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GRS 850  
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FM KUALA LUMPUR 021100Z APR 85  
TO FLASH FCO  
TELEGRAM NUMBER 214 OF 02 APRIL

YOUR TELNO 180: PM'S VISIT: AIR SERVICES DISPUTE  
SUMMARY

1. I HAD MORE THAN AN HOUR WITH DR MAHATHIR THIS AFTERNOON. THE BULK OF THIS TIME WAS DEVOTED TO THE AIR SERVICES ISSUE. HE WAS RELAXED AND COURTEOUS, BUT QUITE UNBENDING. NONE OF THE IDEAS I PUT TO HIM EVOKED A CONSTRUCTIVE RESPONSE.

DETAIL

2. I WENT OVER THE MAIN ISSUES WHICH WE EXPECTED TO BE RAISED DURING THE BILATERAL TALKS ON 5 APRIL MENTIONING THE MAIN CONTRACTS IN THE PIPELINE OF INTEREST TO UK COMPANIES AND INVITING DR MAHATHIR TO COMMENT. BUT PRACTICALLY ALL OF OUR CONVERSATION WAS DEVOTED TO THE AIR SERVICES DISPUTE. I EMPLOYED THE LINE IN PARAGRAPHS 2(A) AND (B) OF YOUR TELNO 165, REHEARSING THE BACKGROUND TO THE AIRLINE TALKS AND THE CONCLUSION THAT HAD BEEN REACHED ABOUT LIKELY AIR TRAFFIC GROWTH ON THE KUALA LUMPUR/LONDON ROUTE. I TOLD HIM OF MY TALK WITH DAIM ZAINUDDIN (MY TELNO 195) AND, REFERRING TO THE ASSURANCE WHICH DAIM HAD GIVEN ME ABOUT WITHDRAWAL OF THE TAX LEGISLATION AT THE NEXT BUDGET, SAID THAT THIS WAS A LONG WAY OFF AND WOULD MAKE IT VERY DIFFICULT FOR THE PRIME MINISTER PUBLICLY TO ANNOUNCE A SOLUTION TO THE AIR SERVICES PROBLEM AS SHE WISHED.

3. DR MAHATHIR SAID THAT THE AIR SERVICES ISSUE WAS THE ONE OUTSTANDING MATTER OF CONTENTION BETWEEN THE TWO COUNTRIES. THE SUCCESS OF THE PRIME MINISTER'S VISIT WOULD BE JUDGED BOTH HERE AND, HE THOUGHT, IN THE UK IN RELATION TO THIS ONE ISSUE. IN HIS VIEW THE...

DING MATTER OF CONTENTION BETWEEN THE TWO COUNTRIES. THE SUCCESS OF THE PRIME MINISTER'S VISIT WOULD BE JUDGED BOTH HERE AND, HE THOUGHT, IN THE UK IN RELATION TO THIS ONE ISSUE. IN HIS VIEW THE 5TH FREQUENCY WAS A TOTALLY DIFFERENT MATTER FROM THE PROBLEM OF THE TAX LEGISLATION SEMI COLON THE TWO SHOULD BE TREATED QUITE SEPARATELY. I HAD TO UNDERSTAND THAT IT WAS OUT OF THE QUESTION FOR THE MALAYSIAN SIDE TO BE SEEN TO YIELD TO PRESSURE FROM BRITAIN; A NUMBER OF GOVERNMENTS HAD PROTESTED AND IT WAS A MATTER TO BE DEALT WITH VIS-A-VIS ALL OF THEM, NOT JUST BRITAIN. DR MAHATHIR SAID THAT THE REMOVAL OF THE "BUY-BRITISH-LAST" EDICT IN 1983 SO SOON AFTER HIS VISIT TO LONDON HAD LED TO CRITICISM THAT HE HAD GIVEN WAY TOO EASILY TO THE PRIME MINISTER; HE COULD NOT TAKE THE RISK OF SUCH CRITICISM AGAIN (SIC).

4. FURTHERMORE, DR MAHATHIR MADE CLEAR, HE WAS NOT CONVINCED THAT THE DAMAGE TO BRITISH CARRIERS WAS AS BAD AS WE PRETENDED. HE COULD NOT, FOR EXAMPLE, UNDERSTAND WHY IT HAD BEEN POSSIBLE FOR THE JAPANESE AND AMERICANS SO RECENTLY TO AGREE TO THE NEW TRIANGULAR DEAL FOR A TRANS-PACIFIC SERVICE TO CALIFORNIA IN SPITE OF THE TAX ISSUE, WHEREAS WE COULD NOT MAKE A GESTURE ON THE 5TH FREQUENCY WHICH WAS LONG OVERDUE. THE JAPANESE IN PARTICULAR, THANKS TO THE DIRECT INTERVENTION OF NAKASONE, HAD GIVEN THE MALAYSIAN AIRLINE EVEN MORE IN TERMS OF CAPACITY THAN THE MALAYSIANS HAD ANTICIPATED. WHY WAS IT ALWAYS THE BRITISH WHO MADE DIFFICULTIES?

