S
3002

PREM 19/2573

Part 1

SECRET

C

MT

Confidential Filing

Internal Situation + Relations with Yugoslavia.

YUGOSLAVIA

January 1980

PREM 19/2573

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
17.1.80		20.12.83					
18.1.80		8/2/84					
24.1.80		5.10.84					
12.5.80		7.11.84					
1.7.81		17.12.85					
30.4.82		17.4.86					
14.5.82		9.5.86					
8.1.82		13.5.86					
15.11.82		22.5.86					
2.12.82		7.7.86					
6.12.82		3.3.87					
20.12.82		5.11.87					
4.1.82		14.12.87					
5.1.83		4.3.88					
14.1.83		9.3.88					
19.1.83		10.3.88					
31.1.83		18.3.88					
8.2.83		30.3.88					
2.3.83		6.4.88					
10.3.83		13.4.88					
5.7.83		14.4.88					
1/12/83		6.5.88					
5.12.83		10.5.88 (PA)					
		24.5.88 (PA)					
		31.5.88					

CLOSED

PART 1 ends:-

COP to HMT 31.5.88

PART 2 begins:-

P. Cradock to COP 21.10.88

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(82) 37th Item 2	08/07/1982
CC(80) 3rd Item 2	24/01/1980
JIC(80)(IA)1	18/01/1980
CC(80) 2nd Item 2	17/01/1980

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed _____ Date 15.3.16

PREM Records Team

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

31 May 1988

Dear Alex,

YUGOSLAVIA: BIS BRIDGING LOAN

Thank you for your letter of 27 May about the Chancellor's intention to present a Command Paper on 1 June (or shortly thereafter) on the proposed indemnity to the Bank of England covering their commitment to the BIS in respect of a loan to Yugoslavia. The Prime Minister is content with this.

I am copying this letter to the Private Secretaries to the Foreign Secretary, the Lord President, the Lord Privy Seal, the Chief Whips in the Commons and the Lords and the Governor of the Bank of England.

yours sincerely,

Charles Powell

A.C.S. Allan, Esq.,
HM Treasury.

ps3/78T

CONFIDENTIAL

(1)

cc PC

Prime Minister
Content?

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

CDP
30/5

27 May 1988

C D Powell Esq
10 Downing Street
LONDON
SW1

Yes mt

Dear Charles

YUGOSLAVIA: BIS BRIDGING LOAN

attlef

The Prime Minister confirmed to Chancellor Kohl in her letter of 9 May that the Bank of England is prepared to participate in a bridging loan which the Bank for International Settlements is seeking to arrange in support of a Yugoslav IMF programme.

Implementation of the BIS loan has been delayed by problems with a parallel United States loan since central banks participating in the BIS operation have said they will not proceed without the US. On the assumption that the US difficulties are overcome, however, the BIS loan could be finalised in Basle early next week which would clear the way for an IMF Board meeting perhaps almost immediately. The loan is intended to support the dinar during the first months of economic reform. Drawings on it will become available once the IMF Board approves a Stand By Arrangement for Yugoslavia in principle. Drawings on the IMF itself will become available once all the financing elements for the programme are in place - including contributions from the commercial banks.

The bridging loan is for $250 million, of which $50 million is from the US and $200 million from other Central Banks. Of this $30 million is from the Bank of England. The facility terminates on 30 November 1988 and will be repaid by drawings on the IMF Stand By Arrangement.

The Chancellor has authorised the Bank of England to take part in the operation. The Treasury will give the Bank an indemnity on lines similar to that given in 1986 for Mexico.

Under the terms of the International Monetary Arrangements Act 1983, we are required "immediately" after giving any undertaking under this section, to lay a statement of the undertaking before

each House of Parliament". Since Parliament will be in recess, this will take the form of a Command Paper.

The Chancellor proposes to do this on Wednesday or as soon after ... that as the BIS loan is announced. I attach a draft. I should be glad to hear that the Prime Minister sees no objection. Our view is that the operation will be uncontroversial and is unlikely to provoke much comment in Parliament.

The FCO will send appropriate briefing to Belgrade and other concerned posts. Press Officers at the Treasury, FCO and Bank will have Question and Answer briefing.

As a matter of courtesy, we shall notify the Public Accounts Committee and the Treasury and Civil Service Select Committee.

I am copying this letter to the Private Secretaries to the Foreign Secretary, the Lord President, the Lord Privy Seal, the Chief Whips in the Commons and the Lords, the Governor of the Bank of England, and to Bernard Ingham.

Yours sincerely

J M G TAYLOR

INDEMNITY TO THE BANK OF ENGLAND COVERING THEIR COMMITMENT TO THE BANK FOR INTERNATIONAL SETTLEMENTS IN RESPECT OF A LOAN TO YUGOSLAVIA

Presented to Parliament
by the Chancellor of the Exchequer
by Command of Her Majesty
[ ] June 1988

LONDON
HER MAJESTY'S TREASURY

Not to be Printed

INDEMNITY TO THE BANK OF ENGLAND COVERING THEIR COMMITMENT TO THE BANK FOR INTERNATIONAL SETTLEMENTS IN RESPECT OF A LOAN TO YUGOSLAVIA

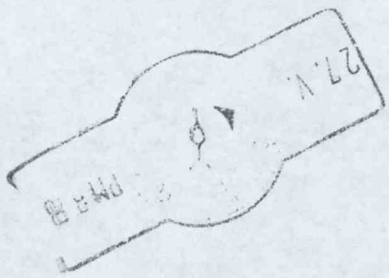
ection 2(1) of the International Monetary Arrangements Act 1983 empowers the Treasury to undertake to indemnify the Bank of England in respect of financial assistance given by the Bank to the central bank or other monetary authority of a foreign country, in co-operation with the Bank for International Settlements or any central bank or other monetary authority. Section 2(3) of the Act requires the Treasury to lay a statement of the undertaking before both Houses of Parliament immediately after giving the undertaking. This paper fulfils that requirement.

International assistance to Yugoslavia

2. The Yugoslav Government is seeking medium-term financial support through an application to the International Monetary Fund for a Stand-By Arrangement, in respect of which a Letter of Intent has been agreed; [through an application to the International Bank for Reconstruction and Development for a Structural Adjustment Loan] and through negotiation with commercial banks of many countries which have provided loans to Yugoslavia. In anticipation of such support, the National Bank of Yugoslavia sought short-term assistance from the Bank for International Settlements and the United States monetary authorities. The BIS facility will provide for $200 million for a period ending on 30 November 1988. An additional facility for $50 million will be provided by the United States. The BIS loan will be financed from its own resources, but it has a right of recourse to participating member central banks. The Bank of England's contingent liability under this arrangement is for a principal amount of $30 million plus any unpaid accrued interest and costs. The Treasury has agreed to give the Bank an indemnity in respect of this contingent liability.

3. Any sums required to meet this indemnity would be charged on and issued out of the Consolidated Fund.

YUGOSLAVIA: Relations Jan 80



c. Mr Powell.

10 DOWNING STREET

LONDON SW1A 2AA

24 May 1988

D J E Ratford Esq CMG CVO
AUSS
Room W38
Foreign & Commonwealth Office
LONDON SW1

Dear David,

YUGOSLAVIA

I had lunch with the Yugoslav Ambassador yesterday. I found him very worried over the slippage in the BIS bridging loan and consequently the final approval of the IMF programme. He quoted the Prime Minister's words to Djuranovic that once agreement had been reached with the IMF on a stand-by arrangement the doors would be unlocked to a good deal of extra help. He said that he had the impression of foot dragging. He was concerned that the political price of the measures evisaged in Yugoslavia would become evident before it was possible to announce agreement on the financial arrangements.

I reassured him as best I could, but given US hesitation over their contribution and Treasury reservations on our line could go no further than saying we were still considering details of contributions with our international partners.

I find US behaviour baffling, given our earlier lectures to the Yugoslavs and the political as well as economic importance of the present deal going through. I also find our present line rather restrictive. It should be possible to say that we are ready to do our part but that we cannot act alone, so that if by mischance the deal falls through it will be clear it is through no fault of ours.

Yours ever

Percy Cradock

PERCY CRADOCK

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

9 May 1988

Yugoslavia/IMF

The Prime Minister has agreed to reply to Chancellor Kohl's recent message about Yugoslavia in the terms recommended by the Chancellor. I am sending the top copy to the Foreign and Commonwealth Office for despatch and enclose a copy for your records.

(CHARLES POWELL)

Alex Allan, Esq.,
HM Treasury.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T67/88

10 DOWNING STREET
LONDON SW1A 2AA

SUBJECT cc MASTER
cc OPS

THE PRIME MINISTER

9 May 1988

Dear Helmut,

Thank you for your message about financial support for Yugoslavia. I share your concern that the Yugoslav economic recovery programme should be successfully implemented.

It is unfortunate that despite much pressure from Western governments, Yugoslavia has only recently concluded an agreement with the staff of the International Monetary Fund and signed a Letter of Intent. In the circumstances I am sure we would all have preferred to reserve judgement until we had been able to review the plan.

But it is already clear that a substantial IMF Stand By Arrangement will be needed, supported by generous Paris Club rescheduling. I can assure you that the United Kingdom will do its part to secure the success of both operations, though we shall be seeking evidence of firm Yugoslav commitment to the necessary domestic economic reforms.

In your message you also raised the question of preliminary financing. Since you wrote, the Bank of International Settlements has invited the Bank of England and other participating banks to take part in a bridging loan. I can confirm that the Bank of England has the Government's agreement to join in this operation.

Yours ever

Margaret

His Excellency Dr. Helmut Kohl

ph5.3

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

Lyn Parker Esq
PS/Secretary of State
Foreign & Commonwealth Office
LONDON SW1

4 May 1988

Dear Lyn

MEETING WITH YUGOSLAV FINANCE MINISTER

The Yugoslav Finance Minister, Mr Rikanovic, called on the Chancellor today. He was accompanied by the Yugoslav Ambassador, Mr Calovski, the Minister-Counsellor (Economic) at the Yugoslav Embassy, Mr Mitic, and an interpreter. Mr Lankester and Mr Bottrill (both Treasury) were also present.

Rikanovic recalled his last meeting with the Chancellor, on 19 October 1987. He had then discussed with the Chancellor the measures to be undertaken by Yugoslavia to secure a standby arrangement with the IMF. At that stage, neither side had a clear view as to how matters would turn out. Now Yugoslavia was on the eve of a high quality standby arrangement with the Fund, matched by an agreed high quality internal programme. He was conscious that Yugoslavia's creditors lacked confidence in its ability to achieve the objectives of the programme. This was unsurprising, given the recent decade of economic crisis in Yugoslavia. But Yugoslavia was encouraged by the United Kingdom's positive attitude. Fresh money was needed, and quickly!

The Chancellor said he was very glad indeed that Yugoslavia had been able to conclude an agreement with the IMF. He also admired the courage shown by the Yugoslav government in being prepared to undertake these difficult, though necessary, measures. But, to be frank, we did have doubts about Yugoslavia's ability to achieve the objectives set. These were based not only on Yugoslavia's economic record, but also on the additional difficulties imposed by the complications of the federal constitution. We understood Yugoslavia's need for more money: this pointed to an agreed rescheduling of debts in the Paris Club framework. The UK would contribute to a consensual agreement here. We would consider carefully what could be done. It was, however, difficult to think of ways in which it would be right to implement special arrangements for Yugoslavia.

Rikanovic said that Yugoslavia was on the eve of major, radical reforms. Constitutional changes were envisaged which would lead to a greater market orientation in the economy. The government had also set up a task force to promote the independence of enterprises in the market. In order to develop in this direction, the Yugoslav economy needed adequate support. Free price formation was required, which meant a liberalised import regime. But this, in turn, meant that additional support for Yugoslavia's foreign exchange reserves was required. It would be most undesirable to implement the new programme, only to have to halt it after a few months.

The Chancellor said he understood exactly what Rikanovic was saying. He asked Rikanovic about the forthcoming constitutional changes in Yugoslavia. Rikanovic said that there would be some reorganisation of the machinery of government. Three Ministries would be abolished, and two new Ministries set up. But there would be no essential changes. The Chancellor asked Rikhanhovic whether he expected to remain Finance Minister. He hoped that he would. Rikanovic said that the Yugoslav Prime Minister had made no indication that he wished to give Rikanovic a new portfolio.

Rikanovic said that Yugoslavia wanted Germany to co-ordinate the activities of Yugoslavia's creditors. He knew that Kohl had recently written to his EC colleagues. Yugoslavia had agreed with the IMF that its programme could begin if the $800 million financing gap for 1988 could be filled. The commercial banks had offered $300 million this year, and $200 million next year. So a further $500 million in 1988 was now required from Governments.

The Chancellor said that the Prime Minister had indeed received a letter from Chancellor Kohl. We were considering our response but he had to say that we would have great difficulty in doing anything outside the normal Paris Club or BIS fora.

Rikanovic said that the Yugoslav Central Bank Governor had discussed the possibility of a bridging loan with his colleagues in Basle. The Chancellor said that we did understand the Yugoslav position, and would look at the options sympathetically in consultation with our colleagues in other creditor countries.

Rikanovic said that quick decisions were required, if the introduction of Yugoslavia's new economic measures was not to be postponed. The IMF Executive Board meeting to consider the standby arrangement would take place on 13 May. The Chancellor said he was not sure whether the IMF Executive Board itself would be able to meet this deadline. We recognised that early decisions were required. He could say nothing further at this meeting.

I am copying this letter to Charles Powell (No.10) and John Footman (Bank).

J M G TAYLOR
Private Secretary

(2)

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T59/88

Courtesy Translation

Original on Economic policy - IMF Pt 3

Message
from
Herr Helmut Kohl, Federal Chancellor of the
Federal Republic of Germany
to
Her Excellency The Rt. Hon. Margaret Thatcher, MP
Prime Minister of the United Kingdom of Great Britain
and Northern Ireland

Dear Margaret,

On the 19th of this month I had a comprehensive discussion with Yugoslav Prime Minister Mikulic which was followed by contacts with Minister Makic. My impression is that the Yugoslav leadership, by implementing the reforms envisaged in the 1988 economic programme, now has a chance to avert a serious crisis with unforeseeable consequences. In my view Yugoslavia deserves support on grounds of foreign and economic policy. It is in the West's interest that Yugoslavia be enabled to return to the path of stability. There is a direct relationship between economic and political stability.

It is urgently necessary that the recovery programme negotiated between the International Monetary Fund and Yugoslavia be financed and implemented. In the opinion of the Yugoslav Government and the International Monetary Fund, however, the financing of the programme is not yet assured. I have therefore asked Dr. Lubbers, Prime Minister of The Netherlands, whose country leads the IMF voting group, to which Yugoslavia, too, belongs, to make a special effort to secure the programme's financial base. I have also informed him that the Federal Government will seek in the Club of Paris to achieve a generous

rescheduling arrangement including interest, and that it is prepared to assume a share of the preliminary financing of that interest.

Considering the political significance of this matter, joint action is in my view necessary, which is why I am approaching you and the Heads of State and Government of several other Western countries today. I do feel that comparable contributions from Western countries will facilitate a solution to Yugoslavia´s current problems and would appreciate it if you, too, could likewise participate in the financing of the recovery programme worked out with the IMF.

Yours sincerely,
(sgd) Helmut Kohl
Chancellor of the
Federal Republic of Germany

File 8/W

cc FCO
HMT
CO
DT

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

14 April 1988

Yours Ernesto,

It was a great pleasure for me to meet you in London on 23 March and be able to discuss matters of mutual interest, especially to hear at first hand of your Government's determination to tackle Yugoslavia's present economic problems.

One particular point you raised which I promised to enquire into concerned the sale of Airbus aircraft to Adria Airways. I am told that ECGD and the other export credit agencies involved are examining the possibility of providing support for a leasing arrangement. This would be subject to the reasonable condition that the current negotiations with the IMF on an economic adjustment programme and the subsequent debt restructuring negotiations with the Paris Club of creditor countries are concluded satisfactorily. It would also be subject to agreement among creditor agencies that such leasing arrangements would be excluded from any future debt reschedulings.

Although I understand that delivery of the first Airbus aircraft is not scheduled until next year, Airbus Industrie will obviously want to be sure that cover is available from the export credit agencies. I am told that the partners in the Airbus Consortium and indeed Adria Airways were prepared to accept the leasing arrangement proposed.

VC

As we noted during our meeting, a great deal depends upon the first step of reaching a satisfactory agreement with the IMF on appropriate economic adjustment measures, which should lead to the negotiation with your major creditor countries of a realistic debt restructuring plan that Yugoslavia can cope with: this is clearly a matter of great mutual concern since, amongst the export credit agencies, the ECGD has one of the highest exposures on Yugoslavia, deriving from past support given to your country.

As always, we in the United Kingdom want to extend all the friendship and support we can to Yugoslavia and I look forward to a successful outcome to all the matters we have discussed not least the supply in due course of Airbus aircraft to Adria Airways.

Yours sincerely

Margaret Thatcher

His Excellency Mr. Veselin Djuranovic

original with CDP

file from CCK

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

13 April 1988

YUGOSLAVIA

I enclose a copy of a letter to the Prime Minister from Mr. Djuranovic, Member of the Presidency of the Socialist Federal Republic of Yugoslavia.

I am copying this letter and enclosure to Alex Allan (Treasury).

C. D. Powell

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

EMBASSY OF THE SOCIALIST FEDERAL
REPUBLIC OF YUGOSLAVIA

5 LEXHAM GARDENS,
LONDON, W8 5JU.
Tel: 01-370 6105

London, 13 April 1988

Dear Madam Prime Minister,

I was asked by H.E. Mr.Veselin Djuranovic, Member of the Presidency of the SFR of Yugoslavia, to present to you his personal letter.

Please accept, Madam Prime Minister, the expressions of my highest consideration and profound personal respect.

Mitko Calovski
Ambassador

The Rt Hon Margaret Thatcher, MP
Prime Minister of the United Kingdom
of Great Britain and Northern Ireland
10 Downing Street
London SW1

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary 13 April 1988

YUGOSLAVIA: ADRIA AIRWAYS

Thank you for your letter of 11 April about ECGD cover for a potential Airbus aircraft sale to Adria Airways. The Prime Minister has agreed to write to Mr. Djuranovic in the terms proposed.

(C. D. POWELL)

Stephen Ratcliffe, Esq.,
Department of Trade and Industry.

Translation (2)

PRESIDENCY OF THE SOCIALIST
FEDERAL REPUBLIC OF YUGOSLAVIA
B E L G R A D E

Belgrade, 11 April 1988

Prime Minister
CDP
13/4

Dear Madam Prime Minister,

May I thank you once again, upon my return home, for the hospitality accorded to me and the friendly atmosphere I and my associates enjoyed during our recent visit to your country. I returned to Yugoslavia convinced once again that the roots of friendship between our nations are deep and that the foundations upon which the cooperation between our countries is based are firm and lasting indeed.

I trust that you share my belief that the talks we had on the major issues of our bilateral relations as well as on the international situation were, also on this occasion, meaningful and truly useful. I have reported the substance of our talks to the Presidency of the SFR of Yugoslavia, who have highly appreciated and assessed the frankness and openness as well as the spirit of friendship in which they were conducted, and the understanding that you demonstrated for solving the problems we face and the needs associated with the further economic development of our country.

We are in process of arriving at important decisions designed to give an impetus to the recovery of our economy and to pave the way for a faster development. We are confident that we shall succeed in this, by

The Rt. Hon. Margeret Thatcher, M.P.
Prime Minister
10 Downing Street

drawing upon our own resources and upon the creativity of our people, for which you personally found words of encouragement, as well as through the cooperation and support of our foreign friends and partners. We expect that the cooperation between our two countries, which we both noted was on the rise, shall continue to play an important role in these efforts of ours.

I believe that you share my view on the usefulness of the continued political dialogue between our two countries. We are, therefore, looking forward to your visit to our country at your earliest convenience, of course in the context of your busy schedule. This would also make it possible to reciprocate to you the warm hospitality that you have so kindly accorded to me.

I avail myself of this opportunity to renew to you, dear Madam Prime Minister, the assurances of my highest consideration.

Sincerely yours,
(Sgd.) Veselin Djuranović

Predsedništvo
Socijalističke Federativne Republike Jugoslavije

Beograd
11. april 1988.

Gospodjo Predsedniče Vlade,

Dozvolite mi da Vam, po povratku u zemlju, još jednom zahvalim na gostoprimstvu i prijateljskoj atmosferi kojom smo bili okruženi tokom nedavne posete Vašoj zemlji. Uverili smo se i ovog puta da su koreni prijateljstva izmedju naših naroda duboki, a osnove saradnje izmedju naših zemalja čvrste.

Razgovori koje smo vodili o najvažnijim pitanjima naših bilateralnih odnosa i medjunarodne situacije, verujem da će te se sa mnom složiti, bili su i ovog puta sadržajni i zaista korisni. O sadržaju naših razgovora upoznao sam Predsedništvo SFRJ koje je visoko ocenilo otvorenost i duh prijateljstva u kome su oni vodjeni, kao i razumevanje koje ste Vi pokazali za rešavanje problema i potreba daljeg privrednog razvoja naše zemlje.

U toku je donošenje značajnih odluka koje treba da podstaknu oživljavanje naše privrede i otvore put bržem razvoju. Uvereni smo da ćemo, oslonCem na sopstvene snage i kreativnost naših ljudi, za koju ste i Vi našli reči ohrabrenja, uz saradnju i podršku naših partnera i prijatelja iz inostranstva u tome i uspeti. Očekujemo da će saradnja izmedju naših dveju zemalja, za koju smo zajednički

konstatovali da je u usponu, imati i dalje značajno mesto u ovim našim naporima.

Verujem da ćete se složiti sa mnom u korisnost kontinuiteta političkog dijaloga izmedju naših dveju zemalja. Zato sa zadovoljstvom očekujemo da ćete biti u mogućnosti da u dogledno vreme, svakako kada Vam Vaše obaveze dozvole, dodjete u posetu našoj zemlji. To će biti i prilika da Vam uzvratimo toplo gostoprimstvo koje ste nama ukazali.

Primite i ovog puta izraze mog poštovanja,

iskreno Vaš

Veselin Djuranović

Gospodja
Margaret Tačer
Predsednik Vlade

dti

the department for Enterprise

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

C D Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Prime Minister
Agree to write
as proposed?
CDP
12/4

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5422
Our ref PS1AOW
Your ref
Date 11 April 1988

Dear Charles,

YUGOSLAVIA : ADRIA AIRWAYS

In your letter of 23 March to Lyn Parker, reporting the Prime Minister's meeting on that day with Mr Djuranovic, you noted the question he raised about ECGD cover for a potential Airbus aircraft sale to Adria Airways. The PM expressed interest and indicated that she might wish to write to Mr Djuranovic on the subject. The position is as follows:

1. In July 1984 Adria Airways signed a purchase agreement with Airbus Industrie for five A320 aircraft, together with spare parts and spare engines for delivery beginning in the first half of 1989 and ending in 1991. Adria was therefore a launch customer for the A320, against strong US competition: the USA have in fact supplied most of Adria's existing fleet. Originally the French and Germans (like ECGD) refused cover for the transaction. However, upon learning that the Americans were prepared to give further cover, they offered to cover 3 aircraft.

2. ECGD recognised that Adria is an important case and that a move to cover should be made in advance of any decisions to resume medium term cover generally for Yugoslavia. Accordingly, ECGD aimed to persuade Adria to do the deal on a leasing basis, which should enable the Department to give cover under asset based financing arrangements - by taking into account the value of the asset and the fact that the lessor would be able to repossess the aircraft in the event of default - thus producing a much reduced country limit exposure: £9m against a figure of £40m for full cover.

dti

the department for Enterprise

3. After some argument, Adria eventually agreed to consider a leasing agreement. Progress on this however will depend not only on the signing of the next multilateral debt rescheduling agreement by the Paris Club (which, of course, depends upon an IMF Standby arrangement being in place) but also acceptance by the Paris Club that leasing transactions will continue to be excluded from debt rescheduling agreements. To date the latter point has not been decided by the Paris Club. At the last meeting the agenda was not completed and it will therefore appear on the agenda of the next meeting which takes place on 18 April. However, this initiative has enabled the UK to make a more positive commitment to our Airbus partners and Adria and should enable discussions on the financing arrangements to continue.

A draft letter is enclosed for the PM to send to Mr Djuranovic explaining that all depends on an IMF Standby agreement being agreed.

As further background, I should add that, while ECGD has taken a generally more restrictive attitude towards the resumption of medium/long term cover for Yugoslavia than the other European export credit agencies, its high existing exposure (of some £450m resulting from the generous support given for Yugoslav development projects before Paris Club debt restructurings began in 1983) is the highest of all apart from the US Eximbank's. Cover even on the limited scale required for an asset based financing arrangement will have to be given under the DX criteria. This should be possible in time provided that a successful economic adjustment programme is at last put in place, as evidenced by an IMF Standby arrangement. To relax on this point now would, of course, give the wrong signals to the Yugoslavs at a critical point when we are all trying to get them to accept a tough IMF programme which stands a chance of bringing their economy, and foreign debt position under control.

Copies of this letter and enclosure are going to Lyn Parker (FCO), Alex Allen (HM Treasury) and Trevor Woolley (Cabinet Office).

Yours ever

Steph Ratcliffe

STEPHEN RATCLIFFE
Private Secretary

the Enterprise initiative

Yugoslavia; Relations, Jan 80.

CCPE

SLWBJV

DRAFT LETTER FOR PRIME MINISTER

His Excellency Mr Veselin Djuranovic,
Presidency of the Socialist Federal Republic
of Yugoslavia

It was a great pleasure for me to meet you in London on 23 March and be able to discuss matters of mutual interest, especially to hear at first hand of your Government's determination to tackle Yugoslavia's present economic problems.

One particular point you raised which I promised to inquire into concerned the sale of Airbus aircraft to Adria Airways. I am told that ECGD and the other export credit agencies involved are examining the possibility of providing support for a leasing arrangement. This would be subject to the reasonable condition that the current negotiations with the IMF on an economic adjustment programme and the subsequent debt restructuring negotiations with the Paris Club of creditor countries are concluded satisfactorily. It would also be subject to agreement among creditor agencies that such leasing arrangements would be excluded from any future debt reschedulings.

Although I understand that delivery of the first Airbus aircraft is not scheduled until next year, Airbus Industrie will obviously want to be sure that cover is available from the export credit agencies. I am told that the partners in the Airbus Consortium and indeed Adria Airways were prepared to accept the leasing arrangement proposed.

As we noted during our meeting, a great deal depends upon the first step of reaching a satisfactory agreement with the IMF on appropriate economic adjustment measures, which should lead to the negotiation with your major creditor countries of a

realistic debt restructuring plan that Yugoslavia can cope with: this is clearly a matter of great mutual concern since, amongst the export credit agencies, the ECGD has one of the highest exposures on Yugoslavia, deriving from past support given to your country.

As always, we in the United Kingdom want to extend all the friendship and support we can to Yugoslavia and I look forward to a successful outcome to all the matters we have discussed, not least the supply in due course of Airbus aircraft to Adria Airways.

DC1.T4

YUGOSLAVIA: Relations Ja80

043700
MDHIAN 4410

RESTRICTED
FM BELGRADE
TO DESKBY 050930Z FCO
TELNO 93
OF 050705Z APRIL 88
INFO IMMEDIATE UKDEL IMF/IBRD WASHINGTON
INFO PRIORITY BONN, PARIS, ROME

BELGRADE TELNO 90: IMF/YUGOSLAVIA

1. ACCORDING TO THE GERMAN ACCOUNT, RUSSO TOLD THE FINANCE MINISTRY IN BONN ON 30 MARCH THAT A MEMORANDUM OF UNDERSTANDING HAD BEEN INITIALLED BETWEEN THE IMF MISSION AND THE YUGOSLAV GOVERNMENT, WHICH WOULD RELEASE DOLLARS 430 MILLION OVER A 12 MONTH PERIOD. THIS NOW REQUIRED THE APPROVAL OF THE IMF BOARD, WHILE THE YUGOSLAVS NEEDED TO AGREE THE RATE OF DEVALUATION WITHIN A WEEK.

2. BEFORE THE IMF WOULD PUT THE MEMORANDUM TO THE EXECUTIVE DIRECTOR, THE YUGOSLAV GOVERNMENT NEEDED TO FULFIL VARIOUS CONDITIONS:

(A) REAL DEVALUATION OF DINAR BY 25 PER CENT (33 PER CENT IN DINAR TERMS) IN 2 STAGES. (THE YUGOSLAVS HAD BEEN PREPARED TO AGREE ONLY TO 20 PER CENT IN DINAR TERMS):

(B) LIBERALISATION OF FOREIGN EXCHANGE ALLOCATION AND PHASING OUT OF ARTICLE 110:

(C) LIBERALISATION OF IMPORTS FROM THE CURRENT 26 PER CENT TO 40 PER CENT OF TOTAL IMPORTS (AND NO IMPORT RESTRICTIONS FROM 1990):

(D) LIBERALISATION OF IMPORT PRICES:

(E) INTRODUCTION OF MANAGED FLOATING OF THE DINAR.

3. FOR THE PROGRAMME ITSELF, WHICH RUSSO COMMENDED, THE IMF HAD AGREED TO AN APPROACH WHICH WOULD HOLD THE INFLATION RATE UNDER 100 PER CENT IN 1988, AND KEEP REAL INTEREST RATES POSITIVE BY AT LEAST 2 PER CENT.

4. THE IMF RECKONED THAT DOLLARS 1.5 BILLION OF FINANCING WAS NECESSARY, WITH DOLLARS 500 MILLION EACH FROM GOVERNMENTS,

043700
MDHIAN 4410

COMMERCIAL BANKS AND THE IMF AND WORLD BANK. THE IMF UNDERSTOOD THAT MIKULIC INTENDED TO VISIT BONN SOON TO SEEK ACTIVE SUPPORT FROM THE FRG. THE CLOSING OF THE FINANCIAL GAP WAS AN IMPORTANT PRECONDITION FOR THE PROGRAMME AND FOR NEW CREDITS.

5. THE YUGOSLAV GOVERNMENT WANTED AGREEMENT ON THE PROGRAMME BEFORE MID-MAY WHEN MIKULIC'S MANDATE WAS DUE FOR RENEWAL. THIS MEANT THE IMF MUST PRESENT ITS REPORT AND RECOMMENDATION TO THE EXECUTIVE DIRECTOR IN APRIL. THIS TIME-SCALE WAS TIGHT AND SEEMED UNREALISTIC. BUT FURTHER DELAY WOULD ALSO CREATE PROBLEMS, EG THE AGREED PERFORMANCE CRITERIA WOULD REQUIRE REVISION.

WOOD

YYYY

DISTRIBUTION 154

MAIN 153

MONETARY EED

ADDITIONAL 1

MR WICKS NO 10 DOWNING ST

NNNN

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

28 March 1988

The Prime Minister has asked me to thank you for your letter of 25 March. She very much appreciated the kind gift from Mr. Djuranovic. She also shared his very positive assessment of their talks and his visit.

(C. D. POWELL)

His Excellency Monsieur Mitko Calovski

VESELIN ĐURANOVIĆ

Member of the Presidency
of the Socialist Federal Republic
of Yugoslavia

EMBASSY OF THE SOCIALIST FEDERAL
REPUBLIC OF YUGOSLAVIA

5 LEXHAM GARDENS,
LONDON, W8 5JU.
Tel: 01-370 6105

London, 25 March 1988

Dear Madame Prime Minister,

Before leaving London today, His Excellency Mr. Veselin Djuranovic, Member of the Presidency of the Socialist Federal Republic of Yugoslavia, asked me to convey to you once more his gratitude for your hospitality and the attention you, your Ministers and officials accorded to him during his visit to London. He left London very happy indeed with the substantive friendly talks he had with you and your Ministers.As I understand, he is writing to you directly from Belgrade. I was also asked to thank you for your very kind present and to enclose to you a token which may remind you of his visit.

I take this opportunity, dear Madam Prime Minister, also to express my own deep gratitude for the attention and kindness you also accorded to me personally on this particular occasion and remain with expressions of my highest consideration and profound personal respect.

Milutin Čalović,
Ambassador

The Rt Hon Margaret Thatcher, MP
Prime Minister of the United Kingdom
of Great Britain and Northern Ireland

10 Downing Street
London.

Your Excellency Prime Minister,
Ladies and gentlemen,
Dear friends,

I should like to thank you sincerely, on behalf of the members of my party and in my own name, for your warm hospitality. May I also say how much I appreciate the kind words addressed to my country. I wish to express my pleasure at being in Great Britain, thus having the opportunity of becoming better acquainted with your beautiful country and people, your achievements and views.

The relations and diverse ties between the peoples of our countries can be traced as far back as the nineteenth century. However, the foundations of our present-day relations, based on the principles of independence and sovereignty, were actually laid by Marshall Tito and Sir Winston Churchill in the difficult, yet glorious days of

our common struggle against fascism,when "trials showed who true heroes were" in Europe. I should like to recall that the British Prime Minister was the first foreign statesman whom the leader of the national liberation struggle of the Yugoslav peoples met during the war, in 1944. Therefore I am referring to a tradition upon which we have developed equitable and mutually beneficial relations, which have made it possible for us to conduct a friendly, open and fruitful dialogue, as we did today.

Prime Minister,

Like you, we also assess the new course of an easing of tensions in Europe to be an encouraging one. The Socialist Federal Republic of Yugoslavia has always resolutely opposed the settlement of international disputes and problems by force and intervention, and has always stood firm against interference in the internal affairs of other countries and against all forms of domination,

while invariably advocating the settlement of international disputes and problems by peaceful means, with full respect of sovereignty and territorial integrity and the right of each nation to be the masters of their own fate.

Taking these lasting principles as a point of departure, we are making every effort today to contribute as much as possible to the process of the relaxation of tensions and to all positive developments in international relations. This is corroborated by our activity in the Movement of Nonaligned Countries, our participation in and hosting of the Meeting of the Ministers of Foreign Affairs of the Nonaligned Countries of the Mediterranean and the recently held Meeting of the Ministers of Foreign Affairs of the Balkan Countries, as well as by our activity in the group of nonaligned and neutral countries at CSCE meetings and by our efforts at many other international fora and in the

UN to promote constructive tendencies, cooperation and understanding in resolving the numerous problems of the present-day world.

We pay tribute and extend our full support to all the participants in the new process of detente,but at the same time we are aware of the fact that this is but an initial step. Therefore we believe that things should not be allowed to grind to a halt, but that every effort should be made to turn this into a continuing process of disarmament,the relaxation of international tensions and the further democratization of international relations, working for a world of peace, a world rid of arms. True,this is a vision, but also an objective which we should by no means renounce but, on the contrary, for which we must strive for the sake of mankind and its future, of humankind and its well-being.

In Yugoslavia we always emphasize that Europe belongs to all Europeans and that all the CSCE participants have not only the duty but also

the right to take part in it. We look even further ahead and we believe that if these processes are to become lasting ones they should gradually assume universal proportions, thus becoming the common endeavour of all, not only of European nations. I should like to assure you that nonaligned Yugoslavia will continue rendering its own contribution to the stability of relations in our continent. This policy was charted by President Tito and it remains our firm and abiding commitment.

