

Master cc subject on
Foreign Policy: Visit to
South East Asia 12/84.



JP
bc PC

10 DOWNING STREET

From the Private Secretary

26 March 1985

Dear Colin,

CIVIL AVIATION: MALAYSIA AND SINGAPORE

The Prime Minister held a meeting this evening with the Secretary of State for Transport, Mr. Channon and Mr. Renton to discuss possible solutions to outstanding air services problems with Malaysia and Singapore, in the light of her forthcoming visit to these countries. Mr. Roberts (Department of Trade and Industry), Dr. Wilson (Foreign and Commonwealth Office) and Mr. Stevens (Department of Transport) were also present.

Malaysia

It was agreed that an effort should be made to find the basis for a settlement of the problems with Malaysia in advance of the Prime Minister's visit, making it possible for an agreement to be concluded during her talks with Dr. Mahathir.

Instructions should therefore be sent to our High Commissioner in Kuala Lumpur to approach Dr. Mahathir with the following proposition, making clear that he is speaking on the direct instructions of the Prime Minister.

The Prime Minister is particularly keen that her visit to Malaysia should be a success, to match that by Dr. Mahathir to the United Kingdom in 1983. She does not wish the current problems over air services to cast a shadow over it. She is therefore ready to try to reach an agreement in advance of her visit, which she and Dr. Mahathir could ratify or finalise during it. The agreement which she proposes has two main elements. Malaysia should end its discrimination in favour of passengers travelling by MAS services. This is a clear breach of the fair and equal opportunity principle, and makes it impossible for us to negotiate on the fifth frequency sought by MAS. If Dr. Mahathir is ready to give a clear commitment to rapid removal of the discriminatory tax measure, we should be ready to grant MAS the fifth frequency. Precise details and timing will have to be worked out by officials. The High

Commissioner can go on to suggest that the fifth frequency would be introduced from 1987. But he has discretion to fall back on 1986 if it is clear that this would clinch agreement (but not if it is patently only a step by the Malaysians towards securing further concessions during the Prime Minister's visit).

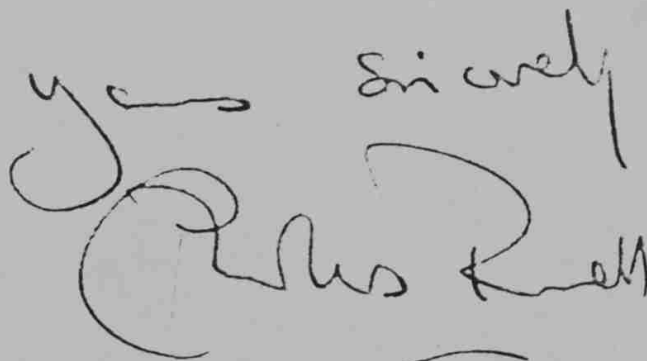
In the course of the discussion with Dr. Mahathir and leaving the clear impression that the matters are linked in the Prime Minister's mind, the High Commissioner should make the further point that the Prime Minister very much hopes that it will be possible to announce the conclusion of at least one very substantial contract for a British firm during her visit. (Clearly the Taylor Woodrow bid for the railway project would be the best.)

If Dr. Mahathir resists a settlement on the lines suggested and shows no serious inclination to seek agreement during the Prime Minister's visit, the High Commissioner should make clear that we shall not simply be able to let the matter rest there. We shall have to consider further steps, which might include a call for consultations under the Air Services Agreement on the effect of the discriminatory tax; or a decision to give notice of our intention to terminate the Agreement.

Singapore

It was acknowledged that the situation with regard to Singapore was different. There was no intention on the part of the Singapore Government to make this a major issue during the Prime Minister's visit. The Prime Minister should be able to tell Mr. Lee Kuan Yew that we would be ready to negotiate to reach an agreement on Singapore Airlines' request for additional services into Manchester but would ourselves be seeking additional concessions in return, including access for British Airways to additional points beyond Singapore and dual designation for British Caledonian. The department would provide a precise form of words for the Prime Minister's brief.

I am copying this letter to Richard Allan (Department of Transport), Steve Nicklen (Department of Trade and Industry) and Alistair Harrison (Foreign and Commonwealth Office).

Yours sincerely


(C. D. POWELL)