

PREM 19/1534

PART 2.

535

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~~SECRET~~

CONFIDENTIAL -ING

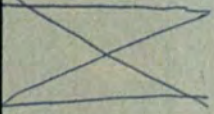
UK / HUNGARIAN RELATIONS.

PM'S VISIT TO HUNGARY 2-4 FEBRUARY 1984
(POLICY)

HUNGARY

PE1: FEBRUARY 1981

PE2: FEBRUARY 1984.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
8.2.84.		15.2.85					
13.2.84		4.3.85.					
15.2.84		7.3.85					
2.3.84		15/5/85.					
5.3.84		15/4/85					
12/3/84.		17/4/85					
15.3.84		16/9/85.					
19.3.84.		7.10.85					
4.4.84		28.10.85					
30.4.84		31.10.85					
4.5.84		7.11.85					
9.7.84		26.11.85					
11/7/84.							
17.7.84		PART ENDS					
21.9.84							
26.9.84							
8.10.84							
29.10.84							
30.10.84.							
11.12.84							
2.1.85							

PREM 19/1534



cc: Sir P. Craddock

089

10 DOWNING STREET

From the Private Secretary

16 January 1985

RELATIONS WITH HUNGARY

The Prime Minister was told last night in the House by a Member of her Party - she cannot for the moment remember which - that he had recently been in Hungary and had been given the message that Kadar would very much like to be invited to visit the United Kingdom this year. Apparently it was felt that Gorbachev's visit here had made it easier for East European leaders to visit Britain. The Prime Minister mentioned this to the Foreign Secretary this morning.

BF | You might check to see if we can work out which Member of Parliament it was, in which case the Foreign Secretary may like to follow it up with him. The Prime Minister certainly regards it as a significant and important suggestion which, if verified, we ought to take up. I should be grateful, therefore, if you would let me know of further developments.

Charles Powell

Colin Budd, Esq.,
Foreign and Commonwealth Office.

DG2 ABM

CONFIDENTIAL

R E S T R I C T E D

JWRAP1



bPC

10 DOWNING STREET

From the Private Secretary

11 December 1984

VISIT OF THE HUNGARIAN FOREIGN MINISTER

Thank you for your letter of 10 December about the visit of the Hungarian Foreign Minister in March next year.

BAH
The Prime Minister agrees to see him at 9.45 a.m. on 7 March.

(C.D. POWELL)

L.V. Appleyard, Esq.,
Foreign and Commonwealth Office.

R E S T R I C T E D

✓

9.45 on
7 March

cefc

①



Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

You have already devoted
a great deal of time to
Hungarians: and the timing
is very difficult with the
Weizmann speech on 6 March.

10 December 1984

Will do
not

Agree not to
see him?

CDP 10/12

Dear Charles,

Visit of the Hungarian Foreign Minister

Mr Peter Varkonyi, the Hungarian Foreign Minister, will be visiting Britain at the invitation of the Secretary of State from 5-7 March 1985. The Hungarians have asked if Mr Varkonyi could call on the Prime Minister.

The Prime Minister met Mr Varkonyi during her visit to Hungary last February. She has also met in London this year the Foreign Trade Minister, Mr Veress (April) and Central Committee Secretary Mr Szuros (October). The Hungarians have set great store by these meetings. If the Prime Minister were able to receive him, a short call by Mr Varkonyi on the Prime Minister would add greatly to the success of his visit, reinforce the good Anglo/Hungarian relationship and continue the momentum of high level East/West contacts. But Sir Geoffrey Howe does not consider that the Prime Minister should feel obliged to see him if the call is difficult to fit into her programme.

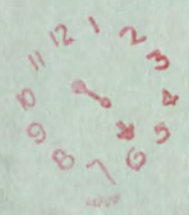
Mr Varkonyi, who speaks excellent English, arrives late morning on 5 March and departs mid-morning on 7 March.

Yours ever,
Len Appleyard
(L V Appleyard)
Private Secretary

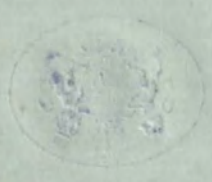
C D Powell Esq
10 Downing Street

for [unclear]
[unclear]

10 DEC 1984



[unclear]



THE NATIONAL ARCHIVES
College Park, Maryland

SUBJECT
cc Matter.

CONFIDENTIAL



FIVE

SAH AEG

10 DOWNING STREET

From the Private Secretary

30 October, 1984

Dear Colin

Meeting between the Prime Minister and Mr. Matyas Szuros
at 0930 on 30 October at 10 Downing Street

The Prime Minister received Mr. Matyas Szuros, Secretary of the Central Committee of the Hungarian Socialist Workers Party this morning. Mr. Szuros was accompanied by the Hungarian Ambassador. Mr. Unwin, H.M. Ambassador at Budapest, was also present.

Mr. Szuros said that he brought cordial greetings to the Prime Minister from Mr. Kadar and Mr. Lazar. Mr. Kadar recalled the Prime Minister's visit to Budapest with pleasure. He had expressed great concern about the bomb attack in Brighton. Such methods were utterly to be condemned. The Prime Minister said that she had vivid memories of her visit to Hungary and of the warmth of the Hungarian people. She had had a long meeting with Kadar in which both of them had spoken freely. She had also had useful talks with Lazar and Marjai, in which the latter had put forward his demands in his inimitable style.

The Prime Minister invited Mr. Szuros to tell her about progress with economic reform in Hungary. Mr. Szuros said that there were no pressing problems in the economy. Economic activity had picked up this year and industrial production had grown by 4 per cent in the first six months. This was unlikely to last for the whole year but overall growth should be more than 3 per cent. There had been an extremely good harvest with agricultural production sharply up. The Hungarian economy had a lot of ground to make up compared with Western European countries. As the Prime Minister would have noticed, there was general satisfaction in Hungary with living standards, though also an ambition for a better life.

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Mr. Szuros continued that he would like to raise the subject of bilateral relations between Britain and Hungary. The Prime Minister's visit had roused great interest about Britain in Hungary. Indeed, he would say that the visit had been of "historic significance". Political relations were now characterised by a good atmosphere. He hoped that political contacts could be developed further. He was particularly grateful for the invitation to him for what was his first visit to Britain and would like to thank H.M. Ambassador for all the efforts made to give him a good programme. He recalled the Chinese proverb: "it is better to see something once than hear about it a hundred times". He saw scope for development of trade relations and Hungary would welcome inward investment. In the cultural sphere, they were also looking forward to the visit to the Royal Ballet in April next year. Overall, Britain could count on Hungary as a correct partner, keen to develop dialogue and contacts. Hungary would follow its own well-defined line, and would not be thrown off course whatever elements or factors might appear. There was no alternative to peaceful dialogue.

The Prime Minister said that there was also a role for Britain and for Hungary in the wider East/West context. Hungary's relations with the Soviet Union and other East European countries were, of course, special: so were ours with the members of the Alliance. We were well aware that these relations had to be handled sensitively. She thought the present situation offered opportunities in East/West relations. In the wake of the United States presidential elections, there would be an opportunity for a fresh start. We were also at a crucial point in the spiral of technological development of new weapons. There was an opportunity to prevent the development of high technology weapons in space which would only divert resources badly needed for domestic purposes. It was important to get agreement to limit the development of such weapons. The generation in power in the Soviet Union had direct experience of the suffering of war and were therefore particularly anxious to avoid another one.

The Prime Minister continued that she saw possibilities for genuine negotiations. The difficulty was to convince the Soviet Union and some East European countries that the United States was sincere in wanting a lower level of armaments. She had been disappointed that Herr Honecker had been prevented from visiting the Federal Republic. This had put the Soviet Union in the worst possible light in the West. It was essential to develop a basis of confidence and trust. She had felt that such a basis had been created in her talks with Kadar and others in Hungary. Such confidential exchanges could play an important role in creating the conditions for a wider dialogue. The

relationship between Hungary and the European Community could also be important. She knew from her contacts with Chancellor Kohl and Signor Craxi that there was a will to help develop this relationship.

Mr. Szuros agreed that Britain and Hungary should continue to build their contacts. He hoped that these could be widened to embrace other East European states as well. If a network of contacts could be established among small and medium-sized countries in Europe, he believed that this could have a significant impact upon the superpowers. The superpowers tended to be preoccupied with each other. There was also an element of inertia in their relations stemming from their very size and power. It was particularly urgent to make progress in the disarmament field, notably on chemical weapons and in the nuclear arms talks in Vienna. He entirely agreed with the Prime Minister about the importance of establishing an atmosphere of confidence.

Mr. Szuros continued that Hungary detected some strengthening of support for reform in the Soviet Union. Experiments had started in the economy. He believed that, after the United States presidential elections, the Soviet leadership would be ready to take steps towards rapprochement. The postponement of Herr Honecker's visit should be seen as an exceptional case, stemming from certain unhelpful statements which had been made. Since it was a private talk he would say that Hungary did not always agree with each and every method used. But he was encouraged that the visit had only been postponed, not cancelled. There were forces - he implied in both East and West - who had reservations about too rapid a rapprochement between the two Germanies. There were historical and psychological reasons for these worries. Hungary had been more relaxed and believed that a mini-detente between the two Germanies could benefit Europe as a whole. But the first essential step was to get to a position of full equality between the two Germanys. This could not exist while the FRG claimed to speak on behalf of all Germans. There were natural fears of German reunification. This was an unrealistic ambition at present, though it could be thought about for the future.

The Prime Minister said that her generation was well aware of that difficulty. Evidence of growing German awareness had caused some stir in Western Europe. The problem had to be handled very carefully. She would like to repeat her conviction that it was very important for countries such as Britain and Hungary to keep in touch. Contacts once established could be useful in a crisis. Mr. Szuros agreed but emphasised that such contacts should not be directed against the superpowers. The Prime Minister agreed. We were devoted friends of the United States. But

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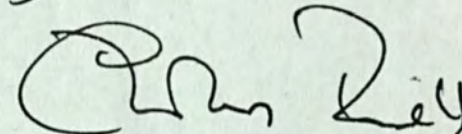
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The Prime Minister concluded that she hoped that Mr. Lazar or even Mr. Kadar would one day come to Britain. They would be very welcome. Mr. Szuros said he would convey this thought to them. He thanked the Prime Minister warmly for finding the time to see him.

The meeting ended at 1015.

The Prime Minister was impressed by Mr. Szuros and glad to have seen him. She found him easy to talk to, sophisticated and reasonably forthcoming - but is under no illusions but that everything she said will end up in Moscow.

I am sending copies of this letter to Richard Mottram (Ministry of Defence) and to Richard Hatfield (Cabinet Office).

Yours sincerely


C. D. POWELL

Colin Budd, Esq.,
Foreign and Commonwealth Office
CONFIDENTIAL

SUBJECT
cc Master.

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10 DOWNING STREET

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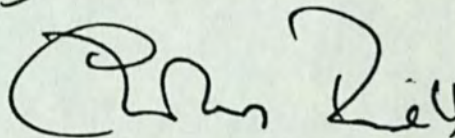
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Yours sincerely


C. D. POWELL

Colin Budd, Esq.,
Foreign and Commonwealth Office
CONFIDENTIAL

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PRIME MINISTER

MEETING WITH MR. SZUROS, 30 OCTOBER

Said to be the most important Hungarian to visit the UK since the War. Was once Ambassador in Moscow, which means that while he may still be frank in what he says, anything you say is likely to be reported back to the Kremlin.

He will be accompanied by the Hungarian Ambassador (new - you have not met him) and an interpreter. Peter Unwin, our Ambassador in Budapest, will also be present.

You have read the brief but might like to glance at the attached telegram from Budapest.

FLAG A

I suggest the White Drawing Room. There will be photographers upstairs.

Card attached.

CDP

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CPC ①



Foreign and Commonwealth Office

London SW1A 2AH

29 October 1984

ms

Prime Minister

*CDP
29/10*

Dear Charles,

Call by Mr Matyas Szuros, Secretary of the Central Committee of the Hungarian Socialist Workers' Party, on the Prime Minister on Tuesday, 30 October at 9.30 AM

I wrote to you on 25^{with CP} October with briefing for the call by Szuros on the Prime Minister.

HM Ambassador Budapest has since reported a recent conversation he has had with Szuros. The latter seems to have in mind the possibility of a visit to Britain by Kadar, and may hint at this during his call.

We have not been able to consult the Secretary of State but suggest that if the subject is raised the Prime Minister should give a positive response, welcoming the principle of a visit but without giving any commitment as to timing. Kadar has visited both France and the FRG.

The Hungarians may also have in mind a visit by Prime Minister Lazar, returning the Prime Minister's visit to Hungary in February, some time in 1985/86.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

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Foreign and Commonwealth Office

London SW1A 2AH

25 October, 1984

Prime Minister

CDP
26/x.

Dear Charles,

Call by Mr Matyas Szuros, Secretary to the Central Committee of the Hungarian Socialist Workers' Party, on the Prime Minister on Tuesday 30 October at 9.30 am

The Prime Minister has agreed to see Mr Szuros, who will be in London as the guest of HMG, at 9.30 am on 30 October.

As the Secretary of the Central Committee responsible for foreign affairs, Mr Szuros is more influential than the Hungarian Foreign Minister. His visit provides a rare opportunity to carry forward our dialogue with Eastern Europe at a senior Party, rather than Government, level. It is likely that what is said to Mr Szuros will find its way to Moscow.

The Prime Minister may wish, therefore, to stress the genuine desire of the West to improve relations with the Soviet Union and to resume arms control negotiations. Mr Szuros should be able to give some insights into the present leadership situation in Moscow and to describe how Hungary sees the way ahead in East Europe's relations with the West. He might also be asked how Hungary reads the cancellation, at Soviet insistence, of the Honecker and Zhivkov visits to the FRG in September.

In the 10 months since the Prime Minister's visit to Budapest, life has been difficult for Hungary both politically and economically. With Andropov, even on his sick bed, Hungary hoped for preferment. The accession of Chernenko, and the down turn in East/West relations, forced Hungary to join Warsaw Pact criticism of the United States. But the fact that Hungarians received the Heads of Government of the three INF basing countries (Britain, Italy and the FRG) in the first six months of 1984 and that Kadar has just been to France, demonstrates that Hungary wants to stay in business with the West. Despite their determination to continue with economic reform, about which Mr Szuros may speak, the economy is stagnant, with a good deal of grumbling about declining living standards. The initiative with the European Community has run into the sand - Hungarian demands became unrealistic and inflexible - but is not dead.

CONFIDENTIAL



The Prime Minister did not meet Mr Szuros during her visit to Hungary. He understands English but will be accompanied by his interpreter, Miss Kovacs. I enclose a personality note on Mr Szuros, a copy of his programme and a telegram from Budapest which sets the scene for his visit.

FLAG B /
FLAG C /
FLAG A /

I am copying this letter and enclosures to the Cabinet Office.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

B

SZUROS, MATYAS (Sir-ush)

Secretary to the Hungarian Socialist Workers' Party Central Committee. Member of the Central Committee. The Party's senior figure, under Kadar, responsible for the formulation of Hungarian foreign policy.

More so than previous incumbents of his present post, he has been much in evidence since his promotion to Central Committee Secretary. He has made a number of major statements on foreign policy; and has broken new ground in the way he has allowed/encouraged public discussion of foreign policy questions (eg in answering questions in a lengthy radio "phone-in" programme in January 1984). He has been an articulate advocate of the thesis that each socialist country should take account of specific national characteristics in formulating its foreign policy. Under his direction, the Central Committee Foreign Affairs apparatus has clearly demonstrated that it plays a major role in determining Hungarian foreign policy - though his own interests and influence seem to go wider than merely foreign affairs.

Biographical Details

Born 1933. Party member since 1951. Graduated from Moscow State Institute of International Relations. Worked in Hungarian Ministry of Foreign Trade 1958-62; and in East Germany 1962-65. Member and subsequently Deputy Director of International Department of HSWP Central Committee 1965-75. Ambassador in East Germany 1975-78. Member of Central Committee from April 1978. Ambassador to USSR 1978-82. Head of Foreign Affairs Department of Central Committee from June 1982 to July 1983, when he was promoted to present position.

Married with two children. He speaks Russian, German and some English, though he prefers to use an interpreter for substantive discussion.

C

VISIT OF MR MATYAS SZUROS, SECRETARY OF THE CENTRAL COMMITTEE
OF THE HUNGARIAN SOCIALIST WORKERS' PARTY: 28-31 OCTOBER 1984

Sunday 28 October

- 1040 - Arrive
pm - Sightseeing
Evening - Concert at the Royal Festival Hall

Monday 29 October

- 0830 - Breakfast with the Deputy Editor and Foreign
Editor of 'The Economist'
1030 - Depart for Oxford
1215 - Tour of Brasenose College followed by lunch and
discussion
1530 - Visit to Bodleian library to see exhibition of
rare Hungarian Medieval books
1945 - Attend performance of 'Cats' at the New London
Theatre, Drury Lane

Tuesday 30 October

- 0930 - Call on Prime Minister
1200 - Meeting with Mr Rees
1300 - Lunch given by Mr Rifkind
1500 - House of Commons for Prime Minister's Questions
1600 - Meeting with Dr Owen
Later - Meeting with Hungarian Community
2000 for 2015 - Dinner given by Hungarian Ambassador

Wednesday 31 October

- 1100-1230 - Round Table discussion at Chatham House Chaired
by the Director
1230 for 1245 - Private lunch hosted by the Hungarian Ambassador
1500-1600 - Talks with the Foreign & Commonwealth Secretary
1800 - Depart by Government aircraft

CONFIDENTIAL

FM BUDAPEST 221415Z OCT 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 257 OF 22 OCTOBER 84

WASHINGTON, BONN, PARIS, UKDEL NATO.
INFO SAVING TO EC Posts

VISIT TO BRITAIN OF MATYAS SZUROS, SECRETARY FOR FOREIGN AFFAIRS OF THE CENTRAL COMMITTEE OF THE HUNGARIAN SOCIALIST WORKERS PARTY.

SUMMARY

1. SZUROS RATES WITH, IF NOT ABOVE, MARJAN AS THE MOST INFLUENTIAL HUNGARIAN TO VISIT BRITAIN SINCE WORLD WAR II. HIS VISIT SHOWS THAT THE HUNGARIANS ARE NOT TO BE DEFLECTED FROM THEIR POLICY OF OPENNESS TO THE WEST. IT COMES AT AN IMPORTANT TIME. INTERNATIONALLY, THE SOVIETS MAY BE PREPARING FOR SERIOUS TALKS WITH THE WEST, AS THE EAST EUROPEANS WANT. DOMESTICALLY, THE HUNGARIANS ARE PREPARING FOR A SERIES OF MAJOR EVENTS EARLY NEXT YEAR: MORE REFORM, PARTY CONGRESS, LIBERATION ANNIVERSARY AND ELECTIONS. WE CAN RESTATE OUR SYMPATHY AND SUPPORT FOR SOME OF HUNGARY'S INTERNATIONAL AND DOMESTIC POLICIES. THIS SHOULD HELP KADAR TO PURSUE THEM FURTHER. AND THERE COULD BE LONGER TERM DIVIDENDS, LASTING BEYOND THE DEPARTURE OF KADAR AND HIS GENERATION.

DETAIL

2. AS ONE OF THE SIX CENTRAL COMMITTEE SECRETARIES, MATYOS SZUROS BELONGS TO THE INNER CIRCLE WHICH FORMULATES POLICY INSIDE THE PARTY, WHERE REAL POWER LIES. HE IS THIS PERHAPS THE MOST INFLUENTIAL HUNGARIAN TO VISIT BRITAIN SINCE WORLD WAR II. AS SECRETARY FOR FOREIGN AFFAIRS HE IS THE SENIOR HUNGARIAN, UNDER KADAR, RESPONSIBLE FOR FOREIGN POLICY. HE PLAYS IN THIS FIELD A ROLE COMPARABLE WITH MARJAN'S IN ECONOMICS AND TRADE.
3. SZUROS HAS HAD THE JOB FOR A LITTLE OVER A YEAR. HE HAS DEMONSTRATED THAT THE FOREIGN MINISTRY MAY EXECUTE FOREIGN POLICY BUT THE PARTY LEADERSHIP AND THE CENTRAL COMMITTEE SECRETARIAT FORMULATE IT. SZUROS HAS PLAYED TO THE PUBLIC GALLERY MORE THAN HIS PREDECESSORS DID, MAKING A NUMBER OF MAJOR PUBLIC STATEMENTS. HE HAS BROKEN NEW GROUND BY ENCOURAGING PUBLIC DISCUSSION OF FOREIGN AFFAIRS. AND HE HAS MADE HIMSELF THE PRINCIPAL ADVOCATE OF THE CONTROVERSIAL THESIS THAT EACH MEMBER OF THE SOCIALIST BLOCK SHOULD TAKE ACCOUNT OF ITS NATIONAL CHARACTERISTICS AND INTERESTS IN FORMULATING ITS FOREIGN POLICY.
4. AT 51, SZUROS IS A PROMINENT MEMBER OF THE NEW BREED OF SECOND GENERATION HUNGARIAN COMMUNISTS WHICH WILL REACH THE TOP IN THE NEXT FEW YEARS. HE IS GOOD LOOKING IN A FLESHY SORT

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OF WAY. HE SPEAKS EXCELLENT GERMAN AND A LITTLE ENGLISH. HE IS SUAVE, SOPHISTICATED AND SELF-CONFIDENT. YOU WILL FIND THAT HE TALKS SUBTLY AND WELL ABOUT FOREIGN AFFAIRS AND ALSO ABOUT THE DOMESTIC ECONOMIC, SOCIAL AND EVEN POLITICAL CHANGES WHICH THE LEADERSHIP ARE TRYING TO BRING ABOUT. ON ABILITY AND INTELLECTUAL FIRE POWER, SZUROS COULD GO FURTHER. BUT HE IS NO HORNY-HANDED SON OF TOL. AND THE FACT THAT HE IS THE ONLY CENTRAL COMMITTEE SECRETARY OUTSIDE THE POLITBUREAU SUGGESTS THAT THE OLD MEN WHO RUN THINGS HERE ARE NOT YET READY TO ADMIT QUITE SUCH A SMOOTHIE INTO THEIR RANKS. ALL THE SAME, SZUROS HAS A CHANCE OF MAKING IT TO THE VERY TOP.

5. SZUROS COMES TO BRITAIN AT A CRUCIAL TIME IN INTERNATIONAL AND DOMESTIC HUNGARIAN TERMS. THE SOVIETS MAY BE PREPARING TO RESUME SERIOUS CONTACTS WITH THE WEST. THE HUNGARIANS WELCOME THIS. SZUROS'S VISIT EXEMPLIFIES THE HUNGARIAN DETERMINATION TO MAINTAIN THEIR POLICY OF CONTACTS WITH THE WEST AND TO CONTRIBUTE TO EAST/WEST CONTACTS GENERALLY. THAT POLICY SEEMS LESS AUDACIOUS NOW, AFTER THE REAGAN/GROMYKO MEETING. BUT AT THE HEIGHT OF THE HONECKER DRAMA AND EARLIER, WHEN INF DEPLOYMENT WAS BEGINNING, IT WAS A POLICY WHICH DEMANDED SOME COURAGE AS WELL AS CUNNING.

6. AS A FORMER AMBASSADOR IN MOSCOW WHO HAS TAKEN CARE WITH HIS RELATIONS WITH THE RUSSIANS, SZUROS IS WELL PLACED TO GIVE YOU AN ASSESSMENT OF SOVIET INTENTIONS. BUT I BELIEVE HE WILL WANT TO DEVOTE MORE TIME TO HUNGARY'S OWN POSITION. WHEN HE DOES SO HE WILL MAKE MUCH OF THE EUROPEAN CONTEXT. THE HUNGARIANS WANT TO BUILD UP THEIR IMPORTANCE AS EUROPEANS, NOT JUST EAST EUROPEANS. THEY FEEL SAFER WHEN, AS NOW, THE WESTERN EUROPEANS ARE TALKING TO HUNGARY'S NEIGHBOURS AS WELL AS HUNGARY. AND THEY ARE NOT ABOVE CONTRASTING WESTERN EUROPEAN REASONABLENESS WITH AMERICAN INTRANSIGENCE. WE CAN REASONABLY ASK HIM ABOUT THE EAST EUROPEANS' ROLE. SZUROS IS NOT GOING TO RISK DISLOYALTY TO MOSCOW. BUT HE BELIEVES THAT ALL THE EUROPEAN STATES HAVE A ROLE TO PLAY. AND HE HAS A SHARP EYE FOR HUNGARY'S INTERESTS.

7. AT HOME, THE HUNGARIANS ARE PREPARING FOR A BUSY AND IMPORTANT PERIOD EARLY NEXT YEAR. THEY EMBARK ON THE NEXT STAGE OF THE REFORM IN JANUARY: PREPARATIONS ARE BEING COMPLETED NOW. THEY ARE ALSO PREPARING FOR THE FIVE-YEARLY PARTY CONGRESS TO BE HELD IN MARCH OR APRIL: FOR THE 40TH ANNIVERSARY OF THE LIBERATION ON 4 APRIL: AND FOR THE FIRST PARLIAMENTARY ELECTIONS TO BE HELD UNDER THE NEW SYSTEM OF MANDATORY MULTIPLE CANDIDACIES. ALL THESE EVENTS WILL SET THE TONE FOR HUNGARIAN LIFE IN THE NEXT FEW YEARS. SZUROS'S VISIT GIVES US A CHANCE TO ENSURE THAT HE, AND THROUGH HIM THE LEADERSHIP, GOES INTO THEM CONSCIOUS OF WHAT WE AND THE WEST CAN DO TO HELP THEM ACHIEVE THOSE OF THEIR AIMS WHICH SUIT OUR INTERESTS. A LIBERALISING, REFORMING HUNGARY, CONSCIOUS OF ITS NATIONAL IDENTITY AND INDIVIDUAL NEEDS, SUITS OUR INTERESTS WELL.

-2- CONFIDENTIAL

/8. KADAR.

CONFIDENTIAL

8. KADAR IS NOW 72. NEXT YEAR'S PARTY CONGRESS COULD BE HIS LAST. WE DO NOT KNOW WHO WILL REPLACE HIM WHEN HE GOES. BUT IT DOUBT WHETHER THE OLD GUARD WILL LONG SURVIVE HIM. SZUROS'S GENERATION WILL BE AROUND FOR ANOTHER 20 YEARS. THE IMPRESSIONS WE MADE ON HIM NEXT WEEK COULD FERMENT AND MATURE USEFULLY FOR A LONG TIME TO COME.

9. ADVANCE COPIES TO THOMAS, JENKINS, BIRCH EED.

FCO PLEASE PASS TO SAIVING ADDRESSEES.

UNWIN

LIMITED.

(ADVANCED AS REQUESTED)

EED

SOV.D.

PLANNING STAFF.

PUSD.

PS

PS / MR. RIFKIND.

PS / PUS.

MR. DEREK THOMAS.

MR. JENKINS.

- 3 -
CONFIDENTIAL

CONFIDENTIAL

MKSJAFZ.



apc.

10 DOWNING STREET

From the Private Secretary

8 October 1984

[Handwritten signature]

Visit by Mr. Matyas Szuros, Central Committee Secretary
of the Hungarian Socialist Workers' Party

Thank you for your letter of 5 October about Mr. Szuros' visit. The Prime Minister is able to see him at 0930 on Tuesday 30 October.

Charles Powell

Colin Budd Esq
Foreign and Commonwealth Office

CONFIDENTIAL



10 DOWNING STREET

Prime Minister

I will of course tell
the Foreign Office that you
can't see him.

But I'm a bit
surprised — you found the
paper on the key role of
Communist Central Committee
International Department fascinating;
he is the head of one.
I expect that the reason why
they didn't wheel him out
out in Budapest is that
as a purely party official,
they would not have thought it
right for a visit from a
Western Prime Minister. C.D.D.

010

CONFIDENTIAL

cell ①



Foreign and Commonwealth Office

London SW1A 2AH

5 October 1984

Prime Minister

Agree to see him?

CDD
5/x.

If he wasn't
important enough to
be present, it's one of
the many arguments
carried out in Hungary.
I should
never have been
as close as very full
chance.

Dear Charles,

Visit by Mr Matyas Szuros, Central Committee Secretary of
the Hungarian Socialist Workers' Party

Mr Matyas Szuros will be visiting London as the guest of Her Majesty's Government, from 28 to 31 October. The Foreign Secretary is having talks with him on the afternoon of 31 October and suggests that it would be useful if the Prime Minister could receive Mr Szuros for a short call.

Mr Szuros is the Party Secretary responsible for foreign affairs and arguably the most influential Hungarian to visit Britain since the war. He is particularly well versed in East/West matters and Hungary's relations with the Soviet Union having served in Moscow for several years. It is rare for a Party official of his level to visit the West: we are usually forced to conduct our business through the less important Foreign Ministry channel. The Hungarians attach a great deal of importance to his visit, which they see as maintaining the momentum created by the Prime Minister's visit to Hungary and as a demonstration of their wish to stay in business with the West despite the cancellation of the Honecker and Zhivkov visits to the FRG and the cold wind from Moscow. An account of what is said to Mr Szuros in London on East/West relations is sure to reach Moscow.

The Prime Minister did not meet Mr Szuros during her visit to Hungary. He understands but does not speak English.

I should be grateful to know whether the Prime Minister would be prepared to receive Mr Szuros for a short call during the period 29-31 October.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

Hankway Kelass.

Foreign and Commonwealth Office
London SW1A 2AA

5 OCT 1964





LP
cc Master Set.

10 DOWNING STREET

THE PRIME MINISTER

Personal Minute

No. M10/84

LORD COCKFIELD

Thank you for sending me your full report on your visit to Hungary. It makes most interesting reading and closely matches many of my own experiences and impressions.

It is important that we should continue to give the Hungarians discreet encouragement, both in their economic reforms and in developing their contacts with the West, while recognising the constraints on them. It is a great pity that some of the other European Community Member States have not had the political vision to make more of the opportunity offered by the talks on a trade agreement.

I am most grateful to you and to Monica for undertaking this visit.

I am copying this minute to Geoffrey Howe and Norman Tebbit.

Margaret Thatcher

26 September 1984

NS

Prime Minister. *etc* ②*Lord Cockfield's report on
his visit to Hungary. I
suggest you read ~~the~~
covering minute only.*

PRIME MINISTER

VISIT TO HUNGARY AT THE INVITATION OF

MR JOZSEF MARJAI, DEPUTY PRIME MINISTER

*Agree to sign
attached minute?**CDP. 2579.*

1. My wife and I had hosted Mr Marjai's visit to this country last year and I had also had discussions with Mr Veress the Minister for Foreign Trade when he came here earlier this year. This was therefore a return visit on Mr Marjai's invitation and it was designed to carry forward the momentum created by your own visit and that of Sir Geoffrey Howe.
2. Everyone we met remarked upon the extraordinary success of your own visit to Hungary. Mr Marjai and Mr Veress in particular asked me to convey their warmest wishes to you - which I do. There were genuine expressions of appreciation and when I told them that the television coverage in this country had in its time made a great impression this added to their pleasure.
3. On the surface Hungary is a green and pleasant land, its people happy, contented and outwardly free. They are well fed, well clothed and reasonably well housed. There is an abundance of motor cars albeit of Eastern bloc manufacture. But under the surface there are real problems and a great deal of anxiety. There is a determination to follow the path of fiscal probity and the serious concern that it will carry with it a fall in living standards - already low by Western standards. There is an acute realisation of the inefficiency of their industry and frustration at their inability to do much about it. Above all there is the constant menace of the Soviet Union - exceptionally well concealed but the greater threat for all of that. The border is not many miles away and the one and only Autobahn is being extended in that direction. There are 60,000 Soviet troops in the country - a garrison designed to protect them not from an external enemy but from themselves. I was told that Kadar, who is now in his seventies and hopes to die in peace and leave a stable regime behind him, is greatly concerned that the new generation, who knew little or nothing of the 1956 uprising and the terrible consequences, may not realise that they cannot push the Russians too far; and that the Russian reaction, never predictable, never logical, could if matters were mishandled bring upon them frightening consequences. They are a very brave people whose history is marked by victory and disaster. They will need very great political skill to ensure the former and avoid the latter. It is very much in our interest that they do so.
4. In Budapest I held discussions with Mr Marjai himself; Mr Peter Veress, Minister for Foreign Trade; Dr Mátyás, the President of the Hungarian National Bank; Mr Tamas Beck, President of the



Hungarian Chamber of Commerce and a prominent industrialist; with Mr Ödön Kallos, Co-President of the Chamber; and I also met Mr Esztergalyos the Deputy Foreign Minister. Detailed notes of the discussions are attached.

5. All those with whom I talked spoke frankly about the economic situation in Hungary. They admitted that mistakes had been made in the past; they had a clear view of the kind of action that is needed to help recovery; and they were realistic about the political difficulties they would encounter in trying to take the measures needed.
6. There was an interesting point which emerged from all of these discussions: namely a universal recognition that the poor economic record of the CMEA as a whole and of the Soviet Union in particular make their own task so much more difficult. There were constant complaints too about the quality of goods particularly engineering products supplied by their Eastern bloc neighbours and the difficulty of obtaining spares. In fact this arises from an attempt in years past to "rationalise" industry in the Soviet bloc: thus Hungary went out of the production of motor cars on the ground that this could be done more efficiently by other countries in the bloc. I told them that we had developed a thriving components industry in this country: and I asked them why they did not manufacture their own spares or get someone in the UK to manufacture them for them.
7. The Hungarians themselves realise that access to Western markets is one of the major factors in recovery, and they have made a concentrated effort to improve their export performance. They are anxious to develop trade with the UK, France and the Netherlands to a level similar to that which they already have with West Germany, Italy and Austria. They are disappointed at the very slow development of joint ventures with British firms, which is in sharp contrast with their experience with Germany.
8. Not unexpectedly in this connection Mr Marjai and Mr Veress both raised the question of the negotiations between Hungary and the European Community which have become stalled. They expressed appreciation of the UK efforts: but hoped we would do more. Mr Marjai in particular raised the question of his letter to you: and I referred to the reply you had sent. I said that we ourselves would like to see such an agreement concluded but it would have to be on terms which satisfied both sides. I pointed out that while I understood their philosophical objection to quantitative restrictions (QR's) the plain truth was that most of the quotas had not remotely been filled and this seemed to be due in part at any rate to a lack of appreciation of the way the distribution system in the UK operated.
9. On the financial front there seems a genuine determination to pursue responsible fiscal and monetary policies. They are prepared to face the very real political difficulties of a



decline in consumption and a possible fall in living standards to meet their debt obligations and to provide funds for investment. This sense of responsibility can be seen in their attitude to the IMF, which contrasts with that of some Central and South American countries. Hungary is determined to avoid rescheduling because of the cost.

10. The Hungarian banking system is primitive and does not, in its present form, play any significant rôle in providing investment capital for industry. The President of the National Bank and his close advisers are well aware of how the banking system works in the West, and are making cautious moves in that direction. But this is a sensitive area in political terms, and progress is likely to be slow.
11. All the major enterprises - and most of the others as well - are State owned. There is a move now to allow private individuals to set up and run their own businesses. But this development is still in its infancy: and many businesses which superficially appear to be individually owned and run are in fact State owned and the "proprietor" simply a State appointed manager.
12. The major State owned enterprises - and no doubt most of the others as well - suffer from the problems we have seen with many of our own nationalised industries and in particular indifferent management, lacking any effective system of motivation. Organisation of the enterprises and their planning procedures tend to be bureaucratic and inefficient. There has been a tendency to create over-large, over-diversified, concerns stretching their resources too far. An interesting example was the Budaflax factory which we visited and which is regarded by the Hungarians as a show piece. This is managed - and within the limits available well managed - by Mr Tamas Beck, the President of the Chamber of Commerce. Mr Beck is aware - indeed painfully aware - of the shortcomings - the lack of effective motivation, problems with securing funds for investment and so on. He drew particular attention to the fact that Budaflax were involved in every aspect of linen production from growing the flax to the production of the finished garments. This concept of total vertical integration seems to be a favourite of the planners. But Mr Beck was well aware of its potential inefficiencies. If the efficiency of Hungarian industry is to be improved significantly a great deal of re-organisation will be needed: better management: and the introduction of effective incentives.
13. Investment - or the lack of it - was a particularly sore point. The funds available are severely limited because of Hungary's financial difficulties but there is also much complaint about the poor quality of Eastern bloc equipment. Interestingly Budaflax had acquired equipment from the leading manufacturers of nearly every country in Western Europe - including some from the United Kingdom.



- 14. My wife - as always - played an invaluable part in the visit. We would both like to express our sincere thanks to Mr Unwin, HMA Budapest, and to Mrs Unwin for their hospitality and help throughout the visit; Mr Guy Hart the First Secretary (Commercial) and Mrs Hart; and to Mr Gordon Reid, Second Secretary at the Embassy who was particularly helpful.
- 15. I am copying this Report to the Foreign and Commonwealth Secretary, to the Secretary of State for Trade and Industry and to Her Majesty's Ambassador Budapest.

A.C.