In such conditions realistic possibilities are being opened for the better and faster resolving of other major world problems, such as the urgent extinguishing of flash points of serious regional crises and war conflicts, and especially resolving one of the greatest problems faced by mankind today - the plight of developing countries. We are deeply convinced that there is an indissoluble link between the process of disarmament and the relaxation of tensions

on the one hand and seeking solutions for the underdeveloped world on the other. Peace requires the prosperity of all. The economic progress of all requires a world rid of wars and weapons. Therefore we rightfully say that development is a new name for peace.

Ladies and gentlemen,
Dear friends,

Having made dynamic social and economic progress in the post-war years, which changed the face of the country, Yugoslavia is presently going through a very complex period in its development. We are facing major economic difficulties, which make the situation that we are in a crisis.

These difficulties are not insurmountable. We are confident that we have potentials of our own, capable people and the necessary material prerequisites. We are resolved to overcome our present difficulties by relying upon

our own resources, with the inevitable self-sacrifice involved.

A procedure is under way to amend the Constitution with a view to further strengthening democratization processes and improving the efficiency of the Federation in its work.

The system of socialist self--management can prosper only if sustained by the operation of market laws and criteria. That is our fundamental postulate. It is on that basis that we are now embarking upon changes in the economic system and new economic policy measures.

Realistically assessing all the circumstances and the situation that we are in, we are of the view that our internal efforts will be more productive and yield results sooner if they are accompanied by the support of our partners from abroad.

We believe that this is in our mutual interest, in the interest of keeping the flows of our economic cooperation uninterrupted, that it would strengthen Yugoslavia´s international position

and that it is in line with the political needs of this point in time.

I should like to express my satisfaction with the talks we had this morning, Prime Minister, particularly with the expression of your support, which you now reiterated in your toast. I also appreciate your frankness and the exchange of views we had on a wide range of subjects, thus actually continuing our dialogue from 1980, when I had the honour of being your host in Yugoslavia. We remember your previous visits to our country as well and we look forward to welcoming you again soon, we hope.

I would like to add that the level of relations that we have reached provides new scope for bilateral cooperation, which makes it necessary to continue exerting concerted efforts. With the momentum of the new scientific and technological revolution we must seek new ways of developing cooperation and constantly enrich our existing cooperation with new substance. To that end our

economic relations, which we assess as positive and which are becoming more balanced, should necessarily be upgraded with new and more sophisticiated forms - industrial co-production, scientific and technological cooperation, joint ventures and projects in the markets of third countries. We believe that this would be in mutual interest. It is encouraging that we agree that this is the only way of raising our overall economic relations to a higher level.

We do have lively communications and an all-round dialogue at all levels. Cooperation in the field of tourism, which you have mentioned, is also developing successfully. I should also like to add that our cultural ties have advanced and, which is very important, that there is a dynamic flow of people and ideas, which substantially contributes to our better mutual understanding.

I believe that all of this is an example of how two countries with

different international positions and social systems can cooperate successfully.

Prime Minister,

May I propose that you join me in a toast to the good health of Her Majesty Queen Elizabeth II, to your good health, Prime Minister, to your associates, as well as to the development and promotion of the relations between our two countries, to peace and equitable cooperation.

SUBJECT cc MASTER
Filed on YUGOSLAVIA
Relations Jan 80

CONFIDENTIAL

file

VC/DAS

bc PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

23 March 1988

Dear Lyn,

PRIME MINISTER'S MEETING WITH MR. DJURANOVIC

The Prime Minister had a talk this morning with Mr. Vesselin Djuranovic, Member of the Yugoslav Presidency, before her lunch in his honour. Mr. Djuranovic was accompanied by the Yugoslav Ambassador. HM Ambassador, Belgrade, was also present.

Welcoming Mr. Djuranovic, the Prime Minister said that she would be interested to hear about Yugoslav's economic problems and negotiations with the IMF. She would also welcome an account of Mr. Gorbachev's recent visit to Yugoslavia. Mr. Djuranovic said he would be happy to discuss both points. He would note straight away that relations between Yugoslavia and the United Kingdom were in very good shape.

Yugoslav Economy

The Prime Minister said that Yugoslavia clearly faced very serious economic problems, particularly inflation and the level of indebtedness. The pressing need was to agree a standby arrangement with the IMF. While this would certainly require difficult decisions, the nettle had to be grasped. Speaking frankly, she was not clear whether the problem was that the Yugoslav government did not know what needed to be done; or whether it was simply unwilling to do it.

Mr. Djuranovic said that one of the main objectives of his visit to Britain was to present the situation realistically. Yugoslavia had been pursuing a long-term economic stabilisation programme with the objective of maintaining a high rate of economic growth and of servicing and repaying Yugoslavia's debt promptly. However, experience of the last three years had shown that it was virtually impossible for Yugoslavia to achieve these objectives. They now faced stagnation in growth, while an unacceptably high proportion of foreign exchange had to be devoted to paying off debt. Indeed, last year there had been a negative rate of growth while 40 per cent of foreign exchange had gone to payment of debt interest. The Government now realised that

CONFIDENTIAL

ECL

the original objectives had been unrealistic. Moreover, Yugoslavia had made another fundamental misjudgement in believing that they did not need to reach a further agreement with the IMF. Unfortunately the whole question of relations with the IMF had become politicised or, more accurately, ideologised in Yugoslavia. People had thought they could do without the IMF. Now they recognised that they could not.

Mr. Djuranovic continued that Yugoslavia had as a result set itself some clear objectives: to seek a new standby arrangement with the IMF, to keep its debt service ratio to 25 per cent, to try to contain its debts at the present level until 1995 and to strengthen its foreign exchange reserves. Negotiations with the IMF were at present in progress covering three main issues. The first was price liberalisation, import liberalisation and establishment of a foreign exchange market. The Yugoslav government was in favour of all three and differed with the IMF only on the speed with which they could be put into practice. The IMF wanted to see them introduced straightaway: the Yugoslav government thought they should be introduced more gradually. The second issue was the target rate of inflation. The IMF had proposed reducing it to 50/60 per cent by the end of 1988. In the government's view this was unrealistic and it now seemed likely the IMF would agree that any rate below 100 per cent would be satisfactory. If prices and imports were liberalised there was bound to be a considerable degree of inflation. The third was devaluation of the dinar. The Yugoslav government was prepared to contemplate that, but differed with the IMF on the scale of devaluation.

The Prime Minister said there were broadly two approaches to IMF requirements. You could accept them but say that they should be applied over an extended period of three or four years. Or you could decide to take harsh measures straightaway. It was really a question of psychology. People often understood better the need for harsh measures in the short term with the prospect of some relief thereafter, to extending the agony. Mr. Djuranovic should take heart from the successes which had been achieved, for instance, in Israel.

Mr. Djuranovic agreed with the Prime Minister's comments. But some account had to be taken of Yugoslavia's structure. It was a multi-national community which meant that there were many different interests to be reconciled. Decisions which could be taken quite straightforwardly in some countries required careful negotiation and balancing of interests in Yugoslavia or they would be destabilising. It was difficult therefore to bring about the transformation of the economy which was required. But there were no basic differences with the IMF. Their disagreements concerned not whether Yugoslavia should take action, but how much and how fast. Yugoslavia desperately needed the support of the IMF and of other governments.

The Prime Minister said that once agreement had been reached with the IMF on a standby arrangement, the doors would

be unlocked to a good deal of extra help, for instance with the rescheduling of Yugoslavia's debts. The future of Yugoslavia was a matter of great concern to all of us. We were aware of the country's diversity and the risk that this could be exploited to cause instability. Her advice to Mr. Djuranovic was to bring negotiations with the IMF to a speedy conclusion and make a major effort to explain the outcome to the Yugoslav people.

Mr. Djuranovic said that political considerations had also to be taken into account. Yugoslavia was having to steer a very difficult course. They did not want centralisation or repression. But equally there was a risk that decentralisation would unleash centrifugal tendencies. A constitutional amendment would be introduced this year to strengthen the Federal Government, with the aim of making Yugoslavia more stable. These efforts were intended to parallel the economic measures which he had described.

The Prime Minister said that it seemed to her that Mr. Djuranovic had made a very full and basically correct analysis of Yugoslavia's problems. That in itself was a major step towards a solution. As soon as there was agreement with the IMF, we would do what we could to help. She urged Mr. Djuranovic to cheer up: while Yugoslavia's problems were considerable, they were far from insuperable and the long-term prospects were good.

United Kingdom/Yugoslavian Economic Co-operation

Mr. Djuranovic said that economic co-operation between Britain and Yugoslavia was developing successfully but not all the possibilities had been tapped. The main problems arose because of Yugoslavia's economic difficulties. But on the British side, there was a particular problem over ECGD which was withholding credit for exports to Yugoslavia. While he understood the reasons for this, he thought that we were being too inflexible. For instance, both France and Germany had agreed to export credit for the sale of Airbus to Yugoslavia but the United Kingdom had refused. Yet this was quite clearly an economically viable project.

The Prime Minister explained that, when countries were experiencing economic difficulties and had failed to reach agreement with the IMF, we had no alternative but to limit ECGD support. She was not aware of the specific case of the Airbus and would look into it. But the key was for Yugoslavia to take the right long-term action to get its economy into order, and then all sorts of other things would become possible.

British Claims

The Prime Minister raised the matter of Yugoslavia's failure to settle British claims following the mid-air collision between British and Yugoslav aircraft over Zagreb in 1976. We understood that Yugoslavia might encounter difficulties in actually paying claims. But what hurt us was her refusal to acknowledge liability. It was a matter of

grave concern that a claim remained unsettled after twelve years. She understood that negotiations might be possible. If not, it threatened to become a major political problem. She hoped very much that Mr. Djuranovic would consider how a solution might be found.

Mr. Djuranovic said that Yugoslavia had never denied the humanitarian aspect. Various ideas, such as indemnity, could be discussed once the legal processes had been concluded. The Yugoslavian Government would be willing to enter into discussions at that point.

European Community/Yugoslavia

Mr. Djuranovic said that there had been good progress in Yugoslavia's relations with the European Community last year with the conclusion of new Trade and Financial Protocols. The joint Working Group which had been set up would meet in April. Yugoslavia was looking for increased support in two areas: more favourable trade access to the Community market and help for Yugoslavia to adjust to trading with the Community once the internal market had been completed. It was necessary to remember that the Community and Yugoslavia were not on an equal footing. Yugoslavia's special status as a European developing country had been recognised. Yugoslavia desperately needed to be able to earn more foreign exchange.

The Prime Minister said that the future of Yugoslavia mattered a great deal to the European Community. But many of the products Yugoslavia wanted to export caused difficulty. Completion of the internal market should be a stimulus to the Community's external trade as well, from which Yugoslavia should be able to benefit. But she came back to the point that the first and most crucial step was to put the economy in order and not run away from difficult decisions.

Conclusion

The Prime Minister again urged Mr. Djuranovic to cheer up. Britain was a great supporter of Yugoslavia, indeed his country had no greater well-wisher than Britain.
Mr. Djuranovic recalled the help that Yugoslavia had received from Britain in the Second World War. He hoped the same spirit could be re-created now.

The Prime Minister does not recall anything of great moment emerging in their talks over lunch. The Foreign Secretary would have filled you in on his own conversation with Mr. Djuranovic.

The Prime Minister would like to know the position on the sale of Airbus to Yugoslavia (which was not covered in her brief). She may wish to write to Mr. Djuranovic on the subject.

I am copying this letter to Alex Allan (HM Treasury), Stephen Ratcliffe (Department of Trade and Industry), Brian Hawtin (Ministry of Defence) and Trevor Woolley (Cabinet Office).

Yours sincerely,

C D POWELL

Lyn Parker, Esq.
Foreign and Commonwealth Office

Foreign and Commonwealth Office

London SW1A 2AH

22 March 1988

CRD
2213

Dear Charles,

Djuranovic Visit: Yugoslav Speech

The Yugoslavs have just given us the enclosed copy of the speech which Djuranovic will make at the Prime Minister's lunch for him tomorrow.

Yours ever,

Lyn Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

PRIME MINISTER

VISIT OF THE PRESIDENT OF THE FEDERAL EXECUTIVE COMMITTEE OF YUGOSLAVIA

You will be having talks, followed by lunch, with Mr. Djuranovic tomorrow. The procedure will be exactly as for the Heir Apparent of Qatar: welcoming ceremony in the FCO Courtyard, talks in the Cabinet Room, lunch at 1245.

You read the briefs over the weekend and will need to look at them again only briefly.

I attach your speech at lunch. This has now been given to the Yugoslavs for translation into Serbo-Croat.

I also attach, immediately behind this minute, some telegrams from Belgrade about Djuranovic's visit here and Gorbachev's visit to Yugoslavia, which are relevant.

C.D.P.

Charles Powell
22 March 1988

DG2COS

010

cc PC
VBUP

Foreign and Commonwealth Office

London SW1A 2AH

21 March 1988

CDP
22/3

Dear Charles,

Djuranovic Visit: Prime Minister's Speech

You asked for decently printed copies of the speech for distribution to the Yugoslav delegation at Wednesday's lunch. I attach some copies of the text in English. The Yugoslavs are themselves translating it into Serbo-Croat, and will distribute copies to their team. We will obtain one and ensure that you have it beforehand.

Yours ever,

Lyn Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

212328Z
SIX COPIES PS/NO 10 DOWNING ST
CONFIDENTIAL
OO FCOLN
FM BELGR TO FCOLN
210930Z MAR
GRS 899

CONFIDENTIAL AMENDED DISTRIBUTION 21 MARCH
FM BELGRADE
TO IMMEDIATE FCO
TELNO 81
OF 210930Z MARCH 88
INFO IMMEDIATE MOSCOW
INFO PRIORITY OTHER EAST EUROPEAN POSTS, UKDEL NATO BRUSSELS
INFO PRIORITY WASHINGTON, BONN, PARIS, ROME

MY TELNOS 79 AND 80: GORBACHEV VISIT

SUMMARY

1. AN IMPORTANT EVENT, REFLECTING CHANGES HERE AND STILL MORE SO IN THE USSR. NEURALGIC POINTS REMAIN BUT THE OVERALL RELATIONSHIP MORE CONFIDENT AND RELAXED. NO EVIDENT PROGRESS ON THE ECONOMIC FRONT. PERSONAL SUCCESS FOR GORBACHEV BUT NO NEW DEPARTURES.

DETAIL

2. THE FIRST VISIT BY A GENERAL SECRETARY OF THE CPSU SINCE TITO'S DEATH WAS BOUND TO BE AN IMPORTANT EVENT IN ANY CASE. GORBACHEV'S PERSONALITY AND THE CHANGES HE HAS INTRODUCED IN THE USSR ADDED TO ITS WEIGHT. HE (AND HIS WIFE) IMPRESSED AND OVERSHADOWED THE YUGOSLAVS. THEY WERE PARTICULARLY STRUCK BY HIS WILLINGNESS TO LISTEN, AND HIS ADMISSION OF THE EXTENT OF THE OPPOSITION TO HIM AND HIS POLICIES WITHIN THE SOVIET UNION, WHICH SEEMS TO HAVE BEEN GREATER THAN THEY HAD BELIEVED. ALTHOUGH THE PROGRAMME DID NOT ALLOW FOR TALKS WHICH HAD TIME TO GO INTO THE ISSUES IN DEPTH, HE FLATTERED THEM BY TAKING WHAT APPEARED TO BE A GENUINE INTEREST IN THEIR POLICIES AND IDEAS, INCLUDING ESPECIALLY THE WAY YUGOSLAVIA HAS COPED WITH ITS NATIONALITY PROBLEMS, THE PROSPECTS FOR THE SELF-MANAGEMENT SYSTEM AND THE FORTUNES OF THE NON-ALIGNED MOVEMENT. HE THEREBY SUCCEEDED IN FURTHER CONVINCING THEM HE REPRESENTS A NEW PHENOMENON WHICH DESERVES THEIR SUPPORT AND THAT THE DEMANDS OF PERESTROIKA ARE SUCH AS TO MAKE A MORE PRAGMATIC AND PACIFIC APPROACH TO FOREIGN AFFAIRS THE NATURAL SOVIET OPTION.

3. THE YUGOSLAV-SOVIET RELATIONSHIP HAS IN ANY CASE BECOME FAR MORE PRAGMATIC AND LESS IDEOLOGICAL SINCE TITO'S DEATH. AND THE USSR HAS NOT BEEN DEMANDING OF THIS COUNTRY, APPARENTLY ACCEPTING THAT IT FALLS OUTSIDE ITS SUSTAINABLE SPHERE OF INFLUENCE. THE PUBLIC EMPHASIS ON THE EQUALITY OF THE RELATIONSHIP, THE PRINCIPLES OF THE 1955 AND 1956 DECLARATIONS; THE VALIDITY OF DIFFERENT ROADS TO SOCIALISM AND SO ON WAS NONETHELESS REVEALING OF THE CONTINUING NEURALGIC POINTS IN YUGOSLAV-SOVIET AFFAIRS. GORBACHEV'S COMMENTS ON THE 1948 BREAK WERE UNDERSTANDING OF YUGOSLAV FEELINGS AND INTERESTS, AND WENT DOWN WELL HERE.

4. THE MOST TANGIBLE PRODUCT OF THE VISIT WAS THE JOINT DECLARATION ISSUED ON 18 MARCH (MY TELNOS 79 AND 80) WHICH BOTH SIDES CLAIM TO BE OF WIDE SIGNIFICANCE OF PRINCIPLE. A PROGRAMME TO GOVERN THE BILATERAL ECONOMIC RELATIONSHIP WAS ALSO SIGNED, ON 15 MARCH (MY TELNO 73). WHILE COMPREHENSIVE, THIS WAS, APPARENTLY, A FRAMEWORK AGREEMENT WHICH WILL NEED CONSIDERABLE ELABORATION BEFORE IT CAN BE TURNED INTO CONCRETE RESULTS. THE SAME GOES FOR YUGOSLAV-SOVIET INTENTIONS TO INCREASE THEIR JOINT VENTURES AND OTHER QUOTE HIGHER FORMS UNQUOTE OF COOPERATION. IT WILL IN PRACTICE BE DIFFICULT TO REVERSE THE PRESENT MARKED FALL IN BILATERAL TRADE, ESPECIALLY WHILE THE WORLD PRICE OF SOVIET RAW MATERIALS REMAINS LOW AND IF THE RUSSIANS MAKE GOOD ON THEIR DEMAND THEY TAKE ONLY TOP QUALITY YUGOSLAV GOODS IN FUTURE. THE QUESTION OF WHAT TO DO ABOUT THE PRESENT LARGE AND PROBABLY GROWING SOVIET DEBT TO YUGOSLAVIA WAS EXTENSIVELY DISCUSSED, AND REMITTED FOR FURTHER NEGOTIATION DURING AN EVENTUAL VISIT BY THE SOVIET PRIME MINISTER.

5. THERE WILL NO DOUBT NOW BE AN INCREASE IN THE TEMPO OF YUGOSLAV-SOVIET EXCHANGES. GORBACHEV APPEARED TO ENJOY HIMSELF, ALTHOUGH IT SEEMED HE WANTED TO MEET MORE ORDINARY YUGOSLAVS, WHO RESPONDED TO HIM WITH FRIENDLY CURIOSITY IN FAR LARGER NUMBERS THAN WOULD TURN OUT FOR ANY YUGOSLAV POLITICIAN. BUT THERE IS NO WAY OF KNOWING WHAT HE SAID OF HIS REACTIONS TO RAISA BEFORE THEY WENT TO SLEEP AND NO MEANS YET TO DISCOVER WHETHER HE LEARNED ANYTHING RELEVANT HERE FOR HIS FUTURE POLICIES. ONE SCHOOL OF THOUGHT IS HE MUST HAVE LOOKED AT YUGOSLAVIA AS AN AWFUL WARNING BOTH AS TO ECONOMIC AND NATIONALITY POLICIES. I FIND THAT TOO SIMPLISTIC: THERE ARE POSITIVE THINGS SOVIET POLITICIANS COULD LEARN HERE AS WELL AS MISTAKES TO AVOID. BUT WITH THE POSSIBLE EXCEPTIONS OF THE SLOVENE, KUCAN, AND THE CROAT, ANTE MARKOVIC, NONE OF THE YUGOSLAVS GORBACHEV MET SEEM LIKELY TO HAVE MADE MUCH OF AN INTELLECTUAL IMPRESSION ON HIM. AND FOR ALL THE PERSONAL IMPACT GORBACHEV HAD ON THE YUGOSLAVS HE MET I SEE NO REASON TO SUPPOSE THE LATTER FELT THEY HAD ANY IDEOLOGICAL OR POLITICAL LESSONS TO LEARN AT HIS FEET. THE PRINCIPAL RESULT OF THE VISIT WAS TO CONFIRM THAT IT IS CHANGES IN THE SOVIET UNION WHICH HAVE ALLOWED THAT COUNTRY'S RELATIONSHIP WITH YUGOSLAVIA TO GET ON A MORE RELAXED, CONFIDENT AND LESS INTENSE BASIS, AND THAT FUTURE PROGRESS ALSO DEPENDS ON THE EVOLUTION OF SOVIET RATHER THAN YUGOSLAV POLICIES, ESPECIALLY PERESTROIKA.

6. MY PRELIMINARY ASSESSMENT THEREFORE (THERE HAVING BEEN NO CHANCE SO FAR TO GET ANY DETAILED ACCOUNTS FROM EITHER OF THE PARTICIPANTS) IS THAT THE VISIT CONFORMED TO EXPECTATION (MY TELNO 64), IN CONSOLIDATING A STAGE IN THE EVOLUTION OF THE YUGOSLAV-SOVIET RELATIONSHIP RATHER THAN FORMING A BASIS FOR NEW DEPARTURES. WE MAY WELL SEE AN INCREASED YUGOSLAV WILLINGNESS TO GIVE THE RUSSIANS THE BENEFIT OF THE DOUBT, ESPECIALLY IN FOREIGN AFFAIRS, AND A MUTUAL EFFORT TO THICKEN UP BILATERAL LINKS. BUT I KNOW OF NOTHING TO SUGGEST THE YUGOSLAVS HAVE MADE ANY SIGNIFICANT CONCESSIONS OR EVEN THAT THE RUSSIANS PRESSED FOR THEM - SO THAT THE BASIC RELATIONSHIP REMAINS UNCHANGED. THE ESSENTIAL DRIFT HERE CONTINUES TO BE TOWARDS THE WEST, NOT THE EAST.

PRIME MINISTER

MEETING WITH MR. DJURANOVIC

You will be meeting Mr. Djuranovic, whos is in effect President of Yugoslavia, on Wednesday. There will be a guard of honour ceremony in the Foreign Office Courtyard at 1145, followed by a meeting at 1200 and lunch at 1245.

You will find a note about the visit in the meeting folder. His visit includes an audience with The Queen and a visit to the Cambridge Science Park. He was President at the time of your visit to Yugoslavia.

Yugoslavia has got itself into a frightful mess (inflation over 100 per cent, external debt of $20 billion) and there is little sign that they are getting to grips with it. The main purpose of your talk with Mr. Djuranovic will be to urge him to grasp the nettle of good economic management and reach agreement with the IMF on a Standby Arrangement. At the same time, we want to show political support for Yugoslavia as a vulnerable country in a strategically important position. The meeting will also be an opportunity to obtain an up-to-date assessment of Mr. Gorbachev's views and pre-occupations: he has been in Yugoslavia this week.

Following from this, the main subjects you will wish to discuss are set out below.

- Economy and Debt: you will want to talk to him frankly about Yugoslavia's deepening economic crisis. They really have no alternative but to introduce more market-oriented policies. No-one pretends it will be easy but there is no other way. We welcome their decision to seek a Standby Arrangement from the IMF. If he suggests that we should give Yugoslavia a bridging loan, you will want to say that this is not the answer. We agree that they need a long term restructuring of their debts. We will help with that

in the Paris Club but only once the Standby Arrangement has been agreed.

- East-West Relations: you will want to ask him about Gorbachev's recent visit to Yugoslavia and any points of particular interest which emerged. You will want to give him an account of the recent NATO Summit.

- EC/Yugoslavia: The Yugoslav Prime Minister wrote to you last year urging improved treatment for Yugoslavia by the EC. New and more favourable trade and financial arrangements have now been negotiated. You will want to claim some credit for these. But if the Yugoslavs want better access to the EC market in the longer term, they must be prepared to offer greater reciprocity (which in turn means that they must work towards a more market-oriented economy).

- Zagreb Claims: you will recall the mid-air collision between a Yugoslav and British aircraft over Zagreb in 1976. The Yugoslavs are still refusing to accept liability for this: indeed their courts recently ruled that the British Airways claim for £12 million was time barred. British Airways have pressed for a review of this decision, but no reply has yet been received. You need to speak to him quite severely on this, making clear that it represents a real political problem in our relations. We would be ready to work for a 'political' (i.e. negotiated) settlement but what we cannot accept is blank refusal to accept our claim. You very much hope that we can tell the press after the meeting that some progress has been made towards settling this matter.

There are a number of relatively minor points whch he might raise:

- Activities of Croatians in the United Kingdom. We have no evidence that they are up to anything illegal.

- Bilateral Co-operation against terrorism: we are not keen, because they will simply bug us to do something about the Croatians. We are very happy to work with the Yugoslavs in various multilateral bodies.

- Light Combat Aircraft Project: BAe and Rolls Royce are involved in this. But there are various pieces of advanced technology which we are not prepared to release to the Yugoslavs. We cannot change that decision.

- Trajkovski Twins: This is a family case where a British mother has obtained a Court Order denying access to her children by their Yugoslav father (who earlier kidnapped them and took them to Yugoslavia). If Djuranovic raises this, you should say that it is not a government matter. It is open to the father to contest the Order in a court in this country.

- Invitation to you to visit Yugoslavia. If he invites you, you will want to express appreciation but say that we need to settle our bilateral problem ie the Zagreb claim before you could consider another visit.

You have already seen and approved the text of your speech at the lunch which has now been translated and will be available on the table to the Yugoslav guests.

C D P

C. D. POWELL

18 March 1988
SLHATO

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

18 March 1988

Dear Charles,

Yugoslavia: Visit by Mr Djuranovic

Mr Veselin Djuranovic, member of the Yugoslav Federal Presidency, is to call on the Prime Minister at noon on Wednesday 23 March. The call is to last 45 minutes (with interpretation) and will be preceded by a Guard of Honour in the FCO main courtyard at 1140, and followed by a lunch which the Prime Minister has kindly agreed to host. Mr Djuranovic will have seen The Queen on 22 March.

The initiative for this visit came from the Yugoslavs. We agreed to it, partly in order to show continued interest in Yugoslavia (Gorbachev is in Belgrade this week) but mainly because the Yugoslavs have still not grasped the nettle of economic reform. They are well aware of what has been achieved in the UK. The Prime Minister is ideally placed to point out the need for a more resolute effort to free the Yugoslav economy from political and administrative restrictions.

The Prime Minister may therefore wish to concentrate mainly on the Yugoslav internal situation and relations with the IMF and Paris Club; on EC/Yugoslavia; and briefly on bilateral relations, especially the Yugoslav failure to settle British claims following the Zagreb air crash in 1976. Background and a suggested line to take on these are set out below.

Mr Djuranovic for his part will no doubt say something about Gorbachev's visit to Belgrade and the Yugoslav view of East/West relations. He may refer to the activities of Croatian emigres in Britain; to Yugoslavia's current role (this month) as President of the Security Council; suggest bilateral cooperation against terrorism; and refer to the Yugoslav Light Combat Aircraft (LCA) project, and perhaps to a current consular case (involving the Trajkovski twins). Those subjects are also covered briefly below.

Mr Djuranovic will probably invite the Prime Minister to pay another visit to Yugoslavia. The Foreign Secretary does not consider that this would be appropriate while our Zagreb claims remain unsettled. But if that issue can be resolved, he believes a further visit would be useful, in due course. The Prime Minister would be sure of a warm welcome, and the Yugoslavs will need constant high-level encouragement if they are to stick to an appropriate economic programme.

CONFIDENTIAL

Yugoslav Internal

Yugoslavia's complex federal structure and collective, rotating leadership, have provided a fragile form of stability since Tito's death, but have also inhibited effective decisions on political and economic reform. The present federal government under Branko Mikulic has failed to get to grips with the problems, and has been widely criticised. Mikulic may serve a second term from May this year, for lack of a willing or credible alternative. There is acute tension in the largely Albanian province of Kosovo.

Economy and Debt

Yugoslavia's net external debt is close to $20 bn. Despite a current wage/price freeze, inflation is still over 100%. Economic management has been feeble. The essential problems are political: how to reconcile in a single economic programme the contradictory needs of Yugoslavia's republics and regions; and whether the politicians are ready to surrender economic power to the market.

Last September, the Yugoslav authorities announced a programme of 126 measures intended to stabilise the economy. While some of these were on the right lines, the programme as a whole is ill-conceived and inconsistent (the earlier and still current Stabilisation Programme of 1982 is less open to criticism). In late 1987, after nearly two years of "enhanced monitoring" by the IMF (during which most of the IMF's performance criteria were missed) and faced with a financing gap of around $1 billion in 1988, the Yugoslavs conceded that a Standby Arrangement (SBA) was needed. Discussions are now in progress with the IMF Staff. But there is wide disagreement, especially on the inflation target, interest rates and incomes policy. The British approach is that terms for an SBA should not be softened on political grounds. Most other major Western creditors agree. (Italy is an exception. It has recently offered Yugoslavia grants and low interest loans). However, other major creditors see more risk than we do, if the IMF sticks out for strong conditionality, that Yugoslavia may either suffer damaging instability or drift towards the CMEA and Warsaw Pact.

The Prime Minister may wish to tell Mr Djuranovic that we are concerned about Yugoslavia's deepening economic crisis (though acknowledging some encouraging aspects: exports to hard currency markets increased by 18% in 1987, and to the UK by some 21%). We welcome the Yugoslav decision to seek an SBA. We agree that Yugoslavia needs longer-term restructuring of its debts. Bridging finance (for which Mr Djuranovic may ask) is not the answer. But we will play a constructive part in the Paris Club once an SBA has been agreed. We look to the Yugoslavs to devise and implement market-oriented policies. Things have been allowed to drift since the payments crisis of 1982/3 (when the UK made a £38 m loan, as well as contributing

generously to refinancing). No-one pretends it is easy to make an economy more responsive to the market, or to give better incentives to enterprises. But it will be no service to Yugoslavia if a weak SBA is agreed.

EC/Yugoslavia

Yugoslavia has a Cooperation Agreement with the EC. In February 1987, Mikulic wrote to Community Heads of Government stressing the political importance of the agreement, and pressing for improved treatment. During 1987, new and more favourable trade and financial protocols were negotiated. A resolution in positive terms was adopted by the joint Cooperation Council in December.

The Prime Minister may wish to welcome the new protocols, and underline the political and economic importance of Yugoslavia's relations with the Community. But she could add that better access to Community markets must in the longer term mean greater reciprocity. This in turn underlines the need for a more efficient, market-based Yugoslav economy.

Bilateral Relations

These are in general cordial and substantial, reflecting longstanding ties. Since the Prime Minister's visits to Yugoslavia in 1980, Mikulic's predecessor Mrs Planinc has paid a return visit (1983); the Foreign Secretary has been to Belgrade (1986); the Yugoslav Defence Minister to the UK (1986); and there has been an exchange of visits by Trade Ministers.

An important problem however is the Yugoslavs' failure to settle British claims following a mid-air collision between British and Yugoslav aircraft over Zagreb in 1976. Faulty air traffic control at Zagreb was the main cause of the accident, although the Yugoslavs dispute this. The sum at stake is about £12 m. The bulk of this represents a claim by BA and its insurers for the aircraft, but private claims by relatives of the crew have also not been settled. After protracted legal argument, the Yugoslav courts have this year ruled that BA's claim is time-barred. BA's lawyer has asked for a review of this decision. This is almost certain to be rejected. If it is, the only alternative will be a political settlement, which the Yugoslavs rejected last year but have hinted they may be ready to consider when the legal process is complete.

The Prime Minister may wish to express disquiet that the claims remain unsettled after 12 years; say that the court's recent decision was a major disappointment; that she hopes it will very soon be clear whether the decision will be reviewed; but stress that if it is not, we shall be left with a major political problem. She may wish to invite Mr Djuranovic to comment on a political settlement, and say that action is needed rapidly to clear this important issue off the agenda.

Mr Djuranovic for his part may refer to the following:

i) Activities of Croatian emigres in Britain.

The Yugoslavs recently complained that Croatian emigres in Britain were planning or had been involved in terrorism. Our reply stressed that we had no evidence of any breach of the law in Britain. We drew attention to British traditions of free speech and peaceful political activity.

ii) Bilateral cooperation against terrorism.

The Yugoslavs have several times suggested this. Our response has been that we find cooperation useful in multilateral fields, eg on aircraft security within the European Civil Aviation Conference; but that we do not envisage cooperation at bilateral level. (The reason is that we do not wish to stimulate Yugoslav requests for action against Croatian emigres in Britain).

iii) LCA project.

We have recently told the Yugoslavs that British companies (mainly BAe and Rolls Royce) wish to continue to cooperate on this ambitious project, but that there are four areas where advanced technology cannot be released. The Prime Minister may wish to say, if necessary, that we continue to attach importance to defence cooperation with Yugoslavia including on the LCA project; but that no change in our decision on the four areas can be expected in the timescale the Yugoslavs have indicated for the project.

iv) Trajkovski Twins.

Mrs Trajkovski, a British subject, returned last year from Yugoslavia with her children, who had been abducted by their Yugoslav father. She has obtained a court order in Britain denying access to the children by the father. The Yugoslavs maintain that this cuts across an assurance she gave to a Yugoslav court. We have told them that it is open to the father to contest the order made in this country.

Mr Djuranovic and his interpreter (Miss Brajovic) will be accompanied by the Yugoslav Ambassador, Mr Calovski. Personality notes are attached. Our Ambassador in Belgrade, Mr Wood, will also be present.

Yours ever

(L Parker)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

DJURANOVIC, VESELIN

Member for Montenegro of SFRY Presidency. (Five year mandate from 15 May 1984).

Born 1925 near Danilovgrad, Montenegro. Montenegrin.

Party: Partisans 1941. 1943 arrested by Italians and sent to Concentration Camp until 1944. Joined Party 1944. Member of the CC of Montenegrin LC and of its EC 1958. President of Ideological Commission of Montenegrin Party 1958-62. President of Montenegrin SAWP 1962-63. Member of EC of LC Montenegro 1964, and member of Federal CC 1964. President of LC Montenegro 1968. Re-elected 1974. Member of CC LCY 1982-86.

Government: Member of Council of Federation, President of EC Montenegro and President of Montenegrin EC Committee for Defence 1963-67. 1977 President of FEC; re-elected 1978. Also Member of Council for National Defence and of Federal Council for Protection of the Constitutional Order. 1982-83 President of Presidency of SR Montenegro. 1983-84 Member of Montenegrin Presidency.

Djuranovic was appointed the youngest ever Prime Minister in 1977. His time as Prime Minister was one when economic problems came home to roost, though he himself was not generally blamed. In 1982 he returned to Montenegro but was elected to the new SFRY Presidency in 1984 and was its first President (1984-85). He was not a forceful or charismatic President and failed to galvanise the Presidency into action during his term of office. Has been scarcely visible since.

Rather school-masterly. Has trouble with his back. Known by Montenegrins as "Ves o". Has two sons and one daughter. His wife worked in social insurance before retiring. Enjoys watching sport, particularly soccer.

