

A high-speed photograph of a water droplet just before it impacts a surface. The droplet is suspended in the air, and concentric ripples are visible on the surface below it. The background is a solid, deep blue color.

Water Talks?

IF ONLY IT COULD



“Any breach of the Water Agreements would also call into question the Separation Agreement, and undermine our very existence.”

- Singapore Prime Minister Goh Chok Tong,
addressing the Singapore Parliament, April 5, 2002

“Well, international agreements have been broken before. I have seen people go to war even, which is not by agreement.”

- Malaysian PM Mahathir Mohamad, speaking to
reporters in Kuala Lumpur, November 2, 2002

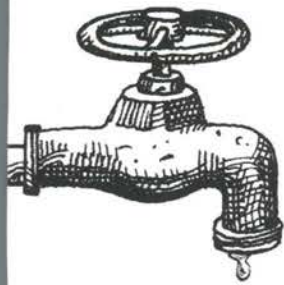


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The information contained in this booklet on the water issue, as well as information and news on other Singapore-Malaysia bilateral issues, can also be found on the websites of the Ministry of Foreign Affairs and Ministry of Information, Communications & the Arts, Singapore.
(www.mfa.gov.sg and www.mita.gov.sg)



PREFACE

Over the past year, a great flood of comments and allegations about the Singapore purchase of water from Malaysia has inundated both countries. The barrage has come, and continues to come, from Malaysian political leaders and media. A sampling of these claims runs from pages 6 to 10.

On January 25, 2003, to counter baseless Malaysian remarks, the Singapore Government took the unprecedented step of releasing into the public domain correspondence between the two countries on the negotiations. Well aware of the seriousness of such a measure, it decided nevertheless that this was the only option available to set the record straight and let people judge for themselves. Malaysia had through its words and actions led Singapore to the conclusion that hoping for a win-win deal was no longer realistic.

This booklet contains that correspondence. A close reading of them paints the picture the Malaysian public has not had a chance to see: namely that far from being the “unreasonable and intransigent” party in bilateral talks, Singapore has been working hard towards a solution that will be beneficial for both sides.

The story began in 1998. Crisis, they say, brings people together, so it was that at the height of the Asian financial crisis, the two countries began negotiations on a “framework of wider co-operation”. Malaysia wanted financial loans to support its currency; to enable it to carry its domestic ground when acceding to the request, Singapore suggested that Malaysia give its assurance for a long-term supply of water to the Republic. Malaysia eventually had no need for the loans, so negotiations turned to other matters of mutual interest. In particular, Malaysia wanted joint development of more land parcels in Singapore in return for relocating its railway station away from the current site at Tanjong Pagar.

Over the ensuing three years, more items were bundled into the negotiation package. Singapore added one request: resumption of its use of Malaysian airspace for military transit and training. Malaysia added three more: replacing the Causeway with a bridge, early withdrawal of Central Provident Fund savings for West Malaysians working in Singapore, and a higher price for the water it presently sells to Singapore.

Officials met; leaders corresponded; Singapore’s Prime Minister Goh Chok Tong and Senior Minister Lee Kuan Yew took pains to visit Malaysian leaders at the capital, Kuala Lumpur.

An ever higher asking price

But as the documents in this booklet show, Malaysia kept changing its negotiating positions on the package of items. Instead of differences narrowing over time, they widened. On water, for instance, Malaysia’s asking price crept relentlessly up. From 45 sen per thousand gallons in August 2000 it became 60 sen six months later. By September 2002, it was RM6.25. The following month, they unilaterally called off the package approach to negotiations.

At the same time, Malaysian leaders sent contradictory messages. On October 14, 2002, Foreign Minister Syed Hamid Albar said that if water talks ended in stalemate, Malaysia would refer the matter to the Permanent Court of Arbitration. Six weeks later, he denied it: “I didn’t say we were going to court, did I? I haven’t said anything.” In another instance, he said on December 31, 2002: “Singapore has two choices. If it refuses to compromise, go to war.” In late January when Singapore pointed out that loose talk of war was senseless and dangerous,

the minister back-tracked and claimed that "Malaysia has never talked about war but always about defending our sovereignty." Singapore's response to all this was spelt out by Foreign Minister S. Jayakumar: "Even though Malaysia had repeatedly shifted the goalposts, Singapore has not walked away from negotiations."

Malaysia continues to indicate that it is intent on taking unilateral action to increase the water price. This is not a small matter for Singapore. For the Lion City, the nub of the issue is not how much we pay, but how any price revision is done. It is a matter of keeping commitments solemnly entered into with other sovereign states.

Sanctity of Agreements

The facts are these: The Johor government entered into two long-term agreements in 1961 and 1962 with Singapore's Public Utilities Board to allow the Republic to draw raw water and for the PUB to supply treated water back to Johor. These Agreements provide for Singapore to draw up to 350 million gallons per day at 3 sen per thousand gallons. The Agreements were guaranteed by the Malaysian government in the Separation Agreement that established Singapore as a sovereign state in 1965. The guarantee was also enacted into the Malaysian Constitution by an Act of Parliament, a fact not many Malaysians may be aware of. The legislation says: "The Government of Malaysia shall guarantee that the Government of the State of Johore will on and after Singapore Day also abide by the terms and conditions of the said two Water Agreements."

The Water Agreements contain clear provisions for price revisions: by bilateral consultation, failing which, through arbitration. Following from these provisions, Singapore will thus challenge any unilateral revision with all means possible.

Significantly, Malaysia has not taken issue with the substance of any of the points made by Singapore since the release of the official correspondence on January 25. It has taken issue only with the release of the documents. As Malaysian Prime Minister Mahathir said: "I don't feel nice. You write a letter to your girlfriend. And your girlfriend circulates it to all her boyfriends. I don't think I'll get involved with that girl." To which a Singaporean replied in the Straits Times newspaper: "Nice try, Dr Mahathir. It is more like the boyfriend, having corresponded constantly with his girlfriend and indicated his intention to marry her, chickened out when the marriage was due. It happened so many times that the exasperated girl calls off the relationship and tells everyone what an unreliable person the boy is!"

Singapore's former High Commissioner to Malaysia K Kesavapany, who was involved in bilateral negotiations for many years, summed it up in his own letter to the Straits Times: "I did not get the impression that some kind of Barbara Cartland romance was going on. On the contrary, serious work was in progress to resolve outstanding and new problems which were bedevilling bilateral relations."

We hope work will resume. Singapore remains committed to resolving the issues on the basis of mutual benefit, trust and sincerity.

**Ministry of Information, Communications and the Arts
Singapore**

THE CLAIMS

Distortions - subtle and not so subtle



SINGAPORE has been getting water from Malaysia at 3 sen since 1927.

NOT true. In the 1927 water agreement, Singapore obtained water FREE from Malaysia. It only had to pay rent for the land in the catchment and waterworks areas.

The price of 3 sen per thousand gallons came only in the 1961 and 1962 Water Agreements signed between the Johor government and the City Council of Singapore.

These Agreements provide for price reviews 25 years after signing, that is in 1986 and 1987 respectively. Malaysia did not forget about its right to review; it decided against exercising it then as it knew that a price review would also lead to higher prices for the treated water Johor buys from Singapore. More on this later.

THE Water Agreements were drawn up by the British to favour Singapore.

HOW can this be? Malaya obtained independence from the British in 1957. By the time the agreements were signed in 1961 and 1962, Malaya was already an independent and sovereign nation. The federal government of an independent and sovereign Malaya would never allow the Johor state government to sign any agreement that was against Malaya's national interest.

In fact, as recently as 1990 – when the British were long gone – the Johor government affirmed the price of 3 sen when it signed an agreement with Singapore's Public Utilities Board (PUB) for the construction of the Linggiu Dam. More on this agreement later.

SINGAPORE buys water from Malaysia at 3 sen and sells to ships at \$20 or RM40. It is making enormous profits of up to RM700 million yearly.

SINGAPORE BUYS only half of its water, or about 150 million gallons per day (mgd) from Malaysia. The other 150 mgd comes from its own reservoirs.

Of the total, only 1 million gallons per day – less than 1 per cent of total water demand – is sold to ships. The water that is sold to ships therefore does not necessarily come from Johor.

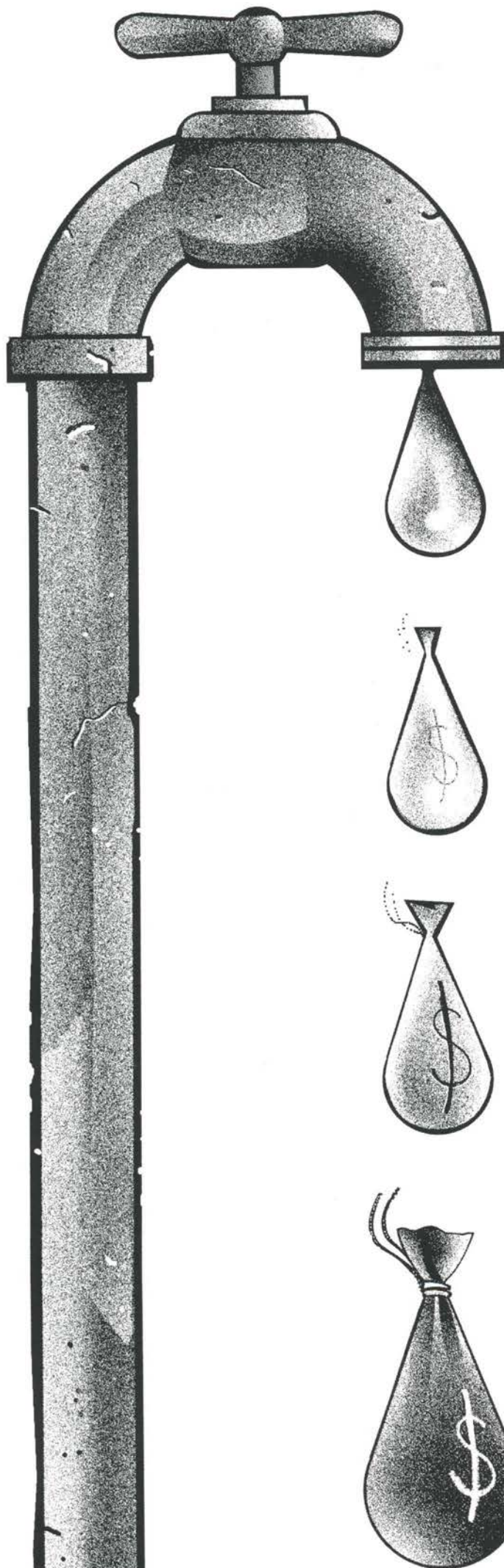
Singapore sells to ships at RM25 per 1,000 gallons. Malaysia charges ships even more. The Port of Tanjung Pelepas, for instance, sells at RM45.50 per 1,000 gallons, for quantities 50,000 litres (11,013) and below. For quantities above 50,000 litres, the rate is RM455 per 1,000 gallons.

SINGAPORE makes profits by buying water from Malaysia at 3 sen and selling it back to Johor at 50 sen.

ON the contrary, Singapore loses money when it sells water back to Johor. The water that Singapore sells to Johor is treated water. It costs Singapore RM2.40 to treat every 1,000 gallons of water. By selling it to Johor at only 50 sen, the subsidy Singapore absorbs is RM1.90.

Multiply that by the total amount of treated water that Johor buys from Singapore, and the subsidy adds up to RM70,000 a day and RM25 million a year!

Indeed, Johor finds it desirable to buy treated water from Singapore. Under the terms of the 1961 and 1962 Agreements, Johor is entitled to buy 17 mgd from Singapore daily. But it has chosen to buy 37 mgd – 20 mgd more than under the Agreements.



Why? Because it buys from Singapore at 50 sen per thousand gallons, and sells to Johoreans at RM3.95 per 1,000 gallons.

Calculating the profits, Johor makes more than RM127,650 a day, or RM46 million a year.

Both Dr Mahathir and Johor leaders said last year that that was why they did not ask for a review of the water price when it was due in 1986 and 1987: they knew that if they did so, the price of treated water would also go up.

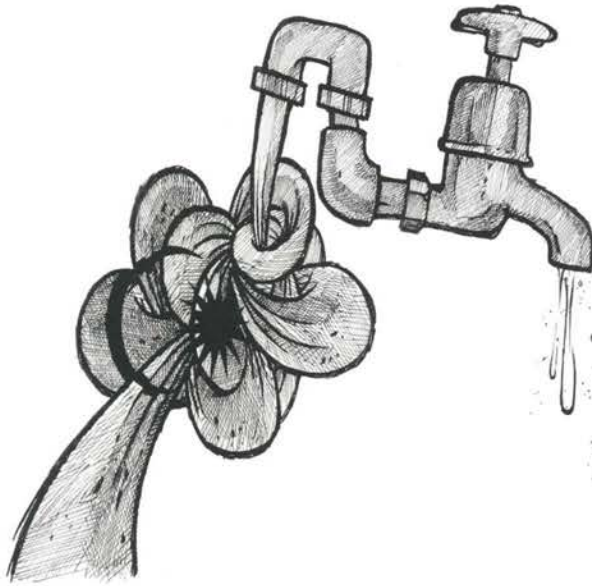
HONGKONG buys water from mainland China at RM8 per thousand gallons.

THAT may be so, but comparing Malaysia with mainland China is misleading. When Hongkong buys water from mainland China, China pays for the infrastructure, and the operational and maintenance costs.

Malaysia does not pay for similar items. All these years, Singapore has been paying for the infrastructure, such as dams, pipelines, plants and equipment. It also pays for the operational and maintenance costs. These add up to millions of dollars a year. Johor benefits too as the waterworks also supply water to Johor residents.

The same payment principle was used when Johor signed the Linggiu Dam agreement with Singapore's PUB in 1990: Singapore paid for the construction of the dam. Johor owns the dam, but Singapore pays for all its operational costs. These sums are on top of the RM320 million paid to Johor upfront in 1990 as compensation for loss of use of the land.

All in, Singapore has spent more than S\$1 billion on the water projects. This is money that has gone into the Johor economy. The dam has also benefited Johor residents. Would Singapore have invested so much in the project if it knew that Malaysia was going to up the price of water just 10 years down the road?



SINGAPORE is refusing to compromise to enable both sides to find a win-win solution.

Absolutely not true. As the documents from pages 12 to 39 show, as early as August 2000 Singapore had already been prepared to pay a higher price for water. It only wanted one thing in return - a new agreement for the long-term supply of water. Given that Malaysia had water in abundance and Singapore was in need of it, this was not an unreasonable request.

Present money in return for future water: isn't this a win-win solution?

At a meeting between Dr Mahathir Mohamad and Mr Lee Kuan Yew on August 15, 2000, the two leaders agreed

that in return for Malaysia agreeing to sell water to Singapore beyond the expiry of the current agreements, Singapore would pay 45 sen per 1,000 gallons now.

Not only was Singapore willing to pay 45 sen, but it also offered to foot the bill for the building of water works that will help increase the yield of the Johor River. The offer was reiterated in a letter from Senior Minister Lee Kuan Yew to Tun Daim Zainuddin, the then Finance Minister, on August 24, 2000. The estimated cost of these works: S\$378 million or RM835 million. Note that it is not only Singapore that will benefit from the waterworks; Johor will too.

Six months later however, in February 2001, Malaysia backtracked on the 45 sen agreement. Dr Mahathir said Johor believed that 60 sen was fair.

Singapore later offered a compromise: 45 sen for water now, and 60 sen for water after 2011.

In March 2002, Malaysia sent Singapore a shocker. It wanted 60 sen for water now, and it wanted the price back-dated to 1986 and 1987.

Not only that, it also wanted RM3 for water from 2007 to 2011. From 2011 onwards, the price would be adjusted yearly for inflation.

But that wasn't the end of it. When the Foreign Ministers from both countries met in September 2002, the Malaysia side presented yet another pricing formula. The formula resulted in a price 200-fold higher - RM 6.25.

SINGAPORE refuses to pay a fair price for water.

AS the above shows, Singapore is prepared to negotiate a higher price, but Malaysia keeps asking for more. How can a deal be reached when Malaysia keeps ratcheting up the price? An impartial observer must come to the conclusion that Malaysia isn't really interested in resolving the issue.

In addition, the prices that Singapore has offered to pay for water cannot be seen in isolation.

As a Singapore Foreign Ministry spokesman said in February 2002: "These new prices...must be seen in the context of an overall package being negotiated. The package includes, among other things, payments Malaysia will receive for railway land in Singapore. The total amount of

money that Malaysia will receive when other items in the package are factored in will be over RM1.5 billion."

The package referred to comprised several items, one of which was compensation to Malaysia for relocating the terminals of the Malaysian railway line.

SINGAPORE refuses to accept reality. It prefers to use recycled water even though that is much more expensive than Johor water.

It is not true that Singapore does not want to buy water from Johor. Why else would these talks still be going on? In any case, if water negotiations are always so problematic, what choice does Singapore have but to develop its own alternative sources of water? A responsible government must always have contingency plans and fall-back positions.

THE Water Agreement is only an "ancient piece of paper". Malaysia can raise the price any time it wants.

THE Water Agreements are legally-binding documents. They are enshrined in the Separation Agreement on which Singapore's independence is based. Malaysia in fact amended its Constitution to give effect to the Agreements. This was done through an Act of Malaysian Parliament, No. 53 of 1965.

