



Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

29 August 1984

CDP
30/8

Dear Charles,

Prime Minister's Visit to South East Asia and Sri Lanka

You wrote to Colin Budd on 3 August requesting briefing for the Prime Minister's dinner on 30 August with the High Commissioners for Malaysia, Singapore and Sri Lanka and the Ambassador of Indonesia.

Since then the Prime Minister's planned visit to these countries has been postponed (her messages to the four Heads of State/Government will have been delivered in all four capitals well before the dinner).

As briefing for the Prime Minister, I enclose the following:

- FLAS (a) A speaking note, which the Prime Minister might wish to use if one of the Heads of Mission makes a short speech;
- FLAS (b) a brief on UK/Malaysian Air Services;
- FLAS (c) a brief on other bilateral points;
- FLAS (d) biographical notes on the four Heads of Mission.

The Prime Minister will wish to use the occasion to underline that the postponement marks no loss of interest in the countries concerned. The dispute over UK/Malaysian air services is one specific issue which may come up. Our aim here is to resist Malaysian pressure for a further weekly service, while ensuring that the dispute does not spill over into other areas of our relations. A number of other bilateral points are covered in the briefing. The Prime Minister may wish in particular to assure the Sri Lankan High Commissioner that a British Minister will still attend the inauguration of the Victoria Dam. Mr Raison is interested to do so: we shall be seeking the Prime Minister's formal approval shortly.

Yours ever,

(P.F. Ricketts)
Private Secretary

Peter Ricketts

C D Powell Esq
10 Downing Street

A


SPEAKING NOTE

1. I am delighted to be here tonight. But my pleasure is offset by regret. I have been looking forward keenly to my visit to Malaysia, Singapore, Indonesia and Sri Lanka. I had promised myself the pleasure of getting to know you better. I had hoped to help you know Britain better. We live in a dangerous but exciting world. We can take nothing for granted. We can neglect no opportunity to work together. We must neither stand still nor lose any chance to pool experience. Talks with your leaders would have enriched mine.

2. That was the frame of mind in which I approached the visit. I have now been obliged to postpone it. I repeat, postpone. This is not a cancellation. It is not a retreat. It marks no loss of interest. I do not lightly change my mind.

3. It marks, of course, a disappointment and an inconvenience. The disappointment is particularly mine. The inconvenience is particularly yours. Much planning had gone into the programmes. Your authorities had worked hard. So had ours. The programme offered me an excellent mixture of the central and the regional, of old and new, of work and recreation. I had looked forward to

/seeing



seeing Kuala Lumpur, Kedah, Singapore, Jakarta, Bali, Colombo and the Victoria Dam.

3. The list is long and my regret is keen. You will wonder what could keep me away. The answer is a domestic preoccupation. Developments in the industrial situation make it impossible for me to be absent from home for such a long period. Such decisions are unpalatable. We all know that. As men of the world you will understand that they are often necessary.

4. But this is a comma in my plans, not a full-stop. I hope that our mutual disappointment can quickly be disposed of. I want very much to reinstate my visit as soon as the situation permits. I hope that we can make fresh arrangements before long.

5. Meanwhile, let me stress two points. You are worthwhile and we are worthwhile. No British administration that values its role in the world can take its friends for granted or treat them with benign neglect. We remain intensely outward looking. Your deeds and your achievements interest us profoundly. We for our own part have a lot to offer. We are modern, open minded and scientific. We are pragmatic. And we have, I believe, a talent for business. My visit would have underlined our value as partners - political, economic and technological.



6. My message is that. We need each other; and our relationship should reflect this need. I look forward keenly to a resumption of our joint effort.



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HEADS OF MISSIONS DINNER FOR THE PRIME MINISTER 30 AUGUST 1984

MALAYSIA

AIR SERVICES DISPUTE (DEFENSIVE)

POINTS TO MAKE

1. Aware of problems between our aviation authorities.
2. An important issue to both sides but such differences not unknown in aviation circles.
3. Do not believe either side wishes our good relations to be damaged by a technical dispute.
4. Better if problem is resolved at technical level.