A C

21 September 1984



Note of a meeting with Mr József Marjai, Hungarian Deputy Prime Minister, held in the Parliament Building, Budapest, on Friday 7 September 1984

Present: Lord Cockfield
 (Chancellor of the
 Duchy of Lancaster)

Mr Marjai
 Mr Banlaki
 (Interpreter)

Mr P Unwin
 (Her Majesty's Ambassador,
 Budapest)

Mr A K Galloway
 (Private Secretary to
 Lord Cockfield)

After the opening courtesies Mr Marjai said that the Chancellor of the Duchy of Lancaster's visit was of great importance. Beyond the discussion of specific topics the visit was an important demonstration of will on both sides to further develop the relations between the UK and Hungary. He would like to make a few remarks on the development of relations. He very much welcomed what had taken place especially in the past two or three years. This had made up for a number of earlier historic omissions. Frankly he felt that in the earlier period the two countries had not played the role in each other's affairs which would have been justified. The past, however, was for historians. The important thing now was to change the situation.

Mr Marjai went on to say that some extremely important steps had been taken towards this end. He could justifiably say that there was now in Hungary a greater interest in the UK than before over a wide range of aspects. This was true for the general public as well of those who were actively involved in bi-lateral relationships, both in the economic field and in other broader areas. Mr Marjai said that he felt that in the UK greater interest was being paid to Hungary than before. Mrs Thatcher had played an outstanding role in this respect. He now felt that there was in the UK a greater degree of understanding of the Hungarian situation and the problems and headaches being encountered in his country's development. He was grateful for this. He would be glad if Lord Cockfield could convey his thanks and best wishes, and those of Messrs Kadar and Lazar to the Prime Minister and the Cabinet.

Mr Marjai said that he would like to say that Mr Lazar was sorry to have been unable to meet Lord Cockfield. Minor health problems had forced him to take sick leave. As a precautionary measure his doctors had withdrawn him from everyday work. Mr Lazar would then take annual leave, and would be back at work at the end of September. Mr Marjai was in telephone contact with Mr Lazar, and had visited him after his (Mr Marjai's) return from China.



Mr Lazar had asked Mr Marjai to convey his best wishes to Lord Cockfield.

Mr Marjai said that economic relations between the UK and Hungary remained good even though conditions were relatively unfavourable. If both sides continued to support this process then the efforts would bear fruit in coming years.

Mr Marjai expressed his special thanks to Her Majesty's Government for their consistent and continuous support during the negotiations with the European Community. The Hungarians greatly appreciated this, and regretted that certain characteristics which were natural in the UK were not universal in the Community. Hungary had received encouragement from other EC countries but in terms of behaviour and actual conduct the UK stood out.

Mr Marjai said that it was not only in the field of economic policy that Hungary and the UK had much in common. The two countries were also close in terms of clear, unambiguous and consistent views on international politics. There were many issues on which the UK and Hungary did not agree, but the fact that they could conduct a conversation on these topics in a decent manner enhanced the ability of both countries to go forward towards a solution to these questions.

Lord Cockfield said that he was very glad to come to Hungary to meet Mr Marjai and his colleagues. He would indeed convey to the Prime Minister the good wishes which had been expressed. He wished Prime Minister Lazar a complete and rapid recovery. The UK greatly valued its contacts with the Hungarian people, and wished further to develop them in the economic, social and cultural fields. It was a matter of some satisfaction that trade on both sides had begun to increase considerably.

Lord Cockfield said that the British market was a difficult one for a number of reasons, but it was one of the most open markets in the world for imports. It was a difficult job to persuade people in the UK that there was nothing wrong with imports. The answer to those who demanded the imposition of import controls was that trade is a two-way business, and that a country cannot expect to export unless it allows imports. Success in the UK market depended on quality, price and skill in selling.

On international relations Lord Cockfield said that he appreciated the considerable differences which existed. But he believed that the more people could talk to each other the greater the chance of increased understanding and the ability to live together. Even where two parties did not agree they ought to be able to talk to people.

Lord Cockfield said that a great deal had been done to improve the working of the UK economy. It was much more efficient than it used to be. Inflation had been greatly reduced and productivity had increased. Mr Marjai said that the Hungarians

followed this very closely. He agreed that the policies followed had been successful. Lord Cockfield said that there had also been an improvement in the efficiency of the Hungarian economy. He wondered how Mr Marjai saw the future. Had the economy recovered from recession?

Mr Marjai said that Hungary was now over the worst generally speaking. The stage of day-to-day difficulties was now past. By and large the difficulties had been met by measures which had not caused any great suffering, and the damage done had been slight in comparison with some countries. It had not been a pleasure trip, but the quality of life and the quality of the country had been maintained. A transformation had been started which would strengthen Hungary's position in the coming years. The economy had been able to counterbalance trials caused by external factors, but the sources of future development within the economy were becoming stronger. There would be difficulties for 5-10 years, and perhaps longer. It was important not to relax. Only then would it be possible to produce faster growth - growth rather than development because development was taking place already. Hungary was counting on slightly faster growth, but it would be necessary to impose very high demands. The point of departure was that there was likely to be no fundamental improvement in the world situation which could be a source of improvements might help, but they could never be the driving force.

Mr Marjai said that, as was apparent, the rate of growth in the developed industrial countries was not steady or regular. There were great differences across the board, with some parts stagnating, others in recession. There were no prospects for a boom which would provide a driving force for an economy such as that of Hungary. This compelled the Hungarians to pursue a strict economic policy.

Lord Cockfield said that the days when growth would solve all one's problems were gone; but prospects were now better than they had been for some time. The major problem had been the failure of growth in the 3rd World coupled with the international debt crisis. Mexico, Brazil and the Argentine had once been developing rapidly, but were now in serious difficulties, despite this the view in the UK was that the outlook for the world was better than it had been two or three years ago.

Mr Marjai said that he hoped Lord Cockfield would remind Mrs Thatcher that he had given her a list of areas where an Anglo-Hungarian relationship could be developed. No sacrifices were involved for the UK, and he hoped that she would review these areas and push them.

Lord Cockfield said that Mrs Thatcher had replied to Mr Marjai's letter. Many matters remained under consideration. But there were some areas in which the UK's room for manoeuvre was very limited.



Mr Marjai commented that the UK's possibilities were greater than those of Hungary, and that he would gladly exchange Britain's problems for Hungary's.

Lord Cockfield undertook to mention the matter to the Prime Minister. After further courtesies the meeting closed.

A K GALLOWAY

September 1984

HGRAAE



Note of a meeting between Mr Peter Veress, Hungarian Minister of Foreign Trade, and Lord Cockfield, Chancellor of the Duchy of Lancaster, held at the Ministry of Foreign Trade, Budapest, on Friday 7 September 1984

<p>Present: Lord Cockfield Mr P W Unwin (HM Ambassador, Budapest)</p> <p>Mr A K Galloway (PS to Lord Cockfield)</p>	<p>Mr Veress Mr Antalpeter (Director General, MFT) Mr Kollar Mr Bene (Commercial Counsellor, Hungarian Embassy, London)</p>
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After the opening courtesies Lord Cockfield said that the last 12 months had seen an increase in trade between the UK and Hungary. In the final analysis the level of trade was determined by the level of prosperity. The UK was now coming out of recession at a satisfactory if not a fast rate. Last year there had been a 3% increase in the national product and a similar increase was expected this year. This would amount to two years in which the rate of growth in the UK was at or near the top of the EC league. It was important to sustain this, since growth made a big improvement in a country's economic position. In the 1950s and 1960s, a period of growth and prosperity, growth had averaged 2½% to 2¾% a year. If the present rate could therefore be maintained the prospects were good.

Lord Cockfield said that a very important factor was growth in export trade. It was an important issue in raising the level of activity in the economy.

Lord Cockfield asked Mr Veress what his feelings were on the prospects for the Hungarian economy. Improvement in the UK economy had come as the result of very firm Government action. Inflation was now down and productivity up. Competitiveness had also improved. These were factors which underpinned the recovery. The Hungarians had also made changes in the running of their economy. How did Mr Veress see the current position and the future?

Mr Veress said that between 1973 and 1978 Hungary had taken an erroneous view of the post-1973 situation. It had been thought that the Hungarian economy could be protected from the effects of the oil price crisis. This rather naive view had been wrong. The Hungarians had allowed for a 4% to 5% growth rate and some increase in living standards.

In order to achieve this Mr Veress said, Hungary had had to import more from the Rouble area and from the convertible currency area. Up to 1979, with interest rates of 5% to 6%, the Hungarian economy and the National Bank and their reputation did not



suggest a credit risk to the West. If exports did not cover the cost then it would be possible to borrow more.

This view was wrong, said Mr Veress. There was a shortfall in 1978. Import had been free in those days. Hungarian currency could be freely converted. In 1978 the passive balance of convertible trade exceeded \$1 billion - nearly 45% of total exports in a year.

Mr Veress said that this situation was disastrous, and could not be allowed to continue. From 1979 much more attention was paid to the balance. In 1980 and 1981 with interest rates high and with a political crisis over Poland and Afghanistan the situation became one of "rien ne va plus". Suddenly everything was a risk, and the reaction of foreign capital was that it would be best to leave Hungary. Large amounts were withdrawn from the Hungarian Bank, and a day-to-day liquidity problem became apparent. It had been necessary for a new policy to be created or developed

Mr Veress said that a decline in living standards would have been politically very difficult, and Hungary did not want to risk re-scheduling, because of the cost. It had therefore been necessary to reduce the internal application of funds. Both public and private consumption had to be controlled to give the economy time to come out of the tunnel. The Forint was to be kept strictly under control, and the budget had to sit on the shoulders of the national economy. It was a strict fiscal policy with controlled living standards.

Mr Veress said that interest rates at 12% were far too high. Money was too expensive, and if industry was unable to develop then it would lag behind. This would have heavy consequences in the longer term. Hungary now needed to return to normalised import. Supplies from the Socialist countries had been stronger than expected, and this had helped survival.

Mr Veress said that the volume of imports from the convertible area had increased by 4%. It was now better in total than it had been for 3 years. It was not now possible to blame lack of progress on import shortage. But development and technology were still not getting enough resources. If Hungary could develop good relations with the IMF and put up a good export performance while increasing imports about 50% of the income from exports would be used in improving technology.

Mr Veress said that external circumstances were not very good and exports were below their scheduled level. The active balance was smaller than had been foreseen. Either more credit or fewer imports were therefore necessary.

Mr Veress said that there were also other problems. In the major area of Hungarian exports - agriculture and the food industry - prices were very low. The same was true for steel and aluminium,



though there was some improvement in textiles. The terms of trade this year would cause a bigger-than-expected loss.

Mr Veress said that the Hungarian economy was better placed than it had been a year or so ago, but was still behind schedule. The liquidity of the economy and the National Bank was not in question. The IMF people were quieter now, but 1984 was not yet entirely in the Hungarians' hands, and there could be no relaxing.

Mr Veress said that so far as international trade was concerned relations with West Germany, Italy and Austria had now reached a level which matched the economy, but those with the UK, France and the Netherlands were far from being at a reasonable level. But after much effort there were some encouraging signs.

Mr Veress said that the tradition of trade between the UK and Hungary which had existed before the war had gone after 1945, and had had to be started from scratch. For 20 years after the war Hungary had been able to sell all it wanted to the Eastern bloc, West Germany, Italy and Austria. It had, however, become evident that Hungary could not rely on trade with so few partners, and international factors required the expansion of trade with countries such as the UK which showed a readiness to understand the Hungarian economy.

Lord Cockfield said that the UK market was the most open in the world. In Britain the market tended to be favourable towards imports. Shoppers would buy goods from anywhere if they were of the right quality, design and price. The United States talked about free trade and had the world's most restrictive import policy; and Japan was impossible.

Lord Cockfield said that there were people in the UK who demanded the imposition of import controls, but the Government had stood out against this. 30% of GNP was tied up in international trade. This could not be put at risk, and the UK must therefore maintain open trading. This meant that the UK suffered in some specific areas, but the country as a whole benefited.

Lord Cockfield said that the problem in the UK was supplier selling. The distribution system was efficient, and if the supplier had the right goods then they would sell. It was essential to go to people such as Selfridges or the House of Fraser. They were the people who bought.

Lord Cockfield asked how improving the performance of state industry was tackled in Hungary. In the UK, generally speaking, all capital invested in these industries had produced a rate of return of zero. The policy now in the UK was to privatise, and this had proved, by and large, very successful. In the past management had always felt that they would be bailed out. Now they had to do it themselves.



Mr Veress said that state industries in Hungary were of very low efficiency. Technical work was poor and discipline was weak. Planning and financial forecasting were also very bad. Serious underestimation meant that the Government was forced to pay out when projections of expenditure turned out to be too low. Those responsible went unidentified. Also equipment and technology were out of date because those involved did not know of the latest developments and because second-hand technology was cheaper.

Mr Veress said that there were three sources of investment in Hungary: the State; enterprises which did not have a budget allocation; and co-operatives. In the case of State investment there was now much more careful preparatory work and more control of details and of inputs and outputs. In the case of the enterprises there was now a strict condition that the State would not finance them, and that project costs had to be within the forecast. Rates of return had previously been handled very superficially but were now taken much more seriously. A payback period of between 5 and 12 years was expected.

Mr Veress said that more development was being given to Western firms. The Austrians were doing well here. They had built in 1½ years a hotel which Hungarian constructors had estimated would take 3.

Mr Veress said that absolute guarantees were no longer given. Control was more scientific, and much less was left for contingencies than had been the case before.

Lord Cockfield asked whether, since Mr Veress had said that poor management was a problem there was any education of managers. Were there business schools? How were managers motivated?

Mr Veress said that a number of Hungarian engineers and managers got their knowledge overseas, or as importers. Many Hungarians worked overseas on a contractual basis. They knew how things should be done, but there was no way of forcing them. The new system, however, encouraged people to do their utmost by paying them more if they did and less if they didn't. The price paid in the past for higher living standards had been debt. People now had to improve their living standards by working harder. It was planned to change the whole system of incentives both financial and disciplinary.

Lord Cockfield commented that the problem with discipline was that all one had to do was to match the average performer. What was needed was to get the average up the level achieved by the outstanding few.

Mr Veress agreed and said that it was better to rely on financial incentives. But this gave rise to political problems, since it conflicted with the principles of egalitarianism.



Lord Cockfield said that it was a very difficult problem, and one which had not yet been solved in the UK, though there had been an improvement. Proper accounting was essential to enable individual people and their results to be identified. If there was proper control then people took a pride in what they did. Without it they felt that their individual achievements would only be lost in the mass of figures and were not motivated to perform well.

Mr Veress said that there were individual profit centres in Hungarian enterprises. There was also an experiment with small working associations, which could be within or outside an enterprise. This enabled people to organise their work better and to choose the members who would work with them. The efficiency of work had been 30% to 50% better. But the experiment had been very risky, and there had been a great deal of disapproval. 4% of people were able to increase their earnings, but the remaining 96% wanted to know why.

Lord Cockfield commented that there was no nexus in the popular mind between work and payment. Agreeing Mr Veress said that in Hungary it was said that the salary was the fee for merely turning up. Unless people could accept that higher living standards could be achieved only with better working then nothing would be achieved.

Lord Cockfield asked whether there would be political problems if people could not expect higher living standards. Mr Veress said that there would be social unrest.

Lord Cockfield said that the solution to economic problems lay in increased efficiency not investment. Investment consumed resources but increased efficiency did not need to cost anything. People did not necessarily need to work harder: they needed to work better. Mr Veress agreed. He said that 10% to 20% of effort was wasted because of low efficiency. The general standard of management was very low.

Lord Cockfield said that he would like to ask some questions about design and quality. West Germany was very good in this area. The UK had fallen behind, but had started quality control and standards. There had been a major drive in Britain. The British Standards Institute had been given a better status.

Mr Veress said that on the question of design there was a gap between the intellectual capability of the Hungarians and the execution. Hungarian design was very good, and the country exported designers to West Germany and Austria. But discipline was poor. Quantity was the basis of planning in the Socialist Countries. Such factors as the interchangeability of goods were neglected, and there was commonly a lack of spare parts, for example for cars and tractors from the German Democratic Republic. Spares had had to be imported from West Germany!.



Lord Cockfield asked whether the Hungarians could not manufacture the spare parts themselves. In the UK there was now not so much emphasis on producing finished cars; but a large component industry had developed. The Hungarians should make their own spares.

Mr Veress said that Hungary did export spare parts for bicycles: but the problems of spares was general in the Socialist countries. One of Hungary's aims was to produce more spare parts, especially electronic components. The Eastern bloc was well behind in this field, and at a conference in Moscow it had been agreed that capability should be increased, especially in robotics. There was now a serious compulsory electronics programme. This was an area in which the development of the technology could take years.

After further courtesies the meeting closed.

A K GALLOWAY

September 1984



Note of a meeting between Dr Mátyás Timár, President of the Hungarian National Bank and Lord Cockfield, Chancellor of the Duchy of Lancaster held at the National Bank, Budapest, on Monday 10 September 1984

After the opening courtesies Dr Timár touched on the excellent relations which existed between the Hungarian National Bank and the Bank of England. Lord Richardson had visited Hungary when he was Governor, and Dr Timár hoped he would be able to welcome the new Governor.

Lord Cockfield said that Hungary, like the UK, had had problems though they had been different from those of the UK. In Britain the Government's problem had been to get control of the internal economic situation and improve the working of the economy. The Hungarians also had had the problem of large foreign borrowing and the servicing costs which this entailed. Both countries had had to go through a period of economic adjustment. He asked Dr Timár for his assessment of the way the Hungarian economy was going. Were the targets for the remainder of this year and next year going to be achieved?

Dr Timár said that the biggest problems had been in 1982. The causes had been mainly external (Poland, Afghanistan). It had not been possible to borrow for a year. The result had been that despite some improvement in the Hungarian economy even in 1981 and 1982 there were liquidity problems. Then Hungary had obtained a bridge loan from the BIS in Basle with the help of Lord Richardson. Hungary had then joined the IMF and the World Bank. There had been, too, a change in the attitude of the commercial banks towards Hungary.

Dr Timár said that Hungary was not responsible for the deterioration in relations between the US and the Soviet Union over Poland. The Hungarian economy was basically in order, the remaining problems being only of the day-to-day variety. Hungary had been asking only for normal treatment. The problem of liquidity had been tackled by stability since 1982 and by tough internal measures. The standard of living was declining by 1%-2% per annum. Investment was being decreased first of all in the non-productive sector. Budget expenditure had been cut, as had subsidies and subventions. A programme of energy rationalisation had been introduced. Imports had been restricted and the Hungarians had concentrated on export performance.

Dr Timár said that already by 1982 Hungary had succeeded in achieving equilibrium in its convertible balance of payments. There were no problems in the Socialist sphere. There had been an active balance of \$100 m in 1983. There would also be an active balance in convertible trade this year, despite a drought.

Dr Timár said that tough policies would be continued in 1985 and 1986. There would be a minimal increase in living standards, and



it would not be possible to increase investments. Effort would be concentrated on the competitive branches of the economy. There would be no increase in budget expenditure. There would be some liberalisation of imports since the restrictions in this area were temporary. The emphasis would be on efforts to further increase the level of exports. The general picture was one where the Hungarians could breathe a little more easily. The main period of stress was now over.

Dr Timár said the signs were that there would be a small recovery in 1985, but this was not being overestimated. The national economy had reacted slowly to increases in the price of raw materials, and despite the country's indebtedness things were getting into order. However there could be no easing up. The years which were lost after 1973 and 1974 had to be made up. The main target was the decrease in the country's net indebtedness. Hungary, however, did not want to achieve this by means of restrictive measures, but by better utilisation of resources, and by developing a management system for the economy. Dr Timár pronounced himself moderately optimistic. Recovery would come, though slowly.

Lord Cockfield commented that nearly all of the Western economies had reacted wrongly to the oil price crisis in 1973. Only the Japanese had got it right in realising that one had to improve one's efficiency to get the money to buy oil. They had, however, overdone it, with serious repercussions for other countries. The rest of the world had paid a heavy price for failing to get it right.

Lord Cockfield asked whether the decline in relations between the United States and the Soviet Union had had an effect on the economic situation. What had the repercussions been on exports, for example?

Dr Timár said that there had been an important negative effect on the Hungarian economy. He had already mentioned the financial effects which resulted directly from the international situation - the withdrawal of deposits and the lack of credit. This tightening up of financial relations had inevitably brought a tightening in commercial relations. Imports from the West had decreased by 20%. The Hungarians had increased their exports, but mainly to the developing countries rather than to the developed industrial countries. The restriction on imports from the West to the Eastern bloc had also affected the Western economies. Austria and Finland, which had maintained their traditionally high level of trade with the Eastern bloc had suffered less from the recession than the other Western countries.

Lord Cockfield said that the Western European economies were now beginning to recover. The UK had maintained a good rate of growth both last year and this year. All of this had an impact



on international trade. In the end the recovery would result from the interaction of one economy with another.

Lord Cockfield said that efficiency was a crucial issue in the performance of the Hungarian economy. Were the Hungarians taking effective steps to improve the level of efficiency?

Dr Timár said that he was not entirely happy with the results, but there had been some success. There had been good results in the field of energy conservation. A decrease in energy consumption had been achieved at the same time as an increase in industrial production.

Dr Timár said that the aim was to develop the competitive branches of the economy. This had been fairly successful and quite considerable increases in exports had been achieved. Things were generally going well in energy, chemicals and heavy and light industry, but there were some exceptions.

Dr Timár said that he was unhappy with machine tools. With the exception of a small number of enterprises production in this area was not what it should be.

Lord Cockfield asked about the motivation and ability of Hungarian management. It was important that managers should be a driving force able to motivate the workforce. Were there problems in this area?

Mr Timár said that there were problems, but reform was under way and Hungary was moving in the right direction; more initiative could be seen. He felt however that efforts to improve motivation in industry had not yet fully succeeded, though the position in agriculture was better.

Lord Cockfield asked about the provision of capital for investment. What if anything was being done to stimulate the supply of investment capital?

Dr Timár said that the main question had been how to ensure economic improvement. It had therefore been necessary to cut funds for investment, whether sourced by the budget or by the enterprises. However this had gone too far, and the managers of enterprises had been complaining. Their complaints were not unjustified. They should have been given more resources for intensification and development. The years to come were not years of large investment, but rather small-to-medium investment for intensification and the improvement of productivity. There was always the danger with a restrictive policy of managers losing the enthusiasm to invest. With foreign capital the main form was the financial loan. There were relatively few joint ventures, and they were mostly with Austria and West Germany. There were, unfortunately, very few joint ventures with the UK - only about 60, with only 20 really active. There were between 200 and 300 with West Germany.



On the supply of investment funds Lord Cockfield said that there were two sources in the UK; the retail banking system and personal savings. With the banks the system was that the individual deposited money which was then lent to industrialists. Whenever interest rates rose there was an outcry from industry. But the cash balances held by industry were almost as great as the borrowings held. Cash flowed through the bank to the borrower and provided enormous help to industry. What was the position in Hungary?

Dr Timár said that in Hungary the deposits of the population were used for credits given to the population and went into home-building. They did not provide additional assistance for production.

Lord Cockfield asked whether there were individual enterprises with surplus funds which could be used by others.

Dr Timár said that in the past the flow of cash had been vertical. The budget took away any surplus and gave to others. Of late, however, the Government had endeavoured to minimise this and enlarge the horizontal movement of capital. This was done through the bank, but it was not on a very big scale. Because of restrictions the amount of free capital was not very large. There were also other forms of horizontal movement. The Hungarians had introduced bonds; and there were a number of joint ventures between Hungarian enterprises. It was generally acknowledged that the rôle of the banks would increase in the future.

Dr Timár said that the Hungarians were being a little cautious. Some people supported the idea of a double-tier banking system to separate the credit bank from the National Bank. Others however opposed the idea.

Lord Cockfield asked about the level of personal savings in Hungary. Dr Timár said that, including everyone in the population, the level was about £300 a head for individual savings, but this was expected to improve. The way in which it might be improved was a matter of dispute. An increase in interest rates on deposits had been proposed, but there was opposition to this on the grounds that it would mean an increase in rates on loans for construction. And the question of who would and who would not benefit gave rise to political difficulties.

Lord Cockfield said that increasing the level of personal savings were crucially important for both Government and industrial finance. In the UK there was a great deal of institutionalised savings. But individual savings also provided funds for capital development. The problem in the UK was not a shortage of funds but rather a shortage of profitable ventures in to which those funds could be put. 30% of the UK GDP went into international trade. Unless capital was invested in profitable ventures it would be impossible to hold this level of exports.



After further courtesies the meeting closed.

A K GALLOWAY

September 1984



10 DOWNING STREET

THE PRIME MINISTER

20 July 1984

*File No
a No
Sir P. Cadogan*

My dear Ambassador,

I was sorry to learn that you will be leaving London soon to take up a new post in Budapest. Your time in London has covered an important period in Anglo/Hungarian relations. I have happy memories of my own visit to your country. I send my very best wishes to you and your wife for the future.

*Yours sincerely
Margaret Thatcher*

His Excellency Dr. Fezso Banyasz.

AB

PRIME MINISTER

THE HUNGARIAN AMBASSADOR

We made an appointment for him to pay a farewell call on you on 31 July. But we have now had to cancel this because of the Debate in the House of Commons.

Would it not be better to send him the attached letter instead, seeing how busy you are?

E.D.D.

19 July 1984



bc P.C.

58

10 DOWNING STREET

From the Private Secretary

17 July 1984

THE HUNGARIAN AMBASSADOR

Roger Bone wrote to me on 13 July about the Hungarian Ambassador's request to pay a farewell call on the Prime Minister. The Prime Minister has decided that she will in fact see him and an appointment has been made for Tuesday, 31 July at 1000 hours.

(C.D. POWELL)

C.R. Budd, Esq.,
Foreign and Commonwealth Office.

ES

B. R.

Charles.

1. Look!

10.00 - 10.30

TUE 31 July.

ck.

17/7.

PRIME MINISTER

May I please ask you to review your decision to see the Hungarian Ambassador.

For obvious reasons Robin and Andrew are asking me to fix all sorts of urgent, lengthy and important meetings between now and the end of July. I have very few gaps left.

See memo in August memo

Charles Powell assures me that a letter is sufficient and we do not wish to set a precedent for other Ambassadors.

Content for Charles to draft a letter for you to sign?

CR.

Caroline Ryder
16 July 1984



Foreign and Commonwealth Office

London SW1A 2AH

13 July 1984

PC ①

I really must see him. I had such an interesting visit with

*Prime Minister
Better not to start accepting farewell calls. A letter would be a nice gesture*

The Hungarian Ambassador

I mentioned on the telephone that Dr Banyasz had asked if he could pay a farewell call on the Prime Minister before he leaves on 1 August. (He is to be Head of the Government Information Service in Budapest). We agreed that such a call could set a difficult precedent and that a possible solution might be for the Prime Minister or you to write a short letter wishing him well. I enclose a draft.

*COP
13/7*

[Handwritten signature]

(R B Bone)
Private Secretary

C D Powell Esq
10 Downing Street

File 5/11

c.c. Sir P. Cradock



10 DOWNING STREET

From the Private Secretary

9 July 1984

*Dear Roger,*EC/HUNGARY

Thank you for your letter of 6 July on the current state of discussions between the European Community and Hungary on a possible trade agreement.

The Prime Minister was grateful to be brought up to date on this.

I am sending copies of this letter to Callum McCarthy (Department of Trade and Industry), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and Richard Hatfield (Cabinet Office).

C.D. Powell

R.B. Bone, Esq.,
Foreign and Commonwealth Office

CST.

CPC
②

Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

You asked to be brought up to date.

The Hungarian position on QRS is unreasonable.

See Answer

But the position of the EC/Hungary in the Community - is little better

6 July 1984

att. the main obstacle

MS

C.D.P. 6/7

Thank you for your letter of 28 June, in which you asked for a note of the current state of discussions between the EC and Hungary on a possible trade agreement.

You will remember that when Foreign Trade Minister Veress was in London in April, he brought with him a letter to the Prime Minister from Deputy Prime Minister Marjai, reiterating Hungarian demands in inflexible terms. On the key issue of Member States quantitative restrictions (QRs), the Hungarian line was particularly hard; the message was that Hungary regarded the abolition of these as her right as a GATT signatory, and saw no reason to pay a price for something which should have been conceded to her long ago. The Hungarians insist that any agreement should contain a commitment to the elimination of QRs, without reciprocal concessions from Hungary, either immediately or according to a fixed timetable; in sensitive sectors, they would be prepared to see QRs replaced by voluntary restraint arrangements.

Little progress has been made since then. At the most recent round of discussions between the Commission and Hungarian officials on 15/17 May, the Hungarians indicated some flexibility on the issues of access for their agricultural exports and of tariffs. But they remain intransigent on QRs. Against the background of this quite unnegotiable Hungarian position, the Commission has had difficulty in coaxing enough in the way of concessions from Member States to bring about any narrowing of the gap between the two sides. Its continuing unwillingness to give any lead by telling Member States what sort of a mandate it believes it to be necessary to tempt the Hungarians into serious negotiations has not helped.

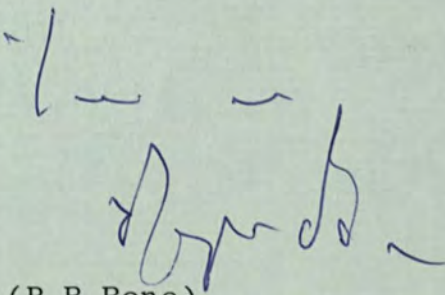
It is not clear whether the very hard line the Hungarians have been taking of late is a consequence of pressure from the Russians, or is based on their own judgement that the Community may not be able to offer them much. There is some evidence that after Andropov's death the Russian attitude hardened; at least that the Hungarians became sufficiently nervous of their position to take no risks. We understand from the French that when President Mitterrand was in Moscow, Gromyko complained that the Community, despite CMEA's readiness for contacts between the two organisations, had



tried to make contact with some of the CMEA's members behind the CMEA's back, with motives more political than economic. This seems to be a clear reference to Hungary, and to go some way to explain the recent Hungarian hard line.

The chances of an agreement, therefore, look slim in the short term. But the Commission still needs to make an effort to get Member States to show enough flexibility on quantitative restrictions to enable the Community to put together a reasonable negotiating hand. If they fail to do this, the Hungarians will claim that it is the Community's, and not their own inflexibility, which is responsible for the failure of the talks. We shall therefore continue to urge the Commission to give a lead in this, and Member States to follow it. We have been emphasising this in COREPER and Mr Rifkind spoke to Commissioner Haferkamp on these lines when he saw him on 3 July.

I am copying this letter to Callum McCarthy (Dept of Trade and Industry), Ivor Llewelyn (MAFF) and Richard Hatfield (Cabinet Office).


(R B Bone)
Private Secretary

C D Powell Esq
10 Downing Street

6 JUL 1984

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c Ac.

10 DOWNING STREET

From the Private Secretary

28 June 1984

You will have seen a copy of Alex Galloway's letter of 18 June to me about Lord Cockfield's proposed visit to Hungary and my reply.

The Prime Minister has asked in this context whether the problems between Hungary and the EEC have yet been sorted out. I should be grateful if you could let me have a note of the current situation in discussions between Hungary and the European Community.

(C.D. POWELL)

R.B. Bone, Esq.,
Foreign and Commonwealth Office.

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P.A.

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 FM FCO 041330Z MAY 84
 TO IMMEDIATE BUDAPEST
 TELEGRAM NUMBER 89 OF 4 MAY
 INFO SAVING UKREP BRUSSELS
 MARJAI'S LETTER TO THE PRIME MINISTER

ENVH 020/16	
RECEIVED IN REGISTRY NO. 15	
09 MAY 1984	
DESK OFFICER	REGISTRY
INDEX	PA

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1. THE FOLLOWING IS THE TEXT OF THE PRIME MINISTER'S REPLY TO THE LETTER OF 6 APRIL TO HER FROM DEPUTY PRIME MINISTER MARJAI. PLEASE ARRANGE FOR THE TEXT TO BE DELIVERED, AND ALSO SEEK AN APPOINTMENT WITH MARJAI FOR HM AMBASSADOR, ON RETURN TO BUDAPEST, TO HAND OVER THE SIGNED ORIGINAL WHICH FOLLOWS BY BAG.

2. BEGINS:

THANK YOU FOR YOUR LETTER OF 6 APRIL, TRANSMITTED TO ME HERE BY MR VERESS DURING HIS RECENT VISIT TO BRITAIN, AND FOR YOUR KIND WORDS. IT WAS A PLEASURE TO BE ABLE TO MEET MR VERESS AGAIN, AND HEAR OF THE SUCCESS OF THE HUNGARIAN BUSINESS WEEK 'HUNGARY TODAY'.

YOUR LETTER ADDRESSES FOUR MAIN TOPICS: RELATIONS BETWEEN HUNGARY AND THE EUROPEAN COMMUNITIES: THE ENCOURAGEMENT OF OUR BILATERAL TRADE: BRITISH CAPITAL INVESTMENT IN HUNGARY: AND THE QUESTION OF FURTHER CREDITS FOR HUNGARY. THESE MATTERS ARE ALL UNDER ACTIVE CONSIDERATION, EITHER IN THE DISCUSSIONS BETWEEN HUNGARIAN REPRESENTATIVES AND THE EUROPEAN COMMISSION OR BILATERALLY AT VARIOUS LEVELS. MR VERESS CONSIDERED THEM IN DEPTH WITH MY MINISTERIAL COLLEAGUES WHILE IN LONDON. I WOULD LIKE, IN THIS LETTER, TO SET OUT THE BROAD APPROACH OF THE BRITISH GOVERNMENT TO EACH OF THESE ISSUES.

I HOPE I MADE IT CLEAR IN BUDAPEST THAT THE UNITED KINGDOM HAS CONSISTENTLY AND FIRMLY SUPPORTED THE IDEA OF A TRADE AGREEMENT BETWEEN HUNGARY AND THE EUROPEAN COMMUNITY. WE UNDERSTAND, AND SHARE, HUNGARY'S DESIRE FOR AN AGREEMENT WITH REAL ECONOMIC SUBSTANCE. BUT THIS WILL REQUIRE FLEXIBILITY AND PRAGMATISM ON BOTH SIDES. WE ALL RECOGNISE THAT HUNGARY IS NOT

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A STATE TRADING COUNTRY IN THE WAY THE OTHER CENTRALLY DIRECTED ECONOMIES ARE, BUT IT IS NOT A FREE MARKET ECONOMY IN THE WAY THAT COUNTRIES IN WESTERN EUROPE ARE. THIS MUST AFFECT THE CONTENT OF THE NEGOTIATIONS. NOR IS IT POSSIBLE ONCE TRADE CONCESSIONS BY TEN WESTERN DEMOCRACIES ARE UNDER DISCUSSION MULTILATERALLY, TO RETAIN THE DEGREE OF CONFIDENTIALITY WHICH MIGHT BE POLITICALLY DESIRABLE. BUT I WELCOME THE CONTACTS NOW TAKING PLACE BETWEEN YOUR EXPERTS AND THOSE OF THE COMMISSION. I HOPE AND BELIEVE THAT IT WILL BE POSSIBLE TO IDENTIFY SPECIFIC AND ABOVE ALL PRACTICAL STEPS WHICH WILL BENEFIT BOTH SIDES, WILL ACKNOWLEDGE THE EVOLUTION OF HUNGARY'S ECONOMIC POLICIES AND WILL GIVE HUNGARY PARTICULAR BENEFITS.

THE SECOND PART OF YOUR LETTER RELATES TO WHAT YOU SEE AS OBSTACLES TO THE FURTHER DEVELOPMENT OF BILATERAL TRADE. WE IN BRITAIN BELIEVE THAT TRADE SHOULD BE CONDUCTED ON COMMERCIALY SOUND TERMS AND TO MUTUAL ADVANTAGE, PROVIDED ONLY THAT IT IS CONSISTENT WITH OUR BROAD SECURITY CONCERNS AND OUR INTERNATIONAL OBLIGATIONS. YOU WILL NOT EXPECT ME TO COMMENT IN DETAIL ON THE PAPER ANNEXED TO YOUR LETTER. WHILE, AS YOU HAVE RECOGNISED, THEY HAVE A RELATIVELY SMALL IMPACT ON HUNGARY'S EXPORT POTENTIAL, THE ARRANGEMENTS YOU MENTION HAVE A SPECIFIC PURPOSE IN THE CONTEXT OF CURRENT ECONOMIC CONDITIONS IN THE UNITED KINGDOM. I CAN ASSURE YOU, HOWEVER, THAT THEY ARE KEPT UNDER CLOSE REVIEW AND THAT THE UNITED KINGDOM IS COMMITTED IN PRINCIPLE TO THEIR REMOVAL WHEREVER POSSIBLE.