CALOVSKI, MITKO

SFRY Ambassador to the United Kingdom, since May 1985.

Born 1930 in Bitola, in the region of Macedonia. Macedonian. Graduated from Higher Journalist-Diplomatic School in Belgrade 1953.

Member of LCY since 1948.

Has been member of the Committee of the LCY in the Federal Secretariat for Internal Affairs; member of the Communal Council SAWP Vracar in Belgrade; member of the Commission for International Links and Co-operation of the Federal Council of SAWPY; member of Election Commission of Federal Council SAWPY.

In government; Chef de Cabinet of the President of the Federal Council SAWPY; member of the Group of Current Economic Questions of the Federal Council SAWPY; SFRY Consul General in Toronto, Canada; Chief of the Group for Analysis and Planning in the Federal Secretariat for Foreign Affairs; Deputy Secretary of SFRY Presidency; and SFRY Ambassador to Canada.

1982-85 Federal Secretary for Information and Member of FEC.

Energetic and friendly but voluble, self-important and opinionated. Had a reputation as a hard-liner as Federal Secretary for Information.

Speaks good English as does his wife who has taught English literature in a Belgrade school.

212201Z
SIX COPIES FOR PS/NO 10 DOWNING ST
CONFIDENTIAL
PP FCOLN
FM BELGR TO FCOLN
161300Z MAR
GRS 847

CONFIDENTIAL AMENDED DISTRIBUTION 21 MARCH
FM BELGRADE
TO PRIORITY FCO
TELNO 72
OF 161300Z MARCH 88
INFO SAVING EASTERN EUROPEAN POSTS, BONN, WASHINGTON, PARIS, ROME
INFO SAVING UKDEL IMF/IBRD WASHINGTON, UKDEL OECD PARIS, UKDEL NATO

MY TELNO 69: VISIT BY MEMBER OF YUGOSLAV PRESIDENCY

SUMMARY

1. DJURANOVIC'S VISIT NEXT WEEK COMES AT A TIME OF DRIFT WITHIN BOTH PARTY AND GOVERNMENT LEADERSHIPS AND FRUSTRATION AMONG THE POPULACE. CHRONIC YUGOSLAV RELUCTANCE TO MAKE NECESSARY ECONOMIC CHANGES IS COMPOUNDED BY CURRENT POLITICAL UNCERTAINTIES. WE MAY BE ABLE TO HELP BY SHARPENING YUGOSLAV PERCEPTIONS OF THEIR OPTIONS.

DETAIL

2. I HAVE AN APPOINTMENT TO SEE THE SECRETARY OF FINANCE ON 18 MARCH. SUBJECT TO ANYTHING HE MAY SAY NOTHING SO FAR APPEARS TO HAVE HAPPENED WHICH MIGHT HELP OVERCOME THE IMPASSE IN YUGOSLAV NEGOTIATIONS WITH THE IMF, WHICH THE YUGOSLAVS NOW EXPECT TO RESUME ON 21 MARCH. THE FEC STILL DO NOT APPARENTLY SEE A NEED FOR SIGNIFICANT POLICY CHANGES, DESPITE THE PROSPECT OF SEVERE FOREIGN EXCHANGE DIFFICULTIES SOON, DISQUIETING INFLATION FIGURES FOR FEBRUARY FOR ALL THE PRICE FREEZE (WITH FIGURES FOR MARCH LIKELY TO BE AT LEAST AS BAD) AND SIGNS OF INTERNAL FINANCIAL STRAIN.

3. THE FIRST MEETING ON 9 MARCH OF THE COMMISSION UNDER MIKULIC'S CHAIRMANSHIP TO CONSIDER ECONOMIC REFORMS BASED ON GOVERNMENT PROGRAMMES TO DATE WAS INDICATIVE IN THE CONFUSION OF AIMS IT REVEALED. IT SEEMS THE WORKING BODIES OF THE COMMISSION HAVE YET TO BE ESTABLISHED. THE FEC APPEAR TO HAVE NO CLEAR IDEA OF WHAT TO DO AFTER THE FREEZE ENDS ON 15 MAY. THE PROMISED PRICE LIBERALISATION PROGRAMME IS LIKELY TO BEGIN BY FREEING THE PRICES OF 15 PER CENT OF YUGOSLAV GOODS AT PRESENT SAID TO BE IN SURPLUS SUPPLY. SPOKESMEN FOR THE GOVERNMENT SAY THE FEC ARE WORKING DAY AND NIGHT FOLLOWING UP THE 126 MEASURES AGREED IN NOVEMBER (''ASPIRATIONS'' WOULD BE A BETTER DESCRIPTION) BUT WE KNOW OF NO CONCRETE RESULTS SO FAR. IT IS AS THOUGH THE AUTHORITIES ARE HOPING EXORCISM WILL WORK, SINCE THEY CANNOT AGREE ON ACTION.

4. THE PRESENT FREEZE ENDS WITH THE EXPIRY OF MIKULIC'S FIRST MANDATE AS PRIME MINISTER. HE COULD NORMALLY EXPECT TO BE GIVEN ANOTHER 2 YEARS. HE PROBABLY WILL BUT IT COULD BE A CLOSE RUN THING, AND PRESENT POLITICAL UNCERTAINTIES MAKE IT STILL MORE DIFFICULT AT PRESENT TO DECIDE ON LONGER TERM POLICIES. IT IS CLEAR THAT MIKULIC'S STANDING IS VERY LOW AND THAT THE SLOVENES AND CROATS ARE NOT ALONE IN WISHING THERE WAS SOMEONE BETTER TO TAKE HIS PLACE. BUT THE ISSUES RUN DEEPER THAN THE QUESTION OF WHAT SHOULD BE DONE ABOUT THE PRESENT GOVERNMENT. DIVISIONS WITHIN THE ESTABLISHMENT AS A

WHOLE NOURISH THE HOPE THE STATUS QUO CAN SOMEHOW BE SHORED UP AND A CHOICE FURTHER POSTPONED BETWEEN SIGNIFICANT ECONOMIC AND EVENTUALLY POLITICAL REFORMS ON THE ONE HAND AND A MORE REACTIONARY STANCE ON THE OTHER. THE LATTER OPTION, HOWEVER IMPRACTICAL, APPEARS TO BE FAVOURED BY THE SERBIAN LEADERSHIP. BUT EVEN HERE THE SIGNALS ARE MIXED. THE 13TH PLENUM OF THE LCY HELD ON 29 FEBRUARY AND 1 MARCH IN PREPARATION FOR THE PARTY CONFERENCE, NOW DUE IN MAY, WAS NOTABLE FOR ITS TRENCHANT CRITICISM OF THE LEADERSHIP. BUT IT ENDED NONETHELESS WITH A SET OF THESES FOR THE CONFERENCE FULL OF EXHORTATION AND DEVOID OF REAL CONTENT.

5. THE LEVEL OF CONCERN AND MUTUAL CRITICISM WITHIN THE HIERARCHY HAS BEEN RISING IN RESPONSE TO THE GROWING PRESSURES. CRITICISM AND ALIENATION WITHIN THE OTHER AND MORE PUBLIC YUGOSLAVIA HAS AGAIN BEEN ON THE INCREASE, AND FULLY REPORTED AS WELL AS ARTICULATED IN THE YUGOSLAV MEDIA. PART OF IT HAS FOCUSSED ON MIKULIC AND THE FEC, WHICH OUGHT TO MEAN THAT ANY NEW TEAM COULD ATTRACT A MEASURE OF HOPE IF ONLY BY BEING DIFFERENT. THE ACCENT HAS ALSO BEEN ON YUGOSLAVIA'S SYSTEMIC WEAKNESSES, INCLUDING THE ROLE OF THE PARTY. THE CURRENT DEBATE OVER CONSTITUTIONAL AMENDMENTS COULD PERHAPS PROVIDE MORE AND MORE OF A FOCUS AND HAS ALREADY GONE BEYOND THE BOUNDS ITS PROTAGONISTS HAD HOPED TO SET. THE END RESULT WILL STILL NO DOUBT BE A MOUSE BUT THE FACT THAT THE MOUNTAIN IS IN SUCH LABOUR UNDERLINES THE DEPTH OF PUBLIC CONCERN.

6. YUGOSLAVIA IS PREOCCUPIED WITH ITSELF YET FOREIGN AFFAIRS NEVERTHELESS REMAIN IMPORTANT TO THE COUNTRY'S SELF-IMAGE. THE SUCCESS OF THE BALKAN CONFERENCE WAS A WELCOME BOOST. THE FACT THAT GORBACHEV IS SPENDING 5 DAYS HERE MAY HELP TOO. THE NON-ALIGNED MOVEMENT IS STILL IN THE LITANY THOUGH IN 3RD PLACE IN THE COUNTRY'S REAL CONCERNS, AFTER ITS RELATIONSHIP WITH THE EAST AND THE WEST. PROGRESS TOWARDS AN ARRANGEMENT WITH THE IMF IS CLEARLY THE MOST IMMEDIATE AND IMPORTANT PROBLEM IN THE LATTER CONTEXT. WE HAVE YET TO SEE SERIOUS PUBLIC CRITICISM OF THE FUND OR THE CREDITORS: THE ACCENT HAS BEEN ON THE YUGOSLAV NEED TO COPE WITH THE PROBLEMS THEY HAVE MADE FOR THEMSELVES.

7. WE CAN HELP THE YUGOSLAVS BY DOING WHAT WE CAN TO CONCENTRATE THEIR MINDS, PARTICULARLY BY OUR ATTITUDES TOWARDS THEIR NEGOTIATIONS WITH THE IMF AND REFINANCING, AS WELL AS THE COUNTRY'S RELATIONSHIP WITH THE COMMUNITY. IT IS GOOD THAT WE ARE PREPARED TO GIVE THEM SYMPATHY AND PUBLIC ATTENTION AS WELL AS TO ACCORD THEM THE DIGNITY OF ESCHEWING THE OPTION OF OFFERING SHORT-TERM PALLIATIVES.

WOOD

YYYY
MAIN 43
LIMITED 8
EED 6
ERD 5
PROTOCOL DEPT 7
SOVIET DEPT 5
ECD(E) 6
SIR J FRETWELL 1
MR BRAITHWAITE 1
MR MAUD 1
MR HERVEY 1
MR RATFORD 2

CONFIDENTIAL

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

10 March 1988

YUGOSLAV REQUEST FOR A T.V. INTERVIEW WITH THE PRIME MINISTER

Thank you for your further letter of 8 March about the Yugoslav request for a T.V. interview with the Prime Minister at the time of Mr. Djuranovic's visit.

I have discussed this with the Prime Minister. I am afraid that she is not willing to do it. It comes at a particularly busy time and she feels that the preparation required is more than she can take on at present.

C. D. Powell

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

COVERING CONFIDENTIAL

Prime Minister

Would you be willing to give a ½ hour interview to Yugoslav television before Mr. Djuranovic's visit on 23 March?

CDP 9/3

CDC ✓ (1)

I would rather not. It is too near and I would need to do a lot of work not

Mr. Hoffman for advice please

Foreign and Commonwealth Office
London SW1A 2AH

8 March 1988

Dear Charles,

Yugoslav Request for a TV Interview with the Prime Minister

Thank you for your letter of ~~3~~ 4 March.

The Yugoslavs have said they would like the interview to cover bilateral relations; the Yugoslav economy, and relations with the IMF and Paris Club; Yugoslavia's relations with the Community; and East/West relations. They have said that there will be no questions about Waldheim.

The question of a single interviewer is more difficult. The Yugoslavs have told us that they made their suggestion of an interview with three journalists partly because this was the format used for the Prime Minister's TV interview in Moscow, which they found particularly effective. In addition, TV services in Yugoslavia are run on a regional basis. If the Prime Minister were to give an interview to only one Yugoslav TV journalist, this would unfortunately mean, given local rivalries etc, that it would probably be broadcast in only one region. For the reasons in my earlier letter, it would be useful if the Prime Minister's answers could reach the widest possible audience. Mr Wood in Belgrade therefore recommends that, if possible, an interview should be arranged with all three journalists mentioned in para 2 of his telno 51 (further copy enclosed).

Yours ever,

Lyn Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

COVERING CONFIDENTIAL

142346
MDHIAN 9870

CONFIDENTIAL
FM BELGRADE
TO IMMEDIATE FCO
TELNO 51
OF 010930Z MARCH 88

MY TELNO 45: DJURANOVIC VISIT

SUMMARY

1. YUGOSLAVS ASK FOR TV INTERVIEW WITH THE PRIME MINISTER AT THE TIME OF THE DJURANOVIC VISIT. A CHANCE TO PUT OUR VIEWS ACROSS I HOPE WE CAN SEIZE.

DETAIL

2. I HAVE BEEN ASKED WHETHER THE PRIME MINISTER WILL AGREE TO GIVE A TV INTERVIEW TO THREE YUGOSLAV JOURNALISTS REPRESENTING LJUBLJANA, ZAGREB AND BELGRADE TELEVISIONS AROUND THE TIME OF THE DJURANOVIC VISIT. THE IDEAL TIMING WOULD BE JUST BEFORE DJURANOVIC ARRIVED BUT THE JOURNALISTS WOULD OF COURSE ADJUST THEIR SCHEDULES TO SUIT THE PRIME MINISTER'S CONVENIENCE. THE INTERVIEWERS SUGGESTED ARE JURI GUSTINCIC, A FORMER POLITIKA CORRESPONDENT IN LONDON AND WASHINGTON AND A MAN OF VERY WIDE INTERNATIONAL EXPERIENCE, GORAN MILIC, THE ANCHORMAN OF THE CURRENT AFFAIRS PROGRAMME IN BELGRADE TV AND ZORAN BOSNJAK, FORMER CORRESPONDENT FOR VJESNIK IN WASHINGTON AND CURRENTLY CHIEF EDITOR OF START MAGAZINE WHOM THE OTHER TWO FEEL WOULD BE A USEFUL AS WELL AS ACUTE REPRESENTATIVE OF A YOUNGER GENERATION OF YUGOSLAVS. ALL THREE SPEAK FIRST CLASS ENGLISH.

3. THE TEAM WOULD HOPE IN THEIR QUESTIONS TO DEAL BRIEFLY WITH BILATERAL AFFAIRS AND THEN TO CONCENTRATE ON ECONOMIC AND EUROPEAN ISSUES PARTICULARLY, IN THE LATTER CONTEXT, ON HOW EUROPEAN INTEGRATION MAY EFFECT NON-EC COUNTRIES.

4. THE PUBLIC ASPECTS OF THE DJURANOVIC VISIT ARE PERHAPS AT LEAST AS IMPORTANT AS THE OPPORTUNITY OUR EXCHANGES WILL GIVE US TO GET OUR VIEWS THROUGH TO THE YUGOSLAV HIERARCHY. THIS WILL BE ALL THE MORE SO IN THE LIGHT OF PROBABLE PRESS TREATMENT HERE OF THE GORBACHEV VISIT BEGINNING 14 MARCH AND AT A DIFFICULT TIME IN IMF/ YUGOSLAV NEGOTIATIONS . IT WAS AGREED AT YOUR 1986 OFFICE MEETING FOLLOWING YOUR VISIT TO YUGOSLAVIA THAT WE SHOULD TAKE EVERY OPPORTUNITY TO PROMOTE A WIDER UNDERSTANDING IN THIS COUNTRY OF BRITISH ATTITUDES. THERE IS WIDESPREAD ADMIRATION HERE FOR THE WAY WE HAVE BEEN ABLE TO TURN OUR ECONOMIC FORTUNES AROUND AND THE PRIME

MINISTER'S VIEWS CARRY PARTICULAR AUTHORITY. I THEREFORE VERY MUCH HOPE A WAY WILL BE FOUND TO MEET THE YUGOSLAV REQUEST, WHICH CARRIES, AS I UNDERSTAND IT, THE BLESSING OF THE NEW YUGOSLAV FOREIGN SECRETARY.

5. IF AGREEMENT IN PRINCIPLE TO THE INTERVIEW CAN BE GIVEN I SHALL EXPLORE IN MORE DETAIL WITH THE JOURNALISTS THE QUESTIONS THEY WILL WISH TO PUT AND WILL SUGGEST WAYS IN WHICH THEY MIGHT BE APPROACHED. IN THE MEANTIME HOWEVER I WOULD RECOMMEND THAT THE CENTRAL AXIS OF ANY INTERVIEW MIGHT BE TO GET ACROSS THE POINT THAT ALTHOUGH WE ARE CONCERNED AT THE WAY THINGS ARE GOING HERE IT IS UP TO THE YUGOSLAVS THEMSELVES TO TAKE EFFECTIVE ACTION BY ADOPTING A CLEAR HEADED APPROACH TO THEIR ECONOMIC PROBLEMS SO AS TO REGAIN THE CONFIDENCE OF CAPITAL MARKETS, AND THAT THIS IS ALSO ESSENTIAL FOR A STILL MORE PRODUCTIVE RELATIONSHIP WITH THE EC. I SUGGESTED AN OVERALL APPROACH TO THE DJURANOVIC VISIT IN MY LETTER OF 8 FEBRUARY TO FIGGIS, EED. I HAVE NO DOUBT AN INTERVIEW WITH THE PRIME MINISTER WOULD GREATLY INCREASE THE IMPACT OF THE OCCASION. WITHOUT IT, COVERAGE HERE IS LIKELY TO BE BLAND, IF NOT COMPLACENT, IF ONLY BECAUSE THE MEDIA WILL BE DEPENDENT ON THEIR LONDON CORRESPONDENTS AND OFFICIAL ACCOUNTS.

WOOD

YYYY

DISTRIBUTION 154

MAIN 153

MONETARY EED

ADDITIONAL 1

MR WICKS NO 10.

NNNN

Yugoslavia Relations, Jan 80.

Pls bring forward with briefs for Djuranovic visit
CDO.
9/3

MR POWELL

8 March 1988

c Mr Ratford, FCO
Mr Figgis, FCO

LUNCH WITH THE YUGOSLAV AMBASSADOR

1. I had lunch with the Yugoslav Ambassador, Mr Calovski, today.

2. He asked about the likely subjects for discussion when Mr Djuranovic called on the Prime Minister on 23 March. Following the line already taken by the Foreign Office, I suggested (a) East/West relations, to include Yugoslav/Soviet relations and perceptions of Mr Gorbachev in the light of the latter's visit to Belgrade just before Djuranovic's London visit; (b) the Yugoslav economy and relations with the IMF and European Community; (c) bilateral relations, including our claims over the Zagreb air disaster.

3. Under 2(b) above, I emphasised the importance we attach to Yugoslavia adopting a more market-orientated policy and reaching a satisfactory agreement with the IMF. The Ambassador pleaded volubly for sympathy and understanding as well as prescription. He said the Yugoslavs would particularly welcome a sympathetic attitude from the Prime Minister on the question of a bridging loan, a matter of £600m, to see them through from the end of the first quarter this year to the end of the summer when their tourist receipts would come in. He said the Italians had been helpful, promising to consider this application. I said I could not, of course, give a final answer on this point, but should wish to leave him under no illusions. Our Ministers would be likely to regard a good IMF agreement as the pre-requisite for anything else; thereafter we would be anxious to play a constructive role, but not before.

4. Under 2(c) above, I said that we would attach importance towards a satisfactory settlement of the Zagreb claims. I understood that we were nearing the end of the legal process. The Ambassador confirmed this. It was not possible to intervene in the judicial process, but once that was over the Yugoslavs would want to adopt a helpful attitude in the interests of good relations with the UK.

5. The Ambassador said that Djuranovic might also wish to raise the subject of the United Nations, in particular Yugoslavia's coming role as President of the Security Council. He was a little concerned at the shortness of the time available for the interview with the Prime Minister and hoped it would be possible for the conversation to go on during lunch. I assured him that there would be no difficulty about this.

6. Another subject likely to be raised is that of a visit by the Prime Minister to Yugoslavia soon. The Yugoslavs recognise that 1988 is out of the question but hope that a visit in 1989 will be possible.

PERCY CRADOCK

dlo

cc PC

Foreign and Commonwealth Office

London SW1A 2AH

4 March 1988

CSP 7/3

Dear Charles,

Yugoslavia: Visit by Djuranovic, Member of Federal Presidency: 22-25 March

I enclose a draft for the speech which the Prime Minister is to make at lunch for Djuranovic on Wednesday 23 March. The Foreign Secretary is content with it.

One of our main objectives for Djuranovic's visit will be to maintain pressure on the Yugoslavs to adopt more sensible, market-oriented economic policies. The draft reflects this. But it needs to strike an appropriate balance between admonition and recognition of our special links with Yugoslavia. It therefore also contains positive references to other aspects, in particular the importance of Yugoslavia's relationship with the European Community.

The Yugoslavs have asked if they may be given the text of the Prime Minister's speech in advance. I hope the Prime Minister will agree to this. They plan to publish the text in full, and have promised us Djuranovic's text before the lunch takes place. If texts have been exchanged in advance, the Prime Minister's remarks could, we suggest, be translated simultaneously to Djuranovic only by the interpreter: all the other members of his party speak good English. (Djuranovic's speech will, we assume, need to be translated consecutively.)

Yours ever,

Lyn Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

DRAFT SPEECH BY THE PRIME MINISTER AT LUNCH FOR MR VESELIN DJURANOVIC, MEMBER OF THE YUGOSLAV FEDERAL PRESIDENCY, 23 MARCH

Your Excellency, ladies and gentlemen. I am delighted to welcome you and your delegation on this important visit. It adds another link to the strong chain of friendship, mutual interest and open discussion which has bound Britain and Yugoslavia together over many years.

Yugoslavia is a unique country. I have travelled there ~~a total of~~ three times on official duties. My two visits as Prime Minister were highly memorable. The first was to mark a sad moment in your history - the funeral of President Tito. On the second occasion later in 1980 you, Mr Djuranovic, acted as my host as chairman of the Federal Executive Council. You have occupied several important political posts since then. I am glad to say that I have stayed where I am. But it is a great pleasure that I can now repay some of your hospitality.

Our bilateral relations are established on a firm and well-tried basis. We have a history of 150 years of diplomatic relations, cooperation in two world wars and links between our peoples at all levels. I said to you in 1980 that our two countries, from being staunch allies in wartime, had become warm friends in peace, able to speak frankly to each other on a wide range of issues. That is still true and necessary today. There are few barriers between us, and almost no constraints on the subjects we can discuss and tackle together.

By its struggle for freedom during the war, Yugoslavia made a major contribution to European history. Britain gave active and practical support. Subsequently Yugoslavia developed and put into practice its own distinctive system of socialism. This process has been marked by increasing recognition of the need for a decisive role for market forces. Our own process of development has been very different, resting as it does on a multi-party system and the sovereignty of Parliament. But we share an acceptance that the market is the most effective way of realising a nation's potential and increasing its wealth.

The process of exposing an economy to market forces requires difficult and often painful decisions. Our own experience, over the past nine years, has been that clear objectives are needed. They need to be fought for, in the face of inevitable opposition. The problems are never easy. But to postpone solutions simply makes things worse. The Yugoslav people do not lack the qualities of courage and imagination which are needed. As in the past, we in Britain will support you in your search for appropriate policies and, together with the IMF and Yugoslavia's other Western creditors, for a sound long term basis for the restructuring of debt.

Successful foreign trade performance is a vital part of your programme of economic recovery. I am glad to say that trade between Britain and Yugoslavia is contributing strongly to this. Exports by British companies to the Yugoslav market have increased, and reached some £206m last year. Your own exporters also have much to be proud of. In 1982, the year in which your stabilisation programme was drawn up, the ratio of our visible trade was over 2 to 1 in Britain's favour. Our visible trade is now almost balanced. Yugoslav exports to the British market have increased from £52m in 1982 to £175m last year. And you are also forging ahead in the trade in invisibles. Last year around three quarters of a million British visitors enjoyed the sun and friendliness of Yugoslavia. With a country as beautiful as yours, that is not surprising. But it is gratifying, and a useful contribution to your economic health.

A stable and prosperous Yugoslavia is very much in the interests of Britain and I believe also of our partners in the European Community. I am glad that, last year, negotiations were successfully concluded on the new trade and financial protocols to Yugoslavia's Cooperation Agreement with the Community. The year ended with a productive meeting of the Cooperation Council. A positive and forward-looking resolution was adopted on relations between the Community and Yugoslavia. It noted our common desire to strengthen, intensify and broaden cooperation. We in Britain greatly welcome this, and the striking increase in Yugoslavia's exports to the European Community over the past decade. There are

of course significant differences between Yugoslavia's economic system and those of Community countries. The match between us is not perfect. But we in Britain have worked hard and will continue to do so to achieve a relationship which is as rewarding and positive as possible to both sides. The Round Table on "Yugoslavia and Europe", to take place here next month, will play its part in this process.

Your Excellency, we can be proud of the friendly and open relations which our countries already have. For the future, there are opportunities for even more extensive and fruitful cooperation. You visit, and our talks, will have made their own contributions to the process. I raise my glass to relations between Britain and Yugoslavia, to the success and well-being of the Yugoslav peoples and to you and your colleagues in the Presidency of the Socialist Federal Republic of Yugoslavia.

ALI AAP

CONFIDENTIAL

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

3 March 1988

YUGOSLAV REQUEST FOR A TV INTERVIEW WITH THE PRIME MINISTER

Thank you for your letter of 2 March about the Yugoslav request for a television interview with the Prime Minister.

Before putting this to the Prime Minister, I need to know more about the line of questioning which will be pursued. We do not, for instance, want it to get into the subject of Waldheim. Also, it would have to be limited to a single interviewer. I should be grateful if you could establish whether these points could be settled satisfactorily.

(CHARLES POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

D. Powell

We shd not decide until we know line of questioning (? Waldheim)

And we should insist on any one journalist.

[illegible]

10 DOWNING STREET

Mr. [illegible]

What do you think? I don't like the idea of 3 journalists.

[illegible]

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

2 March 1988

Dear Charles,

Djuranovic Visit: Yugoslav Request for TV Interview with the Prime Minister

The Yugoslavs have asked for a TV interview with the Prime Minister, in the context of the visit to London by Djuranovic, member of their Federal Presidency, on 22-25 March. Mr Wood in Belgrade has strongly recommended that an interview be granted, if possible before Djuranovic arrives (Belgrade telno 51, copy enclosed).

Para 2 of the telgram gives details of the three Yugoslav journalists who would conduct the interview. They are all competent, and speak excellent English. Mr Wood's para 3 explains the ground which would be covered.

One of our main objectives in inviting Djuranovic, as you know, is to persuade him that Yugoslavia needs more coherent and market-oriented economic policies. As Mr Wood says (para 5 of the telegram) a TV interview with the Prime Minister would be the ideal way of getting this message across to a wide audience in Yugoslavia. The Prime Minister's speech at her lunch for Djuranovic, which we hope will be published in Yugoslavia and of which I shall shortly be sending you a draft, will be an opportunity to do this. But a TV interview would greatly reinforce the impact. We therefore hope that the Prime Minister will agree.

If the Prime Minister is content and you can say what time would be convenient, we will ask Mr Wood, as he suggests, to explore in more detail what questions the journalists will wish to put, and will let you have some material on which replies might be based.

Yours ever,

Lyn Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

(for No 10)

CONFIDENTIAL

142346
MDHIAN 9870

CONFIDENTIAL
FM BELGRADE
TO IMMEDIATE FCO
TELNO 51
OF 010930Z MARCH 88

MY TELNO 45: DJURANOVIC VISIT

SUMMARY

1. YUGOSLAVS ASK FOR TV INTERVIEW WITH THE PRIME MINISTER AT THE TIME OF THE DJURANOVIC VISIT. A CHANCE TO PUT OUR VIEWS ACROSS I HOPE WE CAN SEIZE.

DETAIL

2. I HAVE BEEN ASKED WHETHER THE PRIME MINISTER WILL AGREE TO GIVE A TV INTERVIEW TO THREE YUGOSLAV JOURNALISTS REPRESENTING LJUBLJANA, ZAGREB AND BELGRADE TELEVISIONS AROUND THE TIME OF THE DJURANOVIC VISIT. THE IDEAL TIMING WOULD BE JUST BEFORE DJURANOVIC ARRIVED BUT THE JOURNALISTS WOULD OF COURSE ADJUST THEIR SCHEDULES TO SUIT THE PRIME MINISTER'S CONVENIENCE. THE INTERVIEWERS SUGGESTED ARE JURI GUSTINCIC, A FORMER POLITIKA CORRESPONDENT IN LONDON AND WASHINGTON AND A MAN OF VERY WIDE INTERNATIONAL EXPERIENCE, GORAN MILIC, THE ANCHORMAN OF THE CURRENT AFFAIRS PROGRAMME IN BELGRADE TV AND ZORAN BOSNJAK, FORMER CORRESPONDENT FOR VJESNIK IN WASHINGTON AND CURRENTLY CHIEF EDITOR OF START MAGAZINE WHOM THE OTHER TWO FEEL WOULD BE A USEFUL AS WELL AS ACUTE REPRESENTATIVE OF A YOUNGER GENERATION OF YUGOSLAVS. ALL THREE SPEAK FIRST CLASS ENGLISH.

3. THE TEAM WOULD HOPE IN THEIR QUESTIONS TO DEAL BRIEFLY WITH BILATERAL AFFAIRS AND THEN TO CONCENTRATE ON ECONOMIC AND EUROPEAN ISSUES PARTICULARLY, IN THE LATTER CONTEXT, ON HOW EUROPEAN INTEGRATION MAY EFFECT NON-EC COUNTRIES.

4. THE PUBLIC ASPECTS OF THE DJURANOVIC VISIT ARE PERHAPS AT LEAST AS IMPORTANT AS THE OPPORTUNITY OUR EXCHANGES WILL GIVE US TO GET OUR VIEWS THROUGH TO THE YUGOSLAV HIERARCHY. THIS WILL BE ALL THE MORE SO IN THE LIGHT OF PROBABLE PRESS TREATMENT HERE OF THE GORBACHEV VISIT BEGINNING 14 MARCH AND AT A DIFFICULT TIME IN IMF/ YUGOSLAV NEGOTIATIONS . IT WAS AGREED AT YOUR 1986 OFFICE MEETING FOLLOWING YOUR VISIT TO YUGOSLAVIA THAT WE SHOULD TAKE EVERY OPPORTUNITY TO PROMOTE A WIDER UNDERSTANDING IN THIS COUNTRY OF BRITISH ATTITUDES. THERE IS WIDESPREAD ADMIRATION HERE FOR THE WAY WE HAVE BEEN ABLE TO TURN OUR ECONOMIC FORTUNES AROUND AND THE PRIME

MINISTER'S VIEWS CARRY PARTICULAR AUTHORITY. I THEREFORE VERY MUCH HOPE A WAY WILL BE FOUND TO MEET THE YUGOSLAV REQUEST, WHICH CARRIES, AS I UNDERSTAND IT, THE BLESSING OF THE NEW YUGOSLAV FOREIGN SECRETARY.

5. IF AGREEMENT IN PRINCIPLE TO THE INTERVIEW CAN BE GIVEN I SHALL EXPLORE IN MORE DETAIL WITH THE JOURNALISTS THE QUESTIONS THEY WILL WISH TO PUT AND WILL SUGGEST WAYS IN WHICH THEY MIGHT BE APPROACHED. IN THE MEANTIME HOWEVER I WOULD RECOMMEND THAT THE CENTRAL AXIS OF ANY INTERVIEW MIGHT BE TO GET ACROSS THE POINT THAT ALTHOUGH WE ARE CONCERNED AT THE WAY THINGS ARE GOING HERE IT IS UP TO THE YUGOSLAVS THEMSELVES TO TAKE EFFECTIVE ACTION BY ADOPTING A CLEAR HEADED APPROACH TO THEIR ECONOMIC PROBLEMS SO AS TO REGAIN THE CONFIDENCE OF CAPITAL MARKETS, AND THAT THIS IS ALSO ESSENTIAL FOR A STILL MORE PRODUCTIVE RELATIONSHIP WITH THE EC. I SUGGESTED AN OVERALL APPROACH TO THE DJURANOVIC VISIT IN MY LETTER OF 8 FEBRUARY TO FIGGIS, EED. I HAVE NO DOUBT AN INTERVIEW WITH THE PRIME MINISTER WOULD GREATLY INCREASE THE IMPACT OF THE OCCASION. WITHOUT IT, COVERAGE HERE IS LIKELY TO BE BLAND, IF NOT COMPLACENT, IF ONLY BECAUSE THE MEDIA WILL BE DEPENDENT ON THEIR LONDON CORRESPONDENTS AND OFFICIAL ACCOUNTS.

WOOD

YYYY

DISTRIBUTION 154

MAIN 153

MONETARY EED

ADDITIONAL 1

MR WICKS NO 10.

NNNN

RESTRICTED

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 February 1988

**VISIT BY VESELIN DJURANOVIC,
MEMBER OF YUGOSLAV FEDERAL PRESIDENCY**

Thank you for your letter of 4 February about the visit of Mr. Djuranovic. I am sure the Prime Minister would be agreeable to a Guard of Honour in the FCO Quadrangle.

(CHARLES POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

RESTRICTED

RESTRICTED

Foreign and Commonwealth Office

London SW1A 2AH

4 February 1988

Dear Charles,

Visit by Veselin Djuranovic, Member of Yugolsav Federal Presidency

In my letter of 14 December, I said that the Yugoslavs had accepted 22-25 March as dates for this visit.

We recommend that Mr Djuranovic should be offered a guard of honour. Members of the Yugoslav Federal Presidency act as joint Head of State on visits abroad. Mr Djuranovic will be seeing the Queen, on the afternoon of 22 March. It is in our interests to show the Yugoslavs that HMG have gone to some trouble over the protocol for the visit. That will help us to get over more effectively our points of substance, such as the need for further economic reform and for settlement of British claims following the Zagreb air crash of 1976.

The Crown Prince of Qatar will be visiting London at the same time as Mr Djuranovic (see Robert Culshaw's letter today). We would not wish the Yugoslavs to draw unfavourable parallels.

If the Prime Minister agrees, the most convenient time and place would of course be immediately before the call on her, at about 1130 on 23 March, in the FCO quadrangle.

Yours ever,

(L Parker)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

RESTRICTED

Yugoslavia: Relation
Jan 80

04. II. PM 8 8

Foreign and Commonwealth Office

London SW1A 2AH

14 December 1987

TE to note
CDP
15/XII

Dear Charles,

Visit by Member of Yugoslav Federal Presidency

In your letter of 5 November, you said that the Prime Minister could manage talks with Mr Djuranovic at 1200 hrs on 23 March, followed by lunch.

You will wish to know that the Yugoslavs have now accepted the dates we offered for the visit (22-25 March). We will submit a proposed guest list for the Prime Minister's lunch in due course.

Yours ever,

Tony Galsworthy

(A C Galsworthy)
Private Secretary

C D Powell Esq
10 Downing Street

YUGO : relations Jan 80.

CONFIDENTIAL

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 November 1987

VISIT BY MEMBER OF YUGOSLAV FEDERAL PRESIDENCY

Thank you for your letter of 4 November about the proposed visit of Mr. Veselin Djuranovic next year. The Prime Minister could manage talks at 12 o'clock on 23 March followed by lunch. I should be grateful if you could put the necessary arrangements in hand.