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HEADS OF MISSIONS DINNER FOR THE PRIME MINISTER 30 AUGUST 1984

MALAYSIA

AIR SERVICES DISPUTE

ESSENTIAL FACTS

1. The Malaysian press has mounted a campaign in recent weeks suggesting that the UK's refusal to allow Malaysian Airlines System (MAS) a fifth weekly flight to London is contrary to the Air Services Agreement between the two countries; and that Malaysia should consider retaliation in other areas of bilateral economic activity e.g. on railway contracts. Some Malaysian Ministers and senior officials have taken a similar line. There is good reason to believe that the campaign is being orchestrated and that it has the approval of Dr Mahathir. Before it was postponed, the Malaysian press was arguing that the Prime Minister's visit should be used to extract concessions on the air services dispute.
2. We have told the Malaysians that the air services dispute must be looked at on its merits and not allowed to spill over into other areas. Mr Ridley has written to the Malaysian Transport Minister affirming our adherence to the present arrangements but pointing out that the Malaysians are free to terminate them and seek to negotiate a new one with us on standard principles if they are dissatisfied. They are unlikely to take up this challenge as the present arrangements are unusually generous.
3. We have received conflicting reports of Dr Mahathir's attitude. Tan Sri Ghazali Shafie, until last July, Malaysia's Foreign Minister, when making a courtesy call on Lady Young on 24 August said that Dr Mahathir would not want to raise the air services dispute during the Prime Minister's visit. On 28 August we received a report that there has been a marked de-escalation in the Malaysian press campaign. If it continues this will be a welcome development. However we have heard on other channels /that

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that Dr Mahathir continues to be concerned and is keeping a close personal watch on the subject.

4. We do not yet have evidence of Dr Mahathir's mood following the postponement of the Prime Minister's visit. He may be tempted to raise the temperature on air services. We do not suggest that the Prime Minister should herself raise this dispute. But if the Malaysian High Commissioner shows any inclination to raise it, she may wish to indicate to him privately that she is aware of the issue, and that it is important to both parties to resolve it in a satisfactory manner. Such issues are difficult but they are frequently seen between aviation authorities. They are normally handled at technical level. It is important to prevent them spilling over into the political area.

5. Technical points are annexed.

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MALAYSIAN AIR SERVICES: TECHNICAL ANNEX

Existing Arrangements

1. The normal procedure is for the capacity deployed by airlines on services between two countries to be related primarily to the demand for traffic between those countries (third and fourth freedom) and for them not to be entitled to mount additional capacity for other traffic. One would therefore expect MAS capacity to be related to the demand for the UK/Malaysian traffic and not to take account of opportunities to participate in UK/Australian traffic (sixth freedom). British Airways and Malaysian Airline system each operate four services a week between the UK and Malaysia under an Air Services Agreement dated 24 May 1973 which is amplified by a Memorandum of Understanding containing more detailed provisions dated 26 March 1982. Under these arrangements both sides are entitled to operate additional services when a joint seat load factor of more than 67% has been achieved over a previous period of six months.

2. The Malaysians claim that they have achieved a 67% seat factor but we dispute that. The problem is explained in the Annex A.

Political Factors

3. The Malaysians have a long history of bringing political pressures to bear in support of their air services negotiators: in 1979 they used the Rhodesia question, and in March 1982 the 'buy

/British

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British last' policy, as inducements to obtain agreements more generous than were strictly justified on aviation grounds. The Malaysia government wants MAS to expand and is prepared to go to considerable lengths to achieve this aim. If we give in again and agree a fifth service, they will certainly come back for more, whether such services can be justified by the traffic carried or not.

Singapore Airlines

4. Another factor in all this is Malaysia's deep seated jealousy of Singapore. SIA operate daily flights to London, and also make no secret of the fact that they carry passengers between London and Australia. But direct London/Singapore traffic is also more than double the direct traffic between London and Malaysia.

Mr White's Letter (see Point to Make 6)

5. In 1980-82, MAS bought new Boeing 747s with Rolls-Royce engines ordered by BA but not needed by them. As part of the deal they were given a promise (contained in a letter written on HMG's instructions from Mr White, a High Commission official in Kuala Lumpur).

that HMG and BA would give 'sympathetic consideration' to requests for additional capacity from MAS. In our view, this promise was fulfilled in March 1982.

/Singapore

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Malaysia other Air Service Dispute

6. We believe the Malaysians have a similar problems with the Germans over demands for increased capacity.

MARITIME, AVIATION AND
ENVIRONMENT DEPARTMENT

FOREIGN AND COMMONWEALTH OFFICE
LONDON SW1

21 August 1984

ANNEX A.

