travel down this road.

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(ii) How to conduct negotiations. Instructions might be sent to our High Commissioner to approach the Malaysians at a high level now to propose an agreement on the basis set out above, to be clinched during your visit. If they were prepared to accept the basic deal you would have to negotiate the most favourable possible timing for lifting the discriminatory tax and introduction of the fifth frequency. If it is clear that they are not interested in a deal on this basis, there seems little alternative to suggesting the meeting of senior officials to continue negotiations straight after your visit.

As regards Singapore, it seems best to let negotiations take their course at official level. But you might hint to Lee Kuan Yew that an arrangement ^{allowing Singapore Airlines to land at Manchester} should be obtainable provided Singapore can offer some reciprocal benefit to British carriers.

C.D.P.

25 March 1985

Letter + DW

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Malaysia
FTE

10 DOWNING STREET

Prime Minister

Civil Aviation

This threatens to be
a bit of a cloud,
particularly over your
visit to Malaysia.

on the face of it
the problem does not
look insuperable.

Agree to a meeting
with Transport Secretary,
Industry Secretary & FCS
to discuss prospects for
settling it during your
visit. MRC DP 22/3



Foreign and Commonwealth Office

London SW1A 2AH

25 March 1985

Dear Charles,

Air Services Dispute with Malaysia

You asked, in your letter of 12 March, for comments on representations made by Mr Ian Sproat about possible adverse implications for British companies competing for contracts in Malaysia, arising from the airline dispute. Mr Ridley and the Foreign Secretary have now minuted on the question of policy involved.

Mr Sproat is an adviser to both MAS and Taylor Woodrow. There was some evidence late last year that the Malaysian Government was discriminating against British companies as a result of the MAS dispute, and British Steel, for example, lost a large contract for rails which they had expected to win. Lord Taylor, of Taylor Woodrow, told Mr Michael Spicer in November that the Malaysian Minister of Transport had warned that Taylor Woodrow's prospects for a project to modernise Malaysian railways were being jeopardised by the air services dispute.

Dr Mathathir subsequently made a public statement denying that there was a policy of discriminating against British firms; but Malaysian officials have nevertheless continued to threaten British business visitors with penalties for British firms if MAS does not receive its fifth flight. What Mr Sproat says he was told in Kuala Lumpur is consistent with these tactics, but it may be significant that he also mentioned the ending of the tax concession as a possible price the Malaysian Government would pay for the fifth frequency for MAS.

I am copying this letter to Richard Allan at the Department of Transport and to Callum McCarthy at the DTI.

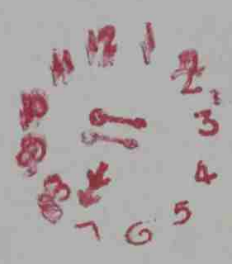
Yours ever,
Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

FOR POL: SE ASIA, Dec 84

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file to
(3)

10 DOWNING STREET

From the Private Secretary

12 March 1985

MALAYSIA: BAe & TAYLOR WOODROW

I enclose a copy of a note about representations made by ~~Ken~~ Sproat on the current problems in airline negotiations between Malaysia and the UK and the possible implications for Taylor Woodrow's bid for the Malaysian railway project.

BF |

I should be grateful for very early advice before putting this to the Prime Minister.

I am copying this letter to Callum McCarthy (Department of Trade and Industry) and to Richard Allan (Department of Transport).

CHARLES POWELL

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

[Handwritten signature]

MR. POWELL

cc. John Wybrew

Iain Sproat came to see me yesterday to give me his views on Malaysian Airways System (MAS), BA and Taylor Woodrow which he thought the Prime Minister ought to be aware of before her own visit. Sproat was in Kuala Lumpur last week seeing the Minister of Transport and the Foreign Secretary.

He is desperately worried that DOT officials, in backing BA's resistance to a fifth frequency for MAS between KL and London, should put at risk the Taylor Woodrow bid for the Malaysian railway project.

As you may know, this conflict between BA and MAS has been complicated by MAS allowing passengers, flying on this route with a MAS ticket, some form of tax deduction.

Sproat believes that if the Prime Minister were to offer MAS a fifth frequency (to which BA would also be entitled) then the Malaysians would look again at this tax position. This would take time but then MAS do not want to start flying to London until May 1986. This would then make Taylor Woodrow able to go back as lead contenders for the railway project and Sproat tells me that (for what it's worth) he has been given an assurance that the tax position would certainly be sorted out.

I know very little about all of this personally but I report faithfully what Iain Sproat thought the Prime Minister should be aware of.

SS.

STEPHEN SHERBOURNE

12.3.85