CHARLES POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

dc PC

Andy

Can we manage any of these dates? A meal and an hour. CD

attached

Foreign and Commonwealth Office

London SW1A 2AH

4 November 1987

Dear Charles,

Visit by Member of Yugoslav Federal Presidency

In your letter of 28 July, you said that the Prime Minister agreed in principle that we should invite a member of the Yugoslav Federal Presidency to London in early 1988.

The Yugoslavs have now told us that the person they have in mind is Veselin Djuranovic, who represents Montenegro on the collective Presidency, and whom the Prime Minister will remember from her visit to Yugoslavia in 1980 (when he was Federal Prime Minister). Other members of the Presidency are due to visit the US and France before the end of this year. The Yugoslavs have said that they would like Djuranovic's visit to take place as soon as possible, partly in order to balance an expected early visit by Gorbachev to Belgrade. They have apologised for the delay in putting his name forward, blaming this on preoccupation with their economic and financial situation.

As you know from my letter of 27 July, the Prime Minister's involvement in a visit by Djuranovic would be limited to a meeting and a meal. The Foreign Secretary hopes it may be possible to offer dates fairly early in 1988. From what we know of the Prime Minister's plans, and on the basis of the Foreign Secretary's commitments, the following dates may be possible candidates:

22-23 or 23-24 March
27-28 April

If the Prime Minister were able to manage talks and a lunch on 23 March or 27 April, the Foreign Secretary would be able to attend. The earlier date would have the advantage that it would allow us to pursue a possible brief call by Djuranovic on the Queen, for which the Yugoslavs have asked. The Queen will not be in London on 27 April.

I should be grateful if you could let me know whether any of these dates would suit the Prime Minister.

Yours ever,

Lyn Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

Tel. sent to B'post, and letters to Belgrade + Warsaw.
1. Enter
2. [illegible] 30/7.
3. B.U. 11 Aug. pl.

CONFIDENTIAL

Mr Figgis, EED
cc PS
PS/Mr Mellor
PS/Pus
Sir J Fretwell
Protocol Dept
Mr Hanston.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

ENU 0201
RECEIVED IN REGISTRY
30 JUL 1987

28 July 1987

Advice on final para. 11 due course, please
Lyn Parker 28/7.

Dear Lyn,

RELATIONS WITH EASTERN EUROPE AND YUGOSLAVIA

Thank you for your letter of 27 July about the way ahead in our relations with Eastern Europe.

The Prime Minister agrees in principle that we should invite a member of the Yugoslav Federal Presidency to London, but would wish this to be in early 1988. We already have as many visitors as we can manage in the second half of 1987.

The Prime Minister is also content that we should invite the new Hungarian Prime Minister to visit the United Kingdom next year, although we should look for dates in the second or third quarters of 1988. In this case, as for the Yugoslavs, she notes that her own involvement would be limited to a meeting and a lunch or dinner.

The proposal for a visit by the Prime Minister to Poland in 1988 raises a number of questions. The Prime Minister thinks that it would have to be clear in advance that not only would she be able to meet Lech Walesa, but that she would also be able to visit Father Popieluszko's grave, meet church leaders and appear on television. It would be helpful to know whether you think these conditions could be met, before putting the question of a visit back to the Prime Minister for a decision.

Yours ever,
Charles Powell

Charles Powell

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

ENU 0201
RECEIVED IN REGISTRY
30 JUL 1987

27 July 1987

Dear Charles,

Relations with Eastern Europe and Yugoslavia

Sir Geoffrey Howe suggests that it would now be appropriate to consider the role which relations with Eastern Europe and Yugoslavia should play in the next phase of the Government's approach to East/West relations, and the Prime Minister's possible involvement in this.

As you know, our policy towards the Soviet Union's allies is to try to widen the room for manoeuvre available to them, and to encourage more open societies, including market-oriented economic reform. With Yugoslavia, our approach is to maintain similar pressure for change, while underlining the importance we attach to Yugoslavia's independence and non-alignment.

As you said in your letter of 23 February about relations with Poland, the level of meetings has a particular symbolic importance in dealing with communist countries. To take Yugoslavia first, the Prime Minister went there twice in 1980 (once for Tito's funeral), and had a return visit from Mrs Planinc in 1983. Sir Geoffrey Howe went to Belgrade in early 1986, and will invite the Yugoslav Foreign Secretary here probably in the second half of 1988. Last year, the Yugoslavs pressed for a return visit by the Prime Minister in 1987. We explained (your letter of 19 December) that this would not be possible. They have now proposed that a member of their collective Federal Presidency (probably either the Slovene, Dolanc, or the Croat, Vrhovec, though they will not be able to tell us which until the early autumn) should come to London for a meeting with the Prime Minister and a short programme of other activities. The timing they have in mind is late 1987 or fairly early next year.

The Foreign Secretary considers that this would be a good way of maintaining the necessary high level contact with the Yugoslavs, without taking up too much of the Prime Minister's time. The Yugoslavs have been showing signs of uncertainty about their future role in Europe. Gorbachev is due in Belgrade later this year. They are anxious to balance that visit with similar top level contacts with the West - they are planning to send a member of their Presidency to France and the US, and

/we

CONFIDENTIAL

we understand that Chancellor Kohl has agreed in principle to go to Belgrade. A meeting with the Prime Minister would be an opportunity to reassure them that the West will continue to help with Yugoslavia's economic problems, where this is prudently possible. But the Prime Minister is also ideally placed to point out that, without further changes in the Yugoslav economic system, the scope for closer links with the EC (and for debt repayment) will be greatly reduced. Formally, the Prime Minister would need to be the host for such a visit, and would need to offer the visitor a meal. But otherwise her involvement could be limited to a meeting of say one hour.

As for Eastern Europe, Gorbachev's policies have created expectations of change. And the Prime Minister's visit to Moscow has aroused hopes that she may fairly soon pay a further visit to Eastern Europe, thus acknowledging the part which Eastern Europe can continue to play in East/West relations. Against this background, the Foreign Secretary hopes that the Prime Minister might be ready to invite the new Prime Minister of Hungary, Karolyi Grosz, to visit Britain; and that she will feel able to go firm on a visit to Poland sometime during 1988.

There has been further solid progress in our relations with Hungary since the Prime Minister went there in 1984, and since Kadar's return visit to London in 1985. A further top-level contact would help to maintain the momentum. Grosz is a leading candidate to succeed Kadar. As Prime Minister, he will be responsible for the next phase of Hungary's economic reform. He has expressed a strong interest in (and admiration for) Britain's industrial restructuring. He has little experience of the West. A fairly early meeting with the Prime Minister would be invaluable in encouraging him to adopt an appropriately bold approach on the economy, rather than half measures. The Prime Minister's involvement would not need to go beyond what is proposed above for a member of the Yugoslav Presidency.

As for the proposed visit to Poland, the background remains much as described in my letter of 23 February. When he sees the Prime Minister in December, the Polish Foreign Minister will undoubtedly press her to make a visit. Jaruzelski is extremely keen that she should go. If the Prime Minister decided to do so, the prospect of a visit, as well as the visit itself, could be exploited to keep Poland moving in a more liberal direction politically, and to maintain pressure for economic reform. It would have to be made clear that the Prime Minister would wish to see Walesa. This would not be easy for the Polish authorities to accept, but Sir Geoffrey Howe believes they would probably do so. That meeting would, of course, have a strong resonance both within and outside Poland.

/If

If possible, it would be useful to have a reaction on a visit by Grosz by 29 July. Our Ambassador in Budapest hopes to see him at the end of this week, mainly to lobby further for a Hungarian purchase of six BAe 146 aircraft (which is still very much on the cards). It would be ideal, including in the context of that contract, if Mr Appleyard were able to confirm that the Prime Minister would be willing to see Mr Grosz, say next spring.

To summarise, the Foreign Secretary hopes that the Prime Minister will agree to see a member of the Yugoslav Federal Presidency late this year or in the first half of 1988; to invite the Hungarian Prime Minister next spring; and to consider a visit to Poland some time next year.

Yours ever,

(L Parker)
Private Secretary

C D Powell Esq
PS/10 Downing Street

Lord Thomas informed. ①
He will let us
know a note of anything
of interest which emerges
from his own contacts.
CDP
4/3

PRIME MINISTER

Hugh Thomas has been in touch to say that Djilas is apparently in London this week, the first time in 15 years that he has been allowed out of Yugoslavia. Hugh wonders whether you would like to see him.

It would be very difficult in diary terms, and it would also cause problems with the Yugoslav government. Rather regrettably I conclude that it would be better for someone at a rather lower level to see him.

Content for me to say this to Hugh Thomas?

CDP

It is only time that prevents me. I just can't take on any more.

CHARLES POWELL

3 March 1987

EMBASSY OF THE SOCIALIST FEDERAL
REPUBLIC OF YUGOSLAVIA

5 LEXHAM GARDENS,
LONDON, W8 5JU.
Tel: 01-370 6105

CDP
197.

London, 7th July, 1986

Dear Private Secretary,

It is my honour to enclose a message addressed to the Right Honourable Margaret Thatcher, Prime Minister of the United Kingdom of Great Britain and Northern Ireland, by the President of the Federal Executive Council of the SFR of Yugoslavia Mr. Branko Mikulic.

With best wishes,

Yours sincerely,

Branko Brankovic
Charge d'Affaires a.i.

Private Secretary to
the Prime Minister of the United Kingdom
of Great Britain and Northern Ireland
London

SUBJECT CC MASTER OPS.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T121A/86

T E L E G R A M M E

PRESIDENT OF THE FEDERAL EXECUTIVE
COUNCIL OF THE SFR OF YUGOSLAVIA

Belgrade, 30th Jun 1986

Thank you most cordially for the felicitations and best wishes extended to me on the occasion of my election as President of the Federal Executive Councile.

I avail myself of this opportunity to extend to you the best wishes for new successes in your work, for your personal happiness and good health.

(Sgd) Branko Mikulic

The Rt Hon Margaret Tatcher, MP
Prime Minister of the United Kingdom
of Great Britain and Northern Ireland
L o n d o n

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

22 May 1986

The Prime Minister has asked me to thank you warmly for your letter of 22 May with which you conveyed Mrs. Planinc's reply to her recent message. Mrs. Thatcher shares Mr. Mikulic's wish to see the relations between our two countries further strengthened and improved.

(C. D. POWELL)

His Excellency Monsieur Mitko Calovski

010

CCR

EMBASSY OF THE SOCIALIST FEDERAL
REPUBLIC OF YUGOSLAVIA

5 LEXHAM GARDENS,
LONDON, W8 5JU.
Tel: 01-370 6105

London, 22 May 1986

Dear Madam Prime Minister,

I have the honour to transmit the message addressed to you by Mrs. Milka Planinc, the outgoing President of the Federal Executive Council of the Assembly of the SFR of Yugoslavia, which I have just received.

May I take this opportunity, dear Madam Prime Minister, to thank you also on my own behalf for your kind gesture in extending your best wishes to my Prime Minister on the occasion of the termination of her term as President of the FEC, the more so since I myself had the honour to serve as one of her senior ministers for three years. May I also assure you that the incoming Federal Executive Council, under the presidency of Mr. Branko Mikulic, will continue to work towards the further advancement of the overall relations between our two countries in the same way as it will continue to follow up the policies of economic stabilization at home and the policy of further strengthening the independent non-aligned position of Yugoslavia in her international relations, fostering as broad and open equitable international co-operation as possible.

Please accept, dear Madam Prime Minister, the assurances of my highest consideration and profound respect.

Mitko Calovski
Ambassador

The Right Honourable Margaret Thatcher
Prime Minister of the United Kingdom
of Great Britain and Northern Ireland
London

SUBJECT
CC MASTER
OPS.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T96A/86

TELEGRAMME

Office of the President of the
Federal Executive Council of
the Socialist Federal Republic
of Yugoslavia

Belgrade, 21 May 1986

I would like to thank you cordially for the best wishes you have extended to me.

I, too, am very pleased to have had the opportunity to meet you and have talks with you in London, of which I keep vivid memories.

I am convinced that the friendly relations and cooperation in all areas between the Socialist Federal Republic of Yugoslavia and the United Kingdom, to which you have rendered your valuable contribution, will continue to develop successfully and that the traditionally close ties between the peoples of our two countries will be further strengthened.

Please accept my best wishes for further success in the discharge of your responsible duties, for your personal happiness and good health.

With friendly greetings,

Sincerely yours,
(Signed) Milka Planinc

The Rt Hon Margaret Thatcher, MP
Prime Minister of the United Kingdom
London

T E L E G R A M

Beograd, 21 maj 1986

Margaret Thatcher
Predsednik vlade
London

Srdacno Vam zahvaljujem na upucenim najboljim zeljama.

I meni je veoma drago da sam imala priliku da Vas sretnem i vodim razgovore sa Vama u Londonu, sto mi je ostalo u zivom sjecanju.

Uvjerena sam da ce se prijateljski odnosi i svestrana suradnja SFRJ i UK, cemu ste Vi dali dragocjeni doprinos, i dalje uspjesno razvijati i time jacati tradicionalno bliske veze naroda nasih dviju zemalja.

Primite moje najbolje zelje za daljnje uspjehe u Vasem odgovornom poslu, za Vasu osobnu srecu i dobro zdravlje.

Sa prijateljskim pozdravima,

Milka Planinc, s.r.

Subject
cops;
master.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T88A 186

Date 7
13/5/86.

YOUR TELNO 102: MESSAGES

WE PROPOSED A MESSAGE FROM THE PRIME MINISTER TO MIKULIC ALONG THE LINES YOU SUGGESTED. HOWEVER, THE PRIME MINISTER FEELS IT MORE APPROPRIATE TO SEND ONLY A BRIEF COURTESY MESSAGE AT THIS STAGE, VIZ 'PLEASE ACCEPT MY WARM CONGRATULATIONS AND BEST WISHES ON YOUR APPOINTMENT AS PRESIDENT OF THE FEDERAL EXECUTIVE COUNCIL'.

2. MESSAGES TO MRS PLANINC AND TO DIZDAREVIC HAVE BEEN APPROVED AS PROPOSED IN YOUR TUR.

3. GRATEFUL IF YOU WOULD TRANSMIT ALL THREE MESSAGES ACCORDINGLY.

HOWE

X

MINIMAL
EED
PROTOCOL DEPT

RESTRICTED

CONFIDENTIAL

10 DOWNING STREET

9 May 1986

From the Private Secretary

NEW YUGOSLAV FEDERAL GOVERNMENT: MESSAGES

Thank you for your letter of 9 May proposing draft messages from the Prime Minister to Mr. Mikulic and Mrs Planinc.

That to Mrs Planinc can issue as drafted. But the Prime Minister does not in a first, courtesy message wish to advise Mr. Mikulic how to run the Yugoslav economy. The message to him should therefore read:

> "Please accept my warm congratulations and best wishes on your appointment as President of the Federal Executive Council."

C.D. POWELL

C.R. Budd, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

9 May 1986

Dear Charles,

New Yugoslav Federal Government: Messages

Branko Mikulic will take over on 15 May as the new Federal Prime Minister of Yugoslavia.

The Prime Minister may wish to send a message to Mikulic, and to the outgoing Prime Minister, Mrs Planinc. Sir Geoffrey Howe saw Mikulic during his visit to Belgrade in March, and emphasised the need for Yugoslavia to stick to market-oriented economic policies. A message from the Prime Minister would be an opportunity to reinforce this, and to indicate the continuing importance of efforts by the Yugoslav federal government to co-ordinate suitable economic policies applicable to the whole country.

I suggest messages along the following lines:

i) To Mikulic

Please accept my warm congratulations on your appointment as President of the Federal Executive Council. [You and your colleagues face a difficult task in coordinating the further stabilization of the economy. But your determination to give appropriate scope to the market realities set out in the Long Term Economic Stabilisation Programme, which you explained to Geoffrey Howe in March, will be an important asset.] I should like to assure you of my continued support and to send you my best wishes.

ii) To Mrs Planinc

I send my best wishes to you and those of your colleagues who are now handing over to your successors in the Federal Executive Council. I remember your visit to the United Kingdom with particular pleasure, and am grateful to you for the part you have played in building up the warm relationship between our two countries.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
PS/10 Downing Street

CONFIDENTIAL

RLE ECL

10 DOWNING STREET

From the Private Secretary

17 April 1986

Thank you for your letter of 15 April about the Yugoslavian Minister of Defence who will be visiting the United Kingdom from 2 to 6 November.

The Prime Minister regrets that she is unable to receive Admiral Mamula on Monday 3 November.

pp (Mrs Caroline Ryder)

Miss Carolyn Whitehouse,
Ministry of Defence.

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-218 2111/3 (Direct Dialling)
01-218 9000 (Switchboard)

MO 17/3

15th April 1986

Caroline

CDP.

No way
CDP 17/4.

Dear Caroline

The Yugoslavian Minister of Defence, His Excellency the Admiral of the Fleet Branko Mamula, will be visiting the United Kingdom from 2nd to 6th November 1986.

I appreciate that the diary is busy but I have been asked if the Prime Minister would receive a courtesy call from Admiral Mamula on Monday 3rd November.

Yours sincerely

Carolyn

(CAROLYN WHITEHOUSE)

" The P.M. regrets she is unable to receive the Yu.....

Caroline Ryder
10 Downing Street

FILE
CAJ

10 DOWNING STREET

From the Private Secretary

17 December 1985

Thank you for your letter of 16 December regarding the visit of the Yugoslavian Minister of Defence, the Admiral of Fleet Branko Mamula.

I very much regret that it will not be possible for the Prime Minister to find time in her diary to attend.

CAROLINE RYDER

Miss C. Whitehouse
Ministry of Defence

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-~~930 7022~~ 218 2111/3

SECRETARY OF STATE

MO14/15

16th December 1985

CDP
advice p/ CR

NO
CDP

Dear Caroline

Further to our conversation the Yugoslavian Minister of Defence, the Admiral of Fleet Branko Mamula, will be visiting London from 16th-20th February 1986 and it was hoped that the Prime Minister might be available to see Admiral Mamula during his visit.

Would you please let me know if it is possible for the Prime Minister to see Admiral Mamula.

Yours sincerely

Carolyn Whitehouse

(CAROLYN WHITEHOUSE)
Private Secretary

Mrs Caroline Ryder
10 Downing Street

JKR.

10 DOWNING STREET

From the Private Secretary

7 November 1984

Dear Colin,

PRIME MINISTER'S MEETING WITH MR. RAIF DIZDAREVIC

I enclose a record of the Prime Minister's conversation with the Yugoslav Foreign Minister, Mr. Raif Dizdarevic, at 10 Downing Street this morning.

I am copying this letter and enclosure to David Peretz (HM Treasury), Richard Mottram (MOD) and Callum McCarthy (Trade and Industry).

yours sincerely

(C.D. POWELL)

C.R. Budd, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

SUBJECT.
CC MASTER

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE YUGOSLAV FOREIGN MINISTER, MR. DIZDAREVIC, ON WEDNESDAY 7 NOVEMBER AT 10 DOWNING STREET AT 0930 HOURS

Present

The Prime Minister
HM Ambassador, Belgrade
Mr. Powell

Mr. Raif Dizdarevic
The Yugoslav Ambassador

****

The Prime Minister welcomed Mr. Dizdarevic on his first visit to Britain. She had always greatly enjoyed her visits to Yugoslavia. Its people had enormous talents and history had given them a great incentive to strive for unity. The Prime Minister recalled in particular her visit in the company of Lord Maclean who had, of course, been a great friend of President Tito. The Prime Minister continued that she had seen Mrs. Planinc briefly in New Delhi where both of them had been attending Mrs. Gandhi's funeral. She was sorry it had not been possible to have a proper discussion.

The Prime Minister said she looked forward to hearing from Mr. Dizdarevic about the current situation in Yugoslavia. She was aware of the economic difficulties and the need for a new agreement with the International Monetary Fund. We knew from our own experience in Britain of the difficulties such agreements could cause.

Mr. Dizdarevic thanked the Prime Minister for receiving him and conveyed warm greetings from Mrs. Planinc who had been greatly touched by the Prime Minister's cordial greeting in New Delhi. Mrs. Planinc had asked him to remind the Prime Minister of the invitation already extended to her to visit Yugoslavia.

Mr. Dizdarevic continued that he wanted to raise two matters: the state of the Yugoslav economy and the rescheduling of Yugoslavia's debts. On the first, he believed that the worst was over and that this year was seeing a gradual restoration of economic stability. There had been an increase this year in internal demand of 5 per cent. GDP was up by 2 per cent and agricultural production also by 2 per cent. There was an increased inflow of foreign exchange which had been achieved by increasing exports. Over the past nine months, Yugoslavia had achieved a small balance of payments surplus. By the end of the year this should amount to some US $700/800 million. The Prime Minister said that the Yugoslav Government must surely be very pleased by this. Mr. Dizdarevic said it was a considerable turn-around. In 1979 the deficit on payments had been $3.7 billion. He continued that foreign currency reserves had risen and Yugoslavia had met its external payments. But there were three major problems remaining: a considerable fall in personal income in real terms over the past three years, amounting to something over 30 per cent; a high inflation rate; and unemployment which, while not as high as in the UK, was none the less serious. The Yugoslav Government's objective for the next year would be to continue to revitalise the economy with particular attention to achieving higher personal incomes and lower inflation. The Prime Minister commented that people were prepared to accept sacrifices as long as they were confident that there was a clear purpose and that one day they would reap the rewards. This appeared to be the case in Yugoslavia.

Mr. Dizdarevic continued that the other main aspect of the Government's programme was to improve its debt position in the period up to 1990. At present 45 per cent of foreign exchange was being used for debt servicing. The plan was to reduce this to 25 per cent. As part of its strategy, Yugoslavia would be seeking a multi year rescheduling

arrangement to cover its debts for the period 1985-88. They wanted this rescheduling for a period of twelve years with a grace period of five years. The United Kingdom and other creditor countries had already been asked to help with this. The Prime Minister said that she was glad to hear that the Yugoslav Government had a firm programme. She enquired whether agreement with the IMF was near. That was crucial. Mr. Dizdarevic said that talks with the IMF would start on 20 November. Yugoslavia intended to continue to cooperate with the IMF but considered that certain of the conditions previously imposed should be relaxed. Yugoslavia was highly appreciative of the support so far received from the UK and hoped that we would continue to assist their efforts to achieve a multi year rescheduling arrangement. It was not just a financial question but an important political matter. The Prime Minister said that she well understood how important it was but had to repeat that agreement with the IMF was crucial. She acknowledged that the IMF set tough terms but there was a margin within which one could negotiate. She was impressed with the courage which the Yugoslav Government was showing in tackling its very difficult economic problems. In the light of this and of the political considerations which Mr. Dizdarevic had mentioned, Britain would in principle be ready to help over rescheduling, subject to a satisfactory agreement being reached with the IMF.

The Prime Minister said that she would like to raise the subject of East/West relations. She thought that it would probably be several months after the Presidential elections before the new US Administration was ready for talks with the Soviet Union, but she was sure that they would seek them. It was important for other countries to continue their political contacts in the meantime to help create a favourable atmosphere. It was for this reason that Britain was anxious to establish closer relations with a number of East European

countries, though this had to be handled sensitively so as not to embarrass them in their own relations with the Soviet Union. She found that one of her main difficulties in these contacts was to persuade East European countries that the United States was sincere in seeking reductions in armaments, as was the United Kingdom. The Prime Minister asked how Mr. Dizdarevic saw the prospects.

Mr. Dizdarevic said that he thought that a mutual readiness for contacts existed on the part of both the Soviet Union and the United States. This had been manifested in Mr. Gromyko's various meetings during his visit to the United States and the subsequent talk between Mr. Shultz and Mr. Tikhonov in Delhi. He therefore agreed with the Prime Minister's assessment. He had noticed that the United Kingdom had recently had a number of contacts with East European Governments. He and Sir Geoffrey Howe had discussed this point the day before. The Prime Minister commented that Britain and Yugoslavia were both in a special position as countries which could contribute to a more favourable atmosphere and to reducing mistrust. It would be important to seek early progress in some of the disarmament negotiations, for instance the CDE in Stockholm. Mr. Dizdarevic said that Yugoslavia was very active in the neutral and non-aligned group at Stockholm. The Prime Minister commented that the Soviet Union had not hitherto been very forthcoming there. Perhaps they were awaiting the results of the US elections.

As he was leaving, Mr. Dizdarevic repeated the Yugoslav Government's invitation to the Prime Minister to pay an early visit to their country.

The meeting ended at 1005.

PRIME MINISTER

Call by Yugoslav Foreign Minister

Mr. Dizdarevic is on his first visit to the West as Foreign Minister and his first ever visit to Britain. He is said to be an old guard type. He has had long diplomatic experience in Eastern Europe but is said to be suspicious of the West.

He will have the Yugoslav Ambassador and an interpreter. You will have Ken Scott, our Ambassador in Belgrade.

I attach a card. If possible you should read the Belgrade telegram at Flag A.

C.D.P.

5 November 1984

MEETING WITH YUGOSLAV FOREIGN MINISTER

1. Welcome on first visit to Britain.

2. Glad to see Mrs. Planinc in Delhi. Found her visit here last year very useful

3. Continue to attach great importance to Yugoslavia's independence and stability.

4. Ask about Yugoslav economy. Recognise progress made. Ready to go on doing what we can to help, provided satisfactory agreement is reached with IMF.

5. Give him your views on prospects for East/West relations and disarmament after the US elections.

6. Assessment of prospects in India.

7. Croat emigre's (if raised). Implacably opposed to terrorism, but cannot interfere with expressions of opinion if they are within the law.

8. (If he complains about British press comment on his country.) Press say what they want. But bound to be concern here about way in which you deal with internal opposition.

Foreign and Commonwealth Office

London SW1A 2AH

5 November 1984

Dear Charles,

Call by Mr Raif Dizdarevic, Yugoslav Foreign Minister, on Wednesday, 7 November at 0930

The Prime Minister has agreed to see Mr Dizdarevic, the Yugoslav Foreign Minister at 0930 on 7 November.

Mr Dizdarevic, who was appointed Foreign Minister in May, has only limited experience of foreign affairs. His visit therefore provides us with a useful opportunity to emphasise the importance we attach to Yugoslavia's continued independence, stability and non-alignment and to put across the position of the West in general and the UK in particular on such issues as East/West relations and arms control to which the Yugoslavs attach great importance. Yugoslavia maintains reasonably cordial relations with the Soviet Union and the rest of the Warsaw Pact and Mr Dizdarevic may have some insights on current thinking in Moscow.

The Prime Minister will recall that Yugoslavia's economic difficulties featured prominently during the visit of the Yugoslav Prime Minister, Mrs Planinc, to the UK last November. Some progress has been made but with the prospect of a further fall in the standard of living, inflation of 60% and a winter of power cuts the Federal authorities still have a tough struggle on their hands. The Yugoslav Government is once again looking to the West for assistance, perhaps in the form of a Multi Year Re-scheduling Arrangement, which could be presented to the population as evidence that Western Governments are prepared to back them in the implementation of the austerity programme. It would therefore be appropriate to acknowledge the progress made so far and to declare our readiness to do what we can to help, subject to a satisfactory agreement being reached with the IMF. Creditor governments can then consider what form of further assistance would be appropriate.

The only significant problems in our bilateral relations are occasional adverse press comment (particularly over the recent crackdown on political dissent in Yugoslavia) and the activities of emigres, largely Croats, in the UK. On the

/first

first point we reply that the British press does not represent the views of HMG but that there is inevitably popular concern in the UK about certain recent developments within Yugoslavia. On emigre activities, we make it clear that we are implacably opposed to terrorism but that we cannot interfere with the legal expression of political opinions however much we may disagree with them.

Mr Dizdarevic does not speak English, though he understands a little. There will therefore be consecutive interpretation. I enclose a personality note on Mr Dizdarevic, a copy of his programme and a telegram from Belgrade which sets the scene for his visit.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

RAIF DIZDAREVIC (DEEZ-DÁR-E-VEECH)

Federal Secretary for Foreign Affairs. Member of the Federal Executive Consul. Member of the Central Committee of the League of Communists of Yugoslavia.

Born 1926 in Bosnia. Moslem.

Partisan from August 1943.

Joined the Party in March 1945.

From 1945-1951 Dizdarevic had a variety of jobs in State security organs. From 1951 until 1967 he worked in the Federal Secretariat for Foreign Affairs (FSFA) and served in Bulgaria (1951-54), Moscow (1956-59) and Prague (1963-67). From 1967-1972 he was Secretary of the Confederation of Yugoslav Trade Unions and President of its Commission for International Affairs. In 1972 he returned to FSFA as Assistant Federal Secretary. From 1974-1982 he held various trade union and Defence positions. Since 1978 he has been a member of the National Defence Council of Yugoslavia. From 1982-84 he was a delegate to the Federal Chamber of the Assembly, and was President of the Assembly from May 1982-May 1983. He was appointed to his present position in May 1984, replacing Lazar Mojsov.

Understands English but prefers not to speak it. Intelligent and hard-working but lacks the experience in world affairs of his predecessor and tends to stick closely to his brief.

VISIT OF THE YUGOSLAV FOREIGN MINISTER,
MR RAIF DIZDAREVIC: 6-8 NOVEMBER 1984

Tuesday 6 November

1220	Arrive on Yugoslav flight JU 210. Drive to the Dorchester Hotel
1325	Arrive at Dorchester Hotel
1630-1830	Talks with the Secretary of State for Foreign and Commonwealth Affairs, the Rt Hon Sir Geoffrey Howe MP
1830	Return to hotel
2000 for 2015	Dinner hosted by the Secretary of State at 1 Carlton Gardens.

Wednesday 7 November

0930-1000	Call on the Prime Minister, the Rt Hon Mrs Thatcher MP
1015-1115	Visit the Cabinet War Rooms
1130-1215	Meeting with the Governor of Bank of England, Mr Leigh-Pemberton
1245 for 1300	Lunch hosted by the Chief Secretary, the Rt Hon Peter Rees, MP, at Lancaster House
1500-1900	Talks at the Yugoslav Embassy followed by meeting with representatives of Yugoslav enterprises in the UK
2000	Performance of "42nd Street" at Drury Lane Theatre Royal.

Thursday 8 November

9015-0945	Meeting with the Secretary of State for Defence, the Rt Hon Michael Heseltine MP
1000-1030	Meeting with the Rt Hon Neil Kinnock MP
1150	Leave hotel
1320	Return to Belgrade on flight JU 211.

E23AAL

CONFIDENTIAL

A

GRS 1300
CONFIDENTIAL
FM BELGRADE 011030Z NOV 84
TO IMMEDIATE FCO
TEL NO 231 OF 01 NOVEMBER 1984

SAVING TO WASHINGTON, PARIS, BONN, UKDEL IMF, UKDEL NATO, UKDEL EC, MOSCOW, BUDAPEST, BUCHAREST, EAST BERLIN, PRAGUE, SOFIA, WARSAW.

VISIT OF THE YUGOSLAV FOREIGN MONISTER, 6-8 NOVEMBER.

1. MR DIZDAREVIC'S VISIT TO LONDON NEXT WEEK WILL BE HIS FIRST OFFICIAL VISIT TO A WESTERN COUNTRY SINCE HE TOOK OFFICE IN MAY, AND HIS FIRST EVER TO BRITAIN. HIS EXPERIENCE IN FOREIGN AFFAIRS HAD PREVIOUSLY BEEN CONFINED LARGELY TO EASTERN EUROPE, AND HE HAS SPENT THE LAST TEN YEARS IN INTERNAL POLITICS, MOSTLY IN BOSNIA. HIS PUBLIC PRONOUNCEMENTS SINCE BECOMING FOREIGN SECRETARY (EG HIS SPEECH TO THE UNGA IN SEPTEMBER) SUGGEST THAT HE TAKES A RATHER OLD-FASHIONED VIEW OF INTERNATIONAL AFFAIRS BASED ON THE STANDARD POSITIONS OF THE NON-ALIGNED MOVEMENT AND THE GROUP OF 77. BUT HE IS AN INTELLIGENT MAN AND WILL I THINK RESPOND TO ARGUMENTS THAT MODERATION AND NEGOTIATION ON CONCRETE ISSUES IN MULTILATERAL POLITICAL AND ECONOMIC AFFAIRS ARE MORE FRUITFUL THAN RHETORIC AND CONFRONTATION.

2. HE LOOKS FORWARD TO A SUBSTANTIVE EXCHANGE OF VIEWS WITH THE PRIME MINISTER AND YOURSELF ON MAJOR INTERNATIONAL ISSUES, AND WILL NO DOUBT ALSO WISH TO DISCUSS THE POLITICAL RELATIONSHIP BETWEEN YUGOSLAVIA AND THE WEST, AND PROSPECTS FOR FUTURE WESTERN FINANCIAL ASSISTANCE TO THE YUGOSLAV ECONOMY. THERE ARE NO SERIOUS BILATERAL PROBLEMS.

DOMESTIC BACKGROUND

3. THE YUGOSLAV LEADERSHIP IS SOMEWHAT ON THE DEFENSIVE ON SEVERAL FRONTS AT PRESENT. THE GOVERNMENT IS PROUD OF ITS SUCCESS IN STIMULATING IMPROVED OUTPUT AND EXPORTS, AND OF THE ENCOURAGING IMPROVEMENT IN YUGOSLAVIA'S BALANCE OF PAYMENTS, BUT IS INCREASINGLY CONSCIOUS OF THE URGENT NEED FOR STRUCTURAL REFORM OF THE ECONOMY. MEASURES TO IMPLEMENT THE ECONOMIC STABILISATION PROGRAMME - WHICH WAS APPROVED AT ALL LEVELS OF THE LEADERSHIP MORE THAN A YEAR AGO - CONTINUE TO BE BLOCKED BY REPUBLICAN AND LOCAL POWER GROUPS. THE MAIN GENERATORS OF INFLATIONARY PRESSURE REMAIN UNTREATED, AND INFLATION IS NOW AT 58 PER CENT. COMBINED WITH THE DRASTIC FALL IN REAL PERSONAL INCOMES RESULTING FROM THE IMPLEMENTATION OF THE IMF PROGRAMMES FOR 1983 AND 1984, THIS IS NOW CAUSING CONSIDERABLE HARDSHIP AND THE LEADERSHIP IS SENSITIVE TO THE POLITICAL AND SOCIAL DANGERS WHICH IT REPRESENTS.

CONFIDENTIAL

4. THE TRADITIONALLY-MINDED MEMBERS OF THE LEADERSHIP HAVE TENDED TO REACT TO THIS SITUATION BY CALLING FOR FIRMER SUPPRESSION OF CRITICS OF THE REGIME (THE LONG POSTPONED TRIAL OF THE ''BELGRADE SIX'' ACCUSED OF ORGANISING POLITICAL OPPOSITION HAS NOW BEEN SET TO BEGIN ON 5 NOVEMBER) AND BY ACCUSING THE WEST, AND THE IMF IN PARTICULAR, OF UNACCEPTABLE INTERFERENCE IN THE WORKINGS OF THE YUGOSLAV SYSTEM. BUT AT THE SAME TIME THERE IS A GROWING REALISATION THAT THE SYSTEM IS WORKING INEFFICIENTLY AND THAT POLITICAL REFORM IS NEEDED BEFORE ECONOMIC REFORM CAN BE EFFECTIVELY IMPLEMENTED. THIS VIEW WAS AIRED PUBLICLY AT THE LAST MEETING OF THE PARTY CENTRAL COMMITTEE AND IS NOW THE SUBJECT OF LIVELY DEBATE, TO THE DISMAY OF THE TRADITIONALISTS AND THOSE WHOSE POWER WOULD BE THREATENED BY SUCH REFORMS.

