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Foreign and Commonwealth Office

London SW1A 2AH

Michael - I have amended
the PM's copy, but you
may wish to draw her
attention to this
important revision.

19 September 1980

Dear Michael,

Gillian 19/9.

Prime Minister's visit to Yugoslavia:
Arms Sales

Last minute developments make it necessary to amend a couple of points in the brief on Defence Matters (PMVC(80)13).

The fourth of the Points to Make was based on our understanding that the FRG and Italy, our partners in the Tornado/RB199 project, were unlikely to veto our hope eventually to sell the RB199 aeroengine to Yugoslavia and would not object to our supplying marketing information now. Italy has concurred in our position, subject to German concurrence. But the Germans have now raised unexpectedly strong objections to the idea of selling the engine itself and have opposed the releasing of information which might raise the Yugoslavs' hopes.

This is disappointing and we are considering how to try to change the Germans' minds. But we shall not be able to do so before the Prime Minister arrives in Belgrade. We therefore need to alter the rather forthcoming line in the fourth Point to Make. The Prime Minister might instead take the following line:-

"Well aware of your interest in RB199 engine. Take a positive view on the question. But this is a collaborative project and we shall need to carry our German and Italian partners. We are discussing the matter with them."

On a lesser point, there has in the last two days been a development on the question of offset purchases of Yugoslav military equipment by the UK (fifth Point to Make). Agreement has been reached on a new Anglo-Yugoslav mechanism for discussing this in future. Instead of the last sentence of this Point to Make the Prime Minister could say:

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"HMG concerned to see improvements in this area. I understand that a new mechanism has been established to discuss the question. Must see how well this works".

I am copying this letter to Brian Norbury in the MOD.

Yours etc

Paul

(P Lever)
Private Secretary

Michael Alexander Esq
10 Downing Street
London

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11-9 SEP 1980

