

Confidential File

Visit of Mr. Vrhovec,  
Foreign Secretary of  
Jugoslavia and his successor Mr. Loncar.

JUGOSLAVIA

MARCH 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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FILE.

SUBJECT cc Mark



10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

21 April 1989

*Jan Richard,*PRIME MINISTER'S MEETING WITH THE FOREIGN MINISTER  
OF YUGOSLAVIA

The Prime Minister had a brief meeting this morning with the Yugoslav Foreign Minister. Mr. Loncar was accompanied by the Yugoslav Ambassador. HM Ambassador Belgrade was also present. The Yugoslav Ambassador deserves a medal - from his government not ours - for his successful campaign to get Mr. Loncar in. Despite tank traps laid at every opportunity, he finally got to the Prime Minister over dinner at Windsor Castle and bounced her into agreeing to a meeting. When I still refused to put it in the diary, he collared her once again at the CSCE Information Forum.

The Prime Minister began by saying that Yugoslavia had problems, very grave problems. She was disappointed at the failure to get to grips with economic difficulties, but understood that this was anyway virtually impossible until the Federal Government was able to get the different national groups pulling together.

Mr. Loncar said that the Prime Minister's remarks to Mr. Djuranovic when they had met in 1988 had made a considerable impact in Yugoslavia. As she recognised, there were two sets of problems, economic and ethnic. He could assure her that the new Cabinet had been given the task of accelerating reform, and of being more energetic in introducing a market economy and a pluralistic political system, while maintaining socialism. Yugoslavia was at a crucial juncture. The government would need courage, clear concepts and support and understanding from outside, particularly from the European Community.

The Prime Minister said that she was glad to hear this. But what was going to be different? The last government had been full of good intentions but had failed to implement them. It was not an option to carry on in the same way that had got Yugoslavia into trouble in the past. The Federal government would have to get a firm grip both on the economy and on the ethnic difficulties. So what was new?

Mr. Loncar said the Prime Minister had asked the right question. There were several new factors. There was strong determination to move towards a market economy and Thatcherism. There was a clear intention to negotiate a multi-year programme with the IMF: there would be no difficulty about meeting their requirements. There was recognition of the need to attract foreign investment rather than just borrow money abroad. The ideological constraints on such an investment no longer existed. The Constitution was being changed to promote, indeed to favour, private ownership and foreign ownership. Steps were being taken to create a real single market in Yugoslavia. And moves were afoot towards political pluralism, of a horizontal not a vertical kind.

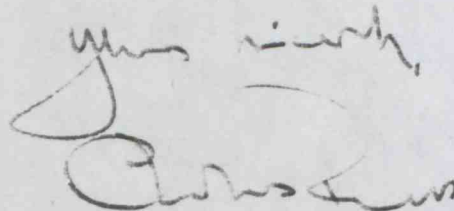
The Prime Minister said that this all sounded admirable but there would have to be a massive effort to explain it to the people. In her view the government had no option but to be bold. Mr. Loncar said that, up until now, the Federal Government had tried to move forward on the basis of consensus. Now it realised it had to give a lead.

Mr. Loncar complained at the lack of a dialogue with the United States. He hoped the Prime Minister would urge President Bush to pay more attention to Yugoslavia. The Prime Minister said she thought that he was well aware of Yugoslavia's importance.

Mr. Loncar spoke about Yugoslavia's assumption of the chairmanship of the Non Aligned Movement.

Mr. Loncar conveyed greetings from Mr. Markovic and renewed the invitation to the Prime Minister to visit Yugoslavia again. The Prime Minister said that she would prefer to wait and see what progress was made with reform before taking up the invitation.

I am copying this letter to Alex Allan (H M Treasury), Brian Hawtin (Ministry of Defence) and Neil Thornton (Department of Trade and Industry).



C. D. POWELL

Richard Gozney, Esq.,  
Foreign and Commonwealth Office

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## PRIME MINISTER

## MEETING WITH THE YUGOSLAV

You are to see the Yugoslav Foreign Minister, Mr. Loncar, briefly tomorrow morning. His Ambassador has waged a formidable campaign to get him in, overcoming all the tank traps which I have set, and finally trumping me by approaching you direct over dinner at Windsor Castle. You have to hand it to him, he's earned his pension! But I hope you won't give Mr. Loncar too long, or I'll never be able to keep another Foreign Minister out.

Your last meeting with a Yugoslav was with the then President, Mr. Djuranovic, in March 1988. A note of the meeting is in the folder. At that time Yugoslavia was in a dreadful mess - but nothing to what it is now. All the problems which you discussed with Mr. Djuranovic have got worse. Their new Prime Minister, Mr. Markovic, has quite a good understanding of what needs to be done; but getting it done is quite another matter. They are back to the IMF for yet another arrangement and need a new rescheduling for \$20 billion of debt.

You will no doubt want to ask him to give an account of current problems and express sympathy with them - but on no account part with any money, because the chances of seeing it back are zilch.

There are also two bilateral problems:

- the Yugoslavs have still failed to settle our claims over the Zagreb air disaster in 1976; you ought to mention this;
- we suspect that the Yugoslav security services were responsible for the shooting of a Croatian emigré in Scotland. The trial of the chief suspect opened today. But this is better not raised.

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- 2 -

Mr. Loncar will probably invite you to pay a further visit to Yugoslavia. I can see no great merit in this at present and I think you should say that your travel plans would not permit it for the time being.

C.D.P.

(C. D. POWELL)

20 April 1989

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

20 April 1989

*Jo*  
*John Chancellor*

Meeting with the Yugoslav Federal Secretary

Mr Budimir Loncar is to call on the Prime Minister briefly on 21 April. This is his first visit to Britain since he became Foreign Minister in December 1987. He visited Britain for a Wilton Park Conference in 1984 and as Deputy Foreign Minister in 1987.

Yugoslav Internal

Yugoslavia's state of political and economic crisis is now turning from chronic to acute. The differences between the Republics, the weaknesses of the Federal centre, and the divisions in the Party have been compounded by inflation at 400%, a resurgence of Serbian nationalism, and popular unrest, especially in the province of Kosovo.

The previous government, led by Mikulic, was forced to resign at the end of 1988. The new Premier, Ante Markovic (a Croat) was appointed in March. He is a pragmatic reformer. Markovic will probably give priority to reforming the economic system, and to giving a freer hand to enterprises and the private economy. He has promised tighter public expenditure controls and a restrictive monetary policy. He needs a new understanding with the IMF to replace the 1988 IMF Standby Arrangement and a new rescheduling of official debts (total external debt \$20 billion).

Interrepublican infighting has distracted Yugoslavia from its other major problems. The populist Serbian leader, Milosevic, has campaigned for greater Serbian control over the two autonomous provinces, arousing fear of Serbian ambitions throughout the Federation. This approach has led to conflicts between Milosevic and the Federal Party leadership, with neither side able to prevail. It has also provoked unrest: serious rioting in Kosovo in March after the Serbian Constitution was amended to give the Serbs greater control over the region left 23 dead.

Bilateral Relations

The UK played a major role in last year's IMF and Paris Club agreements. We have encouraged the Yugoslavs to face up to their problems, and occasionally been reproached for severity (we continue to withhold ECGD cover removed in 1982).

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There are, however, bilateral problems. The Yugoslavs have failed to settle our claims over the Zagreb air disaster of 1976. And the shooting of a Croatian emigré in Scotland may have involved the Yugoslav Security Services, although there is no definitive evidence to that effect. A Yugoslav goes on trial for attempted murder today.

The Prime Minister will recall her two visits to Yugoslavia in 1980 (one for President Tito's funeral). The most recent high-level visit was that of a member of the Federal Presidency, Mr Djuranovic, in March 1988, who was received by the Prime Minister. The Yugoslavs are keen that the Prime Minister should pay a second visit to Yugoslavia to return that of Mrs Planinc in 1983. We will submit advice on this when the Prime Minister reviews her travel programme for next year.

Mr Loncar will be accompanied by the Yugoslav Ambassador, Mr Calorski. Andrew Wood, HMA Belgrade, will also attend if that is acceptable to you.

Yours ever,

Richard Gozney

(R H T Gozney)  
Private Secretary

C D Powell Esq  
10 Downing Street

Charles 0930

Friday

21st

April

see by  
CDP 19/4



10 DOWNING STREET

AP  
19/4

~~Amadeo~~

The PM herself  
told the Kygorker  
Ambassador that she  
would see his  
Foreign Minister. I  
have remonstrated, to  
no avail.

Can he come at  
0900 - Friday for  
 $\frac{1}{2}$  hour ~~hour~~  
please  
CDP





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10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

4 April, 1989.

Thank you for your letter of 17 March and for the enclosed copy of Mr. Markovic's statement.

As you know, the Prime Minister supports Yugoslavia's attempts to restructure her economy. She realises the difficulties that confront Yugoslavia, but believes that recovery can only be achieved through real reform. The measures outlined in Mr. Markovic's statement appear to be a step in the right direction. The Prime Minister hopes they will be implemented with vigour, and wishes Mr. Markovic well in his endeavours.

The visit to Britain by Mr. Loncar in April will, as you say in your letter, be an opportunity to discuss Yugoslavia's reform programme at length with Sir Geoffrey Howe. I am afraid that the Prime Minister's other engagements mean that a call will not be possible, but she will hear about Mr. Loncar's talks from the Foreign Secretary.

(C.D. Powell)

His Excellency Mr. Mitko Calovski

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Foreign and Commonwealth Office

London SW1A 2AH

4 April 1989

*Dear Charles,*

Thank you for your letter of 20 March enclosing a letter of 17 March from Mr Calovski, the Yugoslav Ambassador. I enclose a draft reply.

When Lyn Parker wrote to you on 29 December 1988 your reply of 29 December made it clear that the Prime Minister would only consider a call if it were of the highest category of importance. The Foreign Secretary did not consider Mr Loncar to be in this category and we have subsequently told the Ambassador that the Prime Minister would not be able to receive Mr Loncar.

Although the Ambassador has now approached you direct, the Foreign Secretary sees no reason to recommend that the Prime Minister reconsider the matter. Although the new Yugoslav government has proposed measures of reform, the deteriorating situation and serious bloodshed in the province of Kosovo now strengthen the arguments against such a call.