THERE ARE, OF COURSE, OTHER AND PERHAPS MORE SIGNIFICANT OBSTACLES TO THE FURTHER DEVELOPMENT OF BILATERAL TRADE. SOME OF THESE ARE NATURAL ONES, SUCH AS GEOGRAPHY, LANGUAGE AND TRADITION, BUT I THINK THE REAL OBSTACLE IS SIMPLY A LACK OF APPRECIATION OF EACH OTHER'S POTENTIAL AND THE OPPORTUNITIES AVAILABLE. IT IS FOR THIS REASON, I THINK, THAT THE PRESENT LEVEL OF ANGLO-HUNGARIAN TRADE DOES NOT PROPERLY REFLECT THE ECONOMIC POTENTIAL OF OUR TWO COUNTRIES. IT IS IN THIS AREA TOO THAT GOVERNMENTS ARE BEST ABLE TO HELP THROUGH SOME OF THE PROMOTIONAL ACTIVITIES WHICH YOU MENTION, IN BOTH THE UNITED KINGDOM AND HUNGARY. THAT IS WHY I WAS VERY PLEASSED TO HEAR OF

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THE SUCCESS OF THE 'HUNGARY TODAY' EVENT AND WHY I WAS HAPPY TO CONTRIBUTE TO THE 'BRITISH BUSINESS' SUPPLEMENT ENCOURAGING FURTHER COMMERCIAL LINKS BETWEEN THE UNITED KINGDOM AND HUNGARY. AS I SAID TO MR VERESS, THERE ARE PROMISING SIGNS THAT OUR TRADE IS PICKING UP, WITH RECORD LEVELS ACHIEVED IN BOTH DIRECTIONS LAST YEAR. I HOPE THAT WITH OUR MUTUAL EFFORTS WE SHALL SEE THIS GROWTH SUSTAINED.

ON INWARD CAPITAL INVESTMENT INTO HUNGARY, OUR POSITION IS CLEAR. NO OBSTACLES ARE PLACED IN THE WAY OF BRITISH INVESTORS WHO WISH TO INVEST ABROAD. THERE IS AMPLE EVIDENCE THAT THEY WILL DO SO IF THEY SEE COMMERCIAL ADVANTAGE. IT IS FOR HUNGARY, AS FOR ANY OTHER COUNTRY, TO CREATE A FAVOURABLE INVESTMENT CLIMATE AND TO BRING THIS TO THE NOTICE OF POTENTIAL BRITISH INVESTORS. MY GOVERNMENT CERTAINLY DOES WHAT IT CAN TO HELP PROMOTE KNOWLEDGE OF THE FACILITIES AVAILABLE FOR JOINT VENTURES AND INDUSTRIAL COOPERATION IN HUNGARY.

AS REGARDS HUNGARY'S CONTINUING NEED FOR CREDIT, I AM GLAD THAT THE UNITED KINGDOM WAS ABLE TO PLAY A CONSTRUCTIVE PART IN THE PROCESS LEADING TO HUNGARY'S ENTRY INTO THE IMF AND IBRD. WE SUPPORTED THE CURRENT IMF PROGRAMME FOR HUNGARY, AND I AM CONFIDENT THAT YOUR COUNTRY WILL BUILD ON THIS AND CONTINUE THE ADJUSTMENT EFFORT. THIS WILL HELP FURTHER TO UNDERPIN HUNGARY'S CREDIT-WORTHINESS AND MAINTAIN INTERNATIONAL CONFIDENCE.

I WELCOME THE POSITIVE RESULT OF HUNGARY'S COOPERATION HITHERTO WITH THE WORLD BANK. THIS SEEMS TO OFFER ENCOURAGING PROSPECTS FOR INCREASED PARTICIPATION BY COMMERCIAL BANKS (SUBJECT OF COURSE ALWAYS TO THEIR COMMERCIAL JUDGEMENT) IN CO-FINANCING AND OTHER FINANCING FACILITIES.

I HOPE THAT THE ABOVE IS REASSURING TO YOU IN RECONFIRMING THE UNITED KINGDOM'S POSITIVE APPROACH TO ECONOMIC AND COMMERCIAL RELATIONS WITH HUNGARY. IF WE ARE OPTIMISTIC ABOUT THE FUTURE, IT IS PRECISELY BECAUSE HUNGARY HAS SHOWN HERSELF TO HAVE A GOOD UNDERSTANDING OF THE MECHANISMS OF WESTERN ECONOMIES AND OF THE GREAT POTENTIAL FOR COOPERATION, AS WELL AS OF THE NECESSARY LIMITATIONS. I TRUST THAT WITH REALISM AND FLEXIBILITY WE CAN BUILD UP ON THE GOOD FOUNDATIONS ALREADY ESTABLISHED.

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10 DOWNING STREET

THE PRIME MINISTER

4 May 1984

My dear Professor,

Thank you very much for sending me the photographs of my visit to the Plant Research Institute in Hungary. I greatly enjoyed it and only wish I could have stayed longer. My warm regards to you and your colleagues.

Yours sincerely
Margaret Thatcher

Professor Dr. Sci. Biol. Péter Tétényi.

LB



file

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10 DOWNING STREET

From the Private Secretary

1 May 1984

Dear Kojan,

Thank you for your letter of 30 April with which you enclosed a draft reply to the one the Prime Minister had received from the Hungarian Deputy Prime Minister.

Mrs. Thatcher signed the draft as proposed and I enclose the top copy to be despatched to Budapest. In the meantime no doubt you will arrange for the Prime Minister's reply to be transmitted by telegram.

BF |

Tim Flesher

(Timothy Flesher)

R.B. Bone, Esq.,
Foreign and Commonwealth Office

BM



10 DOWNING STREET

THE PRIME MINISTER

1 May 1984

Dear Mr. Rajai:

Thank you for your letter of 6 April, transmitted to me here by Mr. Veress during his recent visit to Britain, and for your kind words. It was a pleasure to be able to meet Mr. Veress again, and hear of the success of the Hungarian Business Week 'Hungary Today'.

Your letter addresses four main topics: relations between Hungary and the European Communities; the encouragement of our bilateral trade; British capital investment in Hungary; and the question of further credits for Hungary. These matters are all under active consideration, either in the discussions between Hungarian representatives and the European Commission or bilaterally at various levels. Mr. Veress considered them in depth with my Ministerial colleagues while in London. I would like, in this letter, to set out the broad approach of the British Government to each of these issues.

I hope I made it clear in Budapest that the United Kingdom has consistently and firmly supported the idea of a trade agreement between Hungary and the European Community. We understand, and share, Hungary's desire for an agreement with real economic substance. But this will require flexibility and pragmatism on both sides. We all recognise that Hungary is not a state trading country in the way that the other centrally directed economies are, but it is not a free market economy in the way that the countries in Western Europe are. This must affect the content of the negotiations. Nor is it possible once trade concessions by ten Western democracies are under discussion

/ multilaterally,

Brd

multilaterally, to retain the degree of confidentiality which might be politically desirable. But I welcome the contacts now taking place between your experts and those of the Commission. I hope and believe that it will be possible to identify specific and above all practical steps which will benefit both sides, will acknowledge the evolution of Hungary's economic policies and will give Hungary particular benefits.

The second part of your letter relates to what you see as obstacles to the further development of bilateral trade. We in Britain believe that trade should be conducted on commercially sound terms and to mutual advantage, provided only that it is consistent with our broad security concerns and our international obligations. You will not expect me to comment in detail on the paper annexed to your letter. While, as you have recognised, they have a relatively small impact on Hungary's export potential, the arrangements you mention have a specific purpose in the context of current economic conditions in the United Kingdom. I can assure you, however, that they are kept under close review and that the United Kingdom is committed in principle to their removal wherever possible.

There are, of course, other and perhaps more significant obstacles to the further development of bilateral trade. Some of these are natural ones, such as geography, language and tradition, but I think the real obstacle is simply a lack of appreciation of each other's potential and the opportunities available. It is for this reason, I think, that the present level of Anglo-Hungarian trade does not properly reflect the economic potential of our two countries. It is in this area too that Governments are best able to help through some of the promotional activities which you mention, in both the United Kingdom and Hungary. That is why I was very pleased to hear of the success of the 'Hungary Today' event and why I was happy to contribute to the "British Business" Supplement encouraging further commercial links between the United Kingdom and Hungary. As I said to Mr. Veress, there are promising signs that our trade is picking up, with record levels achieved in both directions last year.

/ I hope

I hope that with our mutual efforts we shall see this growth sustained.

On inward capital investment into Hungary, our position is clear. No obstacles are placed in the way of British investors who wish to invest abroad. There is ample evidence that they will do so if they see commercial advantage. It is for Hungary, as for any other country, to create a favourable investment climate and to bring this to the notice of potential British investors. My Government certainly does what it can to help promote knowledge of the facilities available for joint ventures and industrial cooperation in Hungary.

As regards Hungary's continuing need for credit, I am glad that the United Kingdom was able to play a constructive part in the process leading to Hungary's entry into the IMF and IBRD. We supported the current IMF programme for Hungary, and I am confident that your country will build on this and continue the adjustment effort. This will help further to underpin Hungary's credit-worthiness and maintain international confidence.

I welcome the positive result of Hungary's cooperation hitherto with the World Bank. This seems to offer encouraging prospects for increased participation by commercial banks (subject of course always to their commercial judgement) in co-financing and other financing facilities.

I hope that the above is reassuring to you in reconfirming the United Kingdom's positive approach to economic and commercial relations with Hungary. If we are optimistic about the future, it is precisely because Hungary has shown herself to have a good understanding of the mechanisms of Western economies and of the great potential for cooperation, as well as of the necessary limitations. I trust that with realism and flexibility we can build up on the good foundations already established.

Kind regards,

Yours sincerely

Nargant Thakur

Caroline

Prime Minister


These were handed in at the door
today and are apparently of the
P.M.'s visit to Hungary.

30.4.84

Photos sent to the flat
for PM.

089, 3/5.

Thank you very much for
sending me their photostats of
my visit to the Plant Research
Institute at Wye. I greatly
enjoyed it and only wish I could
have stayed longer. My warm
regards to ^{your} colleagues. ~~them~~



Prof. Dr. Sci. Biol. Péter TÉTÉNYI

Membre correspondant de l'Académie Royale de Pharmacie de Barcelone

Membre correspondant de l'Académie Nationale de Pharmacie de France

Directeur à l'Institut de Recherche sur les Plantes Médicinales de Hongrie

Président du Groupe de Travail des Plantes Aromatiques et Médicinales de la SISH

Corresp. vice-présid. de la Section des Plantes Médicinales de la FIP

**H-1143 Budapest
9, rue Népstadion
Tél.: 634-474**

Wynants and
best souvenirs
from

30/4/84

Pete Dever



Foreign and Commonwealth Office

London SW1A 2AH

Please type

30 April 1984

John Linn

Hungary: Visit of Minister of Foreign Trade

With your letter of 9 April you enclosed a copy of a letter which the Prime Minister had received from Mr Marjai, the Hungarian Deputy Prime Minister. This letter was transmitted by the Hungarian Foreign Trade Minister, Mr Veress, during his recent visit.

We supplied briefing on Mr Marjai's letter for the Prime Minister's use during her meeting with Mr Veress. I now attach a draft substantive reply to Mr Marjai for the Prime Minister's consideration, to which the Department of Trade and Industry and the Treasury have contributed.

As you will see, the draft does not address in detail the specific points about the Hungarian approach to the EC, and certain perceived obstacles to bilateral trade, set out in the two annexes to Marjai's letter. The EC issues are for the Commission, which as you know is in touch with the Hungarians. The bilateral issues have been discussed at both official and Ministerial level, not least during Mr Veress's visit. The Prime Minister may agree that it would not be appropriate for her to get involved in what could become detailed negotiation by letter.

If the draft is acceptable, I suggest that it could be transmitted to Budapest by telegram and handed over by HM Ambassador there. The signed original could follow by bag.

John Linn
R B Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Reference

PRIME MINISTER

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Deputy Chairman of the Council
of Ministers of the Hungarian
People's Republic,
Dr Jozsef Marjai

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

Thank you for your letter of 6 April, transmitted to me here by Mr Veress during his recent visit to Britain, and for your kind words. It was a pleasure to be able to meet Mr Veress again, and hear of the success of the Hungarian Business Week 'Hungary Today'.

Your letter addresses four main topics: relations between Hungary and the European Communities; the encouragement of our bilateral trade; British capital investment in Hungary; and the question of further credits for Hungary. These matters are all under active consideration, either in the discussions between Hungarian representatives and the European Commission or bilaterally at various levels. Mr Veress considered them in depth with my Ministerial colleagues while in London. I would like, in this letter, to set out the broad approach of the British Government to each of these issues.

I hope I made it clear in Budapest that the United Kingdom has consistently and firmly supported

/the idea

Enclosures—flag(s).....

the idea of a trade agreement between Hungary and the European Community. We understand, and share, Hungary's desire for an agreement with real economic substance. But this will require flexibility and pragmatism on both sides. We all recognise that Hungary is not a state trading country in the way that the other centrally directed economies are, but it is not a free market economy in the way that the countries in Western Europe are. This must affect the content of the negotiations. Nor is it possible, once trade concessions by ten Western democracies are under discussion multilaterally, to retain the degree of confidentiality which might be politically desirable. But I welcome the contacts now taking place between your experts and those of the Commission. I hope and believe that it will be possible to identify specific and above all practical steps which will benefit both sides, will acknowledge the evolution of Hungary's economic policies and will give Hungary particular benefits.

The second part of your letter relates to what you see as obstacles to the further development of bilateral trade. We in Britain believe that trade should be conducted on commercially sound terms and to mutual advantage, provided only that it is consistent with our broad security concerns and our international obligations. You will not expect me to comment in detail on the paper annexed to your letter. While, as you have recognised, they have a relatively small impact on Hungary's export potential, the arrangements you mention have a specific purpose in the context of current economic conditions in the United Kingdom. I can assure you, however, that they

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kept under close review and that the United Kingdom is committed in principle to their removal wherever possible.

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On inward capital investment into Hungary, our position is clear. No obstacles are placed in the way of British investors who wish to invest abroad. There is ample evidence that they will do so if they see commercial advantage. It is for Hungary, as for any other country, to create a favourable investment climate and to bring this to the notice of potential British investors. My Government certainly does what it can to help promote

/knowledge

knowledge of the facilities available for joint ventures and industrial cooperation in Hungary.

As regards Hungary's continuing need for credit, I am glad that the United Kingdom was able to play a constructive part in the process leading to Hungary's entry into the IMF and IBRD. We supported the current IMF programme for Hungary, and I am confident that your country will build on this and continue the adjustment effort. This will help further to underpin Hungary's credit-worthiness and maintain international confidence.

I welcome the positive result of Hungary's cooperation hitherto with the World Bank. This seems to offer encouraging prospects for increased participation by commercial banks (subject of course always to their commercial judgement) in co-financing and other financing facilities.

I hope that the above is reassuring to you in reconfirming the United Kingdom's positive approach to economic and commercial relations with Hungary. If we are optimistic about the future, it is precisely because Hungary has shown herself to have a good understanding of the mechanisms of Western economies and of the great potential for cooperation, as well as of the necessary limitations. I trust that with realism and flexibility we can build up on the good foundations already established.

[Personal good wishes in manuscript]

HUNGARY: Relations
Pr 2



30 APR 1984

CEPC



HUNGARIAN PEOPLE'S REPUBLIC
MINISTER OF FOREIGN TRADE

Budapest "24"th April 1984.

Prime Minister

The Rt.Hon. Margaret Thatcher MP
Prime Minister

A. J. C. 3/5

10 Downing Street
London SW1

cc. Mr. Bone (FCO)

Mr. McCarty (DTI)

Dear Prime Minister,

On my return to Budapest I would like to say how very much I appreciated having the honour to be received by you during my visit to Britain.

MW

Your visit to Hungary earlier this year gave a further impetus to foreign trade between our two countries and raised interest in our week of Hungarian business technology and culture. The Government Departments and the representative trade bodies of your country have given us a lot of valuable assistance, which made possible the realisation of our "Hungary Today" event and we are most grateful for it.

It is our intention to develop further the Hungarian economy and this can provide opportunities for mutually beneficial co-operation between Hungarian and British industry. I can assure you that it is the wish of the Hungarian Government to see this co-operation expand. We will do our utmost to keep the momentum going for Hungarian-British trade relations.

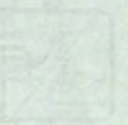
Finally may I thank you and your ministers again most warmly for your kind hospitality I received during my visit in London.

Yours sincerely

Károly Pál

GAARD DPLCMAT BORREGAARD

OSWALD DIPLOMA



BORREDAWARD

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MINISTER OF EDUCATION

REPUBLIC OF TEXAS

66

SUBJECT
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re case p.c.

10 DOWNING STREET

From the Private Secretary

11 April 1984

Visit of the Hungarian Minister of Foreign Trade

Mr. Veress called on the Prime Minister this afternoon for a discussion which lasted for about 25 minutes. The Hungarian Ambassador and Mr. Corley were present.

Mr. Veress said that he had been very well received in Britain. Indeed his reception had even surpassed his high expectations. The "Hungary Today" event was a real success and he was most grateful to the British Ministers and other authorities involved.

The Prime Minister recalled her own visit to Hungary, and said that she had greatly enjoyed it and that she had particularly profited from her most interesting talk with Mr. Kadar. Mr Veress said that he had seen Mr. Kadar last week and had been authorised to convey to the Prime Minister his best wishes and very sincere regards and respects. Both Mr. Lazar, and particularly, Mr. Kadar had underlined that the Hungarians would stick to the points they had made to the Prime Minister during her visit whatever comments might be received from other sources. Mr. Veress said that both the Hungarian leaders and the people had responded to the Prime Minister's natural frankness.

The Prime Minister stated that she remained worried about the uncertainty in the Soviet Union. Mr. Veress interjected that everyone was worried about this. The death of Andropov had been a loss for Hungary. We should all have to wait and see.

In response to a question from the Prime Minister, Mr. Veress confirmed that Mr. Kadar was in good health but Mr. Lazar, who had had two operations before her visit to Hungary, was not in the best condition.

/The Prime Minister

The Prime Minister then referred to Mr. Marjai's letter to her about economic relations with Britain and the European Community. She observed that Mr. Marjai had described Hungary's position as minimalist while others might have used the word maximalist. We would consider the letter in detail. Some of the requests in it would be difficult if not impossible to meet. The removal of quotas was particularly difficult in a time of recession.

The conversation then turned to the Hungarian economy. Mr. Veress said that Hungary had come through what he hoped was its most difficult period. The balance of trade had improved, living standards had been maintained and the equilibrium of prices and salaries sustained. On the other hand, the growth rate was still around 1 per cent while 2 per cent had been expected. And agriculture had been badly hit by a very severe drought. Negotiations continued with the IMF but they were hard negotiators. If these negotiations succeeded, Hungary's financing problem would be solved this year. He hoped for British help in this respect.

He wished to invite the Minister for Trade to visit Hungary and to extend a permanent invitation to Mr. Rees who was a good friend of his country.

Following further general discussion of the economic situation in Hungary and Britain, Mr. Veress said that he had watched the Prime Minister's Panorama interview with interest and would be taking a tape of it to Hungary to show to Mr. Marjai.

I am copying this letter to Roger Bone (Foreign and Commonwealth Office), Jonathan Rees (Department of Trade and Industry - Mr Channon's office) and John Gieve (Chief Secretary's Office).

Callum McCarthy Esq
Department of Trade and Industry.

B.R.

①

PRIME MINISTER

VISIT OF HUNGARIAN MINISTER OF
FOREIGN TRADE

You saw the main brief earlier. But since then he has passed to us a letter to you from Mr. Marjai. It is at Flag D.

You will wish to read this letter and the fresh briefing upon it which is attached.

A.S.C.

10 April 1984

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

10 April 1984

John John

Hungary: Visit of Minister of Foreign Trade

File D

Thank you for your letter of 9 April with which you enclosed a copy of the letter to the Prime Minister from Mr Marjai, Hungarian Deputy Prime Minister.

The letter addressed four main topics: the Hungarian approach to the EC; barriers to bilateral trade; investment of capital in Hungary; Hungary's continuing need for credits. I enclose a line to take and background notes.

The letter will need a carefully considered reply. We will let you have a draft in due course.

I should add that in the time available the enclosures have not been seen by the Secretary of State. I shall be showing him a copy in tonight's box.

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

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LETTER TO PRIME MINISTER FROM MR MARJAI, HUNGARIAN
DEPUTY PRIME MINISTER

POINTS TO MAKE

EC/Hungary

1. Understand that Hungary wants an agreement with real economic substance. So do we. But Member States will be unwilling to contemplate trade concessions unless Hungary for its part shows willingness to be flexible.
2. Mr Marjai's letter repeats conditions already set out in Hungarian response to Commission, which had a bad effect. He calls it a minimum, but it is in effect a maximalist line which makes it difficult for us to continue to argue - as we want to - that Community should show flexibility to make an agreement possible.
3. (If Hungarians express concern at publicity given to political aspect of agreement.) Recognise importance of not over-stressing this publicly. But fact of life that such subjects are discussed within Community institutions. Inevitably leaks once negotiations are engaged. Member States must justify to Parliament/public opinion economic concessions required to make agreement possible. All the more reason for Hungary to be flexible.
4. (If Hungarians repeat their desire not to be treated as state trader.) My strong personal advice is that it is neither necessary nor in Hungary's interest to become involved in this sort of theological argument. Any agreement will by definition put Hungary in a more favourable position than most state traders, and amount to an acknowledgement that

/its

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its economic policies are more liberal than theirs.

Bilateral Trade

5. We believe in trade on commercially sound terms, to mutual advantage, consistent with broad security concerns and our international obligations. We too are committed to remove wherever possible obstacles to growth.

Investment of Capital

6. Investors in the UK are free to take up available opportunities and will do so if they see commercial advantage. Up to Hungary to encourage favourable investment climate.

Hungary's Need for Credit

7. Results of cooperation with the World Bank offer encouraging prospects for increased participation by banks (subject to commercial judgement) in co-financing and other financing facilities.

8. We supported the current IMF programme for Hungary. Important for Hungary to build on this and continue adjustment effort. This will help to restore credit worthiness and maintain international confidence.

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LETTER TO PRIME MINISTER FROM MR MARJAI, HUNGARIAN
DEPUTY PRIME MINISTER

ESSENTIAL FACTS

EC/Hungary

1. The letter sets out the basic Hungarian position. Mr Marjai reiterates conditions already set out in Hungary's formal response to the Commission in February - immediate removal of quantitative restrictions, substantial concessions on agriculture, no reciprocity, no safeguards - as well as demanding tariff concessions which by implication would give Hungary EFTA conditions and repeating the argument that Hungary should not be treated as a state trader.
2. Some Hungarian officials seem to accept that this maximalist line is ill-judged and have made efforts to soften its impact, stressing continued Hungarian desire for agreement. But Marjai's letter must be taken as evidence of continuing disagreement in Budapest over Hungarian objectives and how to achieve them. Marjai is probably unconvinced that a trade agreement with the EC is worth having, because of the problems it would cause with the Soviet Union, unless it were much more favourable than seems likely to be possible.
3. We continue to believe that the Community should take proper account of the political argument in favour of an agreement but we have always recognised that it would be difficult to negotiate an agreement which was acceptable in economic terms to Member States (none of whom have been as ready as we have been to negotiate seriously on the

/Hungarian

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Hungarian demands). Our line with the Hungarians has therefore been that while we remain anxious to help, they must help themselves. There is no prospect that the Commission could draft a credible negotiating mandate in the face of such inflexibility, and we would not ask them to do so.

Bilateral Trade

4. The Hungarian requests are familiar, and will have been discussed in detail by DTI Ministers.

Investment of Capital in Hungary

5. There are no obstacles to British investment in Hungary. It is up to the Hungarians to make conditions attractive.

Credit

6. Although we supported Hungary's current IMF programme in the IMF board last January, it is not as tough as it needed to be. We believe the Hungarians intend to introduce further economic measures this summer and to replace their existing one year stand by credit with a stronger 18 month stand-by. If this enables them to develop a more comprehensive structural adjustment programme, we should be able to support it.

Hungary Relats Pt 2
Blup



D 288

10 DOWNING STREET

From the Private Secretary

9 April 1984

HUNGARY: VISIT OF MINISTER OF FOREIGN TRADE

I enclose a copy of a letter which the Prime Minister has just received from Mr. Marjai, the Hungarian Deputy Prime Minister. This was handed to the Chief Secretary by Mr. Veress earlier today.

BF | I should be grateful if you would let me have by tomorrow evening, in the light of the call by Mr. Veress on the Prime Minister the next day, briefing on this letter and advice as to how the Prime Minister should comment on it to Mr. Veress.

In due course, I should be grateful for a draft reply for the Prime Minister to send to Mr. Marjai.

I am sending copies of this letter and enclosure to Callum McCarthy (Department of Trade and Industry) and John Gieve (Chief Secretary's Office, HM Treasury).

A. L. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office.



JF6271

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 215 7877

cell

6 April 1984

John Coles Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

*Pl. put in meeting folder
for box on 10 April.
AKG*

Dear John,

HUNGARY

... Further to your letter of 15 March, I enclose a brief for the Prime Minister for her meeting with Mr Veress, Hungarian Minister of Foreign Trade, on 11 April. This has been agreed with the Foreign and Commonwealth Office. I understand that Mr Veress will be accompanied by Mr Banyasz, the Hungarian Ambassador in London; Mr Peter Corley, Under Secretary, will attend from this Department.

... 2 I also enclose for your information a copy of this week's "British Business" magazine, for which the Prime Minister kindly agreed to provide a message wishing "Hungary Today" success.

3 I am sending a copy of this letter to Paul Pegler (Mr Peter Rees' office) and Peter Ricketts (Sir Geoffrey Howe's office).

*Your sincerely,
Ruth*

RUTH THOMPSON
Private Secretary

Encls

- 6 APR 1984



COPIES

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CALL ON PRIME MINISTER BY MR PETER VERESS (VEY-RESH) HUNGARIAN
MINISTER OF FOREIGN TRADE, 16.30 WEDNESDAY 11 APRIL 1984

POINTS TO MAKE (References are to paragraphs in Background Note)

1 Welcome. Hope Mr Veress has had a successful and enjoyable programme so far. Wish the 'Hungary Today' event every success.

Bilateral Relations [Paras 3-5] : w

2 Glad that our bilateral relations are in good shape. UK wishes to intensify dialogue with East European countries in all fields. Ministerial visits invaluable in achieving a better understanding. Attach importance to relations with Hungary: see prospects for development, especially in commercial economic and cultural fields.

3 Do not disguise differences between us, especially in foreign policy, defence: but we share many common interests. Hope to build on these for their own sake, and as contribution to improving broader East/West climate. Glad also to have been able to assist Hungary in contacts with financial institutions and ~~over~~ approach to EC.

UK/Hungarian Trade [Paras 11-13]

4 Note that 1983 saw a substantial improvement in trade, to reach record levels. Hope this can be sustained. Welcome Mr Veress's views on future trends and prospects.

UK Market

5 UK is a sophisticated market. Wide choice exists for consumer. Success in it depends on price, quality, packaging and marketing. Pleased to see that Hungarian exporters are paying particular attention to the quality and marketing of their goods. 'Hungary Today' a good example of this.

Hungarian Market [Paras 14-15]

6 Note UK interest in Hungarian contracts eg. British Aerospace in supplying HS146 to Malev, Davy McKee's in the modernisation of aluminium plants, and Foster Wheeler Power Products in boiler plants.

7 Also strong links - including active cooperation agreements - between UK companies and Hungarian enterprises, particularly in the chemical, engineering, light industry, and electronics sectors. Hope these links can be strengthened and business further developed.

EC/Hungary Trade Agreement [Paras 16-20]

8 The UK still welcomes the possibility of a trade agreement. Hungary needs to reaffirm to the Commission and other Member States that it is willing to be flexible on detailed economic concessions, while adhering to its well-known points of principle.

DEFENSIVE POINTSProtective Measures [Para 13]

9 Few quantitative restrictions remain on Hungarian imports into the UK. Unlikely to impose serious impediment to Hungarian exports. Necessary to assist industries in serious difficulties in UK. Further substantial relaxations are matter for discussion in context of the proposed bilateral agreement between Hungary and the EC.

CALL ON PRIME MINISTER BY MR PETER VERESS, HUNGARIAN MINISTER OF FOREIGN TRADE, 16.30 WEDNESDAY 11 APRIL 1984

BACKGROUND NOTE

This is a courtesy call. Mr Veress (Vey-Resh) will be accompanied by Dr Banyasz (Barn-Yars), the Hungarian Ambassador (personality notes at Annex A). The Prime Minister met Mr Veress during her visit to Hungary in February. He is now visiting the UK as the guest of Mr Channon, Minister for Trade. His visit coincides with a major Hungarian commercial and cultural promotional event, "Hungary Today", of which he is co-patron with Mr Channon. (A note on the event is at Annex B). The rest of his programme will be taken up with Ministerial and commercial calls (See Annex C).

2 To mark the visit and the "Hungary Today" event the DTI's magazine "British Business" is issuing a special supplement on Hungary, to which the Prime Minister has contributed.

Bilateral Political Relations

3 In recent years, political relations have been cordial although not substantial given Hungarian support of USSR in foreign affairs/defence. These have been boosted significantly, however, by Prime Minister's visit, which symbolised the improvement in bilateral relations as well as the government's wish to develop a dialogue with the Soviet Union and Eastern Europe as a whole. The UK also helped over Hungarian access to the IMF/IBRD; and has actively urged EC partners to be forthcoming over the Hungarian approach for a trade agreement and Hungarians know this.

4 Mr Kadar - Party Leader since 1956 - has based Hungary's internal policies on the principle of national reconciliation ('he who is not against us is with us'). Economic reforms were aimed at raising living standards, increasing efficiency, respect for market forces, facilitating co-operation with market economies. There is some

recent evidence of concern that the arrival of Mr Chernenko may lead to pressure to slow down reforms. Hungary's internal policies are less restrictive than in some other Eastern European countries, and public opinion is taken into account; but Hungary remains totally loyal to the USSR/Warsaw Pact in foreign and defence policies.

5 During current East/West tension Hungary has continued to work for contacts with the West. There are signs that economic reform may be spilling over into political areas. Hungary recognises her potential vulnerability, however; and she will in many respects remain an orthodox communist country for the foreseeable future.

Commercial Relations

6 Our commercial relations with Hungary, both at the governmental and business level, are generally good. A bilateral framework is provided officially by the annual UK/Hungarian Joint Commission (next meeting in London, June 1984) and is reinforced in both directions by various visits and events.

Hungarian Economy

7 Hungary is the most market-oriented country in the CMEA, and has a private sector which contributes about 20% of GDP mostly in agriculture, small scale manufacturing and services. There has been a determined effort to decentralise, to respond to consumer demand and to reduce subsidies.

8 Hungary lacks most industrial raw materials and relies heavily on manufacturing and agriculture for its economic output. Exports, comprising 40% of total output, are divided evenly between CMEA and the outside world. It has a higher proportion of trade with non-socialist countries than does any other East European country. Hungary is therefore heavily dependent on foreign trade.

9 The Hungarian economy is however in some difficulty. It faces problems of debt, low productivity and expensive energy. World recession, an adverse change in the terms of trade and high interest rates, combined with a vulnerability to creditors' loss of confidence, forced Hungary to introduce austerity measures (including import restrictions) in 1982 and to slow down the economic reform. The Hungarians recognise that we helped at the worst stage in the 1982 crisis. The UK made a significant contribution to special loans from Western central banks and this prompted renewed commercial bank lending. Assistance was also made available through the IMF and the World Bank.

10 The Government's immediate objectives are to preserve international solvency and to protect living standards. The pressures are expected to ease slightly in 1984 but debt service obligations are likely to remain high. Hungary will continue to depend heavily on exports, especially to the West (hence the attempts to secure a reduction in EC import restrictions, particularly on agricultural goods and manufactured exports).

UK/Hungarian Trade

11 UK/Hungarian trade is modest compared, for instance, with West Germany (FRG) and Austria. However, it did reach a record level in 1983 as the following figures show:

	<u>£m</u>					
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>FRG*</u>	<u>Austria*</u>
UK Exports	69.0	84.2	77.4	91.8	482.4	219.0
UK Imports	43.3	40.8	44.0	53.8		
Balance (in UK's favour)	25.7	43.4	33.4	38.0		

*1983 exports to
Hungary

The increase in UK exports compares with a 9% fall in total exports to Hungary from the developed West as a whole.

12 Our traditional main exports to Hungary have been chemicals, machinery and equipment, non-ferrous metals and textile yarns and fabrics. Our main imports are clothing, chemicals, fruit and vegetables, electrical equipment and footwear.

13 A continuing bone of contention for the Hungarians has been the UK's remaining quantitative restrictions on some of their goods. These are now fairly minimal, however, and Mr Veress admitted to the Foreign Secretary last year that their removal was more a point of principle than a serious impediment to UK/Hungarian trade. Any substantial relaxations are only likely in the context of a possible EC/Hungary Agreement (see paras 16-20).

UK Industrial Interests

14 Given the present state of the Hungarian economy, there are few new opportunities for major projects. Potential business includes Davy McKee (Poole) Ltd who are involved in a study with the Hungarians on the modernisation of two aluminium plants (worth up to £25m); British Aerospace - possible sale of HS146 to Malev (Hungarian state airline) (£50m); Dowty Hydraulic Units Ltd have supplied equipment for marshalling yards and additional sales could be worth £10m; Telestage Associates Ltd are negotiating a £4½m contract for the staging and equipment for the new National Theatre in Budapest; and Foster Wheeler Power Products Ltd are bidding for boiler plants.

15 Most trade with Hungary will, however, continue to be in day-to-day business in semi-manufactures, components, and industrial consumables. The UK already does regular business in these areas, particularly in the chemical sector (including ICI, Shell, BP and the Wellcome Foundation); electronics and electrical engineering (GEC, ICL, Plessey);

and the energy sector (Babcock Contractors, Ingersoll Rand, and Dowty Mining). The energy sector is particularly promising and Mr Giles Shaw, PUSS/Energy, will be visiting Hungary later this year.

Possible EC/Hungary Agreement

16 Hungarian interest in an EC Hungary trade agreement was first raised in 1983; we earned Hungarian gratitude by our positive response. UK Ministers have consistently urged our partners to take full account of the political dimension as well as the narrow commercial considerations which on their own would produce a negative EC response; it is in the Community's interests to encourage economic and political diversity in Eastern Europe by strengthening links with a country which seeks a limited economic departure from Communist orthodoxy.

17 The Hungarian requests have not always been expressed consistently, but concentrate on improvements in three areas: tariff concessions, abolition of quantitative restrictions (QRs) on Hungarian industrial exports, and agriculture. Member States, despite protestations of political goodwill, have been much less forthcoming in these areas than the UK and the Commission has made little headway in putting a negotiating position together. When Haferkamp (Vice President of the European Commission) met Veress in January the Hungarians appeared to becoming more flexible in their demands.

18 The January Foreign Affairs Council reacted cautiously but not discouragingly to these signals, and the Commission undertook to put forward a draft mandate as soon as possible after the Hungarians had indicated that they wanted to open negotiations. However, the considered Hungarian response was very negative, emphasising that the Hungarians needed to know the full extent of the concessions which they could expect from the EC before entering into

negotiations, and restating their conditions - immediate removal of all QRs, no reciprocity, no safeguards, substantial concessions on agriculture.

19 The Hungarians have since realised that this response was badly received. They have been at pains to stress therefore that their response was designed to set out the sine qua non of their position and that their attitude towards an agreement continues to be positive.

20 Contacts have been restored and the Hungarians have accepted that there should in due course be expert meetings to discuss the details of any possible agreement. Preliminary discussion has begun amongst EC Member States on the content of a draft mandate but no conclusions have yet been reached. We continue to argue that the EC's attitude should be governed by the political importance of an agreement while emphasising to the Hungarians that they will have to show some flexibility if Member States are to have any incentive to focus on content.

OT4/1D

Department of Trade & Industry

April 1984

negotiations, and restating their conditions - immediate removal of all QRs, no reciprocity, no safeguards, substantial concessions on agriculture.

19 The Hungarians have since told our Embassy in Budapest that their response was only designed to set out the sine qua non of their position, while their attitude towards an agreement continued to be positive. The Commission is neither inclined to treat the Hungarians' response as a definitive rejection, nor to appear eager to resume discussions on this unhelpful basis. It is certainly not prepared to have a draft mandate at present.

20 The position will be reassessed when Member States have had time to consider the Hungarian reply and to take soundings through their Budapest Embassies. We have already told the Hungarians that their response has been badly received, and that they should not overestimate the strength of their hand to the extent of giving EC Member States no incentive at all to focus on the possible content of an agreement.

OT4/1D

Department of Trade

April 1984

PERSONALITY NOTE

PETER VERESS (Vay-resch)

1. Minister of Foreign Trade since March 1979. Member of the Central Committee.

2. Born 1928 in Transylvania. Having served as Commercial Counsellor at Damascus and Tel Aviv, and as a Deputy Head of Department in the Ministry of Foreign Trade, he was appointed Deputy Minister in March 1971. Responsible for general economic and theoretical questions, he frequently acted as publicist for his Ministry. He was appointed Ambassador to France in December 1974. Succeeded József Biró as Minister of Foreign Trade in March 1974. He has been a member of the Central Committee since March 1980 and of the State Planning Commission since June 1980, when he was also appointed a member of the Economic Policy Committee of the Council of Ministers.

3. In 1972 he attended the Third Anglo-Hungarian Economic Colloquium organised by the Great Britain/East Europe Centre. In November 1973 he received Mr Amery during the Minister of State's official visit. Visited Britain at the invitation of the Minister of Trade, February 1981. Was host to Peter Rees (Minister for Trade) in Budapest in October 1981.