Section 14 of the Act states: "The Government of Malaysia shall guarantee that the Government of the State of Johor will on and after Singapore Day also abide by the terms and conditions of the said two Water Agreements."

The Agreements contain clear provisions for how the price of water is to be revised: namely by mutual consent, failing which, by arbitration under definite terms provided in the Water Agreements. These provisions make it clear that Malaysia cannot unilaterally raise the water price anytime it wants.

MALAYSIA can pass its own laws to make the Water Agreements null and void.

UNDER the Vienna Convention on the Law of Treaties, which both Singapore and Malaysia are parties to, no country can pass a domestic law to over-ride treaty obligations.

The Water Agreements are an integral part of an international treaty between Malaysia and Singapore. They were given legal force by a constitutional amendment in Malaysia and later registered with the United Nations.

International law says that both parties must ensure that the Water Agreements are observed. Neither side can unilaterally vary their terms and conditions.

Any country that chooses to violate this principle is signalling to the world a cavalier attitude to international agreements.

SINGAPORE is placing its own water needs above those of Malaysia.

ON the contrary, when negotiating for future water, Singapore is well aware that Malaysia needs water for itself. That was why in SM Lee's letter of August 24, 2000, he proposed the building of three water schemes that will increase the yield of the Johor River from 313 mgd to 530 mgd, enough for both Singapore and Johor needs.

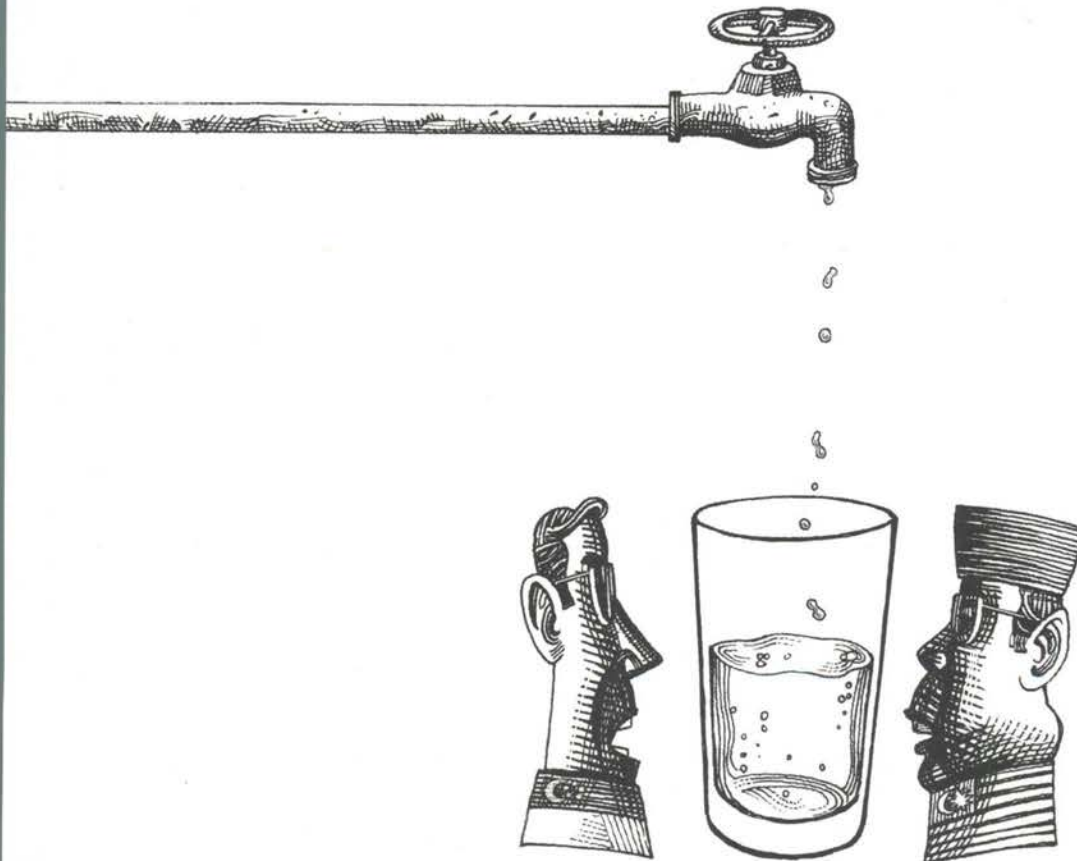
Singapore has also said that if Johor does not have enough water to sell to Singapore, Singapore can source from Pahang. Malaysia however is reluctant to let Pahang sell future water to Singapore.

SINGAPORE is being legalistic. It should be more neighbourly and just pay more for water.

BEING legalistic is not a matter of choice. As a small country, law is Singapore's only protection. For Singapore, the key issue is not how much we pay, but how any price revision is arrived at. The revision cannot be unilateral. It must be in accordance with the terms of the Water Agreements.

If we cannot reach agreement through negotiation, we are prepared to refer the matter to arbitration. We do not mind if it is the Permanent Court of Arbitration, or a tribunal constituted according to the laws of Johor.

It does not matter as long as the basis of arbitration is law. Singaporeans are a peaceful people; we want law, not war. What more could a neighbour ask for?



"I don't feel nice. You write a letter to your girlfriend. And your girlfriend circulates it to all her boyfriends. I don't think I'll get involved with that girl."

- Malaysian Prime Minister Mahathir Mohamad

"I have been reluctant to release these documents despite misrepresentation of facts from the other side because we hoped for a win-win outcome. But I have to release them now because this hope is no longer realistic and so much misinformation on the water issue has been put out by Malaysia that needs to be rebutted by conclusive evidence."

- Singapore Foreign Minister S. Jayakumar

THE LETTERS

The 19 exchanges between Singapore and Malaysia released by Singapore's Foreign Minister S. Jayakumar show that contrary to Malaysian allegations, Singapore has been accommodating and was prepared to pay a higher price for water if there could be give-and-take on other issues. They also show how Malaysia changed negotiating positions abruptly, without credible reasons.

In deciding to release the correspondence, Professor Jayakumar said it was necessary to set the record straight and let people judge for themselves.

The first four items show how Malaysia initially agreed to a price of 45 sen per thousand gallons. Six months later, it asked for 60 sen.

AGREED ITEMS BETWEEN MALAYSIA PRIME MINISTER DR MAHATHIR MOHAMED AND SENIOR MINISTER LEE KUAN YEW AT THEIR 4-EYE MEETING FROM 3.15-4.55pm ON TUESDAY, 15 AUGUST 2000, AT PUTRAJAYA

1. Malaysia shall continue to supply Singapore 350 mgd of raw water up to 2061, at a premium of 50% of the interstate raw water levy that Johore charges Malacca. Currently this will be 45 sen per 1000 gallons, since Johore charges Malacca 30 sen .
2. After 2061, Malaysia shall continue to supply Singapore with 350 mgd, comprising 150 mgd raw water at the same formula of 50% premium over the interstate raw water levy charged by Johore, and 200 mgd treated water, using the price formula in the 1990 water agreement for treated water in excess of the 250 mgd from the Johore River. The treatment of the filtered water shall be done jointly between Singapore and Lyonnaise des Eaux (to be confirmed by Dr Mahathir) or whoever else is doing it on Johore's behalf.
3. The KTM rail station will relocate to Kranji. KTM trains will run in an underground tunnel for 9km from Johore into Singapore at Kranji, for the KTM rail station to link up with the Singapore MRT
4. The Causeway will be replaced by a bridge. Singapore will reclaim its side to the maximum, to join up with the bridge. All water pipes, cables and other services will be located in the tunnel.
5. The land at Keppel , where the KTM station is currently sited, will be exchanged for a plot at Shenton Way of equivalent value.
6. The 12 parcels of MRA land at Bukit Timah will be jointly developed by M-S Pte Ltd.
7. The rail CIQ will be at Kranji rail station, where the tunnel ends. The road CIQ will remain where it currently is at Woodlands.
8. Both sides will work towards implementing a joint electronic card for immigration clearance.

*Senior Minister
Singapore*

Dear Daim

24 August 2000

I promised you a note during our telephone conversation on Monday, 21 August to help remind you of the items we spoke about. I have also given more details on the water projects that I have gathered from my secretary since we talked.

Mahathir had agreed to increase our water supply from the Johore River to 350 mgd. But the present yield of the Johore River is 313 mgd. This means Johore will not be able to continue to draw from this river the 70 mgd that they are doing at present. I therefore propose that Singapore build and pay for 3 water schemes to raise the yield to 530 mgd. This will take some 5 years to complete and will cost Singapore S\$378 million or RM 835 million. Singapore will then draw an additional 200 mgd instead of 100 mgd raw water from the Johore River. This will still allow Johore to draw 80 mgd from the Johore River.

In addition, Johore will have some 90 to 100 mgd from the Tebrau-Scudai-Gunong Pulai sources that we will hand over to them in 2011, when the 1961 agreement expires.

After 2061, Malaysia will continue to supply Singapore, for 100 years thereafter, with 450 mgd, comprising 150 mgd raw water, and 300 mgd treated water.

As agreed with Mahathir, the price formula for raw water will be at a 50% premium over the average inter-state raw water levy charged by Johore, ie, at present, $30 + 15 = 45$ sen. For treated water we will use the price formula we agreed in the 1990 water agreement for treated water in excess of the 250 mgd from the Johore River.

On Mahathir's Causeway bridge proposal, my PM agrees to it, but proposes that we do not demolish the Causeway. He is wary of a public outcry if he agrees to the destruction of a historical and still valuable asset, just to replace it with a beautifully designed bridge but one that will lead to increased toll charges.

He can better present the bridge proposal to the people of Singapore if he can say that three links are needed for longer term traffic growth, that even at present, during weekends and the holiday season, there is congestion at the Causeway. Both the bridge and the Causeway on the Malaysian side can be vested in Gerbang Perdana who can collect the toll

fees. The toll charges between the three links can be adjusted so that we get the desired usage results.

As for the tunnel to link the MRA train to Kranji station, our water pipes need not be placed in the tunnel. My secretary has informed me that the pipelines from Scudai, Tebrau and Gunong Pulai, through JB and the Causeway will revert to the Johore government in 2011 when they take over the Scudai, Tebrau and the Gunong Pulai water resources. A more important reason: it is not safe to put water pipelines into the tunnel as any leaks can cause catastrophic flooding in the tunnel, a danger to train travellers.

Singapore will allow the early withdrawal of the CPF savings of West Malaysians who have left Singapore permanently.

Malaysia will reinstate all the arrangements for RSAF aircraft to use Malaysian airspace for transit and training.

Singapore will exchange a site at Shenton Way, of equivalent value to the KTM station site at Keppel, an option which has been given in Plan 2 of the 1990 POA.

I am keeping my PM informed of my initiatives. He said however that he will leave them to me until the final stage when he will study them carefully before agreeing. To make it easier for us to write to each other, to test various options, all notes or letters I send to you or Mahathir, or vice-versa, will be treated as Without Prejudice; that there is no agreement until all points are agreed and signed by the two PMs.

I will be away in Europe and US from 1st to 21st October. Perhaps we can meet before I leave on 1st October. The signing by the two PMs can be end October.

Let us clear the decks for the two PMs so that we can get on with it.

Yours Sincerely
Lee Kuan Yew

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Minister of Special Functions &
Minister for Finance
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62502 Putrajaya,
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Malaysia



**PRIME MINISTER
MALAYSIA**

21 February 2001

**His Excellency Lee Kuan Yew
Senior Minister
Republic of Singapore**

Dear Kuan Yew,

I would like to apologize for taking such a long time to respond to your note following the discussions we had on August 15, 2000 during your visit to Malaysia.

The problem is that I was not quite familiar with the various agreements entered into between Singapore and Malaysia relating to the supply of water. Since you did not bring this to my attention I presume that you too may not have remembered regarding the agreements.

Since the water is to be sourced from Johore and water management comes under the state list, I am bound to consult Johore before I comment on your note.

I have since learnt that there are two separate agreements involved which were entered into in 1961 and 1962 which provide for the supply of 350 mgd of raw water in total.



The 1961 agreement provides for the supply of 100 mgd. of raw water from Sungai Skudai and Sungai Tebrau for a period of 50 years.

The 1962 agreement provides for the supply of 250 mgd. of raw water from Sungai Johore for a period of 99 years.

When the 1961 agreement ends in 2011 there is no provision for any continued supply of 100 mgd. of raw water to Singapore. Nevertheless Johore is willing to supply 100 mgd. of treated water if Singapore so desires.

In accordance with the 1962 agreement Johore will continue to supply 250 mgd of raw water to Singapore until 2061. After 2061 Johore will take over the treatment plant in Sg. Johore as provided for in the 1962 Agreement.

Although no formal agreement has been entered into Johore is prepared to continue to supply Singapore after 2061 with:

- (i) 250 mgd. of treated water; and
- (ii) 100 mgd. of raw water

Johore is agreeable to revisions in the price of raw water that it now supplies to Singapore and the treated water that it buys from Singapore. The price of raw water that it sells to other Malaysian states should not be a basis for determining the price of raw water. There are elements of subsidies to this supply.

Johore believes that a fair price would be 60 cents per mgd. of raw water. The price should be reviewed every five years.

The Deputy Prime Minister was in Singapore recently and he had settled the issues regarding the location of the ICQ and the terminal station for the Malaysian Railway at Kranji. We are still committed to joint development of land belonging to MR or equivalent land elsewhere.



With regard to the causeway Malaysia would not want to retain it once the bridge and the tunnel are in use. We think it is essential that there be a free flow of water and traffic between the Eastern and Western parts of the Straits.

With best regards
Sincerely,

A handwritten signature in dark ink, consisting of several fluid, connected strokes.

DR MAHATHIR BIN MOHAMAD

*Senior Minister
Singapore*

23 April 2001

Dear Mahathir

Thank you for your letter dated 21 February 2001 which I received on 7 March.

On first reading, the two main variations from the oral understanding we reached on 15 August 2000 are:

First, an increase in the raw water price from 45 sen to 60 sen per 1000 gallons, plus a five-yearly review of that price.

Second, the composition of the water: from 100 mgd raw water, 2011 to 2061, to treated water; and from 150 mgd raw water and 200 mgd treated water, after 2061, to 100 mgd raw and 250 treated.

Prime Minister Goh learned during Deputy Prime Minister Abdullah Badawi's visit that the Johore State government had pressed for a much higher price. You had moderated their demands and he appreciates your stand.

Our officials are working out the implications of these variations as compared with other alternatives. When they have done so, I will write to you again.

If there is give and take on both sides, an agreement is possible.

Meanwhile, although the time under the POA for KTM to choose between Woodlands and Bukit Timah has expired, as part of an overall package, we have agreed to your proposal that the KTM trains run in an underground tunnel to Kranji, where the KTM rail station will be relocated, to link up with our MRT. Pending the shift to Kranji, the KTM station will be located temporarily at Woodlands. I propose both sides instruct our officials to work out the details for this.

Lee Kuan Yew

YAB Dato' Seri Dr Mahathir bin Mohamad
Prime Minister
Prime Minister's Department
Block A
Federal Government Administrative Centre
62502 Putrajaya
Malaysia

September 8, 2001

Senior Minister Lee Kuan Yew's letter to Dr Mahathir Mohamad

*Senior Minister
Singapore*

8 September 2001

Dear Mahathir

Thank you for receiving me on Tuesday 4 September and moving the package forward.

Upon my return, I have briefed Prime Minister Goh and Cabinet of our discussions and they have given in-principle approval of our oral agreement. They have stressed the importance of settling and signing the agreement on the whole package.

You asked me at the end of the meeting whether work on the bridge can proceed. I said yes, we are unlikely to withdraw our offer. On my return, my secretary had a discussion with the Minister for National Development and his officials in charge of the bridge and reclamation project. He learnt that there are many technical details that need to be sorted out regarding the bridge and reclamation. As I had said to you, Singapore will be reclaiming our side nearly to the boundary, and will build our side of the bridge to meet up with the Malaysian side at the boundary. Officials of our Ministry of National Development said that the technical details regarding contour of the reclamation and the design of the bridge, and how the two sides of the bridge would join up have to be sorted out. It is necessary to settle these details before work on the bridge begins as was done when the two sides built the Second Link or the two segments will not meet smoothly at our international boundary. These technical discussions may take some time, so I suggest that officials in charge of the bridge and reclamation project on both sides should begin discussions early on these issues. Our officials are ready to meet up with their Malaysian counterparts.

Best wishes.

*Yours Sincerely
Lee Kuan Yew*

**YAB Dato' Seri Dr Mahathir Bin Mohamad
Prime Minister
Malaysia**

SHIFTING GOALPOSTS

These notes and letters show Malaysia changing its negotiating positions again - even as a deal neared closing.

On September 4, 2001, Senior Minister Lee Kuan Yew went to Kuala Lumpur to meet Malaysian Prime Minister Mahathir Mohamad. They reached a skeletal agreement on a range of issues. Singapore agrees to pay more for raw water under the current agreements, to Malaysia's idea for a new bridge to replace the Causeway, and to the relocation of the KTM railway station from Tanjong Pagar to Kranji.

In return, Malaysia agrees to supply Singapore with water after the 1962 Water Agreement expires in 2061 and to allow the Republic's airforce to use its air space.

Barely three weeks later, Malaysia starts shifting the goalposts again.

The same pattern continues when in March 2002, Malaysia issues a new set of proposals for Singapore to consider in the package deal.