INTERNATIONAL AFFAIRS

5. THE LACK OF SELF-CONFIDENCE AMONG THE LEADERSHIP INDUCED BY THESE INTERNAL PRESSURES DEEPENS THE ANXIETY WHICH THEY FEEL ABOUT THE CURRENT INTERNATIONAL SITUATION. EVER CONSCIOUS OF THE POTENTIAL THREAT FROM THE EAST, THEY ARE DEEPLY DISTURBED BY THE TENSIONS IN EAST-WEST RELATIONS AND PARTICULARLY BY THE ABSENCE OF DIALOGUE BETWEEN THE SUPERPOWERS. DIZDAREVIC WILL BE KEEN TO HEAR YOUR ASSESSMENT OF THE POSSIBILITIES FOR THE RESUMPTION OF THE DIALOGUE AND OF ARMS CONTROL NEGOTIATIONS, AFTER THE US PRESIDENTIAL ELECTIONS. THEY ARE ALSO CONCERNED AT THE POSSIBILITY OF SUPERPOWER CONFRONTATION IN THE MIDDLE EAST AND CENTRAL AMERICA, AND - BECAUSE OF THEIR TRADITIONALLY CLOSE LINKS WITH BOTH COUNTRIES - BY THE CONTINUATION OF THE IRAN/IRAQ WAR. THEY WILL HAVE BEEN BADLY SHAKEN BY THE ASSASSINATION OF MRS GANDHI, PARTICULARLY BECAUSE OF THE IMPORTANCE THEY ATTACHED TO HER ROLE IN LEADING THE NON-ALIGNED MOVEMENT IN A MORE MODERATE DIRECTION, AND WILL BE DEEPLY WORRIED ABOUT POSSIBLE CONSEQUENCES FOR THE STABILITY OF INDIA AS ONE OF THEIR CLOSEST PARTNERS. FINALLY, DIZDAREVIC WILL BE ANXIOUS TO HAVE YOUR ASSESSMENT OF THE PROSPECTS FOR PROGRESS FOR NAMIBIA.

6. ON NORTH/SOUTH ISSUES DIZDAREVIC IS LIKELY TO EXPRESS CONCERN ABOUT WHAT YUGOSLAVIA SEES AS A LACK OF SYMPATHY ON THE PART OF THE INDUSTRIALISED WEST FOR THE PROBLEMS OF DEVELOPING COUNTRIES, AND PRESS FOR MULTILATERAL DISCUSSION OF THE DEBT PROBLEM.

YUGOSLAVIA AND THE WEST

7. FROM HIS REMARKS TO THE FRENCH FOREIGN MINISTER DURING THE LATTER'S VISIT IN AUGUST, AND ON ONE OR TWO OTHER OCCASIONS, DIZDAREVIC APPEARS TO BE AMONG THOSE IN YUGOSLAVIA WHO DISTRUST WESTERN INTENTIONS TOWARDS THIS COUNTRY AND SUSPECT A TENDENCY IN THE WEST TO EXPLOIT YUGOSLAVIA'S ECONOMIC

DIFFICULTIES.

DIFFICULTIES TO TRY TO BRING ABOUT CHANGES IN THE POLITICAL SYSTEM. HE HAS SHOWN CONSIDERABLE SENSITIVITY ABOUT WESTERN PRESS CRITICISM OF THE TREATMENT OF INTERNAL OPPONENTS OF THE REGIME, AND ABOUT THE TOLERATION BY WESTERN GOVERNMENTS OF EMIGRE ACTIVITIES IN THEIR COUNTRIES. HE WILL NEED TO BE REASSURED OF CONTINUING BRITISH AND WESTERN INTEREST IN THE STABILITY AND INDEPENDENCE OF YUGOSLAVIA, WHILE AT THE SAME TIME BEING REMINDED THAT THE WAY IN WHICH THE LEADERSHIP DEALS WITH INTERNAL OPPOSITION IS BOUND TO AFFECT WESTERN PUBLIC ATTITUDES.

8. DISCUSSIONS BETWEEN YUGOSLAVIA AND WESTERN CREDITORS ABOUT REFINANCING OF DEBTS IN 1985 AND LATER YEARS ARE AT A VERY PRELIMINARY STAGE, AND DIZDAREVIC WOULD NOT I HOPE EXPECT YOU TO GIVE HIM MORE THAN A GENERAL ASSURANCE THAT WE WILL CONTINUE TO MAKE A CONSTRUCTIVE CONTRIBUTION TO INTERNATIONAL ARRANGEMENTS TO CONSOLIDATE YUGOSLAVIA'S DEBTS AND HELP HER TO STABILISE HER ECONOMY. THE EXPERIENCE OF THE LAST TWO YEARS HAS SOURED YUGOSLAVIA'S ATTITUDE TO THE IMF, BUT THOSE IN THE LEADERSHIP WHO ARE MOST CLOSELY CONCERNED PROBABLY RECOGNISE THAT THEY HAVE NO ALTERNATIVE BUT TO CONTINUE IMF INVOLVEMENT AND THAT THIS IS A PRE-REQUISITE FOR ANY REFINANCINA ARRANGEMENTS BY WESTERN GOVERNMENTS AND COMMERCIAL BANKS. THEY WILL, HOWEVER, FACE DIFFICULTIES IN CONVINCING THE FEDERAL ASSEMBLY OF THIS, AND IT WILL HELP THEM IF A WAY CAN BE FOUND OF MAKING IMF SURVEILLANCE OF THE YUGOSLAV ECONOMY LESS INTRUSIVE AND IF SOME KIND OF MULTI-YEAR ARRANGEMENT CAN BE WORKED OUT.

ANGLO-YUGOSLAV TRADE

9. DIZDAREVIC WILL PROBABLY NOT WISH TO DISCUSS TRADE MATTERS IN ANY DETAIL. YUGOSLAV EXPORTS TO BRITAIN HAVE IMPROVED SUBSTANTIALLY THIS YEAR, AND THIS FACT CAN BE SET AGAINST ANY RITUAL COMPLAINTS HE MAY MAKE ABOUT OBSTACLES CREATED BY EUROPEAN COMMUNITY IMPORT RESTRICTIONS. THERE ARE PROSPECTS FOR A NUMBER OF NEW PROJECTS INVOLVING JOINT VENTURES AND OTHER HIGHER FORMS OF COOPERATION BETWEEN BRITISH AND YUGOSLAV ENTERPRISES.

10. FCO PSE PASS SAVING ADDRESSEES.

SCOTT

STANDARD (PALACE)
EED
SOUD
NAD

CONFIDENTIAL

VISIT OF HIS EXCELLENCY MR RAIF DIZDAREVIC, FEDERAL SECRETARY FOR FOREIGN AFFAIRS OF THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA: 6-8 NOVEMBER 1984

ADMINISTRATIVE PLAN (To be read in conjunction with the printed programme)

Tuesday 6 November

Arrival

When the aircraft has landed a representative of the British Airports Authority will accompany the Ambassador of the Socialist Federal Republic of Yugoslavia from the Hounslow Suite to the aircraft and escort the Federal Secretary for Foreign Affairs to the greeting party where he will be welcomed by the Special Representative of the Secretary of State for Foreign and Commonwealth Affairs who will present (in order):-

Mr K B A Scott	H M Ambassador at Belgrade
Brigadier Alan Cowan	Secretary, Government Hospitality
Group Captain Anthony O'Neill	Government Hospitality Escort Officer

Transport

Cars are provided by Government Hospitality Fund throughout the visit. (See car plan at Annex 1).

Interpreters

Mr Dizdarevic will be accompanied by Miss M Boric who will interpret for him throughout the programme.

The Foreign and Commonwealth Office has engaged the services of Mrs O Grahor who will interpret at the following appointments:

Tuesday 6 November

Talks with the Secretary of State for Foreign and Commonwealth Affairs at the Foreign and Commonwealth Office.

Dinner hosted by the Secretary of State for Foreign and Commonwealth Affairs at No 1 Carlton Gardens.

Wednesday 7 November

Call on the Prime Minister at No 10 Downing Street.

Lunch hosted by the Chief Secretary to the Treasury at Lancaster House.

Participation of the Official Suite in the Federal Secretary for Foreign Affairs' Programme

His Excellency Mr Dragi Stamenkovic, the Ambassador of the Socialist Federal Republic of Yugoslavia to London, and Mr K B A Scott, Her Majesty's Ambassador at Belgrade, will accompany His Excellency Mr Dizdarevic throughout the programme.

The other members of the Official Suite, as listed at page 1 of the printed programme, are expected to accompany His Excellency Mr Dizdarevic throughout the programme but their attendance at appointments is subject to confirmation.

Mr Milutin Stojanovic, Minister-Counsellor at the Yugoslav Embassy, will attend the talks with the Secretary of State for Foreign and Commonwealth Affairs and dinner at No 1 Carlton Gardens on 6 November and the meeting with Mr Kinnock on 8 November.

Mr Predrag Mitic, Minister-Counsellor (Economic) at the Yugoslav Embassy, will attend the meeting with the Governor of the Bank of England and the luncheon at Lancaster House on 7 November.

Captain Uroš Trbojević, Defence Attache at the Yugoslav Embassy, will attend the meeting with the Secretary of State for Defence on 8 November.

R E Morgan
Protocol Department
Foreign and Commonwealth Office
Room SG104,
Old Admiralty Building
Tel : 273 3582

ANNEX 1

CAR PLAN

Heathrow Airport to The Dorchester

Car 1	His Excellency Mr Dizdarević
	His Excellency the Yugoslav Ambassador
	Special Branch Officer
Back-up Car	Special Branch Officer
	Mr Gligorić
Car 2	Mr Šuković
	Mr K Scott
	Group Captain O'Neill
Car 3	Mr Jovanović
	Mr Stojanović
	Miss Borić

Car plans will be adjusted as necessary throughout the visit in consultation with Group Captain O'Neill.

DISTRIBUTION

10 Downing Street

PS (2)
Press Office (2)
Mr Joce (2)

Embassy of the Socialist Federal Republic of Yugoslavia (20)

HM Treasury

PS/Chief Secretary (2)

Ministry of Defence

PS/Secretary of State for Defence (2)

Foreign and Commonwealth Office

Private Secretary (2)
PS/Mr Rifkind (1)
PS/PUS (1)
Mr D M D Thomas (1)
Mr M P H Jenkins (1)
Mr J C Thomas (1)
Mr J A Birch (1)
EED (Mr Charlesworth) (6)
News Dept (3)
Security Dept (1)
Resident Clerk (1)
Protocol Dept (6)
Mr K B A Scott, Heads of Mission (1)
Head of Mission Section (1)
Miss Lothian (1)

Government Hospitality Fund (12)

EVAAAT

NOTE FOR THE FILE

10 DOWNING STREET

MR. POWELL

Visit of the Yugoslav
Foreign Minister
Wednesday, 7 November

Protocol and Conference Departmen rang to say that the interpreter for this meeting, Mrs. Olga Grahor, would arrive at 9.15.

Sue

1 November 1984

CONFIDENTIAL

10 DOWNING STREET

5 October 1984

From the Private Secretary

Visit of the Yugoslav Foreign Minister

Thank you for your letter of 4 October about the visit of the Yugoslav Foreign Minister.

The Prime Minister would be happy to see Mr. Disdarevic at 0930 on 7 November.

(C.D. POWELL)

Colin Budd, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister
Agree to brief
meeting with Yugoslav
Foreign Minister?
CDP 4/X

4 October 1984

Dear Charles,

Visit of the Yugoslav Foreign Minister

Mr Raif Dizdarevic, the Yugoslav Foreign Minister, will be visiting Britain at the invitation of the Secretary of State from 6-8 November. The Yugoslavs have asked if Mr Dizdarevic could call on the Prime Minister.

Political consulations with the Yugoslavs take place every two years at Foreign Minister level. When Mr Pym visited Yugoslavia in 1982, he was received by the Yugoslav Prime Minister, Mrs Planinc, who as the Prime Minister will recall visited Britain at the Prime Minister's invitation last November.

Mr Dizdarevic has never been to Britain before and so far has had little experience of the West. Although his present appointment expires in May 1986 (under the Yugoslav system of rotation of Ministerial offices which is designed to satisfy the aspirations of the constituent republics), he is likely to remain an important political figure. A short call on the Prime Minister would add greatly to the success of the visit, although the Foreign Secretary would not wish to press the Prime Minister if she is heavily committed on the days concerned. The Embassy have advised that it would if necessary be possible to placate the Yugoslavs should the Prime Minister's diary be too full for her to spare the necessary time.

Mr Dizdarevic arrives in the afternoon of 6 November and departs at lunch time on 8 November.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

8 February 1984

Visit of the President of Serbia

Thank you for your letter of 7 February. I am afraid that it will not be possible for the Prime Minister to receive the President of Serbia during his visit to Britain. Her diary for the week concerned is extremely crowded and we still have the possibility of a visit by President Mitterrand.

A. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

7 February 1984

Dear John.

Visit of the President of Serbia

Mr Nikola Ljubicic, the President of Serbia (one of the constituent Republics of Yugoslavia) will be visiting Britain at the invitation of the FCO from 4 - 10 March. He has asked our Ambassador in Belgrade if he could call on the Prime Minister.

Mr Ljubicic ranks highly in terms of Yugoslav protocol and political influence and has had a distinguished career. He was Minister of Defence from 1967 - 82 and met the Prime Minister during her visit to Yugoslavia in September 1980. Mr Ljubicic visited Britain in 1975. In his present position Mr Ljubicic is one of the most important political figures in Serbia and has made an impressive showing. He is also the most likely candidate for promotion to the Serbia seat on the nine-man Federal Presidency next May, and seems certain to continue to hold a front-rank role in Yugoslav national politics for some years.

There are suggestions that Ljubicic may be one of those in the Yugoslav leadership who harbour doubts about the policy of strengthening links with the West. It might therefore be helpful if he were to hear directly from the Prime Minister about British support for the policies the Yugoslav Prime Minister, Mrs Planinc, is trying to pursue, although the Foreign and Commonwealth Secretary would not wish to press the Prime Minister to find time for him if she is heavily committed on the days concerned.

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

CONFIDENTIAL

Yugoslavia
Relations

HL

10 DOWNING STREET

From the Private Secretary

20 December 1983

The Prime Minister has asked me to thank you most warmly for your letter of 19 December referring to the relationship between our two countries and extending your best wishes for a happy New Year.

Mrs. Thatcher has asked me to state in reply that she continues to attach the greatest importance to a close and friendly relationship with Yugoslavia and in that context recalls with pleasure the recent visit to London of the President of the Federal Executive Council, Mrs. M. Planinc.

The Prime Minister sends to you her best wishes for 1984.

A. J. COLES

His Excellency Monsieur Dragi Stamenkovic

BTC

YUGOSLAV AMBASSADOR

London, 19 December 1983

Dear Prime Minister,

The forthcoming festivities provide me with an opportunity to address you in this way and to note with gratification that the year which is coming to its close has been a fruitful one in the relations between our two countries. I would like particularly to single out the successful visit to London - in return to your visit to Belgrade in 1980 - of our President of the Federal Executive Council Mrs. M. Planinc, which has given a fresh impetus to our traditionally friendly relations and co-operation.

Confident that the existing friendship and co-operation will be maintained and further promoted, may I extend to you my best wishes for a Happy New Year, good health and much success in your highly responsible work.

Please accept, dear Prime Minister, the assurances of my highest consideration.

D. Stamenkovic

D. Stamenkovic
Ambassador

The Rt. Hon.
Margaret Thatcher
Prime Minister of
the United Kingdom of
Great Britain and
Northern Ireland
London

PRIME MINISTER

Yugoslavia

I attach:-

a) a message from Mrs. Planinc.

b) a collection of photographs dating from your 1980 visit which the Yugoslav Ambassador says he undertook to send to you. He apologises for the technical quality of the photographs.

ATC

8 December 1983

10 DOWNING STREET

From the Private Secretary

8 December 1983

Yugoslavia

The Minister Counsellor of the Yugoslav Embassy called on me today to deliver the enclosed message from the President of the Federal Executive Council of Yugoslavia to the Prime Minister. He also delivered a book of photographs which had been taken during the Prime Minister's visit to Yugoslavia in 1980.

Mr. Stejanovic said that it would be clear to us from Mrs. Planinc's letter that Yugoslavia sought the strongest possible bilateral relationship with the United Kingdom. This was not only for reasons of tradition but because Yugoslavia had a powerful interest in such a relationship. I said that I could reciprocate his remarks. The Prime Minister has greatly enjoyed Mrs. Planinc's visit and attached high importance to a close relationship with Yugoslavia.

A.J. COLES

Roger Bone Esq
Foreign and Commonwealth Office.

10 DOWNING STREET

From the Private Secretary

8 December 1983

The Prime Minister has asked me to thank you for your letter of 24 November enclosing a message to Mrs. Thatcher from the President of the Federal Executive Council of the Socialist Federal Republic of Yugoslavia.

You also kindly enclosed a collection of photographs taken during Mrs. Thatcher's visit to Yugoslavia in 1980. The Prime Minister has asked me to thank you warmly for this gesture.

His Excellency Monsieur Dragi Stamenkovic.

File

DSF

1 December 1983

YUGOSLAVIA

The Prime Minister has noted the contents of your letter of 25 November.

A.J. COLES

Miss Judith Simpson,
H.M. Treasury.

HL

010

CONFIDENTIAL

(1)

Prime Minister

A.J.C. 30/11.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

25 November 1983

A J Coles Esq
10 Downing Street

Dear John,

YUGOSLAVIA

Following the Prime Minister's meeting with Madame Planinc last week, you asked me to explain the insistence, in the briefing, that the only possible route for aid to Yugoslavia was the multilateral one.

The line was agreed between the Treasury and the FCO. In fact, we are reasonably satisfied that Yugoslavia's need for further assistance in 1984 is much less than in 1983. The Yugoslav administration, despite the difficulties of its federal structure, have made enormous progress towards turning round the economy, and eliminating the balance of payments deficit. Admittedly, there is a long way to go. But the 'gap' in the Yugoslav balance of payments for next year seems to us likely to be much smaller than the IMF have suggested (they have put it at $3.3 billion) and indeed the Yugoslavs themselves think the IMF have overdone it. In particular, the IMF suggested a build up of Yugoslav reserves of some $1 billion, which the Yugoslavs think an unjustifiable luxury at this stage.

We are therefore fairly confident that a rescheduling operation, together with an IMF programme, some new bank money, and credits which we know are already on offer from other governments, will be enough to do the trick. We do not exclude the need for a possible small-scale UK contribution. But there is still £113 million of UK export credit, available "in the pipeline" from previous agreements, which can be drawn in 1984; and we are still on short-term cover. UK representatives took this line at a meeting in Geneva last week under Swiss auspices, between the creditor govern-

/ments and a

CONFIDENTIAL

ments and a Yugoslavian team. We came under no great pressure, for the French and Germans took a very similar line. We are all partners in a new EIB loan to Yugoslavia.

If at a later stage, we were to become uncomfortably isolated, it might become necessary to offer some further small-scale bilateral assistance, preferably in the form of additional short-term cover (which minimises the risk to ECGD). But we do not at present see the need for further medium or long term cover. I understand that FCO, DTI and ECGD share this view.

Yours sincerely,

Judith Simpson

MISS J C SIMPSON
Private Secretary

Yugoslavia -
Visit of Planine
Mrs.
June 82

29 NOV 1983

EMBASSY OF THE SOCIALIST FEDERAL
REPUBLIC OF YUGOSLAVIA

5 LEXHAM GARDENS,
LONDON, W8 5JU.
Tel: 01-370 6105

London, 24 November 1983.

The Right Honourable Mrs Thatcher,

I have the honour to transmit enclosed herewith the message by the President of the Federal Executive Council of the Socialist Federal Republic of Yugoslavia Mrs Milka Planinc.

Also, as I mentioned to you during the lunch given by you in honour of Mrs Planinc, the Manager of the hotel "Excelsior" sent me some photos of you taken during your stay in Dubrovnik. Some of my colleagues dissuaded me from my intention to send them to you because they are demaged. However, since you kindly encouraged me by expressing your wish to see them, I avail myself of this opportunity to enclose them herewith so that you may recollect the memories of your short respite in Dubrovnik.

Please accept, The Right Honourable Mrs Thatcher, the assurances of my highest consideration.

D. Stamenkovic

Dragi Stamenkovic
Ambassador

Her Excellency
Mrs Margaret Thatcher
Prime Minister of the United Kingdom
of Great Britain and Northern Ireland
L o n d o n

CONFIDENTIAL

GR 540
CONFIDENTIAL
4 AMENDED COPY 7 JULY 1983
FM BELGRADE 051235Z JUL 83
TO PRIORITY FCO
TELNO 207 OF 5 JULY 1983
INFO PRIORITY WASHINGTON, UKDEL IMF/IBRD, BONN AND PARIS
AND SAVING TO UKDEL OECD, BERNE AND ZAGREB (BY BAG)

MY TELNO 163: YUGOSLAVIA: FINANCIAL PACKAGE

IN A TWO-DAY SESSION OVER THE WEEKEND , THE FEDERAL ASSEMBLY APPROVED A SERIES OF NEW LAWS WHICH, IN EFFECT, GIVE THE FEDERAL EXECUTIVE COUNCIL AND NATIONAL BANK THE POWERS THEY NEED IN ORDER TO CONCLUDE NEGOTIATIONS WITH THE COMMERCIAL BANKS.

2. THIS REMOVES THE LAST MAJOR OBSTACLE ON THE YUGOSLAV SIDE TO FINALISATION OF THE PACKAGE. IT MEANS THAT, SUBJECT TO FINAL NEGOTIATION WITH THE COMMERCIAL BANKS, THE AGREEMENT REACHED IN PRINCIPLE WITH THE IMF WILL NOW BE ABLE TO GO AHEAD (MY TELNO 164). AS FOR THE IBRD STRUCTURAL ADJUSTMENT LOAN, JANKO SMOLE TOLD THE MINISTER FOR TRADE WHEN I TOOK MR CHANNON TO SEE HIM ON 30 JUNE THAT THIS WOULD NOW BE SIGNED ON 7 JULY. AS YOU KNOW, THE FULL BIS CONTRIBUTION IS STILL IN BAULK, BUT DISCUSSIONS WITH GOVERNMENTS ARE GOING AHEAD WITHOUT MAJOR PROBLEMS. ALL IN ALL, IT LOOKS AS IF THE BULK OF THE PACKAGE WILL NOW BE IN PLACE BY AUGUST.

3. THE DEBATE IN THE FEDERAL ASSEMBLY WAS EVIDENTLY VERY DIFFICULT. THE MAIN QUESTION WAS HOW TO GIVE PRACTICAL EFFECT TO THE STATE GUARANTEE INSISTED ON BY THE COMMERCIAL BANKS, GIVEN YUGOSLAVIA'S DECENTRALISED BANKING SYSTEM AND THE LIMITED POWERS HITHERTO ENJOYED BY THE NATIONAL BANK. WHAT HAS BEEN AGREED, IN THE TEETH OF BITTER OPPOSITION FROM DELEGATES REPRESENTING CROATIA AND ESPECIAL LY
SLOVENIA, IS THAT WHEN A REPUBLIC OR PROVINCE IS UNABLE TO COVER REPAYMENTS IN FOREIGN CURRENCY BY ANY OF ITS BANKS OR ENTERPRISES, THE NATIONAL BANK WILL HAVE POWER TO SEIZE ALL FOREIGN CURRENCY ASSETS OF YUGOSLAV BANKS, WHEREVER SITUATED, IN ORDER TO MEET THE DEBT. THE TEXT OF THE NEW LAW WILL NOT BE PUBLISHED FOR SEVERAL DAYS. IT IS NOT CLEAR FOR INSTANCE HOW IT WILL AFFECT FOREIGN CURRENCY HOLDINGS OF PRIVATE INDIVIDUALS BUT THE FEDERAL SECRETARIAT FOR FINANCE TOLD US THIS MORNING THAT THE NEW POWERS EXTEND TO ALL EXISTING AND FUTURE FOREIGN CURRECNY DEBTS, NOT JUST THOSE COVERED IN THE CURRENT NEGOTIATIONS WITH THE ICC. (THIS SHOULD INCIDENTALLY SIMPLIFY ECGD'S CURRENT NEGOTIATIONS ON GUARANTEES FOR THEIR RE-FINANCING).

4. THE PRESIDENT OF THE FEDERAL EXECUTIVE COUNCIL, MRS PLANINC, MADE AN IMPRESSIVE SPEECH JUSTIFYING THE NEW ARRANGEMENTS. SOME OF THE DEMANDS MADE IN NEGOTIATIONS BY THE COMMERCIAL BANKS HAD,

CONFIDENTIAL / SHE SAID,

SHE SAID, BEEN IN CONFLICT WITH YUGOSLAV SOVEREIGNTY. THESE HAD BEEN REJECTED. THE CONDITIONS FOR THE ICC'S PARTICIPATION IN THE PACKAGE WERE STILL 'HARSH AND CRUDE'. BUT THE ALTERNATIVE TO ACCEPTING THEM WOULD HAVE BEEN GENERAL RESCHEDULING OF YUGOSLAVIA'S FOREIGN DEBT. THIS WOULD HAVE MEANT, FOR A TIME, A COMPLETE WITHDRAWAL OF CREDIT FROM ABROAD, WITH SEVERE DAMAGE TO YUGOSLAV INDUSTRY, HIGHER UNEMPLOYMENT AND ''OTHER PROBLEMS''.

* THE PACKAGE WAS BY NO MEANS PERFECT. THE WEST HAD PROVIDED IT BECAUSE OF THEIR STRATEGIC INTEREST IN YUGOSLAV POLITICAL STABILITY. IT WOULD NOT GUARANTEE SUCCESS. MUCH FURTHER EFFORT WOULD BE NEEDED IF IT WAS TO DO THE TRICK. BUT IN AGREEING TO NEW LAWS, THE FEDERAL ASSEMBLY HAD ONCE AGAIN DEMONSTRATED THAT YUGOSLAVIA WAS CAPABLE OF SHOWING UNITY ON ESSENTIAL MATTERS. *

COMMENT

5. THIS WAS A GENUINELY DIFFICULT POLITICAL EXERCISE FOR THE FEDERAL GOVERNMENT. I SHALL SEND A FULLER ASSESSMENT AND COMMENTS BY THE NEXT BAG. THE KRAIGHER COMMISSION ON ECONOMIC STABILISATION IS DUE TO PUBLISH ITS FINAL CONCLUSIONS WITHIN THE NEXT FEW DAYS. THESE WILL OF COURSE BE RELEVANT. MEANWHILE IT IS ENCOURAGING THAT, IN THE INTERESTS OF GETTING THE PACKAGE THROUGH, MRS PLANINC AND HER TEAM HAVE HELD FIRM IN THE FACE OF STRONG PRESSURE AND CRITICISM FROM THE REPUBLICS AND PROVINCES. SUBJECT TO A STUDY OF THE ACTUAL TEXT OF THE NEW LAW, THE FEC SEEM TO HAVE SUCCEEDED IN PUTTING THE NATIONAL BANK BACK IN CONTROL OF IMPORTANT ASPECTS OF THE FOREIGN CURRENCY SYSTEM. A CRITICAL QUESTION WILL BE WHETHER THEY WILL BE ABLE TO BUILD ON THIS SUCCESS IN OTHER DIRECTIONS IN THEIR EFFORTS TO GET COOPERATION FROM THE REPUBLICS AND PROVINCES IN STABILISING THE ECONOMY.

6. FCO PSE PASS SAVING ADDRESSEES.

SCOTT.

[REPEATED AS REQUESTED]

EASTERN EUROPEAN ECONOMIC
LIMITED

EESD
ECD (E)
CSCE UNIT
NAD
SED
WED
ESID
TRED
PLANNING STAFF
ERD
PUSD
NEWS D
INFO D
PS
PS/LADY YOUNG
PS/MR RIFKIND
PS/PUS
MR EVANS
SIR J BULLARD
MR JAMES
MR THOMAS
MR HANNAY
MR HAYES

ADDITIONAL DISTRIBUTION
EASTERN EUROPEAN ECONOMIC

THIS TELEGRAM WAS NOT ADVANCED

CONFIDENTIAL

①

Yugoslavia

PRIME MINISTER

Yugoslavia: Economic Crisis

You saw today the attached minute by the Foreign Secretary about our loans to Yugoslavia and the proposed announcement on 9 February. You commented that we should be rightly criticised because the loans are untied.

Could I ask whether you wish me to make this point to the Ministers concerned? The Chancellor of the Exchequer is content with the proposals, as is the Foreign and Commonwealth Secretary.

A.J.C.

8 February, 1983

Alas it is too late - but we shall still be criticised, and rightly MT

p.a. AR 10/2.

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

From the Secretary of State

N.B.P.R.

CONFIDENTIAL

Roger Bone Esq
Private Secretary to the
Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London
SW1A 2AL

8 February 1983

Dear Roger,

YUGOSLAVIA: ECONOMIC CRISIS

My Secretary of State has seen the Foreign Secretary's 7 February minute to the Chancellor of the Exchequer, with its proposed announcement about economic assistance for Yugoslavia. This is to confirm that my Secretary of State is content with the terms of the proposal, and its announcement in the way suggested.

Copies go to the Private Secretaries to the Prime Minister, the Chancellor of the Exchequer, the Governor and to Sir Robert Armstrong.

Yours sincerely,

JOHN RHODES
Private Secretary

CONFIDENTIAL

Yugoslavia: Jan 80: Internal Situation

8 FEB 1980

FCS/83/27

CHANCELLOR OF THE EXCHEQUER

Yugoslavia: Economic Crisis

1. You will have seen the outcome of the inter-Governmental Creditors' meeting in Berne (Berne telegram Nos 23 and 24). Our total pledge of £78 million was entered in the MOU, subject to fulfilment of certain conditions. Although these conditions have not yet been fully met, I believe nevertheless that we must proceed on the assumption that they will be, or risk missing the boat with our own budgetary and Parliamentary procedures, which need to be initiated next week.

2. The present position over our conditions is as follows. The IMF will circulate their programme for 1983 on about 7 February, for agreement by the IMF Board by the end of the month. It is hoped that it will be possible to reach agreement on the BIS pre-financing loan which will be discussed in Basle on 7/8 February. The commercial banks are giving detailed consideration to the proposals for maintenance and some increase in their lending, with a view to decisions by 21 February. And widespread participation on the inter-Governmental element is secure.

3. As regards the component parts of our own contribution, I understand that arrangements are in hand over the £65 million/ £40 million of loans to be guaranteed by ECGD to refinance officially backed Yugoslav commercial debts falling due in 1983.

/4.

4. There are two issues affecting the remaining £60 million/£38 million of new financial credit:

a. how a proportion of it should cover the Bank of England's expected $30 million share of the BIS bridging loan;

b. whether some or all of the money should be tied to UK exports.

On (a)

5. I understand that the Bank of England are discussing with the BIS the way in which the UK's financial credits can be used to secure the Bank in respect of its participation in the loan. Gordon Richardson will no doubt let us know the outcome.

On (b)

6. I believe that we should stick to the position arrived at before the pledging meeting and not make the contribution conditional on a link with Yugoslav purchase of UK goods for the following reasons:

a. We are offering less in volume terms than the US, French, Germans and Italians. In order to compensate, we need to maintain quality;

b. untied financial credits are best suited to meeting Yugoslavia's own needs;

c. there is already an imbalance in our favour of bilateral trade with Yugoslavia which is presenting problems;

/d.

d. it would be difficult, as you pointed out in your letter of 14 January, to enforce conditions in circumstances where disbursement has to occur before the end of this financial year and checks could therefore be only after the event on whether the Yugoslavs had actually purchased British goods;

e. should failure to link this to exports be criticised in public or Parliament, on the grounds that our money might be used to pay other countries' debts, it would be possible to point to the fact that eight other countries are giving financial assistance (including US, Germany and France - provided the French implement their commitment in principle), with five (Switzerland, Austria, Sweden, Netherlands and Norway) giving untied credits like ourselves.

7. As regards the Parliamentary and financial procedures I would propose to proceed as follows. Our contribution to the assistance package would be made public through / Written Answer along the lines of the attached text. I hope that this can appear by 9 February before the spring Supplementary Estimates are released to the Parliamentary Committees on 10 February. I have already taken provisional steps to include the loan for Yugoslavia in the spring Supplementary Estimates as a charge to the 1982/83 Contingency Reserve. I understand that, subject to the examination by the Parliamentary Committees, the

/funds

funds should be voted by the middle of March. We should by then be able to check that all the other integral parts of this complex operation are assured. This would open the way for a rapid negotiation with the Yugoslavs to agree with them the precise terms and conditions (non-concessionary) of the loan so that disbursement could occur, as you have suggested, within the current financial year rather than in 1983/84.

8. I hope that you and Arthur Cockfield are content with this procedure and timetable.

9. I am sending copies of this minute to the Prime Minister, Secretary of State, for Trade, Governor of the Bank of England and to Sir Robert Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth Office

7 February 1983

PARLIAMENTARY QUESTION FOR WRITTEN ANSWER

Q To ask the Secretary of State for Foreign and Commonwealth Affairs what part the UK will play in the intergovernmental programme of economic assistance for Yugoslavia announced in Berne on 19 January.

A As its contribution to a 1.3 billion dollar programme involving 15 Governments and on the basis that the other elements of the integrated programme of assistance, including IMF support, will be forthcoming, HMG is arranging credits for Yugoslavia to the value of £78 million. These credits will comprise two elements:

(a) £40 million of medium term loans at a market rate of interest, to be guaranteed by ECGD under its inherent powers to refinance insured Yugoslav debts falling due in 1983.

(b) £38 million of Government to Government financial loans repayable over 3-5 years at a market rate of interest. Parliamentary approval for this new service will be sought in a Supplementary Estimate for the International Subscriptions Special Payments etc. (Foreign and Commonwealth Office) Vote in 1982/83.

3.45

cc: Prime Minister
Secretary of State for Trade
Governor of the Bank Of England
Sir Robert Armstrong

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

7 February 1983

The Rt. Hon. Francis Pym MP
Secretary of State for Foreign and Commonwealth Affairs

Dear Secretary of State,

YUGOSLAVIA

Thank you for your minute today with a draft written Parliamentary Answer on economic assistance to Yugoslavia. I have no comments on the draft, and am content that you should make the announcement this week.

Copies of this letter go to the other recipients of your minute.

Yours sincerely

pp GEOFFREY HOWE

(Approved by the Chancellor: Signed in his absence.)

RESTRICTED

Yugoslavia

BRITISH EMBASSY

BELGRADE

31 January 1983

A Carter Esq
EESD

Dear Andrew,

YUGOSLAV ECONOMIC STABILISATION: SOCIAL POLICY

We promised to report the main recommendations of the Kraigher Commission on economic stabilisation as they come out (my letter of 16 November to Alan Montgomery).

2. Two further sets of recommendations have now appeared in the press, called "Foundations and Frameworks of Long-term Social Policy" and "Development Policy of Social Activities as a Factor of Economic Stabilisation".