4. Married, he speaks fluent English.

5. Very westernised. He has a relaxed, easy manner and answers questions frankly. A keen theatre-goer.

DR REZSŐ BÁNYÁSZ (BARN-YARS)

Hungarian Ambassador in London

Born 1931

Graduated from Budapest University Faculty of Law in 1954: became Foreign Editor of "Magyar Ifjusag" and then "Népszava" until he joined the MFA in 1961, working in the Press Department. Press Attache in Stockholm 1962-68, then Deputy Head and later Head of Press Department, MFA, 1968-72. Personally chosen by the Foreign Minister to be deputy Permanent Representative of Hungary to the United Nations 1972-76. Secretary of the Committee for European Security and Co-operation 1976-78. Deputy Head of the Hungarian Delegation at the Belgrade Conference. Head of Press Department, MFA, from March 1978 until July 1981.

Married with two children. His wife speaks English; he speaks English, German and Swedish. A pleasant and helpful man, an active Head of Department and proving to be an energetic and constructive Ambassador.

'HUNGARY TODAY' - A WEEK OF HUNGARIAN BUSINESS, TECHNOLOGY
AND CULTURE, 9-13 APRIL 1984

Opening Ceremony, CBI, Centre Point, Monday 9 April. Opening
address by Mr Veress and Sir Anthony Rawlinson, Permanent Secretary,
DTI.

Exhibition of Hungarian goods and services at the Kensington
Exhibition Centre (9-13 April). Including exhibitors in the
following sectors:

- Engineering
- Electrical Equipment and supplies
- Chemical industry
- Computers and Software
- Agriculture and food industry
- Textile and leather industry
- Furniture and Furnishings

To be opened by Mr Veress, 10.00, Monday 9 April.

Technical Presentations, 9-12 April (London and Manchester)

A seminar programme has been organised in cooperation with the CBI,
the East European Trade Council, the London Chamber of Commerce
and Industry, and the Manchester Chamber of Commerce and Industry
in the following areas:

- Computer technology
- Machine tools
- Nuclear Power
- Chemicals
- Power generation and distribution
- Textile industry

Cultural Presentations 9-13 April

This will comprise:

- A Hungarian Film Week
- Sculpture Exhibition
- Medal Exhibition

PROGRAMME FOR MR VERESS

SUNDAY	8.4.84		ARRIVAL AT 11.40 (MA 610)
MONDAY	9.4.84	10.00	Opening of 'Hungary Today' (Mr Rees to attend) at Kensington Exhibition Centre
		11.00	Reception at Exhibition site
		12.00	Lunch hosted by Lord Shackleton
		15.00	Opening ceremony at CBI. Sir Anthony Rawlinson to be present
		16.30	Reception
		Evening	Theatre visit hosted by Mr Rees "Hay Fever" at Queens Theatre
TUESDAY	10.4.84	9.30	Call on Sir Campbell Fraser (CBI)
		11.30	Call on Deputy Governor of Bank of England
		15.15	Call on Mr Tebbit (SoS)
			Private programme
		Evening	Dinner to be given by Hungarian Ambassador
WEDNESDAY	11.4.84	9.30	Call on Mr Channon
		11.00	Call on Sir Geoffrey Howe
		12.00	Lunch at Carlton Gardens hosted by Mr Channon
		15.45	Call on Mr Rees
		16.30	Call on PM
		18.00- 20.00	Hungarian reception
		Evening	Free
THURSDAY	12.4.84	9.30-10.30	Visit to Wellcome Foundation
		Departure	MA 611 12.40

As at 5.4.84

Deputy Chairman of the Council of Ministers
of the Hungarian People's Republic

Dear Mrs Thatcher,

I do not think there is need to explain how much I appreciate Your recent visit to Hungary, Your talks and Your attitude. I believe that this had and will have in the long run outstanding importance not only in the relations between our countries and peoples but, taken as a whole, its international effect too, has positive characters. For this I am grateful to you personally as well.

I would particularly like to thank you for Your patience and understanding expressed concerning our international economic and financial problems during the talks of Your programme. I would like to seize the opportunity You were kind enough to offer that - should the occasion arise - I may come back to the detailed explanation of these problems.

For the survival, continuation and, respectively, further development of all those appreciated by You during Your visit, we need, in respect of Hungary, decisive changes manifested now not only in words but first of all or exclusively in deeds, on the part of our industrial trading partners. The practical effect of these changes should be perceptible for us already in the nearest future. As I already mentioned to You during our talks, these changes can be listed according to the following major issues:

1. Improvement in our access to the market, reduction in our disadvantages of non-market nature. For Hungary this means complying with the rules of competition prevailing on the market of the developed industrial countries, - but at the same time, elimination of the direct and indirect discriminations and disadvantageous practices in force and lowering those hidden barriers which are applied against us by these countries. The existence of these barriers are partly linked with the European integration, partly with our bilateral relations.

I deem it necessary to emphasize that our ideas and proposals in connection with the European Economic Community have not changed in the slightest degree in relation to those explained by me during my visit to London last year and which - to our satisfaction - were received by Your colleagues with full understanding.

The essence of the Hungarian position is our country's wish to be judged such as she is - according to her merits - and that this, please forgive me for repeating myself, be fully manifested not only in words but also in the actual regulation and treatment applied to us.

We have already expressed that we find the "state trading country" category meaningless, schematic and incompatible with the reality, because it applies to countries which have different trade policies and systems of economic management. As far as Hungary is concerned, such a treatment is obviously in contradiction with all what You said about our country in relation with her participation in the international division of labour, trade policy, and system of economic management.

We are convinced - and we can prove this with facts - that aside from political prejudice, there is absolutely nothing to support the different treatment of Hungary from other European non-Community countries by the EEC.

Our three-point practical proposition was prepared in accordance with our position of principle. This was handed over to the Commission in writing /please find its summary enclosed/. The proposition envisages:

- a./ the elimination of quantitative restrictions;
- b./ in some agricultural commodity groups an - otherwise modest - improvement for Hungary's export possibilities;
- c./ from the point of view of tariffs, the treatment of Hungary which equals with that enjoyed by other third countries having the same national income per capita.

Our proposal is consistent. For the Community its acceptance would be a move of insignificant degree, but for Hungary already this step would mean a definitive departure towards a relationship free from artificial barriers. Our proposal /the short summary of which is attached/ does not serve as a starting point for bargaining, but constitutes a minimum which, together with the acceptance of the principles, is absolutely necessary for us in order to conclude an agreement with the Community. If the Community, in spite of the political decision of the member countries, is unable to make this extremely modest step, we will be compelled to draw very embarrassing conclusions from this. In this connection it is particularly disturbing that while we comply with the understanding stipulating that before concluding the arrangement on the essential elements of the agreement between the Hungarian People's Republic and the European Economic Community, the public will not be informed, others do not act the same way. This understanding is permanently

violated and the Hungarian position often misinterpreted by various sources, particularly by certain circles of the Community and this can, in most of the cases, discredit us.

2. Bilaterally, the dismantling of barriers and the progress in the field of development and encouragement of economic cooperation with our economic partners in Western Europe are equally important for us. In this respect we have achieved certain results between Hungary and the United Kingdom. We would like to accelerate this development, being also aware of the fact that this offers advantages not only for us. /Please also find enclosed the relevant short summary./

3. Investment of capital in Hungary.

For centuries Hungary has been suffering from scarcity of capital and this hampers her development. Currently this situation is particularly depressing for us. For a long time we have initiated - and recently this has been given greater importance - the participation of foreign capital, particularly in the form of joint ventures, in the Hungarian manufacturing sector and in all other kinds of investment which result directly or indirectly in additional profit or improved position for the investor and which make use of the comparative advantages offered by us. The appropriate legal regulation was created already a while ago, we tried to make it attractive for foreign capital. The required guarantees also exist.

In this respect it is very important for us that appropriate circles in the United Kingdom's economy receive encouragement from Her Majesty's Government.

4. Normalisation of Hungary's treatment in the field of credit and finances.

The temporary credit blockade vis-a-vis us undoubtedly

ceased to exist and now Hungary can - to the necessary extent - have access to credits. These credits are, however, both in regard to maturity and other conditions still so burdensome that a country on our level of development which is poor in capital and which, naturally, has to make use of credits, cannot permanently endure them. Therefore it is indispensable that the International Monetary Fund offer us meaningful credit support, - at least until 1985, - both regarding our adjustment programme and the further development of our economic management system. It is equally important for us that our good cooperation with the World Bank should be further strengthened and that commercial banks restart offering - beside their current short- and medium-term credits - real medium-term, 5-7 year development loans, their interest-surcharge, commission and other requirements being reduced to the minimum.

These are the most important points in which we expect perceptible changes in the short run from the developed industrial countries. They are indispensable for us and we do not want to abandon them.

I request You and, at the same time, I strongly hope that in all these questions we can rely not only on Your personal understanding but active support as well. I also hope that You and Your colleagues will be able to urge the most important corporations and persons in Britain's economic and financial life to do the same.

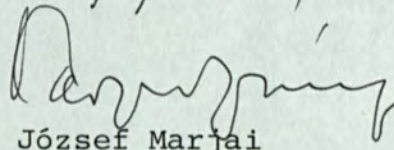
Please forgive me for taking up Your time and patience again but I was convinced that the issues elaborated above coincide with Your beliefs and

with the short and long-term interests of the United Kingdom as well.

Please permit me to make use of this opportunity to wish You personal happiness and further successful activities.

Accept, Madame Prime Minister, the assurances of my highest consideration.

Sincerely yours,



József Marjai

Budapest, 6/4/1984.

The Rt. Hon. Margaret Thatcher
Prime Minister
of the United Kingdom of
Great Britain and
Northern Ireland
L o n d o n

During the past 12 months, representatives of the Hungarian Government indicated on a number of occasions to officials of the member countries of the European Community their readiness to initiate a new approach in commercial political relations with the EEC and pursue a policy of cooperation, provided that similar constructive attitude and political goodwill can be experienced on the side of the Community.

The Hungarian initiative was prompted by the fact that the Community - representing 40 per cent of the non-CMEA and 60 per cent of the OECD trade in Hungary - is a significant trading partner in spite of the disadvantageous trade policy conditions we face there /Common Agricultural Policy, discriminatory quantitative restrictions, tariff disadvantages/. Consequently, ever since the Community was established, Hungary has always had a deficit in her trade with that region and about half of our present external debt was accumulated there. Due to the introduction of the Common Agricultural Policy the share of agricultural and food products in total Hungarian exports has dropped from the previous 58 per cent to the present 28 per cent.

The Hungarian side also indicated that in case substantial improvement can be achieved in the above-mentioned detrimental conditions, the outcome could be incorporated in a bilateral trade agreement between the Community and Hungary. The idea was welcomed and supported by representatives of the British Government, and this is very much appreciated in Hungary.

In the course of the negotiations to conclude a trade agreement, the following problems have to be solved:

- Substantial improvement in the conditions /tariffs, levies, etc./ affecting Hungarian agricultural exports - including beef - to the Community markets, /detailed request list was presented to the Commission/. The proposals took careful note of the existing precedents in the practice of the Community and asked only for such tariff and levy reductions that some other countries already enjoy. If all the requests presented in the list mentioned above were granted, the concessions would mean increased possibilities for Hungarian exports equal to 0.74 per cent of all the agricultural imports of the Community.

- Unequivocal guarantee for the implementation of the provisions of Hungary's Protocol of Accession to GATT, signed by the member countries and also by the Community, to eliminate the still existing discriminatory quantitative restrictions. According to Hungarian estimates the increase of Hungarian exports as a result would not exceed 0.01 per cent of the total imports of the Community from all countries.

At this point it must be emphasized that the Hungarian side cannot accept any legalisation of discriminatory measures and practices, maintained by the Community or by its member states in their trade with Hungary. Consequently any bilateral agreement to be concluded should either establish the fact that the Community and the member countries have eliminated all quantitative restrictions inconsistent with Article XIII. of GATT or provide for a time-framed schedule for the implementation of Paragraph 4 of the Protocol of Accession. Measures taken to this effect cannot be regarded as concessions made by the Community or its member states, to be reciprocated in any manner by Hungary.

- To safeguard the legitimate interest of domestic producers against the possible harmful effects of increased

Hungarian exports as a result of measures taken under the previous paragraph, the above-mentioned Protocol of Accession contains a selective safeguard mechanism and price clause accepted by Hungary. Therefore there is no justification for any new safeguard measures other than those provided under Paragraph 5 of the Protocol of Accession.

- The idea of "effective reciprocity" is not acceptable for the Hungarian party.

- As a result of the progressive development of integration inside and outside the Community /i.e. associations, free trade agreements, preferential treatments for some countries/ a vast majority of exports to the Community /about 80 per cent/ are dutiable at zero or very advantageous rates compared with the most-favoured-nation duties paid on Hungarian goods. This puts Hungarian exporters in a very disadvantageous position when competing in the Community market. Any agreement to be concluded should aim at significantly reducing the tariff differences.

Hungary's request as regards tariffs is to be treated by the member countries of the Community the same way as other countries, with approximately the same national income per capita.

Continued help and support from the British side to achieve the above-mentioned objectives during the forthcoming discussions would be very much appreciated.

61 350

In view of the total external trade of the two countries, the level of Anglo-Hungarian trade is relatively low and does not reflect the economic potentials they possess. Although it is rather difficult to make a comparison in value, statistics prove that in the period before World War II, Britain's share in Hungarian exports was much higher than to-day. Even immediately after the war, economic relations were at a relatively higher level than to-day, due to the increased demand for foodstuffs in Britain and for industrial goods in Hungary. It is reasonable to believe that Anglo-Hungarian trade currently offers a great many as yet unexploited possibilities for development.

The authorities can usefully contribute to the efforts of businessmen and industrialists in the expansion of trade by trade promotion actions such as the British Technical Days held in Budapest in February and the Hungarian Week which is to take place in Britain in April this year. Furthermore the authorities should establish appropriate conditions for the development of business activities. Hungary's considerable adverse balance of trade with Britain draws the attention to the importance of increasing Hungarian exports to Britain. We face problems especially in the following areas:

- Quantitative restrictions applied to Hungarian goods. The products in question represent only 4-5 per cent of goods imported annually into Britain from Hungary, consequently these restrictions can hardly be justified by economic reasons. Furthermore, Britain committed herself to eliminate progressively those quantitative restrictions applied to Hungarian goods which are not consistent with Article XIII. of GATT. Although these restrictions are applied formally by the Community, their elimination or relaxation is up to British decision.

58
- The expansion of Hungarian exports into Britain is also hindered by the so-called sectoral agreements concluded in the framework of GATT - e.g. agreement on steel, on textiles /MFA/, etc. As regards the latter, the restrictive effect is enhanced by the rather bureaucratic and time-consuming process involved with the regrouping of quotas.

The lack of an extra quota for outward processing of textiles is also disadvantageous for us. Unlike some member countries, Britain has refused up to now to establish an extra quota for outward processing. This means e.g. that exports of clothing to Britain processed from British material in Hungary is totally set off against the quotas of the MFA, whereas the proper procedure would be to take into consideration only the value added.

A more flexible British approach would be helpful in solving both problems.

- After Great Britain's entry into the Community the share of agricultural and food products in total Hungarian exports to Britain has considerably decreased, from 40 per cent in the 1960s to about 15 per cent at present. As Great Britain is one of the world's biggest food importers it seems likely that the deliveries of these products - among others, beef, canned meat, preserved fruit and vegetables, wines - could be stepped up without prejudice to the interest of British producers. In order that the Hungarian agricultural and food products should be able to regain their former position on the British market, improved conditions would be desirable within the Common Agricultural Policy.

- As far as British exports into Hungary are concerned, Hungary is an open market and the user buys the product from the supplier which offers the best competitive terms. Compared with the situation 15 years ago, to-day numerous British products are appreciated on the Hungarian market due to their technical standard. Although British suppliers cannot always keep up with their competitors with regard to the conditions of delivery and financing, some industries, e.g. the chemical industry, have significantly widened their sales on the Hungarian market in the past years. In order to achieve a higher level of British exports, British firms should make further efforts to adjust to the requirements of the market and to the conditions offered by the competition.

- Trade promotion organisations like chambers of commerce, the British Overseas Trade Board and the Confederation of British Industry should be encouraged to initiate joint projects for co-operation on third markets between Hungarian and British firms. There were examples /export of electric trains to New Zealand in co-operation with GEC, joint delivery of a paint factory to Iraq with ICI/, demonstrating that this sort of co-operation can be successful.

- Under existing regulations foreign capital investments are encouraged in Hungary, including in the duty free zones. British firms are welcomed and are invited to participate.

- It would be expedient to initiate a mutual exchange of information between the competent Hungarian and British institutions on possible joint participation in projects financed by the World Bank.

FILE 84



10 DOWNING STREET

From the Private Secretary

29 March, 1984

Thank you very much indeed for your letter of 26 March inviting me to the opening ceremonies for "Hungary Today".

It is very good of you to think of me but I much regret that my duties at No. 10 Downing Street will not permit me to accept your invitation. May I, however, send you my best wishes for this important week of events which, as you know, is strongly supported by Her Majesty's Government.

A. J. COLES

His Excellency Dr. Rezso Banyasz

84



10 DOWNING STREET

From the Private Secretary

29 March, 1984

Prime Minister's Visit to Hungary

I enclose with this letter a batch of Hungarian press reports on the Prime Minister's visit which was compiled by Mr. George Urban and forwarded to No. 10 by Lord Thomas.

I am not keeping copies here. I forward them to you in case they are of any use.

A. J. COLES

R. B. Bone, Esq.,
Foreign and Commonwealth Office

VC

MAGYAR NÉPKÖZTÁRSASÁG NAGYKÖVETE
AMBASSADOR OF THE HUNGARIAN PEOPLE'S REPUBLIC
LONDON

35. EATON PLACE.
LONDON.
S.W.1.

01-235 7191/4048

Mr A J Coles
Private Secretary
10 Downing Street
L o n d o n

26th March, 1984.

My Dear Private Secretary,

It is my pleasure to invite you most cordially to a Hungarian week of events called "Hungary Today" from 9th to 13th April, to be held in London and Manchester.

These events commence on 9th April with two opening ceremonies: one at 10 a.m., Kensington Exhibition Centre, 99 Kensington High Street, London W8, where the "Hungary Today" Exhibition will be held, and the other will be at 3 p.m., CBI, Centrepont.

Your personal invitation to both openings, and a programme booklet is enclosed.

I am very much looking forward to seeing you at the opening ceremonies for the "Hungary Today" events.

Sincerely yours

I. R. Bányász

/ Dr. Rezső Bányász /
Ambassador



March 26, 1984

Dear John .

Our friend Geo Urban sent me
the enclosed batch of Hungarian
press reports of the Prime Minister's
visit.

Yrs

Hugh Thomas



FILE
de

10 DOWNING STREET

From the Private Secretary

19 March 1984

Dear Ruth,

Further to our conversation on the telephone this morning regarding the meeting between Mr. Veress and the Prime Minister, I am writing to confirm that this meeting will take place at Downing Street at 1630 and not 1130 as mentioned in John Coles' letter to you of 15 March.

Yours sincerely
Caroline Ryder

Caroline Ryder

Miss Ruth Thompson,
Department of Trade and Industry.

de



10 DOWNING STREET

Caustine

The diary says this
meeting will be
at 1630. Could
you please investigate?

DMS
19/3



FILE
LPO

10 DOWNING STREET

From the Private Secretary

16 March 1984

Dear Ruth,

HUNGARY TODAY

I attach the signed message by the Prime Minister which is to appear in the edition of British Business which will coincide with the "Hungary Today" event.

*Yours sincerely
Andrew Turnbull*

ANDREW TURNBULL

Miss Ruth Thompson,
Department of Trade and Industry.

de

FILE
wpo



10 DOWNING STREET

THE PRIME MINISTER

Welcome to Peter Veress, the Hungarian Minister of Foreign Trade and best wishes for the success of the 'Hungary Today' event.

When I visited Hungary in February I stressed how important foreign trade was for both our countries. I encouraged the Hungarians to seek out export opportunities in Britain. 'Hungary Today' is proof that they intend to do just that.

But of course, trade should be a two-way process and I also made the point to the Hungarians that there should be opportunities for British exporters in Hungary. We ask for no more than the chance to compete on equal terms with all-comers in the world market place. I am confident that British industry is ready to make the most of its opportunities.

I want closer commercial contacts between our two countries, and I see the 'Hungary Today' event as a splendid step in this direction. May the event increase the trading appetites of both our countries.

Margaret Thatcher

March 1984

da

ec P. e. *ls*



10 DOWNING STREET

From the Private Secretary

15 March, 1984.

Hungary

Thank you for your letter of 13 March about the visit to this country of the Hungarian Minister of Foreign Trade.

The Prime Minister will receive Mr. Veress for 30 minutes at 1130 on Wednesday, 11 April. I should be grateful if you could let me have a brief, agreed with the Foreign and Commonwealth Office, by 10 April. Could you also establish who Mr. Veress will wish to accompany him during his call on the Prime Minister (I am sure that Mrs. Thatcher will not wish to have a large gathering - perhaps the Hungarian party should be confined to the Minister, the Ambassador and one other).

I am sending copies of this letter to Paul Pegler (Chief Secretary's Office) and Peter Ricketts (Foreign and Commonwealth Office).

A. J. COLES

Miss Ruth Thompson,
Department of Trade and Industry.

da



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 215 7877

JF5995

PS/ Secretary of State for Trade and Industry

13 March 1984

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister.

I think it would be worth receiving the
Hungarian Trade Minister, given your visit to
Hungary.

Agree to receive him for 30 minutes at
1630 on Wednesday, 11 April?

Dear Andrew,

Yes Mr A.J.C. 14/3.

HUNGARY

In my letter to you of 21 February about follow-up activities to the Prime Minister's visit to Hungary, I mentioned the visit next month of Mr Peter Veress, the Hungarian Minister of Foreign Trade (whom I believe the Prime Minister met during her visit).

2 As Mr Veress is coming as the guest of Mr Paul Channon, we are currently putting a programme together for this visit and I attach a copy of this for your information. As you will see, Mr Rees - who himself visited Hungary in 1982 as the guest of Mr Veress - will be meeting him and hosting a theatre visit. Mr Rees has suggested that it would be much appreciated if Mr Veress could also pay a short courtesy call on the Prime Minister. I realise that under normal circumstances such a call would not be considered appropriate. However, as we are currently putting some considerable effort into promoting our commercial relations with Hungary following the Prime Minister's visit - which the PM has kindly aided through a welcoming message to Mr Veress and the 'Hungary Today' event in our magazine "British Business" - I should be grateful to know whether she would be prepared to meet Mr Veress for a short call during his visit.

3 I am copying this letter to Paul Pegler in the Chief Secretary's office and to Peter Ricketts in the Foreign Secretary's office.

Yours ever
Ruth

RUTH THOMPSON
Private Secretary

Encl

DRAFT PROGRAMME FOR MR VERESS

SUNDAY	8.4.84		ARRIVAL AT 10.40 (MA 610)
MONDAY	9.4.84	10.00	Opening of "Hungary Today" (Mr Channon and Mr Rees to attend) at Kensington Exhibition Centre
		11.00	Reception at Exhibition site
		12.00	Lunch hosted by Lord Shackleton
		15.00	Opening ceremony at CBI followed by reception. Mr Channon to be present
		Evening	Theatre visit hosted by Mr Rees
TUESDAY	10.4.84	am	Calls on Mr Tebbit and Sir Campbell Fraser (CBI). Times to be arranged
		11.30	Call on Deputy Governor of Bank of England
		pm	Private programme
		Evening	Dinner to be given by Hungarian Ambassador. (Mr Channon and Mr Rees to be invited)
WEDNESDAY	11.4.84	09.30	Call on Mr Channon
		11.00	Call on Sir Geoffrey Howe
		12.00 (approx)	Lunch at Carlton Gardens hosted by Mr Channon
		15.00	Call on Mr Shaw (DEn)
		16.00	Call on Mr Rees
		17.00(?)	Hungarian reception
		Evening	Free
THURSDAY	12.4.84	am	Visit to Wellcome Foundation
		Departure	MA 611 11.40

(As at 9.3.84)



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422

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(Switchboard) 215 7877

JF5750

PS/ Secretary of State for Trade and Industry .

21 February 1984

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Copies to: (11)
PS/IMF
PS/Sir A Rawlinson
PS/Sir B Hayes
Mr Roberts Dep Sec
Mr Manzie Dep Sec
Mr Croft Dep Sec
Mr Woodrow Inf
Miss Samuel British
Business
Mr George OT4/1-01

Dear Andrew,

HUNGARY

Thank you for your letter of 7 February about the follow-up to the Prime Minister's visit to Hungary.

2 There are a number of commercial opportunities which are being pursued following the visit. Some of these had already been planned but others are designed to build upon the goodwill which the Prime Minister's visit has clearly fostered. Officials here will be discussing with appropriate trade bodies as well what further events and publicity would be appropriate.

3 An important event will be the visit during the week beginning 9 April of Mr Peter Veress, the Hungarian Minister of Foreign Trade, as a guest of Mr Paul Channon. They will act as co-patrons for the 'Hungary Today' event to which the Prime Minister specifically referred in her speech in Budapest. The Secretary of State is to meet Mr Veress himself during his visit.

4 We are also planning an issue of our weekly magazine, 'British Business', with a Hungarian theme, to coincide with Mr Veress' visit. It would be enormously helpful if this could include an introductory message from the Prime Minister. I enclose a draft of what she might like to say.

/5 In ...



5 In the reverse direction, Mr Giles Shaw, the Parliamentary Under Secretary of State for Energy, is to visit Hungary later this year, at the invitation of the Hungarian Minister for Industry, to discuss closer co-operation and trade opportunities in the energy sector. This may include the signing of a memorandum of understanding on UK/Hungarian energy co-operation.

6 Other activities include a British technical week in Budapest, organised by the London Chamber of Commerce and Industry, which took place last week, and a mission from the Manchester Chamber of Commerce to Hungary. This will be supported by the British Overseas Trade Board whose Chairman, Lord Jellicoe, also plans to visit Hungary later this year.

7 Finally, the annual Anglo/Hungarian Joint Commission meets in London in the week beginning 18 June. This will be preceded by the visit to Hungary in May of a British Industrial Delegation which constitutes the industrial/commercial element in the Joint Commission. Lord Shackleton (Chairman of the East European Trade Council) will also be visiting Hungary at the same time.

Yours ever,

A handwritten signature in cursive script, appearing to read 'Ruth'.

RUTH THOMPSON
Private Secretary

Encl

DRAFT MESSAGE FROM THE PRIME MINISTER FOR INCLUSION IN
BRITISH BUSINESS (HUNGARIAN ISSUE)

I am happy to welcome to this country Mr Peter Veress, the Hungarian Minister of Foreign Trade, whose visit coincides with the 'Hungary Today' event taking place in London.

When I visited Hungary in February I stressed how important foreign trade was for both our countries. I also pointed out that if they were actively sought, export opportunities could be found in Britain. The 'Hungary Today' event is evidence that Hungary is taking such an initiative.

However, trade should be a two-way process and I also made a plea, which I repeat here, for comparable opportunities for British exporters in Hungary. We are looking for no more than an opportunity to compete with all comers on equal terms. In that context, I am confident that British industry would be ready to take up such opportunities.

I hope therefore that the closer commercial contacts between our two countries, which the 'Hungary Today' event symbolises, will enable us to pursue our common interests.

HUNGARY : Relations : Pt 2 .

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JF5986

PS/ *Secretary of State
for Trade and Industry*

12 March 1984

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Andrew,

HUNGARY

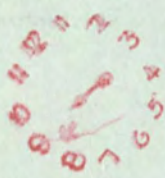
Thank you for your letter of 5 March about the Prime Minister's message to be included in the issue of British Business which will coincide with the 'Hungary Today' event. It would highlight the message more if it could appear on 10 Downing Street paper, and it would therefore be very helpful if you could arrange for a signed text to be with us by 20 March.

*Yours ever,
Ruth*

RUTH THOMPSON
Private Secretary

Hungary Relations Pt 2.

113 MAR 1984



UNITED STATES DEPARTMENT OF STATE



10 DOWNING STREET

From the Private Secretary

5 March 1984

HUNGARY

The Prime Minister has seen your letter to me of 21 February and has noted the contribution which UK Ministers will be making to the promotion of trade with Hungary. She has agreed to provide a message for British Business, to coincide with the "Hungary Today" event in April. She has seen and approved the attached text, which is a modified version of the draft attached to you letter. I would be grateful if you could let me know nearer the time the form in which the message will be published and whether you will want to have a signed text on 10 Downing Street paper.

Andrew Turnbull

Miss Ruth Thompson,
Department of Trade and Industry.

Turnbull



10 DOWNING STREET

From the Principal Private Secretary

2 March 1984

Thank you for your letter of 27 February and for what you say about the Prime Minister's visit to Hungary.

I have noted your suggestion about the role which business and commerce can play in improving East-West relations.

E. E. R. BUTLER

Brigadier Michael Harbottle, O.B.E.

HR

CENTRE FOR INTERNATIONAL PEACEBUILDING

Southbank House, Black Prince Road
Lambeth, London SE1 7SJ

Tel: 01-735 8171
Telex: 285555 LSP-G

27 February 1984

Director:
Brigadier
Michael Harbottle, OBE

Deputy Director:
Sir John Whitmore, Bt.

Financial & Planning
Adviser:
John N. Pugliese (USA)

** Board of Management:
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Dr. Alex Poteliakhoff
Canon Kenyon Wright

Consultants:
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PC, GCMG, KCVO, OBE
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(Costa Rica)
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(USA)
Jonathan Dimbleby
James Fawcett
Prof. John Ferguson
Rev. Dr. Kenneth Greet
Prof. William Gutteridge
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Generaalmajor
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(Netherlands)
Gerard Morgan-Grenville
Professor Josef Rotblat
Anthony Sampson
Mark Stephens
Harford Thomas
Mrs. Inga Thorsson
(Sweden)
Sir Laurens van der Post

F.E.R. Butler, Esq

Principal Private Secretary to the
Prime Minister and First Lord of the Treasury
10 Downing Street
London SW1

Dear Mr. Butler

I was very pleased to hear from Clive Priestley that you believed the Prime Minister would approve of the initiatives this Centre is taking in the realms of confidence building. I was glad also that at a recent meeting with Mr. Heseltine of a small delegation of which I was a member, he too indicated that he believes professional and non-political initiatives can make a significant contribution to improving relations and understanding between countries of the eastern and western blocs.

It might interest the Prime Minister to know that the group of former senior officers of NATO countries to which I belong is scheduled to meet with a comparable group from the Warsaw Pact countries in Vienna early this summer, to discuss specific issues connected with East/West security.

We therefore followed accounts of the Prime Minister's visit to Hungary with great interest and satisfaction, and we hope that her lead may encourage others to follow her example and take more initiatives in this field.

One of the areas in which I believe there could be much more fruitful communication is in the business world. There are many firms doing business with the socialist countries, but regretfully, when one suggests they have an important and often unique opportunity to promote "confidence building", the reply almost invariably is that "it is political" and therefore can be of no concern of theirs. There seems to be a suspicion that were they seen to be indulging in this kind of enterprise, they would somehow be identifying with "the Peace Movement". Those of us who are working for better international communication and understanding find it frustrating that what we are attempting to do should somehow be seen as "leftist" and therefore unseemly; even unpatriotic to be advocating steps which could help to establish more reasonable relations and a better international climate. And because the business community tends towards conservatism, there seems within it a real fear of being labelled a "leftie" were one to be seen "supporting the Peace Movement".

Please may
I have the letter which
I exchanged with Clive Priestley before/about
the PM's visit to Hungary

Not
what I
said.

FERB

29.2.

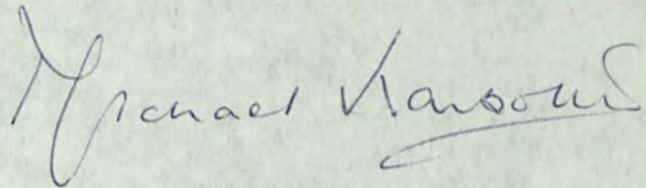
**
Mrs. Eileen Noakes
Air, Cdr. A.C.L. Mackie
(ret)

/ I am sure ...

I am sure there are many like myself who genuinely applaud Mrs. Thatcher's initiative in making this first visit to a member of the Warsaw Treaty Organization. We believe that Europe, and particularly Britain in Europe, should give a lead away from the NATO/WTO confrontation and in shaping the structures of confidence building. The business world, along with professions of all kinds, are well placed to follow up her initiatives. But it would help if they were to get a word of encouragement from the Prime Minister.

Please excuse this very long letter, but I have been encouraged to write as a result of your letter to Clive. Perhaps the enclosed may give an idea of the scope of our endeavours.

Yours sincerely

A handwritten signature in blue ink that reads "Michael Harbottle". The signature is written in a cursive style with a long, sweeping underline.

Michael Harbottle
Director

PROJECT 1 - VERIFICATION

There has been no attempt to date to codify the procedures for the verification of nuclear weapons possessed by the nuclear powers. All research so far has been directed at the ways and means, and what is required, to provide for effective verification. Phase I of the Centre's project is underway and is concerned with the collation and analysis of the material available from those research studies already undertaken in the United Nations, United States, Canada, Australia, Sweden and Finland. Early in 1984, the Centre - in conjunction with the Stockholm International Peace Research Institute - will be publishing the first in a series of booklets designed to set down guide-lines on which the procedural process for practical verification can be structured. These are intended as an introduction to the eventual production of the Handbook. At the beginning of January, the Director of the Centre is visiting the Soviet Union and will be discussing with their Institute of United States and Canada Academy of Sciences disarmament and related matters. It is hoped that he will obtain the Institute's collaboration in the project.

PROJECT 2 - EAST / WEST RELATIONS

The focus of this project programme is on confidence building through group interaction. Following the example of the International Physicians for the Prevention of Nuclear War, the Centre is working to facilitate communication between professional and other groupings of West and East Europe. In January, on his visit to the Soviet Union, the Director will be having discussions with a group of former senior military officers with a view to setting up an on-going dialogue between the Generals Group for Peace and Disarmament* and a comparable group of former officers from Warsaw Pact countries for an exchange of views on the issue of the arms race and common security and East-West relations.

The Centre is also concerned with facilitating interaction where common problems require greater international consideration, e.g. how to halt the increasing threat to the world's forests from atmospheric pollution and man-created erosion; exchange of techniques in the treatment of the handicapped (the successful development of conductive education by the Peto Institute in Hungary for the treatment of spina bifida victims is a good example). All this is seen by the Centre as falling within its confidence building mandate and the development of what it considers is a 'people's detente'.

PROJECT 3 - COLLECTIVE SECURITY - THIRD WORLD COUNTRIES

This third project is an initiative sparked off by the 1982 Palme Commission Report on Common Security and is focussed on that part of the report dealing with collective security measures for third world countries. The project is in an embryonic stage but early in 1984 it is planned to circulate one or more position papers on the role of the United Nations in preempting potential regional conflicts, the structures which could be provided on a sub-regional basis which would be helpful to collective security arrangements in those sub-regions of the world which are prone to conflict and how greater attention to inter-economic agreements and community links between neighbouring states could encourage greater security and reduce the dependency upon defence forces and military hardware. This project is possibly the most ambitious and the role of the Centre is seen to be that of facilitator. It has the advantage of having former President of Costa Rica, Dr. Rodrigo Carazo, as one of its consultants, whose experience in the creation of such a structure for Costa Rica and its neighbours thirty years ago will be invaluable.

* A group of former military and naval senior officers from NATO countries.

29 FEB 1991





DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 215 7877

JF5750

PS/ Secretary of State for Trade and Industry

21 February 1984

Prime Minister ①

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

- (i) To note follow-up in trade sphere to your Hungarian visit
- (ii) Agree to provide a message for British Business along lines of attached draft?

AT 213

Dear Andrew,

HUNGARY

Thank you for your letter of 7 February about the follow-up to the Prime Minister's visit to Hungary.

2 There are a number of commercial opportunities which are being pursued following the visit. Some of these had already been planned but others are designed to build upon the goodwill which the Prime Minister's visit has clearly fostered. Officials here will be discussing with appropriate trade bodies as well what further events and publicity would be appropriate.

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Yours ever,
Ruth

RUTH THOMPSON
Private Secretary

Encl

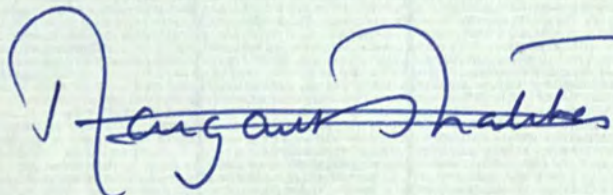
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When I visited Hungary in February I stressed how important foreign trade was for both our countries. I encouraged the Hungarians to seek out export opportunities in Britain. The 'Hungary Today' is proof that they intend to do just that.

But of course, trade should be a two-way process and I also made the point to the Hungarians that there should be opportunities for British exporters in Hungary. We ask for no more than the chance to compete on equal terms with allcomers in the world market place. I am confident that British industry is ready to make the most of its opportunities.

I want closer commercial contacts between our two countries, and I see the 'Hungary Today' event as a splendid step in this direction. May the event increase the trading appetites of both our countries.