*Senior Minister
Singapore*

21 September 2001

Dear Mahathir

You said to me on 4 September 2001 that what you have written in your reply of 21 February 2001 you will not withdraw. Responding in the same spirit, I had said that Johore could begin work on land reclamation and the bridge because Singapore will not withdraw its offer.

Our High Commissioner in Kuala Lumpur has reported on his discussions with certain Malaysian officials. He is concerned that some of these officials are expressing the view that all items are open and subject to negotiations.

It was six months between my letter of 24 August 2000 to your reply of 21 February 2001. It was another six months before I met you and put Singapore's position on 4 September 2001. The positions we set down in these exchanges were carefully thought through. To reopen them will bring us back to square one. If we are to finalise the agreement, what has been offered and agreed to cannot be withdrawn and reopened.

For ease of reference, I set out in the attached note our respective positions on the issues and the items agreed on in the exchange of notes and during our meeting on 4 September 2001.

Table A presents what we agreed to, or my counter-proposals in response to each of the issues raised in your letter of 21 February 2001. Those we have agreed, we must consider settled. The items on which we are not yet agreed will be discussed by the officials.

Table B sets out the rest of the items on which we have agreed. They should not be reopened.

Your letter of 21 February 2001, in reply to the note on Agreed Items of 15 August 2000 and my letter of 24 August 2000, was the basis of our agreement in principle on 4 September 2001. May I suggest the two Ministers of Foreign Affairs and together with their officials meet to settle what has yet to be agreed.

Singapore has major problems with restructuring its economy during a recession, that is made worse by what has happened to the US economy, and all this in a run-up to a general election. Malaysia has its own concerns. Let us put these issues behind us and move on.

Yours Sincerely
Lee Kuan Yew

PS

Jayakumar, as Minister for Foreign Affairs, has to answer questions in Parliament about the discussions in Kuala Lumpur on 4 September. His answers on Tuesday 25 September, will be based on what was said at the joint press conference in Putrajaya on 4 September.

Lee

YAB Dato' Seri Dr Mahathir bin Mohamad
Prime Minister
Prime Minister's Department
Block A
Federal Government Administrative Centre
62502 Putrajaya
Malaysia

Note on issues to be resolved in the Bilateral Package

Table A (pgs 2-8)	:	Singapore's response to the items raised in PM Dr Mahathir's letter of 21 February 2001
Table B (pgs 9-11)	:	Agreed Positions on the rest of the Bilateral Issues as addressed in note on Agreed Items of 15 August 2000 and SM Lee's letter of 24 August 2000 to Tun Daim, and not varied in PM Dr Mahathir's letter of 21 February 2001





Enclosures:	Note on Agreed Items between PM Dr Mahathir and Senior Minister Lee Kuan Yew on 15 August 2000 : flagged 
	SM Lee's letter of 24 August 2000 to Tun Daim : flagged  (refer to folio A)
	PM Dr Mahathir's letter of 21 February 2001 to SM : flagged  (refer to folio B)
	SM Lee's letter of 23 April 2001 to PM Dr Mahathir : flagged  (refer to folio C)

Table A: Singapore's response to the items raised in PM Dr Mahathir's letter of 21 February 2001

Reproduction (3rd paragraph page 2 & from 5 th paragraph page 2 onwards) of PM Dr Mahathir's letter of 21 February 2001 to SM Lee	Singapore's response as outlined by SM Lee at meeting with PM Dr Mahathir on 4 September 2001	Relevant Quotes from note on Agreed Items (15 August 2000) and SM Lee's letters (24 August 2000 & 23 April 2001)
Water		
1. "When the 1961 agreement ends in 2011 there is no provision for any continued supply of 100 mgd of raw water to Singapore. Nevertheless Johore is willing to supply 100 mgd of treated water if Singapore so desires."	Singapore agrees to the quantum of 100 mgd for the period 2011 – 2061 in replacement of the 1961 Agreement, but proposes that the 100 mgd water be in raw form (As with Item 1 of Agreed Items of 15 August 2000) since Singapore already has the filtration capacity.	Item 1 of Agreed Items of 15 August 2000 "Malaysia shall continue to supply Singapore 350 mgd of raw water up to 2061,"
2. "Although no formal agreement has been entered into Johore is prepared to continue to supply Singapore after 2061 with: (i) 250 mgd of treated water; and (ii) 100 mgd of raw water."	Singapore agrees to the supply by Johore of 350 mgd water from 2061-2161 but proposes to draw from Johore 150 mgd raw water and 200 mgd treated water. (As with Item 2 of Agreed Items of 15 August 2000)	Item 2 of Agreed Items of 15 August 2000 "After 2061, Malaysia shall continue to supply Singapore with 350 mgd, comprising 150 mgd raw water at the same formula of 50% premium over the interstate raw water levy charged by Johore, and 200 mgd treated water, using the price formula in the 1990 water agreement for treated water in excess of the 250 mgd from the Johore River."

Reproduction (3rd paragraph page 2 & from 5 th paragraph page 2 onwards) of PM Dr Mahathir's letter of 21 February 2001 to SM Lee	Singapore's response as outlined by SM Lee at meeting with PM Dr Mahathir on 4 September 2001	Relevant Quotes from note on Agreed Items (15 August 2000) and SM Lee's letters (24 August 2000 & 23 April 2001)
	Singapore's position is that the source of additional water to be provided by Johore from 2011, and from 2061-2161, must be the Johore River (as with para 2, page 1 of SM Lee's letter of 24 August 2000, PM Goh Chok Tong's discussion with DPM Abdullah Badawi in Singapore on 7 February 2001 and also PM Goh's discussion in Singapore on 8 February 2001 with Johore MB Abdul Ghani, who stated that source would not be a problem) as Singapore would like to carry on with what it has got at the Johore River.	<u>Para 2, page 1 of SM Lee's letter of 24 August 2000:</u> "Mahathir had agreed to increase our water supply from the Johore River to 350 mgd. But the present yield of the Johore River is 313 mgd. This means Johore will not be able to continue to draw from this river the 70 mgd that they are doing at present. I therefore propose that Singapore build and pay for 3 water schemes to raise the yield to 530 mgd. This will take some 5 years to complete and will cost Singapore S\$376 million or RM 835 million. Singapore will then draw an additional 200 mgd instead of 100 mgd raw water from the Johore River. This will still allow Johore to draw 80 mgd from the Johore River."

3

Reproduction (3rd paragraph page 2 & from 5 th paragraph page 2 onwards) of PM Dr Mahathir's letter of 21 February 2001 to SM Lee	Singapore's response as outlined by SM Lee at meeting with PM Dr Mahathir on 4 September 2001	Relevant Quotes from note on Agreed Items (15 August 2000) and SM Lee's letters (24 August 2000 & 23 April 2001)
<p>3. "Johore is agreeable to revisions in the price of raw water that it now supplies to Singapore and the treated water that it buys from Singapore. The price of raw water that it sells to other Malaysian states should not be a basis for determining the price of raw water. There are elements of subsidies to this supply.</p> <p>Johore believes that a fair price would be 60 [sen] per [1000 gallons] of raw water. The price should be reviewed every five years."</p>	<p>Singapore agrees to the revision of the price of raw water it currently buys from Johore [and that of treated water it currently sells to Johore].</p> <p>For the existing supply of 350 mgd raw water under the 1961 and 1962 agreements, Singapore proposes to revise the price from 3 sen to 45 sen per 1000 gallons, with no price reviews (As with Item 1 of Agreed Items of 15 August 2000 and para 5, page 1 of SM Lee's letter of 24 August 2000), starting from the date of the new agreement.</p> <p>For the additional raw water to be supplied from 2011-2061, and from 2061-2161, Singapore agrees to the proposed price of 60 sen per 1000 gallons, to be reviewed every five years for inflation. Singapore proposes that this price of 60 sen start from 2011.</p>	<p><u>Item 1 of Agreed Items of 15 August 2000</u> "Malaysia shall continue to supply Singapore 350 mgd of raw water up to 2061, at a premium of 50% of the interstate raw water levy that Johore charges Malacca. Currently this will be 45 sen per 1000 gallons, since Johore charges Malacca 30 sen."</p> <p><u>Para 5, page 1, SM Lee's letter of 24 August 2000:</u> "As agreed with Mahathir, the price formula for raw water will be at a 50% premium over the average inter-state raw water levy charged by Johore, ie. at present, 30 + 15 = 45 sen."</p>

4

Reproduction (3rd paragraph page 2 & from 5 th paragraph page 2 onwards) of PM Dr Mahathir's letter of 21 February 2001 to SM Lee	Singapore's response as outlined by SM Lee at meeting with PM Dr Mahathir on 4 September 2001	Relevant Quotes from note on Agreed Items (15 August 2000) and SM Lee's letters (24 August 2000 & 23 April 2001)
<p>KTM Station and Rail CIQ at Kranji</p> <p>4. "The Deputy Prime Minister was in Singapore recently and he had settled the issues regarding the location of the CIQ and the terminal station for the Malaysian Railway at Kranji."</p>	<p>The new agreement will not supercede the 1990 Points of Agreement (POA) except in so far as the POA has been varied through an amendment. Any variation of the POA, arising as a result of matters agreed upon, will be effected as part of the new agreement.</p> <p>Singapore agrees to Malaysia's proposal to have the KTM trains run in an underground tunnel from Johore to Singapore at Kranji, where the KTM rail station will be relocated, to link up with the Singapore MRT. (As with Item 3 of Agreed Items of 15 August 2000, PM Goh's meeting with DPM Abdullah Badawi in Singapore on 7 February 2001, and para 6, page 2 of SM Lee's letter of 23 April 2001).</p>	<p>Item 3 of Agreed Items of 15 August 2000: "The KTM rail station will relocate to Kranji. KTM trains will run in an underground tunnel for 9 km from Johore into Singapore at Kranji, for the KTM rail station to link up with the Singapore MRT."</p> <p>Para 6, page 2 of SM Lee's letter of 23 April 2001: "Meanwhile, although the time under the POA for KTM to choose between Woodlands and Bukit Timah has expired, as part of an overall package, we have agreed to your proposal that the KTM trains run in an underground tunnel to Kranji, where the KTM rail station will be relocated, to link up with our MRT."</p>

5

Reproduction (3rd paragraph page 2 & from 5 th paragraph page 2 onwards) of PM Dr Mahathir's letter of 21 February 2001 to SM Lee	Singapore's response as outlined by SM Lee at meeting with PM Dr Mahathir on 4 September 2001	Relevant Quotes from note on Agreed Items (15 August 2000) and SM Lee's letters (24 August 2000 & 23 April 2001)
	<p>Singapore agrees that the rail CIQ [joint] will be at Kranji rail station, where the rail tunnel ends. (As with Item 7 of Agreed Items of 15 August 2000 and discussed between SM Lee and PM Dr Mahathir on 4 September 2001).</p> <p>Pending the shift to Kranji, the KTM rail station and the rail CIQ will be located temporarily at Woodlands. (As with para 6 of page 2 of SM Lee's letter of 23 April 2001, and discussed between SM Lee and PM Dr Mahathir on 4 September 2001.)</p> <p>Malaysia will pay for the cost of building the underground rail tunnel. (As stated by SM Lee during his meeting with PM Dr Mahathir on 4 September 2001).</p>	<p>Item 7 of Agreed Items of 15 August 2000: "The rail CIQ will be at Kranji rail station, where the tunnel ends."</p> <p>Para 6, page 2 of SM Lee's letter of 23 April 2001: "Pending the shift to Kranji, the KTM station will be located temporarily at Woodlands."</p>

6

Reproduction (3rd paragraph page 2 & from 5 th paragraph page 2 onwards) of PM Dr Mahathir's letter of 21 February 2001 to SM Lee	Singapore's response as outlined by SM Lee at meeting with PM Dr Mahathir on 4 September 2001	Relevant Quotes from note on Agreed Items (15 August 2000) and SM Lee's letters (24 August 2000 & 23 April 2001)
<p><u>KTM Land</u></p> <p>5. "We are still committed to joint development of land belonging to MR or equivalent land elsewhere."</p>	<p>In addition to the three land parcels covered in the 1990 Points of Agreement (POA), Singapore agrees to the variation of the POA for the 12 KTM lots at Bukit Timah to be also jointly developed by M-S Pte Ltd (As with Item 6 of Agreed Items of 15 August 2000).</p> <p>The land at Keppel, where the KTM rail station is currently sited, will be exchanged for a plot at Shenton Way of equivalent value (As with Item 5 of Agreed Items of 15 August 2000 and para 11, page 2 of SM Lee's letter of 24 August 2000) for joint development.</p>	<p><u>Item 6 of Agreed Items of 15 August 2000</u> "The 12 parcels of MRA land at Bukit Timah will be jointly developed by M-S Pte Ltd."</p> <p><u>Item 5 of Agreed Items of 15 August 2000</u> "The land at Keppel, where the KTM station is currently sited, will be exchanged for a plot at Shenton Way of equivalent value."</p> <p><u>Para 11, page 2 of SM Lee's letter of 24 August 2000</u> "Singapore will exchange a site at Shenton Way, of equivalent value to the KTM station site at Keppel, an option which has been given in Plan 2 of the 1990 POA."</p>

7

Reproduction (3rd paragraph page 2 & from 5 th paragraph page 2 onwards) of PM Dr Mahathir's letter of 21 February 2001 to SM Lee	Singapore's response as outlined by SM Lee at meeting with PM Dr Mahathir on 4 September 2001	Relevant Quotes from note on Agreed Items (15 August 2000) and SM Lee's letters (24 August 2000 & 23 April 2001)
<p><u>Bridge and Causeway</u></p> <p>6. "With regard to the causeway Malaysia would not want to retain it once the bridge and the tunnel are in use. We think it is essential that there be a free flow of water and traffic between the Eastern and Western parts of the Straits."</p>	<p>Singapore agrees to Malaysia's proposal for a bridge to be built between Singapore and Malaysia (As with Item 4 of Agreed Items of 15 August 2000 and para 6, page 1 of SM Lee's letter of 24 August 2000).</p> <p>However, Singapore proposes that the demolition of the causeway take place after 2007, when both the bridge and tunnel have been completed and provided the tolls to be charged at the bridge do not exceed the present toll rates being charged at the causeway adjusted for inflation. Singapore's toll rates at the bridge will match that of Malaysia. (As proposed by SM Lee to PM Dr Mahathir on 4 September 2001).</p> <p>[The pipelines will have to be diverted to bypass Johor Bahru before the causeway is demolished].</p>	<p><u>Item 4 of Agreed Items of 15 August 2000</u> "The Causeway will be replaced by a bridge."</p> <p><u>Para 6, page 1, SM Lee's letter of 24 August 2000</u> "On Mahathir's Causeway bridge proposal, my PM agrees to it, but proposes that we do not demolish the Causeway."</p>

8

Table B: Agreed Positions on the rest of the Bilateral Issues as addressed in note on Agreed Items of 15 August 2000 and SM Lee's letter of 24 August 2000 to Tun Daim, and not varied in PM Dr Mahathir's letter of 21 February 2001

Agreed Position on the rest of the Bilateral Issues, outlined by SM Lee at meeting with PM Dr Mahathir on 4 September 2001	Reference in the note on Agreed Items (15 August 2000) and SM Lee's letter (24 August 2000)	Relevant Quotes from note on Agreed Items (15 August 2000) and SM Lee's letter (24 August 2000)
Water 7. The price Singapore will pay for the 200 mgd treated water from 2061-2161 will be based on the price formula in the 1990 Water Agreement between Singapore and Malaysia for treated water in excess of the 250 mgd from the Johore River.	As with Item 2 of Agreed Items of 15 August 2000 and para 5, page 1 of SM Lee's letter of 24 August 2000.	Item 2 of Agreed Items of 15 August 2000: "After 2061, and 200 mgd treated water, using the price formula in the 1990 water agreement for treated water in excess of the 250 mgd from the Johore River." Para 5, page 1 of SM Lee's letter of 24 August 2000: "..... For treated water we will use the price formula we agreed in the 1990 water agreement for treated water in excess of the 250 mgd from the Johore River."
8. The production of treated water to be supplied to Singapore after 2061 will be done jointly between Singapore and Johore.	As with Item 2 of Agreed Items of 15 August 2000, and PM Goh's telephone discussion with Johore MB Abdul Ghani on 11 January 2001.	Item 2 of Agreed Items of 15 August 2000: ".... The treatment of the filtered water shall be done jointly between Singapore and Lyonnaise des Eaux (to be confirmed by Dr Mahathir) or whoever else is doing it on Johore's behalf."

9

Agreed Position on the rest of the Bilateral Issues, outlined by SM Lee at meeting with PM Dr Mahathir on 4 September 2001	Reference in the note on Agreed Items (15 August 2000) and SM Lee's letter (24 August 2000)	Relevant Quotes from note on Agreed Items (15 August 2000) and SM's letter (24 August 2000)
9. Water pipes need not be placed in the underground tunnel for KTM trains from Johore to Singapore. Pipelines from Scudai, Tebrau and Gunong Pulai will revert to Johore in 2011. Not safe to put water pipelines into the tunnel as any leaks can cause catastrophic flooding in the tunnel, a danger to train travellers. [Note: this issue, though not raised at the 4 September 2001 meeting, was addressed in SM Lee's 24 August 2000 letter]	As with para 8, page 2 of SM Lee's letter of 24 August 2000.	Para 8, page 2 of SM Lee's letter of 24 August 2000: "As for the tunnel to link the MRA train to Kranji station, our water pipes need not be placed in the tunnel. My secretary has informed me that the pipelines from Scudai, Tebrau and Gunong Pulai, through JB and the Causeway will revert to the Johore government in 2011 when they take over the Scudai, Tebrau and the Gunong Pulai water resources. A more important reason: it is not safe to put water pipelines into the tunnel as any leaks can cause catastrophic flooding in the tunnel, a danger to train travellers."
Bridge 10. Singapore will reclaim its side to the maximum, build its side of the bridge and meet the Malaysian side of the bridge at the boundary.	As with Item 4 of Agreed Items of 15 August 2000.	Item 4 of Agreed Items of 15 August 2000: "..... Singapore will reclaim its side to the maximum, to join up with the bridge."

