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PRIME MINISTER

3 July 1985

UK-MALAYSIAN AIR SERVICES

Having negotiated with the Malaysian State Oil Company for more than two years, I can understand Nicholas Ridley's exasperation. Nothing is achieved quickly through a straightforward meeting of minds.

What appears to be duplicity on the part of the Malaysians is often more a reflection of the different way their system works - or fails to work. As in the case of your recent meeting with Dr Mahathir, an understanding reached at the highest level on broad principles, disintegrates once the specialists are left to translate those principles into a detailed agreement.

In our system, the process of translation flows smoothly and consistently. There is a high degree of cohesion. The Department of Transport, FCO and BA have much the same perception of what is required. In Malaysia, hierarchy and ethnic divisions seem to inhibit good communications. The system is therefore less cohesive. Shared values and perceptions are less common. Hence, when the detailed follow-up negotiations begin, the Malaysian position bears little resemblance to the broad understandings originally reached.

Nicholas Ridley's instinct in wanting to stand firm and make minimal concessions is right. With the possible exception of the commercial agreement and the 5% royalty, the deal which BA have offered MAS is consistent with your

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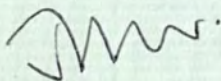
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understanding with Dr Mahathir, and with the normal principles of air services agreements. Those down the line in the Malaysian Government and MAS who want to show their leaders that you can tweak the old lion's tail and get away with it, must not be allowed to prove it. Concessions made on behalf of wider British interests will ultimately work to the detriment of all British business interests.

Conclusion

Danegeld never pays. We should stand firm for an agreement with MAS which fairly reflects your understanding with Dr Mahathir and customary air services practice. The more we can enlist the support of other international airlines and their Governments to defend the even-handed principles of air services agreements, the better. In defending such principles, we are not forsaking our ultimate goal of liberalising civil aviation. That will only be achieved if other business cultures, notably in the Far East, recognise that fair competition entails pitting airline against airline without the additional weaponry of special tax breaks and linkage with wider business interests.



JOHN WYBREW

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