The joint seat factor achieved by airlines on a route between A and B is normally the percentage of the approved capacity occupied by eligible passengers.

The approved capacity is generally the capacity of the aircraft deployed by both airlines on the route. In the case of UK-Malaysia, however, the aeronautical authorities have agreed that the approved capacity for each airline should be 1240 seats each week in each direction (that is 310 seats per plane compared with an actual capacity of about 400 on a B747).

The eligible passengers on a route are calculated by adding together the eligible passengers carried by each airline. Passengers carried by the airline of country A are 'eligible' if they travel between country A and country B. Passengers whose journey begins in country A and are carried to an intermediate point (or who commence their journey at an intermediate point and travel to country A) are also 'eligible' but only on a pro rata basis so that the total 'eligible passengers' is a weighted average according to the length of the journey of the various passengers.

Although these calculations seem complicated they are well understood by airlines and generally create no problems. Unfortunately, however, in the case of Malaysia it has been agreed that the airline of country A may take proportional credit for passengers carried between intermediate points and country B and that account should also be taken of 'a reasonable amount of traffic carried by MAS' between Australia and the UK. It is this concession which creates the problem. The Malaysians admit that 25% of their passengers in and out of London are UK-Australia passengers. They

/claim

claim that this 25% is 'a reasonable amount'. We believe that the figure is actually 40% but regard even 25% as unreasonably high. Because of the activities of MAS and other Far Eastern airlines BA and Qantas already carry barely 40% of the total of London-Australia passengers. If we accepted that airlines based in Singapore, Philippines, Indonesia, Thailand and other intermediate countries) might each carry UK-Australia traffic up to 25% of their total passengers there would be a disastrous fall in BA and Qantas' share of the market and no possibility in the foreseeable future of our being able to introduce a second British carrier to compete on the route (which is one of BCal's ambitions).

PRIME MINISTER'S DINNER : BILATERAL POINTS

Malaysia

1. Malaysia presents a particular difficulty, following the deterioration in bilateral relations in 1979 and Dr Mahathir's "buy British last" policy in 1981. There have been other instances of bilateral friction.

2. Our objectives are thus to build on the improvement in bilateral relations which followed Dr Mahathir's visit to the UK in 1983 and to convince the Malaysians that we seek an equitable and mutual advantageous relationship. We wish to look to the future, not the past.

3. It is also our objective to insulate political relations from vexatious trading questions ; and to establish a dialogue on the political and economic front which will deter them from taking initiatives damaging to UK and Western interests.

4. Current difficulties include :-

(a) the Malaysian request for a fifth service for their airline into London ;

(b) Dr Mahathir's sense of grievance at Bumiputra's Malaysian Finance Ltd (BMFL) having been "singled out" for investigation by the Hong Kong Police (Commercial Crime Bureau) ;

(c) Ill-informed UK press reaction to Malaysia, much of which has been ill-received in Malaysia ;

(d) the attitudes of younger Malays to Britain and their perception of the colonial period.

5. Malaysian sensitivities need much handling. Against this there is much local goodwill towards the UK.

Singapore

6. UK/Singapore relations excellent. We have no significant bilateral problems. We need to encourage the Singaporeans to continue to exercise their good influence in a variety of fora. They can



help our interests in Brunei.

7. We wish to consolidate our relations with Singapore. She should be encouraged to exert herself as a force for stability. Her economic example is excellent. We wish also to project in Singapore the image of Britain's economic strength and of her potential as an innovator and investor.

8. The Prime Minister's visit would have fallen in Singapore's 25th year of self-Government and at a time when Mr Lee is focusing on his retirement.

9. We remain committed to the Five Power Defence Arrangements. We wish to see bilateral military collaboration developed.

Indonesia

10. Indonesia has an increasing important political role in South-East Asia. She is stable, well-managed and strategically placed. We wish to develop our relations with her. We wish also to participate in her industrial and technological development.

11. East Timor is, in our view, a bilateral problem to be solved between Indonesia and Portugal. But we hope that this will be soon (we have never accepted the 1975 annexation of East Timor and condemned it at the time as a violation of international law. In recent years we have abstained on UN General Assembly Resolutions).

12. A London-based human rights group, Tapol, takes a close interest in Indonesian human rights matters and conducts lobbying. It has made some impact in the UK. The Indonesians are aware of this, as of HMG's views on human rights, but have made no attempt to influence us.