10

Agreed Position on the rest of the Bilateral Issues, outlined by SM Lee at meeting with PM Dr Mahathir on 4 September 2001	Reference in the note on Agreed Items (15 August 2000) and SM Lee's letter (24 August 2000)	Relevant Quotes from note on Agreed Items (15 August 2000) and SM's letter (24 August 2000)
<p><u>CPF Monies</u></p> <p>11. Singapore will allow the early withdrawal, on an individual basis phased over two years, of the CPF monies of West Malaysians who have left Singapore permanently.</p>	Issue addressed at para 9, page 2 of SM Lee's letter of 24 August 2000.	<p><u>Para 9, page 2 of SM Lee's letter of 24 August 2000:</u></p> <p>"Singapore will allow the early withdrawal of the CPF savings of West Malaysians who have left Singapore permanently."</p>
<p><u>Use of Malaysian Airspace by the RSAF</u></p> <p>12. Malaysia will reinstate all the arrangements and understandings for RSAF aircraft to use Malaysia's airspace (including in the South China Sea Training Areas) for transit and training.</p>	Issue addressed at para 10, page 2 of SM Lee's letter of 24 August 2000.	<p><u>Para 10, page 2 of SM Lee's letter of 24 August 2000:</u></p> <p>"Malaysia will reinstate all the arrangements for RSAF aircraft to use Malaysian airspace for transit and training."</p>



PRIME MINISTER
MALAYSIA

18 October 2001

His Excellency Lee Kuan Yew
Senior Minister
Republic of Singapore

Dear Kuan Yew,

I refer to your letter of 21 September 2001 and wish to point out that your proposal for all outstanding issues between our two countries would have to be worked out by our officials. I note the views, which you have articulated during the debriefing to our officials and at our joint conference. I have mentioned at the press conference that the officials would need to work out the details. I was not prepared to look into the practical details of all the issues. However, I could go along with most of the items that we have discussed. I believe that it is only when the details have been worked out, I would be able to obtain the whole package deal in its entirety.

During our meeting, you have made certain linkages to the package. These linkages are new elements in our discussion. I believe that it is only fair that my officials look at the linkages and the implication of the linkages. I recall two linkages, which you have spelt out i.e. CIQ in Singapore for Malaysian Airspace and the source of water from Johore River. In your letter, you mentioned that Shenton Way is also meant for joint development. This was not made explicitly clear during our discussion and at the joint press conference. Indeed you stated at the PC that the old POA no longer applies.

While I have been moderating the price of water in the interest of securing a speedy settlement, you have proposed that the price of water would only be effective in 2011 and 2061 for 45 cents and 60 cents respectively. As you are aware, water is within the purview of the state of Johore and I have no authority to deny Johore the price



revision provided for in the present agreements of 1961 and 1962, which is long pending. In your matrix, you have indicated in square bracket the element of price revision for treated water as well. In the interest of fairness, I believe that the price revision should be both ways. In my letter to you, I have stated that the interstate water levy should not be used as it involves subsidy from the Federal Government. Since the price review should be on both treated and raw water, we could consider a common formula, i.e., compound rate for instance as the basis.

I thank you for agreeing to the point on the relocation of the Malaysian CIQ and rail station from Tanjung Pagar to Kranji. This point is only valid if Malaysia continues its rail service to Singapore. However, in the light of uncertainties in the international economic environment and the cost of building the rail tunnel and bridge, my economic advisers have advised me that it would make more sense to end the rail service in Johore Bahru. Should I go along with their proposal, Malaysia would be making additional concession in freeing up all the KTM lands from Woodlands downwards. I believe that it would only be fair that additional lands are also included in the package for compensation.

I agree with you on the need to settle all the issues and move on. In the same breath, I would add that we could only remove all impediments to our relations when each side is fully satisfied that it has secured a fair and reasonable deal. I propose that our officials should meet to discuss further on the issues.

*With best regards,
Yours sincerely,*



Dr. Mahathir bin Mohamad

*Senior Minister
Singapore*

10 December 2001

Dear Mahathir

Thank you for your reply of 18 October 2001, and your agreement that we need to settle all the issues and move on. I am sorry that preoccupations with our economic problems and elections have delayed my reply.

2 May I clarify Singapore's position on some of the specific items in your reply when you referred to what I said at our meeting and the joint press conference on 4 September 2001, and further outlined in my letter of 21 September 2001.

3 On the POA, I would like to confirm that what I said was that "the POA is being varied to give the extra 12 plots of land at Bukit Timah and the CIQ, too". I did not say that "the old POA no longer applies". The 1990 POA is a legally binding agreement and any variation to it will have to be by an agreement amending or supplementing it.

4 According to Clause 7 of the POA, the MRA land at Keppel where the rail station is currently sited will be exchanged for a plot in Marina South of equivalent value, for joint development by M-S Pte Ltd. It is in accordance with an option given in Plan 2 of the POA, as stated in my letter of 24 August 2000 to Tun Daim, that I had offered a plot at Shenton Way for this exchange, for joint development.

5 On water, I had written in my letter of 23 April 2001 that Prime Minister Goh Chok Tong appreciates your moderating the price of water.

6 In return for assured water supply beyond 2061, I agreed at our 15 August 2000 meeting to revise the price of raw water Singapore currently buys from Johore. I stand by this offer and had repeated that the price for the existing supply of 350 mgd raw water under the 1961 and 1962 agreements, be revised from 3 sen to 45 sen per 1000 gallons, with no price review. This will start from the date of the new agreement that we are negotiating and not 2011, as you wrote in your letter of 18 October 2001.

7 Also at our 4 September 2001 meeting and press conference, I agreed to the price of 60 sen per 1000 gallons, as proposed in your letter of 21 February 2001, for the additional raw water to be supplied from 2011-2061, and from 2061-2161. I agree that this will be reviewed every five years for inflation. I had proposed that this price of 60 sen start from 2011, (not 2061 as you wrote in your letter of 18 October 2001), to be reviewed every five years thereafter for inflation.

8 On treated water that Singapore currently sells to Johore, your letter of 21 February 2001 stated that Johore agreed to revisions in the price of raw water that it now supplies to Singapore, and the treated water that it buys from Singapore. This is in accord with the 1961 and 1962 water agreements. In my letter of 21 September 2001, I had replied that Singapore agrees also to the revision of the price of treated water it currently sells to Johore. The square bracket is simply to indicate that we did not cover this specific aspect during our 4 September 2001 meeting.

9 In your letter of 18 October 2001, you said that in the light of uncertainties in the international economic environment and the cost of building the rail tunnel and bridge, your economic advisers had advised you that it would make more sense to end the KTM rail service in Johor Baru. You had indicated that should you go along with this proposal it would only be fair that additional lands are also included in the package. Please let me know what additional KTM lands you are referring to.

10 However, before taking your decision on the location of the KTM train terminus; I hope you will also consider the long-term significance and value of the KTM rail service. Since 1923, the railway has been a valuable link between Peninsula Malaya and Singapore, one that has contributed to and will continue to enhance the development of both territories. When you electrify the railway, its speed will increase and so will the passengers between Kuala Lumpur and Singapore. I believe keeping the railway link between Malaysia and Singapore benefits both countries. The win-win position is for both countries to have your railway link up with our MRT. However as the KTM is your railway, Singapore will abide by your decision.

11 I look forward to hearing from you. Our officials must have a clear framework to work on. After you have set out your position on these issues, our officials led by our respective Ministers of Foreign Affairs, can then meet on the details.

*Yus Simaly
knox*

**YAB Dato' Seri Dr Mahathir bin Mohamad
Prime Minister
Prime Minister's Department
Block A
Federal Government Administrative Centre
62502 Putrajaya
Malaysia**



MFA/PDI/00007/2002

The Ministry of Foreign Affairs of the Republic of Singapore presents its compliments to the High Commission of Malaysia and has the honour to refer to recent public statements reportedly made by Prime Minister of Malaysia Datuk Seri Dr Mahathir Mohamad on 27 January 2002.

On that occasion, Prime Minister Mahathir was reported to have said that "what we know is that we have been charging them [Singapore] 3 sen per thousand gallons of raw water and we know also that countries like Hong Kong buy their raw water from mainland China at RM8 per thousand gallons. Obviously we are underpaid". Prime Minister Mahathir also said that "when Singapore delays negotiation, refuses to accept our request, which is not RM8 but a reasonable figure, that means that we are losing money everyday."

The Government of Singapore wishes to register its deep concern over such statements which have grave implications.

The Government of Singapore reminds the Government of Malaysia that Singapore's consistent position has been that Singapore is prepared to consider proposals to vary the price of water under existing Water Agreements as well as proposals to vary the 1990 Points of Agreement (POA) but only in the context of an agreement on the overall package of issues.

Pending a binding agreement on the overall package of issues, all legal obligations of existing Water Agreements and the POA remain in force and are binding on both governments.

In particular the Government of Singapore reminds the Government of Malaysia that the 1961 and 1962 Water Agreements which, *inter alia*, had set the price of water for the duration of the agreements, are binding legal arrangements duly confirmed and guaranteed by the Governments of Singapore and Malaysia in the 7 August 1965 Separation Agreement, also known as the Independence of Singapore Agreement, 1965.

The Separation Agreement is the fundamental basis of Singapore's existence as an independent sovereign nation. It was registered with the United Nations in 1965. The terms of the Separation Agreement, including the 1961 and 1962 Water Agreements, cannot be altered without the express consent of both parties. Any variation of the Water Agreements without the consent of both Governments will be a breach of the Separation Agreement that cannot be accepted.

On 28 June 1988, Prime Minister Mahathir and then Prime Minister Lee Kuan Yew signed a Memorandum of Understanding (MOU) to proceed with the construction of the Linggiu Dam. The MOU provided for the sale of treated water, beyond the 250 mgd Singapore is entitled to draw under the 1962 Water Agreement, under a new price formula. However, the price provided for raw water under the 1962 Water Agreement was not altered.

On 24 November 1990, the Johor State Government and the Public Utilities Board of Singapore formalised this agreement which was guaranteed by the Governments of Singapore and Malaysia and witnessed by Prime Minister Mahathir and then Prime Minister Lee.

The 1961 and 1962 Water Agreements stand unless both parties explicitly agree to vary their terms. Further negotiations on new agreements pertaining to the long-term supply of water to Singapore can only proceed on the basis that the agreements already concluded cannot be altered without the explicit consent of both parties. Otherwise any new agreements on water can similarly be altered without consent. This will have grave implications for bilateral relations.

The Government of Singapore reminds the Government of Malaysia that it had sent a letter dated 10 December 2001 seeking clarification of Malaysia's position on various key issues. The Government of Singapore invites the Government of Malaysia to respond to that letter so that a framework is established for negotiations to resume where they left off.

The Ministry of Foreign Affairs of the Republic of Singapore avails itself of this opportunity to renew to the High Commission of Malaysia the assurances of its highest consideration.

SINGAPORE

5 February 2002



High Commission of Malaysia

Singapore

March 4, 2002

Dr Mahathir Mohamad's letter to Senior Minister Lee Kuan Yew



PRIME MINISTER
MALAYSIA

4 March 2002

His Excellency
Lee Kuan Yew
Senior Minister
Republic of Singapore
SINGAPORE

Dear Kuan Yew,

I refer to your letter dated 10 December 2001.

I would like to reiterate that Malaysia is committed to resolving the package of issues with Singapore. In this regard, I am enclosing herewith Malaysia's proposals on the package of issues.

The Minister of Foreign Affairs of Malaysia will be heading the Malaysian delegation for the 4th round of negotiations to be held in Kuala Lumpur at a date to be mutually agreed upon through the diplomatic channel.

*With best regards
Sincerely,*

Dr Mahathir bin Mohamad

MALAYSIA-SINGAPORE PACKAGE OF FIVE ISSUES MALAYSIA'S PROPOSALS

1. WATER

1.1 1961 Water Agreement

Under Clauses 4 (II) and 8 of the 1961 Agreement, Singapore has the full and exclusive right and liberty to draw off, take, impound and use all (raw) water from the Tebrau River and Skudai River with payment of 3 cents for every 1,000 gallons.

Clause 17 of the 1961 Water Agreement provides for a price review of (raw) water 25 years after signing of the Agreement.

1.2 1962 Water Agreement

Under Clause 5(i) of the 1962 Agreement, Singapore has the full and exclusive right and liberty to draw off, take, impound and use the (raw) water from the Johore River up to the maximum of 250 million gallons per day with a payment of 3 cents for every 1000 gallons.

Clause 14 of the 1962 Water Agreement provides for a price review of (raw) water 25 years after signing of the Agreement.

1.3 New Water Agreement

The 1961 and 1962 Agreements will be allowed to expire in 2011 and 2061 respectively.

There will be a new agreement effective from 1 January, 2002 and valid for 100 years, incorporating all the terms & conditions as mentioned in paragraphs 1.4, 1.5, 1.6, 1.7 and 1.8. This new agreement will be allowed to run concurrently with the 1961 and 1962 Agreements.

1.4 Composition

After the expiry of the 1961 Agreement in 2011, the supply of raw water from Sungai Skudai and Sungai Tebrau will cease. Instead, Malaysia will supply 100 mgd. treated water from Sungai Sedili.

After the expiry of the 1962 Agreement in 2061, the supply of 250 mgd. of raw water from Sungai Johor will cease. Instead, Malaysia will supply 150 mgd. of treated water and 100 mgd. of raw water from Sungai Sedili.

1.5 New Price of Raw Water

Effective 1 January 2002, the new price of raw water under the 1961 and 1962 Water Agreements will be 60 sen per 1,000 gallon until 31 December 2006. This new price of raw water under both agreements should commence from 1 September 1986 and 29 September 1987 respectively.

Effective 1 January 2007, the new price of raw water under the 1961 & 1962 Water Agreements will be RM 3.00 per 1,000 gallon until 31 August 2011.

Effective 1 September 2011, i.e. after the expiry of the 1961 Agreement, the price of raw water to be supplied under the 1962 Agreement will be based on the following formula:

$$\text{Price in 2011} = \text{Price in 2010} \times (1 + A_{2010})$$

$$\text{Price from 2012 to 2061} = \text{Price in 2011} \times (1 + A_{2011}) \text{ to Price in } 2061 = 2060 \times (1 + A_{2060})$$

$$\text{Where, } A_{2010} = \text{Average inflation rate of Malaysia and Singapore (cpi) in 2010}$$

$$A_{2011} = \text{Average inflation rate of Malaysia and Singapore (cpi) in 2011}$$

Three years before the expiry of the 1962 Agreement, i.e. in 2058, Malaysia and Singapore should negotiate and agree to a new formula for the supply of raw water to Singapore taking into account the circumstances then.

1.6 Treated Water

Under Clause 14 of 1961 Agreement, Singapore shall supply to Johore upon receiving written notice from Johore treated water amounting to 12 percent of the total quantity of (raw) water supplied to Singapore.

Under Clause 11(I) of 1962 Agreement, Singapore shall supply to Johore upon receiving written notice from Johore treated water amounting to 2 percent of the total quantity of (raw) water supplied to Singapore.

Johore is currently purchasing treated water at 0.50 sen per 1,000 gallon

1.7 New Price of Treated Water

Effective 1 January 2002, the price of treated water purchased by Johore will be RM1.00 per 1,000 gallon.

Upon the expiry of the 1961 Agreement, Johore will supply 100 mgd. treated water from Sungai Sedili to Singapore based on the following formula:

$$P_{tw2011} = JWAT2001 + \{50\% (SWAT2001 - JSP2001 - SDCAT2001)\} [1.A2001][1.A2002] \dots [1.A2011]$$

Where:

P_{tw2011} = Price of Treated Water in year 2011

$JSP2001$ = Johor Selling Price of Raw Water in year 2001

$JWAT2001$ = Johor Weighted Average Tariff in year 2001

SDCAT2001 = Singapore Distribution Cost and Administration Cost in year 2001

SWAT2001 = Singapore Weighted Average Tariff in the year 2001

A = Average inflation rate of Malaysia and Singapore
i.e. $\frac{CPI_m + CPI_s}{2}$

CPI_m = Malaysian consumer price index

CPI_s = Singapore consumer price index

Malaysia and Singapore should negotiate and agree to a new formula for the supply of treated water to Singapore once every 20 years taking into account the circumstances then.

1.8 Related Issues

The new agreement may consider incorporating but not limited to the following terms:-

- i) all installations at Gunung Pulai, Sungai Tebrau and Sungai Skudai will revert to Malaysia on the expiry of the 1961 Agreement in 2011;
- ii) all installations at Sungai Johor will revert to Malaysia on the expiry of the 1962 Agreement in 2061;
- iii) Malaysia will bear the cost of the construction of water pipelines from Sungai Sedili to connect to the Singapore water pipelines;
- iv) after 2011, the supply of 100 mgd. of treated water will be undertaken by a Malaysian owned company; and

- v) after 2061, the supply of both raw and treated water will be undertaken by a Malaysian owned company.