*Yours,*

*Stephen Wall*

(J S Wall)  
Private Secretary

C D Powell Esq  
10 Downing Street

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despach/note

TYPE: Draft/Final 1 +

FROM:

Reference

PS/No 10

DEPARTMENT:

TEL. NO:

Your Reference

BUILDING:

ROOM NO:

SECURITY CLASSIFICATION

TO:

Copies to:

Top Secret

Mr Mitko Calovski  
Ambassador of the Socialist Federal  
Republic of Yugoslavia

Secret

5 Lexham Gardens

Confidential

LONDON

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W8

Unclassified

SUBJECT:

PRIVACY MARKING

Thank you for your letter of 17 March and for the enclosed copy of Mr Markovic's statement.

..... In Confidence

CAVEAT .....

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Enclosures flag(s) .....

*cm.*

Yugoslavia - Visit of An Sec Mar 81



Mitko Calovski

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10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

AKC 20 March 1989

I enclose a copy of a letter and enclosures I have received from Mr. Mitko Calovski, Ambassador of the Socialist Federal Republic of Yugoslavia.

I should be grateful for advice and a draft reply, to reach me by Monday 3 April please.

(C. D. POWELL)

Richard Gozney, Esq.,  
Foreign and Commonwealth Office.

dg

Mitko Čalovski  
Ambassador of the Socialist Federal  
Republic of Yugoslavia

London, 17 March 1989  
5. Lexham Gardens, W8

Dear Mr. Powell,

I take the freedom to enclose to you the list of Mr. Marković's cabinet, elected on 16 March, as well as the statement he made on that occasion. I thought you may wish to have a look at the documents, especially at Mr. Marković's statement which, as a reform programme, should deregulate an integral market (goods, capital, labour, know-how) and thus, coupled with tight monetary policies, curb the inflation, stabilize the Yugoslav economy, create incentives for entrepreneurship and make it more viable for international cooperation, including very much so with the UK and the EC.

You may wish, hopefully, to inform accordingly the Prime Minister, especially since Mr. Marković's programme does not seem to fall very much outside whatever the Prime Minister, on her own right, had been suggesting to Mr. Djuranović last April.

May I mention here that my Federal Secretary for Foreign Affairs Mr. Budimir Lončar will be coming to London between 20 and 23 April, which will be an opportunity for his very thorough annual regular talks with the Secretary of State Sir Geoffrey Howe. However, I wonder whether the Prime Minister may not also wish to see Mr. Lončar and hear, first hand, about the current developments in Yugoslavia and, perhaps, to comment on activities both in Europe and in the context of non-aligned movement which is preparing to have its Ninth Summit in Belgrade at the beginning of September 1989 under the chairmanship of Yugoslavia.

Mr. C.D. Powell  
Private Secretary  
to the Prime Minister  
10 Downing Street  
London

Yours sincerely  
Mitko Čalovski

## NEW FEDERAL EXECUTIVE COUNCIL

The two Chambers of the Federal Assembly, upon the proposal of the Prime Minister Mr. Ante Marković elected at its session on 16 March 1989 the Vice-Presidents and the members of the Federal Executive Council.

The Vice-Presidents are Mr. Aleksandar Mitrović and Mr. Živko Pregl.

1. Mr. A. Mitrović - Born at Osladić, near Valjevo, SR Serbia, in 1933; formerly Vice-President of the Presidency of the SR of Serbia.

2. Mr. Ž. Pregl - Born in 1947, SR Slovenia; economist; formerly Executive Secretary of the Presidency of the Central Committee of the League of Communists of the SR of Slovenia.

3. The Federal Secretary for Foreign Affairs is Mr. Budimir Lončar.

Mr. B. Lončar - Born at the island of Ugljan, SR Croatia, in 1925; University degree; formerly also Federal Secretary for Foreign Affairs.

4. The Federal Secretary for National Defence is Col-Gen. Veljko Kadijević.

Col-Gen. V. Kadijević - Born at Glavna near Imotski, SR Croatia, in 1925; Yugoslav; University degree; formerly also Federal Secretary for National Defence.

5. The Federal Secretary for Internal Affairs is Mr. Petar Gračanin.

Mr. P. Gračanin - Born at Svetozarevo, SR Serbia, in 1923; graduated from the Military Academy; formerly President of the Presidency of the SR of Serbia.

6. The Federal Secretary for Finance is Mr. Branko Zekan.

Mr. B. Zekan - Born in 1933, SR Croatia; economist; formerly Director General of CROATIA Insurance Company.

7. The Federal Secretary for Foreign Economic Relations is Mr. Franc Horvat.

Mr. F. Horvat - Born in 1941, SR Slovenia; economist; formerly President of the Federal Committee for Tourism.

8. The Federal Secretary for Foreign Trade is Mr. Nazmi Mustafa.

Mr. N. Mustafa - Born at Donja Dubnica near Podujevo, in 1941; Albanian; economist (MA); formerly President of the Executive Council of the SAP of Kosovo.

9. The Federal Secretary for Development is Mr. Božo Marendić.

Mr. B. Marendić - Born in 1939, SR Croatia; economist (MA); formerly Director General of the Social Planning Administration of the SR of Croatia.

10. The Federal Secretary for Energy and Industry is Mr. Stevan Santo.

Mr. S. Santo - Born at Subotica, SAP Vojvodina, in 1946; Hungarian; economist; formerly Director General of SEVER work organization.

11. The Federal Secretary for Transport and Communications is Mr. Jože Slokar.

Mr. J. Slokar - Born in 1934, SR Slovenia; graduated engineer; formerly Director of LJUBLJANA Railway Transport Enterprise.

12. The Federal Secretary for Agriculture is Dr Stevo Mirjanić.

Dr S. Mirjanić - Born at Bosanska Gradiška, SR Bosnia and Herzegovina, in 1945; Serb; agricultural sciences (PhD); formerly member of the parity part of the Federal Executive Council.

13. The Federal Secretary for Labour, Health, Veterans' Affairs and Social Policy is Mr. Radiša Gačić.

Mr. R. Gačić - Born at Bajina Bašta, SR Serbia, in 1938; Serb; graduated from the Faculty of Law.



14. The Federal Secretary for Legislation and Administration is Mr. Vlado Kambovski.

Mr. V. Kambovski - Born at Bitola, SR Macedonia, in 1948; graduated from the Faculty of Law; formerly Vice President of the Executive Council of the SR of Macedonia.

The members of the parity part of the Federal Executive Council (Ministers without portfolio) are Mr. Dževad Mujezinović, Mr. Branimir Pajković and Mr. Nikola Gasovski.

15. Mr. Dž. Mujezinović - Born at Orašac, near Bosanski Petrovac, SR Bosnia and Herzegovina, in 1934; Muslim; graduated from the School of Economics and Faculty of Philosophy (German language and literature); formerly at the Federal Executive Council without portfolio.

16. Mr. B. Pajković - Born in Priština SAP Kosovo, in 1949; Montenegrin; economist.

17. Mr. N. Gasovski - Born at Prilep, SR Macedonia, in 1933; formerly Director General of ZLETOVO lead and zinc mines at Titov Veles.

The former Secretary General of the Federal Executive Council Mr. Zoran Mišković was re-elected to the same post.



EMBASSY OF THE SOCIALIST FEDERAL  
REPUBLIC OF YUGOSLAVIA

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

17 March 1989

PRESS RELEASE

STATEMENT MADE BY THE PRIME MINISTER OF THE SFR OF YUGOSLAVIA,  
MR ANTE MARKOVIĆ, ON THE OCCASION OF THE ELECTION OF THE NEW  
FEDERAL EXECUTIVE COUNCIL (FEDERAL CABINET) AT THE FEDERAL ASSEMBLY  
BELGRADE, 16 MARCH 1989

i am of the opinion that all our measures must be based on the awareness that the destiny and future of our society, its crisis and development cannot be addressed without raising efficiency, primarily economic efficiency, and without strengthening political democracy.

we must seek solutions in reforms of the society and system, in a commitment to an integral market, the independence of economic entities and their right to economic and development decision - making and their responsibility for such decisions, to development involving an opening towards the world and integration in its processes, through which we shall come closer to the humanitarian, cultural, civilizational and other achievements of the modern world.

in line with these reform options, it is necessary already now to embark on the process of the transformation of the state, and within it, of the reorganization of the composition of the federal executive council.

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in order to make for the operation of the integral market we must create the prerequisites for its functioning. namely, we should consider systemic arrangements, the infrastructure of the system and its institutions, as well as the organizational, functional and other mechanisms, which are prerequisites for the operation of such a system. in view of the fact that we are still employing a system of quite a different kind, we must make profound changes which call not only for appropriate solutions but also take time to be introduced. through systemic arrangements it is necessary to make possible the formation of all factors on an integral market, not only in the area of commodities but also of capital and labour, for without such a comprehensive solution we shall evidently not attain the real results the market makes possible, particularly with regard to increasing efficiency.

in this context, economic entities should be enabled to assume responsibility and to exercise the right to independent business and development decisions, which is a prerequisite for building a more efficient and rational system of economic operation.

first of all, i have in mind deregulation i. e. the revoking of those laws and regulations which suppress the role of the market and economic entities - i.e. economic organizations. it is necessary to deregulate all those areas which do not necessarily have to be state regulated and have to do with the market of goods, capital and labour. specifically it means that legislation referring to those areas should be reexamined and amended in line with the accepted arrangements.

another task is to amend systemic laws, but which do not fully correspond not only to the letter but also to the spirit of the constitutional amendments such as: the law on enterprises, the law on financial operations, the accounting law and the law on banks and other financial organizations.

