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Prime Minister

Lg.

Paul

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Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

Private Secretary to the
Prime Minister
No 10 Downing Street
London SW1

21 April 1980

Dear Michael,

A handwritten signature in blue ink, appearing to be 'Paul'.

ZIMBABWE'S DEBTS

The Chancellor has asked me to let you know that a preliminary round of discussions with Zimbabwe representatives on Zimbabwe's debts to the UK is expected to start in London in the week beginning 5 May.

The Government of Zimbabwe owes the United Kingdom about £100 million, a debt incurred by successive administrations in Salisbury up to the declaration of UDI in November, 1965. Mr Mugabe has undertaken to honour this debt. Agreement on it is a crucial element in the establishing of Zimbabwe's credit-worthiness. The debt falls into two categories. First, there are debts owed to HMG arising out of development loans, loans by the Commonwealth Development Corporation and payments under guarantee of Southern Rhodesia borrowing from the IBRD. These account for about half the total. The other half is owed to the United Kingdom resident holders of Rhodesian government stock issued on the London Capital Market.

Clearly, Zimbabwe cannot pay all this at once. There will have to be some re-scheduling of payments. We cannot at present judge how much debt relief will be required. It will be necessary to make some assessment of Zimbabwe's capacity to repay over a period. There are also some inherent complications:-

i. We have to ensure that the treatment of governmental and bondholders' claims is equitable as between the two categories.

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ii. It will be necessary to agree upon appropriate treatment of matured and of 'live' Rhodesian Government stocks.

iii. The debt arose during the tenure of office of a totally different regime. Should interest be payable upon sums outstanding over the whole period since repayments fell due (sometimes referred to for convenience as 'compensation' interest)?

iv. Some claims are pretty 'political' (viz payments by HMG to 'loyal' public officials, who left Salisbury on UDI; and payments for Hunter aircraft ordered before UDI by the Rhodesian government.

A further complication is that the South African Government lent the previous regime some £250 million. We are not clear what Mr Mugabe's intentions are about repayment; he has apparently been offered attractive inducements. But we could not accept that South Africa should be treated more favourably than our own pre-UDI debt.

Agreement will take time to reach. There is no possibility of concluding the negotiations at the first round of meetings. The aim at this round will be to clear the ground - to agree on the extent of the debts, the procedures for arriving at a settlement, and how to achieve consistency of treatment.

The Treasury will be in the lead for the UK at these talks, in close consultation with the Foreign and Commonwealth Office and other Departments. The participants from Zimbabwe will probably be the Permanent Secretary for Finance and the Deputy Governor of the Reserve Bank in Salisbury. The Council of Foreign Bondholders (CFB) will represent the Bondholders; and the Bank of England (in their capacities as Trustees of some of the Sinking Funds attached to Rhodesian stocks, and as registrar of all but one of them) will also take part. Zimbabwean interests in the market stocks may be represented on their behalf by Messrs Morgan Grenfell.

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We are making arrangements to ensure that the discussions between the Zimbabwe representatives and the CFB (with whom we are in touch) proceed in parallel with those on the debt to HMG so that in due course Ministers can take a view about the whole picture. In the meantime the Chancellor will keep his colleagues closely informed on the progress of the talks; the issues involved will clearly be sensitive.

I am sending copies of this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Secretary of State for Trade the Lord President of the Council and the Governor of the Bank of England.

Yours ever,

MAH

M A HALL
Private Secretary

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