BRIDGE AND RAIL

2.1 Bridge

A new bridge will be built to replace the Causeway. Malaysia will build the bridge on the Malaysian side at its own cost while Singapore will build the bridge on the Singapore side at its own cost. The bridge will connect at the common boundary in the Straits of Johore. Once the bridge is completed, the Causeway will be demolished.

Should Singapore decide not to build the bridge on its side, Malaysia intends to build the bridge on the Malaysian side at its own cost. The new bridge will join the remaining Causeway on Singapore's side. Once the bridge is completed, the Causeway on the Malaysian side will be demolished.

2.2 Rail

Malaysia will build a new railway bridge across the Johore Straits. This railway bridge will include a railway swing bridge on the part of the Johore Straits that will be deepened for navigational purposes.

Should Singapore decide not to build the bridge to replace the Causeway on its side, Malaysia will build a railway bridge on its side in the Johore Straits. This railway bridge will include a railway swing bridge on the part of the Johore Straits that will be deepened for navigational purposes. The new railway bridge will join existing railway track on the remaining Causeway on Singapore's side.

The Malaysian Government will continue to operate the train service to Tanjung Pagar. The service staff for ticketing and management of train service will remain in Tanjung Pagar.

Should the Singapore Government request the Malaysian Government to terminate its train operations at Kranji, the following terms will apply:

- i) Malaysia will be adequately compensated for the three pieces of land identified under the Points of Agreement (POA) i.e land at Keppel, Kranji and Woodlands and all Railway lands belonging to the Malaysian Government in Singapore not mentioned in the POA. The compensation will be based on the current market value of the land; and
- ii) valuation of land will be conducted by consultants as agreed by both sides.

2.3 Water Pipelines

New water pipelines on the Malaysian side will be installed by Malaysia and will reconnect with the Singapore water pipelines under the new bridge.

Should Singapore decide not to build the bridge to replace the Causeway on its side, the new water pipelines on the part of the Johore Straits that will be deepened for navigational purposes will be buried under the seabed and will reconnect with the Singapore water pipelines.

3. CUSTOMS, IMMIGRATION AND QUARANTINE (CIQ)

The Malaysian rail CIQ currently in Tanjung Pagar will be relocated to Johore Bharu.

4. CENTRAL PROVIDENT FUND (CPF)

The Singapore Government will amend the relevant legislation to enable workers regardless of age, from Peninsular Malaysia who have returned to Malaysia to withdraw their CPF deposits within the period of two years.

Malaysians currently working in Singapore will receive similar treatment as other foreigners with regard to their CPF withdrawals.

5. AIRSPACE

Malaysia may consider providing appropriate facilities for the use of its airspace by the Singapore Air Force.

4 March 2002

March 11, 2002

Senior Minister Lee Kuan Yew's letter to Dr Mahathir Mohamad

*Senior Minister
Singapore*

11 March 2002

Dear Mahathir

Thank you for your reply of 4 March 2002 enclosing Malaysia's proposals on the package of issues that I received on 6 March. Singapore is also committed to settle the package of outstanding issues.

The major proposals in your latest letter have completely changed from what we have been discussing at our two meetings in August 2000 and September 2001, and as exchanged in our notes and letters subsequent to those meetings.

Our officials are studying the details of your proposals. When they have worked out the implications of your new offers and the formulae for the pricing of water you have used, Prime Minister Goh Chok Tong will discuss the matter with his colleagues and decide on Singapore's position. Then I will write to you again to give Singapore's response.

Once both sides have set out their respective positions, our officials, led by the two Foreign Ministers, can meet in Kuala Lumpur at a mutually agreed date.

*Yours Sincerely
Kuan Yew*

YAB Dato' Seri Dr Mahathir bin Mohamad
Prime Minister
Prime Minister's Department
Block A
Federal Government Administrative Centre
62502 Putrajaya
Malaysia



EC 56/02

The High Commission of Malaysia presents its compliments to the Ministry of Foreign Affairs of the Republic of Singapore and has the honour to refer to the latter's Note MFA/PDI/008/2002 dated 10 February 2002 and SHC 016/2002 from the High Commission of the Republic of Singapore to the Ministry of Foreign Affairs Malaysia dated 5 February 2002.

The High Commission of Malaysia would like to put on record that Malaysia's comprehensive response on the package of issues has been duly conveyed by Prime Minister Dato' Seri Dr. Mahathir Mohamad to Senior Minister Lee Kuan Yew on 4 February 2002. The Malaysian Government believes that it could provide a useful framework for the amicable solution to the problems faced by both sides. It is timely that bilateral negotiations be held as soon as possible on the basis of the said framework.

The Government of Malaysia wishes to reiterate that Malaysia is committed to resolving the issue of water with Singapore in the context of an agreement on the overall package of issues as agreed upon between Prime Minister Dato' Seri Dr. Mahathir Mohamad and Prime Minister Goh Chok Tong in Hanoi in 1998. At no time was there a suggestion that the Government of Malaysia would depart from such a commitment. To suggest otherwise is not only misleading but constitutes a gross misinterpretation of the well known position of the Malaysia Government.

The 1961 and 1962 Water Agreements clearly provided for a review of the price of water after 25 years of the signing of the said agreements. The fact that Malaysia had not done so earlier should in no way be construed as Malaysia's disinterest in seeking a fair and just review of the price. Malaysia believes it is timely that such a review be undertaken now considering the changes that have occurred. Indeed, the need to undertake such a review should be of concern to Singapore given the importance of the water issue to the Government and the people of the Republic.

The Government of Malaysia wishes to stress that the issue of water as indeed all issues affecting relations between Malaysia and Singapore would continue to be of interest to the media and people of both countries. In this regard, whatever statement made by the Malaysian leaders including Prime Minister Dato' Seri Dr. Mahathir Mohamad, particularly in response to media queries, are intended to clarify issues raised in the interest of the Malaysian public. The Malaysian Government does not see that bilateral relations with Singapore have drifted on account of such statements which in any case are not entirely new. In this regard, the Government of Malaysia deeply regrets the underlying tone of Singapore's Note dated 5 February 2002 which is uncalled for and not clearly conducive to the preservation of good relations between the two countries.

The High Commission of Malaysia avails itself of this opportunity to renew to the Ministry of Foreign Affairs of the Republic of Singapore the assurances of its highest consideration.

**Ministry of Foreign Affairs
Singapore**

14 March 2002





MFA/PD1/00014/2002

The Ministry of Foreign Affairs of the Republic of Singapore presents its compliments to the Malaysian High Commission and has the honour to refer to the latter's Note EC 56/02 dated 14 March 2002 (referred to as "the Note") and to the correction conveyed in Note EC 57/02 dated 20 March 2002.

The Singapore Government takes note of the commitment by the Malaysian Government to resolve the issue of water in the context of an agreement on the overall package of issues as agreed upon between Prime Minister Goh Chok Tong and Prime Minister Dato' Seri Dr Mahathir Mohamad in Hanoi in 1998. The Singapore Government also takes note of the assurance that "at no time was there a suggestion that the Government of Malaysia would depart from such a commitment." In this regard, the Singapore Government, on its part, also reiterates its commitment in reaching a mutually beneficial agreement on the package of outstanding issues.

The Note also refers to the latest Malaysian proposals on the package of issues as contained in Prime Minister Mahathir's letter to Senior Minister Lee Kuan Yew of 4 March 2002. Senior Minister Lee has replied to Prime Minister Mahathir on 11 March 2002 that these proposals have completely changed from what was discussed between the two leaders at their meetings in August 2000 and September 2001, and as exchanged in the notes and letters subsequent to those meetings. Senior Minister Lee informed Prime Minister Mahathir that the Singapore Government is presently studying

the Malaysian Government's new proposals and will convey its response in due course. Once both sides have set out their respective positions, the officials, led by the two Foreign Ministers, can meet in Kuala Lumpur at a mutually agreed date.

The Ministry of Foreign Affairs of the Republic of Singapore avails itself of this opportunity to renew to the Malaysian High Commission the assurances of its highest consideration.

SINGAPORE

25 March 2002

Malaysian High Commission

Singapore



THE PACKAGE IS OFF

In these letters, covering six months from April to October 2002, Malaysia unilaterally decides to discard the package approach to negotiation. It insists that it will raise the price of water, with or without Singapore's consent - to RM6.25.

Prime Minister Goh Chok Tong reminds Malaysia that discarding the package approach means that there will be less room for give and take, particularly on things that Malaysia wants, such as early withdrawal for the Central Provident Fund contributions of Malaysian workers in Singapore.

*Prime Minister
Singapore*

11 April 2002

YAB Dato' Seri Dr Mahathir bin Mohamad
Prime Minister
Malaysia

Dear *Mahathir*,

I refer to your letter of 4 March 2002 to Senior Minister Lee Kuan Yew, and his reply of 11 March.

Before Kuan Yew visited KL in August 2000, he suggested that he discuss the outline of an agreement with Daim, which both of us could later consider and endorse. He hence addressed his letters to Daim. However, since you wrote to him, he corresponded and negotiated with you with my approval.

I have now decided to handle directly our discussion on the bilateral package.

I have taken some time to mull over my reply to you, because I wanted to find the best way forward from here to secure for the long-term, a stable, win-win relationship for our two countries.

I have discussed with my Cabinet colleagues the proposals contained in your letter, and have the following comments.

1. Bridge

Between a new bridge to replace the entire Causeway, and one to replace just the Malaysian side of the Causeway, I like the former better.

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Once the new bridge is completed, the Causeway can be knocked down, which I prefer to be done after 2007.

But if you wish to proceed immediately to replace just your side of the Causeway with a bridge, I shall accept it, though I think this is not ideal.

2. Railway

I note that you have decided to relocate your CIQ to Johor Baru.

You also indicated that you would continue to operate the train service to Tanjong Pagar.

Under the 1990 Points of Agreement (POA), Malaysia had agreed to move the KTM railway station from Tanjong Pagar to Bukit Timah.

I recall, however, that you had proposed at our meeting in Hanoi in 1998, to relocate your railway station to Kranji. I agreed to this proposal in my meeting with Abdullah Badawi when he visited Singapore in February last year. I confirm here that Singapore is prepared to accommodate such a variation to the POA within the bilateral package.

You had later also proposed a railway tunnel from Johor to Singapore. But I read from your letter that you have now decided on a railway swing bridge because of the high cost of constructing the tunnel. I can go along with this proposal.

Since you intend to operate an electric train in the future, I suggest you revisit your Kranji station proposal. You could run your train in an underground tunnel from the Singapore end of your railway swing bridge to the KTM station in Kranji. This will take care of the problem of unsightly overhead catenaries. If you are concerned about the cost of constructing this tunnel, Singapore can help defray a portion of it.

3. Water

I do not want our bilateral relations to be always strained by the issue of water. I am saddened by the constant emotional rhetoric in the media over Malaysia's supply of water to Singapore.

For the sake of good long-term relations, my colleagues and I have decided that Singapore will produce as much water by ourselves as we can, to supplement the existing Water Agreements.

We have just called a tender for a 30mgd desalination plant, which will be ready by 2005.

We have also been operating a 2.2mgd plant to produce NEWater (reclaimed water) using membrane technology for two years now. It has proven to be successful and economical. We have therefore decided to ramp up our programme to produce NEWater, to replace the supply of water under the 1961 Water Agreement when it expires in 2011.

But we will be happy to still buy from Johor a modest quantity of treated water, say, 10mgd or 20mgd, from 2011, after the expiry of the 1961 Water Agreement, to 2061, if Johor remains keen to sell.

As for water after 2061 when the 1962 Water Agreement expires, I accept your offer of 100mgd of raw water and 150mgd of treated water.

However, your proposal for a new water agreement to run for 100 years from 1 January 2002, means, in effect, a water agreement of only 40 years, since the 1962 Water Agreement will expire only in 2061. Our discussions have always been on the basis of an agreement for 100 years from 2061.

On pricing, in your letter of 21 February 2001 to Kuan Yew, you had proposed that raw water be priced at 60 sen, which Johor considered a fair price. Singapore offered a revision from 3 sen to 45 sen for raw water under existing agreements, and accepted your proposal of 60 sen for raw water under a new agreement. I note that you have not accepted this counter-offer from us. May I explain that this counter-offer took into account our concessions in the other parts of the package, for example, the additional 12 parcels of Malayan Railway land.

You have now proposed another pricing arrangement where, among other things, a new formula for the price of raw water after 2061 is to be negotiated in 2058, and the formula for the price of treated water is to be renegotiated every 20 years, taking into account the circumstances then. Having reflected further on this matter of pricing, I agree that it would be difficult for us to fix now, the price of water to be supplied many decades in the future.

However, we need a definite basis for all future price revisions throughout the period of the agreement. Otherwise, there will be no certainty in the agreement, and it will be difficult for our negotiators to agree on the price revision when the time comes. We will periodically be locked in dispute over water, in spite of a new agreement.

I propose therefore a pricing mechanism that can stand the test of time. I propose that we peg the price of treated water from Johor (water after 2061, as well as the modest quantity from 2011-2061 mentioned earlier in the letter) to an agreed percentage of Singapore's cost of alternative sources of water ("peg-price"). This is similar to the way we price natural gas that Singapore purchases from Malaysia, where the price of gas goes up or down with the price of alternative fuel, i.e. oil.

The price of raw water after 2061 can be calculated by deducting Singapore's cost of treating the raw water (including abstracting the water from the river and delivering it to Singapore etc) from the agreed peg-price.

To work such a pricing mechanism, Singapore will disclose independently-audited accounts of its cost of alternative sources of water. This cost will, of course, vary with the price of fuel oil, technology etc. For example, when the price of fuel oil goes up, the peg-price will go up too.

Our Foreign Ministers and officials can discuss both your pricing formula and my counter-proposal when they meet.

4. CPF and Airspace

They should be able to make progress on these two issues as part of the package.

Basis for Further Discussion

Your letter of 4 March and my reply here can form the basis for further discussion between our Foreign Ministers and officials. They can proceed to set the dates of their meeting.

Should they run into roadblocks, I would be happy to meet you to help remove the blocks.

I hope we can now make progress in wrapping up this package of bilateral issues.

Yours *Sincerely,*



GOH CHOK TONG



PRIME MINISTER
MALAYSIA

11 May 2002

His Excellency Goh Chok Tong
Prime Minister
Republic of Singapore

Dear Chok Tong,

I wish to acknowledge receipt of your letter dated 11 April 2002.

We are now studying your counter proposal and will suggest new dates for the Ministerial Meeting to discuss the package of outstanding bilateral issues, to be held in Kuala Lumpur.

With best regards

Sincerely,



DR MAHATHIR BIN MOHAMAD

Aug 14, 2002

Letter from Johor State Secretary to Chairman, Public Utilities Board

Telefon: 07-2239000 (T)
07-2241957 (P)
Fax: 07-2230608



بأنون سلطان ابراهيم،
بوكية تيمبالان،
جهر بيلو

BANGUNAN SULTAN IBRAHIM
BUKIT TIMBALAN,
80503 JOHOR BAHRU.

Dated: 14 August, 2002

NOTICE UNDER CLAUSE 20 OF
THE 1961 JOHORE - SINGAPORE WATER AGREEMENT

City Secretary
City Council of Singapore

[Chairman
Public Utilities Board
111, Somerset Road # 15-01
Singapore 238164]

Dear Sir / Madam,

Pursuant to the 1961 Johore - Singapore Water Agreement (the Agreement), Clause 16(i) of the Agreement provides that the City Council of Singapore shall pay to the Government of the State of Johore the price of 3 cents for every 1000 gallons of water drawn by the City Council from the Johore River and delivered to Singapore.

2. In this respect, the Government of the State of Johore brings your attention to Clause 17 of the Agreement, which reads as follows :-

"The provisions of paragraphs (i) and (ii) of the foregoing clause of these presents shall be subject to review after the expiry of 25 years from the date of these presents and shall be reviewed by the parties in the light of any change in the purchasing power of money which may then have occurred and the facts that are to be taken into account upon such review shall include inter alia any rise or fall in the purchasing power of money and any rise or fall in the cost of labour, power and materials for the purpose of supplying the water. In the event of any dispute or differences arising under the provisions of this clause the same shall be referred to arbitration as in hereinafter provided."

3. In exercise of the right of review conferred under Clause 17, the Government of the State of Johore hereby gives notice of our intention to exercise our right to review the price of raw water payable by the City Council of Singapore (Public Utilities Board) to the Government of the State of Johore.

4. Our proposal shall be presented at the next meeting.

Thank you.

(Signature)
(DATO' HAJI AYUB BIN MION)
State Secretary of the Government of the State of Johore
For and on behalf of
The Government of the State of Johore



Aug 14, 2002

Letter from Johor State Secretary to Chairman, Public Utilities Board

Telefon: 07-2239000 (T)
07-2241957 (P)
Fax: 07-2230608



باعتون سلطان ابراهيم
بوكية تيمبالان
جوهر بملرو
BANGUNAN SULTAN IBRAHIM
BUKIT TIMBALAN,
80503 JOHOR BAHRU.