A handwritten signature in blue ink, which appears to be "Margaret Thatcher". The signature is written in a cursive style with a large initial 'M' and a long horizontal stroke across the middle.

File

DRAFT MESSAGE FROM THE PRIME MINISTER FOR INCLUSION IN
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GR PL type, still a draft.

7

DRAFT MESSAGE FROM THE PRIME MINISTER FOR INCLUSION IN
BRITISH BUSINESS (HUNGARIAN ISSUE)

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~~out that if they were actively sought,~~ ^{the Hungarians to seek out} export opportunities
~~could be found in Britain. The 'Hungary Today' event,~~ ^{is proof that}
~~is~~ ^{they intend to do just that.} evidence that Hungary is taking such an initiative.

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^{to the Hungarians} ~~a plea,~~ ^{but that there should be} which I repeat here, for comparable opportunities
for British exporters in Hungary. We ~~are looking for no~~ ^{ask for no more than the}
~~more than an opportunity~~ ^{chance} to compete ~~with all comers on~~ ^{one equal terms with all comers}
^{in the world market place} equal terms. In that context, I am confident that British
industry would ^{is} be ready to take up ~~such opportunities.~~ ^{the challenge} make
^{want} ~~would like to see~~ ^{and I see} the closer commercial contacts between
our two countries, which the 'Hungary Today' event
~~symbolises, will enable us to pursue our common interests,~~
as a splendid step in this ~~right~~ direction.
May the event ^{wet} the trading appetites
of both our countries.

Hungary : Relations : Pt 2



I have now returned to this country for a period of several months. I have visited Hungary in connection with my work in the field of international relations. I have also visited other countries in the region and have had the opportunity to meet with various officials and representatives of the government and the people. I have found that the situation in Hungary is still very difficult and that the people are suffering from the effects of the war and the economic blockade. I believe that the only way to bring about a peaceful and stable situation in Hungary is through a negotiated settlement between the government and the people. I am sure that the United States will continue to support the Hungarian people in their struggle for freedom and independence.

During my visit to Hungary, I had the opportunity to meet with several officials of the government and the people. I found that the officials of the government are still very much divided in their views on the situation in Hungary. Some of them believe that the only way to bring about a peaceful and stable situation in Hungary is through a negotiated settlement between the government and the people. Others believe that the only way to bring about a peaceful and stable situation in Hungary is through a military intervention by the United States. I believe that the only way to bring about a peaceful and stable situation in Hungary is through a negotiated settlement between the government and the people.

I am sure that the United States will continue to support the Hungarian people in their struggle for freedom and independence. I believe that the only way to bring about a peaceful and stable situation in Hungary is through a negotiated settlement between the government and the people.

PESHAWEAR (U.K.) LTD

Satchwell House, Clifford Road
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London SE25 5JS

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CABLES: PESHAWEAR LONDON SE25
TELEX: 943763 REFERENCE PESHAWEAR
(A/B. CROCOM G.)

Your Ref. Our Ref. DPHP/PC

Date. 17th February 1984

Miss. Romola Christopherson
Deputy Press Secretary,
10 Downing Street,
LONDON S.W.1.

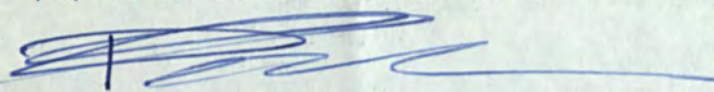
Dear Miss. Christopherson,

Further to our telephone conversation, we enclose a copy of the letter that the Hungarian's would like to enlarge and use as publicity decoration at a forthcoming exhibition of their products in Kensington.

We have confirmed to them your agreement to this and thank you for your co-operation.

Yours sincerely,

p.p. PESHAWEAR (UK) LIMITED


D.P.H. PESCHIER

ENCL.



10 DOWNING STREET

From the Private Secretary

2 February, 1984

Dear Mr. Peschier,

Your very kind gift of two pairs of pigskin gloves arrived before the Prime Minister's departure to Hungary. She is most grateful and has asked me to send you her sincere thanks.

The Prime Minister sends you her best wishes for the future.

Yours sincerely,
Cecile Ryde

P. J. A. Peschier, Esq.

ESHAWEAR (U.K.) LTD

Satchwell House, Clifford Road

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London SE25 5JS

TELEPHONE: 01-894 2274
24 HOUR "ANSAPONE" SERVICE

CABLES: PESHAWEAR LONDON SE25
TELEX: 943763 REFERENCE PESHAWEAR
(A/B. CROCOM G.)

Your Ref.

Our Ref.

Date. 31st. January 1984.

Mr. & Mrs. Thatcher,
10, Downing Street,
London. S.W.1.

RECORDED DELIVERY.

Dear Mr. & Mrs. Thatcher,

As the official U.K.Sales Agents for fashion gloves from Hungary, we are enclosing one pair of Ladies and one pair of Mens Hungarian Pigskin gloves and we hope we are in time for you to include these in your respective suitcases.

We do not think you will be visiting any of their glove factories as you will have far more important things to do and to see during your visit, but should you decide to wear these gloves then you can certainly say that they are about 95% Hungarian because only the silk material comes from elsewhere (maybe France), as all the other materials are processed in Hungary and the gloves themselves were made in their main glove factory complex, which is in Pecs..about 100 miles south of Budapest.

We wish you both a very happy and successful visit and most of all...a safe return...to all of us.

Yours very sincerely,
P.P.Peshawear (UK) Ltd.,

Peter J.A.Peschier,
Director.

CONFIDENTIAL



Foreign and Commonwealth Office

Prime Minister

London SW1A 2AH

A. & C. 16/2. 16 February 1984

Jan Shan

Prime Minister's Visit to Hungary

You may be interested in some comments made by the Hungarian Ambassador to the Head of Eastern European Department on 13 February about reactions in Budapest to the Prime Minister's visit. Dr Banyasz stayed on in Budapest for four days doing the rounds. Although he did not see Kadar, he had a talk with Aczel, the Politburo member closest to Kadar, with Marjai and a host of others.

Dr Banyasz said that Kadar, used to conventional exchanges with foreign leaders, had been "disarmed" by the Prime Minister's manner and had commented on the high quality and range of their talks. He had remarked that the Prime Minister was a sincere person who had not sought to bully him with her ideas. Elsewhere she had made an enormous impression by her vitality and informality. That type of politician was unknown in Eastern Europe.

The Hungarians, according to Dr Banyasz, had given their allies a "positive" account of the visit and had received favourable responses from the East Germans, Poles and Bulgarians, all of whom had been a bit apprehensive at the outset. Only the Czechs had been unpleasant.

You will have seen a telegram reporting the Czech press criticism of the visit. This is the only adverse public criticism to have appeared in the Warsaw Pact countries. The Polish press commented that the visit might be a step forward in improving the European climate - "something Europe needs very badly".

Jan Shan
R B Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

CONFIDENTIAL



BY APPOINTMENT
TO HER MAJESTY THE QUEEN
PATENT LOCK AND SAFE MAKERS

CHUBB

GJKL/BM

Chubb & Son's Lock and Safe Co Ltd

51 Whitfield Street
London W1P 6AA
Telephone: 01-637 2377
Telex: 261645

15th February, 1984.

The Private Secretary,
10, Downing Street,
LONDON SW1.

Attention of A.J. Cole Esq

A.Y.C. $\frac{17}{2}$

h-a.

Dear Sir,

Further to your letter dated 28th January 1984, with reference to the visit of the Prime Minister to Hungary, please convey our thanks for her efforts on our behalf.

Yours faithfully,

G.J.K.LEWIS
Export Area Manager

CFI. - Mr. Guy Hart,
British Embassy,
Budapest.



a member of the Chubb Group

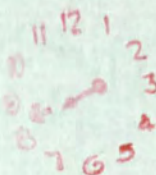
Registered Office: 51 Whitfield Street, London W1P 6AA
Registered number 495726 England

Hungary belatrus Pt 2



CHUBB

17 JAN 1984



RESTRICTED

GRS 220

RESTRICTED

FM WARSAW 131040Z FEB 84

Mr Coles

TO ROUTINE FCO

A. J. C. 1/2

TELEGRAM NUMBER 51 OF 13 FEB 84

LC

AND TO ROUTINE PRAGUE, MOSCOW, WASHINGTON, UKDEL NATO, PARIS, BONN
BUDAPEST, BUCHAREST, SOFIA, BELGRADE, E. BERLIN.

PRAGUE TELNO 40: PRESS COMMENT ON PRIME MINISTER'S VISIT TO HUNGARY

1. AS WE HAVE REPORTED TO THE DEPARTMENT (MARDEN'S LETTER OF 10
FEBRUARY TO LONG) , POLISH PRESS COVERAGE OF THE PRIME MINISTERS
VISIT TO HUNGARY HAS BEEN REASONABLY SYMPATHETIC AND NOT SIMILAR
IN TONE TO THE COMMENTARY REFERRED TO IN PRAGUE'S TUR. IT CONTAINED
CERTAINLY NO SIGN OF WARSAW PACT ' 'ORCHESTRATION' '.

2. A HEADLINE IN ZYCYE WARSZAWY (6 FEB) READ ' ' A SMALL STEP ' '
A COMMENTARY PUBLISHED IN TRYBUNA LUDU ON THE SAME DAY SAID THAT
MRS THATCHER'S VISIT HAS CONFIRMED THE HUNGARIAN PARTYS AND GOVERN-
MENTS UNALTERED POLICY OF DIALOGUE WITH COUNTRIES WITH DIFFERENT
SOCIAL SYSTEMS, AND ADDED THAT KADAR HAD OFTEN EMPHASISED THE
IMPORTANT INTERNATIONAL ROLE THAT SMALL AND MEDIUM-SIZED COUNTRIES
SUCH AS HUNGARY COULD PLAY BY LAUNCHING AND SUPPORTING INITIATIVES
AIMED AT RESTORING DETENTE.

3. TRYBUNA LUDU'S COMMENTARY REGRETTED THAT MRS THATCHER'S STATEMENT
IN BUDAPEST EXCLUDED THE POSSIBILITY OF CANCELLING NATO'S
PROGRAMME FOR MISSILE DEPLOYMENT, BUT CONCLUDED THAT IN THE PRESENT,
TENSE EUROPEAN SITUATION, ALL MOVES LEADING TO AN IMPROVEMENT IN
MUTUAL UNDERSTANDING WERE WORTHY OF SUPPORT. MRS THATCHER'S VISIT
TO HUNGARY MIGHT BE A STEP FORWARD IN IMPROVING THE EUROPEAN CLIMATE
' ' SOMETHING EUROPE NEEDS VERY BADLY ' '.

RESTRICTED

/ COMMENT

RESTRICTED

COMMENT

4. TRYBUNA LUDU'S COMMENTARY IMPLIED THAT POLAND WOULD LIKE TO BE DOING WHAT HUNGARY HAS BEEN DOING IN LAUNCHING INITIATIVES AIMED AT RESTORING DETENTE, HUNGARY HAS PRAISED IN THE SAME ARTICLE FOR FINDING WISE SOLUTIONS TO ITS INTERNAL PROBLEMS AND BEING NOTED FOR HARD WORK, GOOD MANAGEMENT AND INTERNAL CALM- ALL CHARACTERISTICS THE PARTY WOULD LIKE TO SEE IN POLAND.

MORGAN

COPIES SENT TO
No. 10 DOWNING STREET

LIMITED
EED
SOV D
NEWS D
PS
PS/MR RIFKIND
PS/PUS
SIR J BULLARD
MR JENKINS

²
RESTRICTED



cc D/N

LPO

10 DOWNING STREET

THE PRIME MINISTER

8 February 1984

Ian D. MacGregor,

During my visit to Hungary I met the Deputy Prime Minister, Dr. Marjai, who is also responsible for economic affairs.

He mentioned to me his concerns about the performance of the coal industry in Hungary. He said he would very much value a visit by you to Hungary so that he could draw upon your experience. I am writing to you so that you are not surprised should such an invitation be sent.

Very good with.

*Yours sincerely
Margaret Thatcher*

I. MacGregor, Esq.

He

Hungary file

ENDRE ACIEL: (HUNGARIAN PRESS RADIO AND TV+) PRIME MINISTER, YOU'RE THE FIRST EVER HEAD OF BRITISH GOVERNMENT IN HISTORY TO PAY A VISIT TO HUNGARY, SO WE HAVE A REASON TO SAY THAT IT'S A SORT OF PIONEERING ENTERPRISE. FIRST LET ME PUT THIS TO YOU, WHERE ACTUALLY HUNGARY IS ON GREAT BRITAIN'S MAP OF THE WORLD? AND WHAT DO YOU EXPECT TO MERGE FROM THIS FIRST PIONEERING VISIT TO YOU COUNTRIES TO MY COUNTRY?

MRS. THATCHER: WELL, NOW FIRST WHEN I HEARD THAT NO OTHER BRITISH PRIME MINISTER HAD BEEN TO HUNGARY I WAS AMAZED, AND I'M VERY HAPPY TO REPAIR THE OMISSION, I WANT TO COME, I PERSONALLY HAVE NEVER BEEN WHEN WE HAD A VISIT TO LONDON LAST YEAR OF YOUR DEPUTY PRIME MINISTER, MR. (MORIORI) IT WAS VERY SUCCESSFUL AND I ENJOYED TALKING TO HIM, HUNGARY MEANS QUITE A LOT TO PEOPLE IN BRITAIN, WE KNOW HER HISTORY, WE KNOW THE GREAT TALENT OF HER PEOPLE AND SHE'S WE'RE BOTH EUROPEAN, AND HUNGARY ESPECIALLY IS A VERY IMPORTANT PART OF CENTRAL EUROPE. I BELIEVE THAT THE MORE WE VISIT THE GREATER OUR UNDERSTANDING AND THE GREATER OUR UNDERSTANDING THE BETTER IT WILL BE FOR ALL PEOPLES.

E. ACIEL: YES AND THANK YOU VERY MUCH FOR YOUR COMPLIMENTS. BRITISH AND HUNGARIAN OFFICIALS AGREE THAT RECENTLY THERE HAS BEEN INDEED A VERY GOOD PROGRESS IN BILATERAL RELATIONS, SO THAT THERE IS A WISH APPARENTLY ON BOTH SIDES TO GIVE A FURTHER IMPETUS TO THOSE RELATIONS, MAINLY IN THE ECONOMIC SPHERE. SO I WOULD ASK YOU WHAT DO YOU THINK THE BRITISH GOVERNMENT, THE BRITISH INDUSTRY AND INDEED HUNGARY, COULD OR SHOULD DO IN ORDER TO FACILITATE THIS?

MRS. THATCHER: I THINK WE HAVE CO-OPERATED AT THREE LEVELS. FIRST I THINK OUR BANKS HAVE BEEN VERY HELPFUL TO ONE ANOTHER DURING A PERIOD OF WORLD RECESSION AND I THINK THERE'S A GOLDEN DEAL OF MUTUAL RESPECT BETWEEN THE PEOPLE IN YOUR BANKS AND OURS AND THAT'S BEEN HELPFUL WITH THE INTERNATIONAL MONETARY FUND, I THINK THEN WE CO-OPERATE THROUGH THE EUROPEAN COMMUNITY,

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BECAUSE WE DO QUITE A LOT OF OUR TRADE THROUGH THE EUROPEAN COMMUNITY AND WE BELIEVE VERY STRONGLY NOT IN HAVING SO MUCH STRICT BOUNDARIES ROUND THE EUROPEAN COMMUNITY, BUT AS USING IT AS A COMMUNITY WITH WHICH TO DEVELOP OUR TRADE OUTSIDE, AND DEVELOP OUR CONTACTS OUTSIDE: AND, THIRDLY, IN A BILATERAL WAY BETWEEN HUNGARY AND BRITAIN, WE EXPORT QUITE A LOT TO HUNGARY AND SOME OF OUR

FIRMS ARE WORKING IN HUNGARY AND IN APRIL WE'RE GOING TO HAVE SOMETHING CALLED HUNGARIAN DAYS IN LONDON AND WE BELIEVE THAT YOU'LL BE STUDYING THE THINGS THAT WE BUY AND THAT YOU'LL THINK ABOUT SOME VERY WONDERFUL THINGS THAT YOU'RE EXPERT AT PRODUCING.

EGMAC EL: YES, NOW BEYOND THE SCOPE OF BILATERAL RELATIONS THERE ARE THE MULTILATERAL ONES, THE INTERNATIONAL ONES THAT ARE VERY MUCH THE CONCERN OF ALMOST ALL GOVERNMENTS IN EUROPE I THINK, LET ME REFER AT THIS POINT TO STOCKHOLM, THE STOCKHOLM CONFERENCE, IN YOUR VIEW, IN THE AFTERMATH OF THE FIRST ROUND AT STOCKHOLM OR MAYBE IN CONSEQUENCE OF IT, ARE THE CHANCES OF AN INTENSIFICATION OF EAST/WEST CONTACTS BIGGER THAN BEFORE?

MRS. THATCHER: I HOPE SO, I WANT IT TO BE THAT WAY, I THINK IT'S VERY IMPORTANT THAT WE HAVE THE STOCKHOLM CONFERENCE NOW AND THERE ARE SO MANY COUNTRIES THERE, WE'RE A LITTLE BIT STUCK ON THINGS LIKE GETTING ARMAMENTS AGREEMENTS NOW, GETTING REDUCTIONS IN ARMAMENTS WHICH WE ALL WANT AND I HAVE A VIEW THAT YOU'RE MUCH, MUCH MORE LIKELY TO GET A REDUCTION IN ARMAMENTS WHEN YOU'VE GOT A MUCH BETTER UNDERSTANDING BETWEEN NATIONS.
NR TEN LON

I HOLD VERY FIRMLY TO BRITISH BELIEFS, TO OUR WAY OF LIFE, I WILL ALWAYS ARGUE THE CASE FOR THE THINGS IN WHICH WE BELIEVE AND I WILL ALWAYS DEFEND IT VERY VIGOROUSLY. BUT I HOLD EQUALLY STRONGLY THAT THOUGH OTHER PEOPLE HAVE DIFFERENT VIEWS FROM US, WE

NEVERTHELESS HAVE AN UNDERSTANDING BETWEEN US AND I THINK IT'S THE LACK OF THAT UNDERSTANDING WHICH IS BEGINNING TO BOTHER US A LITTLE AND WHEN WE GET THAT BETTER UNDERSTANDING THAT WE SHALL ACHIEVE MORE AGREEMENTS IN THE OTHER SPHERES.

E. ACZEL: NOW COMING TO THE QUESTION OF THE DIALOGUE, LET ME ASK YOU ON YOUR SO-CALLED CONVERSION - DO YOU ACCEPT THE EAST/WEST POPULAR NOTION THAT NOW YOU HAVE BEEN CONVERTED TO THE IDEA OF MORE TOP LEVEL DIALOGUE BETWEEN EAST AND WEST?

MRS. THATCHER: I WOULDN'T NECESSARILY CALL IT A CONVERSION, I MADE A SPEECH ABOUT IT LAST SEPTEMBER AND I HAVE DONE QUITE A BIT OF VISITING MYSELF IN MY TIME, I THINK I FIRST WENT TO MOSCOW IN 1968, I HAVE VISITED A NUMBER OF COUNTRIES IN CENTRAL AND EASTERN EUROPE, BUT YOU KNOW SOMETIMES THE TIME ISN'T QUITE RIGHT FOR VISITS, THINGS HAPPEN INTERNATIONALLY WHICH MAKE THE TIME NOT QUITE SO GOOD AND THEN THE TIME COMES ROUND AGAIN WHEN YOU CAN HAVE ADVANCES IN RELATIONS. WHEN THAT TIME DOES COME ROUND ONE HAS TO GRASP IT, THERE IS SUCH A TIME NOW AND I HOPE THAT WE SHALL MEET, SEE ONE ANOTHER'S COUNTRIES, AND TALK FREELY AND I MUST STRESS THIS, I KNOW IN THE MEDIA YOU ALWAYS WANT TO KNOW EXACTLY WHAT WE'VE TALKED ABOUT AND EXACTLY WHAT WE'VE SAID, BUT, YOU KNOW, THE TALKS BETWEEN HEADS OF GOVERNMENT ARE AT THEIR MOST VALUABLE WHEN EACH CAN BE CERTAIN THAT THEY WILL BE CONFIDENTIAL. SO, YES, WE SHALL SEE

AND TALK A LOT BUT THE TALKS, MANY OF THE TALKS WHICH I HAVE WILL BE CONFIDENTIAL AND IT MUST BE THAT WAY, IF THEY'RE TO BE MOST VALUABLE.

E. ACZEL: YES, YOU REFER TO ONE OF YOUR STATEMENTS OR SPEECHES - CAN I REFER NOW TO THE ONE YOU MADE ON THE GRENADA ISSUE, - , E

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CAN I REFER NOW TO THE ONE YOU MADE ON THE GRENADA ISSUE, AND I FEEL THAT WHILE SEEKING SENSIBLE DIALOGUE, AS YOU PUT IT, WITH THE EAST, MEANWHILE YOU HAPPEN TO DISASSOCIATE YOURSELF FROM THE US ACTION ON GRENADA

, WHICH WAY ARE THE TWO RELATED IF AT ALL?

MRS. THATCHER: I DON'T REALLY THINK THEY ARE RELATED, I TOOK A SLIGHTLY DIFFERENT VIEW ON GRENADA, = 73: - 7'3 8 ' - 2 85 749. - DIFFERENT PERSPECTIVE. I THINK PRESIDENT REAGAN WAS VERY, VERY INFLUENCED BY THE REQUEST OF ALL THE OTHER EASTERN CARIBBEAN COUNTRIES, THEY HAD A VERY SPECIAL RELATIONSHIP WITH GRENADA, THEY KNEW WHAT WAS HAPPENING THERE, THERE WAS A LOT OF SHOOTING, THERE WERE ARGUMENTS ABOUT THE SUCCESSION AND THEY FELT THAT SOMEONE MUST GO IN TO HELP AND PRESIDENT REAGAN LISTENED VERY MUCH TO THEM AND I THINK HE WAS INFLUENCED BY THEM. I SAW IT FROM A DIFFERENT PERSPECTIVE, = 975 2&3, 043'8+

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SPECTIVE, BUT WHEN PRESIDENT REAGAN TOOK THE UNITED STATES FORCES INTO RENADA, THE PEOPLE WERE VERY PLEASED TO SEE THEM AND AS YOU KNOW THE COMBAT TROOPS ARE NOW OUT OF GRENADA JUST A COMPARATIVELY SMALL NUMBER OF MILITARY POLICE THERE AND THEY ARE PREPARING FOR ELECTIONS WITHIN A YEAR'S TIME. SO IT HAS TURNED OUT VERY WELL FROM THE VIEWPOINT OF THE PEOPLE OF GRENADA, THEY ARE VERY PLEASED.

E. AC EL: YES. NOW WITH YOUR PERMISSION LET'S PUT A QUESTION OR TO DIVERT A BIT THIS CONVERSATION TO WORLD ECONOMY. YOU HAVE

A LOT OF PRIME CONCERN MANY LAYS, NOW CAN I ASK YOU WHICH IS THE NUMBER ONE PROBLEM WHICH AFFECTS YOUR COUNTRY AND ALSO WILL YOU TELL ME WHAT IS YOUR VISION OF A HEALTHY WORLD ECONOMY, OF HOW TO SUSTAIN IT, WITH MAXIMUM GROWTH, MINIMUM UNEMPLOYMENT AND ALSO MINIMIM INFLATION?

MRS GM THATCHER: YOU WANT THE MAXIMUM GROWTH THAT YOU CAN GET WITHOUT INFLATION, BECAUSE IF YOU GET INFLATION YOU'LL FIND IT WILL SOON STUNT THE GROWTH AND ALSO IT'S VERY IMPORTANT FOR PEOPLE TO FEEL CONFIDENCE IN THE CURRENCY OF THEIR COUNTRY, SO THAT

THEY CAN SAVE IT AND WHEN THEY COME TO SPEND IT IN MANY YEARS TIME IT SHOULD STILL HAVE A SIMILAR

VALUE. SO CONFIDENCE IN YOUR CURRENCY IS VERY VERY IMPORTANT INDEED PARTICULARLY FOR NATIONS THAT DEAL IN INTERNATIONAL TRADE. HAVING SAID THAT, WHAT YOU WANT AS WELL IS PEOPLE WHO CAN CREATE THE NEW WEALTH, THERE'S NO SHORTAGE OF DEMAND

AND IN THE WORLD, WE ALL WANT A HIGH

STANDARD OF LIVING AND REALLY THE PROBLEM THAT FACES THE LEADERS OF COUNTRIES IS HOW DO TO ARRANGE OUR ECONOMIES THAT WE ARE ABLE TO SATISFY THE NEEDS

AND ASPIRATIONS OF OUR PEOPLES AND HOW TO REWARD THEIR EFFORTS SO THAT THEY CAN DO IT FOR THEMSELVES. IT HASN'T BEEN EASY THROUGH A WORLD RECESSION CAUSED MAINLY BY THE SHARP RISE IN OIL PRICES, I THINK WE'VE ABSORBED THOSE NOW AND WE'RE NOW IN A POSITION TO LOOK FORWARD TO A NEW PERIOD OF GROWTH AND TO TAKE ADVANTAGE OF IT.

E. AC EL: EVERYONE WILL BENEFIT OF IT, YOU THINK SO.... THIRD WORLD.....

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MRS. THATCHER: EVERYONE I THINK WILL BENEFIT. OH YES, THE THIRD WORLD HAS TO BENEFIT, WE'RE ALL DEPENDENT ON ONE ANOTHER AND NATURALLY THEY TOO WANT A HIGHER STANDARD OF LIVING FOR THEIR PEOPLE.

E. ACZEL: YES, WOULD YOU PERMIT ME A SORT OF PERSONAL QUESTION FINALLY, SINCE YOU ARE

THE ONLY WOMAN LEADING A WORLD POWER, WHICH BRITAIN IS, DID YOU EVER

FEEL IMPEDED OR THE OTHER WAY AROUND, ENCOURAGED, - BY THE FACT THAT YOU ARE A WOMAN, OR IT JUST MADE NO DIFFERENCE, IN FULFILLING THE TASK YOU SET FOR YOURSELF?

MRS. THATCHER: WELL, FIRST LET ME SAY THAT OF COURSE MRS. GANDHI IS HEAD OF A VERY POWERFUL COUNTRY, INDIA, SHE AND I GET ON VERY WELL TOGETHER. IT'S DIFFICULT FOR ME TO ANSWER YOUR QUESTION, I'VE ONLY EVER BEEN A WOMAN PRIME MINISTER

I CAN'T BE A MAN PRIME MINISTER SO I DON'T KNOW HOW IT COMPARES. I CAN JUST SAY THAT I LIKE THE JOB AND I HOPE I CONTINUE DOING IT FOR A VERY LONG TIME.

E. ACZEL: I WISH YOU WELL TO THAT AND, PRIME MINISTER, THANK YOU VERY MUCH FOR THIS INTERVIEW.

MRS. THATCHER: IT'S A PLEASURE AND I SO MUCH LOOK FORWARD TO MY VISIT.

BRACKETS INDICATE PHONETIC SPELLING FOR UNCONFIRMED NAME

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TELEGRAM NUMBER 40 OF 8 FEB 84

INFO TO ROUTINE MOSCOW, WASHINGTON, UKDEL NATO, PARIS, BONN,
BUDAPEST, BUCHAREST, SOFIA, WARSAW, BELGRADE, EAST BERLIN

CZECHOSLOVAK PRESS COMMENT ON PRIME MINISTER'S VISIT TO HUNGARY

1. HITHERTO THE CZECHOSLOVAK PRESS HAS CONTAINED MINIMAL REFERENCES TO THE VISIT BUT RUDE PRAVO OF 2 FEBRUARY CARRIED A COMMENTARY SIGNED BY ONE OF ITS SENIOR WRITERS, MIROSLAV KUBIN, CRITICISING THE CLAIMS MADE ABOUT MRS THATCHER'S VISIT TO HUNGARY. KUBIN QUOTED FROM THE MORNING STAR AND HELLA PICK IN THE GUARDIAN TO BACK UP HIS CLAIM THAT MRS THATCHER'S VISIT DID NOT CONTRIBUTE TO EAST-WEST RELATIONS. IDLE RHETORIC WAS NO CONTRIBUTION TO AGREEMENT, KUBIN CLAIMED. THE AMERICAN ATTITUDE AT GENEVA HAD SHOWN THIS.

2. SOCIALIST COUNTRIES WERE AWARE OF THE VALUE OF DIALOGUE, KUBIN CONTINUED QUOTING ANDROPOV, BUT DIALOGUE MUST BE HONESTLY DIRECTED TO ACHIEVING CONCRETE AGREEMENTS AND NOT EXPLOITED FOR OPPORTUNISTIC AIMS. MRS THATCHER " PURSUED AN OPPORTUNIST LINE" IN "SEEKING TO CREATE THE IDEA THAT NOTHING HAD BEEN CHANGED IN EUROPE BY THE DEPLOYMENT OF NEW AMERICAN NUCLEAR WEAPONS". ACCORDING TO KUBIN MRS THATCHER PRETENDED THAT HER GOVERNMENT CARRIED NO DIRECT RESPONSIBILITY FOR THE DEPLOYMENTS IN BRITAIN (SIC), WHICH WERE AGAINST THE WILL OF THE BRITISH PEOPLE. IN FACT SHE BORE A HEAVY RESPONSIBILITY.

3. KUBIN'S COMMENTARY CONCLUDED THAT A DIALOGUE WITH SOCIALIST COUNTRIES COULD NOT BE CONDUCTED IN THE SHADOW OF MENACING NUCLEAR WEAPONS. MRS THATCHER WOULD ACHIEVE NOTHING BY SUBSCRIBING TO PRESIDENT REAGAN'S PROPOSITION THAT STRENGTH AND DIALOGUE GO HAND IN HAND.

4. FULL TRANSLATION FOLLOWS BY BAG.

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5. THERE IS NO DIRECT CRITICISM OF HUNGARY IN THIS COMMENTARY. THE CRITICISMS OF MRS THATCHER AND THE VISIT ARE RELATED TO SELECTED BRITISH PRESS COMMENT AND, WHILE DISOBLIGING, DO NOT REACH THE LEVEL OF ABUSE DIRECTED AT AMERICAN LEADERS. THEY ALIGN WITH THE SOVIET THESIS, ECHOED MOST RECENTLY HERE, BY FOREIGN MINISTER CHOUPEK IN HIS RECENT ANNUAL ADDRESS TO THE DIPLOMATIC CORPS, THAT PROGRESS IN EAST-WEST RELATIONS DEPENDS UPON A REVERSAL ON PERSHING AND CRUISE STATIONING. UNCERTAINTY ABOUT FUTURE LEADERSHIP IN MOSCOW MAKES THE CZECHOSLOVAK MEDIA PARTICULARLY CAREFUL ABOUT GETTING AHEAD OF THE FIELD IN COMMENTING IN THIS WAY (IF INDEED THE TUNE HAS NOT ALREADY BEEN ORCHESTRATED THROUGHOUT THE WARSAW PACT). ONE ASSUMES EITHER-SPECIFIC AGREEMENT FROM MOSCOW OR FULL CONFIDENCE THAT THE LINE BEING TAKEN WOULD BE COMMENDED THERE.
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PS/PUS
SIR J BULLARD
SIR C TICKELL
MR WRIGHT
MR JENKINS

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[THIS TELEGRAM WAS NOT ADVANCED]

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*r. Hungary
from New*

8 February 1984

Hungary

I enclose a copy of a message which the Prime Minister has sent to President Reagan about her visit to Hungary.

JOHN COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office.

NR

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00 D.T.G. 081033Z
FROM CABINET OFFICE LONDON
TO WHITEHOUSE

FEBRUARY 1984

**PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 29/84.....**

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S E C R E T

cc MASTER
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MESSAGE FROM THE PRIME MINISTER TO PRESIDENT REAGAN

DEAR RON,
YOU MAY LIKE TO HAVE SOME IMPRESSIONS OF MY VISIT TO
HUNGARY FROM 2-4 FEBRUARY.

I HAD A FULL SESSION OF TALKS WITH PRIME MINISTER LAZAR
AND SAW A GOOD DEAL OF DEPUTY PRIME MINISTER MARJAI BUT THE
CENTREPIECE WAS A DISCUSSION OF MORE THAN TWO HOURS WITH FIRST
SECRETARY KADAR.

I MADE IT PLAIN TO ALL - AND PUBLICLY AS WELL - THAT I
STOOD FOR WESTERN VALUES OF FREEDOM, JUSTICE AND POLITICAL
DEMOCRACY AND WOULD DEFEND AND ADVOCATE THEM ANYWHERE. BY
EMPHASISING BRITAIN'S LOYALTY TO AND SOLIDARITY WITH NATO
I SIGNALLED THAT THE USUAL SOVIET BLOC ATTEMPTS AT WEDGE-
DRIVING WOULD NOT WORK.

MY MAIN MESSAGE WAS THAT, ALTHOUGH I COULD SPEAK FOR NO-ONE
EXCEPT BRITAIN, THE WEST IN GENERAL AND YOU PERSONALLY WERE
ABSOLUTELY SINCERE IN THEIR DESIRE TO ACHIEVE ARMS REDUCTIONS
AND SECURITY AT A LOWER LEVEL OF WEAPONRY. I TOLD KADAR THAT
YOU HAD DESCRIBED TO ME HOW YOU HAD SENT A HAND-WRITTEN MESSAGE
TO BREZHNEV AND HAD BEEN DISAPPOINTED TO RECEIVE A STANDARD REPLY.
I ALSO EMPHASISED THE SIGNIFICANCE OF YOUR SPEECH OF 16 JANUARY
AND THE INADEQUACY OF ANDROPOV'S REPLY IN HIS PRAVDA INTERVIEW.
THEN, I CALLED PUBLICLY FOR THE SOVIET UNION TO RETURN TO THE
GENEVA ARMS NEGOTIATIONS.

KADAR WAS AS CAUTIOUS AS YOU WOULD EXPECT. HE MADE MUCH
OF THE SOVIET UNION'S HISTORY OF BEING ATTACKED AND THREATENED
AND SAID THAT THE KEY TO PROGRESS WAS THAT THE EAST AND WEST
SHOULD TAKE INTO ACCOUNT THE JUSTIFIED SECURITY CONCERNS OF BOTH
SIDES. IN REPLY, I REHEARSED THE HISTORY OF SOVIET EXPANSION -
STARTING FROM A FAIRLY LIMITED AREA AROUND MOSCOW AND PROGRESSING
UP TO THE BORDERS OF CHINA AND IRAN AND AS FAR AS BERLIN - AND
DREW ATTENTION TO THE BENEFITS WHICH NATO HAD BROUGHT TO WORLD
SECURITY BY STOPPING THAT ADVANCE.

KADAR SAID WITH SOME CONVICTION THAT HE BELIEVED THE WEST COULD DO BUSINESS WITH THE SOVIET UNION ON THE BASIS OF MUTUAL INTEREST, ON THE CONDIDTION THAT WE SHOWED PATIENCE AND UNDERSTANDING. HE PROVIDED LITTLE NEW INSIGHT ON ANDROPOV BUT SAID THAT HIS CONDITION WAS IMPROVING AND THAT HE WAS +CROSSING HIS FINGERS+ FOR HIM. ON THE ECONOMY, THE HUNGARIANS SAID THAT TWO THINGS WOULD HELP THEM PARTICULARLY: AN UPTURN IN THE WESTERN ECONOMIES, WITH WHICH NEARLY HALF THEIR TRADE IS LINKED= AND AN IMPROVEMENT IN EAST/WEST RELATIONS, CAUSING THE RUSSIANS TO LOOK WITH LESS MISTRUST AT THE HUNGARIAN ECONOMIC EXPERIMENT AS A POTENTIAL TROJAN HORSE WITHIN THEIR EMPIRE.

THAT ECONOMIC EXPERIMET IS CONDUCTED WITHIN VERY STRICT LIMITS: THE SINGLE POLITICAL PARTY, THE CONTROLLED PRESS, THE SHAM PARLIAMENT, THE STATE OWNERSHIP OF ALL BUT THE SMALLEST ECONOMIC UNITS, BUT ABOVE ALL THE CLOSE ALLIANCE WITH MOSCOW. KADAR AND LAZAR MADE IT PERFECTLY PLAIN THAT THESE THINGS CANNOT CHANGE. I BELIEVE THAT IT IS REALISTIC TO FORMULATE OUR POLICIES ON THIS ASSUMPTION. IT FOLLOWS THAT FOR AS FAR AHEAD AS WE CAN SEE WE HAVE TO FIND A WAY OF LIVING SIDE BY SIDE WITH THE COMMUNIST SYSTEM, REPUGNANT AS IT IS.

