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From the Minister for Trade

DEPARTMENT OF TRADE AND INDUSTRY
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COMMERCIAL IN CONFIDENCE

Charles Powell Esq
Private Secretary to the Prime Minister
10 Downing Street
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8 October 1985

Dear Charles

MALAYSIAN PROJECTS

Thank you for your letter of 24 September to Mike Gilbertson about Hawker Siddeley's request for ATP support for their bid to supply locomotives to Malaysian Railways.

My Minister shares the concern which the Prime Minister has expressed about the Malaysian Government's handling not only of the locomotive order pursued by Hawker Siddeley, but of other contracts. So far as the former is concerned, Mr Channon has already exchanged correspondence with the Malaysian Minister of Finance. Furthermore, Hawker Siddeley have now been told they are only fourth on price after resubmitting their bid with slightly increased ATP support. We do not, therefore, consider it appropriate to ask the Prime Minister to make representations now about this case, although she may wish to raise it in her talks with Dr Mahathir next week.

The other principal contracts currently outstanding in Malaysia involve Rolls Royce and Biwaters. Rolls Royce recently lost an important order for aircraft engines to Pratt and Whitney, having clearly been the leading contender. The decision appeared to have been influenced largely by political reasons, even though it is defended on commercial grounds. The Minister of Finance was probably responsible, although it is difficult to believe that Dr Mahathir would not have been well aware of it. Rolls Royce are now pressing a claim for compensation relating to conditions in a contract for engines supplied earlier, but the Malaysians have indicated that too much fuss or delay over this would make it very difficult for them to award to Biwaters an important £500 million rural water supplies contract (a project with UK content of £240 million on which we have offered Aid and Trade Provision support). It is up to Rolls Royce to decide how to handle the

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Prime Minister
I think you will
want to raise these
issues with Dr.
Mahathir at CHOGM.
I have asked for a
brief.
CDD
2/A.



commercial aspects of this case, though clearly it is in their own interest not to sour further their relations with the Malaysians unnecessarily.

Understandably, Biwaters are concerned that representations by HMG might be harmful to their prospects. But these developments are nevertheless sufficiently worrying for my Minister to express the hope that the Prime Minister could raise them with Dr Mahathir when she meets him in Nassau next week. If so, he suggests she could write in general terms to him now to prepare the way for such a discussion and to prevent him from pleading ignorance of the circumstances. Our High Commission in Kuala Lumpur is content, and I attach a draft.

I am copying this letter to Colin Budd (FCO), Richard Allan (Transport) and Martin Dinham (ODA).

Yours

Matthew Cocks

MATTHEW COCKS
Private Secretary to the
Minister for Trade (Paul Channon)



10 DOWNING STREET

From the Private Secretary

9 October 1985

MALAYSIAN PROJECTS

Thank you for your letter of 8 October suggesting that the Prime Minister write to Dr. Mahathir proposing that they discuss recent problems over contracts at CHO~~G~~M.

It will not be practicable for the Prime Minister to write before Dr. Mahathir leaves for CHO~~G~~M. But I am sure she will want to have the proposed discussion. Could you please ensure that we get a brief by 14 October at latest.

I am copying this letter to Colin Budd (FCO), Richard Allan (Transport) and Martin Dinham.

C D Powell

Matthew Cocks, Esq.,
Department of Trade and Industry.