Dated: 14 August, 2002

**NOTICE UNDER CLAUSE 18 OF
THE 1962 JOHORE - SINGAPORE WATER AGREEMENT**

City Secretary
City Council of Singapore

[Chairman
Public Utilities Board
111, Somerset Road # 15-01
Singapore 238164]

Dear Sir / Madam,

Pursuant to the 1962 Johore - Singapore Water Agreement (the Agreement), Clause 13(1) of the Agreement provides that the City Council of Singapore shall pay to the Government of the State of Johore the price of 3 cents for every 1000 gallons of water drawn by the City Council from the Johore River and delivered to Singapore.

2. In this respect, the Government of the State of Johore brings your attention to Clause 14 of the Agreement, which reads as follows :-

"The provisions of paragraphs (1) and (2) of the foregoing clause of these presents shall be subject to review after the expiry of twenty five years from the date of these presents and shall be reviewed by the parties and the facts that are to be taken into account upon such review shall include inter alia any rise or fall in the purchasing power of money and any rise or fall in the cost of labour, power and materials for the purpose of supplying the water. In the event of any dispute or differences arising under the provisions of this clause the same shall be referred to arbitration as in hereinafter provided."

3. In exercise of the right of review conferred under Clause 14, the Government of the State of Johore hereby gives notice of our intention to exercise our right to review the price of raw water payable by the City Council of Singapore (Public Utilities Board) to the Government of the State of Johore.

4. Our proposal shall be presented at the next meeting.

Thank you.

(DATO' HAJI AYUB BIN MION)
State Secretary of the Government of the State of Johore
For and on behalf of
The Government of the State of Johore



Oct 7, 2002

Dr Mahathir Mohamad's letter to Prime Minister Goh Chok Tong



PRIME MINISTER
MALAYSIA

7 October 2002

His Excellency
Mr Goh Chok Tong
Prime Minister
Republic of Singapore

Dear Chok Tong,

I am writing in regard to the decision that we reached on 27 December 1998 in Hanoi for Malaysia and Singapore to resolve, once and for all, the outstanding issues between our two countries in a *package*. These issues include water supply; railway-related issues and Customs, Immigration and Quarantine (CIQ); Central Provident Fund (CPF) and the use of Malaysia's airspace.

As you are aware, since our above decision, several meetings, both at Ministerial and officials levels, had been held on the package of issues. Regrettably, three rounds of talks at the senior officials level in 1999 and two Ministerial-level Meetings in 2002 did not meet with any success.

In addition Senior Minister Mr Lee Kuan Yew also had several sessions with me discussing the same package but no agreement could be reached.

I think we have now come to a point where it would be important for us to prioritise our discussions. The approach that both sides had adopted so far in dealing with the outstanding issues in a package, has not yielded any meaningful results. In view of this, Malaysia has now decided to discontinue the package approach and to give the highest priority to first resolving the long-delayed water issue, particularly the price review of raw water. Once this issue is



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satisfactorily and amicably resolved, I am confident that Malaysia and Singapore would be able to move forward much faster in finding solutions to the other outstanding issues that stand in the way of our bilateral relations.

Public expectations in both our countries are very high that our two Governments would quickly find a solution to the water issue. I am therefore hopeful that significant progress would be made on this issue at the forthcoming meeting of our senior officials from 16-17 October 2002 in Johor Bahru and to be followed by the Ministerial Meeting at a later date. Both our countries will then be in a more comfortable position to deal expeditiously with the other issues.

*With best regards,
Sincerely,*

A stylized, handwritten signature in black ink, consisting of several sweeping strokes that form a distinctive shape.

Dr Mahathir bin Mohamad

Oct 9, 2002

Letter from Chairman, Public Utilities Board to Johor State Secretary



Public Utilities Board

9 October 2002

Chairman

State Secretary
The Government of the State of Johore

Dear Sir/Madam,

- (1) NOTICE UNDER CLAUSE 20 OF THE 1961 JOHORE-SINGAPORE WATER AGREEMENT
- (2) NOTICE UNDER CLAUSE 18 OF THE 1962 JOHORE-SINGAPORE WATER AGREEMENT

I refer to your letters of 14 August 2002.

2. The Public Utilities Board, as the successor-in-title to the City Council of the State of Singapore in relation to the above Agreements, does not accept that the Government of the State of Johore is entitled to seek the reviews referred to in your letters.
3. While reserving the rights of the Board in this matter, I note that the Governments of Malaysia and Singapore will continue their discussions on the charge for raw water set out in Clause 16(i) of the 1961 Agreement and Clause 13(1) of the 1962 Agreement and the rate for treated water set out in Clause 16(ii) of the 1961 Agreement and Clause 13(2) of the 1962 Agreement on a without prejudice basis. I hope that these discussions, which form part of the package of bilateral issues, will result in a mutually acceptable outcome for both Governments, the Government of the State of Johore and the Public Utilities Board.

Yours faithfully,

TAN GEE PAW
CHAIRMAN
PUBLIC UTILITIES BOARD
for PUBLIC UTILITIES BOARD, SINGAPORE

*Prime Minister
Singapore*

14 October 2002

YAB Dato' Seri Dr Mahathir bin Mohamad
Prime Minister
Malaysia

Dear *Mahathir,*

I refer to your letter of 7 October 2002, conveyed via a Wisma Putra TPN dated 9 October, and sent to our High Commission in Kuala Lumpur on 10 October.

When we met on 8 October at Putrajaya, you said that the most important issue for Malaysia was water. If the water issue was resolved, all the other issues could be resolved. You also mentioned that Malaysia wanted to decouple the water issue from the other issues in the package.

I replied that all the issues were tied up because the price Singapore could offer for present water would depend on the price for future water (i.e. water after 2061), and on the concessions it would have to make on the other issues like the POA. We did not come to any agreement on which approach to take.

Towards the end of our meeting, you said that we should try to resolve the water issue, and the sooner it was done, the better. I agreed, and said that we should get our officials to resolve it. Accordingly, upon my return, I instructed my officials to make as much progress as possible on the water issue at the 16-17 October meeting as part of the package, even though my Attorney-General had advised that Malaysia had lost its right to review the price of water under the current Water Agreements.

I therefore did not expect to receive, on 10 October, your letter of 7 October, wherein you stated that "Malaysia has now decided to discontinue the package approach and to give the highest priority to first

resolving the long-delayed water issue, particularly the price review of raw water". Had you, at our 8 October meeting, told me that you had already written and signed this letter on 7 October, I would have elaborated on the pros and cons of your new approach. We would then have jointly decided on the basis upon which our officials would negotiate.

As you wrote in the opening sentence of your letter of 7 October, you and I had reached a decision "on 27 December 1998 in Hanoi for Malaysia and Singapore to resolve, once and for all, the outstanding issues between our two countries in a package." In other words, we had agreed to trade off, in a package, the benefits to each other from the various items, namely, water, POA, airspace, CPF, and the bridge to replace the Causeway.

I had been prepared to make concessions in varying the POA with extra pieces of land, allowing an early withdrawal of CPF deposits, and building our part of the bridge to replace the Causeway at our expense, as trade-offs, so that you could give us airspace, and future water at a fair price. Regarding water, you had written in your letter of February 2001 that Johor believed that a fair price for raw water was 60 sen. (The revision of the price of raw water under the current Water Agreements was not in the package we decided in Hanoi in 1998, until you raised it with Senior Minister Lee in August 2000 in Kuala Lumpur.)

Since you now want to deal with the water issue separately and discontinue the package approach, these trade-offs are no longer possible. And as the package deal is off, I have instructed my officials to deal with water and the other issues individually and separately, on their stand-alone merits, and no longer as a package.

I hope our officials can make some progress at their coming meeting with your new approach.

With Best Regards,
Yours sincerely,



GOH CHOK TONG

ANNEXES

MINISTERIAL STATEMENT

by Professor S. Jayakumar, Singapore Minister for Foreign Affairs,
in the Singapore Parliament on Jan 25, 2003

MEMBERS have asked many questions on the state of our bilateral relations with Malaysia. They have also asked questions on a number of allegations made against Singapore on a wide range of current and "old" issues, from water, Pedra Branca, the Asean+3 Secretariat to KD Malaya, the former Malaysian naval training base in Woodlands.

These allegations paint Singapore as "insensitive", "arrogant" and "unneighbourly" in the conduct of our bilateral relations with Malaysia. We are also said to be "selfish", "profiteering" and "legalistic".

They now even talk of war, using as a peg a book that spoke favourably about the SAF. The author, Tim Huxley, is a British who has no connections with us.

These allegations have no basis whatsoever. KD Malaya was an old issue. The Malaysians left their naval training base in Woodlands on their own accord in 1997.

When we revised the rent in 1991, far from forcing them out, we offered them several options to maintain their base and stay on in Woodlands. However, they chose not to take up our offers and decided in 1992 to relocate their base to Malaysia.

On Pedra Branca, it is not true that we were reluctant to sign the Special Agreement (SA) to refer the matter to the International Court of Justice (ICJ).

In fact, it was Singapore which proposed referring the issue to the ICJ. Nor have we carried out construction activities recently. The last structures were built well over 10 years ago.

Likewise, it is untrue that Singapore was the only Asean country which had problems with the proposal for a separate Asean+3 Secretariat in Kuala Lumpur. Indonesia, among others, also did not support it.

And as for the East Asia Economic Caucus (EAEC) proposal, it is completely false that Singapore opposed it. In fact, we were one of the first countries to come out in support of it.

I shall circulate fuller details on these issues as an Annex to my Statement.

But for this afternoon, I wish to focus on water, which is the core problem underlying all this endless, vitriolic barrage.

I have to state the facts on this central issue to show what is the true position. The water issue is critical to Singapore because it has grave implications for our survival.

In setting out the facts, I shall be releasing the correspondence between the leaders of both countries and the diplomatic exchanges. I will also circulate copies of the two Water Agreements of 1961 and 1962, plus a supplementary water agreement in 1990 relating to the building of the Linggiu dam on the Johor River and the purchase by Singapore of treated water in excess of the 250 million gallons per day (mgd) from this river.

These are all documents for the record. I have been reluctant to release these documents despite misrepresentation of facts from the other side because we hoped for a win-win outcome.

But I have to release them now because this hope is no longer realistic and so much misinformation on the water issue has been put out by Malaysia that needs to be rebutted by conclusive evidence.

Despite repeated attempts to clear the air through various MFA Spokesman's comments and Parliamentary statements by me in this House, Malaysian misrepresentations have not ceased. Recently, there has even been loose talk of war in some Malaysian circles.

We therefore have no choice but to set the record straight by releasing these documents for people to judge for themselves the truth of the matter. These documents will clear the air for everyone, especially Singaporeans who travel to Malaysia, read their media and talk to their Malaysian friends.

These documents are in two volumes which will be given to Members. I request that they be part of the official records of the House.

My statement has three parts. First, it is to make clear that the fundamental issue for us is not the price of water as such. The vital issue is not how much we pay, but how any price revision is decided upon.

Malaysia wants Singapore to pay more for water. But the price cannot be revised at the will or dictate of Malaysia. The 1961 and 1962 Water Agreements were enshrined in the Separation Agreement which was registered at the United Nations.

They are fundamental to our very existence as an independent nation. Neither Singapore nor Malaysia can unilaterally change them. This is the root of the dispute between us.

During the negotiations on the package of issues, both sides asked for and offered various concessions. Singapore agreed to pay more for existing water, but only as part of a package deal that included the future supply of water.

Malaysia agreed to settle several outstanding bilateral issues as a package. The documents demonstrate this clearly. However, in October last year, Malaysia unilaterally decided to take the water price revision out of the package, to be discussed and decided on its own.

Second, I will give a full chronology of the talks on water. This will show that Singapore has been consistent and forthcoming in the negotiations.

The difficulties arose because Malaysia repeatedly changed its position, and shifted their goal posts each time we neared an agreement.

No sooner had we agreed to a price for water when they changed their minds and upped the price. After the two countries had discussed all the issues as one package for several years at Malaysia's request, Malaysia unilaterally and without prior notice abandoned the package approach, saying that they only wanted to discuss the current price of water.

Despite all the sudden twists and turns, we accommodated and persevered, never closing the door on negotiations, in order to reach a mutually beneficial agreement.

The Malaysian allegations against us are totally unjustified when we were trying to find an amicable way forward.

Third, I want to stress that it is in the overwhelming interest of both countries to settle our differences in accordance with international law, either through the ICJ or the Permanent Court of Arbitration (PCA), or in the case of the water price revision through the method provided for in the Water Agreements themselves, that is, arbitration according to the laws of Johor.

This process of arbitration can determine what we have not been able to agree on, namely whether Malaysia has the right to revise the price after a lapse of 16/17 years, and if so by how much.

Sanctity of the Water Agreements and the Separation Agreement

SOME Singaporeans and foreign observers have asked why the two governments are quarrelling over what appears to be a small and simple issue of the price of water.

Why cannot Singapore be more accommodating, and pay a little more for the sake of neighbourliness and good bilateral relations? If only the matter were that straightforward.

Let me be clear. It is not a matter of money. The issue goes well beyond whether we have to pay 45 sen or 60 sen or stick to three sen.

Of course, Singapore will not be impoverished by an increase from three to 45 sen. Neither will Malaysia be enriched.

PM Mahathir himself has said that "we don't depend on them to bring us revenue to finance the government as income from selling water is a small fraction (of our revenue). It's not a major source of income for the government". (Bernama, Aug 6, 2002)

The significance of the water price, to both countries, is Singapore's existence as a sovereign nation separate from Malaysia, and the sanctity of the most solemn agreements which Singapore and Malaysia have entered into.

The two Water Agreements are no ordinary agreements. They are so vital that they were confirmed and guaranteed by both governments in the 1965 Separation Agreement, also known as the Independence of Singapore Agreement. This was registered at the United Nations.

Both countries have to honour the terms of the agreements and the guarantee in the Separation Agreement. Any breach of the Water Agreements must call into question the Separation Agreement and can undermine our very existence.

Not many people know that Malaysia also gave effect to the Separation Agreement by an amendment to the Malaysian Constitution on Aug 9, 1965, through an Act of the Malaysian Parliament, No. 53 of 1965.

Section 14 states: "The Government of Singapore shall guarantee that the Public Utilities Board of Singapore shall on and after Singapore Day abide by the terms and conditions of the two Water Agreements dated Sept 1, 1961, and Sept 29, 1962, entered into between the City Council of Singapore and the Government of the State of Johor."

"The Government of Malaysia shall guarantee that the Government of the State of Johor will on and after Singapore Day also abide by the terms and conditions of the said two Water Agreements."

In other words, the guarantees are an integral part of an international agreement solemnly entered into, adopted by a constitutional amendment in Malaysia and later registered with the UN.

In international law, both parties must ensure that the Water Agreements are observed and neither side can unilaterally vary their terms and conditions.

If Malaysia can unilaterally revise the price of raw water from three sen to 60 sen, and then from 60 sen to RM3 then they can eventually fix it at RM8 which Malaysia has said is the price since that is what Hongkong pays to China, or any other price.

The sanctity of the Separation Agreement would have been breached. All other agreements we have signed with Malaysia will become meaningless. Nor will any new agreement we conclude with Malaysia be worth anything.

In such a world there would be no basis for international relations. There would be no foundation for international law, which all UN member countries have a duty to uphold in order to maintain a stable and peaceful international order.

Malaysia has acknowledged the importance of the Water Agreements for a long time. For example, in 1968, three years after our independence, the Malaysian representative to the UN Conference on the Law of Treaties, Mr M. O. Ariff, said: "Some treaties might be so fundamental to the very existence of States that they simply could not be dispensed with, whatever political differences might arise."

"For example, the new island State of Singapore was dependent on Malaysia for its water supply; the treaty under which Malaysia had to supply a certain quantity of water daily to Singapore could not be terminated or suspended between the two states for any political reason."

However, in early 2002, PM Mahathir began to criticise the Water Agreements as allegedly unequal treaties foisted on Malaysia by the British.

PM Mahathir said that the price for water under the agreements was too low and that as such "practically, they (Singapore) get their water free". (New Straits Times, Jan 22, 2002).

He said that "also, the agreement was drawn up by the British which of course favoured Singapore". (New Straits Times, Jan 23, 2002).

Later he said: "What we know is that we have been charging them (Singapore) three sen per thousand gallons of raw water and we know also that countries like Hongkong buy their raw water from mainland China at RM8 per thousand gallons."

Other Malaysian leaders took up the refrain and stoked a frenzy of media criticism against Singapore. For example Johor Menteri Besar Abdul Ghani Othman said: "All this while, we have been supplying Singapore with free water ... " (The Star, Feb 2, 2002)

This deliberate raising of Malaysian ground sentiments seriously alarmed Singapore. It could easily have spiralled out of control and led to grave consequences.

Therefore, on Feb 5, 2002, we sent Malaysia a diplomatic note (TPN) in which we pointed out that "pending a binding agreement on the overall package of issues, all legal obligations of the existing Water Agreements and the Points of Agreement (POA) remain in force and are binding on both governments".

We reminded them that the Water Agreements are binding legal arrangements duly confirmed and guaranteed by the governments of Malaysia and Singapore in the Separation Agreement.

We said that the Separation Agreement "is the fundamental basis of Singapore's existence as an independent sovereign nation" and that "any variation of the Water Agreements without the consent of both governments will be a breach of the Separation Agreement that cannot be accepted".