I AM BECOMING CONVINCED THAT WE ARE MORE LIKELY TO MAKE PROGRESS ON THE DETAILED ARMS CONTROL NEGOTIATIONS IF WE CAN FIRST ESTABLISH A BROADER BASIS OF UNDERSTANDING BETWEEN EAST AND WEST. BUT I AM UNDER NO ILLUSIONS THAT IT WILL BE VERY HARD TO ACHIEVE THAT. IT WILL BE A SLOW AND GRADUAL PROCESS, DURING WHICH WE MUST NEVER LOWER OUR GUARD. HOWEVER, I BELIEVE THAT THE EFFORT HAS TO BE MADE. THAT IT WHY I THOUGHT IT RIGHT TO TAKE THE FIRST, SMALL STEP OF A VISIT TO HUNGARY. I AM BEING PRESSED BY THE MEDIA AND OTHERS TO SAY WHAT THE NEXT STEP IS. FOR THE MOMENT, I HAVE NOTHING IN MIND BEYOND THE POSSIBLE MEETING BETWEEN GEOFFREY HOWE AND GROMYKO IN THE NEXT FEW MONTHS. ?75 23 -43 GIVING CAREFUL THOUGHT TO THE PROBLEM AND I LOOK FORWARD TO A GOOD TALK WITH GEORGRE BUSH AT THE WEEKEND ABOUT THIS AND TO COMPARING NOTES ABOUT HIS AND MY VISITS TO HUNGARY.

WITH BEST WISHES
YOURS EVER
MARGARET THATCHER

BT

CCN MONTHS. BUT WE ARE GIVING.....

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RGRG MATE QSL AT 1142Z KKK
RGR MANI TKS CAY SEE U LATER K



10 DOWNING STREET

From the Private Secretary

7 February 1984

Dear Callum,

HUNGARIAN DAYS

During the course of her visit to Hungary the Prime Minister met the Deputy Prime Minister, Dr. Marjai, who is also responsible for economic affairs. You may like to know that he very much hoped that your Secretary of State would be able to attend some of the functions connected with the "Hungarian Days" export promotion campaign which will take place in Britain between 9 - 13 April.

Yours sincerely
Andrew Turnbull

ANDREW TURNBULL

Callum McCarthy, Esq.,
Department of Trade and Industry.

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cc Foreign Pol: East/West
Relations: Pt 4.



Foreign and Commonwealth Office

London SW1A 2AH

6 February 1984

See John

*Revised memo
submitted to*

The Prime Minister's Visit to Hungary

P.R. A.F.C. 4/2.

The Prime Minister told President Reagan in her letter of 19 January that she would let him have her impressions of her visit to Hungary. I enclose a draft which the Foreign Secretary has seen.

I understand that the Prime Minister would welcome suggestions as to how to carry forward the impetus given to East/West relations by her visit. The Foreign Secretary has already commissioned urgent work on this and will be sending you advice in a day or two.

*See on
r/y a Bone*

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

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DRAFT MESSAGE TO PRESIDENT REAGAN FROM THE PRIME MINISTER

I thought I would send you a personal word about my visit to Hungary, from where I returned on Saturday.

I came back with two clear impressions. The first is of the ingenuity and determination with which the Hungarians are pursuing their economic reform. The emphasis on individual effort and incentive as the motor for economic growth is strong, and one notices the results in the sectors of the economy where private enterprise is permitted. They say that two things would help them particularly: an upturn in the Western economies, with which nearly half their trade is linked; and an improvement in East/West relations, causing the Russians to look with less mistrust at the Hungarian economic experiment as a potential Trojan Horse within their empire.

My second impression is of the very clear limits within which this Hungarian experiment is being conducted: the single political party, the controlled press, the sham Parliament, the state ownership of all but the smallest economic units and above all the forced alliance with Moscow. Both Kadar and the Prime Minister, Lazar, insisted that these things cannot and will not change for the foreseeable future. I believe that this is realistic, and that our policies have to be formulated on this assumption. It follows that we are in the business of coexistence with the East for as far ahead as I feel able to look; and this will mean dialogue on a broader front than arms control alone.

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At the same time, we shall need to consider how best we can get the Russians to talk on nuclear weapons and how to control them. The Hungarian answer to this was that the West must first return to the situation as it was before INF deployment began. This is obviously out of the question, nor do the Hungarians expect it to happen. The Russians walked out of the two negotiations in Geneva, and they must find their way back to them. What we have to do, it seems to me, is to find ways of bringing it home to the Russians that it is in their own interests to return to the negotiating table. I put this point to the Hungarians very strongly, and I imagine that it is among the things which they will be passing on to Moscow.

I look forward to having a talk about this whole subject with George Bush at Chequers next week.

Foreign Policy : East/West Relations A4.

Attachment to Bone to Coles
6/2/84

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TELEGRAM NUMBER 59 OF 6 FEBRUARY 84.

HUNGARIAN PRESS AND TV COVERAGE OF THE PRIME MINISTER'S VISIT.

SUMMARY

1. THE PRIME MINISTER'S VISIT ATTRACTED MORE ATTENTION IN THE HUNGARIAN MEDIA THAN ANY COMPARABLE EVENT WE CAN RECALL. THE HUNGARIAN PUBLIC WAS INFORMED IN A TV INTERVIEW OF THE VISIT WELL IN ADVANCE. THE FORMAL ANNOUNCEMENT WHICH USUALLY JUST PRECEDES OFFICIAL VISITS WAS ALSO MADE EARLIER THAN USUAL. PRESS REPORTING DURING AND SINCE THE VISIT HAS UNDERLINED THE INTERNATIONAL AND BILATERAL IMPORTANCE OF THE VISIT. IN GENERAL, HUNGARIAN PRESS TREATMENT WAS A MIRROR IMAGE OF HMG'S PUBLIC LINE: DIFFERENCES WERE ACKNOWLEDGED AND LOYALTIES REASSERTED, BUT THE POSSIBILITY OF FORWARD-LOOKING DIALOGUE WAS WELCOMED. THE PRIME MINISTER'S EXPECTATION THAT DEVELOPMENT OF A BETTER RELATIONSHIP BETWEEN EAST AND WEST WOULD BE A SLOW AND GRADUAL PROCESS WAS FAITHFULLY REPORTED.

BUILD UP

2. THE BUILD-UP TO THE VISIT INCLUDED A TV COMMENTARY ON 31 JANUARY, DURING WHICH A HUNGARIAN WORD 'TO DIALOGUE' WAS COINED: THE PRIME MINISTER'S VISIT WAS SET IN THE CONTEXT OF TRUDEAU'S TOUR OF EAST EUROPE AND CHEYSSON'S VISIT TO POLAND, ALL OF WHICH EXEMPLIFIED WELCOME DIALOGUE AT A TIME OF DIFFICULT EAST-WEST RELATIONS. IT WAS SUGGESTED THAT DOMESTIC MOTIVES EG THE ANTI-NUCLEAR LOBBY, HAD CONTRIBUTED TO THE PRIME MINISTER'S WISH TO COME TO HUNGARY. ON 1 FEBRUARY, THE TV NEWS CONTAINED SOME FOUR MINUTES OF THE INTERVIEW WHICH THE PRIME MINISTER GAVE IN LONDON ON 31 JANUARY. (THE REST OF THAT INTERVIEW WILL BE SHOWN IN FULL ON 9 FEBRUARY). HUNGARIAN TV GAVE GOOD COVERAGE TO BOTH THE FORMAL AND THE INFORMAL ASPECTS OF THE PRIME MINISTER'S PROGRAMME ON 3 AND 4 FEBRUARY.

COVERAGE OF THE PRIME MINISTER'S BANQUET SPEECH.

3. THE PAPERS UNIFORMLY RELAYED A HUNGARIAN NEWS AGENCY SUMMARY REPORT OF THE SPEECHES AT THE BANQUET ON 3 FEBRUARY. THIS NOTED THE 'KIND GESTURE' OF THE PRIME MINISTER IN USING A HUNGARIAN SENTENCE IN HER INTRODUCTION AND PICKED UP THE PLEASANTRY THAT THE ONLY ICE IN HUNGARIAN-BRITISH RELATIONS WAS THE ICE ON WHICH THE EUROPEAN ICE-DANCING CHAMPIONSHIP WAS WON BY TORVILLE AND DEAN THREE WEEKS BEFORE.

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4. ONLY THE FIRST PARAGRAPH OF THE SECTION ON ECONOMY MATTERS WAS RELAYED THE THE WARNING AGAINST PROTECTIONISM WAS OMITTED. MUCH OF THE SECTION ON ARMS CONTROL AND DISARMAMENT WAS ACCURATELY REPORTED BUT THE PRESS OMITTED THE PRIME MINISTER'S SUGGESTION THAT CHEMICAL WEAPONS COULD BE ABOLISHED ALTOGETHER AND ALSO THE KEY SENTENCE 'THIS IS NO TIME FOR EMPTY CHAIRS IN GENEVA'. THE NEAREST THAT THE PUBLISHED HUNGARIAN ACCOUNT OF THE SPEECH CAME TO EXPRESSING THIS THOUGHT WAS A FORMULATION TO THE EFFECT THAT THE PRIME MINISTER HAD CALLED FOR RENEWSL OF DISARMAMENT TALKS THAT HAD 'FORMERLY BEEN IN PROGRESS'. (ON THE OTHER HAND, PRESS REPORTING OF THE PRESS CONFERENCE WHICH THE PRIME MINISTER GAVE ON 4 FEBRUARY DID INCLUDE THE REFERENCE MADE THEN TO 'EMPTY CHAIRS' AT GENEVA).

THE PRESS CONFERENCE.

5. UNLIKE THE BANQUET SPEECH, THE PRESS CONGERENCE WAS REPORTED DIFFERENTLY IN THE 5 FEBRUARY ISSUES OF THE FOUR MAIN DAILIES. TAKEN TOGETHER THE PAPERS REPORTED THE SUBSTANCE OF THE PRIME MINISTER'S OPENING STATEMENT AND OF HER SUBSEQUENT ANSWERS. IN ACCORDANCE WITH HUNGARIAN PRACTICE, HOWEVER, REFERENCES TO THE USSR WERE IN ALL CASES PRUNED CAREFULLY: REFERENCES TO MR ANDROPOVS HEALTH AS A FACTOR CONTRIBUTING TO INTERNATIONAL UNCERTAINTY WERE EXCISED, AS WAS THE PRIME MINISTER'S STATEMENT THAT BRITAIN HOPED THAT IT WOULD BE POSSIBLE FOR THE USSR TO BE BROUGHT BACK TO THE NUCLEAR DISARMAMENT TALKS IN GENEVA. THE PRESS REPORTED ACCURATELY THE SECTION OF THE OPENING SAYING THAT BOTH HUNGARY AND THE UNITED KINGDOM WANTED TO SEE A RESUMPTION OF DIARMAMENT NEGOTIATIONS LEADING TO A LOWER LEVEL OF ARMAMENTS OF ALL KINDS BUT THE REPORT FOUGHT SHY OF INCLUDING THE ASSERTION THAT THE NEGOTIATIONS TOWARDS REDUCTIONS SHOULD BE ON A BALANCED AND VERIFIABLE BASIS. ON EUROPEAN COMMUNITY MATTZRS, THE HUNGARIAN PRESS DROPPED THE SENTENCE STATING THAT HUNGARY HAS RECENTLY SOUGHT AN AGREEMENT WITH THE COMMUNITY. ON FUTURE CONTACTS, THE PRIME MINISTER WAS ACCURATELY REPORTED AS SAYING THAT SHE WOULD BE HAPPY FOR SIR GEOFFREY HOWE TO VISIT MOSCOW AND, SEPARATELY, THAT SHE WOULD VERY MUCH LOOK FORWARD TO SEEING JANOS KADAR ON ANOTHER OCCASION.

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FM FCO 061700Z JANUARY 1984
TO PRIORITY UKDEL IMF/IBRD WASHINGTON
TELEGRAM NUMBER 4 OF 6 JANUARY
INFO BUDAPEST
IMF: HUNGARY - ARTICLE IV AND SBA
OBJECTIVES

1. TO ENCOURAGE CONTINUATION OF ECONOMIC REFORM. HUNGARY SHOULD AIM TO ENHANCE CREDITOR CONFIDENCE BY SUFFICIENT ADJUSTMENT ON THE EXTERNAL CONVERTIBLE-CURRENCY BALANCES TO MEET ITS RISING DEBT MATURITIES, WHICH ARE LIKELY TO REMAIN RELATIVELY HIGH THROUGHOUT THE MID-1980S.

2. ENDORSE THE STAFF APPRAISAL, WHICH SUGGESTS THAT THE RELATIVELY WEAK PROGRAMME SKETCHED OUT IN EBS/83/268 CAN ONLY BARELY JUSTIFY FUND SUPPORT OF 80 PER CENT OF (NEW) QUOTA, AND CERTAINLY NOT THE FRONT LOADING OF DRAWINGS ENVISAGED (P 45). WE BELIEVE A RELATIVELY LOW 6 MONTH PROGRAMME WOULD HAVE BEEN MORE APPROPRIATE, TO BE FOLLOWED BY A BIGGER ONE WHEN THE EXPECTED STRONGER MEASURES ARE INTRODUCED IN THE SUMMER. GIVEN THE SENSITIVITIES, SUPPORT THE PROGRAMME, BUT EXPRESSING THESE RESERVATIONS IN A TECHNICAL FASHION, ADDRESSING CRITICISM TO THE FUND STAFF RATHER THAN THE HUNGARIAN AUTHORITIES.
SENSITIVITIES

3. SHORTFALLS IN CERTAIN AREAS OF HUNGARY'S ECONOMIC PERFORMANCE IN 1983, EG THE FAILURE OF NET DOMESTIC ASSETS TO REMAIN WITH THE END-DECEMBER CEILING (P 8) AND OF PERSONAL CONSUMPTION TO FALL BY PLANNED LEVELS (P 5), ARE ATTRIBUTABLE, AT LEAST IN PART, TO THE BUOYANCY OF THE PRIVATE SECTOR, A DEVELOPMENT OF WHICH WE WOULD NOT WISH TO BE TOO CRITICAL. THE DIFFICULTIES THAT THE AUTHORITIES ARE ENCOUNTERING IN MOVING FROM A SYSTEM OF CENTRALISED MICRO-CONTROLS TO A MORE DECENTRALISED SYSTEM OF MACRO-CONTROLS ALLOWING THE EMERGENCE OF MARKET FORCES NEED TO BE TREATED SYMPATHETICALLY.

4. BEAR IN MIND THE PRIME MINISTER'S OFFICIAL VISIT TO HUNGARY,

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2-4 FEBRUARY.

OVERVIEW

5. AS A CENTRALLY PLANNED ECONOMY, HUNGARY FACES PROBLEMS UNFAMILIAR TO THE FUND IN DESIGNING AND SUSTAINING ITS ADJUSTMENT EFFORT. WELCOME THE ACHIEVEMENTS SO FAR FOR THIS RELATIVELY NEW FUND MEMBER.

6. WARMLY ENDORSE CONTINUING COMMITMENT TO LIBERALISING STRUCTURAL RIGIDITIES. DESPITE SMALL SCALE AND EXPERIMENTAL NATURE OF SOME REFORMS, NOTABLY IN ENTERPRISE WAGE AND PRICING POLICY, EXPRESS HOPE THAT AUTHORITIES WILL FIND RESULTS SUFFICIENTLY ENCOURAGING TO BROADEN THEIR SCOPE AND APPLICATION. THE BUOYANCY OF THE PRIVATE SECTOR LAST YEAR WAS A USEFUL EXAMPLE OF THE BENEFITS OF DECENTRALISING ECONOMIC CONTROL. HOPE ALSO THAT SOME LONGER TERM STRUCTURAL REFORMS, EG OF THE BANKING SECTOR (P 18), WILL START SOON.

7. PROGRAMME PROPOSED IS REALLY 6 MONTH HOLDING OPERATION, PENDING PACKAGE OF FURTHER MEASURES IN THE SUMMER (P 18). UNDERSTAND POLITICAL REALITIES WHICH UNDERLINE THIS APPROACH. SHARE STAFF VIEW (P 22) THAT MOMENTUM OF ADJUSTMENT, PARTICULARLY STRUCTURAL REFORM, SHOULD NOT BE ALLOWED TO FLAG. GIVEN AUTHORITIES' INTENTION TO ABANDON THIS PROGRAMME FOR AN 18 MONTH ONE LATER THIS YEAR, SHOULD NOT THE STAFF HAVE DESIGNED A 6 MONTH PROGRAMME? THIS WOULD HAVE MADE THE AUTHORITIES' INTENTIONS CLEARER, WITHOUT COMPROMISING THEIR FREEDOM OF MANOEUVRE: MID-TERM REVIEW WILL OBVIOUSLY COME CLOSE TO RENEGOTIATION IF PROGRAMME CONTINUES PAST THE SUMMER.

8. GIVEN INTENTION TO STRENGTHEN ADJUSTMENT LATER, SURPRISED THAT STAFF HAVE FRONT LOADED DRAWINGS (P 45).

IN ORDER TO ENSURE THAT SUFFICIENT HEADROOM IS LEFT FOR THE REMAINDER OF

HUNGARY'S ADJUSTMENT PROCESS, WOULD IT NOT HAVE BEEN BETTER TO PITCH DRAWINGS IN THE FIRST HALF OF 1983 AT A MORE MODEST LEVEL, ALLOWING SCOPE FOR MORE LATER, TO MATCH INTENDED STRONGER PROGRAMME? (THIS SBA, AT 80 PER CENT OF NEW QUOTA, WOULD BRING HUNGARY'S CUMULATIVE USE OF FUND RESOURCES TO 154 PER CENT OF NEW QUOTA. AN 18 MONTH PROGRAMME-FROM JUNE AT, SAY, 100 PER CENT OF

NEW QUOTA A YEAR, WOULD BRING CUMULATIVE USE TO OVER 250 PER CENT, NOT FAR FROM EXHAUSTION OF PRESENT NORMAL CUMULATIVE LIMIT OF 306 PER CENT.) HOWEVER, CAN GO ALONG WITH THIS MISMATCH BETWEEN FUND FINANCE AND PACE OF ADJUSTMENT BECAUSE OF HUNGARY'S SEASONAL BOP NEED IN H1.

9. AGAINST PROGRESS SO FAR, DISAPPOINTING THAT MANY OF LAST YEAR'S TARGETS NOT ACHIEVED. REGRET THAT THE SMALLER THAN INTENDED REDUCTION IN DEMAND LED TO THE MAINTENANCE OF CERTAIN RESTRICTIONS, NOTABLY ON IMPORTS. REGRET ALSO THAT THE 1984 PROGRAMME IS AIMING FOR LOWER TARGETS THAN LAST YEAR, BUT WELCOME INTENTION TO REMOVE IMPORT RESTRICTIONS. MID TERM REVIEW SHOULD COVER IF NOT ELIMINATED BY THEN. HOPE THAT FURTHER MEASURES INTENDED WILL REDRESS BALANCE OF ADJUSTMENT, GIVING HIGHER PRIORITY TO INVESTMENT WITH LESS PROTECTION FOR CONSUMERS. ARE STAFF IN TOUCH WITH IBRD ABOUT POSSIBILITY OF SAL, IF INDEED ONE IS ENVISAGED?

10. CONCERNED THAT POLICY MEASURES PROPOSED MAY (FOR THE SECOND YEAR RUNNING) PROVE INSUFFICIENT TO RESTRAIN THE GROWTH IN DOMESTIC DEMAND TO ITS PROJECTED LEVEL. APPRECIATE THAT FURTHER ACTION INTENDED. HOPE IT WILL SECURE ADEQUATE DEMAND ADJUSTMENT TO UNDERWRITE RECENT IMPROVEMENT ON THE CONVERTIBLE-CURRENCY CURRENT ACCOUNT. GIVEN THE HIGH LEVEL OF DEBT MATURITIES FALLING DUE IN 1984 AND BEYOND, AND WITH BANKING CONFIDENCE ONLY NOW GRADUALLY RETURNING, SUCH A DETERIORATION COULD HAVE SERIOUS IMPLICATIONS FOR HUNGARY'S PAYMENT POSITION. SHOULD THE EXTERNAL POSITION DETERIORATE FROM ITS PROJECTED PATH (TABLE 6), TRUST THAT SUMMER PACKAGE WILL INCLUDE CORRECTIVE MEASURES.
POINTS ON WHICH TO DRAW

EXTERNAL

11. AGREE WITH STAFF (P 11) THAT ADJUSTMENT IN HUNGARY SHOULD BE GEARED TO ACHIEVING AND SUSTAINING A CURRENT ACCOUNT BOP SURPLUS IN CONVERTIBLE CURRENCIES SUFFICIENT TO SERVICE EXTERNAL OBLIGATIONS. ALTHOUGH THESE PEAK ON PROJECTIONS GIVEN (DSR 40 PER CENT) IN 1984, THEY FALL OFF RELATIVELY SLOWLY THEREAFTER. NOTE, INCIDENTALLY, THAT TOTAL DSR, INCLUDING SHORT TERM MATURITIES, IS MUCH HIGHER - 63 PER CENT IN 1984. GIVEN THE SUBSTANTIAL REDUCT-

ION IN THE RUBLE CURRENT ACCOUNT DEFICIT SOUGHT BY CMEA (P 4), THE PLANNED REAL REDUCTIONS IN CONSUMER EXPENDITURE AND GOVERNMENT CURRENT EXPENDITURE (TABLE 3) MUST BE ACHIEVED IF IMPORT RESTRICTIONS ARE TO BE REMOVED AND THE CENTRAL TARGET OF A CONVERTIBLE-CURRENCY ACCOUNT SURPLUS OF DOLLAR 400 MILLION IS TO BE REACHED.

12. FAILURE TO ACHIEVE THE PROJECTED IMPROVEMENT ON THE CONVERTIBLE-CURRENCY CURRENT ACCOUNT IN 1983 HAS LEFT HUNGARY'S CAPITAL ACCOUNT WEAKER THAN EXPECTED WITH ITS FINANCING POSITION REMAINING PRECARIOUS. WITH DEBT MATURITIES FORECAST TO REMAIN AT AROUND DOLLAR 1.5 BILLION BETWEEN 1984 AND 1988 (TABLE 11) HUNGARY CAN AFFORD NO EASING OF THE ADJUSTMENT EFFORT IF IT IS TO ATTRACT THE DOLLAR 1 BILLION IT IS LIKELY TO REQUIRE ANNUALLY IN MEDIUM-TERM CAPITAL INFLOWS. THE HUNGARIANS SHOULD NOT ASSUME THAT SHORTFALLS FROM CONVERTIBLE-CURRENCY CURRENT ACCOUNT TARGETS CAN READILY BE FINANCED BY INCREASED BORROWING FROM THE INTERNATIONAL CAPITAL MARKETS. TARGETS THEMSELVES HELPED CONFIDENCE. FAILURE TO ACHIEVE THEM MAY ERODE IT. WITH SHORT-TERM MATURITIES OF DOLLAR 1.3 BILLION (TABLE 10) AND CONVERTIBLE-CURRENCY RESERVES OF ONLY DOLLAR 0.7 BILLION (TABLE 9) HUNGARY REMAINS HIGHLY VULNERABLE TO CAPITAL OUTFLOWS SHOULD CONFIDENCE BEGIN TO WANE AGAIN.

13. WELCOME BETTER THAN PROGRAMMED OUTTURN FOR 1983 FISCAL DEFICIT (P 8) AND INTENDED SURPLUS OF 1.3 PER CENT OF GDP (P 46) FOR 1984. ENCOURAGE FASTER REDUCTION IN PRICE SUBSIDIES, WHICH, DESPITE SOME PLANNED CUTS (P 63), WILL STILL ACCOUNT FOR 26 PER CENT OF THE STATE BUDGET IN 1984 (P 62). DESIRABLE TO ELIMINATE DISTORTIONS IN PATTERNS OF DEMAND AND CONSUMPTION WHICH THESE CAUSE. SHORT-TERM INFLATIONARY IMPACT OF PHASING THEM OUT WOULD BE QUICKLY OUTWEIGHED BY THE BENEFITS DERIVED FROM MORE EFFICIENT RESOURCE ALLOCATION. PARTICULARLY REGRETTABLE THAT EXPORT SUBSIDIES TO CMEA HAVE EXCEEDED EXPECTATIONS (P 9), ESPECIALLY IN VIEW OF DISTORTIONS CAUSED BY UNREALISTIC EXCHANGE RATES.

14. THE REFORMS OF THE FISCAL SYSTEM ARE GENERALLY WELCOME (P 17) TRUST THAT THE INSTITUTION OF THE SINGLE PROGRESSIVE TAX ON PRIVATELY EARNED INCOMES (REPLACING THE MORE ONEROUS AND WIDELY EVADED SYSTEM TO TAXING STATE AND PRIVATE INCOMES SEPARATELY) WILL

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HELP BROADEN THE TAX BASE AND ENHANCE THE ROLE OF FISCAL POLICY IN DEMAND MANAGEMENT.

MONETARY

15. ARE THE AUTHORITIES CONSIDERING OFFERING A WIDER RANGE OF SAVINGS INSTRUMENTS (EG BONDS) TO OFFSET EFFECT ON SAVINGS OF UNATTRACTIVE DEPOSIT RATES?

INCOMES

16. GIVEN PAST PROBLEMS IN CONTROLLING GROWTH OF NOMINAL WAGES, AND POSSIBILITY OF A FURTHER OVERSHOOT IN 1984, QUESTION WHETHER ADVISABLE TO FULLY COMPENSATE SOCIAL BENEFITS FOR THE EXPECTED INCREASE IN INFLATION (P 13). SHOULD WAGE LEVELS RISE UNEXPECTEDLY FAST AGAIN THIS WILL HAMPER ACHIEVEMENT OF 1 PER CENT REAL REDUCTION IN CONSUMER EXPENDITURE.

17. THE 2 PER CENT INCREASE IN INTEREST FOR HOUSEHOLD DEPOSITS (P 13) DOES LITTLE MORE THAN OFFSET THE EXPECTED INCREASE IN THE RATE OF INFLATION. PRESUMABLY IT STILL LEAVES THESE DEPOSIT RATES SUBSTANTIALLY NEGATIVE IN REAL TERMS SO MAY DO LITTLE TO DISCOURAGE A DECLINE IN THE SAVINGS RATIO SHOULD CONSUMER PURCHASING POWER BE SQUEEZED.

MONETARY

18. GIVEN PAST LEAKAGES, THE EFFECTS OF EFFORTS TO CONTAIN ENTERPRISE LIQUIDITY TO PREVENT A FURTHER OVERSHOOTING OF INVESTMENT TARGETS (P 14) ARE DIFFICULT TO JUDGE. HAS THE UNDERPRICING OF CAPITAL BEEN AN IMPORTANT INFLUENCE? IT IS NOTABLE THAT DIRECT BUDGETARY SUPPORT FOR INVESTMENT THIS YEAR (ON WHICH IT IS NOT CLEAR IF A CHARGE IS MADE) WILL REMAIN AT THE SAME LEVEL AS IN 1983. IT IS ALSO NOTABLE THAT THE STATE DEVELOPMENT BANK, WHOSE LEVEL OF LENDING IN 1983 WAS CRITICISED BY THE STAFF (P 20), IS TO BE ALLOWED TO INCREASE ITS LENDING IN REAL TERMS IN 1984, ALTHOUGH UNDER CLOSER SUPERVISION. THESE SEEM INCONSISTENT WITH THE AUTHORITIES' AIM OF REDUCING GROSS FIXED INVESTMENT BY 8.4 PER CENT IN REAL TERMS.

POINTS TO RAISE WITH THE STAFF

19. REGRET RED CIRCULATED LATE. GRATEFUL FOR EARLY CIRCULATION WHERE POSSIBLE - EG NIGERIA, AUSTRIA. ASK WHETHER MORE DATA COULD BE PUT IN STAFF REPORT IF DELAY IS INEVITABLE - EG MORE ON

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INTEREST RATES IN THIS CASE (OF PARA 17 ABOVE).

20. ARE STAFF CONFIDENT OF THE PROJECTIONS OF EXPORTS OF GOODS AND SERVICES (TABLE 11), WHICH HAVING FALLEN FROM DOLLAR 5.8 BILLION IN 1982 TO DOLLAR 5.7 BILLION IN 1984 RISE TO DOLLAR 8.1 BILLION IN 1988?

21. THE ESTIMATE OF MEDIUM-TERM CAPITAL OUTFLOWS, IN 1983 HAS INCREASED FROM DOLLAR 1,005 MILLION TO DOLLAR 1,213 MILLION (TABLE 7). IS THE 1984 PROJECTION LIKELY TO BE SUBJECT TO A SIMILAR REVISION?

BACKGROUND

22. GIVEN THE PRESSURE ON HUNGARY TO REDUCE ITS CURRENT-ACCOUNT DEFICIT WITH THE CMEA, MANY OF THE QUESTIONS RAISED IN SMITH'S LETTER TO TAYLOR OF 24 JUNE 1983 REMAIN RELEVANT.

23. THE SIGNIFICANT IMPROVEMENT IN THE ATTITUDE IN FINANCIAL MARKETS TOWARD HUNGARY (P 6) SHOULD NOT BE EXAGGERATED. MUCH OF THE HIGHER THAN PROJECTED MEDIUM-TERM CAPITAL INFLOWS DERIVED DIRECTLY OR INDIRECTLY FROM THE WORLD BANK. (THE DOLLAR 270 MILLION RAISED FOR CO-FINANCING OF IBRD PROJECTS WAS SEEN BY MANY OF THE PARTICIPATING BANKS AS BEING EFFECTIVELY BACKED BY THE WORLD BANK.) HUNGARY HAD DIFFICULTY IN ARRANGING A TWO-YEAR POUNDS 50 MILLION ACCEPTANCE CREDIT IN LONDON (TO REPLACE ONE FOR POUNDS 75 WHICH WAS MATURING). ALTHOUGH THERE ARE SOME SIGNS OF A VERY GRADUAL RETURN OF BANKING CONFIDENCE IN EASTERN EUROPE AS A WHOLE, HUNGARY SHOULD NOT NURTURE EXAGGERATED HOPES OF THEIR RECEPTION IN THE FINANCIAL MARKETS' IF THEY SHOULD WANT TO BORROW MORE.

24. NOTE THE LONG PROMISED IBRD DISCUSSION ON 5 JANUARY OF MEASUREMENT OF PER CAPITA GNP. THIS WAS STIMULATED TO CONSIDER VALIDITY OF HUNGARY'S CONTINUED ELIGIBILITY TO USE IBRD FINANCE. THOUGH NOT DISPOSED TO PRESS THE ISSUE, WE REGARD THE PRESENT CALCULATIONS AS QUESTIONABLE. IF HUNGARY IS DENIED FURTHER IBRD LOANS, ITS NEED FOR COMMERCIAL CREDIT WILL BE DISPROPORTIONATELY MORE DIFFICULT TO MEET (CF PARA 23).

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TELEGRAM NUMBER 57 OF 6 FEBRUARY 84
INFO BELGRADE, BUCHAREST, EAST BERLIN, MOSCOW, PRAGUE, SOFIA
WARSAW, WASHINGTON AND UKDEL NATO.

PRIME MINISTER'S VISIT TO HUNGARY. MB

SUMMARY.

1. THE PRIME MINISTER WAS IN BUDAPEST FROM 2-4 FEBRUARY.
THE VISIT WAS A MAJOR EVENT. MRS THATCHER HAD LONG TALKS WITH HUNGARY'S THREE MAIN SENIOR STATESMEN. HER STYLE MADE AN IMPACT ON THEM AND ON ORDINARY HUNGARIANS. BOTH SIDES HAD TO STRIKE A BALANCE BETWEEN OPENNESS ON THE ONE HAND AND AROUSING SUSPICIONS AND EXCESSIVE EXPECTATIONS ON THE OTHER. IT IS TOO SOON TO ASSESS THE SIGNIFICANCE OF THE VISIT IN TERMS OF EAST/WEST RELATION. BUT IT IS CLEAR THAT IT MADE A SIGNIFICANT IMPACT ON HUNGARY: OPENED UP SOME PROSPECTS FOR ADVANCING BRITISH INTERESTS HERE: AND AFFECTED HUNGARIANS VIEW OF THEMSELVES. WE SHOULD EXPLOIT THE OPPORTUNITIES THE VISIT HAS OPENED UP.

DETAIL

2. THE PRIME MINISTER WAS IN HUNGARY FOR 46 HOURS. SHE HAD ALMOST FIVE HOURS'S TALKS WITH HUNGARY'S THREE MAIN SENIOR STATESMEN (PRESIDENT LOSONCZI, FIRST SECRETARY KADAR AND PRIME MINISTER LAZAR) OF WHICH OVER TWO HOURS WERE TETE A TETE WITH KADAR HIMSELF. SHE MET THE MINISTERS OF FOREIGN AFFAIRS AND FOREIGN TRADE SOCIALLY, AS WELL AS A NUMBER OF OTHER PROMINENT HUNGARIANS. HER SPEECH AT DINNER ON 3 FEBRUARY WAS SELECTIVELY COVERED BY HUNGARIAN TELEVISION. SHE SAW SOMETHING OF BUDAPEST AND OF THE COUNTRY OUTSIDE AND WAS SEEN BY AND SPOKE WITH LARGE CROWDS OF WELL-WISHERS - MORE, WE BELIEVE, THAN ANY OTHER WESTERN VISITOR IN RECENT YEARS. PRESS AND TV COVERAGE HERE WAS WELL ABOVE THE CAREFULLY REGULATED NORM FOR VISITORS FROM THE WEST: AND IN BRITAIN IT WAS OF COURSE INTENSIVE. THE PRIME MINISTER'S FINAL PRESS CONFERENCE ATTRACTED A CAPACITY AUDIENCE, INCLUDING SEVERAL JOURNALISTS FROM THIRD COUNTRIES.

3. THE VISIT DOMINATED BUDAPEST MUCH MORE THAN IT HAD EXPECTED HUNGARIANS SAW THE PRIME MINISTER IN THE FLESH OR ON TELEVISION BEHAVING HERE IN THE EVERYDAY POPULAR STYLE OF A WESTERN POLITICAL LEADER: VISITING A YOUNG COUPLE IN THEIR NEW FLAT, RESPONDING TO CROWDS IN WESTERN ELECTRONEERING STYLE, SHOPPING IN THE MARKET. BY COMMUNIST STANDARDS, THE HUNGARIAN

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/LEADERSHIP

LEADERSHIP ARE RELATIVELY POPULIST, BUT THEY DO NOT BEHAVE LIKE WESTERN POLITICAL LEADERS. I SUSPECT THAT THE PRIME MINISTER'S STYLE AND PERSONALITY MAY HAVE TAUGHT THEM A THING OR TWO. THEY WILL FIND IT DIFFICULT, IF CALLED UPON TO DO SO IN FUTURE, TO SUGGEST IN THEIR PROPAGANDA THAT THE WARSAW PACT IS DEALING WITH FACELESS, UNFEELING AND INHUMAN LEADERS IN THE WEST. I BELIEVE THE VISIT ALSO GOT ACROSS TO HUNGARIANS AT ALL LEVELS THE MESSAGE THAT THEY HAVE FRIENDS IN THE WEST WHO ARE NOT SHUT OFF FROM THEM AS THEY WERE IN THE BAD OLD DAYS. THE FACT THAT THOSE FRIENDS FIND HUNGARY STIMULATING AND INTERESTING CAN ONLY STRENGTHEN HUNGARIANS' SENSE OF NATIONAL IDENTITY AND SELF-CONFIDENCE. TO DO THAT, WITHIN THE LIMITS SET US BY HUNGARY'S GEOPOLITICAL RELATIONSHIP WITH MOSCOW, I BELIEVE THE MAJOR LONG-TERM WESTERN INTEREST HERE. THE VISIT SERVED IT WELL.

4. IN CARRYING OUT HER VISIT, THE PRIME MINISTER HAD TO STRIKE A BALANCE. SHE HAD TO MEET THE WISH OF BOTH SIDES TO STRENGTHEN THEIR BILATERAL RELATIONSHIP AND DEMONSTRATE THAT EAST/WEST DIALOGUE IS POSSIBLE EVEN IN TIME OF INTERNATIONAL TENSION. AT THE SAME TIME, BOTH SIDES HAD TO AVOID EXPOSING A FLANK TO SUSPICIOUS OR ANXIOUS OBSERVERS. THE DILEMMA WAS OBVIOUSLY GREATER FOR THE HUNGARIANS, OPERATING UNDER THE WATCHFUL EYE OF MOSCOW, THAN FOR US. THE PRIME MINISTER'S APPROACH, BOTH IN PUBLIC AND IN PRIVATE, GAVE THEM THE HELP THEY NEEDED. SHE MADE IT CLEAR THAT HER PURPOSE WAS NOT TO QUESTION HUNGARY'S COMMITMENTS. SHE GAVE NOTHING AWAY OF SUBSTANCE BUT CONCENTRATED ON HOW TO IMPROVE THE POSITION NOW REACHED, RATHER THAN INDULGE IN POLEMICS ABOUT HOW WE REACHED IT. THE HUNGARIANS WERE ABLE TO PLAY THEIR RECORD ABOUT THE REASONS FOR THE SOVIET WALK-OUT FROM THE ARMS CONTROL TALKS BUT FELT NO NEED TO CONTEST THE PRIME MINISTER'S FIRMLY STATED VIEW THAT THE TALKS WERE DESIRABLE AND THAT THERE SHOULD BE NO EMPTY CHAIR AT GENEVA. THE HUNGARIANS' READERSHIP IN THE SOVIET EMBASSY HERE CANNOT QUARREL WITH ANYTHING THEY SAID, ONLY WITH WHAT THEY DID NOT SAY- AND THAT DEFINES REASONABLY HUNGARY'S FOREIGN POLICY ROOM FOR MANOEUVRE. AT THE SAME TIME, THE FACT THAT HUNGARY WAS TREATED AS A SERIOUS INTERLOCUTOR BY A MEMBER OF THE WESTERN BIG LEAGUE MUST HAVE FLATTERED THE HUNGARIAN LEADERSHIP AND PLEASED THE PEOPLE.