5. I AGAIN WENT OVER THE GROUND CAREFULLY, EMPHASISING THE LOSSES INCURRED BY BRITISH CARRIERS BECAUSE OF THE TAX MEASURE, WHICH WAS ITSELF A DIRECT BREACH OF THE AIR SERVICES TREATY, AND THE IMPOSSIBILITY OF A CONCESSION OVER THE 5TH FREQUENCY WITHOUT AN ASSURANCE ON THE WITHDRAWAL OF THE TAX MEASURE. I SAID THAT, EVEN WITH A PRIVATE ASSURANCE, I, PERSONALLY, COULD NOT SEE HOW THE PRIME MINISTER COULD PUBLICLY OFFER THE 5TH FREQUENCY. DR MAHATHIR REVERTED AGAIN TO THE JAPANESE EXAMPLE: NAKASONE HAD DONE IT, WHY NOT MRS THATCHER? ON MY REFERENCE TO A PERSONAL ASSURANCE, HE SAID HE COULD NOT IN ALL HONESTY OFFER THE PRIME MINISTER EVEN THIS. CERTAINLY THE WHOLE QUESTION OF THE TAX LEGISLATION WOULD BE REVIEWED BUT HE COULD NOT SAY EXACTLY WHAT THE OUTCOME WOULD BE. (COMMENT: IN THIS RESPECT HE WENT LESS FAR THAN DAIM TO ME LAST WEEK.)

6. ON A PERSONAL BASIS I ASKED IF THERE WAS ANY POSSIBILITY THAT THE MALAYSIAN SIDE COULD ANNOUNCE A "REVIEW" OF THE TAX MEASURE BEFORE THE PRIME MINISTER'S ARRIVAL. HE TURNED THIS DOWN FLAT. WE WENT OVER THE SAME GROUND AGAIN FOR THE THIRD TIME DURING WHICH I DETECTED NO CHINK IN HIS POSITION. HE EVEN REITERATED THE OLD CANARD ABOUT THE MAS ORDER FOR BOEING 747S WITH ROLLS ROYCE ENGINES. I SAID THAT IT WAS NOT TRUE THAT WE HAD FAILED TO HONOUR OUR WORD; FOLLOWING THE BOEING ORDER WE HAD NEGOTIATED AND SIGNED A CMU PROVIDING FOR INCREASED CAPACITY, AN AGREEMENT ENTERED INTO IN GOOD FAITH BY BOTH SIDES.

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7. IN CONCLUSION, I SAID I WOULD REPORT OUR CONVERSATION. BUT, PERSONALLY, I COULD NO SEE A WAY OUT OF THE PROBLEM. HE SAID THAT, AS FAR AS HE WAS CONCERNED, THE SOLUTION WAS SIMPLE. THE PRIME MINISTER SHOULD ANNOUNCE HER INTENTION OF MEETING MALAYSIAN WISHES ON THE 5TH FREQUENCY AND THE TAX ISSUE WOULD BE DEALT WITH AS A SEPARATE MATTER.

8. COMMENT: I FEAR THAT I HAVE GOT NOWHERE. DR MAHATHIR, IN SPITE OF ALL THE EVIDENCE AND AGAINST ALL THE ARGUMENTS, BELIEVES HE IS IN THE RIGHT ON THE 5TH FREQUENCY AND THINKS HE HAS BEEN TREATED BADLY. THE UNFORTUNATE PROXIMITY IN TIME OF THE DEAL WITH THE JAPANESE HAS COMPOUNDED THE PROBLEM FOR US. I WOULD NOT EXCLUDE THE POSSIBILITY THAT, WHEN HE IS FACE TO FACE WITH THE PRIME MINISTER, HE WILL BE READY TO OFFER HER SOME FORM OF PERSONAL ASSURANCE, EG ABOUT THE REMOVAL OF THE TAX MEASURE. HE MAY ALSO BE KEEPING HIS CARDS CLOSE TO HIS CHEST UNTIL HE TALKS PERSONALLY TO THE PRIME MINISTER. BUT WE CERTAINLY CANNOT BANK ON THIS, IF MY CONVERSATION TODAY IS ANYTHING TO GO BY. WE MAY THEREFORE BE FACED WITH A STARK CHOICE. EITHER WE GIVE WAY ON THE 5TH FREQUENCY (PRIVATELY NOW AND PUBLICLY LATER OR PUBLICLY AT ONCE) OR WE HAVE TO DECIDE TO TACKLE THIS HEAD-ON, ACCEPTING INEVITABLE DAMAGE TO OUR OTHER COMMERCIAL INTERESTS. I MENTIONED TO DR MAHATHIR THE POSSIBLE FURTHER STEPS REFERRED TO IN PARAGRAPH 2(D) OF YOUR T.U.R. HE DID NOT REACT IN ANY WAY.

GILLMORE

NNNN



10 DOWNING STREET

*From the Private Secretary*

1 April 1985

MALAYSIA: PRIME MINISTER'S VISIT:  
AIR SERVICES DISPUTE

Thank you for your letter of 29 March enclosing draft telegrams to Kuala Lumpur adjusting the instructions for Mr Gillmore's meeting with Dr Mahathir tomorrow.

The Prime Minister is content for these telegrams to issue.

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

(Charles Powell)

Colin Budd, Esq.,  
Foreign and Commonwealth Office.

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