3. Anyone looking for a long and dreary read in these two documents would be well content - they are extremely turgid. As you know, "social activities" in Yugoslavia means health and education, scientific research, provision of recreational facilities, etc. Since the constitutional reforms of 1974, these have been provided by "self-managing interest communities" (SIZes), organised basically at municipal level, and in theory under management by local political Assemblies through the delegate system. The two documents are full of criticism of the way the system is working. They draw attention to a lack of overall planning, non-observance of economic laws, interference in the professional working of social services by politicians, empire-building and waste by the experts, over-manning, lack of common standards, decapitalisation etc. The most serious criticism - hardly a surprising one given the decentralisation of the Yugoslav political and economic system - is that social services have become almost completely regionalised. The documents lament the lack of "self-managing agreements" between health services etc. even at inter-municipal level. Under these agreements, it is open to clinics in different municipalities, for instance, to specialise and so improve the quality of services they provide, rather than attempting to cater for every possible ailment themselves. But every municipality has tended to want its own polyclinic, its own fully-equipped sports centre, the full range of education services etc. The documents quite rightly describe this process as wasteful and inefficient.

/ 4.

RESTRICTED

4. Just as no real answer has yet been found to the increasing fragmentation of Yugoslavia's political and economic system, these documents do not really come up with any new ideas in the field of social services. They make some technical recommendations, for instance about the method of financing "social activities", suggesting that this should not be through a flat-rate tax on enterprises but through a percentage of net income. But otherwise they fall back on the usual cry for "more self-management". Their basic political analysis is that weaknesses in the social sector in Yugoslavia are due to departures from the pure theory of self-management, under which workers will provide fully for each others' needs by freely associating their labour.

5. This type of analysis does not of course get us much further forward. We doubt if the two documents will lead to any major change.

Yours ever,

Arthur

A St J H Figgis

/ Distribution

cc DEI
MOD

D Potter Esq
OT 4
Department of Trade

P Bull Esq
Bank of England
London EC2

D Coombe Esq
ECGD
Aldermanbury
London EC2

P Rennie Esq
Research Dept
FCO

M Williamson Esq
ESID
FCO

British Consulate-General
Zagreb

UKDel NATO
Brussels

OECD
Paris

J Scholes Esq
HM Treasury

UKDel IMF/IBRD
Washington

Yugoslavia

10 DOWNING STREET

From the Private Secretary

19 January 1983

YUGOSLAVIA

Thank you for your letter of 17 January.

The Prime Minister has approved the two messages to the Federal Presidency of the Socialist Federal Republic of Yugoslavia and to Madame Bakaric. She has also written on the lines proposed to the Yugoslav Ambassador.

A. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office.

(2)

Prime Minister

I have not bothered you with all the papers on this as the Ministers concerned reached agreement without difficulty on the offer to be made at the Creditors' Meeting on 18/19 January.

A. J. C. 18/1

FCS/83/9

CHANCELLOR OF THE EXCHEQUER

Yugoslavia: Economic Crisis

1. Thank you for your letter of 14 January. I am grateful for your understanding of the exceptional circumstances involved.

2. I note that you believe we should not, as an opening bid, increase our offer at the Creditors' Meeting on 18/19 January by $100 million. I understand your reasons for this and can agree instead to your proposal that we should increase our offer of financial credits by $60 million, of which $30 million would be for the Bank of England/BIS take out before being disbursed eventually as a financial credit. This latter proposition is, of course, dependent on agreement being reached between our officials and the Bank of England on an appropriate way of carrying this liability.

3. I agree that the negotiating position is uncertain and am therefore grateful that you do not object to my original proposal being kept in reserve for use as a fall-back if necessary. I have now also seen Arthur Cockfield's letter of 17 January. He had not apparently seen your letter of 14 January when he wrote, and was not therefore aware of your reservations, on public expenditure grounds, about moving to the higher figure tied to British exports. If however, we do move to this position I will of course ensure

/that my

CONFIDENTIAL

that my officials take advice from the Department of Trade on the best way in which any credits might be tied to exports of British goods and commodities in 1983.

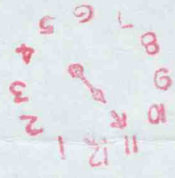
4. I am sending copies of this minute to the Prime Minister, Secretary of State for Trade, the Governor of the Bank of England and Sir Robert Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth Office
18 January 1983

Yugoslavia
Int Sit
Jan 80

18 JAN 1983



18 JAN 1983

CONFIDENTIAL

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

Yugoslavia

N. B. P. R.

A. J. C. 6/1.

From the Secretary of State

The Rt Hon Francis Pym MC MP
Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London
SW1

17 January 1983

Dear Francis,

Thank you for sending me a copy of your minute of 14 January to Geoffrey Howe.

It may well be that the offer we tabled in Berne on 6/7 January was interpreted by others in a way which made it look effectively well below that of our major partners. But this is not an interpretation that I accept. Nevertheless I would support your suggestion of providing financial credit, which might be tied in the main to exports of British goods and commodities in 1983. My officials would be happy to participate in discussions on the details of such an arrangement.

I should also like to comment on the point raised in paragraphs 4 (b) and (c) of your minute.

As regards 4 (b), a number of our partners (led by Japan, Canada and Germany) are not apparently continuing to offer medium term cover on normal terms; though the US, Austria and Switzerland have said that they will do so. But as I said at our last discussion on this subject, I would not regard availability of such cover as the answer to Yugoslavia's problems. We should not be encouraging expenditure on new projects when retrenchment seems to be necessary. And such money would not be drawn down in 1983 but at some later date when the projects were progressing. Moreover ECGD exposure is disproportionately large in this area. So while I would be willing to consider individual cases, I would regard this as an area to tread with very considerable caution.

CONFIDENTIAL

From the Secretary of State

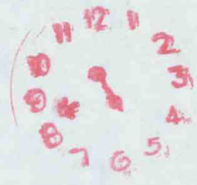
The proposal to increase the present offer for refinancing credits to $81m would mean that we would be providing cover for the total sum repayable in 1983. But the amount is small and it would be an undesirable precedent for other countries. As you say, it is not highly regarded by others and being so small it would make no real difference to the package. So I suggest we stay at the figure already proposed.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Governor of the Bank of England and Sir Robert Armstrong.

LORD COCKFIELD

Yugoslavia Relations Jan 80

17 JAN 1983



CONFIDENTIAL

Yugoslavia

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

14 January 1983

N.B.P.M.

The Rt Hon Francis Pym MC MP
Foreign and Commonwealth Office,
Downing Street, LONDON SW1

A.J.C. 14/1.

Dear Francis

YUGOSLAVIA

Thank you for your minute of 13 January.

I accept that the circumstances are quite exceptional, and justify an increase in our offer at next week's meeting of creditors, and that the cost of this should, equally exceptionally, be a charge to the 1982-83 Contingency Reserve. I also agree with you that it would be wrong to ask ECGD to extend more medium term credit than can be justified on commercial grounds.

As regards the component parts of your proposal, I agree that part of our offer should take the form of a financial credit which would act as a take-out for the $30 million share which I understand has been provisionally assigned to the Bank of England for their participation in the proposed BIS bridging loan to Yugoslavia. Our officials will need to discuss the details of this urgently with the Bank of England. The public expenditure impact of this proposal would be easier to digest if disbursement were in the current financial year rather than in 1983-84.

I am less convinced by your proposed $65 million commercial credit. This would mean a total increase in our offer of $100 million, which is surely excessive. It would be difficult to enforce conditions about tying the money to UK exports unless we were prepared to hold back disbursement until the next financial year, and on public expenditure grounds I would oppose that. As you yourself say, what Yugoslavia needs are financial credits, not commercial credits to finance an increase in the trade deficit. Your proposal would in fact give the Yugoslavs much of the benefit of a financial credit, but in negotiating terms you would only be getting value for a commercial credit.

I could agree to an increase in our offer of financial credits by, say, $60 million, of which $30 million would be for the Bank of England/BIS take-out. I believe this ought to be adequate for your

/purposes

CONFIDENTIAL

purposes and that this should be our opening and, I would hope, final position at next week's meeting. But in view of the uncertainties of the negotiating position I would not object to your proposal being kept in reserve for use as a fallback position if necessary. In that event, the financial element of our offer would of course be reduced to $35 million.

Copies of this letter go to the other recipients of your minute.

GEOFFREY HOWE

I gather that the Treasury are replying to the effect, broadly, that they agree.

A.J.C. 14/1.

N.B.P.M.

FCS/83/7

CHANCELLOR OF THE EXCHEQUER

Yugoslavia: Economic Crisis

1. You will have seen the outcome of the Creditors' meeting in Berne (Berne telegram numbers 7 and 8 enclosed). We have now to consider urgently what our position should be before the final Creditors' meeting, on 18/19 January.

2. On 6/7 January our offer of $250 million looked increasingly thin the more it was examined by our partners. This is because we sought to count in our 1983 offer $120 million of medium term credits which stem from contracts signed in 1982 and before. And the terms of the Memorandum of Understanding circulated by the Swiss will not allow us to count our $120 million without a major amendment which will be resisted by the Americans and others. The Italians said specifically that they would not seek to count their $250 million credits already in the pipeline, with the $110 million which they were offering additionally for 1983.

3. If, however, $120 million (and the short-term credit) is subtracted from our medium term contribution we will be offering only $65 million of refinancing credit which puts us well below our major partners. The situation is made more difficult by the fact that our offer has been passed (not by us) to the Yugoslavs who have told our Ambassador in Belgrade that they hope we will be able to increase our offer of medium term commercial credit in line with provisional commitments by a number of other countries.

4. At the next meeting therefore we face the difficult position of putting our names to a document with our partners and the Yugoslavs in which our contribution will be seen by all not to measure up to the political importance of a problem which we have consistently acknowledged. What then should we do? There are several possibilities:

(a) We could sit tight on our present offer and try to face our criticism from the Yugoslavs and our partners. I do not think this will do.

(b) We could consider increasing our provisions of commercial credit from ECGD. While I would hope that Arthur Cockfield will agree to put Yugoslavia back on medium term cover (in line with most of our partners) for certain limited and specific projects, once the IMF programme and the current international assistance package are in place, I do not think that an extra offer of medium term commercial credit unless it were for commodities, is the best sort of help for Yugoslavia.

(c) We could look at increasing our present offer, of $65 million for refinancing credits, to $81 million which would cover the whole of the sum due to be repaid to us by the Yugoslavs for officially guaranteed debts maturing in 1983. But this would only be a very small increase to off-set against the $120 million. And our refinancing offer has in any case, been looked at slightly askance by our partners, as rescheduling by another route.

5. I do not think these options are the answer. What the Yugoslavs need are financial credits. To convert our full offer into the form of a financial credit might attract criticism from the Public Accounts Committee, given that only a few of our partners have so far offered aid in this form (Switzerland, Austria and Holland) while other creditors are proposing to give their help in the form of commercial and commodity credits. I would therefore like to make a claim in respect of the FCO vote on the contingency reserve for 1982/83 for the equivalent of $100 million of assistance to Yugoslavia to be tied in the following way:-

(a) $35 million to be released to the Yugoslavs on repayment by them of the Bank of England's possible share (at present estimated at $30 million) of the BIS short term bridging operation of (probably) $500 million; the $35 million would thus function in the first place as collateral for the participation of the Bank of England in the BIS operation and only thereafter to be disbursed as an untied financial credit;

(b) $65 million to be made available as a loan to the Yugoslav government. The loan should be tied explicitly to purchases of British goods and commodities in 1983. It should carry market rate of interest and be repayable between 3 to 5 years. The precise terms and conditions to be stipulated to the Yugoslavs should be discussed urgently between our officials. Exceptionally, the $65 million would be paid over to the Yugoslavs in advance of the conclusion of the contracts to which it would be tied: this would have to be made clear to Parliament. This arrangement, although unusual, seems to me more realistic than the alternative of telling the Yugoslavs that the $65 million must all be spent on British goods and commodities by 31 March 1983; and less open to objection here than the other option of making the loan untied.

6. In practical terms, at this stage of the financial year it would be unrealistic to offer the prospect of any compensating savings within the Public Expenditure programmes for which I am responsible, to off-set the proposal in paragraph 5 above. I realise that a claim on the Contingency Reserve will be unwelcome but I believe we have to accept that a financial crisis of this importance is likely to involve some increase in Public Expenditure and would be an appropriate use of the Contingency Reserve.

7. If you and the others concerned can agree that on 18/19 January we should improve our present contribution in the way I have suggested, then I do not think it would be necessary to avail ourselves of the Prime Minister's offer to chair a meeting (her Private Secretary's letter of 4 January).

8. To sum up. I do not claim that this operation is certain to succeed. I am, however, sure that we should play our full part and be seen, both by our Allies and also the Yugoslavs, to be doing so. The question at issue is of the highest political and strategic importance. Yugoslavia lies on the fault line between East and West. Ever since she broke with Stalin 35 years ago, her survival and well-being have been seen by East and West alike as an acid test of Western willingness to contain the Soviet empire in Europe. The present Yugoslav government believes it would not itself survive a major economic collapse, with the consequent increase in tension between the various republics of the fragile Yugoslav Federation. If the West is not seen to be actively helping during the coming months, the consequences will be a rejection of the structural reforms contained in the IMF's latest programme and a further increase in Yugoslavia's dependence on its East European neighbours, above all on the Soviet Union under its new and more active leadership.

9. I am sending copies of this minute to the Prime Minister, the Secretary of State for Trade, the Governor of the Bank of England and Sir Robert Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth Office
14 January, 1983

CONFIDENTIAL

Mr Coles A.J.C. 7/1

To see

Mrs 7/1

RECORD OF A CONVERSATION AT NO 11 AT 9AM ON 5 JANUARY ON ECONOMIC ASSISTANCE TO YUGOSLAVIA

Present:	Chancellor	Secretary of State FCO
	Governor	Secretary of State DOT
	Mr Littler	Mr J C Thomas FCO
	Mr Loehnis	
	Mr Carey	

Mr Pym described the political and commercial case for a substantial UK contribution to the programme of assistance to Yugoslavia which would be discussed at the meeting of the Western Creditors Group on 6/7 January in Berne, and at the meeting of Central Bank Governors in Basle on 10/11 January. He suggested that an appropriate UK contribution to the programme for discussion at Berne would entail increasing the level of medium term commercial credit on offer from $65 to $110 million, while maintaining our offer to refinance $65 million of UK Government-backed maturities falling due in 1983, and to allow some $25 million new short term credit in 1983. An appropriate UK share of the proposed $500 million BIS loan which would be discussed at Basle might be $50 million.

2. Lord Cockfield pointed out that ECGD credit must be linked to particular exports, and drew attention to the risk that the provision of free foreign exchange, or re-financing, would mean that other creditors were repaid. He was nevertheless prepared to agree that $120 million of medium term commercial credit already in the pipeline for 1983 should stand; that our offer to re-finance the $65 million falling due in 1983 should also be maintained; and that we should continue to extend short term credit up to a ceiling of $25 million at any one time (which would in fact mean a "turnover" of $50 million in 1983.)

3. The Governor said that there had as yet been no discussion of the appropriate UK share in any BIS bridging loan, and the destination which the bridge was intended to reach was as yet unclear. He had as yet seen no authentic forecast of the Yugoslav balance of payments for 1983. He envisaged that Central Bank Governors would have considerable difficulty in agreeing to a substantial loan: any Bank of England participation would certainly require a Government guarantee. If, having been satisfied by evidence of a clear programme and rationale, BIS agreed a loan, and for $500 million, the Americans would have to carry at least $100 million, and the UK share might be of the order of $60/80 million.

4. The Governor and the Chancellor cautioned that the programme under discussion in Berne seemed unlikely to make much real contribution to the resolution of the Yugoslav problem. New foreign credit was not Yugoslavia's prime requirement: what she needed was financing. The IMF talked of a package of $1, or preferably 1.5 billion, of which at least 2/3rds would have to be financial, not credit, assistance.

5. The Chancellor however pointed out that the UK offer of $65 million re-financing put us ahead of the rest of the western pack, except perhaps for the Swiss and the Austrians. And it was noted that the bids recorded in paragraph 4 of Mr Pym's minute of 31 December had been more than met by Lord Cockfield's response. Officials thought it possible that at the Berne meeting there might be some reluctance to score our $120 million medium term commercial credit as a contribution to the proposed package, since it would not represent any new commitment. But there would nevertheless be considerable difficulty about any proposition that ECGD should be asked further to increase their potential exposure, and to offer credit unrelated to specific contracts being sought.

6. Mr Pym enquired whether the Government would be able to offer the guarantee which would apparently be necessary if the Bank were to

participate in any BIS loan. The Chancellor explained that, not least because it would be necessary to inform Parliament of any such guarantee, he would need, with the Governor, to be satisfied that the Yugoslavs had in fact embarked on a credible adjustment programme which offered a real chance of a solution to their current problems.

JDK.

J O KERR

6.1.83.

Distribution:

Mr Coles - No 10
Mr Fall - FCO
Mr Rhodes - DOT
PS/Governor - Bank of England
Mr Hatfield - Cabinet Office

Chief Secretary
Economic Secretary
Sir Douglas Wass
Mr Littler
Mr Carey
Mr Hawtin

CONFIDENTIAL FILE

da

B/F Yugoslavia

10 DOWNING STREET

From the Private Secretary

4 January 1983

Dear Roger,

Yugoslavia: Economic Crisis

The Prime Minister has seen the minute of 31 December by the Foreign and Commonwealth Secretary to the Chancellor of the Exchequer. She has minuted that she would like to receive advice from the Treasury and the Department of Trade on Mr. Pym's proposals for improving our offer of assistance to Yugoslavia when the Western Creditors Group meets in Berne on 6/7 January and the BIS central banks meet in Basle on 10/11 January. Mrs. Thatcher is prepared to hold a meeting of the Ministers concerned if there is no agreement on the line we should take at these meetings.

I am copying this letter to John Kerr (HM Treasury), John Rhodes (Department of Trade), Tim Allen (Bank of England) and Richard Hatfield (Cabinet Office).

Yours ever

John Coles.

Roger Bone, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

do

Prime Minister 2

LR

31/12

FCS/82/219

CHANCELLOR OF THE EXCHEQUER

Yugoslavia: Economic Crisis

1. You will recall that when we discussed Yugoslavia's economic problems informally on 23 December, together with Arthur Cockfield and Gordon Richardson, we concluded that we should be ready to reconsider and, if we agreed, improve our contribution to an assistance package once we had more information from the IMF team in Belgrade.

2. Your officials have no doubt reported to you the briefing given by the leader of the IMF team here in London on 30 December. It is clear that the IMF have at last forced the Yugoslavs to face up to the structural changes they need to make to their economy if it is to survive in the competitive world of the 1980s. The IMF also made it clear, however, that without an assistance programme, Yugoslavia's economy would almost certainly collapse early in 1983. This would have long term political and also important economic consequences, for the UK as well, given our position as Yugoslavia's leading official Western creditor. On the political side, the collapse of the Yugoslav economy would lead to a collapse in the authority of the present relatively competent Government; they might be replaced by a more inward looking group, whose sympathies are thought to lie in stronger links with the East. Whether this assessment is accurate or not there can be absolutely no doubt that a failure to sustain Yugoslavia's economic links with the West must lead to a considerable strengthening of Yugoslavia's already growing links with the East, and above all the Soviet Union. The long term strategic implications of this are clear.

3. Against this background we have now to decide on our line at both the next meeting of the Western Creditors Group on 6/7 January in Berne and thereafter at the BIS central

banks' meeting in Basle on 10/11 January. If agreement to assist Yugoslavia is not reached at both these meetings, then the IMF consider that the chances of averting an uncontrolled default by the Yugoslavs in January are slim.

4. I understand that following discussion among officials our position for the Berne meeting is likely to consist of the following elements:

(a) Agreement to allow $65 million medium term commercial credit already in the pipeline for 1983, to stand;

(b) An offer to refinance $65 million of UK Government backed maturities falling due in 1983;

(c) Continuation of approximately $25 million short term credit.

I recognise that for a country in Yugoslavia's present economic situation, such an offer would by normal standards be considered generous. Nevertheless, at the last creditors' meeting on 17 December we put forward a package on substantially similar lines and it was not considered to provide the sort of contribution which might be expected from one of Yugoslavia's leading Western partners, taking into account also the political importance of the problem. I therefore hope that we can improve our position at the next meeting by offering a further $45 million medium term commercial credit, which would bring our total contribution to $200 million. I think such a move very important if we are to convince both our friends and the Yugoslavs that we are taking this Yugoslav crisis as seriously as it deserves.

Treasury & Trade advice please. I am [illegible] to have a meeting if differing views are expressed

5. As far as the BIS operation is concerned, I also hope that Gordon Richardson will be able to meet the UK share of a collective operation to provide a $500 million short term bridging loan which the IMF consider a crucial element in the package. I expect he would wish to see the outcome of the Governmental creditors meeting on 6/7 January before deciding on the most appropriate terms for the Bank of

England's participation. If, however, he should decide that a government guarantee was needed, I would hope that you would be prepared to grant one.

6. In the spirit of our meeting on 23 December, I hope you and the others concerned can agree that this falls within the scope of our existing consensus and can be agreed by minuting in reply without the necessity for a meeting before 6 January. If, however, you or one of the others felt that a meeting was necessary I would hope that it could be arranged as early as possible.

7. I am sending copies of this minute to the Prime Minister, Arthur Cockfield, Gordon Richardson and to Sir Robert Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth Office

31 December, 1982

Internal Structure : Yugoslavia Jan 1980

31 DEC 1982

20

Yugoslavia

ADVANCE COPIES

EASTERN EUROPEAN ECONOMIC

IMMEDIATE

PS
PS/MR RIFKIND
PS/PUS
MR EVANS
SIR J BULLARD
MR GOODISON
MR THOMAS
MR HANNAY
HD/EESD
HD/ECD(E)
HD/WED
HD/ESID
HD/ERD
HD/NEWS D
HD/PLANNING STAFF

RESIDENT CLERK

MR MOUNTFIELD H M TREASURY
MR BPEACH ECGD
MR BRENNAN CABINET OFFICE.
MR WENBAN-SMITH CABINET OFFICE
MR POWNALL CRE4 DOT
MR LOEHNIS B/ENGLAND
MR COLES No.10 DOWNING STREE

GR 200
CONFIDENTIAL
FM BELGRADE 291045Z DEC 82
TO IMMEDIATE FCO
TELNO 238 OF 29.12.82
INFO IMMEDIATE WASHINGTON, PARIS, BONN, BERNE AND PRIORITY TO ROME, VIENNA, TOKYO AND UKDEL IMF/IBRD
INFOSAVING UKDEL OECD

MY TELNO 237: YUGOSLAVIA'S ECONOMIC CRISIS.

1. AFTER COMPARING NOTES WITH MY US AND GERMAN COLLEAGUES I SHOULD ADD TWO POINTS OF CLARIFICATION ON PARAGRAPH 5 OF MY TUR.

FIRST, WHEN DRAGAN REFERRED TO THE IMF INSTALMENT OF 620 MILLION DOLLARS HE WAS PERHAPS ASSUMING THAT THE YUGOSLAVS COULD PERSUADE THE IMF TO DEFER REPAYMENT OF 220 MILLION DOLLARS DUE NEXT YEAR. ANDERSON HAS TOLD DRAGAN HE SHOULD NOT MAKE THIS ASSUMPTION, AND SHOULD NOT COUNT ON MORE THAN 400 MILLION DOLLARS NEW IMF MONEY.

(THIS APPEARS TO BE CONSISTENT WITH APPENDIX 1 OF IMF DOCUMENT EBS/82/181 OF 7 OCTOBER)

SECOND, THE YUGOSLAVS HAVE BEEN GIVEN REASON TO HOPE FOR A STRUCTURAL LOAN OF 300 MILLION DOLLARS FROM IBRD, THOUGH THIS IS UNLIKELY TO BE AVAILABLE FOR NINE MONTHS OR SO.

2. ACCORDING TO ANDERSON THE AMERICANS ARE PROPOSING THAT THE GROUP OF PARTICIPANTS IN THE INTERNATIONAL CREDIT PACKAGE SHOULD NOW BE WIDENED TO INCLUDE BELGIUM, CANADA, NETHERLANDS, DENMARK, NORWAY, SWEDEN, FINLAND AND KUWAIT, THOUGH IT IS NOT CLEAR WHETHER THESE COUNTRIES WILL BE INVITED TO THE NEXT MEETING.

SCOTT.

NNNN

LVO 360 /29

00 FCO

SENT
29 DEC 1982

IMMEDIATE

ADVANCE COPIES

EASTERN EUROPEAN ECONOMIC

26

PS
PS/MR RIFKIND
PS/PUS
~~MR EVANS~~
~~SIR J BULLARD~~
MR GOODISON
MR THOMAS
MR HANNAY.
HD/EESD
HD/ECD(E)
HD/WED
HD/ESID
HD/ERD
HD/NEWS D
HD/PLANNING STAFF

RESIDENT CLERK

MR MOUNTFIELD H M TREASURY
MR BREACH ECGD
MR WENBAN-SMITH CABINET OFFICE
MR POWNALL CRE4 DOT
MR LOEHNIS B/ENGLAND
MR COLES No.10 DOWNING STREE
MR S. BRENNAN CABINET OFFICE

IMMEDIATE

CONFIDENTIAL

DESKBY 280900Z

FM WASHINGTON 271750Z
TO IMMEDIATE FCO
TELEGRAM NUMBER 4040 OF 27 DECEMBER 1982
INFO PARIS, BONN, BELGRADE, BERNE, ROME, VIENNA, TOKYO.
SAVING TO UKDEL OECD

YOUR TELNO 2208: YUGOSLAV ECONOMIC CRISIS

WE PASSED YOUR MESSAGE TO DAM (ACTING SECRETARY OF STATE IN THE ABSENCE OF SHULTZ) ON 24 DECEMBER AND HAVE FOLLOWED UP WITH MEISSNER (SPECIAL NEGOTIATOR FOR ECONOMIC MATTERS) THIS MORNING.

2. AS REPORTED IN TELECON TO EESD, MEISSNER SAID THAT THE US WAS ONLY JUST BEGINNING TO ANALYSE THE TERMS OF THE AGREEMENT WITH THE YUGOSLVS REACHED BY THE IMF JUST BEFORE THE WEEKEND. RATHER THAN HAVE A TEAM FROM LONDON COME OUT TO WASHINGTON THIS WEEK, THE AMERICANS WOULD PREFER THAT THEIR TEAM STOP OFF IN LONDON A DAY AHEAD OF THE NEXT CREDITAS' MEETING, WHICH THEY EXPECT TO TAKE PLACE IN BERNE OR PARIS ON THURSDAY 6 JANUARY. IF THE NEXT MEETING WERE TO TAKE PLACE ON 6 JANUARY, THE US TEAM WOULD

A DAY AHEAD OF THE NEXT CREDITAS' MEETING, WHICH THEY EXPECT TO TAKE PLACE IN BERNE OR PARIS ON THURSDAY 6 JANUARY. IF THE NEXT MEETING WERE TO TAKE PLACE ON 6 JANUARY, THE US TEAM WOULD ARRIVE IN LONDON ON THE MORNING OF 5 JANUARY. THEY WOULD MAKE A POINT OF COMING TO LONDON A DAY AHEAD OF TIME WHATEVER DATE FOR THE CREDITAS' MEETING WAS EVENTUALLY FIXED.

FCO PASS SAVING TO UKDEL OECD.

WRIGHT

NNNN

Yugoslavia

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

(2)

CONFIDENTIAL

Prime Minister

A.J.C. 21/12

From the Secretary of State

The Rt Hon Francis Pym MC MP
Secretary of State for Foreign and Commonwealth Affairs
Foreign & Commonwealth Office
Downing Street
London
SW1A 2AL

21 December 1982

Dear Francis

YUGOSLAVIA : ECONOMIC CRISIS

Thank you for sending me a copy of your minute to Geoffrey Howe dated 7 December. I have also seen a copy of his reply to you on the following day.

I am content with the proposal that the UK should be prepared to make a modest contribution to a rescue package on the various conditions outlined in paragraph 5 of Geoffrey Howe's minute within their existing trading operations. ECGD could contribute to this operation by guarantees of new commercial bank lending which would refinance (by half yearly tranches and at commercial rates of interest) some $60m of existing medium term debt. There would however, be a pre-condition in that some £3m of arrears currently owed to ECGD by Yugoslav banks should be paid off. ECGD would also be able to continue to provide short term finance on the current basis and at current levels which would make available approximately $50m for 1983.

I understand that these ideas have, in fact, already been discussed by the various Departments concerned and that this position is forming the basis for the further meeting of officials of Yugoslavia's main Western creditors on 17 December. I shall be interested to hear the outcome of those discussions.

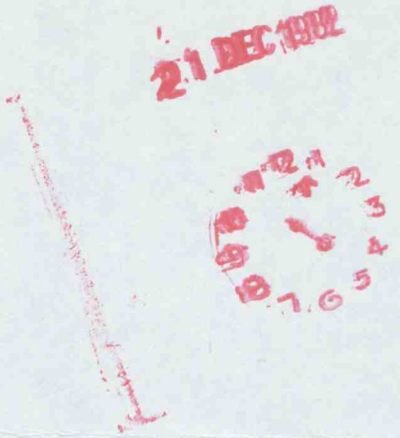
I am sending copies of this letter to the Prime Minister; the Chancellor of the Exchequer; the Governor of the Bank of England and Sir Robert Armstrong.

Yours,

CONFIDENTIAL

LORD COCKFIELD

Yugoslavia, Jun '80, Int Sit,



CONFIDENTIAL

Yugoslavia (2)
Prime Minister

A.J.C. 9/12

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

FOREIGN AND COMMONWEALTH SECRETARY

YUGOSLAVIA: ECONOMIC CRISIS

Thank you for your minute of 7 December.

2. The Yugoslav problem will indeed be discussed at my meeting with the other G5 Finance Ministers tomorrow. (We shall also be discussing Brazil: for whom a bridging operation of similar size is envisaged, and the Americans look to their European and other allies to make a substantial contribution).

3. I think you know my view, and agree with it, that a credible and realistic solution to Yugoslavia's financial crisis must include a substantial element of rescheduling. The other essential element of course, as you say, is a tight IMF programme. It is unfortunate that the Yugoslavs have taken such a firm stand to date against rescheduling, and doubly unfortunate that they appear to have been encouraged in this attitude by the Americans, whose own analysis of the gravity of the Yugoslav financial crisis seems to have been amateurish and superficial.

4. I understand that at the meeting of officials on 2 December it was evident that our other allies are closer to our own diagnosis than that of the Americans. At the forthcoming Ministerial gatherings with our closest allies we should, I think, build on this. We need to continue to impress on the Americans that both their analysis of the Yugoslav situation, and their proposed solution of a major international rescue operation involving new money or new credit, are unrealistic. (The tactless way in which they have inspired the latest Brazilian approach to European

creditors makes it even less likely of course that official funds will be forthcoming for Yugoslavia on anything like thescale which would be required even on the Americans' own optimistic analysis.)

5. At the same time I agree with you that it would be difficult for us to decline to make any contribution to a collective rescue operation if other creditors and allies were prepared to chip in. Other reasons apart, our claim that the American approach is an inadequate response to the Yugoslav problem would look like self-interest. I would not therefore exclude some indication to the Americans and others of willingness to make a modest contribution to a rescue package, if that is essential to avoid our being identified as the only country not prepared to do anything over and above debt relief. Any such offer ought in my view to be subject to the following three pre-conditions being met:

(i) The Fund staff would need to put forward, and the Yugoslavs accept, an adequate IMF programme.

(ii) The burden of any assistance package would have to be widely spread.

(iii) The need to consider rescheduling, and to explain the advantages of it to the Yugoslavs, should be accepted among the creditors.

6. As to the form and amount of any contribution we might make to a special assistance package, I would hope that we could avoid being too specific at this stage. But, subject to Arthur Cockfield's views, I would see no objection to ECGD's providing guarantees of new commercial bank lending, on a medium term basis and at commercial rates of interest, to refinance 1983 maturities of ECGD-guaranteed loans. $60 million, or perhaps a bit more, should be available by this route, and I understand there may be some other ways in which ECGD would be able to make modest amounts of additional short term credit available consistently

with their statutory and other obligations.

7. I am copying this minute to the other recipients of yours.

(G.H.)
8 December 1982

Yugoslavia, Jan '80, Int Sit

010

Yugoslavia (2)

Prime Minister

A.J.C. 7/12

FCS/82/204

CHANCELLOR OF THE EXCHEQUER

Yugoslavia: Economic Crisis

1. At our meeting yesterday we touched on the outcome of the meeting in Paris on 2 December of officials of Yugoslavia's five main Western creditors at which the Americans put forward their proposal for a special assistance package to help Yugoslavia overcome its acute liquidity problem in the first half of 1983. I enclose for ease of reference a copy of the reporting telegram. The problem is on the agenda for discussion at the traditional Berlin meeting of the French, Germans, Americans and ourselves before the NATO Ministerial Meeting on 9 December. I expect to come under heavy pressure from George Shultz to take part in this operation. I also understand that Yugoslavia is on the agenda of a meeting you will be attending on 9 December with the Finance Ministers of some of our closest allies.

2. As you know, the next meeting of officials of the five countries will be in Paris on 14 December. I consider it important that at that meeting we should be able to play a positive part in any conclusions that might be reached about how to assist Yugoslavia.

3. I do not underestimate the difficulties involved. But in my view there are three reasons why we should be prepared to provide some extra assistance for Yugoslavia:

a. the Yugoslavs have publicly set their faces against rescheduling. They will take time to be brought round to the view that this should comprise an element, even a major one, of any package that might be offered them;

b. if while we are discussing the matter among ourselves, or with the Yugoslavs, the Commercial banks call in their

/short

short term deposits (currently about $1.6 billion) the problem, both financially and politically will become a great deal more difficult to manage;

c. if, on 14 December, we are the only country not prepared to do anything over and above debt relief for Yugoslavia, I would expect this to get back to the Yugoslavs very quickly with serious short term and long term economic and political effects on our interests.

4. The sort of package I have in mind would contain, as an essential pre-requisite, a tight IMF programme together with an element of debt relief and some special assistance, in whatever form. I hope that our officials can work urgently on a position on these lines in preparation for the 14 December meeting. My officials will have some specific ideas to put forward on the question of the form our special assistance contribution might take.

5. I am sending copies of this minute to the Prime Minister, the Secretary of State for Trade, the Governor of the Bank of England and Sir Robert Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth Office
7 December 1982

OO BELGRADE
PP ROME
GRS 1002
CONFIDENTIAL

FM FCO 031300Z DEC 82
TO IMMEDIATE BELGRADE
TELEGRAM NUMBER 183 OF 3 DECEMBER
INFO IMMEDIATE COPENHAGEN (FOR EVANS AND BULLARD), UKDEL IMF/IBRD WASHINGTON
INFO PRIORITY WASHINGTON, BONN, PARIS, ROME
INFO ROUTINE UKDEL NATO
INFO SAVING UKDEL OECD, MOSCOW
YUGOSLAVIA : ECONOMIC CRISIS
SUMMARY

1. A MEETING IN PARIS ON 2 DECEMBER UNDER FRENCH CHAIRMANSHIP, ATTENDED BY REPRESENTATIVES FROM THE UK, FRG, US AND ITALY DISCUSSED YUGOSLAVIA'S ACUTE FINANCIAL PROBLEM. THE UNITED STATES PROPOSED THAT,TOGETHER WITH OTHER WESTERN CREDITORS,DOLLARS 1 BILLION OF GOVERNMENT-BACKED FINANCIAL ASSISTANCE SHOULD BE MADE AVAILABLE. THE US WAS PREPARED TO COMMIT ITSELF IN PRINCIPLE TO CONTRIBUTING. NO OTHER DELEGATION MADE A SIMILAR COMMITMENT AND OTHER OPTIONS FOR ASSISTING YUGOSLAVIA WERE ALSO CONSIDERED, INCLUDING RESCHEDULING IN SOME FORM. THE GROUP AGREED TO MEET AGAIN ON 14 DECEMBER TO SEE IF THERE WAS COMMON AGREEMENT TO ASSIST YUGOSLAVIA AND IF SO IN WHAT WAY.