13. Following an exploratory visit to Indonesia from a team from the Police Staff College in 1983, a Bramshill team has conducted a pilot course in Indonesia ; and a further programme has been



arranged, the major elements of which are to be funded by UK technical aid. This programme might, were it to come to public notice, attract criticism from human rights groups. We would however wish to continue educating Indonesian Police Officers in British methods.

14. The Indonesians have recently raised with us the possibility of a Bilateral Commercial Cooperation Agreement. We are seeking to establish exactly what they have in mind. The proposal, once clarified, would need to go to DTI Ministers. Initially, we are attracted by the concept of a broad framework agreement embracing, and giving political impetus to, collaboration already taking place under a variety of scientific, industrial and educational headings.

SRI LANKA

15. Bilateral Relations and UK Aid. These are good. Sri Lanka regards Britain as her special friend in the West. She voted with us at the UN over the Falklands. There are strong cultural, educational and trading ties. President Jayewardene visited London privately 23-29 June and had tea with HM The Queen and dinner with the Prime Minister. Sri Lanka is a main recipient of British aid. We have contributed £113 million of grant aid over 5 years towards construction of the Victoria Dam.

Internal Situation

16. Of Sri Lanka's population of 15.3m some 2.8m are Tamils. Since 1976 the Tamil United Liberation Front (TULF) have demanded an independent Tamil state (Eelam). Extremist groups have increasingly used terrorist tactics against the security forces and moderate Tamils. There were violent communal riots in July 1983. In recent months Tamil terrorist groups, trained and equipped in Tamil Nadu in India, have launched further attacks in the North. The security forces appear to have contained the situation for the present.

17. President Jayewardene's efforts to find a political solution continue. The main point of difficulty is the extent of local autonomy to be granted to the Tamils. He remains concerned about possible Indian reactions in the event of a major clash between the Sri Lankan security forces and the Tamil majority.

D



HE Mr KASSIM bin mohd, Hussain

High Commissioner for Malaysia in London since March
1983

Born 1928; graduated from the University of Malaysia.

- 1955: Commenced his service in the Malayan Administration Service.
- 1974-77: Ambassador to Burma.
- 1977-80: Director-General of the ASEAN (Association of South East Asian Nations) Division in the Foreign Ministry.
- 1980: Ambassador to Belgium and the European Community.

Mr Kassim is married with three children. Outgoing, pleasant and co-operative. His experience in ASEAN matters in Kuala Lumpur and in Brussels is proving useful in London.



HE Dr HO Guan lim

High Commissioner for Singapore in London since May 1984.

Born 1924

1969 Became a Fellow of the Royal College of Physicians
(Glasgow).

Permanent Secretary at the Ministry of Health.

1981-84: Ambassador to the Soviet Union.

Dr HO is married with two grown-up children. Quiet spoken, thoughtful, consistently well-informed on developments in Asia which are a valuable asset in London. Both he and his wife were active supporters of the Anglican Chaplaincy in Moscow.



His Excellency Mr B SJAHABUDDIN ARIFIN

Ambassador for Indonesia in London, since 1981.

Born Jakarta 1928

1958

Achieved a Doctorate in Economics at Berne University.

Former Ambassador in Tehran.

Worked as a Director in the Directorate-General of Foreign Economic Relations.

1971-77:

Director-General for Foreign Economic Relations.

Appointed Secretary-General in the Department of Foreign Affairs.

Mr Arifin is married with three sons. Although a Moslem he drinks wine. He is shrewd and very keen to be active in promoting commercial relations between the UK and Indonesia.



HE Mr MONERAWELA, Loku Banda Chandrasekerea

High Commissioner for Sri Lanka in London since May 1984

Born in September 1937; obtained a BA in Economics from the University of Ceylon.

- 1961: Joined Foreign Service
Held diplomatic assignments in Peking, Washington and Bangkok.
- 1971-1974: Chief of Protocol, Ministry of Foreign Affairs.
- 1974-1980: Permanent Representative to the Economic and Social Commission for Asia and the Pacific (ESCAP).
- 1980-1983: Director, Economic Affairs, Ministry of Foreign Affairs.
- January 1984: High Commissioner to Singapore

Mr Monerawela is married with three children. Pleasant but somewhat colourless personality.

DELIGHTED TO BE HERE.

PLEASURE OFFSET BY REGRET.

