

SIR MICHAEL PALLISER'S VISIT TO INDONESIA: 21 - 22 OCTOBER 1975

UK/INDONESIAN RELATIONS

1. Our relations with Indonesia are good. They improved steadily following the end in 1966 of Sukarno's political confrontation with us over Malaysia and reached a high point following the State Visit to Indonesia in March 1974.
2. We have sought to exploit this situation to our advantage by encouraging the growth of British trade with Indonesia, by pledging capital aid through the Aid Donors' Group, IGGI (the Intergovernmental Group on Indonesia), and by continued expressions of friendship and support at Ministerial level and downwards. (The Secretary of State met Adam Malik in early September at the United Nations). So far, these efforts have proved successful, (with the partial and temporary exception of our aid policy which underwent some disruption in 1974 - see Paras 7 - 8 below and Annex A).

British Long-Term Interests

3. As a country of over 120 million people with great natural resources, Indonesia is the most important country politically and economically in South East Asia. A stable and friendly Indonesia is of great importance to us and to other Commonwealth countries in the area for the following reasons:
 - (a) the necessity to maintain the security of the sea lanes and air routes to Australasia and the Far East.
 - (b) the fact that Indonesia takes a generally moderate line in the UN Security Council, OPEC and other international bodies. Its attitude towards contentious issues in the region, for example Diego Garcia, is, at least in private, not unhelpful. Indonesia is also fast becoming the leading member of ASEAN, a regional organisation whose progress we have generally welcomed.
 - (c) It is a growing market for British exports and a fruitful area for British investment. Our exports have quadrupled since 1970, and in 1974 reached a figure of £47 million. The Secretary of State has approved in principle a policy of encouraging defence

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sales; Indonesia provides a large potential market for such sales, although at the moment she is heavily dependent on the United States, and we have not so far succeeded in breaking in.

4. Japan, Australia, New Zealand and the United States naturally share a common interest with ourselves and Western Europe for a stable Indonesia. Our economic and commercial interests are however competitive.

British Short-Term Objectives

5. Our short-term objectives in Indonesia over the last 12 months have been as follows:

- (a) to capitalise on the favourable position we secured in Indonesia as a result of the State Visit;
- (b) to maintain and increase our share of an expanding market;
- (c) to benefit from such defence sales as might be in our interest;
- (d) to ensure continued freedom of passage through the Malacca Straits;
- (e) to see some protection for our investment by encouraging an Investment Protection Agreement, and to bring to an early settlement long outstanding claims for compensation;
- (f) to pursue an air services policy which will safeguard British Airways' overflying rights and maintain rights available to the Cathay Pacific Airlines.

6. We have been generally successful in achieving these objectives with the possible exception of (c) above. The latest position with regard to each of the above objectives is as follows:

- (a) Return State Visit. We hope to maintain the momentum generated by HM The Queen's State Visit, by inviting President Suharto to pay a return State Visit in the not-too-distant future. We are thinking in terms of a visit in autumn 1976, although this may be changed to May 1976 because the other candidate for a visit (the President of Venezuela) is reluctant to commit himself to May 1976. At the time of writing we are not in a position to mention a possible invitation for President Suharto to visit the UK in 1976. However, we might

be able to do so by the time of Sir M Palliser's visit and will telegraph as necessary to Jakarta.

(b) Trade. We have increased our share of the Indonesian market. In 1973 our exports to Indonesia represented 0.26% of our total exports and about 3% of the expanding Indonesia import market. Current figures are now 0.33% and 4% respectively.

(c) Defence Sales. Over the last 2 years we worked hard to obtain a contract for the sale of up to 4 frigates for the Indonesian Navy, worth approximately £60 million. Although considerable effort went into this prospective sale by Vosper, Vickers and the MOD Defence Sales team, the contract regrettably went to the Dutch in the middle of this year. Although we are still not sure of the exact reason for this decision (it seemed at one stage quite likely that the contract was going to us), we believe that one of the main reasons for Indonesia's decision was the rapid rate of inflation in this country.