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it will then be necessary to draw up new legislation, where care must be taken not to treat more restrictively than the constitution all those issues related to original rights, which must be regulated statutorily under the constitution.

it is also necessary to reexamine all pieces of subsidiary legislation of which there is a multitude, which should be revised in keeping with the general deregulation.

deregulation should be understood as a permanent process, by no means as a one-time effort and least of all as a campaign. it must be constantly addressed by all factors, starting from the enterprises, with respect to their self-management relations and internal organization, up to the legislative activities of the federation. it is not only an issue of reducing the number of regulations governing the operation of enterprises at the market, and of generally simplifying the process of administrative regulation and communication. it is also necessary to reexamine a number of institutions operating pursuant to such regulations today and defacto representing centres of power, deciding on behalf of factors which, under the new system, should be entitled to making their own decisions.

the market, as an achievement of the development of civilization is an instrument of efficiency and of accelerated development for which no adequate substitute has been found to date. it requires independence and responsibility on the part of economic entities and increases motivation.

all our activities must be geared towards a gradual opening to and integration in the world market and the introduction of world criteria in our market, not only of goods,

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the conditions they will be operating under and take all measures to fit into the new system of economic operation in an efficient and rational manner.

for this to become possible the earliest possible establishment of a capital, i. e. financial market, is necessary which cannot be done until we separate the state from the market financial function. that is why we must separate the monetary function as a part of the state function from the credit function, which must be in the purview of commercial banks. the discharge of the credit function, which implies responsibility for resource investments as well as the right to form the prices of these resources in the market, is not possible unless there are institutions and mechanism necessary for such a market. therefore, it is necessary to establish a banking system as envisaged by the constitution as soon as possible. it is necessary to establish a market of securities and resolve the problem of their issue and circulation as well as work out an incentive scheme for all forms of savings. without a market of capital there can be no increase in the efficiency of the use of resources in general and their market valuation, nor is it possible to activate the holding of households in production to a greater extent.

as regards the commodity market, the course should be toward further liberalisation of prices and imports as a prerequisite for establishing a competitive market. naturally, the influence of the world market through imports of goods shall be determined by our import possibilities which, in their turn, depend on our capacity to achieve a sufficient foreign exchange inflow.

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that means that imports and all forms of linkage with the world economy, supported by all instruments of development and current economic policy, constitute a premise for reaching a higher level of development followed by the establishment of a stable equilibrium in the national current account and balance of payments. a number of measures are possible in order to create a sufficient supply of foreign exchange from all sources, i. e. through exports of goods and services, stimulation of purchases of foreign exchange from citizens, as well as with the help of additional fun-

ding from abroad, which would promote our links with the world market as a whole on a lasting basis. Liberalisation should first of all, cover those imports which serve as inputs for exports, then, on a longer - term basis - imports of those products which serve to protect the living standard and contribute to greater competition, especially in those areas where monopolies are created.

as the process of our integration in the world market would gain momentum, increasing our foreign exchange inflow, the scope would broaden for liberalizing imports which would make it possible to create a market of commodities of our own on the basis of the combined influence of developments on the home and world markets. in this respect, the institutional framework for the commodities market, without which the latter cannot function, is primarily trade, although it has been neglected in our country and has played the part of distribution for years. such as it is, impoverished - with scarce resources and poor organisation and methods of work and even personnel - it is unable today to assume the role which trade has on modern organised markets. that is true of our foreign trade and even more of our internal trade. trade must not just transfer goods passively between producers and consumers.

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in order to accelerate the establishment of the markets of capital and commodities, it is necessary to provide as soon as possible for the establishment of mixed banking and financial organisations as well as joint trade organisations with foreign partners as an additional way to speed up the modernisation of institutions which would be able to assume full market responsibility, independently and with due regard for their own operation and work methods.

the result should be a strong motivation of man. unless we provide for his labour and its results to be properly valued on market and thus an opportunity and the right for him to determine his own personal income, we will not be able to promote efficiency. motivation, however, cannot exist without differentiation. therefore, we must provide for considerable differences based on work and performance, knowledge and capacity to capitalise on that knowledge and work on the market.

the labour market should be introduced and strengthened in our system and practice as soon as possible with the primary objective of eliminating the possibilities of further state influence, which means that administrative regulation and state interference in the distribution of income and personal incomes should be abandoned. that does not mean that it is not necessary to provide for adequate interdependence in the distribution of income, but this should be left to other factors, primarily to the enterprises themselves, to their self-management organs, internal relations, their own responsibility for their own development, without doubting that they themselves will be able to distinguish between what is necessary for current operations and what is necessary for long-term development. all this implies an income policy,

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with fiscal and tax policies also playing a very important role. in the next stage certain norms will have to be established by the trade unions and the enterprises.

it will also be necessary to enable competition between employed and unemployed workers, i.e. make it impossible to monopolize a post, even when one does not meet the requirements calling for the efficient use of social resources.

in this context, the constitution has made provisions, albeit minimal, for appropriate changes in labour legislation and practice in enterprises.

also, the labour market must stimulate both the regional and structural mobility of workers, which both contribute to the better valorization of labour resources as a whole and mitigate the consequences of regional development disparities.

in our system we must stop treating social services as consumption, but rather as a factor of development. in keeping with the constitutional amendments, organizations and self-management communities of interest must transform themselves and rationalize their operations so as to meet the contemporary needs of economic and social development. wherever possible, it is necessary to integrate social services and productive activities in a joint struggle for a new quality of life, economic operation and development. the improvement of the material standing and the attainment of an equitable socio-economic position of employed workers should, in addition to the regular sources, be ensured even more by establishing direct relations and by selling products and services at the market. in these activities, too, the operation of economic laws should be respected and all labour factors



and results should be evaluated, providing thereby motivation for adapting to the reform of society in general.

therefore, this whole approach is aimed at transforming the present market devoid of competition, almost erratic, extremely irregular, into a market with positive developmental and other effects - into a market not to be feared of. We must be afraid of the market we have now and which has almost put us in a situation without a way out.

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the almost one decade long economic crisis in Yugoslavia has aggravated economic, social and political problems to a degree which directly jeopardizes the very foundations of the socio - economic and political system of the country.

although that period has not been fully homogeneous, the global economic performance in that period is markedly unsuccessful in economic terms.

the stagnation of the social product and accelerating inflation have strongly undermined the foundations of the national economy and substantially reduced its reproductive capacity, with declining competitiveness and export capacity. in spite of the policy of extensive employment, the number of unemployed workers rose from 1980 to 1988 by 43 % . coupled with the increase of unemployment, the real level of average personal incomes dropped by some 25 o/o, this inevitably resulting in strong social tensions and declining motivation to increase labour productivity and efficient resource use. the decreased efficiency is to a considerable degree a consequence of the investment policy in the previous period which

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was not based on market criteria thus resulting, on the one hand, in the absence of production and financial effects. on the other hand, the substantial commitments resulting from these investments used a significant part of the capital formation, disabling investments which were necessary for the modernization and technological renovation of the economy.

the inadequate development and current economic policies, the latter being insufficiently export oriented, the predominantly administrative impact on foreign economic relations - resulted in a low export level and foreign exchange inflow, which made it impossible to service foreign debts, in spite of the considerable reduction of import. we were, therefore, compelled to reschedule our debts twice during that period, which additionally increased the unsettled claims in the country.

according to the basic macro - economic development indicators, unfortunately the economic situation in the country deteriorated significantly in 1988 as compared to 1987. namely, a real fall of the social product, industrial production, work productivity, investments, personal incomes and standard of living was registered, while retail prices and unemployment grew. such developments give rise for serious concern, since according to these tendencies the situation continues to deteriorate in 1989 as well. the achievement of certain results in foreign economic relations does not change the general picture of the economic situation.

in 1988 the annual rate of inflation, as it is known, was 199 o/o. the current inflation at the outset of 1989 was considerably higher. in the period from june 1988 to end january 1989, the average monthly growth of retail prices reached 15.4 o/o, which on a yearly basis represents an inflation rate of 458 o/o. however, in february the growth of prices accelerated additionally.

nally, implying that we are faced with an annual inflation rate which is close to 1000 o/o, if the trend continues.

in 1988 the rate of inflation was closely followed by monetary growth. Last year the money supply increased by more than three times. developments at the beginning of 1989 indicate that the characteristics of the monetary-credit aggregate trends in 1988 have not altered in the least. the expansive course of the credit - monetary policy is continuing and without a turning point in this field it is impossible to slow down the growth of prices.

unfortunately, the causes of our inflation are manifold. it is a result of our system and manner in which the system is implemented; it is naturally, cost pushed, but also demand pulled, as well as the result of the inadequate and inefficient communication with the world, it is predominantly structural, meaning long term.

evidently, there is no single policy which can curb inflation. only an integral set of policies and measures, involving both changes in the system and changes in the economic structure, and, therefore, containing both developmental and current economic policies can make up a powerful strategy in the offensive against inflation.

bearing all this in mind, the basic task of the current economic policy is to check the stagnant processes in the economy, to revive production and, at the same time, to create institutional and material - financial preconditions for its restructuring in accordance with modern technological and market requirements. the complexity of the thus established objectives and tasks of the economic policy requires a compound and differentiated

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approach to their realization. on the one hand, priority must be given to measures and activities which will, without accelerating inflation, enable the productive activation of available factors of production, especially of the market viable and profitable economic agents, channelling them to those fields in which they can achieve considerable results in a short period of time.

this implies that efforts will be exerted to stimulate economic agents, impartially and to a maximum degree, through current economic policy measures, to search for their own solutions to business and development problems they are faced with.

the market valuation of all the factors of production and effects of their use on the unified yugoslav market will be the basic feature of the current economic policy. in connection with that, the dinar exchange rate policy and interest rate policy will be in accordance with market criteria, determined through market mechanisms. only in conditions of established real market values is it possible to discern economic efficiency from inefficiency, profitability from unprofitability, work from idleness and on that basis open processes of modernizing and restructuring economic agents and the overall economy.

considering that the difficulties in, and resistance to, the implementation of this policy to date were to a considerable degree the results of long-standing accumulated disbalances in the financial system of the country which ultimately generate inflation, parallel with a policy of market valuation of the factors of production, it is necessary to eliminate and clear up existing unsettled claims.

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within this framework, it is necessary to analyze the situation and identify problems linked to the economically inefficient and fictitious part of the assets of the economy as well as uncollectable claims. It is also necessary to review the realised exchange rate differentials on account of the household foreign exchange saving deposits of the national bank of Yugoslavia, as well as part of the exchange rate differentials of foreign credits converted into dinars by the national bank of Yugoslavia. Along these lines, it is necessary to identify the real sources of funds for covering them, i.e. determine what should be written off or transformed. At the same time, it is necessary to reduce the financial disbalance in foreign business operations among which of particular significance is the transformation of part of the foreign debt into direct investment of foreign capital in the Yugoslav economy through the equalization of the credit balance with specific countries. Through these measures and activities domestic and foreign debts would be decreased as well as the pressure exerted on the liquid funds of the economy and banks, limiting thus the effects of one of the causes of inflation.

in conditions of pursuing real dinar exchange rate and real positive interest rate policies, it is necessary to increase significantly the liberalization of prices and import, as well as to reduce customs and import duties, especially on imports for export production including the import of consumer goods. In addition, using all forms of anti-monopolistic policy, it is necessary to decrease the negative effects of the monopoly on the market, eliminate the dual price system within certain reproduction entities as well as reexamine the decisions on the joint elements in the formation of prices.