We also pointed out that "further negotiations on new agreements pertaining to the long-term supply of water to Singapore can only proceed on the basis that the agreements already concluded cannot be altered without the explicit consent of both parties."

"Otherwise any new agreements on water can similarly be altered without consent. This will have grave implications for bilateral relations."

On March 14, 2002, the Malaysian Government replied to Singapore's demarche. Malaysia's TPN conveyed its "commitment to resolving the issue of water with Singapore in the context of an agreement on the overall package of issues", and that "at no time was there a suggestion that the Government of Malaysia would depart from such a commitment".

They said that any suggestion to the contrary is "misleading and constitutes a gross misinterpretation of the well-known position of the Malaysia Government".

We replied through a TPN on March 25, 2002, taking note of their commitment and assurances. We also reiterated our own commitment to reaching a mutually beneficial agreement on the package of outstanding issues.

Foreign Minister Syed Hamid Albar himself noted at the First Ministerial Meeting at Putrajaya on July 1, 2002, that: "Malaysia has repeatedly said that it will honour the 1961 and 1962 Agreements until their expiry in 2011 and 2061 respectively

"... During the Separation of Singapore, Malaysia did not propose for the Agreements to be reviewed. It continues to honour the Agreements and such commitment is further reinforced when Malaysia signed the Separation Agreement in 1965."

We were thus flabbergasted when Malaysian Minister in the PM's Department Rais Yatim publicly declared on Oct 24, 2002, that as Malaysia's solution, Malaysia could enact domestic legislation to render the Water Agreements null and void.

As I had said at the Oct 31, 2002, sitting, no country can evade its international treaty obligations by enacting any domestic law. This is a very well-established principle of international law.

Should any country choose to violate this principle, it would signal to the world that it can and will do likewise for any other international agreements.

Let me also add that contrary to what Malaysia has alleged, these Water Agreements of 1961 and 1962 were not fixed by the British in Singapore's favour.

These Agreements were signed by the Johor State Government and the Singapore City Council in 1961 and 1962 respectively. By then, Malaya was already an independent and sovereign nation, and Singapore had achieved self-government.

It is absurd to suggest that the Federal Government of an independent and sovereign Malaya would allow the Johor State Government to be manipulated by the British to sign an agreement that was against Malaysia's national interests.

Chronology of the package and Water Agreements

NOW let me address the allegations that Singapore has been the unreasonable party in the negotiations. To do so, let me recount in some detail how the matters unfolded over the last few years.

When Malaysia experienced problems in the Asian financial crisis in 1997-98, at Malaysia's request, Singapore began to discuss a financial assistance package for Malaysia in the context of a framework for wider cooperation.

The framework included the supply of water to Singapore after the expiry of the current Water Agreements. Singapore's assistance entailed significant market risks and potential financial losses for Singapore.

This framework would make it politically possible for Singapore to carry these financial risks. The price review of water under the current Water Agreements was never raised then by PM Mahathir and was not part of the framework.

At the Asean Summit in Hanoi in December 1998, PM Mahathir informed PM Goh Chok Tong that Malaysia no longer needed financial assistance from Singapore.

PM Mahathir proposed that the outstanding bilateral issues be resolved together as a package. In the interest of clearing the decks of bilateral issues, PM Goh agreed to this.

What were the items in the final package as from August 2000? The key items in the package were:

- ◆ Future supply of water for 100 years after 2061;
- ◆ Use of Malaysian airspace by the RSAF;
- ◆ Variation in the terms of the POA, including giving an additional 12 parcels of KTM land at Bukit Timah for joint development;
- ◆ Early withdrawal of CPF monies amounting to RM3 billion to West Malaysians.

Later, as I will elaborate, two more items were added to the package by PM Mahathir:

- ◆ The Malaysian proposal to replace the Causeway with a bridge.
- ◆ Revision of the current water price.

The meeting between PM Goh and PM Mahathir in Hanoi was followed by three rounds of negotiations on the package at the officials' level from March to May 1999 where not much progress was made.

In August 2000, with PM Goh's approval, SM Lee Kuan Yew visited Kuala Lumpur to try to make progress on the package. He worked through Tun Daim Zainuddin, then the Finance Minister.

After the first meeting with Tun Daim, SM had a four-eye meeting with PM Mahathir on Aug 15, 2000. PM Mahathir brought into the package two new issues: the price of current water and the replacement of the Causeway by a new bridge. SM Lee agreed to these inclusions.

The two leaders reached agreement on a list of items, including a new price of raw water of 45 sen per 1,000 gallons for both current and future water. This was the first time the current Water Agreements featured in the bilateral package.

Following the meeting, SM Lee wrote to Tun Daim on Aug 24, 2000, to confirm the list of items which he and PM Mahathir had agreed to.

On Feb 21, 2001, PM Mahathir replied to SM Lee that "Johor believes that a fair price would be 60 cents (sic) per mgd (sic) of raw water" and that this "should be reviewed every five years". What PM Mahathir meant was "60 sen per thousand gallons".

On April 23, 2001, SM Lee replied to PM Mahathir pointing out that this was a variation from their oral understanding of Aug 15, 2000, which was 45 sen for current and future water. Now PM Mahathir was proposing a higher price of 60 sen.

In September 2001, SM Lee made a second visit to Kuala Lumpur to try to close the gaps on the package of issues. After their meeting on Sept 4, 2001, SM Lee and PM Mahathir held a joint press conference to announce that they had agreed on a basic skeleton of an agreement on the package of bilateral issues.

SM Lee told the media that Singapore had offered to pay 45 sen for raw water supplied under the current Water Agreements, although we were not legally obliged to do so.

SM explained that this offer was made in return for assured water supply from Malaysia, beyond 2061, at 60 sen per 1,000 gallons for raw water.

On Sept 21, 2001, SM Lee wrote to PM Mahathir confirming and elaborating on this offer.

The Malaysians have argued that since SM had offered 45 sen for current water, it showed that Singapore had in fact accepted that Malaysia had the right to review.

PM Mahathir has said: "If we don't have the legal right, then why did Lee Kuan Yew come and see me and suggested that the water price should be revised upwards to 45 sen and then we said it should be 60 (sen), 15 sen more". (Bernama, Nov 1, 2002).

But it is clear from the documents that when SM Lee offered 45 sen for current water it was "in return for assured water supply beyond 2061" at 60 sen.

SM Lee had never said that Malaysia had the right to review the price of current water outside the package, which included water beyond 2061 and airspace.

Between Oct 18 and Dec 10, 2001, there were further exchanges of letters between SM Lee and PM Mahathir to clarify various details of the bilateral package, including the price of water.

On March 4, 2002, PM Mahathir wrote to SM Lee enclosing totally different proposals. This was after PM Mahathir's statements to the press about RM8 being the real price of water.

Under Malaysia's new proposal, the 60 sen price would apply only for the first five years from 2002 to 2007 and from 2007 to 2011, the price will be RM3 per 1,000 gallons. From 2011 until the expiry of the 1962 Water Agreement in 2061, the price of water would be revised annually from RM3 based on the average inflation rate of Malaysia and Singapore.

As for future water after 2061, Malaysia proposed that negotiations begin only in 2058 (that is, just three years before the expiry of the 1962 Agreement). Malaysia also proposed that the new water agreement would be valid for 100 years from 2002.

In effect, this would mean that the new agreement would only last for 40 years after the expiry of the 1962 Water Agreement.

SM Lee replied on March 11, 2002, that this had completely changed from what they had discussed before and in their subsequent exchange of notes and letters. He said that Singapore would study the implications of Malaysia's new offers and would respond in due course.

On April 11, 2002, PM Goh wrote to PM Mahathir to give Singapore's response to PM Mahathir's letter of March 4, 2002. PM Goh stressed that he did not want bilateral relations to be always strained by the issue of water.

Hence, for the sake of good long-term relations, Singapore would produce as much water as it could to supplement the existing Water Agreements. Singapore would ramp up our NEWater programme to replace the supply of water under the 1961 Water Agreement when it expires in 2011.

As for water after 2061, PM accepted Malaysia's offer of 100 mgd of raw water and 150 mgd of treated water. On price, as Malaysia had withdrawn its offer of 60 sen for current water and future water, PM Goh proposed to peg the price of future water to an agreed percentage of the cost of the alternative source of water, that is, NEWater. This was to provide a definite basis for future price revisions.

PM Goh reminded PM Mahathir that this agreement should be valid for 100 years from 2061 as this had been the basis for negotiations, and not 100 years from 2002. PM Goh did not offer revision of the current water price. PM Mahathir's letter of March 4, 2002, and PM Goh's reply of

April 11, 2002, then formed the basis for further discussions between the respective Foreign Ministers and officials on the package of issues.

Two Ministerial Meetings were held, the first in Putrajaya, Malaysia, from July 1-2, 2002, and the second in Singapore from Sept 2-3, 2002.

I updated Members on the outcome of the two meetings on July 23, 2002, and Oct 31, 2002, respectively and the Senior Officials Meeting in Johor Baru from Oct 16-17, 2002.

There was no progress on the key issues.

Malaysia came out with another new formula under which the price of raw water in 2002 would be RM6.25 per 1,000 gallons. They did not explain how this price could be justified under the Water Agreements.

They insisted that they had the right to review the price of current water, while we pointed out that they had lost their right of review. They also stated that they would not negotiate the terms of future water supply until 2059, that is, two years before the expiry of the 1962 Water Agreement, instead of the three years that PM Mahathir had proposed.

After the Second Ministerial Meeting, as I had told the House last year, when PM Goh met PM Mahathir in Putrajaya on Oct 8, 2002, PM Mahathir said that Malaysia wanted to "decouple the water issue" from the other items in the package.

PM Goh responded that all the issues were tied together. If the water issue was taken out of the package, Singapore would have less leeway to make concessions on other issues.

Members would recall the many statements in the Malaysian media and from Malaysian politicians that misrepresented what transpired at this meeting.

The Malaysians alleged that Singapore had agreed to delink water from the package and had accepted Malaysia's prerogative to review the price of current water. These statements distorted what was discussed at the meeting and impugned PM Goh's integrity.

Two days after his meeting with PM Mahathir, PM Goh received a letter from PM Mahathir dated Oct 7, 2002, that is, one day before their meeting.

In his letter, PM Mahathir informed PM Goh that Malaysia had decided to "discontinue the package approach and give the highest priority to first resolving the water issue, particularly the price review of raw water".

In other words, even before PM Goh had met PM Mahathir, Malaysia had unilaterally discontinued the package approach, which had been agreed to by both PMs, and reaffirmed in Malaysia's TPN of March 14, 2002.

On Oct 14, 2002, PM Goh replied to PM Mahathir reminding him that they had both agreed on the package approach in December 1998 and that was why Singapore had been prepared to make concessions.

But now that Malaysia wanted to deal with the water issue separately and discontinue the package approach, trade-offs against other issues in the package were no longer possible.

Henceforth, Singapore would have to deal with water and the other issues on their standalone merits and no longer as a package.

On this basis, the Singapore officials attended the meeting in Johor Baru to discuss the water issue from Oct 16-17, 2002. At that meeting, it was clear that Malaysia had no intention of striking a deal on future water. This left only the current water price on the agenda. Now we could

no longer trade off a current water price revision against the supply of future water.

Therefore we have no choice but to rely on the express provisions of the Water Agreements and that any variation has to be within its terms.

From this chronology of events Members can see how Malaysia had repeatedly changed its position, not only on the water issue but also on the entire package negotiations.

First, having agreed to 45 sen for current and future water in 2000, they then raised their demand to 60 sen. When we counter-offered 45 sen for current water and 60 sen for future water, they raised their demand further - an immediate increase to 60 sen for current water and then RM3 from 2007.

Later, the Malaysians came up with the figure of RM6.25 for current water.

Recently, PM Mahathir acknowledged that he had proposed 60 sen to SM Lee, but said that he had been later advised by Malaysian officials that the price was too low (Berita Harian Malaysia, Dec 26, 2002).

Second, the starting point for the negotiations since 1998 had been the supply of water for another 100 years after 2061.

But in March 2002, the Malaysians reduced this to 40 years, and only at a formula to be negotiated in 2058 and to supply treated water at a formula to be negotiated every 20 years.

On July 2, 2002, the Malaysians again agreed to 100 years but with a price formula based on rates benchmarked against the China-Hongkong model (or RM8) and other models.

Finally on Sept 2, 2002, Malaysia said that the negotiations on future water can only take place in 2059.

Third, the Malaysians committed themselves to resolving the outstanding issues as a package from December 1998 to September 2002.

However, PM Mahathir later unilaterally took water price revision out of the package by his letter of Oct 7, without informing PM Goh when they met on Oct 8 in Kuala Lumpur that he had already written to PM Goh to have the water issue dealt with separately.

By taking current water out of the package, the Malaysians wanted to get this price revision without any commitment to give future water supply in exchange.

They have changed the package deal PM Mahathir first offered to SM Lee in Kuala Lumpur in August 2000, and then followed up in a letter dated Feb 21, 2001, naming 60 sen as what Johor considered a "fair price".

But the Malaysians know, as they have repeatedly acknowledged, they could not under international law unilaterally revise the price or other provisions of the Water Agreements.

On our part, we tried our best to accommodate Malaysia's successive new positions.

Even though Malaysia had repeatedly shifted their goalposts, Singapore has not walked away from negotiations. In fact, we attended the Johor Baru meeting in October 2002 in good faith just six days after the Malaysians had unilaterally discontinued the package approach.

Members would note that four out of the six items in the package - current water price, POA variation, CPF and the bridge - were to benefit Malaysia.

Singapore was not legally obliged to pay more for current water, to vary the POA or to make special arrangements for West Malaysians to withdraw their CPF monies early. We had no interest in demolishing the Causeway and building a bridge in its place.

Singapore's overriding interest in the package was future water. We were prepared to agree to the items which Malaysia wanted, including a current water price revision, only in exchange for Malaysia agreeing to provide us a long-term supply of water beyond 2061, and RSAF access to Malaysian airspace.

These concessions to Malaysia would have been at a considerable cost to us. They had to be seen in the context of the overall package deal being negotiated.

As the MFA Spokesman commented on Feb 2, 2002, "the total amount of money that Malaysia will receive when other items in the package are factored in will be over RM1.5 billion". This did not include the cost of over S\$500 million to us of building our half of the bridge and a new Customs, Immigration and Quarantine (CIQ) complex.

But we thought all this would be justified if we could secure future water. This was why when PM Mahathir proposed the package approach in 1998, PM Goh agreed.

We tried to meet their demands as long as future water supply was on offer as the quid pro quo. As negotiations went on we became aware that they did not want to sign any agreement on future water supplies.

All they promised at the final meeting in Johor Baru was to discuss the matter in 2059, two years before the 1962 Water Agreement ends.

This has pushed us to prepare for a negative outcome, one that requires us to develop our capability for NEWater and desalination.

These are no light tasks to undertake. We will need many years to build up the know-how, keep abreast with technological advances. Just as important, we must psychologically prepare our people for it.

The way forward

NOTWITHSTANDING our efforts to reach an agreement, we find ourselves at this impasse. Members will naturally ask, what next?

PM Mahathir and FM Syed Hamid had spoken about referring the water issue to international arbitration by the PCA.

On Dec 28, 2002, when our media asked me about this, I said that it was a great pity that both sides have not reached agreement on the water issue.

Singapore obviously could not force Malaysia to come to the negotiating table if it chooses not to do so. Hence, I said that if Malaysia proposes to submit the water issue to PCA arbitration, Singapore would have to agree, albeit reluctantly, in the interest of overcoming the impasse.

To my surprise, their Berita Harian (Dec 30, 2002) reported FM Syed Hamid as responding that the option of referring the water issue to PCA for arbitration did not arise!

If Malaysia does not wish to send the matter for arbitration to the PCA, a world organisation renowned for its impartiality, then what is the next best solution?

It is to have recourse to arbitration in accordance with the provisions of the Water Agreements. The provisions in Clauses 21 and 19 of the 1961 and 1962 Water Agreements, respectively,

provide for the settlement of disputes arising under the Agreements.

Those provisions stipulate that where disputes cannot be resolved, the matter shall be referred to arbitration "in accordance with and subject to the provisions of the arbitration law at the time of such dispute existing in the State of Johor".

Indeed, the Johor State Secretary had sent letters to the Public Utilities Board dated Aug 14, 2002, seeking to give Notice of price review under Clause 17 and Clause 14 of the 1961 and 1962 Water Agreements, respectively.

As Singapore's position was that Malaysia had lost its right of review, the PUB replied on Oct 9, 2002, that it did not accept that the Johor State Government was still entitled to serve notice to seek a review of the charge of raw water under the two Water Agreements.

On this issue of price review, Members would recall that I had mentioned at the Oct 31, 2002, sitting that Malaysian leaders had publicly said that it was not an oversight or mistake that Malaysia did not review the price of current water in 1986/87, but it was a deliberate move.

Dr Mahathir said Malaysia did not revise the water pricing when it was due because they thought Singapore would also revise the price of treated water supplied to Malaysia. (Bernama, Oct 11, 2002).

Johor State Assembly Speaker Zainalabidin Mohd Zain also said that the Johor Government had not made a mistake in not pressing for a review in 1986 and said: "There was no point in doing so because Johor was dependent on Singapore for its treated water supply, and Singapore would have also increased its price of treated water sold to Johor." (New Straits Times, 3 July 2002).