2. DISCUSSION COVERED THE POLITICAL, ECONOMIC AND FINANCIAL ASPECTS OF THE PROBLEM.

POLITICAL

3. WITH THE US TAKING THE LEAD, THERE WAS AGREEMENT ON THE STRATEGIC AND POLITICAL IMPORTANCE OF MAINTAINING YUGOSLAVIA'S NON-ALIGNED STATUS. PAYE (FRANCE, CHAIRMAN) EMPHASISED THE POLITICAL AND STRUCTURAL FRAGILITY OF YUGOSLAVIA POST-TITO, THE ADDITIONAL STRAINS BROUGHT ABOUT BY ECONOMIC

AUSTERITY MEASURES NOW BEING PURSUED, THE VULNERABILITY OF THE COUNTRY TO EASTERN PRESSURES AND THE POLITICAL SENSITIVITY OF THE GOVERNMENT TO CERTAIN FORMS OF FINANCIAL ASSISTANCE.

ECONOMIC

4. ALL WERE AGREED THAT THERE WERE BASIC STRUCTURAL ECONOMIC WEAKNESSES (FEDERAL STRUCTURE OF THE COUNTRY, SELF-MANAGEMENT SYSTEMS, ETC). THESE REQUIRED MEDIUM/LONG TERM TREATMENT AND APPROPRIATE IMF PROGRAMME. BUT THERE WAS AN IMMEDIATE FINANCIAL CRISIS REQUIRING URGENT ATTENTION.

FINANCIAL

5. MEISSNER (US) SAID THE IMMEDIATE PROBLEM WAS THE FINANCING GAP. THE MAIN ELEMENT WAS BANKING CONFIDENCE. MORE THAN A QUICK-FIX WAS NEEDED. ANY SOLUTION SHOULD LEAD INTO A LONGER TERM RESTRUCTURING AND CHANGES IN THE YUGOSLAV ECONOMY. RESCHEDULING WAS NOT THE RIGHT APPROACH. IT WOULD INCREASE LACK OF CONFIDENCE AND PRECIPITATE THE PROBLEM WE WISHED TO AVOID.

6. DISCUSSION TURNED TO THE FIGURES CIRCULATED BY THE AMERICANS (COPIES BY BAG). MOST DELEGATIONS QUESTIONED THE US ASSUMPTION ABOUT THE FINANCING GAP. MEISSNER EVENTUALLY ACCEPTED THAT IT WOULD BE AT LEAST DOLLARS 1.5 BILLION. SMITH (BANK OF ENGLAND) SAID THE IMF TEAM NOW IN BELGRADE MIGHT FIND THAT IT WAS WORSE.

7. MEISSNER SPELT OUT THE US PROPOSAL:

A. YUGOSLAVIA SHOULD HAVE DOLLARS 1 BILLION FOR THE FIRST SIX MONTHS OF 1983.

B. A PUBLIC STATEMENT OF INTENT SHOULD BE MADE BY LATE DECEMBER OR EARLY JANUARY.

C. THE FINANCIAL ASSISTANCE WOULD BE PART OF A PACKAGE INCLUDING AN IMF PROGRAMME, YUGOSLAV UNDERTAKINGS TO MAKE STRUCTURAL ADJUSTMENTS, AND INFORMAL UNDERSTANDINGS WITH THE COMMERCIAL BANKS.

D. ALL HARD CURRENCY CREDITORS WOULD BE INVITED TO CONTRIBUTE, WITH BURDEN SHARING BASED ON THE APPROXIMATE RATIO OF PRESENT CREDIT EXPOSURE.

8. FRENCH COMMENTS REVEALED A SLIGHT DIFFERENCE OF EMPHASIS BETWEEN QUAI AND TRESOR. CAMDESSUS (TRESOR) SUGGESTED DEFERRING A DECISION TO GIVE TIME FOR A 'PEDAGOGIC EXCHANGE' WITH THE YUGOSLAVS IN WHICH THEY MIGHT BE BROUGHT TO APPRECIATE THE ADVANTAGES OF RESCHEDULING. PAYE (QUAI) STRESSED, HOWEVER, THAT SOMETHING ALSO NEEDED TO BE DONE TO DEAL WITH THE IMMEDIATE PROBLEM OF CONFIDENCE.

9. SARCINELLI (ITALIAN TREASURY) SAID THAT IF THE CREDITORS COULD CONVINCE THE MAJOR BANKS TO PROVIDE NEW LOANS THE PROBLEM WOULD BE RESOLVED. BUT ALL BANKS MAJOR AND MINOR WOULD NEED SIMILAR TREATMENT. HE MENTIONED SOME DEGREE OF RESCHEDULING AS A WAY OF LOCKING IN THE BANKS.

10. LOECK (FRG) THOUGHT THAT RESCHEDULING AND NEW LOANS WERE NOT ALTERNATIVES. IT WAS DIFFICULT, IF NOT IMPOSSIBLE, TO FIND THE MEANS TO COVER THE FINANCING GAP QUICKLY. RESCHEDULING HAD THE ADVANTAGE OF REDUCING THE AMOUNT OF FINANCE REQUIRED. BUT IT WAS QUITE CLEAR THAT NECESSARY BUILDING OF CONFIDENCE COULD NOT BE SOLVED BY RESCHEDULING ALONE: SOME NEW MONEY WAS ALSO NEEDED.

11. LITTLER (UK) RECOGNISED THE POLITICAL IMPORTANCE OF HELPING YUGOSLAVIA. BUT WE SHOULD NOT RULE OUT RESCHEDULING. THE TERM COVERED A WHOLE VARIETY OF OPTIONS. IT COULD BE PRESENTED AND PACKAGED IN MANY WAYS. IT WOULD BE A PITY IF THE IMF GAVE THE YUGOSLAVS THE IMPRESSION THAT RESCHEDULING, IN WHATEVER FORM, WAS RULED OUT. IN ANY OVERALL PACKAGE

12. PAYE INITIATED A DIFFUSE DISCUSSION OF THE 'VENICE DECLARATION' (JUNE 1980 ECONOMIC SUMMIT). HE CLAIMED THAT IF COMMITMENTS WERE HONOURED YUGOSLAVIA WOULD OBTAIN THE NECESSARY FUNDS. IT WAS CLEAR THAT PAYE CONSIDERED FRANCE HAD PLAYED A FULL PART AND SAW THIS AS A WAY OF REDUCING A FRENCH CONTRIBUTION TO ANY FUTURE PACKAGE. THE ITALIANS DID NOT RESPOND NEGATIVELY. LOECK RESISTED THE SUGGESTION STRONGLY. IF IT WAS PURSUED THE GERMANS WOULD WISH THE TOTALITY OF PAST CONTRIBUTIONS TO BE TAKEN INTO CONSIDERATION. WE SUPPORTED THEM. MEISSNER OPPOSED THE SUGGESTION ON THE

GROUNDS THAT IT WOULD OPEN UP A TIME WASTING DISCUSSION OVER BURDEN SHARING.

13. AFTER CONSIDERABLE FURTHER DISCUSSION AND ONE OR TWO ATTEMPTS TO SUM UP, PAYE CONCLUDED THAT:

A. THE IMF MISSION MIGHT PROVIDE BETTER CURRENT INFORMATION ABOUT THE YUGOSLAV ECONOMY, GOVERNMENTS SHOULD HOWEVER PROCEED IN PARALLEL:

B. DELEGATIONS PRESENT WOULD REFER TO THEIR GOVERNMENTS TO SEE WHETHER THEY WERE PREPARED TO STATE THEIR INTEREST IN HELPING YUGOSLAVIA:

C. IF THEY WERE THEY SHOULD DEFINE WHAT TYPE OF HELP EG PERSUADE THE COMMERCIAL BANKS TO EXTEND NEW CREDITS: NEW GOVERNMENT MONEY SEMI-COLON OR GOVERNMENT GUARANTEED LOANS

D. WHAT CONDITIONALITY SHOULD APPLY

E. HOW TO PRESENT A PACKAGE:

F. HOW TO BRING IN OTHER COUNTRIES (MEISSNER CLAIMED TO OTHER WESTERN COUNTRIES WERE WILLING TO CONTRIBUTE):

G. THOSE PRESENT WOULD RECONVENE ON 14 DECEMBER.

PYM

LIMITED
EESD
ECD(E)
CSCE UNIT
NAD
SED
WED
ESID
TRED
PLANNING STAFF
ERD
PUSD

NEWS D
INFORMATION D
PS
PS/MR RIFKIND
PS/PUS
SIR J BULLARD
MR EVANS
MR GOODISON
MR THOMAS
MR HANNAY
MR HAYES

ADDITIONAL DISTRIBUTION
EASTERN EUROPEAN ECONOMIC

Yugoslavia

CONFIDENTIAL

GRS 235
CONFIDENTIAL
FM MOSCOW 151052Z NOV 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 727 OF 15 NOV
INFO IMMEDIATE WASHINGTON, PARIS, BONN, BELGRADE.

MR.COLES. 10.DOWNING STREET.

FOLLOWING FROM PRIVATE SECRETARY

SECRETARY OF STATE'S MEETING WITH MR SHULTZ, 14 NOVEMBER:

YUGOSLAVIA

1. THE SECRETARY OF STATE SAID THAT THE SITUATION IN YUGOSLAVIA SEEMED TO HAVE BECOME MORE UNSTABLE POLITICALLY AND MUCH WORSE ECONOMICALLY SINCE HIS VISIT IN JUNE. THE QUESTION HOW DEEPLY THE WEST WAS PREPARED TO PUT ITS HAND INTO ITS POCKET SEEMED CERTAIN TO ARISE IN A MATTER OF WEEKS. WHAT LINE WAS THE UNITED STATES GOING TO TAKE ?

2. SHULTZ SAID THAT IF WE BELIEVED IN DIFFERENTIATION AS BETWEEN EAST EUROPEAN COUNTRIES, YUGOSLAVIA MUST BE A SPECIAL CASE. THE COUNTRY WAS IN DIRE STRAITS BUT NOT SO DIRE AS SOME IN LATIN AMERICA. ONE HAD TO ADMIRE YUGOSLAV PRIDE IN REJECTING RESCHEDULING BECAUSE THEY WANTED TO BE IN A POSITION OF PAYING OFF PRINCIPAL AS WELL AS INTEREST. HE DID NOT KNOW HOW FAR THE UNITED STATES WOULD BE ABLE TO GO IN PROVIDING HELP. HE WAS MUCH INVOLVED IN CURRENT DISCUSSIONS ON THE US BUDGET, AND CUTS ALL ROUND WERE THE ORDER OF THE DAY. BUT IT WOULD BE VERY IMPORTANT TO WORK HARD AT THE YUGOSLAV PROBLEM.

3. IT WAS AGREED TO AWAIT THE FRENCH INVITATION TO A MEETING OF THE FOUR COUNTRIES TO WHOM THE MANAGING DIRECTOR OF THE IMF HAD RECENTLY SENT A MESSAGE.

SUTHERLAND

LIMITED
EESD
ECD(E)
CSCE UNIT
NAD
SED
WED
ESID
TRED
PLANNING STAFF
ERD
PUSD

NEWS D
INFO. D.
PS
PS/MR RIFKIND
PS/PUS
SIR J BULLARD
MR EVANS
MR GOODISON
MR THOMAS
MR HANNAY
MR HAYES

ADDITIONAL DISTRIBUTION
EASTERN EUROPEAN ECONOMIC

CONFIDENTIAL

SUBJECT

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T107A/82

Master
GRS
Yugoslavia

UNCLASSIFIED

5430 - 1

OO BELGRADE
GRS 325
UNCLASSIFIED
FM FCO 141115Z MAY 82
TO IMMEDIATE BELGRADE
TELEGRAM NUMBER 83 OF 14 MAY
INFO MODUK (FOR DS 12)
INFO SAVING ZAGREB
MESSAGES OF CONGRATULATION TO THE NEW YUGOSLAV GOVERNMENT
1. PLEASE CONVEY THE FOLLOWING MESSAGES AS SOON AS YOU JUDGE APPROPRIATE AFTER THE NEW GOVERNMENT HAS BEEN INSTALLED :-
(A) FROM THE PRIME MINISTER TO MRS PLANINC - PLEASE ACCEPT MY WARM CONGRATULATIONS AND BEST WISHES ON THE OCCASION OF YOUR APPOINTMENT AS PRESIDENT OF THE FEDERAL EXECUTIVE COUNCIL. I HAVE WARM MEMORIES OF MEETING YOUR PREDECESSOR AND LOOK FORWARD TO THE FURTHER DEVELOPMENT OF THE LONG STANDING FRIENDLY RELATIONS BETWEEN OUR COUNTRIES.
(B) FROM ME TO MR MOJSOV - PLEASE ACCEPT MY CONGRATULATIONS ON THE OCCASION OF YOUR APPOINTMENT AS FEDERAL SECRETARY FOR FOREIGN AFFAIRS AND MY BEST WISHES FOR YOUR SUCCESS IN THAT POST. I LOOK FORWARD TO WORKING WITH YOU TO DEVELOP THE LONG STANDING FRIENDLY RELATIONS BETWEEN OUR COUNTRIES.
(C) FROM MR NOTT TO ADMIRAL MAMULA - MAY I OFFER YOU MY WARM CONGRATULATIONS ON YOUR APPOINTMENT AS FEDERAL SECRETARY FOR NATIONAL DEFENCE IN THE NEW GOVERNMENT OF YOUR COUNTRY. I HOPE VERY MUCH THAT WE SHALL HAVE THE OPPORTUNITY OF MEETING BEFORE TOO LONG.
(D) FROM LORD COCKFIELD TO DR BOJANIC - MAY I OFFER YOU MY CONGRATULATIONS AND BEST WISHES ON YOUR APPOINTMENT AS FEDERAL SECRETARY FOR FOREIGN TRADE.
DURING APRIL LAST YEAR FOLLOWING AN INVITATION FROM YOUR PREDECESSOR, MR ROTAR, MR CECIL PARKINSON, WHO WAS THEN BRITISH MINISTER FOR TRADE, WAS ABLE TO MAKE A MOST USEFUL AND ENJOYABLE VISIT TO YUGOSLAVIA. I KNOW THAT BOTH HIS SUCCESSOR MR PETER REES, AND I LOOK FORWARD TO MEETING YOU IN LONDON IN DUE COURSE TO CONTINUE THE DIALOGUE INITIATED BY OUR COLLEAGUES.

2. LETTER WITH ABOVE MESSAGE SIGNED BY LORD COCKFIELD ARRIVES BY FIRST AVAILABLE BAG. GRATEFUL FOR ONWARD TRANSMISSION, AND FOR THIS TO BE TAKEN INTO ACCOUNT WHEN RELAYING ABOVE TO DR BOJANIC.

PYM [COPIES SENT TO NO 10 DOWNING ST]

LIMITED
EESD
PCD
RES D
PS
PS/MR RIFKIND
MR GOODISON
MR BULLARD

COPIES TO
OT4 DOT

Mr Coles.
10. Downing St

PS/MR MOORE

CC PS/SECRETARY OF STATE
MR GUINNESS
MR CARTER
MR CARR

MINING DISASTER IN YUGOSLAVIA

1 The press this morning have reported a mining accident in Yugoslavia involving the loss of at least 35 lives. An early day motion, expressing condolences to the families of the deceased, has been put down by a number of Labour MPs. I understand that the Parliamentary Clerk is circulating the briefing prepared for the Leader of the House on this.

2 We recommend that, in accordance with past practice on such occasions and as stated in the briefing for the Leader of the House, that Mr Moore should send a telegram expressing sympathy for the miners involved in the accident and their families. The Embassy in Belgrade have suggested that any telegram should be sent to them for onward transmission to the appropriate minister in the Yugoslav Government, Mr Hasan Siljak, the Deputy President of the Federal Committee for Energy, who is currently the acting Minister of Energy. Our Ambassador in Belgrade has already sent a telegram to the Head of the mine concerned. A draft telegram to the Embassy is attached.

A J DANIELS
COAL 2a
Rm 1287, THS
Ext 3983

13 May 1982

DRAFT TELEGRAM TO BELGRADE

TO UNCLASSIFIED BELGRADE
IMMEDIATE

YOUR TEL NO 107: ZERICA MINE ACCIDENT

Please pass following message to the acting Minister for Energy, Mr Hasan Siljak, from Mr John Moore, Parliamentary Under Secretary of State at the Department of Energy.

Quote I am most distressed to hear of the colliery accident at Zenica and the many lives that have been lost. I should like, on behalf of the British government, to offer my sincere condolences for this tragic event. Unquote.

DISTRIBUTION

LIMITED

EESD
~~EESD~~ Newsd
~~Mr Goodison~~
Information D
PS
PS/Mr Rifkind
PS/PUS
Mr Bullard
Mr Goodison
Lord N Gordon Lennox.

DWF G 93/13

LVO NR 754/13

ADVANCE COPY

IMMEDIATE

00 F C O

GRS 100

UNCLASSIFIED

FM BELGRADE 131015Z MAY 82

TO IMMEDIATE F C O

TELNO 107 OF 13 MAY 82

MINE DISASTER

1. THERE WAS A SERIOUS ACCIDENT IN A COAL-MINE IN ZENICA, BOSINA, IN THE EARLY HOURS OF 12 MAY WHEN 39 MINERS WERE KILLED AND 8 INJURED AS A RESULT OF A METHANE EXPLOSION. 14 MAY HAS BEEN DECLARED A DAY OF NATIONAL MOURNING.

2. I HAVE SENT A PERSONAL MESSAGE OF CONDOLENCE TO THE DIRECTOR OF THE MINE.

3. I UNDERSTAND A GROUP OF LABOUR MP'S ARE TABLING A MOTION IN THE HOUSE TODAY AND THE DEPARTMENT OF ENERGY IS INTENDING TO SEND A MESSAGE. THESE WILL BE WELL RECEIVED AS MUCH EMOTION HAS BEEN AROUSED BY THE ACCIDENT.

4. WE HAVE A PARTICULAR INTEREST IN THIS MINE WHERE WE HAVE SOME IMPORTANT COMMERICAL PROSPECTS.

BOLLAND

NNNN

8-X

Hd/ EESD

Hd/ NEWS DEPT

Hd/ INFORMATION D.

PS

PS/MR RIFKIND

PS/PUS

MR BULLARD

MR GODDISON

LORD N GORDON LENNOX

R M

Yugoslavia

12 May,1982

Message to the President of the
Yugoslav Federal Executive Council

Thank you for your letter of 10 May. The proposed message from the Prime Minister to the President of the Federal Executive Council may be despatched.

A J COLES

F N Richards, Esq
Foreign and Commonwealth Office

(1)

Foreign and Commonwealth Office

London SW1A 2AH

10 May 1982

Prime Minister

Agree to send message? A.J.C. 10/5

Dear John,

Yes MT

The new Yugoslav government will be sworn into office on 15/16 May. Mr Pym considers that it would be in accordance with normal courtesies and would furthermore mark our concern to develop our relations with the Yugoslavs if the Prime Minister were to send a message of congratulation. I enclose a draft. If the Prime Minister agrees, we shall instruct the Ambassador in Belgrade to offer the message along with one from Mr Pym and probably others from the Secretaries of State for Defence and Trade.

Yours ever.

Francis Richards

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing Street

DSR 11 (Revised)

8

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Prime Minister

DEPARTMENT:

TEL. NO:

Reference

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

TO:

Mrs Milka Planinc
President of the Federal Executive
Council of the Socialist Federal
Republic of Yugoslavia.

Your Reference

Copies to:

PRIVACY MARKING

.....In Confidence

CAVEAT.....

SUBJECT:

Please accept my warm congratulations and best wishes on the occasion of your appointment as President of the Yugoslav Federal Executive Council. I have warm memories of my meetings with your predecessor and look forward to the further development of the long standing friendly relations between our countries.

MT

Enclosures—flag(s).....

OUT TELELETTER

2

Classification and Caveats
SECRET

ZCZC
GRS
CLASS SECRET
CAVEATS
TELELTR TELELETTER
FROM FROM N H R A BROOMFIELD
FILE ENU 103/1
FOL FOR FOLLOWING FOR R Q BRAITHWAITE ESQ, WASHINGTON
AND TO P W UNWIN, BONN J ANSON UKDEL IMF/IBRD
P C PETRIE, PARIS SIR E BOLLAND BELGRADE

YUGOSLAVIA'S ECONOMIC SITUATION.

1. You will have seen from recent telegrams that we are increasingly concerned about Yugoslavia's economic situation - FCO telnos 69, 79, to UKDEL IMF/IBRD, Belgrade telnos 75, 83, 84, 88 to FCO and UKDEL IMF/IBRD telnos 77, 85 & 90 refer. (Those you have not already received now being copied to you by bag).

2. However, there are indications that US, FRG and France do not entirely share our concern over recent developments. It would be unproductive for us to ~~try to take any~~ attempt substantive action by ourselves in the IMF or elsewhere and it would be harmful to our relations with Yugoslavia if we were ~~perceived~~ seen to be doing so. We therefore need a more thorough exchange of views. But the issue is ~~a~~ very sensitive ~~one~~: Yugoslavia is still negotiating for some loans (notably with French banks) and we should not wish

NNNN ends teleletter	BLANK	Catchword /to
File number	Dept EESD	~~Distribution~~ ~~EESD~~ ~~ERD~~ ~~EGID~~ ~~PS/Mr Rifkind~~ ~~PS/PUS~~ ~~Mr Goodison~~ ~~Mr Bullard~~ ~~Lord Bridges~~ ~~Mr Evans~~ ~~Additional Distribution: East European Economic~~ cc: J Anson, UKDEL IMF/IBRD WASHINGTON E Bolland, Belgrade
Drafted by (Block capitals) N H R A BROOMFIELD		
Telephone number 233 3387		
Authorised for despatch Rees 30/4/82.		
Comcen reference	Time of despatch	

<<<< 1 <<<<

to be accused of spreading despondency and thereby nailing ~~down~~ the lid on Yugoslavia's coffin. ~~Grateful~~ Please therefore ~~if you would~~ seek views at a suitably ~~high~~ senior level, setting out our understanding of the position, drawing on TURs and on the following. You should stress the need for confidentiality.

3. According to our figures Yugoslavia's gross borrowing requirement in 1982 is $5bn. This is to meet amortisation of debt, IMF repayments and to cover the balance of payments deficit. Their efforts so far this year to raise this sum have been largely unsuccessful, and they are still some $3.3bn short. Several Yugoslav banks are now experiencing difficulties in meeting external obligations. The Yugoslavs have been giving private assurances that no banks will be allowed to default, and that banks ~~which are~~ in difficulties will be covered by others. But, given the financial difficulties, there must be doubt about the value of ~~such~~ these and to assurances. ~~The same considerations must apply to~~ Dolanc's ~~assurances~~ (Belgrade telno 88 refers) that Yugoslavia would not become insolvent. A recently received highly confidential Yugoslav report recorded that by the end of February the national bank's obligations already exceeded its reserves (Belgrade telno 83).

4. Western banks are now withdrawing funds on a substantial scale (Belgrade telno 75 ~~refers~~) and we believe that a number of banks in the Western group referred to in this Belgrade telegram are now taking a very pessimistic view of the Yugoslav economy. Whether or not this gloomy view is justified, it exists, and could ~~become~~ self-fulfilling. The banks may accept the general soundness of Yugoslavia's internal policies (UKDEL IMF/telno 90) but the Bank of England believes that they share its view that /// these policies are not being prosecuted with sufficient speed // and vigour to produce the necessary results this year. In these / circumstances the Bank of England has strong doubts about whether the banks will make further funds available on the scale

NNNN ends teleletter	BLANK	Catchword /Yugoslavia

PSG Ltd. Od8200157 4/81 86599/3921

<<<<

Yugoslavia ~~requires~~ needs. Yugoslavia's IMF programme ~~has built into~~ includes ~~it~~ the assumption that large sums of money will ~~become~~ be available. It seems probable that the programme will break down. The Yugoslavs are already in arrears on some payments, and are strictly speaking in breach of the IMF conditions.

5. We believe that the Yugoslavs' problems are not simply ~~one~~ ~~of~~ liquidity. We accept that the first quarter is traditionally difficult for Yugoslavia, because invisible earnings do not pick up until later while the outflow for oil imports and stocking up for the tourist season is generally high. But at the end of March the Yugoslavs admitted that the beginning of 1982 had seen a fall in industrial production, an energy shortage, a reduction in foreign exchange inflow, and a growth in prices above the planned rates.

6. The Yugoslavs have also been indulging in statistical distortion. We know that $830 million worth of imports were artificially held up in customs at the end of 1982 to improve the 1981 import figures and thus satisfy the IMF (Belgrade telno 84 refers). We have also received an unconfirmed report that some 1982 exports were added to the 1981 figures to improve them. The net result of these distortions would be to put an additional deficit of around dollars 1 billion onto the 1982 current account. Under the terms of the IMF programme Yugoslavia is supposed to cut its current account deficit by dollars 1 billion to dollars 0.5 billion in 1982. Even this original target was unlikely to be achieved without major problems for the Yugoslavs, for example further cuts in imports and another drop in living standards. Given the distortions in 1981, this target now seems unattainable. It should also be borne in mind that exports are not doing well so far this year, and improved export performance is an essential part of Yugoslavia's plans for economic recovery.

7. We therefore believe that there is little prospect of an

NNNN ends teleletter	BLANK	Catchword /early

PSG Ltd. Dd8200157 4/81 8888/3921

<<<<

early recovery for the Yugoslav economy. Considering Yugoslavia both in its own right and in the context of Eastern Europe as a whole there are strong political and economic arguments for trying to prevent ~~Yugoslavia's~~ UK's position from becoming still worse. A further jolt to banking confidence following on recent experiences in Poland, Romania and even Hungary would have damaging repercussions. There are of course obvious limitations on what the West can do to help. Western banks are most unlikely to make funds available on a sufficient scale to carry the Yugoslavs over their problems, and there would be very clear difficulties for Western governments in doing so. But as a first step we believe that there is a case for trying to tighten up the conditions of Yugoslavia's IMF programme, to ensure that they more accurately reflect the scale and nature of Yugoslavia's problems. This would not only compel Yugoslavia to tackle some of her more pressing problems now, but also, we would hope, help to boost flagging banking confidence. We have already made an informal approach to the IMF staff, and are now considering going back at the level of Managing Director. But we should wish to coordinate any such move with the French, Germans and Americans, and therefore think it important that we should first compare our assessments of the situation.

8. If our partners agree that Yugoslavia is unlikely to raise the money she needs from borrowing this year, we should also wish to seek their views on how they see the alternatives for Yugoslavia. They appear to us to be either:

a). a hand-to-mouth existence of increasing difficulty in which delays in meeting debt payments lead to a further loss of international confidence and drying up of credit, which in turn will lead finally to a disorderly recourse to rescheduling on the Romanian model; or

b). early recourse to rescheduling in a controlled way backed by a sensible IMF programme and by statements of political

NNNN ends teleletter | BLANK | Catchword /support

XY 49 A

PSG Ltd. Dd8200157 4/81 85599/3493

<<<<

support to ensure that the Yugoslavs do not think that we are applying some sort of general programme of pressure to them as a "part of Eastern Europe".

9. If our partners conclude that (b) is the preferable course, how would they suggest we bring it about? Should the IMF be the agent and put the suggestion directly to the Yugoslavs or might confidential approaches from a number of Western creditors be a better way? Our preference would be for the IMF to act first and be supported by bilateral approaches from Western governments to stress that this is not an unfriendly act but in Yugoslavia's best interests. It would be useful to have our partners views on the prospects for achieving (b).

10. For UKDEL IMF/IBRD: you may wish to consult again with your French, German and American colleagues, and inform them that we are now raising this question in capitals. As you see we believe that Yugoslavia's problems cannot be solved simply by bridging finance. Your assumption (your telno 85) that Whittome should be discouraged from pursuing the BIS route is therefore correct.

SIGNED N H R A BROOMFIELD

NNNN

NNNN ends teleletter	BLANK	Catchword

XY 49 A

PSG Ltd. Dd8208157 4/81 85599/3921

RESTRICTED

VLB

Yugoslavia.

SUBJECT.

10 DOWNING STREET

cc. Master set.

From the Private Secretary

1 July 1981

The Yugoslav Ambassador, Mr. Berisavljevic, called on the Prime Minister at 0915 this morning.

The meeting was largely confined to an exchange of courtesies. Mr. Berisavljevic said that before he arrived here he had been asked by President Tito to "dynamise" relationships between Yugoslavia and the UK. The Prime Minister said that she felt he had been successful, and emphasised in particular the success of Mr. Vrhovec's visit.

In reply to a question from the Prime Miniter, Mr. Berisavljevic said that it was the Yugoslav practice to fill the most senior positions in their diplomatic service with politicians. This was a good way of training politicians in the arts of diplomacy, and it was also of benefit to the Yugoslav diplomatic service. Mr. Berisavljevic did not go into any detail about the post he would be taking up on his return to Yugoslavia: he simply said that he would probably be returning to a political post in the Republic of Serbia. This led to a discussion of the complexities of reaching decisions in federal governments. Mr. Berisavljevic said that decisions in Yugoslavia essentially had to be reached by consensus, and that this had reduced the development of tension between nationalised sects in Yugoslavia. The Ambassador then went on to say that Mr. Djuranovic's immediate priority was to stabilise the economy, and that this was the purpose behind the new austerity measures that had

RESTRICTED

/ been

RESTRICTED

been introduced.

I may have misunderstood him, but I believe the Ambassador then suggested that Mr. Djuranovic might consider staying in post for some time next year when his appointment as President of the Federal Executive Council expires. Mr. Berisavljevic said that Mr. Djuranovic would have to consider carefully the disadvantages of not following the prescribed system of rotating appointments to his post. The most important of these was that rotation avoided the sort of "petrification" of the Government machine that had occurred in the Soviet Union.

WR

F.N. Richards, Esq.,
Foreign and Commonwealth Office.

SP

RESTRICTED

Foreign and Commonwealth Office

London SW1A 2AH

26 June 1981

Dear Michael.

Courtesy call by the Yugoslav Ambassador:
Wednesday, 1 July 1981 at 0915

I enclose a brief for Mr Berisavljević's call on the Prime Minister as well as personality notes on the Ambassador and his successor Mr Stamenković. The brief includes a passage on the recent visit of Mr Vrhovec, to which Mr Berisavljević will no doubt refer.

Yours ever,

(F N Richards)
Private Secretary

M O'D B Alexander Esq
10 Downing St

CONFIDENTIAL

COURTESY CALL ON THE PRIME MINISTER BY MR ZIVAN BERISAVLJEVIC, DEPARTING YUGOSLAV AMBASSADOR:
WEDNESDAY, 1 JULY 1981 AT 0915

POINTS TO MAKE

1. Sorry to see you go after 5 fruitful years in London. Great contribution to smooth conduct of Anglo-Yugoslav relations. Wish you every success in your new position. Do you know what it is?

2. Look forward to welcoming your successor.

Visit of Mr Vrhovec

3. Very successful visit. Helped to keep up momentum of our relations after my visit to Yugoslavia in 1980.

4. Interesting to hear Yugoslav views on various aspects of international affairs, especially on Poland and the non-aligned movement.

Bilateral Relations

5. Relations in very good order. We must now work to maintain this momentum.

6. Respect Yugoslavia's determined independence and unique position as leading non-aligned country enjoying excellent relations with East and West.

Emigrés [If raised]

7. Recognise your concern but must distinguish between political and criminal activities. Cannot act against former whatever we may think of the views of those concerned. But as I made clear during my visit we will not tolerate terrorism, and will not condone or abet any attempt to undermine Yugoslav unity.

EC/Yugoslavia Relations [If raised]

8. As you know Britain has supported Yugoslav requests for a fair deal over baby beef, and will continue to do so.

CONFIDENTIAL

CONFIDENTIAL

COURTESY CALL ON THE PRIME MINISTER BY MR ZIVAN BERISAVLJEVIC, DEPARTING YUGOSLAV AMBASSADOR:
WEDNESDAY, 1 JULY 1981 AT 0915

ESSENTIAL FACTS

General

1. Mr Berisavljević, who has been here since 1976, has been an effective and popular Ambassador. He is a politician, not a career diplomat, and is likely to return to a post of some importance in Yugoslav domestic affairs, though as yet we do not know what it is. His successor, Mr Stamenković, is a significant figure in Yugoslavia and his appointment reflects the importance which the Yugoslavs evidently continue to attach to relations with Britain.

Visit of Mr Vrhovec

2. This was a useful visit with which the Yugoslavs seem to have been well satisfied. The talks with the Prime Minister touched upon the Yugoslav economy, the NAM, Poland and the Middle East, particularly the Israeli raid on Iraq's nuclear reactor. A copy of a savingram reporting the visit is attached.

Bilateral Relations

3. Relations with Yugoslavia are good; there are no serious bilateral problems. The only difficulties are Yugoslavia's chronic trade deficit with Britain (and the whole EC), the activities in Britain of dissident Croatian emigrés, about which the Yugoslavs regularly complain, and Yugoslav hyper-sensitivity to occasional adverse comment on Yugoslavia in the British press.

EC/Yugoslav Relations

4. It has not so far proved possible to agree on a mandate for negotiations with Yugoslavia for a protocol to adapt the 1980 EC/Yugoslavia Agreement to take account of Greek accession. The difficulty is entirely over the increase in the quota for Yugoslav exports of baby beef which the Community should offer to allow for the accession of Greece. Yugoslavia has traditionally exported as much baby beef to Greece as to the rest of the EC. The French and Irish have pressed variously for no increase or for a derisory increase. They want to supplant Yugoslavia as main suppliers of baby beef to Greece.

ZIVAN BERISAVLJEVIC

1935	Born in Sremska Mitrovica, Serbia
1967-71	Secretary for Education, Sciences and Culture of the Republic of Serbia
1971-72	An official in the Serbian Assembly
1972	Entered the diplomatic service
1972-74	Advisor to the Federal Secretary for Foreign Affairs
1974-76	Assistant Federal Secretary for Foreign Affairs in charge of press, information and cultural affairs
1976	Appointed to his present post as Ambassador in London

He is a member of the Council of the Museum of Contemporary Art in Belgrade and of the editorial board of the journal Socialist Thought and Practice.

Married with one child he speaks pretty good English and has some knowledge of Russian.

He will be leaving London in early July. He has been an effective and likeable ambassador.

DRAGI STAMENKOVIC

Born in 1920 at Leskovac. University-level education.

Bearer of the 1941 Partizan Memorial Medal. Member of the Supreme Headquarters of the National Liberation Army for Serbia.