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within the framework of the overall economic policy, modern monetary and fiscal policies should hold a particularly important place, since they should contribute, through their interaction, both to the stabilization of commodity - money relations on the market as well as to direct activities on reversing the slow down of economic activity and its gradual revival. taking into consideration the intensity of the existing inflationary tendencies, the monetary policy should act as a powerful and active anti - inflationary policy instrument. therefore, its basic characteristic should be restrictiveness.

the restrictiveness of monetary policy should be reflected in two elements. one is dynamic and implies not only the necessary lagging of the annual growth of global monetary aggregates behind the inflation, but also such a development of global monetary aggregates within a year which would not anticipate inflation and which would not be tailored to it. the second element of monetary and credit flows in areas where they have been directly inflation generating up till now. this particularly relates to the use of primary money issue for covering losses, financing surpluses in bilateral payments arrangements and for deficit financing of a part of the federal budget expenditures. with the realization of these elements the credit - monetary policy would not have to be restrictive when it comes to financing market generated demand, profitable and export - oriented projects, successful innovative economy.

the overall money issue should be taken in its totality, both the official as well as the autonomous ones.

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it is necessary to separate monetary from credit policy. the first one is under the authority of the national bank of yugoslavia and the system of national banks, and the other under the authority of business banks.

parallel to such monetary policy, it is also necessary to pursue a restrictive policy of public sector income and expenditures, proceeding from the assessment that the present level of fiscal and parafiscal burden of the economy is too high in relation to its real material and financial possibilities. it is necessary to rationalize organization and operation of social services and administration at all levels, as well as to reduce certain rights established by law, by stimulating direct relations and increasing participation of users of services.

the current economic policy for 1989 is burdened by foreign and domestic debts, imbalance between the budget and extra budget balances which all have strong destabilizing effects. in this context, the federation has a large volume of deficit financing which is uncovered by real sources. budget and extra budgetary balances for 1989 were elaborated on the basis of the assumption that primarily includes the unrealistic assessment of increases in price and foreign exchange rate.

the new federal executive council will, as a priority task, have to deal with them at once, proceeding from the principle that at the federal level all balances are planned in the budget.

with a view to increasing the stabilizing effects of such monetary and fiscal policies, it is necessary to pursue an active policy of income and personal incomes distribution, conceived so as to enable the activation of motivating factors for increasing production and efficiency in the use of resources, this policy, at the same time, must not have inflationary effect. personal incomes should grow depending on the market value of the results of labour and increase of production, rather than in proportion to the rise in living expenses in all situations and circumstances with the over growing egalitarianism.

in order to transform thus relatively increased savings in the economy into investments, which will in a relatively short time yield both indirect (via demand for equipment) as well as direct (via new capacities) impetus for stopping the decline and initiating the growth of the production, it is indispensable to change the structure of the use of savings and increase the efficiency of investments. in this connection, two basic sets of measures should be undertaken. the first of them relates to essential reduction in the state channelling of capital formation (the so-called compulsory pooling of social reproduction funds) and giving a free hand over these funds to the economy in the spheres of reproduction and investment consumptions. the second measure concerns the tightening of market criteria of investment policy and their more consistent application to all investments in the country.

for the comprehensive achievement of this task, in addition to the above mentioned measures, of particular importance are economic policy measures and activities on the whole in the spheres of strategy and tactics of economic relations with foreign countries. in this respect, the relations with the

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European community, policy of attracting foreign capital and foreign exchange resources of Yugoslav citizens, policy of joint ventures, cooperation and gaining access to world market etc. should become an integral part of a unified and consistent foreign economic relations policy, the effects of which, in terms of creating conditions for continued growth and exports as the basic impetus to production and the inflow of capital and technology, will, in a large measure, determine the possibilities of resolving the problem of stagflation over the long term.

iii.

When considering development it is necessary to interlink the systemic measures, measures of the current economic and developmental policies within the overall concept of socio-economic development. Therefore, both the current and development policies and economic system solution must take care to create such prerequisites which will enable optimum growth and development arrangements and their intensification, particularly with a view to resolving social problems and eliminating the causes of inflation.

The development policy should make possible, support and follow these processes. In other words, we need such a concept and strategy of development which will significantly increase the efficiency of the economy and, relying primarily on exports, increase income and foreign exchange inflow, and, thereby, enable new productive employment.

we are faced with two basic problems in the sphere of development. the first one is the lagging of the technological level of the existing structure behind the development of world technology, which in the last few years has been intensive, even in those sectors which are relatively developed in our country, up to the most modern ones with which we have failed to establish correct links. secondly, we have even greater problems with the underdeveloped economic structure; here we are even more behind the developed countries than as regards the development of technology itself. it is clear that there can be no significant increase in efficiency of the overall economy and society, increase of exports and supply of goods with the structure we have today, without setting up a new one. this structure will be more flexible, more market viable and, thereby, capable of communicating with the end consumer and will more quickly react to technological and other changes on the world market.

such development process based on structural changes and adjustment will also give rise to social problems which, in my opinion, can not be resolved predominantly and exclusively in the sphere of social policy, but, above all, within development policy, not disregarding in this either social welfare or social security of citizens.

in developing new structures the emphasis must be on the establishment of new small enterprises. the changed structure, with small enterprises as a basis, increases the efficiency of the overall economy, its adjustment to the world economy structure increases export capabilities and supply

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of commodities and domestic market, can be quickly achieved and is neither capital nor energy intensive, but is the only one capable of absorbing labour force surplus which will occur with the strengthening of the market and economic coercion.

the constitutional solutions create greater scope for such development. they enable us to eliminate without any delay all the limitations which made it impossible up to date to mobilize resources of citizens and resources from abroad. we must create an atmosphere whereby these commitments of ours will be seen as stable, namely that it is not a daily policy but rather one designed for the long-term and instilling confidence in all potential investors in the creation of new values. the constitution guarantees all forms of ownership - social, private, cooperative and mixed. with this objective in mind we should, by means of economic policy measures, motivate the legalisation of resources, particularly the foreign exchange resources of citizens which nowadays circulate on the so-called 'grey market', and their emergence in regular market channels. next, we should encourage all our citizens to invest their resources into development, particularly, our citizens working abroad.

in the framework of such a structural policy, it will be in the interest of the socially owned enterprises to speed up the establishment of small enterprises, to which they should channel their own assets and make available a part of their production and technological capacities; they would also encourage their own workers to set up such enterprises as partial owners in which they would retain the right to management and acquire property rights.

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funds earmarked for development, including external capital, should primarily be used for joint ventures. furthermore, instead of relying on commercial borrowing for making a better use of the existing capacities and enhancing their more active role, long - term resources should be found both for technology and for working capital . that calls for the issue of securities, which will act as an incentive to yugoslav citizens and foreign investors.

we shall have to identify several major development programmes which will constitute a new quality in our development and lead to a more accelerated transformation of the country's economic structure. at the same time, that will give an impetus to greater opening towards the world and the introduction of market elements into the agreements based economy. in this context, i am particularly referring to several major projects, in the fields of tourism, agriculture as well as fields requiring the most up-to-date technology, such as electronics, informatics, pharmaceutical industry, as well as infrastructure, notably in the area of transport.

all programmes, infrastructure included, must be verified by the market. the more they are oriented towards the world market the more they should be implemented through foreign investments and through projects designed on commercial basis without the backing of state guarantees, regardless of whether or not the state shall simphon its own funds into their implementation.

on the basis of the new development concept, establishment of the market and the new system, as well as the current economic policy focused on motivation, we must talk to our creditors in the world, primarily to the international monetary fund so that they would support such a policy of ours, since the enhancement of our abilities will enable us not only to repay our debts but also to develop a normal communication with the world capital market, which is in their interest as well. we are also about to have discussions with other institutions of the international banking system, as well as our creditors and major trading partners in the world.

we must harmonize the policy of regional development with this concept, bearing in mind, of course, the specific features of individual regions.

in addition to encouraging a more accelerated development of the underdeveloped republics and the socialist autonomous province of kosovo, the regional policy must also deal with all the other vital regional issues such as territorial management, urbanization, population policy, migration trends, etc.

in line with the characteristics and the objectives of the new economic system, we must consider the transformation of the federation fund for financing the more accelerated development of the insufficiently developed republics and provinces, with a view to turning it into a specific development and financial institution.

finding a way out of the crisis and the opening of the development process depend primarily on the ability of our

society to open up the process and to ensure a consistent functioning of the integral market as well as the autonomy and the right of economic entities to decide on current and developmental issues and to bear the responsibility for these decisions accordingly.

the substance of those changes lies in releasing the huge potential of the self-management socialist society and individual initiative, motivating people to behave rationally and efficiently and to change programmes, organizational set ups, methods of work, etc, primarily in their own economic interest which will result in a considerable increase in income and enhancement of all the other positive effects.

it is the task of the state to ensure as soon as possible the unrestrictive exercise of constitutional rights which are a normative prerequisite of the system. it means that rights and competences should be transferred from state institutions to the self-management agents and the market—from commune to federation levels. therefore, we must primarily focus on the deregulation, and the new legislation must be in function of a true operationalization of the constitutional provisions and their respective application. this does not mean that we do not need a state in the economy. on the contrary, we must develop a modern state suited to a market economy and the independence of enterprises, i.e. a state which will safeguard that autonomy and its economic function, especially with respect to strengthening the role of economic policy and also include indicative planning. those functions, particularly those which are fiscal, tax and solidarity related must be clearly defined just as the legal role of the state in the framework of the social system as a whole. on the one hand, we must deprive the state of some competences it had so far and, on the other, we must strengthen those competences which at present

it performs poorly or does not perform at all. furthermore, we must effect the distribution of competences vertically and enable the autonomy in decision - making at different levels.

