10 DOWNING STREET
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From the Private Secretary 13 April 1988

YUGOSLAVIA: ADRIA AIRWAYS

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

(C. D. POWELL)

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

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the department for Enterprise

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

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

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Private Secretary to the
Prime Minister
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Your ref
Date 11 April 1988

Yes mt

Dear Charles,

YUGOSLAVIA : ADRIA AIRWAYS

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

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

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

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

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

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

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

Yours ever

Stephen Ratcliffe

STEPHEN RATCLIFFE
Private Secretary

the Enterprise initiative

Yugoslavia; Relations Jan 80.

CCPC

SILWBJV

DRAFT LETTER FOR PRIME MINISTER

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

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

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

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

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

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

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

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YUGOSLAVIA: Relations Jan 80