

PRIME MINISTER

UK-MALAYSIAN AIR SERVICES

The purpose of the meeting is to consider our negotiating position.

The statement which you agreed with Dr. Mahathir is at Flag A. Subsequent negotiations have gone badly. BA have made what appears to be a generous offer. MAS have rejected it and called for official consultations, which will be at the end of July. The Malaysians have started to threaten us over contracts again. The discriminatory tax has still not been removed.

Mr. Ridley recommends sticking to a firm line: negotiate an agreement on a fifth frequency within the terms of the agreed statement but refuse to go beyond it. Lord King (naturally enough) and the Policy Unit support this advice.

Two points might be worth pursuing:

1. the style of the negotiations with the Malaysians. Lord Richardson said that he understood that the BA negotiator had taken an uncompromising take-it or leave-it line which had greatly offended the Malaysians. Can we adopt a softer, more tactful approach without giving any more on the substance?
2. is this the moment for you to send a message to Dr. Mahathir expressing regret for the turn taken by the negotiations and hoping that the terms of your agreed statement can be strictly observed?

C. D. P.

3 July 1985

AGREED TEXT OF STATEMENT
after PM met Dr. Mahathir in KL. April '85.

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The two Prime Ministers have discussed the matter of a further flight for Malaysia Airline System between Kuala Lumpur and London and agreed in principle that there should be a Fifth Frequency. A similar right would be granted to British Airways if requested.

Details of the Fifth Frequency will be discussed between the two sides. It is expected that it will be between one and two years before the additional service is operational.

It was noted that the Board of Airlines representatives had made representations to the Government of Malaysia about concessions for tax relief on air travel by Malaysia Airline System and that this matter, which calls for a formal reply, is being considered by the Malaysian Government.

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5 April 1985