HAVE BEEN LOOKING FORWARD KEENLY TO
MY VISIT TO MALAYSIA, SINGAPORE,
INDONESIA AND SRI LANKA.

PROMISED MYSELF THE PLEASURE OF
GETTING TO KNOW YOU BETTER.

HOPE TO HELP YOU KNOW BRITAIN BETTER.

WE LIVE IN A DANGEROUS BUT EXCITING
WORLD.

WE CAN TAKE NOTHING FOR GRANTED.

WE CAN NEGLECT NO OPPORTUNITY TO
WORK TOGETHER.

/WE MUST

WE MUST NOT LOSE ANY CHANCE TO POOL
EXPERIENCE.

TALKS WITH YOUR LEADERS WOULD HAVE
ENRICHED MINE.

THAT WAS THE FRAME OF MIND IN WHICH I APPROACHED
THE VISIT.

I HAVE NOW BEEN OBLIGED TO POSTPONE
IT.

I REPEAT, POSTPONE.

THIS IS NOT A CANCELLATION.

IT IS NOT A RETREAT.

IT MARKS NO LOSS OF INTEREST.

I DO NOT LIGHTLY CHANGE MY MIND.

/IT MARKS

IT MARKS, OF COURSE, A DISAPPOINTMENT AND AN
INCONVENIENCE.

THE DISAPPOINTMENT IS PARTICULARLY
MINE.

THE INCONVENIENCE IS PARTICULARLY
YOURS.

MUCH PLANNING HAD GONE INTO THE
PROGRAMMES.

YOUR AUTHORITIES HAD WORKED HARD.
SO HAD OURS.

THE PROGRAMMES OFFERED ME AN
EXCELLENT MIXTURE OF THE CENTRAL
AND THE REGIONAL, OF OLD AND NEW,
OF WORK AND NEW EXPERIENCE.

/I HAD

I HAD LOOKED FORWARD TO SEEING
KUALA LUMPUR, KEDAH, SINGAPORE,
JAKARTA, BALI, COLOMBO AND THE
VICTORIA DAM.

THE LIST IS LONG AND MY REGRET IS KEEN.

YOU WILL WONDER WHAT COULD KEEP ME
AWAY.

THE ANSWER IS A DOMESTIC
PREOCCUPATION.

DEVELOPMENTS IN THE INDUSTRIAL
SITUATION MAKE IT IMPOSSIBLE FOR ME
TO BE ABSENT FROM HOME FOR SUCH A
LONG PERIOD.

SUCH DECISIONS ARE UNPALATABLE.

WE ALL KNOW THAT.

/As

AS MEN OF THE WORLD YOU WILL
UNDERSTAND THAT THEY ARE OFTEN
NECESSARY.

BUT THIS IS A COMMA IN MY PLANS, NOT A FULL-
STOP.

I HOPE THAT OUR MUTUAL DIS-
APPOINTMENT CAN QUICKLY BE DISPOSED
OF.

I WANT VERY MUCH TO REINSTATE MY
VISIT WHEN THE SITUATION PERMITS.

I HOPE THAT WE CAN MAKE FRESH
ARRANGEMENTS BEFORE LONG.

MEANWHILE, LET ME STRESS TWO POINTS.

/NO BRITISH

NO BRITISH ADMINISTRATION THAT
VALUES ITS ROLE IN THE WORLD CAN
TAKE ITS FRIENDS FOR GRANTED OR
TREAT THEM WITH BENIGN NEGLECT.
WE REMAIN INTENSELY OUTWARD LOOKING.
YOUR DEEDS AND YOUR ACHIEVEMENTS
INTEREST US PROFOUNDLY.
WE FOR OUR OWN PART HAVE A LOT TO
OFFER.
WE ARE MODERN, OPEN MINDED AND
SCIENTIFIC.
WE ARE PRAGMATIC.
AND WE HAVE, I BELIEVE, A TALENT
FOR BUSINESS.

/MY VISIT

MY VISIT WOULD HAVE UNDERLINED OUR
VALUE AS PARTNERS - POLITICAL,
ECONOMIC AND TECHNOLOGICAL.

MY MESSAGE IS THAT.

WE NEED EACH OTHER; AND OUR
RELATIONSHIP SHOULD REFLECT THIS
NEED.

I LOOK FORWARD KEENLY TO A
RESUMPTION OF OUR JOINT EFFORT.