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PRIME MINISTER

MEETING WITH MR. DJURANOVIC

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

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

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

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

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

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

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- East-West Relations: you will want to ask him about Gorbachev's recent visit to Yugoslavia and any points of particular interest which emerged. You will want to give him an account of the recent NATO Summit.
  - EC/Yugoslavia: The Yugoslav Prime Minister wrote to you last year urging improved treatment for Yugoslavia by the EC. New and more favourable trade and financial arrangements have now been negotiated. You will want to claim some credit for these. But if the Yugoslavs want better access to the EC market in the longer term, they must be prepared to offer greater reciprocity (which in turn means that they must work towards a more market-oriented economy).
  - Zagreb Claims: you will recall the mid-air collision between a Yugoslav and British aircraft over Zagreb in 1976. The Yugoslavs are still refusing to accept liability for this: indeed their courts recently ruled that the British Airways claim for £12 million was time barred. British Airways have pressed for a review of this decision, but no reply has yet been received. You need to speak to him quite severely on this, making clear that it represents a real political problem in our relations. We would be ready to work for a 'political' (i.e. negotiated) settlement but what we cannot accept is blank refusal to accept our claim. You very much hope that we can tell the press after the meeting that some progress has been made towards settling this matter.

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

- Activities of Croatians in the United Kingdom. We have no evidence that they are up to anything illegal.
- Bilateral Co-operation against terrorism: we are not keen, because they will simply bug us to do something about the Croatians. We are very happy to work with the Yugoslavs in various multilateral bodies.
- Light Combat Aircraft Project: BAe and Rolls Royce are involved in this. But there are various pieces of advanced technology which we are not prepared to release to the Yugoslavs. We cannot change that decision.
- Trajkovski Twins: This is a family case where a British mother has obtained a Court Order denying access to her children by their Yugoslav father (who earlier kidnapped them and took them to Yugoslavia). If Djuranovic raises this, you should say that it is not a government matter. It is open to the father to contest the Order in a court in this country.
- Invitation to you to visit Yugoslavia. If he invites you, you will want to express appreciation but say that we need to settle our bilateral problem ie the Zagreb claim before you could consider another visit.

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

C. D. P.

C. D. POWELL

18 March 1988

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