After the war he held the following posts: Chairman of the National Liberation Committee for the Belgrade District, Minister in the Government of Serbia - Chairman of the Council for Energy and Extractive Industry, President of the Federation of Trade Unions of Serbia, Vice-President of the Federation of Trade Unions of Yugoslavia, Chairman of the Republican Economic Chamber, President of the Executive Council of Serbia, President of the Republican Conference of the Socialist Alliance of the Working People of Serbia, Member of the Presidency of the SFRY 1971-74, Yugoslav Ambassador to Brazil.

Deputy of the Federal Assembly in three convocations, Deputy of the Republican Assembly in four convocations and Member of the Presidency of the Federal Conference of the Socialist Alliance of the Working People of Yugoslavia.

Head or Member of Yugoslav Delegations abroad on many occasions, inter alia, Member of the Parliamentary Delegation of Yugoslavia and Head of a Delegation of the Federation of Trade Unions which visited the United Kingdom.

Decorated with the Order of the National Hero and bearer of various Yugoslav and foreign decorations.

Speaks English.

Married, with three children.

SAVINGRAM

CONFIDENTIAL

FROM FCO 221500Z JUNE 81

TO ROUTINE SAVING BELGRADE BY BAG

SAVING FOR INFO ROUTINE COPENHAGEN, BONN, DUBLIN, LUXEMBOURG, THE HAGUE, PARIS, ROME, ATHENS, BRUSSELS, UKREP BRUSSELS, UKDEL NATO, MOSCOW, WASHINGTON, ANKARA, SOFIA, BUCHAREST, BUDAPEST, VIENNA, MODUK (for Defence Secretariat 12)

VISIT OF YUGOSLAV FOREIGN SECRETARY: 15-17 JUNE 1981

1. Head of EESD gave a community briefing on 19 June. He made the following points:-

(a) The Yugoslavs seemed to have been well satisfied with the visit. We regarded it as having helped to keep up the momentum of our relations after the Prime Minister's visit to Yugoslavia in 1980;

(b) Vrhovec's programme included calls on the Prime Minister, talks with Mr Nott, Mr Hurd and me.

2. During the talks the following points emerged:-

(a) Poland. Vrhovec said it seemed clear that the other Eastern Europeans had not expected the present Polish leadership to survive the most recent Central Committee meeting. He believed that the Congress in July would be the next crucial time. We made

it clear that the Poles should settle their own affairs without outside intervention and had urged on the Yugoslavs our hope that the non-aligned movement would strongly condemn any Soviet intervention in Poland. Although pointing out that the NAM had not previously reacted to events in Europe, Vrhovec seemed to think it would probably take a robust line over Poland;

(b) Southern Africa. We outlined the background to the present Namibia negotiations. At the end of the visit Vrhovec indicated that he now understood much more clearly the difficulties under which we were working in Southern Africa and the realities of the power position on the ground. This would be useful when he met Nujoma in some weeks' time;

(c) Far East. Vrhovec had been pessimistic about the prospects for the international conference on Cambodia. It was not clear what was happening in the country itself. The Vietnamese and Chinese predictably gave opposing accounts. Vrhovec indicated that relations between the Soviet Union and Vietnam were rather strained perhaps because the Vietnamese were demanding more aid than the USSR could afford. He had recently visited China and had been given to understand that Chairman Hua would shortly lose his party chairmanship but would remain a member of the Politburo's Permanent Committee;

(d) Middle East. Vrhovec said that a year or two ago the PLO had begun to realise that their struggle must enter a political phase but they were having some difficulty in reconciling themselves to the practical consequences of this. For example they had rejected Chancellor Kreisky's advice that the PLO should recognise Israel. The PLO should accept the right of Israel to exist but would not do so before the Palestinians' rights were recognised;

(e) Non-Aligned Movement. Vrhovec said that the Yugoslavs were generally pleased with the turn of events. Since the Soviet invasion of Afghanistan they had worked hard to confirm the NAM's independent

stand and to oppose the view that the NAM should remain silent rather than risk a split. This line had been endorsed at Delhi and this had been a reply to the theory of a 'natural alignment';

(f) Mexico Summit. Vrhovec said that following their initial reservations about the Mexico Summit the Yugoslavs now took a rather more favourable view. It was clear that the participants would represent only themselves. No decisions could be taken. It was difficult to see how the conference should end. But one possibility was that there should be an agreed summing up by the Chairman. This could promote the idea of global negotiations. But it should not itself be the instrument of these negotiations;

(g) EC-Yugoslav Relations. Vrhovec had expressed great interest in settling the question of their exports to the EC of baby beef. He had suggested that the EC should provide financial support for the rebuilding of the highway between Zagreb and the Greek border;

(h) Bilateral Relations. Vrhovec predictably referred, though in relatively mild terms, to the activities in the UK of dissident Croatian emigrés. We had explained the distinction we drew between political activities and terrorism and pointed out that to ban innocent meetings would be counter-productive by inducing a public reaction in favour of those who were affected;

(i) Kosovo. Vrhovec said that he disagreed with some Western assessments that the Albanians had no interest in destabilising Kosovo. The Yugoslavs knew (he said) that there were direct connections between the Albanian Intelligence Service and various Western emigré groups who had fomented the trouble in Kosovo. There were also connections with other, so far unspecified, intelligence services. It was also important to lay the false idea which had gained some currency in the West that the Bulgarians had achieved any independence from the Soviet Union. Bulgarian actions always had the full Soviet backing.

CARRINGTON

NNNN

Distribution:

Standard
EESD
ECD(E)
SAfD
FED
SEAD
MED
NENAD
UND
ERD

Yugoslavia 1) CR
2) MOD BA.

Mr Broomfield NS 17/6
PS

Thank you
CGM 18/6.

YUGOSLAV AMBASSADOR'S FAREWELL CALL ON THE PRIME MINISTER

1. Mr Jebb's minute of 16 June.

2. I have now confirmed with the Yugoslavs that their Ambassador will call on the Prime Minister at 0915 on 1 July.

Charles Gray

J C R Gray
Eastern European & Soviet Department

17 June 1981

Caroline cl. 18/6.

Just for the record.

Chris 18/6.

Sue Goodchild
has guest list
for Dinner on
2 June

File

ds

BF 26-6-81

15 May 1981

Thank you for your letter of 14 May and I confirm that the Prime Minister will receive the Yugoslav Ambassador for a farewell call on Wednesday 1 July at 1700 hours.

Could your brief please reach us by close of play on Friday 26 June.

CAROLINE STEPHENS

C.Q.G. Jebb, Esq.,
Foreign and Commonwealth Office.

Foreign and Commonwealth Office

London SW1A 2AH

14 May 1981

Dear Caroline,

We spoke. Michael Alexander wrote on 6 May conveying the Prime Minister's willingness to receive the Yugoslav Ambassador for a farewell call on Tuesday 7 July.

As you know, an unexpected problem has arisen in that the Ambassador - to his considerable embarrassment - has had to bring forward his departure to 2 or at the latest 3 July. He has therefore asked if it would be possible for the Prime Minister to see him before then and you said that 5.00 on 1 July would be convenient.

Yours ever

Chris Jebb.

(C Q G Jebb)
Assistant Private Secretary

Ms Caroline Stephens
10 Downing Street
London SW1

MFJ

6/7

6 May 1981

Yugoslav Ambassador's Farewell Call

The Prime Minister has seen your letter to me of 4 May about Mr. Berisavljevic's departure. She would be willing to receive Mr. Berisavljevic for a short courtesy call at 0930 on Tuesday 7 July.

MODBA

F.N. Richards, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister
15 minutes?

Yes
No

4 May 1981

Dear Michael,

Yugoslav Ambassador, Mr Z Berisavljevic

The Yugoslav Ambassador, Mr Berisavljevic, is leaving this summer after more than four years in London. He has asked whether there might be a possibility of his being received by the Prime Minster, prefereably early in July. He is aware that such calls are not customary, but points out that Mrs Thatcher has visited Yugoslavia three times during his spell here: as leader of the Opposition, for Tito's funeral and on her official visit last year.

The Foreign and Commonwealth Secretary and Lady Carrington will be giving the Ambassador and his wife a farewell lunch, but we should be glad if it were also possible for the Prime Minister to receive him briefly. He has been exceptionally diligent and helpful, and will undoubtedly continue to exercise influence when he gets back to Belgrade, where incidentally HM Ambassador at Belgrade enjoys very good access to the Yugoslav leadership.

Yours ever,

Francis Richards

(F N Richards)
Private Secretary

M Alexander Esq
10 Downing Street

9.30-0945
on TUE 7 July
at No 10.

CONFIDENTIAL

Yugoslavia

12 May 1980

BURY TITO WITHOUT TEARS

Alfred Sherman

The compulsion to think the best of Tito and his works, which has afflicted left and right in this country for most of the war-time and post-war period, tells us more about ourselves than about Yugoslavia. As in the case of the Soviet Union, it derives less from skilled propaganda on the Communist part, than from our capacity for self-deception , a symptom of deep psychological inadequacies - as Orwell pointed out 35 years ago.

Among Socialists there was the desperate need to believe that some Marxist regime somewhere actually fulfilled its promises; they therefore avoided looking the horse too closely in the mouth. Yugoslavia was hailed as being "freer than the Soviet union" - correctly, because Tito found optimising terror more economic than maximising it - and hence, by syllogism, to being free. Tito's charade of "workers' control" and decentralisation, little more than ploys designed to differentiate his regime from the communist dictatorship on which it was modelled (of which more later) was accepted wholly uncritically.

Its economic collapse of the early 'seventies, which led to thirty percent of the registered labour force becoming unemployed (according to official statistics) and which obliged the regime to permit mass emigration to work in the capitalist West as an alternative to mass disorder at home, went unremarked among socialists in this country, apart from occasional references to the regime's liberalism in allowing them to leave at all.

The inflation, worse than ours, was ignored. Pace Lady Wooton and Professor Townsend, inflation and unemployment rates in the Socialist Third Of The World are worse than in the West. But only in Yugoslavia do they have honest statistics (dating back from 1950/1) which allow one to see the situation at a glance.

Non-socialist segments of our establishment have been equally remiss for other reasons: some simply considered that Tito's ambivalent relations with the Societ bloc automatically put him above criticism, by the same naïve realpolitik from which Mao benefited.

Much of the evidence now available throws doubt on the wisdom - even on war-time military grounds - of the decision to support Tito both against Mihailovich and, de facto, against the Monarchy which had entered the war as our ally. Were it not for these policies, the Monarchy would have had a good chance of regaining power, so that Yugoslavia (and hence also Albania) would have remained in the Western campl, and obviating the need for Tito's ambiguous defiance of the Soviet Union ab initio.

Gullibility springs eternal ... in a BBC interview after Tito's death, Edward Heath, who found him temperamentally congenial, argued that living standards had vastly improved under Tito, giving as sole evidence the dress of people he had seen in restaurants and Boulevards and what they ordered. That a one-time Prime Minister should believe himself capable of judging economic performance by impression of the smart centre of a capital city - and in a communist dictatorship at that - surely throws some light on the idiocyncracies of the

The ideological, political and economic bases of Yugoslavia's "separate path to socialism" are far weaker than generally realised. Historically, Titoism was a side-effect of the Tito-Stalin dispute, Tito, it will be remembered, came onto the scene as an arch-Stalinist, whose loyalty to Stalin earned him first the job of liquidating his Yugoslav commintern colleagues in the Moscow purges of the 1930's, and then the succession. Both during and after the second world war, he outdid the other "new democracies" in brutality. He organised the systematic murder of men, women and children to secure absolute terrified submission. He wrecked the war-ravaged economy by applying doctrinaire Soviet methods with thoroughness not achieved among the satellites. (It may be recalled that this doctrinaire leftism was one of the accusations subsequently levelled against Tito and co by the Russians, with reference to their collectivisation and nationalisation with à l'outrance.) His cultural and academic policies were those of post-war Stalinism down to the smallest details. So was his "nationalities' policy", mutatis mutandis.

The 1948 split came over one issue alone: power. Though, soon after the war, Tito looked favourably on Yugoslavia's absorption into the USSR, bringing him into the politburo, he soon became aware of the dangers to him personally of being subordinated to the Soviet equivalent of the Ministry for Colonies, which was even then preparing its series of manic purges in the satellites - Rajk, Kostov, Slansky, etc.

For months, even, after the conflict with Stalin became open and irrevocable, Tito tried to remain a hundred percent Stalinist in word and deed. For example, he speeded up rural collectivization, and the nationalisation of small shops and other one-man businesses (without compensation). His first party congress since the war, held a month after the publication of the Cominform resolution, proudly highlighted Tito's role in the Moscow purges of the 30's, and was puncuated by paens to Stalin and unlimited commitment to the USSR, the Soviet bloc and the Soviet model.

Only when the tensions created by the clash between pro-Soviet feelings and loyalty to the Yugoslav Party leadership became apparent, did Tito revise his party's standard image of the USSR. Revision was based on the contention that if the USSR was waging an unscrupulous political war against Yugoslavia, it could not be truly socialist; it followed that Soviet society was not socialist. But that, in turn, cast doubts on Yugoslav communist society, which had been slavishly modelled on the USSR's. So he posited a special "Yugoslav way", to differentiate his regime from the "bureaucratic caste-dictatorship" in the USSR. (Unconsciously, he reproduced much of Trotsky's critique.) But in order to make this at all convincing, he found himself obliged to introduce reforms at home, however reluctantly and superficially. One welcome change was that people were no longer obliged to attend indoctrination and other spontaneous meetings, to the annoyance of the petty despots who loved to hear the sound of their own voices.

Arbitrary powers of the lower and middling party and state officials were curbed. The black market was accepted as a fact of life, and largely freed from harassment. Small businesses, which had been run into the ground under communist management, were allowed to return to private hands, collective farms spontaneously dissolved. Exodus from prisons and camps was speeded up - some places were needed for pro-Stalinists.

Ordinary Yugoslavs felt the relief of someone who takes off a pair of tight shoes. But party members needed a new faith in place of "Tito-Stalinism", if they were to stand up to isolation and intimidation. Naturally, the regime made great play of national independence. But this is a two-edged weapon. For one thing, it invited contrasts with the Soviet period 1941/8. Secondly, there is little in the way of pan-Yugoslav feeling, except in the upper reaches of the Communist hierarchy, while Serb, Croat and Macedonian national feeling is divisive. So patriotism was not enough. It was then that Djilas was given the task of thinking up imaginative ideological innovations to capture imagination at home and win sympathy abroad among the left. So decentralisation, workers' self-management and "socialist democracy" were adopted.

Decentralisation meant little in practice so long as real power was exercised by the Federal Politburo and the Ministry of defence in Belgrade, while the government apparatus, nominally decentralised and rendered in several languages, retained a Bageotian character.

Workers' control remained largely symbolic. Like most other institutions, workers' committees, were in fact run and supervised by the Party. In order to check on the impression I gained from sitting in on a number of workers' committees and then chatting privately with ordinary workers, I checked with American and West-German economic-aid representatives. At all their meetings with the Yugoslavs, at ministerial down to enterprise level, at which investment decisions decisive for the operation, and indeed existence, of the enterprises were taken, no workers' committee representative had ever attended.

When economic collapse came in the 'seventies and over a quarter of the labour force was made redundant with a speed which would be envied in this country, workers' committees had no say. British and French academics have written favourably of the system, but they relied on regulations and orders, not research into what actually happened. Their writings were reminiscent of the proceedings of the Sherlock Holmes Society: all the apparatus of scholarship, but no actual contact with reality.

"Socialist democracy" came to rest on two foundations. First, in matters of no direct political significance, scholars and journalists were free to write as they pleased, so long as they did not encroach on politics. Secondly, there was freedom to criticise Marxist regimes of which Belgrade disapproved at any given time. This was trickier than it seemed, owing to the rapid ideological tergiversations generated by by relations between Belgrade and Moscow, the powerful ambivalence, bound together by a love-hate relationship.

Originally as Stalin's assault on Tito reached a climax of virulence, and no initiatives on Stalin's part could be ruled out, not even military intervention (remember Korea), Tito was obliged to increase his anti-Stalinism, and with it his domestic reforms and his increasingly close and dependent relationship with the West. This High Titoism turn alarmed increasing numbers of his own party members. The "lower cadres" resented it because it affected adversely their powers and privileges; they looked back nostalgically to the good old days before the 1948 "earthquake", when Stalin was Stalin, and the "unorganised" knew their place. This "new-class consciousness" reinforced ideological conservatism, generating new waves of "comminformism" not sparing the politburo itself.

In other words, in order to ward off Stalin for political and physical survival, Tito was obliged to jeopardise his own regime's stability and even legitimacy - et propter vitam.

Within two weeks of Stalin's death, almost before his body was cold, a Yugoslav mission was off sounding out Molotov, Malenkov and Beria. Within a month, they had come to terms. Mutual denunciation disappeared from the pages of the Soviet and Yugoslav press: hear no evil, speak no evil, see no evil. This permitted an immediate halt to further Titoisation, then to its partial dismantling. The iron fist came out of the velvet glove. Reforms were halted and, where possible, reversed. "Proletarian internationalism" became respectable again. Praise for the West and social democracy - recognised as genuinely socialist during the High Titoite phase - was again outlawed. The secret police at home and hit-squads abroad were turned against dissidents other than pro-Soviet ones, too.

So Stalin's death ushered in the first phases of re-Stalinisation in Yugoslavia, even before de-Stalinisation had begun in the Soviet bloc. But the balance of power did not permit de-Stalinisation to go all the way. The new Soviet leaders were glad to be rid of Stalin's personal vendetta against Tito, to live and let live, at least while he remained in the saddle. But they were in no way reconciled to Tito's claim to full independence and ideological sovereignty. This remained a threat to their own legitimacy at home as well as to their domination of the satellites and the world revolutionary movement.

For the legitimacy of communist dictatorship in the Soviet Union is based on its claim to a monopoly of wisdom, hence to embody the forward march of history. Whether this is embodied in The Leader or in Collective Leadership - an unnatural and unstable state of affairs - the dialectic can only be incarnate in one place at a time. But once Tito or Mao were recognised as sharing this mania, then it evaporates. If Mao can be right and Tito right - each in his own interpretation - then why not Ivan Ivanich? The Leader's infallibility remains essential to the whole communist power structure; any other claim to infallibility anywhere infringes his own. If two can be infallible while differing, why not twenty, two hundred, two thousand?

Hence Tito's continual tergiverations on this subject. Tito on the one hand, demanded from the Communist world recognition of his monopoly of wisdom in Yugoslavia, and was willing in return to accord to each a monopoly in his own backyard. Contrary to what his admirers in the West deceived themselves into believing, wholly supported the principle of communist monopoly of power and ideas in each communist state, and preferrably in as many states as possible.

Only by this doctrine could he maintain legitimacy for a one-party dictatorship obdurately and equally opposed to any encroachment - ideological or political - from the Soviet bloc or from the people of Yugoslavia, who are no more reconciled to communist rule than any other people. Indeed they are less so than some, given their strong links with Central Europe, where they can see that "bourgeois democracy" works far better than Balkan communist dictatorship. (After all, would SPECTATOR-readers like to live under Communist dictatorships?) Moscow could not agree, because they would face pressures for similar concessions to their other satellites.

Tito's non-aligned and third world circuses derive from this ambivalent relationship with the USSR. To be treated by Moscow as a partner - his overriding objective - he needed a dowry. He promised to bring them the third world; from its origins at the 1961 Belgrade Conference, non-alignment meant anti-Westernism at the price of accepting Tito as the broker.

The Russians monitored it in silence, sending their number two oriental, Bobijan Gafurov, noticed the broken reeds - Nehur, Nkrumah, Nasser, Sekou Toure - and decided that by using Castro, they could take it over without paying Tito much in the way of rent. The Chinese put their oar in and gave Tito nothing at all in return. The charade was given little credence in the West, outside of Britain, where willingness to take it at face value owed much to the compulsive suspension of disbelief regarding our own charade, the Commonwealth. Aficionados need only ask themselves: what did it all achieve? For whom? Against whom?

These inherent contradictions of inter-party relationships explain the twists and tergiverations in Yugoslav-Soviet relationships and in the Party line at home on the nature of Communism in general and of Soviet communism in particular. One cannot take Titoism at one particular stage of the cycle as representative of Titoism in general, since it is precisely the violent tergiverations and the insoluble contradictions from which they stem which are an integral element in Titoism. Its only consistent elements are opportunism and unpredictability. That is what "socialist democracy" has come to embody, however grand it sounds to visiting Labour and TU delegations. Hence, what is safe at one time can lead to arrest, imprisonment, dismissal on another occasion.

Tito's own personal predominance ensured that the Party as a whole marched in step through all the twists and turns, with a few unfortunates falling off the end at each about turn. His disappearance from the scene makes it much more difficult, perhaps impossible, to carry on walking the tightrope.

His party's collective leadership is a coalition of staff officers and time-servers, none of whom has shown the strength so far to take the party through these sudden turns and maneouvres and to arbitrate between deep differences of interest and viewpoint. His war-time comrades have died or been purged. Like most dictators, he left no room for the spontaneous activity which provides the seed-bed for new leadership, as far as the eye can see.

These differences inter-act with deep national antagonisms. It has become fashionable to say that Tito overcame national rivalries and united Yugoslavia. Exactly the same was said of Kings Peter and Alexander, in their day, with as little truth.

Dictatorship has suppressed open expression of these antagonisms, as it did under Alexander, at the same time as it fed them. In many ways they are greater after thirty five years of centralised communist rule. For much of the conflict relates to the sharing out of what the state takes off the people. Under communist rule, even attenuated by a private sector, the state takes more than it did under the Monarchy, hence the fight is fiercer. (Early Serbian Socialists like Svetozar Markovic regarded the Serbian state as the main exploiter. Not much has changed, since then, except for the worse.) The Croats, whose natural economic, political and cultural orientation has always been towards Central Europe, feel more cheated than ever, as Europe waxes while they wane. Tito's grandiose plans for reducing and eventually superseding economic inequalities between the regions, foundered partly on geography, partly on differences of national temperament and culture.

Disaffection is expressed in Croatia at all levels, by peasant farmers, urban employees, and intellectuals. (The move to declare Croat a separate language and Serbo-Croat a fiction to hide Serbian domination, which was forcibly suppressed by Belgrade, was supported by most Croat intellectuals, though it has weak philological foundations.)

This disaffection places Croat party members in a cleft stick. If they loyally support the Belgrade line, they are rejected as Uncle Toms at home. If they try to accommodate the Croat view, they are at best looked at askance by the Federal power, at worst they risk purging or other reprisals. The matter is exacerbated by the militancy of the large Serbian minority in Croatia (particularly Lika and Kordun) and in adjacent parts of North Bosnia, who, under Monarchy and Communarchy alike, were not only the most enthusiastic centralists, but perpetually complained of being insufficiently rewarded for their loyalty, and lost no opportunity to inflame relationships between Croatia and Belgrade, the better to fish in troubled waters. (Parallels with Ireland are not fanciful.)

The continued support enjoyed by the Ustasi - one of the beastliest movements in Europe - on Croats abroad and inside Yugoslavia, can only be ascribed to the depth of the continued frustrations and resentments.

These face Belgrade with a quandary. Tito had long since decided that concessions to Croats would only raise more demands while antagonising the loyal South, or teaching it that awkwardness pays. But he could at least claim to be a Croat acting in Pan-Yugoslav interests, though many Croats regarded him as Kara George with a Croatian accent. His joint successors will be subjected to strong but conflicting pressures in opposite directions. (The loyalty of Macedonians and Albanians is problematic, but partly condition on what they get out of the Federal Republic.)

To sum up, Tito's successors inherit a poor country, further impoverished by Communist rule (just imagine Benn and Kitson having sole control of our economy) continued national conflict, suppressed but ready to erupt the moment pressures are relaxed, discontent with Communist dictatorship and its fruits, and deep disagreement between ideologists who would prefer closer ties with the Soviet Union and those who still hanker after Yugoslav especialism, between those who favour the non-aligned and third-world card and those who regard it as a waste of time and money, with a strong Soviet Union and a weak divided West.

(Tito's present successors showed full awareness of their insecurity by the panic way in which they reacted to his terminal illness. Only fear of the future could explain their gruesomely keeping his body artifically alive for four months after he had ceased to be as a human being, and until the tissues simply broke down.)

There may be little we can do about it, we can at least avoid self-deception. Our bien pensant press and establishment's apparent congenital inability to take the measure of communist and third world dictatorships remains a far more serious problem, one on which we need to do something.

END

LVO 902/17

+6

OO FCO (DESKBY 0930Z/17)

EESD

PP WASHINGTON

PS/~~NO~~ 10 D Str.

PP MOSCOW

PS/Sofs

ADVANCE COPY

PP UKDEL NATO

PS/Mr Blaker

PUS

GRS 350

IMMEDIATE

CONFIDENTIAL

DESKBY FCO 170930Z

DESKBY

Mr Dullard

FM BELGRADE 170815Z JAN 80

Mr Fergusson

TO IMMEDIATE FCO

TELEGRAM NUMBER 23 OF 17/1/80

AND TO PRIORITY WASHINGTON, MOSCOW AND UKDEL NATO AND SAVING TO ZAGREB

MY TEL NO 20: PRESIDENT TITO'S HEALTH.

1. AN ANNOUNCEMENT WAS ISSUED AT MID-DAY 16 JANUARY THAT PRESIDENT TITO HAD IN THE PAST DAY NOT SUFFERED ANY FURTHER DIFFICULTY AND THAT HIS CONDITION WAS ON THE WHOLE BETTER.

2. THE INDICATIONS ARE THAT ATTEMPTS ARE BEING MADE TO STABILISE THE PRESIDENT'S CONDITION AND TO ENABLE HIM TO RECOVER FROM HIS FIRST OPERATION BEFORE CONSIDERATION IS GIVEN TO ANY FURTHER OPERATION. IT IS A GOOD SIGN THAT THE MEDICAL BULLETINS WHICH HAVE BEEN ISSUING TWICE A DAY AS HIS CONDITION WORSENED HAVE NOW DROPPED TO ONE A DAY AGAIN. BUT HIS BASIC CIRCULATORY PROBLEM STILL REMAINS. STANE DOLANC TOLD MY DUTCH COLLEAGUE ON 16 JANUARY THAT THE PRESIDENT WAS NOW BETTER AFTER HIS OPERATION BUT ''THERE WAS OF COURSE THE QUESTION OF HIS AGE''.

3. INFORMATION IS COMING IN THAT THE JOINT PRESIDENCIES OF THE FEDERATION AND THE LCY HAVE GONE INTO PERMANENT SESSION SINCE THE MORNING OF 16 JANUARY. A USUALLY RELIABLE YUGOSLAV SOURCE HAS SAID THAT BAKARIC HAS BEEN MADE RESPONSIBLE FOR ALL CONTINGENCY PLANNING, WHICH MIGHT WELL FALL NATUALLY TO HIM IN HIS CAPACITY AS PRESIDENT OF THE FEDERAL COUNCIL FOR THE PROTECTION OF THE CONSTITUTIONAL ORDER. OTHER YUGOSLAV JOURNALIST SOURCES SAY THAT BAKARIC WILL UNDOUBTEDLY PLAY A LEADING ROLE IN FUTURE EVENTS. HE COMMANDS WIDESPREAD RESPECT AND AUTHORITY IN THE LCY AND HE SEEMS TO BE ENJOYING MUCH BETTER HEALTH THAN FOR MANY YEARS PAST.

IN THE LCY AND HE SEEMS TO BE ENJOYING MUCH BETTER HEALTH THAN FOR MANY YEARS PAST.

4. STANE DOLANC ALSO TOLD MY DUTCH COLLEAGUE THAT HE FELT CONFIDENT ABOUT THE FUTURE, SAW NO LIKELIHOOD OF ANY SOVIET ADVENTURE IN THIS DIRECTION, AND THAT YUGOSLAVIA HAD NO CONCRETE EVIDENCE OF ANY SUCH INTENTION. NEVERTHELESS THE RUMOURS IN WARSAW TEL NO 19 ARE CIRCULATING HERE. APART FROM THE LOW-LEVEL STATE OF ALERT REPORTED IN MY TUR THERE ARE NO OVERT SIGNS THAT WE CAN DETECT OF ANY SPECIAL CONCERN IN THIS REGARD.

5. MY GENERAL ASSESSMENT IS THAT THE MAIN BODIES OF STATE - THE PRESIDIUM LCY AND THE FEDERAL PRESIDENCY - ARE ALREADY BEGINNING TO ACT OUT THEIR LONG PREPARED ROLES ON THE ASSUMPTION OF EITHER THE PRESIDENT'S INCAPACITATION FOR SOME WHILE OR HIS IMPENDING DEATH. I HAVE NO REASON AT PRESENT FOR BELIEVING THAT THIS PROCESS IS PROCEEDING OTHER THAN SMOOTHLY, DESPITE THE HASTE OF BRINGING THE MACHINERY INTO ACTION ONCE IT HAD BEEN ESTABLISHED THAT THE PRESIDENT'S OPERATION HAD BEEN UNSUCCESSFUL. THE MOST RECENT JIC ASSESSMENT STILL HOLDS GOOD.

FARQUHARSON

NNNN

S44

GRS 500
RESTRICTED
FM BELGRADE 171405Z JAN 80
TO PRIORITY FCO
TELEGRAM NUMBER 24 OF 17/1/80
AND PRIORITY TO WASHINGTON, MOSCOW AND UKDEL NATO

MY TEL NO 23: THE SUCCESSION TO TITO.

1. CHAIRMAN OF THE FEDERAL ASSEMBLY'S LEGAL COMMISSION MIODRAG ZECEVIC HELD A MEETING ON 16 JANUARY FOR FOREIGN JOURNALISTS TO EXPLAIN THE CONSTITUTIONAL ARRANGEMENTS FOR THE SUCCESSION TO PRESIDENT TITO. THE MEETING WAS ARRANGED AT SHORT NOTICE ON THE INITIATIVE OF THE YUGOSLAV AUTHORITIES AND WAS CLEARLY DESIGNED TO QUENCH SPECULATION ON THIS ISSUE. MY INFORMATION OFFICER WAS THE ONLY OFFICIAL FOREIGN REPRESENTATIVE PRESENT, AND THE MEETING RESISTED A CHALLENGE THAT SHE SHOULD WITHDRAW. FOLLOWING IS HER SUMMARY OF THE MAIN POINTS OF INTEREST.

2. ZECEVIC CONFIRMED THAT ON TITO'S DEATH THE OFFICE OF PRESIDENT OF THE REPUBLIC, CONFERRED ON TITO FOR 'AN UNLIMITED TERM OF OFFICE' WOULD CEASE TO EXIST AND ITS RIGHTS AND DUTIES WOULD BE TAKEN OVER BY THE FEDERAL PRESIDENCY. IN FUTURE, THE PRESIDENT OF THE PRESIDENCY WOULD BE COMMANDER-IN-CHIEF OF THE ARMED FORCES AND HEAD OF STATE FOR REPRESENTATIONAL DUTIES ALTHOUGH THE PRESIDENCY WOULD ACT AS A JOINT BODY WHENEVER POSSIBLE.

3. ZECEVIC SAID THAT AS PRESIDENT OF THE REPUBLIC, TITO HAD ALSO HELD THE OFFICE OF PRESIDENT OF THE SFRY PRESIDENCY. WITH HIS DEATH THE CONSTITUTION DETERMINED THAT THE VICE PRESIDENT SHOULD BECOME PRESIDENT 'UNTIL THE EXPIRY OF THE TERM FOR WHICH HE WAS ELECTED VICE-PRESIDENT'. IF TITO DIED NOW, KOLISEVSKI WOULD AUTOMATICALLY BECOME PRESIDENT UNTIL MAY 1980. HE WOULD BE FOLLOWED BY MIJATOVIC (BOSNIA AND HERCEGOVINA). THE ORDER OF ROTATION FOR THE PRESIDENCY WAS REGULATED BY LAW IN 1975. ZECEVIC POINTED OUT THAT IN THE ABSENCE OR PROLONGED INABILITY OF THE PRESIDENT TO PERFORM HIS OFFICE, THE VICE-PRESIDENT COULD DEPUTISE FOR HIM AND 'REPRESENT HIM IN THE CONDUCT OF AFFAIRS ENTRUSTED TO HIM BY THE PRESIDENT'. THERE ARE SEVERAL RUMOURS

/ HERE

HERE THAT KOLISEVSKI HAS BEEN SO DESIGNATED BUT ZECEVIC DENIED THAT ANY 'COORDINATING BODY OR INSTITUTION HAD TAKEN OVER THE PRESIDENT'S DUTIES' AND ADDED THAT OVER THE LAST FEW YEARS ''SEVERAL FUNCTIONS HAD IN PRACTICE ALREADY BEEN DEVOLVED''.

4. SOME INTERESTING OBSERVATIONS WERE MADE BY ZECEVIC ON THE SUCCESSION TO THE OFFICE OF PRESIDENT OF THE LCY. ASKED WHETHER A DEFINITE PROCEDURE TO ELECT A NEW LCY PRESIDENT WOULD BE LAID DOWN, HE SAID THAT THE OFFICE OF PRESIDENT, WHEN TITO DIED , WOULD NOT PASS TO ONE MAN BUT WOULD BE SUBSUMED WITHIN THE COLLEGIATE BODY OF THE LCY PRESIDIUM. THE LEADING REPRESENTATIVE OF THAT BODY WOULD BE, AS NOW, THE PRESIDING MEMBER WHO WOULD ROTATE ON A ONE-YEAR BASIS. IN REPLY TO THE QUESTION WHETHER AN ORDER OF ROTATION FOR THE PRESIDING MEMBER WOULD BE ESTABLISHED, HE CONFIRMED THAT NO SUCH ORDER PRESENTLY EXISTED BUT EXPECTED THAT ONE WOULD BE WORKED OUR IN CONSULTATION WITH PRESIDENT TITO. HE ALSO CONFIRMED THAT, ON TITO'S DEATH, THE EX-OFFICIO REPRESENTATIVE OF THE LCY PRESIDIUM ON THE STATE PRESIDENCY WOULD BE THE PRESIDING MEMBER OF THE DAY.

5. ZECEVIC'S REMARKS MAKE IT CLEAR THAT THE WAY IS PAVED FOR THE TWO PRESIDENCIES, OF STATE AND PARTY, TO TAKE OVER COLLECTIVELY THE FUNCTIONS FOR SO LONG HELD BY TITO AS AN INDIVIDUAL. THIS DOES NOT RULE OUT THE POSSIBILITY THAT E.G. A FUTURE LCY CONGRESS COULD ELECT A NEW PRESIDENT OR CHANGE THE EXISTING RULES OF PROCEDURE. EQUALLY THE CONSTITUTION, NOW UNDER AMENDMENT FOLLOWING TITO'S INITIATIVE ON COLLECTIVE LEADERSHIP, COULD BE DRASTICALLY ALTERED. BUT FOR THE TIME BEING THE CHANCES OF ONE INDIVIDUAL CONSTITUTIONALLY EXERCISING MORE POWER THAN HIS PARTNERS MUST BE ASSESSED AS SLIGHT.

FARQUHARSON

FILES
EES D
NEWS D
OID
PUSD
RESEARCH D
PAC D
PS

PS/LPS
PS/MR BLAKER
PS/PUS
MR BULLARD
MR FERGUSSON
CABINET OFFICE

COPIES TO:
ASSESSMENTS STAFF,
CABINET OFFICE.

COPIES SENT TO
No. 10 DOWNING STREET

IT8.7/2-1993
2009:02

Image Access

IT-8 Target

Printed on Kodak Professional Paper
Charge: R090212