



10 DOWNING STREET

From the Private Secretary

4 July 1985

Dear Richard,

UK MALAYSIAN AIR SERVICES

The Prime Minister held a short meeting following Cabinet this morning to discuss continuing problems in the negotiations over a fifth frequency for Malaysian Airline Systems (MAS). The Transport Secretary, Foreign Secretary, Trade and Industry Secretary and the Chancellor were present.

Mr. Ridley reported that negotiations between British Airways and MAS were continuing and there seemed a good prospect that they would reach agreement at their next session on 8 July. This would probably be on the basis of a fifth frequency starting in July 1986, with no capacity restrictions and no revenue sharing though with some additional rights for BA. There would be no commitment to a sixth or seventh frequency. It was not a good bargain for BA but probably the best which could be achieved.

In discussion it was agreed that an outcome on these lines would be in accord with the joint statement made by the Prime Minister and Dr. Mahathir in April. No explicit link should be made in discussions with removal of the discriminatory tax favouring travel by MAS. But once agreement on the fifth frequency was reached, we should press hard for a formal reply to the representations made by the Board of Airline Representatives in Kuala Lumpur. If the discrimination was not removed within a reasonable period, we might have to reconsider our attitude to the agreement on a fifth frequency.

It was noted that the Minister for Trade was at present in Malaysia. In any discussions he should say only that he understood that negotiations had resumed between representatives of the airlines and seemed in sight of an agreement acceptable to both sides. We welcomed this and hoped that it would open the door to increased exports from Britain.

The Prime Minister summed up on the lines above. It might be appropriate for her to send a message to Dr. Mahathir in due course, depending on the outcome of the airlines' negotiations.

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I am copying this letter to Peter Ricketts (Foreign and Commonwealth Office), Rachel Lomax (HM Treasury) and John Mogg (Department of Trade and Industry).

*Yours sincerely,
C.D. Powell*

C.D. POWELL

Richard Allen, Esq.,
Department of Transport.

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