accordingly, i thought that the federal executive council should have fewer members, but that the efficiency of its work should be enhanced: the amended constitution makes that possible as it does not insist on the kind of parity which existed to date.

thus, instead of the principle of parity which made it compulsory to have a large federal executive council, in terms of the number of its members, conditions will be created for making up a smaller team whose professional and political qualities would constitute a greater guarantee for the more efficient, operational and responsible functioning of the federal executive council and the federal administrative agencies.

the elimination of the principle of unanimity in adopting by-laws is particularly important for the performance of the federal executive council. here, we are bearing in mind the nature of the executive regulations, namely the fact that social and material relations cannot be governed by enactments adopted by the federal executive council but rather by laws and other regulations adopted by the assembly of the sfr of yugoslavia. the proposed solutions inevitably imply the dissolution of the inter-republican committees and create preconditions for greater independence, efficiency and responsibility of the federal executive council and the federal administrative agencies.

the changes in the organizational set up and competences of the federal administration constitute an important step towards the reform of the state administration. from the very outset the newly established federal administrative agencies should concentrate on fulfilling their basic function- the implementation of federal laws and other regulations

and monitoring the state of affairs in their respective areas.

in order to ensure that the federal executive council and federal administrative agencies work, first of all, as state organs with precisely defined function and tasks within the rights and responsibilities of the federation, changes will be carried out in the structure of the federal administration so that its functions would primarily be performed by federal secretariats, as executive administrative agencies. in this way, normative and organizational preconditions have been created for the federal administrative agencies - the federal secretariats - to discharge their tasks and duties efficiently and independently, within the framework provided by the s f r y constitution and federal legislation, and for the federal secretaries, members of the federal executive council, heading these federal agencies, to be fully responsible for their work and for the work of the agencies which they head, as well as for the state of affairs in the field for which that agency was established.

the intention of the new organization of the federal agencies was to organize and concentrate work within individual federal secretariats in a more rational way, i.e. to eliminate parallelism in their work. the underlying idea was to concentrate related areas within certain federal secretariats and to bring together all the key components and aspects of these areas, with emphasis being laid on those tasks and activities required by the reform of the economy and the society as a whole.



it is for these reasons that the federal executive council will continue working on the preparation on the new law on the basic principles of the system of the state administration and on the federal executive council and, accordingly, the new law on the organization and province of work of the federal administrative agencies and federal organizations.

in this context, we should discuss ways of modernizing the administration and introducing elements of modern means and methods of work, bringing in new people at the same time and having a considerably smaller administrative apparatus, but with better, more adequate remuneration.

v

on several occasions we have assessed the international political conditions in which we must work so i do not intend to expound on this in detail. however, i should like to note that it is primarily positive processes that are taking place in the world today and that there are grounds to believe that they could be long-term ones, although they are not necessarily balanced and rectilinear. there still remain quite a few divisions and conflicts which jeopardize security and stability based on equal rights and the respect of independence of countries and peoples.

such world developments, still contradictory, bring us to the question of the framework and priorities of our foreign policy.

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firstly, it seems that at this point in time priority should be given to working on raising yugoslavia's already low credibility in the world. for too long we have been in economic and political crisis in this country, preoccupied with ourselves, our own dramatization and mutual conflicts. the world is watching this with concern, including the many friends we have made through the consistent and independent policy we pursued with tito.

secondly, we must exert every effort to create conditions favourable for the pursuit of our steadfast orientation towards market transformation and modernization in all fields of life and work. we have already displayed this to the world and the first responses have been positive ones. the comprehensiveness of the reform, its rhythm, consistency and resoluteness in its implementation remain the key issue for the success of our foreign policy as well.

our vision is one of a world of interdependence and cooperation, growing integration and more equal rights; we must prepare ourselves for that and pursue such a foreign policy consistently.

reform and economic development, economy in the broadest and most specific sense of the world and the realization of our overall economic possibilities for joint development through modern forms, of cooperation with foreign partners, must become one of the cornerstones of the activity of our diplomatic service and its future orientation. divorcing the state from economy must not be interpreted as leaving the economy solely to its own resources, to make

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its way in the world without any help. the diplomatic service must assist it most directly, no less than the diplomatic services of the developed, market - oriented countries do in terms of promoting their own economic interests.

well equipped and with a higher degree of stability, we must establish our own attitude towards european integration processes. the part of carrying out this priority is a gradual one and it depends on internal and external factors.

it is certain that the establishment of a yugoslav market and the liberalization of relation with the world, especially with neighbouring integrations, are closely linked and that we must work on this perseveringly and systematically.

for a longer period of time yugoslavia will maintain its position towards integrations in europe: that it is a european, mediterranean, non - aligned and developing country. however, we shall have to conceive and affirm our own positive attitude towards this, moving reciprocally and symmetrically, depending upon our own development and our capacities to adjust. we shall have to intensify our dialogue with the european community, which has already been established, and which should be materialized through all - round industrial, transport, financial, ecological, scientific and other forms of cooperation.

then comes the set of priorities which stem from our relations with our neighbours. the general political atmosphere in our neighbourhood is a sign of the affirmation of our efforts aimed at good - neighbourly cooperation, whose foundation we laid long ago. we must remain on this path and

be effective in the settlement of problems which do exist, or we should at least keep them under control within the bounds of bilateral cooperation. various forms of regional cooperation can have a favourable influence in this context, vis-a-vis the entirety of our neighbourhood, bearing in mind the positive effects of cooperation which have, for example, been achieved within the alpe - adria work community, and through the beginnings of inter - balkan cooperation. therefore, we shall make every effort to strenghten new constellations of relations in the balkan peninsula and in its immediate vicinity so that they would continue to correspond to stable european and world processes.

the choice of yugoslavia as host of the next summit conference of the non - aligned countries and her role as chairman of the movement over the next three years should considerably contribute to enhancing our reputation and dynamizing our relations with non - aligned and developing countries, as well as with all leading political factors in the world. a constant orientantion towards the modernization of the movement can help us achieve all our other priorities and have the movement and yugoslavia remain a mobile and influential part of world politics. we are firmly committed to making the Summit a success and to strengthening the position and role of the policy and movement of non - alignment in world developments.

our non - aligned position also enhances our opportunities for stronger ties with europe. instead of exhausting ourselves in discussions on the possible model of our inclusion in europe we should, already at this point, through concrete actions, gradually take part and establish functional links with it.

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i should also like to indicate that reforms in eastern european countries and in the comecon are gradually changing the conditions, contents and nature of our economic ties with these countries, too. it is necessary to find new possibilities for promoting mutually beneficial cooperation, which are being opened or heralded by perestroika. the positive rapprochement processes between the comecon and the e c can also constitute a new opportunity for us, but new competition in both markets as well. this shows the necessity of a faster restructuring of our economy, i.e. offsetting strict market criteria for development and exports.

on this occasion i shall not dwell on the subject of our relations with the big powers, which are favourable and stable, nor those with the developing and non - aligned countries. our relations and the tenets underlying them were established a long time ago and constitute part of tito's orientation. we shall continue to follow those paths as our lasting priorities and orientation.

on the basis of predictable developments in external and internal factors at the time of the implementation of this programme we can conclude that the concept of total national defence and social self - protection will represent a success and fully respond to all types of possible threats to the security of the country. its primary function has to remain deterrence against aggression. however, for deterrence to maintain credibility, the defence capacity of the country and the combat readiness of the armed forces have to correspond at all times to the existence of actual or potential threats to its security. this is something the federal executive council must constantly bear in mind and, accordingly, practically define and discharge its duties in this regard.

one should be aware of the fact that the social, and in particular the economic, crisis weakens the defence and the security of the economy. this logically entails the need to reevaluate some essential factors of defence and security which ought to result in a new quality of society's defence capacity and armed forces combat readiness. in this connection, we shall exert efforts for the further elaboration of the total national defence and social self - protection concept.

we shall propose measures from within the purview of the federal executive council so that the armed for -

ces of the s fry might develop further as a uniform and harmonious whole , bearing in mind the fact that the yugoslav people's army as its most mobile, striking component has a particularly prominent role and responsibility, primarily in terms of deterrence, of the efficient countering of the new doctrines of potential aggressors and in terms of the protection of the constitutionally stipulated order. it is hence necessary for the yugoslav people's army, apart from a high level of training and moral and political unity, also to be adequately technically equipped. in the further building of the army, we shall strive to follow these priority directions- the reversal of the past unfavourable trends in its technical modernization, the strengthening of its overall combat capacity through the optimal coordination of technical modernization and the reduction of the number of army cadres concurrently with the further raising of their quality. it goes without saying that all this is directly dependent on the available means so that the federal executive council will take every possible measure to ensure an adequate financing of the yugoslav people's army on a stable and secure basis in accordance with the s fry constitution.

we shall consistently and rationally from the economic standpoint put into practice tito's well known stance that the yugoslav armed forces should for the most part be equipped with armaments and military equipment manufactured and developed in the country. through their influence on overall technical and technological progress, scientific research work and the manufacture of armaments and military equipment should in the future also remain one of the important levers of overall industrial and economic development.

the strengthening of the overall defence capacity of the country is directly dependent on the success of the reforms, in which, naturally, the members of the yugoslav people's army are interested as well. in my talks with the military i was not only assured of their support to this programme but also of the firm resolve of the yugoslav people's army to contribute to the maximum, through concrete measures and within its possibilities, to its practical implementation.

v i i

the latest developments have demonstrated once again that the situation in kosovo represents one of the most difficult political, moral and socio-economic problems of yugoslav society. the causes and the consequences of the counter-revolution of albanian nationalists and separatists in kosovo make it considerably more difficult to successfully deal with the other problems entailed by the crisis in the country, address further development, the preservation of the constitutional order of yugoslavia,, its territorial integrity and its democratic socialist orientation. the creation of conditions for the longer-term stabilization of the situation in kosovo is a priority. at this moment, it is essential consistently to implement the decisions taken, to eliminate the causes of the counter-revolution, to remove the consequences of accumulated distrust among nationalities, and create conditions for a secure life and a common future upon the already adopted tenets of brotherhood and unity and in furtherance of the other achievements of the socialist revolution.