5. THE PRIME MINISTER HAD TWO MAIN THEMES. THE WEST, PRESIDENT REAGAN AS MUCH AS ANYONE ELSE, WAS SINCERE IN ITS SEARCH FOR PEACE AND SECURITY AND FOR PROGRESS ON ARMS CONTROL. AND BRITAIN WAS INTERESTED IN HUNGARY AS A NATION: IN HUNGARIAN ACHIEVEMENTS: IN HUNGARIAN POLITICAL AND ECONOMIC EXPERIENCE: AND IN DOING BUSINESS WITH HUNGARY. THE FORMAL RESPONSE ON THE FIRST POINT, MOST NOTABLY IN LAZAR'S DISAPPOINTINGLY ORTHODOX AND UNIMAGINATIVE SPEECH FOR THE RECORD AT THE FORMAL DINNER, WAS CAUTIOUS. BUT, BEHIND IT, I THINK THAT THE PRIME MINISTER MADE

SOME HEADWAY. ON THE SECOND, THE HUNGARIANS RESPONDED POSITIVELY AND PROFESSED THEMSELVES READY FOR AN INCREASE IN EVERY KIND OF CONTACT BETWEEN BRITAIN AND HUNGARY. IN CONVERSATION WITH ME AFTER THE PRIME MINISTER'S DEPARTURE, MR LAZAR EMPHASISED PARTICULARLY CONTACT BETWEEN PRIVATE AS WELL AS OFFICIAL INTERESTS - A WELCOME IF RATHER SURPRISING NUANCE, COMING FROM A LEADER OF A STILL VERY CENTRALISED SOCIETY.

6. BOTH SIDES ARE GOING TO HAVE TO WORK HARD AND IMAGINATIVELY IF THE IMPETUS PROVIDED BY THE VISIT IS NOT TO BE WASTED. TWO FIELDS LOOK TO ME PARTICULARLY PROMISING. COMMERCIALY THE TREND ON BOTH SIDES IS UPWARD AND THE HUNGARIANS POSITIVELY WANT US TO GO ON INCREASING OUR STILL DISAPPOINTINGLY SMALL SHARE OF THEIR IMPORT MARKET. IN THE CULTURAL FIELD, THE PRIME MINISTER PUT DOWN A MARKER ABOUT OUR WORK HERE: AND THE BUDAPEST CULTURAL FORUM WILL OFFER OPPORTUNITIES TO EXPLOIT. I SHALL BE MAKING DETAILED RECOMMENDATIONS TO THE DEPARTMENT. FOR THE PRESENT, THE ESSENTIAL POINT IS THAT THE VISIT WAS A SUCCESSFUL EXERCISE IN POSITIVE DISCRIMINATION AT THE HIGHEST LEVEL. WE MUST PUT TIME, EFFORT AND MONEY INTO THE FOLLOW-UP. FOR HISTORICAL, GEOGRAPHICAL AND POLITICAL REASONS, WE HAVE INTENDED TO BE ON THE OUTSIDE TRACK AMONG MAJOR WESTERN COUNTRIES HERE. THE VISIT HAS GIVEN US A CHANCE TO GET NEARER TO THE INSIDE TRACK.

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From the Private Secretary

6 February 1984

PRIME MINISTER'S VISIT TO HUNGARY

I should record that when Prime Minister Lazar came to the Guest House to escort the Prime Minister to the aircraft he thanked her for the invitation to him to visit London which she had mentioned in her speech at the Banquet the night before. At a later stage in the conversation the Prime Minister repeated that she hoped it would be possible for Mr. Lazar to visit London.

I do not think that the Prime Minister would favour an early visit by Mr. Lazar. It follows that we should not press for one but rather wait for the Hungarians to raise the subject if and when they so choose.

Mr. Lazar also said on this occasion that he had discussed the Prime Minister's visit with First Secretary Kadar and they were both grateful for the clear and cordial atmosphere which she had created.

A. J. COLES

R.B. Bone, Esq.,
Foreign and Commonwealth Office.



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From the Private Secretary

6 February 1984

Dear Brian,

VISIT BY THE PRIME MINISTER TO HUNGARY

I enclose records of:

- (a) the tête-à-tête conversation between the Prime Minister and First Secretary Kadar;
- (b) the tête-à-tête conversation between the Prime Minister and Prime Minister Lazar;
- (c) the Plenary talks between the Prime Minister and Mr. Lazar;
- (d) the meeting between the Prime Minister and the Hungarian President.

I should be grateful if these records could be closely protected and distributed only to those who have an essential operational need to know of them.

In conversation with the Prime Minister on the aircraft during the return journey (Sir Julian Bullard was present), it was agreed that the FCO would let me have by tonight a draft message from the Prime Minister to the President of the United States about this visit. It was also agreed that the briefing for the Prime Minister's meetings with Vice-President Bush next weekend would cover her visit to Hungary and ways forward in East/West relations.

Yours ever

John Major

Brian Fall, Esq.,
Foreign and Commonwealth Office.

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Record of Plenary Talks between the Prime Minister and the Hungarian Prime Minister held at the Parliament Building, Budapest, on 3 February at 1000 hours

Present:

The Prime Minister
H.M. Ambassador
Sir Julian Bullard
Mr. Coles
Mr. Ingham
Mr. Turnbull
Mr. Reid

H.E. Mr. Gyorgy Lazar
H.E. Mr. Jozsef Marjai
H.E. Mr. Ferenc Esztergalyos
Mr. Lajos Nagy
Mrs. Laszlo Abri
Mr. Gyorgy Banlaki

Following opening courtesies, Mr. Lazar said he appreciated the Prime Minister's decision to come to Budapest at this time. The fact that it was the first visit to Hungary by a British Prime Minister, and also the timing of the visit, gave it a special importance. Mr. Lazar then invited the Prime Minister to speak first on the basis of the previously agreed agenda.

The Prime Minister said she was happy to be in Budapest. Her visit followed earlier successful ones by Lord Carrington and Sir Geoffrey Howe; and a successful visit to the UK by Deputy Premier Marjai. It was evident that, although the UK and Hungary belonged to different systems, they faced the same problem: how to create the wealth which the people of each country needed. This economic problem united the UK and Hungary; both wanted to raise living standards. Sound economic management was needed; and both countries belonged to international financial institutions which helped in this. People had called her economic policies "Thatcherism"; but in fact they were now in use all over the world.

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Turning to wider international issues, the Prime Minister noted that her visit was taking place at a particularly important time. There was concern about the lack of efforts to promote relations between the alliances of which each were members; and at the suspension of arms negotiations. Britain and Hungary should use their influence within their respective alliances to improve the climate. The starting point was that each side was firmly attached to its own beliefs. But this should not prevent them developing a better understanding of each other's viewpoint, and hence a better understanding between the alliances.

It had been suggested that the United States and Western Europe did not genuinely want disarmament. This was not so. The West wanted to preserve its own security, but at a lower level of weaponry, particularly nuclear weaponry. The task was all the more urgent because weapons were becoming ever more sophisticated, and hence more costly: the creation of such new weapons would not only make the world a more dangerous place; it would also absorb the economic resources needed to raise living standards. Many leaders had expressed this thought, most recently President Reagan in his recent speech. The Prime Minister emphasised that President Reagan was both sincere and courageous in making the speech. The problem was compounded by the fact that arms negotiations had become too technical - a sort of nuclear accountancy, which ordinary people could not understand. What was needed was a general understanding, from which detailed agreements would then flow. The UK would exercise its influence within its alliance, both at a general level, and at each specific set of arms negotiations. It was good that the Vienna talks were due to continue in March. The UK would pursue discussions at Stockholm, where NATO had tabled specific proposals concerning exchange of military information, observation and verification. The Hungarian Foreign Minister had said that it was necessary

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to start with the simple things first and then go on to the more complex. NATO's proposals were in this spirit. They were not over-complicated and, if put into operation, would increase confidence and security. The UK also wanted the Geneva talks to continue. There was no point in arguing as to who was to blame for the breakdown. The important thing was that they should resume and be successful.

Bilateral relations were good. She wished to develop them further. The UK had tried to be helpful regarding Hungary's trade relations with the European Community. As an outward looking country, the UK endeavoured to keep the Community outward looking as well. Both Hungary and the UK would pursue all prospects for increasing bilateral trade. The Hungarian Days, to be held in the UK in April, would be a good opportunity for Hungarian companies to increase their exports to the UK. UK businessmen sought prospects in Hungary on the basis of good, competitive products.

Academic exchanges between Hungary and Britain were valuable. She had a high regard for them. However, she was disappointed that the facilities of the Embassy Cultural Section, which were sought after all over the world, were not used to their full extent. She hoped that they would be in future. Tourism was good and should be developed. The UK was pleased that Hungary was organising the Cultural Forum in 1985 within the framework of Helsinki. This was an important occasion and she hoped it would be a success.

Mr. Lazar said that the Prime Minister had spoken of many important bilateral and international issues. Hungary was committed to its own social system and alliance, but it was also open and sensitive to world affairs. Hungary did more than just merely acknowledge the fact that coexistence was necessary; this coexistence should be not just tolerable, but also mutually advantageous. Hence Hungary was in favour of dialogue, which it considered indispensable. Hungarian policy was adaptable and took account of given
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historical circumstances, but was not determined by opportunistic considerations. Hungary presented the same face to its friends, to its debating partners, and to its own people. Speculation that there were hidden motives in Hungarian actions were unfounded. He had felt prompted to say this not just by the very clear account of British policies which the Prime Minister had given; but also so that the Prime Minister knew exactly to whom she was talking, and would therefore not feel disappointed later. The Prime Minister replied that she hoped very much that she had made no such miscalculation. People who made miscalculations did not last very long in politics! The Hungarians had their firm, deep-rooted beliefs; the UK had its own.

Mr. Lazar agreed that bilateral relations were settled and that there were no unsolved problems. There were prospects of further development. Hungary too considered the past visits important; such visits would be important in the future too. They should involve not just Ministers and politicians, but also scientific and cultural contacts. Hungary was open on these questions. It was right that Hungary and the UK should not search for, and argue over, the points that separated them; but rather talk about what united them. This would facilitate co-operation.

Hungary recognised and appreciated the help which the UK had given on questions such as membership of the IMF and negotiations with the European Community. But there was one aspect of relations which needed to be dealt with more critically: economic relations. These had expanded in the seventies, but stagnated in recent years, not through any Hungarian intention. As a result, the UK had fallen from 4th/5th place amongst Hungary's western trading partners to 7th/8th. This could be changed with the necessary encouragement to businessmen, industrialists and banking circles. He realised that there were no political or

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ideological reasons for this stagnation. Individual economies were inevitably affected by changes in the world economy. There were times when new approaches were needed to give new impetus to trade relations. Now was such a time. He did not wish to go into details, but merely point to the existence of this phenomenon. In response to a question from the Prime Minister, Mr. Lazar explained that he was referring to obstacles to Hungarian products selling on the UK market, i.e. restrictive quotas, restrictions on agricultural imports (the CAP) and tariff disadvantages. These should be eased or removed. Structural changes, bilateral schemes and co-operation in trade markets offered new opportunities. Existing co-operation could be expanded, particularly in chemicals, electronics, computers and mining. He was aware that markets had to be won. Hungary was not asking for special treatment, merely equal treatment. Hungary had a strong interest in developing its external economic relations. Fifty per cent of its trade was outside the CMEA. Western Europe was particularly important, taking one third of Hungary's total foreign trade; and 60 per cent of this was with the European Community.

Mr. Lazar said he had noted the Prime Minister's words about the Embassy's cultural facilities. He could assure her that the point would not be forgotten. Human relations, including tourism, were also important. Hungary had made due preparation to host the Cultural Forum to which it too attached importance.

On international questions, Mr. Lazar said that, while the two sides disagreed on the reasons for the present situation, they agreed on their analysis of it. We were fast approaching the stage where the position would become intolerable, with a paralysing effect not only on co-operation between different social systems, but on the potential and scope which individual countries had for co-operation with one another. Both sides agreed that change was needed. Security at a lower level of armaments was the goal. This

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was the only possible way forward.

While he respected the Prime Minister's remarks concerning Mr. Reagan's speech, he could give other examples of statements of similar sincerity and courage, for example Mr. Andropov's undertaking not to use nuclear weapons first. He could refer to other proposals too. The condition for progress was a substantive exchange of views at the negotiating table on these issues. The Prime Minister had referred to views which called into doubt the United States' desire for genuine disarmament. He could not conceal the fact that the Hungarians too had had similar doubts. It would be good if such impressions could be dispelled. It would be a bold step if the United States were prepared to restore the position which had obtained before the siting of new intermediate nuclear weapons. This would remove the obstacles to dialogue. Hungary too believed that the Soviet/US relationship had a determining effect. But other countries could and should contribute to the dialogue, e.g. in Stockholm.

Responding to Mr. Lazar's remarks about bilateral trade, the Prime Minister noted that, although 1982 had been a bad year, things had got better in 1983. Hungarian exports to the UK had increased by 28 per cent. On East/West relations, the Prime Minister pointed out that NATO had undertaken not to use its weapons first, but only in response to attack. The point was often lost - though people in Budapest would well know - that it was not just nuclear war which had to be prevented, but also conventional war. Both sides seemed to agree on the need to unblock the obstacles to East/West bilateral relations. Mr. Lazar agreed.

The meeting ended at 1120.

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3 February, 1984

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Record of a Conversation between the Prime Minister and Prime Minister Lazar of Hungary at 0915 hours on 3 February, 1984 at the Parliament Building, Budapest

Present

Prime Minister
Mr. Coles

Mr. Lazar
Mr. Nagy
Mr. Banlaki (Interpreter)

Mr. Lazar formally welcomed the Prime Minister to Hungary. Meetings between Heads of Government were important. He wished to signal that the Hungarian Government was aware of the seriousness of the Prime Minister's decision to visit Hungary. The visit possessed special importance because of factors characteristic of the international situation. It was necessary to be realistic. One meeting could not change the course of events. But if it achieved nothing else than to cause each side to think about each other's reasoning, it would have served its purpose.

Hungary had become a focus of a certain type of attention in central Europe. Much was being said about Hungarian peculiarities. Certain peculiarities did, of course, exist, stemming from the geographical situation of Hungary and other factors. All this gave Hungary a special profile. But it did not change its commitment as far as social systems were concerned. Hungary was committed. But it spoke with one voice whether with friends, with partners in debate or with domestic public opinion. It was necessary to say this because academics, journalists and even politicians were seeking to find special motives in Hungarian policy. Such motives did not exist. Hungary's aim was simply to assess realistically its situation and its position in the world.

As regards bilateral relations, these were "undisturbed" and the Hungarian Government greatly valued the existing state of the relationship with Britain. It had also much appreciated HMG's support when it had applied for membership of the World

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Bank and during the period when Hungary's financial situation had become, temporarily, rather unstable.

Hungary also appreciated British efforts to resolve the problem of its relations with the European Community. There were no external obstacles to the resolution of this issue. Hungary was interested in reaching agreement.

The Hungarian Government was interested in raising the level of bilateral relations, not only in the economic but in other fields. The results so far achieved in bilateral economic relations were not to be under-estimated but he believed that more should be done.

With regard to international issues, the Prime Minister would have a chance later in the day to cover these with Mr. Kadar. But he hoped that she would feel that Hungary genuinely desired to improve the international situation. It did not follow two different policies, with one being specifically designed for external opinion.

As regards the wider community of which Hungary was a member, he did not wish to speak in its name. But it was possible to make two serious miscalculations. The first was that the alliance to which Hungary belonged would become weaker internally. The situation was not perfect but it would be wrong to draw exaggerated conclusions. The second miscalculation was that military superiority over the Warsaw Pact was attainable. The Prime Minister knew history too well for him to cite examples. It was well known what the peoples of the Soviet Union and its allies were capable of when their freedom was at stake. He did not wish to conceal that Hungarian public opinion expected that two such important European countries as the United Kingdom and Germany would make efforts to improve the international situation.

/The Prime Minister

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The Prime Minister said that she was grateful for Mr. Lazar's statement. She had felt it important to visit Hungary. The bilateral relationship was significant. She had never been to Hungary before, nor had any British Prime Minister. That was a great gap. To quote Mr. Lazar's words, Hungary, because of its history and geography, was a rather special country. She was the first to understand his commitment to Hungary's own political and social system. Equally, she was totally committed to our own. We would argue the case for it anywhere, any time. But her commitment to our own system made her able to understand his commitment to his system. Her generation was not likely to make miscalculations about the significance of the alliances to which Britain and Hungary belonged.

The timing of the visit had a certain purpose. In history, opportunities for talks sometimes presented themselves. The time seem propitious now and there was a certain urgency. As she saw it, we were entering upon a period when the United States faced 10 months of electioneering and the Soviet Union was in the curious situation where it had not seen its leader for a long time. These factors put a heightened responsibility on other members of the alliances. We would have to live in the world created by those alliances. But like Mr. Lazar she had one policy only - it was the same wherever she went and to whomsoever she talked. It would not be possible to make much progress for ensuring peace and achieving a higher standard of living unless a better understanding was developed between the political systems of East and West.

There were basically two ways of seeking improvements in the wider world - detailed negotiations on specific matters or general talks to achieve better understanding. Problems had arisen in the detailed East/West negotiations, for example on arms control. She believed that such negotiations might make more progress if the general atmosphere was better. Britain had a prominent role in NATO partly because of its special relationship with the United States, partly because it was a nuclear power, partly because of its history. She could not fail to use this potential in the situation which she saw before her.

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The bilateral relationship between Britain and Hungary was good and she wished to build on it. Membership of an alliance did not exclude good relations with a country which was not a member of that alliance. For example, the relationship between the Hungarian Central Bank and our own Bank of England had been helpful in solving problems. Because of its history, Britain was outward looking. When the European Community became too inward looking and protectionist, Britain made it plain that it had not joined the Community to pursue such attitudes. We wished to make a larger contribution to a better world, to break down barriers and not to raise them.

Mr. Lazar had referred to two possible miscalculations. A miscalculation of the dimensions he had described would be fatal for a politician and we were not likely to make it. But because we saw each alliance increasing its arms, we felt there was a need for a special effort to achieve security and mutual respect at lower levels of weaponry, thus enabling greater concentration on raising the standard of living and rendering the world a safer place.

She knew how vigorously each nation defended its independence and freedom when they were at stake. Each country had not only its own political beliefs but a strong sense of national pride. Our whole objective was that conflicts arising from such factors should never recur.

She believed that there was a danger of exaggerated expectations from her visit. She had told the media earlier in the day that her talks would be confidential and that details could not be made available publicly. The visit should be regarded as one step in a hopefully continuous process of contact and understanding.

Mr. Lazar said that he agreed with everything the Prime Minister had said about the importance and nature of her visit. Although Hungary was committed to its own system, it was also open - Hungary made efforts to understand and to assimilate. He would gladly reflect on the other points which the Prime

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Minister had made.

After some discussion about the organisation of the immediately following plenary session, the discussion ended at 1005.

A.S.C.

3 February, 1984

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Record of a Conversation between the Prime Minister and First Secretary Kadar at 1205 hours on Friday, 3 February, at the Parliament Building, Budapest

Present:

Prime Minister
Mr. Coles

Mr. Kadar
Mr. Banlaki (Interpreter)

Mr. Kadar said that Hungary greatly appreciated the Prime Minister's visit which was unique in the context of Anglo/Hungarian relations and took place against a particular international background. He believed that, in order to undertake the visit, the Prime Minister had had to make a political commitment, and he welcomed that. He was glad to have the opportunity of meeting her in person, and suggested that they should talk informally about the questions which the Prime Minister considered worth discussing. He already knew of the Prime Minister from the media, but he was now glad to meet her in person. They had almost met once - at the funeral of the late President Tito in Belgrade. When he had returned to Budapest from that event he had told his colleagues that Mrs. Thatcher had eyes and knew how to look around.

Hungary had its own situation and its own problems. Its top priority at present was to maintain a reasonable balance of payments situation and conserve its ability to meet its international financial obligations. For some years, Hungary had been compelled to work under very complex international financial conditions. It had sought understanding from the international financial world, and had experienced both understanding and frankness from British financial circles. This was warmly appreciated, and he wished to express his gratitude. He hoped that by the time her visit ended, the Prime Minister would think that it had been worth while.

/The Prime Minister

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The Prime Minister said that she had much wanted to visit Hungary. She felt it was wrong that no British Prime Minister had visited it previously. Hungary was renowned in Britain for its talented people. Although we belonged to different alliances and had different political commitments, we needed to be able to talk across the dividing line and develop our bilateral contacts. These were enhanced when personal contacts were good. Before she had left London, the last Governor of the Bank of England had telephoned her to say that she should be sure to meet his opposite number in the Hungarian National Bank. The two had worked closely together. This was an example of good personal contact. Mr. Kadar agreed.

The Prime Minister said that both Britain and Hungary had lived through a turbulent period when many wrong decisions had been made. Those decisions had led to tragedies across Europe of which Mr. Kadar had considerable experience. She had been studying the history of that period, to see what errors could have been avoided. Last summer she had assembled a group of people to consider the future strategy of Britain against the background of the current international situation. Only 16 years remained until the year 2000. We must not make mistakes again.

Above all, she was passionately concerned to ensure that peace was maintained - not just a passive peace, but a peace based on mutual respect between nations, and opportunities for people to devote themselves, in their own ways, to their own future and their own aspirations. By last autumn we were concerned about the state of the relationship between the two major alliances, and felt it could not be allowed to deteriorate. Even the super-powers needed friends.

In September last year she had visited President Reagan and had discovered that the US Administration had been coming

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to similar conclusions. But their plans had been disrupted by the Korean airliner incident. Previously they had been attempting to develop the US/USSR relationship. For example, the grain agreement had been renewed just 10 days before the Korean airliner had been shot down. That incident had prevented all progress for a time.

She often had long and frank talks with President Reagan who was a close friend. The President was a very honest and honourable man who really wanted to do the right thing. During his first year in office, he had felt that he and Brezhnev were of the same generation and had both seen the tragedies of history. Brezhnev had a particular experience of these, because the Soviet Union had been occupied. President Reagan felt that both of them ought to be able to share a desire to prevent further tragedies and to create a more secure world. He had written a long personal letter to Brezhnev in his own hand. But he had been very disappointed to receive, after a long delay, a routine reply. Since that time, he had attempted to put the United States in a position whereby relations between the two alliances could be improved, realising that each must be in a position of strength.

There was much propaganda on both sides. But it was impossible to avoid the feeling that the present international situation was very serious. Technology was moving very fast. Yesterday's weapons quickly became outdated. The burden of armaments was expensive. It ought to be possible to secure agreements so that it was not necessary to move to another stage of weaponry. Above all, we needed to reduce the nuclear armouries which were far too large. It was also necessary to reduce conventional weapons for conventional war was a terrible phenomenon. Those were sincere objectives. Leaders had a duty to posterity. We were entering a period

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which was potentially dangerous. The United States would be preoccupied with elections for the rest of 1984. We did not know what was happening in the Soviet Union. It would not be possible for a Western leader to fail to appear in public for six months. The uncertainty was great. Arms control talks had broken down. In this period of hiatus, the smaller nations should do everything possible to maintain stability and make progress. We should seek to prevent untoward events which could have terrible consequences. It was also necessary to develop our economies because our peoples wanted a higher standard of living. But that would be to no avail without security and mutual respect. We ought to consider how Central Europe and East/West relations would develop in the next 20 years.

Mr. Kadar said that the Prime Minister had raised very important topics. It might sound strange to her but as regards her analysis of the situation, he entirely agreed with her remarks. It was not necessary to discuss the reason for the current situation because that would lead to argument. But he accepted the analysis which the Prime Minister had given.

The Prime Minister had referred to the need for peace - and not just a passive peace. That was exactly what was necessary. He welcomed the efforts and aspirations which the Prime Minister had signalled. There was a common interest in these matters.

Political meetings of this kind were very important. We needed to understand each other better. With regard to meetings in the context of East/West relations, the people concerned usually made a better impression on each other than was suggested by their propaganda.

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The Prime Minister's reference to the "smaller countries" showed great modesty on the part of a British Prime Minister. Britain and Hungary were not equally small.

At one time, the Hungarian people had been very small in numbers. They were Finno-Ugric in origin, and had no ethnic relations in the area. Hungary was a place of busy traffic, the cross-roads of marching armies. The Prime Minister had referred to the talents of the Hungarian people. The very fact that Hungary had continued to exist with a population of only 10 million had required the ability to live under all circumstances. But the Hungarian people were alive, and the country had relative stability, despite unfavourable external conditions. There were always problems and reasonable solutions had to be found. Over the past 25 years the Hungarian situation had changed fundamentally (compared to 1956) and there had been certain achievements.

It should not be forgotten that until the end of the First World War Hungary had been part of the Austro/Hungarian empire. Within that empire Hungary had been independent. After the war, it had lost two-thirds of its territory, as he had publicly recalled at Helsinki. Before that time people of many other nationalities had lived in Hungary, but it had to be recognised that Hungary had suppressed them. Now, Hungary had 5 neighbours, all of whom had received quite large parts of its former territory. About 5 million Hungarians lived in surrounding countries. Then in the Second World War Hungary had been an ally of Hitler. The masses had not entered that war enthusiastically, but the then system in Hungary was fascist and founded on national incitement. Hitler had then unleashed a competition in the area by the terms of which those countries which best supported him would receive most territory. A portion of former Hungarian territory had been restored. Then there had come the "just conclusion" of the Second World War when Hitler was destroyed by the anti-fascist Coalition. No border adjustment which had been imposed by Hitler could have been accepted. So at

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Helsinki he had thought it necessary to state that Hungary accepted the inviolability of borders. But he had said that on behalf of a country which had lost two-thirds of its territory. Dr. Kissinger who had been present had asked whether these remarks meant that Hungary was seeking the recovery of its former territories. He had received a negative reply.

The Prime Minister suggested that this had been a historic compromise. Mr. Kadar agreed. Hungary had to live with the situation. But it produced problems and complicated life in this area of the world. Great effort was necessary to prevent nationalist tendencies developing. At the present time Hungary was alive and functioning with a socialist system of which he was an advocate. That system had given a great deal to the people of Hungary though he was, of course, making a comparison with the past. At the end of the Second World War Hungary had been a feudal country, 56% of whose population worked in agriculture. Different conditions had now been created. It was within the socialist system that Hungary wished to solve its problems. Some of its achievements were internationally recognised. Political stability had been achieved, and that was no mean achievement in the light of 1956. The Hungarian Government wished to work in harmony with all honest Hungarian citizens, for the common good. Irrespective of whether he was a Communist, a believer, or a member of a national group, the citizen should take part in serving his country. The Government spoke openly to the people and listened to their views. There were everyday problems and difficulties. It was necessary to have realistic prices for both producers and consumers. From time to time prices had to be raised. This won no applause and was an unpleasant process. Why did it have to be done? Hungary was a small country and its domestic market was correspondingly small. A certain productive capacity had been created, but it was not internationally significant. Many materials, in addition to energy supplies, had to be imported, and these had to be paid for. So Hungary's international economic

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relationships were extensive. But it was always scrupulous in repaying its debts. Its only capital was a good name. Even in 1956, when street fighting was in progress, the international bills were paid. And they were still paid despite the level of interest rates.

Hungary was maintaining relations in all directions, and wished to continue to do so. This was a necessity. About half of its trade was with countries outside COMECON. And the significant part of this was with Western Europe. Hungary did not want this sphere to be monopolised by certain countries - and he said that even to the Federal Republic of Germany. The latter had been most successful in exploiting opportunities. The Prime Minister commented that Germany was very efficient in manufacturing. It was Britain which produced most of the scientific and technological breakthroughs, but it was Germany, the United States, and Japan which exploited them. Our performance in this respect was now becoming better. We were beginning to deal with our trade unions. Mr. Kadar said that he was aware of this. Budapest was a great producer of jokes. 20 years ago there were jokes to the effect that the Second World War had really been won by the Germans. The Prime Minister said that she understood that remark. But she took pride in the fact that she was the Prime Minister of the only country in Europe that had fought fascism from the first day of the war until the last. Just as Hungary had shown a talent for survival, Britain had demonstrated a talent for the sustained defence of the things in which it believed. It also had an outward looking vision.

Mr. Kadar said that Hungary had introduced a system of economic management which had acquired an international reputation. That was why he was a proponent of the socialist system. The Western media attributed the success of Hungary's economic management to the application of capitalist methods.

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In fact, the success was due to Hungary's habit of looking at problems as they were and searching for logical solutions. He held that certain basic socialist institutions were necessary for the good of the people. But the present system still had weaknesses. For example, the decision-making process was too cumbersome and slow, even in the economic field - and the interest of the individual in production was weak. The Prime Minister commented that individuals lacked incentives. Mr. Kadar said that, to put it crudely, the present society sustained not just the diligent but the others as well. So, the new economic policy had been introduced to stimulate individual motivation and make the socialist system more vital.

He did not wish to dwell too long on the international situation because, as he had said, his analysis was much the same as that of the Prime Minister - including her recognition that the difference between the two systems was a historical fact which could not be changed.

The Prime Minister said that she thought that she had had considerable influence with President Reagan last September. We could not go on in the same way. There must be more contact with the Warsaw Pact countries. We were not trying to change their system which was a matter for them. The two alliances had to live together. President Reagan accepted this but had told her in September that it was for Moscow to make the first move in promoting a dialogue. She had thought that we could not wait for this. So she had begun to advocate publicly more contact with the East. Eventually, on 16 January, President Reagan had made his speech about East/West dialogue. This had been a significant step forward. She had studied Mr. Andropov's reply which had taken the line that it must be for the United States to make the first move. In this situation countries like Britain and Hungary had to ask themselves what they could do to bring influence

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to bear. She believed that she could influence the United States' President. But if anything happened in Europe, Britain would be a floating aircraft carrier. Mistakes had been made in central Europe in the past. Could Mr. Kadar see any basis for the wider dialogue and the mutual respect which were the only way forward?

Mr. Kadar said that he attached very great importance to maintaining a consistent attitude. Hungary took the same position on every topic, regardless of whom it was addressing. He noted the Prime Minister's remarks about President Reagan's speech. He could not comment on her assessment of his character because he did not know him. The Prime Minister repeated that President Reagan was absolutely sincere. Mr. Kadar said that a succession of American visitors - senators, congressmen, Dr. Hammer, Vice President Bush - had all told him that Reagan wanted peace. He (Mr. Kadar) had had good talks with Mr. Bush but the latter had then made his speech in Vienna. It had not been a helpful speech, either for the Hungarians or for the Americans. But that was in the past. All he could say was that he could not refute the view that Reagan was a man of peace. He had told Mr. Bush that he would take his word for it but he had to say that from a distance things looked rather different.

The Prime Minister said that President Reagan had been very conscious that US defences had been run down by President Carter. He had had to restore US confidence so that he was able to speak to the Soviet Union on equal terms. The Viet-nam factor should not be forgotten. But President Reagan had a passionate desire to make progress with disarmament talks.

What was there left for leaders like herself and Mr. Kadar to do except to provide a positive peace for their children? We would urge President Reagan to resume dialogue and to take the view that the West had a political system

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which it would always defend; but that there was another - in the Warsaw Pact countries - with which we must do business. As President Reagan had said, both sides might find that they had a common interest in the future.

Mr. Kadar said that he had read President Reagan's speech. He did not say that it was of no value. Its tone was good and in the present conditions it should not be underestimated. The change of tone might help somewhat in the future.

The Prime Minister's remark to the effect that the two different systems existed, and that we had to talk on this basis, was an important new development in international life and an influence in a positive direction. The mere fact of her visiting Hungary was very important and in a good cause.

His talks with Vice-President Bush had been frank. He had advised the Vice-President to look more realistically as a certain process in world history. This could be seen at work in Central America, Latin America, the Middle East, Africa and Palestine. It was very simplistic to believe that people were rebelling because they were inspired by Soviet, East European or Cuban agents. That was not so. People living in backward conditions wanted to live differently. Here in Europe we treated obesity medically. Meanwhile, the rest of the world was hungry.

Recently, he had had long talks with President Machel of Mozambique (the Prime Minister interjected that she too had met Machel and had got on very well with him). He was an intelligent man. His people had started a bush war and had had good reason to do so. They had turned to the Soviet Union and China for help. They thanked those who helped them and condemned those who did not. They had their own aspirations. The problems of the developing world could not be solved by a simplistic approach. The Prime Minister recalled

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that Britain had given independence to most of Africa as well as many other countries. Mr. Kadar said that Britain, and France under de Gaulle, had understood the developing world. If the United States approached developing countries similarly, it would make more headway. The lessons of the Aswan dam should not be forgotten. Nasser had wanted American credits but had been rebuffed and had turned to the Soviet Union. As a result, the Soviet Union had been accused of moving into Africa. The Aswan dam was still there but where was the Soviet Union now? The Prime Minister said it might be better not to spend time in discussing Egypt. With regard to Central America, the only stable democracy was Belize where we had continued to station troops, in response to a request from Belize, because of a threat from Guatemala. The real problem in Central America stemmed from the fact that, unlike Europe, the area possessed no middle class with a social conscience.

The United States was full of people who had gone there to get away from oppression and live their life. They had come from all over Europe. The United States was the land of the free but Americans did not always appreciate the history and sophistication of other parts of the world. They simply wanted to extend the area of freedom. But they were generous and gave much aid.

But the question remained: what could we do? Europe from the Atlantic to the Urals had great wisdom and experience. What could it do in this hiatus? Because, whatever we could do, we had a duty to do it. Her view was clear. There were different sets of political beliefs but those were a matter for the peoples concerned. We should be at one in trying to develop our own ways of life in peace, security and conditions of mutual respect.

Mr. Kadar repeated that we had to look at countries as they were. The Western press called Hungary a Communist country. It was not Communist. He would like it to be. One day it
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But he (Mr. Kadar) agreed with the Prime Minister 100% that we must work on the basis of existing realities. This was the only way in which East and West could be partners. It was sometimes said that countries which were partners of the Soviet Union should be detached from it and influenced in a different direction. What was the reality? Socialism was a very young system. It would mature into a stable and strong system if it took into account historical traditions and national peculiarities. That process was moving ahead. But if international tension or conflicts developed, the process would not continue. The Prime Minister said that she understood that point. In times of tension, things polarised, Mr. Kadar said that was correct - that was why Vice President Bush had not been helpful in his Vienna speech. The Prime Minister commented that she knew that Mr. Bush was worried about that speech. Mr. Kadar said that Mr. Bush had sent him a message to the effect that he realised it had been a mistake.

In the future, the differences between the socialist countries would be as great as those between Britain and France. With regard to the Soviet Union, he had spent half of his talks with Mr. Bush urging him to understand that the United States could not change the social system of the Soviet Union either by propaganda or by arms. Everyone knew that America was far ahead of Russia in material conditions. One did not know whether the Soviet Union would ever reach the US level or, indeed, whether it should. But look at the distance which the Soviet Union had travelled from Czarist times.

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The Soviet people measured their own achievement by a yardstick different from that used by outsiders and would not let that achievement be threatened. We should recall how they had fought in the last war. The Soviet Union was rich in resources. And there was one area in which it could keep up with the West and always would - that was the field of armaments, the worst subject of all. The Prime Minister commented that the Soviet Union appeared to be prepared to devote great resources to the production of arms. She knew that the Soviet regime attributed its achievements to the Marxist/Leninist system. It also attributed to that system the attainment of super-power status. But we were still left with the same question. The American and Soviet military apparatuses were both very powerful. Each was tied by its own ideological system. But could business be done with the Soviet Union on the basis of mutual interest? Mr. Kadar said "yes". The Prime Minister said "how?". Mr. Kadar said "with patience and understanding". There was a feature of Soviet policy that others were unable to understand. It was a country with a history of being attacked and threatened. Both the Soviet leaders and the man in the street felt this. Neither wanted war. But the sense of being threatened was there. The talks between East and West should take into account the justified security concerns of both sides. That was the root of the matter.

The Prime Minister said that the Soviet Union had started by being a few states around Moscow. But on the basis of being concerned for its security it had progressed to the borders of China and Iran and up to Berlin. That was a long distance to travel on the basis of security concerns. Could Mr. Kadar not see what the West was worried about? The logic of the Soviet position was that wherever its border happened to be it had to acquire the neighbouring country. NATO had put a stop to that. It was now understood that no-one could trespass across the NATO line. This was an advance and conferred a security that did not exist before.

/Mr. Kadar

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Mr. Kadar said that he had to correct one expression which the Prime Minister had used. She had said that the Soviet Union was afraid. It was not afraid. To quote his earlier words, it had a sense of being threatened. The Prime Minister replied that the West threatened no-one. It simply sought to defend itself. Mr. Kadar said that we should put ourselves in the position of the Soviet leaders who had worked on SALT II for 7 years and had got nowhere. The Prime Minister said that SALT II, though it had not been ratified, was observed. Mr. Kadar then referred to the MBFR talks in Vienna. He could not say this publicly, but the Vienna process during the last 10 years had been ridiculous. Both on Vienna and on SALT II, movement was needed.