(d) The Malacca Straits. The issue of freedom of passage through the Malacca Straits has not proved controversial during the last twelve months.

(e) Investment Protection and Compensation. We currently have a team in Jakarta negotiating the final details of an Investment Protection Agreement, and we hope these discussions will have reached a satisfactory conclusion by the end of September. With regard to the claims for compensation for British properties and assets seized by the Indonesian Government during the Sukarno era, the Indonesian Government, after procrastinating for the last eighteen months have now indicated a general desire to settle this matter equitably as soon as possible. They expect to make a final offer to those persons pursuing claims in late September or early October, and it is hoped that the claimants will feel able to accept. (See Annex C.)

(f) Air Services. We have recently reached agreement on an amendment to the UK/Indonesia Air Services Agreement which will enable Cathay Pacific Airlines to operate wide-bodied aircraft (Tristars) between Hong Kong and Jakarta four times a week, in return for permitting the Indonesian Airline, Garuda, to operate a direct route between Bali and Hong Kong.

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Although the Department of Trade felt that we had conceded quite a lot in these negotiations, the eventual Agreement provides benefits for both sides, and at the same time protects British Airways' overflying rights (which are even more important now that Concorde is about to start services to the Far East).

British Aid to Indonesia

7. It has been the constant aim of the FCO through our aid programme to establish a worthwhile stake in Indonesia's development. In this we are supported strongly by the Department of Trade and HM Treasury. However, we continue to face strong opposition from the Ministry of Overseas Development. (See Annex A for our latest submission to the Secretary of State on the subject, which gives the different figures being pursued by ODM and FCO in the Joint Aid Policy Committee discussions.)

8. The background to this is briefly as follows. In 1974, shortly after the new Labour Government was returned to power, the then Minister of Overseas Development, Mrs Judith Hart, declined to agree to make any fresh pledge of capital aid to Indonesia at the May 1974 IGGI Conference. This was despite strong pleading on the part of the Secretary of State, the Secretary of State for Trade, and HM Treasury Ministers. We were virtually alone in making no pledge at this Meeting. This decision was followed by a significant cooling-off in our relations with the Indonesians. Real doubts were raised in the minds of top Indonesians as to whether we were serious in wanting closer economic and political relations. Consequently, the Foreign Office, the DOT and HM Treasury continued to press Mrs Hart strongly throughout 1974 and early 1975 to reverse her decision. It was not until the eve of the May 1975 Conference that Mrs Hart finally relented following a telegram from the Secretary of State, then in Kingston, Jamaica, describing a conversation with Gough Whitlam, in which the latter strongly supported increasing our capital aid programme to Indonesia. Mrs Hart finally agreed to our making a pledge of £10 million at the May 1975 IGGI meeting to be disbursed "from 1977 onwards". This pledge was welcomed by the Indonesians;

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but (as will be seen from Annex A) ODM are continuing to resist our attempts to secure a planned and continuing further increase in capital aid to Indonesia.

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Speaking Points

[To be supplemented by HM Embassy Jakarta when programme of visits is finalised.]

Investment Protection Agreement

1. [If agreement has been reached]. We welcomed the agreement that was recently reached in Jakarta on this important subject.

Compensation Claims

2. We are glad that this subject, which has long been a minor irritant in our bilateral relations, now seems to be drawing to a close. [If a new offer has been made by the Indonesian Government]. We welcomed the new offer that has just been made by the Indonesian Government and hope that it will prove to be the basis of an acceptable agreement with the claimants.

Air Services

3. We were glad that it was possible for our two Governments to reach an acceptable compromise on the issue of air services in mid-September. We believe that the Agreement reached, although containing some disadvantages to both sides, will on balance prove to be to our mutual advantage. We imagine the new service that Garuda will operate between Bali and Hong Kong could well prove to be a most profitable venture.

Aid

4. HMG were glad to be able to make a further pledge of capital aid to Indonesia at the IGGI Meeting in May and expect this to form a continuing part of our developing relationship with Indonesia.

State Visit

5. [See para 6a of brief].