as has been emphasized on a number of occasions so far, the adoption of the constitutional amendments to the constitutions of the s r of serbia and of the socialist autonomous provinces will create the necessary conditions for the successful implementation of this policy and the more efficient operation of the entire political system.

so far a number of political decisions have been taken , conclusions made and a yugoslav programme adopted of measures and activities to halt the migrations of serbs and montenegrins from kosovo and for the faster return of those who have left it of late. a number of regular and special state measures have been taken to that end.

it is imperative to restore work, law and order in the shortest time possible as well as the operation of all the institutions of the system in the province so as to bring serenity and peace back to all homes.

certain parts of the yugoslav programme will have to be reexamined and updated. to that end, the federal executive council will establish a higher degree of cooperation and coordination with the republics and provinces, especially with the bodies of the socialist republic of serbia and the socialist autonomous province kosovo. especially important are those tasks which are related to socio-economic development, meaning that we will have to continue ensuring the fastest development of s a p kosovo relative to the rest of the country.

to that end, the federal executive council will employ measures of economic policy, in keeping with the constitutional amendments and the reforms of the economic system and the policy of structural change, in order to create conditions for enhancing the process of pooling labour and resources and various forms of joint ventures as well as promoting overall investment policy based on the use of own resources, for the development of profitable production, faster employment and further changes in the social composition of the population.

numerous other tasks are also ahead of us, primarily the extension of adequate staffing assistance, the strengthening of public institutions, especially of self-management and state organs, of inspection services, prosecution offices, courts and other bodies to deal with the many cases of the violation of constitutionality and legality, of personal integrity and property of the working people and of social property, the strengthening of informative and educational activities, especially with a view to the prevention of counter-revolutionary developments and to the exercise of the full freedom and equality of the nations and nationalities in kosovo based on the objective need to live together and be integrated faster into the socialist self-management community of equal nations and nationalities of our country.

viii.

the time in which this federal executive council is assuming office, is, in addition to economic problems, also encumbered with grave socio-economic problems. divisions on various grounds are deepening and antagonisms are mounting. the political and security situation in the country has reached such a point that special measures have been introduced in a part of the country. this is unfavourably reflected upon both the economic situation and the international position of yugoslavia. in such a situation, specially in case it should escalate further, the chances for a substantive implementation of reforms would lessen as would the opportunities for creative work on the part of the new federal executive council.

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the new relationship between society, the state and politics is one that we have to build together. this is a complex and lengthy process of the democratization of society in the pursuit of a new modern socialist system. in the struggle for the new, the cohesion of progressive forces of our society will be enhanced but so will resistance to these changes, primarily on the part of those who have had some privileges. i foresee problems in the period of the market adjustment of the economy - as this process will liberate certain numbers of the labour force, whereas new development will perhaps not be so intensive and vigorous as to absorb this surplus and thereby buffer social tensions. in fact, these social tension may serve as the basis for all conservative and dogmatic and ultraleft wing forces to rally in a struggle against the new system and its protagonists. this is something that we have to reckon with and, accordingly, we have to accelerate the new development, in particular the new structures.

statically observed, our situation seems hopeless, but dynamically observed, there are ways out.

they lie precisely in the changes envisaged in the reform of socialism which commands enormous power, in the huge potential of all motivated individuals, in the freedom of our enterprises to make their own decisions as they see fit to enhance their business performance and their growth.

at the end of the fourth decade of the development of our self-management socialism, we can and must create for our workers and all the working people such conditions of economic operation and such conditions of life and work which will enable every man, every worker, every individual to take hold

of his own fate. to that effect, the welfare of every individual should depend on that individual himself, on his working and creative capacity and on his own interests in the work and life he has chosen for himself. all these may and must be realistic pretensions in undertaking to reform socialism today.

we need a new morale to be espoused by all the forces of our society, a morale of the victors.

the vast forces of this society should be harnessed to spearhead the processes of reform so that the project of their unfolding might become realistic and within reach. if we know what we want and if we manage to unite all the progressive forces of our society on that basis, that of yugoslav cohesion, then there should be no doubt that this self-managing socialism will genuinely prevail.

PRIME MINISTER

*W. H. H. H.*

YUGOSLAV FOREIGN MINISTER

Sir Fitzroy Maclean has written to ask you to see the Yugoslav Foreign Minister when he visits Britain soon.

There is a history to this. From the moment this visit was first mooted, we have said that you would not be able to see the Foreign Minister. This was because:

- you have already been very generous in the time you have devoted to senior Yugoslav visitors in the last eighteen months;
- we are under constant pressure for you to see Foreign Ministers. We almost invariably refuse, otherwise your diary would be even more impossible than it already is. We made an exception for the Japanese, a really major trading partner. But we refuse EC Foreign Ministers (except in the past Spain), major Commonwealth partners and so on. It really is important to preserve.

The Yugoslav Ambassador has been lobbying everyone in town to get the decision changed and Fitzroy Maclean is his latest target.

I really hope very much that you will support the firm line which Tessa and I have been taking against this, otherwise our defences will be undercut. Anyway all he wants is more money, and we haven't any to give!

Agree not to see him?

C. D. POWELL

17 January 1989

PM3AGN



EL3DFM

bcpc

10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

29 December 1988

Thank you for your letter of 29 December about the visit of the Yugoslav Foreign Minister. The general rule has been to ask the Prime Minister to see only a very limited number of Foreign Ministers. There is a separate request in for her to see the Japanese Foreign Minister to which I think the Prime Minister will agree. She has also agreed to see the Spanish Foreign Minister. There will no doubt be other candidates later in the year. Is the Yugoslav Foreign Minister really in the highest category?

Incidentally, I do not think that the argument that failure to see Mr. Loncar would undermine the progress achieved by the visit of Mr. Djuranovic is a very good one: if applied more broadly that sort of pleading either locks the Prime Minister into seeing senior Yugoslav visitors at regular intervals ever hereafter, or means it is better never to see any of them since failure to see all undermines the benefit of seeing one.

(CHARLES POWELL)

Lyn Parker, Esq.,  
Foreign and Commonwealth Office.

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~~Call~~

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Foreign and Commonwealth Office

London SW1A 2AH

29 December 1988

Dear Charles,

The Yugoslav Foreign Minister, Mr Budimir Loncar, is to visit Britain on 6 and 7 February 1989 as a Guest of Government. Previous visits by Yugoslav Foreign Ministers, Mr Vrhorec in 1981 and Mr Dizdarevic in 1984, included short calls on the Prime Minister. The Foreign Secretary believes it would be useful if she were able to receive Mr Loncar for a short call during his visit.

The Prime Minister could urge the need for economic and political reforms and press the Yugoslavs to keep to their economic commitments entered into under the agreement with the IMF in June. She could also press for a settlement of our outstanding claim over the Zagreb air disaster of 1976. The Prime Minister's views on these subjects would undoubtedly carry great weight with the Yugoslavs.

There has been an open invitation from the Yugoslavs to the Prime Minister to visit Belgrade for some time, which she has not taken up. If she were to refuse to see Mr Loncar, this could undermine the progress achieved by the visit of Mr Djuranovic, member of the Yugoslav Federal Presidency, in March 1988 (he subsequently wrote to the Prime Minister about the sale of Airbus in October).

Yours ever

*L Parker*

(L Parker)  
Private Secretary

C D Powell Esq  
10 Downing Street

CONFIDENTIAL

Yugoslavia

SUBJECT.



cc. Master sec.

10 DOWNING STREET

From the Private Secretary

15 June 1981

Dear Francis,

Call by Mr. Vrhovec

The Yugoslav Foreign Minister, Mr. Josip Vrhovec called on the Prime Minister this evening as arranged. He was accompanied by the Yugoslav Ambassador and by Mr. Melovski. Mr. Bolland was also present.

In the course of an initial exchange of courtesies, the Prime Minister recalled how much she had enjoyed her visit to Yugoslavia and Mr. Vrhovec said that the Prime Minister's visit had been very highly 'evaluated' by the Yugoslav leadership. In response to a question from the Prime Minister, Mr. Vrhovec said that everything was going well in Yugoslavia except the economy. The Government were still seeking to stabilise the situation but were confident that in due course everything would be all right. The rate of inflation had fallen somewhat since the beginning of the year though it was still running at 35-40%. There was a continuing trade imbalance.

After a brief discussion of the recent Conference of the Non-Aligned Movement, which gave the Prime Minister an opportunity to express scepticism about the concept of collective leadership in an organisation like the NAM, the conversation turned to Poland. Mr. Vrhovec said that he did not believe the Russians wished to intervene. However, the question was whether things could be settled in a way acceptable to them without their intervention. He agreed with Mr. Bolland that the Soviet Central Committee's recent letter had been reminiscent of those which Stalin had sent to President Tito. It constituted an unacceptable interference in Polish affairs. It had not succeeded in securing what the Russians would regard as a satisfactory outcome to last week's Central Committee meeting. The Russians did not like the way the preparations for next month's Party Congress were going. It was difficult to predict what they would do in the three weeks or so left before the Congress assembled. The situation was dangerous not only for Europe but for the "global situation as a whole". The Prime Minister said she agreed with Mr. Vrhovec. The present situation was highly unpredictable. If the Russians

/were to intervene

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- 2 -

were to intervene, it would be without any certain knowledge of where events would take them. It was a pity that the Poles had not been able to make their economy work better. The fact was that higher living standards did not automatically follow from greater freedom. Mr. Bolland referred to a recent interview given by a senior member of Solidarity in which he had said that the Poles would have to accept greater economic difficulties before things were straightened out. The same spokesman had said the Poles would resist Soviet intervention.

Mr. Vrhovec said that he had been in Moscow for a few hours a month or so ago. The Deputy Foreign Minister whom he had met had expressed deep concern about Poland, about the East/West confrontation and about the missile crisis. Mr. Vrhovec got the impression that the Russians genuinely believed the West was in the wrong on the latter problem. The Prime Minister expressed surprise. Mr. Vrhovec agreed with the Prime Minister that President Brezhnev was on the whole a moderating influence in the Soviet Government at present. In a final reference to Poland, the Prime Minister said that every nation must be free to determine its own destiny without interference. The British Government would hold to this and hoped that the Non-Aligned Movement would do so. Mr. Vrhovec confirmed that it would be "in the nature of the Movement" to do so.

