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PRIME MINISTER

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MEETING WITH DR MAHATHIR

You are to receive Dr Mahathir on Tuesday for lunch, preceded by the signing of a Memorandum of Understanding covering defence sales.

Signature Ceremony

The signature ceremony will be at 1200 in the Pillared Room, provided it is finished by then. The press will be present. You and Dr Mahathir will sign and exchange instruments in the normal way. You will each then wish to say a few words: a suggested text for you is attached. Our side, Lord Glenarthur, Lord Trefgarne, Sir Colin Chandler, Mr Gillmore and Mr Breslin (from our High Commission in Kuala Lumpur) will be present, as well as a number of Malaysian officials.

Talks

These will follow the signing ceremony and continue over lunch. Dr Mahathir will have his Attorney-General, Chief Secretary and High Commissioner. David Gillmore will also be present. There is briefing in the folder. The main subjects are:

- the defence package. It will be up to the Malaysians to say how they want to proceed with the purchase of items on the list. We will set up a project team to help them. Dr Mahathir will probably revert to the questions of aid for civil projects and air services;
- civil projects. We are ready to provide £70 million ATP grant and £130 million of associated ECGD cover, with further grant aid to continue to be available on a similar basis for development projects agreed upon between the two Governments. There are some quite good projects around: a new airport in Sarawak, some hospital



projects and a submarine cable project. But Dr Mahathir himself seems to favour something called the Hill Road project. This bodes to be very expensive - £1 billion - and would put our ATP funds under severe pressure. But if Dr Mahathir presses for it, you could offer a UK contribution to a feasibility study;

- he is also likely to try to press for extra frequencies for MAS on the route to London. Talks between the airlines have not gone well, probably because the Malaysians believe their best chance lies in squeezing a political concession out of us. You will need to remind Dr Mahathir that we cannot force BA to do things: and you hope he will encourage MAS to pursue their discussions with BA, including BA's request for additional rights in SE Asia to balance the MAS request. Agreement between the airlines is essential;
- internal developments. He will want to bring you up to date on developments over the judges. The Lord President has been dismissed and a tribunal is sitting on the conduct of the other judges. It is apparently likely to find in favour of at least some of the judges;
- Malaysian economy. This is continuing to grow very fast. Mahathir is very exercised about proposals to put a levy on exports of tropical timber, to go towards research into the effects of depletion of tropical forests;
- CHOGM. You will want to thank him for taking account of your concerns over dates (18-24 October) despite the inconvenience to Malaysia;
- Cambodia. Mahathir has recently seen Sihanouk who comes here in October. You will want to ask his views on the prospects. The Foreign Secretary will pursue your proposal for closer engagement by the Five Permanent Members of the UN Security Council when he visits New York next week;