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Yugoslavia



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

14 January 1983

The Rt Hon Francis Pym MC MP
Foreign and Commonwealth Office,
Downing Street, LONDON SW1

N. S. P. D.

A. J. C. 14/1

Dear Francis

YUGOSLAVIA

Thank you for your minute of 13 January.

I accept that the circumstances are quite exceptional, and justify an increase in our offer at next week's meeting of creditors, and that the cost of this should, equally exceptionally, be a charge to the 1982-83 Contingency Reserve. I also agree with you that it would be wrong to ask ECGD to extend more medium term credit than can be justified on commercial grounds.

As regards the component parts of your proposal, I agree that part of our offer should take the form of a financial credit which would act as a take-out for the \$30 million share which I understand has been provisionally assigned to the Bank of England for their participation in the proposed BIS bridging loan to Yugoslavia. Our officials will need to discuss the details of this urgently with the Bank of England. The public expenditure impact of this proposal would be easier to digest if disbursement were in the current financial year rather than in 1983-84.

I am less convinced by your proposed \$65 million commercial credit. This would mean a total increase in our offer of \$100 million, which is surely excessive. It would be difficult to enforce conditions about tying the money to UK exports unless we were prepared to hold back disbursement until the next financial year, and on public expenditure grounds I would oppose that. As you yourself say, what Yugoslavia needs are financial credits, not commercial credits to finance an increase in the trade deficit. Your proposal would in fact give the Yugoslavs much of the benefit of a financial credit, but in negotiating terms you would only be getting value for a commercial credit.

I could agree to an increase in our offer of financial credits by, say, \$60 million, of which \$30 million would be for the Bank of England/BIS take-out. I believe this ought to be adequate for your

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purposes and that this should be our opening and, I would hope, final position at next week's meeting. But in view of the uncertainties of the negotiating position I would not object to your proposal being kept in reserve for use as a fallback position if necessary. In that event, the financial element of our offer would of course be reduced to \$35 million.

Copies of this letter go to the other recipients of your minute.

GEOFFREY HOWE

A handwritten signature in dark ink, appearing to be "G. Howe", written over a horizontal line.

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