In discussion of her visit to the Middle East, the Prime Minister referred to the Israeli raid on the Iraqi nuclear plant. She had condemned the raid strongly. International relations could not be conducted on this basis. Countries could not bomb installations in other countries simply because they did not like what was being done there. The affair had underlined the need to find a solution to the Arab/Israeli dispute. However, no progress would be made until the United States became more active. The American Government had not made up their minds about the next steps. They had been awaiting the Election in Israel.

On the Iran/Iraq war Mr. Vrhovec said that his Iraqi contacts had told him very frankly that Iraq would make peace under any conditions which would give them a guarantee that President Saddam Hussein remained in power. The contacts had added that it was clear that Iran was unwilling to accept any solution which would make this possible. Referring to the fact that the next Non-Aligned Summit was due to be held in Baghdad, Mr. Vrhovec said it was hard to imagine that this would be possible so long as the war with Iran continued.

Mr. Vrhovec said that when he had been in Peking recently Deng Xiaoping had expressed a firm willingness to seek an improvement in relations with India. The Chinese Government would be proposing a package approach to the Indian Government. Failing this, they were prepared to proceed step by step. The Prime Minister said this was very good news indeed.

*Yours ever*

Francis Richards, Esq.,  
Foreign and Commonwealth Office

*Richard Alexander*

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Foreign and Commonwealth Office

London SW1A 2AH

11 June 1981

*Dear Michael,*

Courtesy Call by Mr Josip Vrhovec: Monday 15 June at 5.30pm

I enclose a brief for Mr Vrhovec's call on the Prime Minister. You will see that this includes passages on the Prime Minister's visit to the Gulf, a subject on which the Yugoslavs have expressed particular interest, and about which Mr Vrhovec will certainly be glad to hear from the Prime Minister herself.

*Yours ever,*

*Francis Richards*

(F N Richards)  
Private Secretary

M O D'B Alexander Esq  
10 Downing Street  
LONDON  
SW1

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COURTESY CALL ON THE PRIME MINISTER BY MR JOSIP VRHOVEC,  
YUGOSLAV FEDERAL SECRETARY FOR FOREIGN AFFAIRS:  
MONDAY, 15 JUNE 1981 AT 5.30 PM

POINTS TO MAKE

Bilateral Relations

1. Yugoslavia's international standing and key position well recognised in Britain. Value highly rôle you play in international councils and non-aligned movement.
2. Britain and Yugoslavia share similar views on many questions. Consulations particularly important during present international tensions. Much valued my own visit to Yugoslavia last autumn and talks with Mr Djuranović (Djooranovitch) and President Mijatović (Meeyatovitch). Pleased with Mr Parkinson's recent visit to Yugoslavia for trade talks. Bilateral relations very good.

East/West Relations

3. Prospects uncertain. Russians show little sign of genuinely accepting need for military balance in Europe and restraint world-wide.
4. We do not seek unremitting confrontation. Are keeping channels of communication open.

Poland

5. We have been following situation closely. Essential that Poles should be allowed to find their own solutions to their problems without external interference. How do Yugoslavs assess situation and Soviet intentions?

UK Policy in The Gulf

6. During my visit, Gulf states stressed Arab/Israel dispute is their main concern. But they have also shown awareness of threat to Gulf stemming from Soviet invasion of Afghanistan and Iran/Iraq war. Newly established Gulf Cooperation Council is a welcome development for regional stability. Gulf states primarily responsible for their own security. We would give what help we could if they asked us to do so.

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## ESSENTIAL FACTS

## GENERAL

1. 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 and Yugoslav hypersensitivity to occasional adverse comment on Yugoslavia in the British press.

## THE GULF

2. The Prime Minister visited Saudi Arabia, the United Arab Emirates, Oman and Qatar from 19-25 April.

## GULF COOPERATION COUNCIL (GCC)

3. The Heads of State of the six members of the GCC (Saudi Arabia, Kuwait, Bahrain, Qatar, UAE and Oman) held a Summit Conference in Abu Dhabi on 25/26 May and formally established the GCC. Five Ministerial Committees have been established to strengthen links in a variety of fields. Meetings at Summit and Foreign Minister level are to be held twice a year, the next one being in Riyadh in the first half of November. Despite some disagreement between Kuwait and Oman over the nature of the military threat to the Gulf and the desirability of Western involvement, the Gulf states are considering their security problems in a regional context. This might lead to some kind of common policy, though the question of how to involve other regional powers (eg Iraq) will still have to be faced.

## POLAND

4. Tension is again rising, in the run up to the Party Congress on 14-18 July. Prospect is of a reformist Congress, which could lead to a major shake up in the Polish leadership. The Russians are putting strong pressure on the Polish party to reestablish control. In a letter of 5 June to the Polish Central Committee, the Soviet Central Committee stated explicitly that Kania and Jaruzelski had failed to live up to earlier promises. Kania beat off an attack on his leadership at the Polish Party Plenum on 9 June and confirmed that the Congress would take place. Soviet patience is no doubt wearing thin and they may chose other ways



- 2 -

of exerting pressure such as economic, a Warsaw Pact Summit and possibly military manoeuvres. The indications at this stage are still that the Russians are looking for a political solution, if at all possible, without recourse to direct intervention.

VRHOVEC, JOSIP (VRHOEVETS)

Federal Secretary for Foreign Affairs (ie Foreign Minister) since 1978

Born 1926, Zagreb. Croat

Took part in the Resistance during the war and was a member of the Second School leadership of the Youth Federation in Zagreb until 1943, when he joined the Partisans. Member of Party from 1944. After the war, graduated from the Faculty of Economics and taught at the Institute of Social Sciences. From 1952 to 1969 worked as a journalist (he was a correspondent in London and Washington). Has held various leading posts in the League of Communists. In 1970 he was the editor of a booklet which contained Nikita Khrushchev's 'Secret Speech' at the 20th Party Congress in Moscow in 1956, and excerpts from some other speeches at the 22nd Congress in 1961. In his introduction to the book which was written more than two years before Khrushchev died, Vrhovec criticised attempts made in the Soviet Union to revive Stalin's reputation.

His wife spent one year doing post-graduate English study in London before their marriage. He speaks quite reasonable English.

There is considerable doubt about his tough-mindedness. Despite his intelligence, he has not so far been an enormous success as foreign secretary, and has tended to be overshadowed by his predecessor, Milos Minić, who still retains an interest and responsibility in foreign affairs.



VISIT OF THE YUGOSLAV FEDERAL SECRETARY FOR FOREIGN AFFAIRS  
15-17 JUNE 1981

BACKGROUND NOTE ON YUGOSLAVIA

INTERNAL SITUATION

1. The disturbances this spring in the ethnically largely Albanian province of Kosovo came as a rude awakening to the Yugoslav leadership as it completed its first year without Tito. The disturbances in which at least nine people were killed, seem to have been the product largely of frustrated Albanian nationalism exacerbated by economic difficulties including poor living conditions and employment prospects for the large student population. There is no clear evidence of either Soviet or direct Albanian government complicity in the disturbances. But Albanian influence in the area is strong and the Albanian government has felt obliged to give at least moral support to its fellow Albanians in the Kosovo against supposed Serbian chauvinism. For their part the Yugoslav authorities find it convenient to lay much of the blame for the disturbances on the Albanian government who make a convenient scapegoat for Yugoslavia's own failure to cope with the province's social and economic problems. Tension persists in the provinces and further unrest cannot be ruled out. But in other respects Yugoslavia has remained politically stable since Tito's death, and the leadership have repeatedly stressed their determination to maintain continuity and to follow Tito's long-established policies of socialist self-management at home and non-alignment abroad.



## THE CONSTITUTION

2. The leadership was fortunate in having had a number of years in which to operate and develop the peculiarly complex system of collective responsibility under Tito's guidance and, since the beginning of 1980 when he became ill, effectively without him. Consequently the transfer of power on his death proceeded smoothly. A complex arrangement designed by Tito himself now provides for a collective leadership and for the rotation, annually or biennially, of the majority of the key state and party posts, including the Head and Deputy Head of State and the Prime Minister. The purpose of rotation is to avoid competition for the top positions and the domination of the country by one nationality. No fixed order of rotation exists. But choice is in practice considerably circumscribed by the need to distribute Party and State leadership posts equitably among the nationalities. <sup>Authority</sup> /is exercised jointly by the entire collective leadership. How long this will continue remains to be seen. But it seems likely that eventually some of the stronger personalities within the collective leadership will predominate and exercise greater authority.

3. The collective Presidencies are working reasonably well. But the absence of Tito's dominant personality has inevitably left a vacuum, and the country's grave economic problems and possible national conflicts may yet put the unity of the new leadership to serious test. Their main task is to surmount, without the aid of Tito's prestige, the contradictions of a system which attempts to reconcile far-reaching economic and political decentralisation with the constraints of a one-party system.





## THE ECONOMY

4. Yugoslavia's most immediate worry is its economy. High investment and domestic demand coupled with low productivity and uneconomic wage levels have created serious balance of payments problems. Tito's prolonged final illness delayed decisive action and the stabilisation programme which was eventually introduced in mid-1980, came as too little, too late. The federal authorities were moreover reluctant to impose a sweeping programme which would cut across 'self-management' and encroach further on the republics' control of their economic affairs. The programme has therefore had little success.

5. Inflation is now running at an annual rate of 50% and rising. The Government's present policies which include lax fiscal discipline seem ill-designed to bring that rate down. In turn the rise in the price of Yugoslavia's exports has had serious implications for the balance of payments. In an effort to improve Yugoslavia's international competitiveness the dinar was devalued by 30% in 1980; but with rising inflation the gain in competitiveness was dissipated within nine months.

6. 1980's current account deficit was \$2.2 billion, \$1.5 billion less than in 1979. The planned deficit for 1981 is \$1.8 billion. But the deterioration in Yugoslavia's trade account could raise the final deficit by perhaps up to 100%. The Yugoslavs should be able to finance this using a combination of official and private credits, by running down reserves and perhaps by allowing payment arrears to accumulate. But by 1982 Yugoslavia's financial position will be extremely weak and a request for a debt rescheduling seems likely. Current total debt to the West is \$17 billion (estimate at end of 1980).



7. Yugoslavia's leaders have privately pointed out the danger to their balancing act between East and West of their increasing indebtedness to the West and increasing dependence on their trade with the CMEA countries which does not involve hard currency payments.



