

*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