At the Second Ministerial Meeting in September 2002 in Singapore, FM Syed Hamid pointed out that the Notice of price review which Johor sent to PUB "made references to Clauses 17 and 14 of the 1961 and 1962 Water Agreements respectively as well as to arbitration in the event that both countries fail to reach agreement".

These Clauses 17 and 14, the price review clauses, provide that "in the event of any dispute or differences arising under the provisions of this clause the same shall be referred to arbitration as hereinafter provided."

Malaysia through these formal notices has effectively taken steps towards referring its water dispute with Singapore to arbitration.

At that time we were reluctant to go along this arbitration route because we still hoped for an agreement on a package deal including future water. However, now it has become clear that we cannot expect renewal of water supply. As this removes the basis for further negotiations, we are ready to have the dispute resolved through arbitration according to the laws of Johor.

The question of whether there is still a right of review as well as the quantum of the price revision can both be resolved through the legal process as provided for in the two Water Agreements.

This is like the way we are resolving Malaysia's claim over Pedra Branca. If in fact Johor has not lost its right to revision by not exercising it in 1986/87, then the arbitrators' award on the price revision will take effect from the date when Johor gave its Notice to PUB as provided for in the two Agreements.

As Malaysia has commenced this process, let the matter be settled through arbitration.

Resolving disputes amicably

INDEED, peaceful and amicable settlement of disputes has been Singapore's consistent approach. For the Pedra Branca issue, we had proposed and they have agreed, to refer it to the ICJ.

I am as concerned as Non-Constituency MP Mr Steve Chia about the loose talk by the Malaysian leaders in the Malaysia media about "war".

Bernama reported FM Syed Hamid on Dec 31, 2002: "... Singapore has two choices. If it refuses to compromise ... go to war".

In his New Year message, PM Mahathir said: "We promise that if anyone violates our freedom, they will get what they call a 'bloody nose'." (New Straits Times, Jan 1, 2003). Asked by reporters the following day, PM Mahathir did not specify which country he was referring to, but neither did he categorically rule out Singapore.

This further encouraged the Malaysian media to play up Singapore's alleged forward defence strategy and link it to Singapore's "arrogance" in the conduct of its bilateral relations with Malaysia. This was quickly followed by remarks by various Malaysian leaders publicly emphasising the MAF's (Malaysian Armed Forces) capability in defending Malaysia from external threats.

For instance, Defence Minister Najib Tun Razak said that the MAF had experience fighting in a real war and that sophisticated weaponry systems were not the yardstick to measure whether a country could win a war (Bernama, Jan 7, 2003).

Amidst all the bellicose talk about war, the Malaysian media created a furore over Tim Huxley's book, *Defending The Lion City*. This book, based on academic research on the SAF's capabilities, was published by a British academic from Hull University more than two years ago.

Back then, the Malaysian media did not pay any attention to the book. One can only speculate why the Malaysian media have chosen to do their book reviews now.

In the same vein there were almost daily articles in the Malaysian Malay-language press playing up Singapore's alleged aggressive intentions.

On Jan 18, 2003, *Berita Harian* (Malaysia) recklessly alleged that "Singapore has stealthily embarked on a bioterrorism defence programme, that it has set aside more than RM201 million specifically to carry out R&D to build up its bioterrorism defence system.

".... History has proven that every country that undertakes R&D in biodefence will also end up doing R&D into weapons for biological attacks. Singapore is no exception to such thinking."

Without any evidence to substantiate their allegations, they accuse the Singapore Government of breaching its obligations under international conventions it has signed against the possession of WMD (weapons of mass destruction).

Such war-mongering articles, it should be noted, are found especially in the Malay-language press, which can only be designed to stir up animosities in their Malay population against Singapore.

Loose talk of war is irresponsible and dangerous. It whips up emotions that could become difficult to control.

In such an atmosphere, the Malaysian navy and marine police vessels have escalated their intrusions into Singapore territorial waters off Pedra Branca in the past one month.

Such provocative actions are not only senseless but dangerous.

Senseless because both sides have agreed to refer the dispute to the ICJ and such actions cannot affect the decision of ICJ.

Dangerous because of the risk of accidents that may not only cause loss of life but also cause serious damage to naval vessels with unforeseeable consequences.

The Malaysian Government would have to bear responsibility for the consequences caused by the aggressive and repeated intrusions of its vessels.

Singapore has exercised exclusive control, ownership and sovereignty of Pedra Branca since the 1840s without any protest from any country until Malaysia published a map in 1979 claiming it as part of its territory.

This is the status quo. Until Malaysia's claim is decided by the ICJ, the status quo must remain, consistent with Malaysia's own position in the case of Sipadan/Ligitan. There, Malaysia adopted the position that as they were in possession of the islands, the status quo should prevail.

For example, this is what they said in a diplomatic note to Indonesia on Jan 3, 1994, a note which they filed at the ICJ: "The Government of Malaysia reiterates that since Sipadan and Ligitan are parts of Malaysia, any and all activities undertaken by Malaysia on or pertaining to those islands and their surrounding waters constitute legitimate exercise of its sovereignty and jurisdiction.

"The continuing acts of intrusion by Indonesian naval vessels and aircraft in Malaysia's territorial waters and airspace around Sipadan and Ligitan similarly cannot, in any way, advance Indonesia's claim over the two islands."

Malaysia now disregards the status quo in the case of Pedra Branca by intruding into Singapore waters around the island which has belonged to Singapore for more than 150 years.

I believe it is in the overwhelming national interest of both countries to avoid escalating tensions and conflicts, as the consequences could be costly for both.

PM Mahathir said that Malaysia would respect international law on territorial disputes and avoid any confrontation with Singapore on Pedra Branca. This is also Singapore's position.

Concluding remarks

LET me assure this House that it is Singapore's desire to have good, not strained, relations with Malaysia. There is much that both countries can gain by working together. Our common interests far exceed our bilateral differences.

We must ensure a firm and level basis for conducting state-to-state relations.

Whenever the Malaysians run out of arguments on bilateral issues, they accuse Singapore of being unreasonable, legalistic, sticking to facts and the law.

As I have said to the House before, how else can any country, especially a small country like Singapore, deal with other countries than on the basis of international law and the sanctity of agreements voluntarily entered into by governments?

If we were ever to yield on this basic position, we would suffer grave and permanent consequences. Singapore cannot afford to be intimidated into allowing this to happen.

Singapore's relationship with Malaysia will be difficult from time to time. What is important is that we stay calm and rational through these periodic cycles of ups and downs.

As PM said in his speech to the Singapore Institute of International Affairs on Nov 27, 2002:
“We must manage these swings with a certain psychological equanimity; not lapsing into complacency or euphoria when things go smoothly, nor becoming unduly alarmed or despondent when things go bad.”



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Water row not about money

Issue is Singapore's sovereignty and about honouring agreements

By ZURAIKHAH IBRAHIM
POLITICAL EDITOR

THE heart of the water dispute with Malaysia is not about money but Singapore's very existence as a sovereign country.

Foreign Affairs Minister S. Jayakumar put the issue in these stark terms in Parliament yesterday, as he delivered the Republic's most significant statement on bilateral relations since independence.

He made plain that after years of patient and prolonged negotiations, Singapore has abandoned any realistic hopes of a win-win outcome of the water talks.

That was why, he said, he was releasing documents, and letters between the two countries' leaders, to show how Malaysia has shifted positions so often that it leads to doubts over whether it respects the sanctity of the water agreements.

Singapore's main concern is this: If Malaysia refuses to honour the water agreements, will it not be breaching the sanctity of the related Separation Agreement, which guarantees Singapore's independence?

The sanctity of agreements is the real issue behind the water talks, Professor Jayakumar said.

"The vital issue is not how much we pay, but how any price revision is decided upon," he stressed.

While Malaysia wants Singapore to pay more, the price "cannot be revised at the will and dictate of Malaysia".

This is made crystal clear in the two water agreements Singapore signed with Malaysia in 1961 and 1962, and they are enshrined in the Separation Agreement and registered at the United Nations.

"They are fundamental to our very existence as an independent nation. Neither Singapore nor Malaysia can unilaterally change them. This is the root of the dispute," said Prof Jayakumar.

Both countries have pledged to honour the agreements and the guarantees in the Separation Agreement.

"Any breach of the water agreements must call into question the Separation Agreement and can undermine our very existence."

If Malaysia breached the Separation Agreement, all other documents signed with it would become meaningless, he added. "Nor will any new

agreement we conclude with Malaysia be worth anything."

Why has all this come to pass?

It is because Malaysia has been speaking and acting as if it has the right to decide on its own the price of water.

And over the past year, its politicians and press have

given the chronology of the water talks from about 1998, to show how accommodating and patient the Republic had been.

1998 was the year Malaysia landed in financial crisis and asked Singapore to discuss water as part of a package, along with other outstanding bilateral issues. Singapore agreed.

Although Malaysia had agreed to 45 sen per thousand gallons of water, it soon changed its mind. It did so not once, but several times, and over many related issues, including how far back the price changes should take effect and when future agreements should be worked out.

And then, on Oct 7 last year, it took water out of the package of issues unilaterally and without any prior notice.

In their last joint meeting, Malaysia said it would only discuss future supply in 2059, two years before the 1962 Water Agreement ends.

"Even though Malaysia had repeatedly shifted the goalposts, Singapore has not walked away from negotiations," said Prof Jayakumar.

Having reached this impasse, Singapore is now going to agree to arbitration, according to the laws of Johor, as spelt out in the Water Agreement.

Singapore was doing this because "it has become clear that we cannot expect renewal of water supply".

Ending his speech to applause, Prof Jayakumar warned Malaysia that its loose talk about war is irresponsible and dangerous.

Singapore, on the other hand, only wants good ties: "Our common interests far exceed our bilateral differences."

Will Malaysia be persuaded? Or will the relationship reach a new low? If the past is any guide, the answers will not be long in coming.

(See also PAGES 23-27)

THE ROOT OF THE dispute

"The vital issue is not how much we pay but how any price revision is decided upon. The price cannot be revised at the will or dictate of Malaysia."

— Foreign Minister S. JAYAKUMAR

FOUR YEARS OF MALAYSIA'S FLIP-FLOPS

DECEMBER 1998

Malaysia wants all outstanding issues, including the future supply of water to Singapore, resolved as a package. Singapore agrees.

AUGUST 2000

SM Lee Kuan Yew and Malaysian PM Mahathir Mohamad agree to a price of 45 sen per thousand gallons for current and future water.

FEBRUARY 2001

Malaysia wants to increase the price to 60 sen per thousand gallons of raw water and for the price to be reviewed every five years.

SEPTEMBER 2001

SM Lee and Dr Mahathir agree that Singapore will pay 45 sen per thousand gallons of current water, in return for Malaysia's promise to supply water to Singapore beyond 2061 at 60 sen per thousand gallons.

MARCH 2002

Malaysia wants an immediate increase to 60 sen per thousand gallons of raw water. From 2007 to 2011, Malaysia wants 3 ringgits per thousand gallons; and after 2011, for the price to be adjusted annually for inflation.

SEPTEMBER 2002

Malaysia wants to increase the price to 6.25 ringgits per thousand gallons of current raw water.

OCT 8, 2002

Dr Mahathir says he wants to take water out of the bilateral package of issues.

OCT 10, 2002

Dr Mahathir tells Prime Minister Goh Chok Tong that he wants to discontinue the bilateral package.

MPs question Malaysia's sincerity ■ Page 23

CHUA LEE HOONG: Today no agreement, tomorrow 'no' to independence ■ Page 27



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CHRONOLOGY OF KEY DEVELOPMENTS

◆ December 17, 1998

PM Goh agreed with PM Mahathir's proposal to resolve outstanding bilateral issues, including long-term supply of water to Singapore, together as a package.

◆ March - May 1999

Officials from both sides met three times, but made little progress.

◆ August 15, 2000

At a four-eye meeting in Putrajaya, SM Lee and PM Mahathir reached agreement on a list of items, including a price of 45 sen per 1,000 gallons for current and future water. This was the first time the issue of current water was discussed as part of the package. Singapore also agreed to discuss Malaysia's proposal to build a new bridge to replace the Causeway as part of the package.

◆ August 24, 2000

SM Lee wrote to then Malaysian Finance Minister Tun Daim Zainuddin confirming the list of items which he and PM Mahathir had agreed to.

◆ February 21, 2001

PM Mahathir replied to SM Lee that "Johore believes that a fair price would be 60 cents (sic) per mgd (sic) of raw water" and that this "should be reviewed every five years". (He meant 60 sen per thousand gallons.)

◆ April 23, 2001

SM Lee noted in his reply to PM Mahathir that there were two main variations from their oral understanding reached on August 15, 2000. These were PM Mahathir's proposal of 60 sen for raw water and the mix of raw and treated water to be supplied.

◆ September 4, 2001

SM Lee met with PM Mahathir for a second time in Putrajaya. At a joint press conference, they announced that they had agreed on the basic skeleton of an agreement. SM Lee explained that Singapore had offered to pay 45 sen for current raw water in return for assured raw water supply from Malaysia beyond 2061.

◆ September 8, 2001

SM Lee wrote to PM Mahathir to follow up on their September 4, 2001 discussion on Malaysia's proposal for a bridge to replace the Causeway.

◆ September 21, 2001

SM Lee wrote again to PM Mahathir concerning other issues in the package. Singapore affirmed its proposal to revise the price of current water from 3 sen to 45 sen per 1,000 gallons, in return for Malaysia agreeing to supply water, at 60 sen, beyond the expiry of the existing Agreements, in 2011 and 2061. The 60 sen price would be reviewed every five years for inflation.

◆ October 18, 2001

PM Mahathir now said Johor wanted 60 sen for water sold to Singapore. He also suggested that Singapore compensate Malaysia with more land parcels should the KTM rail service end in Johore Baru.

◆ December 10, 2001

SM Lee replied to PM Mahathir to clarify Singapore's proposal on the bilateral issues and to seek clarification on the additional railway lands referred to by PM Mahathir. He expressed the hope that PM Mahathir would consider the long-term significance and value of retaining the railway link between Malaysia and Singapore. He requested PM Mahathir to set out Malaysia's position on the package of issues so as to establish a clear framework for officials to work on.

◆ February 5, 2002

Prompted by repeated Malaysian comments to the media that existing Water Agreements were unfair, Singapore conveyed a Third Party Note to register its deep concern over those remarks.

◆ March 4, 2002

PM Mahathir conveyed yet another new pricing proposal for water -- this time a three-stage proposal. The asking price was now 60 sen for water from 2002 to 2007, RM3 from 2007 to 2011, and RM3 adjusted for inflation every year after 2011.

As for the treated water Johor now buys from Singapore, Malaysia proposed that the price be raised simply from the current 50 sen to RM1, with no price review mechanisms.

◆ March 11, 2002

SM Lee wrote to Dr Mahathir noting that the latest proposals had changed completely from those agreed upon earlier. He would therefore have to study the implications of Malaysia's new offers before responding.

◆ April 11, 2002

PM Goh wrote to Dr Mahathir, conveying Singapore's response to the latest proposals. He said that for the sake of good long-term relations, Singapore would supplement the existing Water Agreements by producing its own NEWater. Since Malaysia did not accept Singapore's earlier offer of 45 sen for current water and 60 sen for future water, Singapore proposed to peg the price of future water to an agreed percentage of the cost of its alternative source of water, which was NEWater. He also suggested that PM Mahathir's letter of March 4 2002 and PM Goh's reply of April 11 2002 form the basis for further discussions between the respective Foreign Ministers and officials.

◆ July 1 - 2, 2002

The two Foreign Ministers and their officials met in Putrajaya. Malaysia invoked the Hongkong model, in which Hongkong pays China RM8 per thousand gallons for its water. Singapore said it was willing to negotiate a price review provided this is done as part of a package, even though it believes Malaysia's right to review expired in 1986 and 1987. It also pointed out that unlike Singapore, Hongkong does not have to bear the infrastructure and maintenance costs of drawing water.

◆ September 2 - 3, 2002

The Foreign Ministers met a second time, in Singapore. This time, Malaysia proposed a formula that resulted in a price of RM6.25 per 1,000 gallons for current raw water. Malaysia also proposed that discussions on future water take place only in 2059.

◆ October 8, 2002

PM Mahathir told PM Goh while both were in Putrajaya that Malaysia wanted to "decouple the water issue" from the other items in the package. PM Goh responded that if the water issue was taken out of the package, Singapore would have less leeway to make concessions on other issues.

◆ October 10, 2002

PM Goh received a letter from PM Mahathir dated October 7, 2002, in which Malaysia declared that it had decided to discontinue the package approach. Dr Mahathir did not mention that he had written this letter when he spoke to Mr Goh on October 8, 2002.

◆ October 14, 2002

PM Goh replied to PM Mahathir. He noted that since Malaysia wanted to discontinue the package approach, Singapore would have to deal with water and the other issues on their stand-alone merits and no longer as a package.

◆ October 16 - 17, 2002

Senior officials from both sides met in Johor Baru to discuss the water issue. But Malaysia wanted only one aspect of water discussed -- the price of current raw water. Singapore reiterated that Malaysia had lost its right to the review, but it would agree if Malaysia agreed also to discuss the supply of future water.

Singapore also asked Malaysia to explain how it had arrived at the price of RM 6.25 it was asking for. It said that going by the terms of the Water Agreements, any review would result in a price of not more than 12 sen in 2002. Malaysia could not provide a satisfactory explanation.