## YUGOSLAV FOREIGN POLICY

1. Yugoslavia's foreign policy is based on the need to maintain independence from the Soviet Union. To this end the Yugoslavs maintain a balance in their relations with East and West, and vigorously pursue their guiding principle of non-alignment in all aspects of their foreign relations. But since Tito's death, the new leaders' great concern with Yugoslavia's internal affairs and the absence of a leader of Tito's stature have inevitably combined to diminish the international rôle which Yugoslavia formerly played in, for example, the non-aligned movement.
2. Since Tito's death, there have been no discernible shifts in Yugoslav foreign policy. The careful balancing act between East and West has been maintained although there has perhaps been a slight tilt towards the West. Relations with the Soviet Union remain cool but correct. The Yugoslavs have also tried to play down their differences with Bulgaria which for many years they have accused of harbouring territorial ambitions towards Yugoslav Macedonia, a charge the Bulgarians deny. But this long-standing squabble flares up from time to time.
3. The Soviet Union no doubt realises that by exerting overt political or military pressures on Yugoslavia it would both reinforce Yugoslavia's unity and could provoke a major East-West confrontation. It is therefore likely to employ subtler methods in the hope of realising its ambition of drawing Yugoslavia back into the 'socialist community'. The Russians may thus be expected to woo the new leadership over the next few years, for example by devoting more attention to economic relations. In the longer run



they may seek to induce political instability by exploiting national divisions within the country, particularly if these opened up further as a result of an economic crisis. But there is for the moment no evidence of Soviet meddling.

Eastern European and Soviet Department  
FCO

10 June 1981



YUGOSLAVIA - BASIC STATISTICS

1. Area and Population

- (i) Land Area: 225,804 sq kms
- (ii) Population:
  - (a) 22,110,000 (June 1979)
  - (b) Average annual growth rate 1%

2. Economic

- GNP (a) Total (1978) \$962.8 billion
- (b) Average annual growth rate 7% (1976-79)
- (c) Per capita (1978) \$2,140

3. Defence

Total armed forces: 259,000 (145,000 conscripts)  
Defence budget (1979): \$2.81 billion

4. <u>Anglo-Yugoslav Trade</u>	1977	1978	1979	1980 (£ million)
UK Imports	41	38	51	57
UK Exports	175	160	174	191
UK Surplus	134	122	123	134

5. About 300,000 British tourists visit Yugoslavia each year.



PROGRAMME FOR MR VRHOVEC

MONDAY 15 JUNE

Arrive

Calls on Lord Carrington, Mr Nott and the Prime Minister

Dinner offered by Lord Carrington

TUESDAY 16 JUNE

Talks with Mr Hurd and Lord Carrington

Meeting with Yugoslav community

WEDNESDAY 17 JUNE

Call on Opposition

Depart

VLB

Yugoslavia

10 June 1981

BF 14.6.81 for  
miles

Visit of the Yugoslav Federal Secretary  
for Foreign Affairs: 15-17 June 1981

I am writing to confirm that, as I told you on the telephone, the Prime Minister will be prepared to see Mr. Vrhovec at 1730 on 15 June.

MICHAEL ALEXANDER

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

Sp



Foreign and Commonwealth Office

London SW1A 2AH

*Richardson*

9 June 1981

*Dear Michael,*

Visit of Yugoslav Federal Secretary for  
Foreign Affairs: 15-17 June

You will see from Belgrade telegram number 82 (copy enclosed) that very late in the day the Yugoslav Foreign Minister has announced his intention of postponing his arrival in London by 24 hours to 15 June.

We are nonetheless inclined to do our best to accommodate him as there will be no opportunity to re-instate the visit before the end of our EC Presidency. At a time when the Yugoslavs are adjusting to the internal and external strains of the post-Tito era there is a greater value than usual in underlining at a high level our interest and support for them.

Mr Vrhovec's new ETA is 1220 on 15 June. This is after the time arranged for his courtesy call on the Prime Minister. I am therefore writing to ask whether, in spite of the inconvenience, the Prime Minister might nevertheless agree to postpone the call to say 5.30 on 15 June.

*Yours ever,*

*Francis Richards*

(F N Richards)  
Private Secretary

M O'D B Alexander Esq  
10 Downing Street



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FM BELGRADE 041500Z JUN 81

TO IMMEDIATE F C O

TELNO 82 OF 04 JUN 81

MY-TELNO 75: VRHOVEC.

1. THE FOREIGN MINISTER HAS JUST TOLD ME HE IS UNABLE TO COME TO LONDON ON SUNDAY 14 JUNE BUT WILL ARRIVE ON MONDAY 15 JUNE BY JU 210 AT 1220 HRS. HE COULD REMAIN IN LONDON, IF WE WISH, UNTIL WEDNESDAY 17 JUNE LEAVING BY JU 211 AT 1320 HRS.

2. VRHOVEC EXPLAINED THAT HIS DEPARTMENT HAD AGREED ON THE PREVIOUS DATES WITHOUT CONSULTATION WITH HIM. HE REGRETTED IT WAS IMPOSSIBLE FOR HIM TO LEAVE BELGRADE ON THE SUNDAY. I SAID THIS WAS UNFORTUNATE AS PROGRAMME HAD ALREADY BEEN ARRANGED ON THE BASIS OF THE EARLIER DATES GIVEN TO ME BY HIS DEPARTMENT AND THAT, IF HE DID NOT REACH LONDON ON 14 JUNE, IT MIGHT NOT BE POSSIBLE FOR HIM TO MEET THE PRIME MINISTER. WE LAID MUCH STORE ON THIS MEETING. I ALSO SAID THAT YOU HAD A NUMBER OF OTHER IMPORTANT VISITORS IN LONDON AT THIS TIME. I STRONGLY URGED VRHOVEC TO TRY TO COME TO LONDON ON 14 JUNE. VRHOVEC SAID HE WAS SORRY BUT IT WAS QUITE IMPOSSIBLE FOR HIM TO DO SO.

3. I ASKED VRHOVEC IF HE WOULD RECEIVE ME NEXT WEEK TO DISCUSS HIS VISIT. HE SAID HE WOULD TRY. IT WOULD BE HELPFUL IF YOU COULD LET ME HAVE A REVISED PROGRAMME EARLY NEXT WEEK.

BOLLAND

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MR BULLARD  
MR FERGUSSON

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FM F C O 301033Z APR 81.

TO PRIORITY BELGRADE  
TELEGRAM NUMBER 53 OF 30 APRIL.

OUR TELNO 39: VRHOVEC.

1. FOR YOUR OWN INFORMATION, THE WEEK BEGINNING 14 JUNE WILL BE EXTREMELY BUSY. STREET (AUSTRALIAN FOREIGN MINISTER) WILL BE HERE FROM 12 UNTIL AT LEAST 18 JUNE, AXEN (GDR PARTY SECRETARY FOR FOREIGN AFFAIRS) FROM 15-17 JUNE AND CZYREK (POLISH FOREIGN MINISTER) ON 18 AND 19 JUNE. WE THEREFORE HOPE THAT THE BULK OF VRHOVEC'S PROGRAMME CAN BE CONCENTRATED ON 15 JUNE, WHICH WOULD REQUIRE HIM TO TRAVEL ON SUNDAY, 14 JUNE. YOU SHOULD DO YOUR BEST TO SECURE THIS.

2. PLEASE PROPOSE PROGRAMME AS FOLLOWS:-  
MONDAY 15 JUNE.

0945-1115	TALKS WITH ME.
1130-1200	CALL ON THE PRIME MINISTER.
AFTERNOON	CALLS OUTSIDE THE FCO.
EVENING.	DINNER GIVEN BY ME.

TUESDAY 16 JUNE.

MORNING	FURTHER CALLS, OR SIGHT-SEEING, AS DESIRED.
1320	DEPART ON JU 211.

*Noted in diary  
C. 3/15  
Caroline  
This is the Yugoslav Foreign Minister.  
Ch*

3. IF VRHOVEC WISHED TO STAY LONGER WE COULD ARRANGE SOME APPROPRIATE ENTERTAINMENT FOR THE EVENING OF 16 JUNE.

4. IT WOULD BE USEFUL TO HAVE EARLY REPLIES ON THE FOLLOWING POINTS:-

- A) IS MRS VRHOVEC LIKELY TO COME QUERY
- B) WOULD THE PARTY PREFER TO STAY WITH THE AMBASSADOR OR IN A HOTEL QUERY.
- C) DOES VRHOVEC HAVE ANY SPECIAL REQUESTS FOR OUTSIDE CALLS AND, IF DESIRED, SIGHT SEEING QUERY.
- D) HOW MANY OFFICIALS WILL ACCOMPANY HIM QUERY.

CARRINGTON.

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PS/LPS  
PS/MR BLAKER  
PS/PUS  
MR BULLARD  
MR FERGUSSON

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*Yugoslavia*

10 DOWNING STREET

*From the Private Secretary*

1 April, 1981.

The Prime Minister has seen your letter to me of 26 March about the visit to this country of Mr. Vrhovec, Foreign Secretary of Yugoslavia. The Prime Minister would be willing to see Mr. Vrhovec for a brief courtesy call at 1130 on Monday, 15 June.

M. O'D. B. ALEXANDER

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

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*1/1*

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Prime Minister.

(1)

The two days in question are relatively free. Agree to give the Foreign Minister 30 minutes?

Foreign and Commonwealth Office

London SW1A 2AH

26 March

Dear Michael,

Ans 28/3

Yes no

Lord Carrington has invited Mr Vrhovec, the Yugoslav Foreign Secretary, to visit the United Kingdom for talks on 15 and 16 June. The Yugoslavs will certainly press for the usual courtesy call on the Prime Minister.

A call in this case would be particularly appropriate as a means of emphasising to the Yugoslavs the importance we attach to maintaining the momentum created by the Prime Minister's successful visit to Yugoslavia last year, and we should like to present it to the Yugoslavs in this light. Mr Vrhovec was away during that visit and that is an added reason for having a talk with him now. The call would not need to be long, and Lord Carrington hopes that the Prime Minister might agree to fit it in on one of these dates.

Yours ever,

Francis Richards

(F N Richards)  
Private Secretary

M O'D B Alexander Esq  
10 Downing Street  
LONDON  
SW1

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