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Mr. Kadar said that he was one of the older boys. He had worked for many years with Krushev and Brezhnev and had long known Andropov. The Russians were individuals too. Krushev was impulsive. He had told Krushev that he was like an old Bolshevik - instead of saying good morning, he tended to punch you in the stomach. He was a good man. Brezhnev was different and was very emotional. Andropov was again different. But these world issues did not depend on one individual. There were problems "around" Andropov. He was ill and he was no longer a child. He had had different illnesses in accordance with his age. He was mentally intact and had never stopped working. Now his condition was improving and Hungarians were crossing their fingers for him. He thought realistically and rationally. If someone was looking for an opponent, Andropov could be very tough because he knew how to calculate. But he could be a very good partner and he listened to the other side. For reasons of a physical nature, he was unable to appear publicly. The Soviet leadership was becoming stronger and
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The Prime Minister commented that she very much hoped that Mr. Kadar was right. It was to be feared that if Andropov was not well, others might be becoming stronger. Mr. Kadar said that was not how the system worked. His personal conviction was that world war was impossible. Those who needed to know that did know it. But the situation was dangerous because of the accumulation of weapons. A solution had to be found. Britain and the Prime Minister personally were influences in favour of a solution. Contact must be maintained. What he had said to her, he said to Moscow. The Prime Minister said that she spoke similarly to President Reagan and Vice-President Bush would be visiting London next weekend. Mr. Kadar said that despite everything he sent his greetings to Mr. Bush. His talks in Budapest had made good sense. The Prime Minister said that she did not believe that there would be war in Europe. But she feared that conflicts elsewhere might get out of control for there were not the same constraints. Mr. Kadar commented that he could speak of the Israelis and Palestinians but would not do so.

He wished the Prime Minister good health and success in her work for a less tense world. The Prime Minister asked whether, if she felt at any time that the situation was dangerous, she might send Mr. Kadar a message through diplomatic channels. Mr. Kadar welcomed this.

In conclusion, it was agreed that the press would be told that the talks had been open, valuable and constructive and that the two sides shared similar aspirations in bilateral relations. Mr. Kadar said that he would leave comment to the press on international issues to the Prime Minister.

The discussion ended at 1410.

3 February, 1984

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cc VIII

Hungary: Relations. Pt 2

CONFIDENTIAL

Record of a Conversation between the Prime Minister and First Secretary Kadar at 1205 hours on Friday, 3 February, at the Parliament Building, Budapest

Present:

Prime Minister
Mr. Coles

Mr. Kadar
Mr. Banlaki (Interpreter)

Mr. Kadar said that Hungary greatly appreciated the Prime Minister's visit which was unique in the context of Anglo/Hungarian relations and took place against a particular international background. He believed that, in order to undertake the visit, the Prime Minister had had to make a political commitment, and he welcomed that. He was glad to have the opportunity of meeting her in person, and suggested that they should talk informally about the questions which the Prime Minister considered worth discussing. He already knew of the Prime Minister from the media, but he was now glad to meet her in person. They had almost met once - at the funeral of the late President Tito in Belgrade. When he had returned to Budapest from that event he had told his colleagues that Mrs. Thatcher had eyes and knew how to look around.

Hungary had its own situation and its own problems. Its top priority at present was to maintain a reasonable balance of payments situation and conserve its ability to meet its international financial obligations. For some years, Hungary had been compelled to work under very complex international financial conditions. It had sought understanding from the international financial world, and had experienced both understanding and frankness from British financial circles. This was warmly appreciated, and he wished to express his gratitude. He hoped that by the time her visit ended, the Prime Minister would think that it had been worth while.

/The Prime Minister

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The Prime Minister said that she had much wanted to visit Hungary. She felt it was wrong that no British Prime Minister had visited it previously. Hungary was renowned in Britain for its talented people. Although we belonged to different alliances and had different political commitments, we needed to be able to talk across the dividing line and develop our bilateral contacts. These were enhanced when personal contacts were good. Before she had left London, the last Governor of the Bank of England had telephoned her to say that she should be sure to meet his opposite number in the Hungarian National Bank. The two had worked closely together. This was an example of good personal contact. Mr. Kadar agreed.

The Prime Minister said that both Britain and Hungary had lived through a turbulent period when many wrong decisions had been made. Those decisions had led to tragedies across Europe of which Mr. Kadar had considerable experience. She had been studying the history of that period, to see what errors could have been avoided. Last summer she had assembled a group of people to consider the future strategy of Britain against the background of the current international situation. Only 16 years remained until the year 2000. We must not make mistakes again.

Above all, she was passionately concerned to ensure that peace was maintained - not just a passive peace, but a peace based on mutual respect between nations, and opportunities for people to devote themselves, in their own ways, to their own future and their own aspirations. By last autumn we were concerned about the state of the relationship between the two major alliances, and felt it could not be allowed to deteriorate. Even the super-powers needed friends.

In September last year she had visited President Reagan and had discovered that the US Administration had been coming

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to similar conclusions. But their plans had been disrupted by the Korean airliner incident. Previously they had been attempting to develop the US/USSR relationship. For example, the grain agreement had been renewed just 10 days before the Korean airliner had been shot down. That incident had prevented all progress for a time.

She often had long and frank talks with President Reagan who was a close friend.. The President was a very honest and honourable man who really wanted to do the right thing. During his first year in office, he had felt that he and Brezhnev were of the same generation and had both seen the tragedies of history. Brezhnev had a particular experience of these, because the Soviet Union had been occupied. President Reagan felt that both of them ought to be able to share a desire to prevent further tragedies and to create a more secure world. He had written a long personal letter to Brezhnev in his own hand. But he had been very disappointed to receive, after a long delay, a routine reply. Since that time, he had attempted to put the United States in a position whereby relations between the two alliances could be improved, realising that each must be in a position of strength.

There was much propaganda on both sides. But it was impossible to avoid the feeling that the present international situation was very serious. Technology was moving very fast. Yesterday's weapons quickly became outdated. The burden of armaments was expensive. It ought to be possible to secure agreements so that it was not necessary to move to another stage of weaponry. Above all, we needed to reduce the nuclear armouries which were far too large. It was also necessary to reduce conventional weapons for conventional war was a terrible phenomenon. Those were sincere objectives. Leaders had a duty to posterity. We were entering a period

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which was potentially dangerous. The United States would be preoccupied with elections for the rest of 1984. We did not know what was happening in the Soviet Union. It would not be possible for a Western leader to fail to appear in public for six months. The uncertainty was great. Arms control talks had broken down. In this period of hiatus, the smaller nations should do everything possible to maintain stability and make progress. We should seek to prevent untoward events which could have terrible consequences. It was also necessary to develop our economies because our peoples wanted a higher standard of living. But that would be to no avail without security and mutual respect. We ought to consider how Central Europe and East/West relations would develop in the next 20 years.

Mr. Kadar said that the Prime Minister had raised very important topics. It might sound strange to her but as regards her analysis of the situation, he entirely agreed with her remarks. It was not necessary to discuss the reason for the current situation because that would lead to argument. But he accepted the analysis which the Prime Minister had given.

The Prime Minister had referred to the need for peace - and not just a passive peace. That was exactly what was necessary. He welcomed the efforts and aspirations which the Prime Minister had signalled. There was a common interest in these matters.

Political meetings of this kind were very important. We needed to understand each other better. With regard to meetings in the context of East/West relations, the people concerned usually made a better impression on each other than was suggested by their propaganda.

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The Prime Minister's reference to the "smaller countries" showed great modesty on the part of a British Prime Minister. Britain and Hungary were not equally small.

At one time, the Hungarian people had been very small in numbers. They were Finno-Ugric in origin, and had no ethnic relations in the area. Hungary was a place of busy traffic, the cross-roads of marching armies. The Prime Minister had referred to the talents of the Hungarian people. The very fact that Hungary had continued to exist with a population of only 10 million had required the ability to live under all circumstances. But the Hungarian people were alive, and the country had relative stability, despite unfavourable external conditions. There were always problems and reasonable solutions had to be found. Over the past 25 years the Hungarian situation had changed fundamentally (compared to 1956) and there had been certain achievements.

It should not be forgotten that until the end of the First World War Hungary had been part of the Austro/Hungarian empire. Within that empire Hungary had been independent. After the war, it had lost two-thirds of its territory, as he had publicly recalled at Helsinki. Before that time people of many other nationalities had lived in Hungary, but it had to be recognised that Hungary had suppressed them. Now, Hungary had 5 neighbours, all of whom had received quite large parts of its former territory. About 5 million Hungarians lived in surrounding countries. Then in the Second World War Hungary had been an ally of Hitler. The masses had not entered that war enthusiastically, but the then system in Hungary was fascist and founded on national incitement. Hitler had then unleashed a competition in the area by the terms of which those countries which best supported him would receive most territory. A portion of former Hungarian territory had been restored. Then there had come the "just conclusion" of the Second World War when Hitler was destroyed by the anti-fascist Coalition. No border adjustment which had been imposed by Hitler could have been accepted. So at

/Helsinki

Helsinki he had thought it necessary to state that Hungary accepted the inviolability of borders. But he had said that on behalf of a country which had lost two-thirds of its territory. Dr. Kissinger who had been present had asked whether these remarks meant that Hungary was seeking the recovery of its former territories. He had received a negative reply.

The Prime Minister suggested that this had been a historic compromise. Mr. Kadar agreed. Hungary had to live with the situation. But it produced problems and complicated life in this area of the world. Great effort was necessary to prevent nationalist tendencies developing. At the present time Hungary was alive and functioning with a socialist system of which he was an advocate. That system had given a great deal to the people of Hungary though he was, of course, making a comparison with the past. At the end of the Second World War Hungary had been a feudal country, 56% of whose population worked in agriculture. Different conditions had now been created. It was within the socialist system that Hungary wished to solve its problems. Some of its achievements were internationally recognised. Political stability had been achieved, and that was no mean achievement in the light of 1956. The Hungarian Government wished to work in harmony with all honest Hungarian citizens, for the common good. Irrespective of whether he was a Communist, a believer, or a member of a national group, the citizen should take part in serving his country. The Government spoke openly to the people and listened to their views. There were everyday problems and difficulties. It was necessary to have realistic prices for both producers and consumers. From time to time prices had to be raised. This won no applause and was an unpleasant process. Why did it have to be done? Hungary was a small country and its domestic market was correspondingly small. A certain productive capacity had been created, but it was not internationally significant. Many materials, in addition to energy supplies, had to be imported, and these had to be paid for. So Hungary's international economic

relationships were extensive. But it was always scrupulous in repaying its debts. Its only capital was a good name. Even in 1956, when street fighting was in progress, the international bills were paid. And they were still paid despite the level of interest rates.

Hungary was maintaining relations in all directions, and wished to continue to do so. This was a necessity. About half of its trade was with countries outside COMECON. And the significant part of this was with Western Europe. Hungary did not want this sphere to be monopolised by certain countries - and he said that even to the Federal Republic of Germany. The latter had been most successful in exploiting opportunities. The Prime Minister commented that Germany was very efficient in manufacturing. It was Britain which produced most of the scientific and technological breakthroughs, but it was Germany, the United States, and Japan which exploited them. Our performance in this respect was now becoming better. We were beginning to deal with our trade unions. Mr. Kadar said that he was aware of this. Budapest was a great producer of jokes. 20 years ago there were jokes to the effect that the Second World War had really been won by the Germans. The Prime Minister said that she understood that remark. But she took pride in the fact that she was the Prime Minister of the only country in Europe that had fought fascism from the first day of the war until the last. Just as Hungary had shown a talent for survival, Britain had demonstrated a talent for the sustained defence of the things in which it believed. It also had an outward looking vision.

Mr. Kadar said that Hungary had introduced a system of economic management which had acquired an international reputation. That was why he was a proponent of the socialist system. The Western media attributed the success of Hungary's economic management to the application of capitalist methods.

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In fact, the success was due to Hungary's habit of looking at problems as they were and searching for logical solutions. He held that certain basic socialist institutions were necessary for the good of the people. But the present system still had weaknesses. For example, the decision-making process was too cumbersome and slow, even in the economic field - and the interest of the individual in production was weak. The Prime Minister commented that individuals lacked incentives. Mr. Kadar said that, to put it crudely, the present society sustained not just the diligent but the others as well. So, the new economic policy had been introduced to stimulate individual motivation and make the socialist system more vital.

He did not wish to dwell too long on the international situation because, as he had said, his analysis was much the same as that of the Prime Minister - including her recognition that the difference between the two systems was a historical fact which could not be changed.

The Prime Minister said that she thought that she had had considerable influence with President Reagan last September. We could not go on in the same way. There must be more contact with the Warsaw Pact countries. We were not trying to change their system which was a matter for them. The two alliances had to live together. President Reagan accepted this but had told her in September that it was for Moscow to make the first move in promoting a dialogue. She had thought that we could not wait for this. So she had begun to advocate publicly more contact with the East. Eventually, on 16 January, President Reagan had made his speech about East/West dialogue. This had been a significant step forward. She had studied Mr. Andropov's reply which had taken the line that it must be for the United States to make the first move. In this situation countries like Britain and Hungary had to ask themselves what they could do to bring influence

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to bear. She believed that she could influence the United States' President. But if anything happened in Europe, Britain would be a floating aircraft carrier. Mistakes had been made in central Europe in the past. Could Mr. Kadar see any basis for the wider dialogue and the mutual respect which were the only way forward?

Mr. Kadar said that he attached very great importance to maintaining a consistent attitude. Hungary took the same position on every topic, regardless of whom it was addressing. He noted the Prime Minister's remarks about President Reagan's speech. He could not comment on her assessment of his character because he did not know him. The Prime Minister repeated that President Reagan was absolutely sincere.

Mr. Kadar said that a succession of American visitors - senators, congressmen, Dr. Hammer, Vice President Bush - had all told him that Reagan wanted peace. He (Mr. Kadar) had had good talks with Mr. Bush but the latter had then made his speech in Vienna. It had not been a helpful speech, either for the Hungarians or for the Americans. But that was in the past. All he could say was that he could not refute the view that Reagan was a man of peace. He had told Mr. Bush that he would take his word for it but he had to say that from a distance things looked rather different.

The Prime Minister said that President Reagan had been very conscious that US defences had been run down by President Carter. He had had to restore US confidence so that he was able to speak to the Soviet Union on equal terms. The Viet-nam factor should not be forgotten. But President Reagan had a passionate desire to make progress with disarmament talks.

What was there left for leaders like herself and Mr. Kadar to do except to provide a positive peace for their children? We would urge President Reagan to resume dialogue and to take the view that the West had a political system

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which it would always defend; but that there was another - in the Warsaw Pact countries - with which we must do business. As President Reagan had said, both sides might find that they had a common interest in the future.

Mr. Kadar said that he had read President Reagan's speech. He did not say that it was of no value. Its tone was good and in the present conditions it should not be underestimated. The change of tone might help somewhat in the future.

The Prime Minister's remark to the effect that the two different systems existed, and that we had to talk on this basis, was an important new development in international life and an influence in a positive direction. The mere fact of her visiting Hungary was very important and in a good cause.

His talks with Vice-President Bush had been frank. He had advised the Vice-President to look more realistically as a certain process in world history. This could be seen at work in Central America, Latin America, the Middle East, Africa and Palestine. It was very simplistic to believe that people were rebelling because they were inspired by Soviet, East European or Cuban agents. That was not so. People living in backward conditions wanted to live differently. Here in Europe we treated obesity medically. Meanwhile, the rest of the world was hungry.

Recently, he had had long talks with President Machel of Mozambique (the Prime Minister interjected that she too had met Machel and had got on very well with him). He was an intelligent man. His people had started a bush war and had had good reason to do so. They had turned to the Soviet Union and China for help. They thanked those who helped them and condemned those who did not. They had their own aspirations. The problems of the developing world could not be solved by a simplistic approach. The Prime Minister recalled /that

that Britain had given independence to most of Africa as well as many other countries. Mr. Kadar said that Britain, and France under de Gaulle, had understood the developing world. If the United States approached developing countries similarly, it would make more headway. The lessons of the Aswan dam should not be forgotten. Nasser had wanted American credits but had been rebuffed and had turned to the Soviet Union. As a result, the Soviet Union had been accused of moving into Africa. The Aswan dam was still there but where was the Soviet Union now? The Prime Minister said it might be better not to spend time in discussing Egypt. With regard to Central America, the only stable democracy was Belize where we had continued to station troops, in response to a request from Belize, because of a threat from Guatemala. The real problem in Central America stemmed from the fact that, unlike Europe, the area possessed no middle class with a social conscience.

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The Prime Minister commented that she very much hoped that Mr. Kadar was right. It was to be feared that if Andropov was not well, others might be becoming stronger. Mr. Kadar said that was not how the system worked. His personal conviction was that world war was impossible. Those who needed to know that did know it. But the situation was dangerous because of the accumulation of weapons. A solution had to be found. Britain and the Prime Minister personally were influences in favour of a solution. Contact must be maintained. What he had said to her, he said to Moscow. The Prime Minister said that she spoke similarly to President Reagan and Vice-President Bush would be visiting London next weekend. Mr. Kadar said that despite everything he sent his greetings to Mr. Bush. His talks in Budapest had made good sense. The Prime Minister said that she did not believe that there would be war in Europe. But she feared that conflicts elsewhere might get out of control for there were not the same constraints. Mr. Kadar commented that he could speak of the Israelis and Palestinians but would not do so.

He wished the Prime Minister good health and success in her work for a less tense world. The Prime Minister asked whether, if she felt at any time that the situation was dangerous, she might send Mr. Kadar a message through diplomatic channels. Mr. Kadar welcomed this.

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The discussion ended at 1410.

3 February, 1984

A.J.C.

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Record of a Meeting of the Prime Minister with Mr. Losonczi,
President of the Presidential Council, at the Parliament
Building, Budapest, at 1130 hours on 3 February, 1984

Prime Minister
Mr. Unwin
Mr. Turnbull

Mr. Losonczi
Mr. Esztergalyos
Interpreter

Mr. Losonczi welcomed the Prime Minister on behalf of the Presidential Council. The fact that the visit was taking place was testimony to the fact that there were no unresolved problems between the two countries. He was confident that the visit would contribute to the expansion of bilateral relations. He regretted that the visit was so short.

The Prime Minister said she was delighted to come to Hungary as the first British Prime Minister, and was sorry that such a visit had not been made earlier. She too regretted that the visit could not be longer as she liked to go out to meet the people on such visits. Her duties in Parliament made it very difficult to get away for very long.

Mr. Losonczi said that the two countries had a common interest in seeing an improvement in the international situation. Neither country wanted war, and the time was approaching when the build-up of arms must be stopped. It was essential to achieve security at a lower balance of weapons. The international situation had deteriorated to the point where the tension was no longer tolerable, and an effort must be made through talks to reduce it.

He therefore attached great importance to the Prime Minister's visit. He recognised that the super powers had a determining influence on international relations, but the smaller countries had an influence and a responsibility to use it. Although this was a goodwill visit, it had a wider purpose. It should be seen as part of a continuing process, not as a once-off event.

/Turning

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Turning to economic matters, Mr. Losonczi said that the world economy had not yet recovered fully from the crisis which began around 10 years ago. There were now encouraging signs, but there had been earlier occasions when the situation appeared to be improving. Progress could be made on the economic front only when there were closer political relations. He felt that Hungary could cope with its internal problems provided external factors did not worsen.

The Prime Minister agreed that these smaller countries could have a useful influence on the super powers. She explained that relations with the United States were very good. There were frequent meetings at which views were expressed frankly. She noted that while contacts within the two alliances were regular, there was not enough contact between the alliances. Her fear was that one day a fatal error could be made through misunderstanding. While recognising each country's different political systems, there was much to be gained from talking to one another.

Mr. Losonczi said he was very pleased to have met the Prime Minister in person. A different picture emerged from that gained from a distance. He concluded with a personal request. He had received the Duke of Edinburgh here in 1973 and again in 1978 when the latter had come to Hungary. He asked the Prime Minister to convey his best wishes to The Queen and to the Duke of Edinburgh.

The meeting concluded at 1200.

AT

3 February, 1984

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HELSINKI

A.d.C. $\frac{6}{2}$
h.a.

MIPT: PRIME MINISTER'S VISIT TO HUNGARY, 2-4 FEBRUARY
FOLLOWING ARE BRIEFING NOTES:-

1. (BACKGROUND.) HUNGARIAN INVITATION TO PRIME MINISTER OUT-
STANDING FOR SOME YEARS AND WAS PRESSINGLY RENEWED BY MARJAI IN
LONDON IN MARCH 1983. PRIME MINISTER DECIDED IN AUTUMN 1983 THAT
IT WAS TIME TO TAKE THIS UP. A FACTOR IN HER THINKING AT THAT
TIME WAS HER BELIEF THAT THE EAST/WEST DIALOGUE NEEDED TO BE
RE-ANIMATED: SEE HER SPEECHES IN WASHINGTON AND AT THE
CONSERVATIVE PARTY CONFERENCE (BOTH IN SEPTEMBER) AND AT THE
GUILDHALL IN LONDON (NOVEMBER).
2. (DISTRIBUTE COPIES OF PRIME MINISTER'S SPEECH AT LAZAR'S
DINNER ON 3 FEBRUARY AND OPENING STATEMENT TO HER PRESS
CONFERENCE ON 4 FEBRUARY.)
3. PROGRAMME INCLUDED 45 MINUTES ALONE WITH LAZAR, A PLENARY
SESSION ALSO WITH LAZAR AND MORE THAN TWO HOURS ALONE WITH KADAR,
AS WELL AS A CALL ON THE PRESIDENT AND SOME OTHER VISITS IN
BUDAPEST AND IN THE SURROUNDING COUNTRY.
4. HUNGARIANS, ESPECIALLY MARJAI, SPOKE EMPHATICALLY ABOUT THE
NEED TO CONCLUDE AN AGREEMENT BETWEEN HUNGARY AND THE EC. BUT
THEY SEEMED TO RECOGNISE THAT CONSIDERABLE PROGRESS HAD BEEN
MADE AT THE LAST MEETING BETWEEN VERESS AND HAPERKAMP AND THAT
THE PROSPECTS FOR AN AGREEMENT WERE BETTER NOW THAN HAD SEEMED
POSSIBLE AT ONE TIME.
5. SOME DISCUSSION OF ANGLO/HUNGARIAN BILATERAL RELATIONS,
COVERING THE WHOLE FIELD OF OUR CONTACTS AND THE PROSPECTS FOR

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THEIR DEVELOPMENT. VARIOUS EVENTS ENVISAGED FOR LATER THIS YEAR, INCLUDING 'HUNGARIAN DAYS' IN BRITAIN IN APRIL.

6. MAIN EMPHASIS HOWEVER WAS ON INTERNATIONAL QUESTIONS AND ESPECIALLY EAST/WEST RELATIONS. PRIME MINISTER'S CHIEF OBJECTIVE WAS TO CONVINCE HUNGARIANS OF SINCERITY OF THE UNITED STATES AND THE WEST AS A WHOLE IN THEIR APPROACH TO RELATIONS WITH THE SOVIET UNION AND THE COUNTRIES OF EASTERN EUROPE, AND ON ARMS CONTROL. IN THIS CONTEXT SHE WAS ABLE TO DRAW ON HER PERSONAL FRIENDSHIP WITH PRESIDENT REAGAN AND ON HER OWN EXPERIENCE AS PRIME MINISTER. SHE EMPHASISED THE SIGNIFICANCE OF REAGAN'S SPEECH OF 16 JANUARY AND OF THE PROPOSALS Tabled BY THE 16 NATO DELEGATIONS AT STOCKHOLM ON 24 JANUARY. AS REGARDS START AND INF, HER LINE WAS SUMMED UP IN HER COMMENT IN HER SPEECH AT LAZAR'S DINNER THAT 'THIS IS NOT TIME FOR EMPTY CHAIRS IN GENEVA' SHE SUGGESTED THAT THE PROSPECTS FOR PROGRESS IN THE VARIOUS ARMS CONTROL TALKS WOULD BE IMPROVED IF THE GENERAL RELATIONSHIP BETWEEN THE EAST AND THE WEST COULD BE CHANGED FOR THE BETTER. SHE SPOKE OF THE NEED FOR PEACE TO BE MORE THAN PASSIVE. ANY AGREEMENTS COULD ONLY BE ON THE BASIS OF MUTUAL RESPECT.

7. THE BASIC POSITION ON THE HUNGARIAN SIDE WAS THAT HUNGARY IS A LOYAL MEMBER OF A CERTAIN SOCIAL SYSTEM, ECONOMIC GROUPING AND ALLIANCE: BUT THAT ON THIS BASIS SHE HAS AND WILL CONTINUE TO HAVE AN INDEPENDENT STANCE IN WORLD AFFAIRS. THEY STRESSED THAT HUNGARY SPEAKS WITH THE SAME VOICE TO ITS FRIENDS, TO 'PARTNERS IN DISCUSSION' AND TO ITS OWN PEOPLE. IN THE TALKS, THEY DEFENDED THE WARSAW PACT THESIS THAT IT WAS THE INTRODUCTION OF PERSHING 2 AND CRUISE MISSILES INTO WESTERN EUROPE BY THE UNITED STATES WHICH CAUSED THE BREAKDOWN OF THE NEGOTIATIONS IN GENEVA. BUT THEY DID NOT DISSENT FROM THE PRIME MINISTER'S ARGUMENT THAT THE ESSENTIAL THING WAS TO GET NEGOTIATIONS RE-STARTED. THEY BELIEVED THAT IT WAS POSSIBLE FOR THE WEST TO DO SERIOUS BUSINESS WITH THE SOVIET UNION, NOTWITHSTANDING PRESENT DIFFICULTIES.

8. SOME OF THE QUESTIONS AT THE PRESS CONFERENCE INDICATED EXAGGERATED EXPECTATIONS AS TO WHAT MIGHT COME OUT OF THIS VISIT AS THE PRIME MINISTER SAID ON THAT OCCASION, THE BRITISH VIEW

2

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IS THAT 'THE ONLY APPROACH IS HARD-HEADED REALISM AND PERSEVERANCE'.

9. AT INTERVALS DURING THE VISIT THERE WAS SOME DISCUSSION OF THE ECONOMIC SITUATIONS AND POLICIES OF THE TWO COUNTRIES, THE SIMILARITIES BEING NOTED NO LESS THAN THE DIFFERENCES.

10. IN GENERAL, WE WERE GIVEN TO UNDERSTAND THAT THE HUNGARIAN SIDE APPRECIATED THIS FIRST VISIT BY A BRITISH PRIME MINISTER TO HUNGARY SINCE THE ESTABLISHMENT OF THE REPUBLIC IN 1918, AND THAT THEY SHARED OUR OWN VIEW THAT IT WAS WELL TIMED.

11. (IF ASKED FOR FURTHER DETAILS.) I WAS NOT PRESENT AT THE PRIVATE TALK WITH KADAR, NOR AT THE ONE WITH LAZAR. I UNDERSTAND THAT THERE WAS SOME FRANK TALKING BY BOTH SIDES, BUT ON THE STRICT UNDERSTANDING THAT EACH WOULD RESPECT THE OTHER'S CONFIDENCE.

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SIR C TICKELL

MR WRIGHT

MR CARTLEDGE

MR JENKINS

MR J THOMAS

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NOTE FOR THE RECORD

During the course of her programme on Saturday, the Prime Minister travelled in the car with Dr. Marjai. He raised two points:

- (i) He very much hoped that Mr. Tebbitt would attend some of the occasions being arranged in April for the "Hungarian Days".
- (ii) He would very much like to bring Mr. Ian MacGregor to Hungary to visit their coal mines as he felt that Mr. MacGregor's experience would be extremely valuable.

AG

Letter sent

2/2

4 February, 1984.



Toast

by

Mr. GYÖRGY LÁZÁR
Chairman of the Council of
Ministers

February 3, 1984

Madame Prime Minister,

It is my pleasant duty to welcome you and the members of your party on behalf of the Government of the Hungarian People's Republic and on my own behalf. I am glad that you have accepted our invitation and have come to visit us.

In your person we are welcoming a British Prime Minister in Hungary for the first time. This is an important event which is followed with attention by public opinion both here and beyond our borders. I believe this is understandable. This visit is of great significance because—in addition to many other things—it serves as an example that even in tense periods of the international situation a dialogue is possible between countries professing different views, having different social systems and belonging to different alliances.

Madame Prime Minister,

Just as our public opinion, I myself have also been looking forward to our talks. Recalling our discussions today I can speak of them with satisfaction in that they have provided a good opportunity to have a better knowledge of each other's

views and they have strengthened our mutual intention to do more in the future for the development of our bilateral relations. It has also become apparent that although the social systems of our countries are different, we belong to different alliance systems and the positions of our Governments differ on several international issues, the items expressing common interests can nevertheless be found which make cooperation possible in the search for a way out from the international crisis threatening world peace.

In the history of the relations between our two countries, which go back to the distant past, there have been gloomy periods but also, there are ones which we recall with pleasure. Our present relations—and this is a good thing—are normalized. We have no unresolved problems. We, on our part, have an interest in not only retaining but also in going beyond the level already achieved. We hope that these efforts will be reciprocated.

We attach particularly great importance to the expansion of commercial, economic and financial relations based on mutual advantages. We believe that even in the present difficult world economic situation there is a possibility to do this if we pay sufficient attention to eliminate the obstacles hindering development and if we better utilize existing opportunities. This is what we are striving for, because we do not consider it a natural state of affairs that today our economic relations with the United Kingdom should lag behind what we

have already achieved with other Western European countries.

Of course, when I speak of the intention to develop our cooperation I am not thinking only of the economic field. We welcome and consider the deepening of technical-scientific cooperation between our countries useful and we also see possibilities for the development of cultural and human relations.

Madame Prime Minister,

By now it is a historical fact that it was the unfolding of détente which gave a new impetus to the development of East-West—including Hungarian-British—relations. Even in the present tense international situation we hold that there is no acceptable alternative to détente. We have differing views concerning the reasons for the increase of tension. Steps aimed at upsetting the balance of military power, among them the decision to deploy American missiles in Europe and the start of the deployment, aggravate political and military tensions on our continent and further burden East-West relations. Such a situation has arisen in which the Soviet Union and the Warsaw Treaty are compelled to take countermeasures. We hold that more weapons do not give more security, the military balance of power should be guaranteed at the lowest possible level of armaments.

Our Government, as a dedicated proponent of peace, continues to hold that questions of dispute, including the problems of nuclear armaments can and have to be resolved by political means through negotiations.

We are deeply convinced that the well-known proposals of the Soviet Union and the proposals of the member States of the Warsaw Treaty, worked out with the active participation of the Hungarian People's Republic and submitted at various forums, provide a good basis for negotiations. These are fair and flexible proposals, ones, which take into account the security interests of the other side, too. But for progress there is a need for serious commitment and for reasonable compromises to be manifested in deeds, because that is the only way how the basis and conditions can be created for agreements adhering to the principles of equality and equal security and for Europe to return to the road of détente.

It is in the interest of all peoples to avoid a nuclear catastrophe. We have to do everything, we have to use every forum, the Stockholm Conference among them to facilitate the process of improvement, to enhance the decrease of distrust and the retainment of the Helsinki process. I can assure you, Madame Prime Minister, that the Hungarian Government is trying to facilitate the attainment of these goals in every way it can. The paramount aspiration of our foreign policy is the protection of peace, the continuation of the process

of European security and cooperation. It is in that spirit that we intend to foster the relations between Hungary and the United Kingdom.

*Madame Prime Minister,
Dear British Guests,*

Although you are spending only a short time in our country I do hope that you will return home with favourable impressions and with the conviction that the Hungarian nation is filled with a genuine desire for peace and with respect and esteem for other peoples.

It is in the spirit of these thoughts, Madame Prime Minister, that I raise my glass to your health and to the health of all our British guests, to the development of the relations between our countries and peoples, to peace.

PRIME MINISTER

Lunch at British Embassy: Note for Remarks

General Theme - what has Government been trying to achieve, where is it seeking to go?

When this Government came into office in 1979, we had four immediate tasks:

- i. bring down inflation, then rising sharply towards a peak of 22%;
- ii. put public finances on a sound footing, controlling expenditure, reducing borrowing both at home and abroad;
- iii. reduce regulation and bureaucracy to make the economy more responsive to market forces;
- iv. to change attitudes and produce a greater sense of responsibility, recognising that a higher standard of living could only be earned by greater effort.

/ Have made

Have made significant progress on all these fronts:

- i. inflation down to 5%;
- ii. Government borrowing down from 5% of GDP to 3% and overseas debt halved;
- iii. many controls and regulations abolished;
- iv. economy now beginning to grow, slowly at first, but with increasing strength.

To achieve this has been hard and in a way it is all rather negative. What is exciting is that the next five years can move forward on the basis of what we have achieved.

We have three main objectives:

- i. reduce burden of taxation;
- ii. rekindle enterprise and initiative, in enterprises both large and small;
- iii. produce a society which does not fear change but embraces it with enthusiasm.

/ New

New technology does not kill jobs but creates them. (Reference to inter-change between scientists in Britain and Hungary.) Must put excellent scientific base in our universities and research establishments into industry to influence the goods we produce and buy in our shops.

I do not pretend that your economic system is the same as ours but I am nevertheless struck by the similarities from what you are trying to achieve:

- come to grips with public finances and overseas debt
- increased role of market forces
- increased scope for enterprise.

Pleased to see that further loan from IMF has been agreed.

But wrong for me to be telling you about your objectives and policies. Would welcome your views.

A.T.



h.a.
M 3/2

LUNCH BY HM AMBASSADOR AND MRS UNWIN

FRIDAY 3 FEBRUARY AT 1 O'CLOCK

In honour of the Prime Minister, the Rt Hon Margaret Thatcher MP

Host and Hostess

The Prime Minister

Hungarian Guests

HE Mr János Péter	Deputy Speaker of the National Assembly, President of the Political Sciences Association
HE Mr Péter Veress	Minister of Foreign Trade
HE Dr Mátyás Timár	President of the Hungarian National Bank
HE Mr Ferenc Esztergályos	Deputy Minister for Foreign Affairs
HE Dr Rezső Bányász	Hungarian Ambassador in London
Mr György Bánlaki	Interpreter
Professor János Szentágothai	President of the Hungarian Academy of Sciences
Professor Gyula Eörsi	Rector of Eötvös Lóránd University
Dr Sándor Demcsák	President of the Foreign Trade Bank
Mr Iván Boldizsár	Editor of the New Hungarian Quarterly, President of the PEN Club
Mr Zoltán Román	Head of the Industrial Economic Research Group
Professor Mihály Simai	Co-Chairman of the UK-Hungarian Round Table
Mr Pál Ipper	TV presenter and commentator

Prime Minister's party

Sir Julian Bullard

Mr Coles

Mr Turnbull

Mr Ingham

SEE BIOGRAPHICAL NOTES BEHIND



HUNGARIAN GUESTS AT THE AMBASSADOR'S LUNCH IN HONOUR OF THE PRIME MINISTER ON FRIDAY 3 FEBRUARY AT 2 O'CLOCK

Mr János Péter (Pay-ter)

Deputy Speaker of the National Assembly and President of recently formed Political Sciences Association. Once a Calvinist minister and bishop, he was Foreign Minister from 1961 until his retirement in 1973. Has visited Britain a number of times.

Mr Péter Veress (Ve-resh)

Minister of Foreign Trade since March 1979. Visited Britain at invitation of Minister for Trade in February 1981 and was host to Mr Rees in Budapest in October 1982. Due to visit UK in April 1984 for Hungarian Days.

Dr Mátyás Timár (Tee-maar)

President of Hungarian National Bank (with ministerial rank) since 1975. A lawyer by training. Was Minister of Finance and Deputy Prime Minister before his present position. The National Bank plays a key role in Hungary's economic and financial links with the West. Is well known in banking circles in the UK.

Mr Ferenc Esztergályos (Ester -guy-osh)

Promoted to Deputy Minister for Foreign Affairs in 1983. Previously Head of Department dealing with UK and US. Ambassador in Washington 1975-1981.

Dr Rezső Bányász (Baan-yaas)

Hungarian Ambassador in London.

Mr György Bánlaki (Baan-lockee)

Prime Minister's interpreter throughout the visit.

Professor János Szentágothai (Sent-aago-toyee)

President of the Hungarian Academy of Sciences since 1977. A distinguished neurophysiologist specialising in the brain. Member of numerous foreign and international scientific bodies, including the Royal Society.

Professor Gyula Eörsi (Uur - she)

Rector of Budapest Eötvös Lóránd University since 1978. A lawyer by training with wide experience in international law. Visited Britain in 1980.

Dr Sándor Demcsák (Dem-chaak)

President of Foreign Trade Bank since 1980. Previously a Director of the National Bank. Served as Commercial Counsellor in Paris.



Mr Iván Boldizsár (Bowl-deege-aar)

Editor of the New Hungarian Quarterly and President of the Hungarian PEN Club. A prolific writer and translator. Travels widely in the West.

Mr Zoltán Román (Row-man)

Head of Industrial Economic Research Group. Academic with an economic and engineering background.

Professor Mihály Simai (She-moy-ee)

Co-Chairman of the UK-Hungarian Round Table. Director of International Economic Relations at Budapest Economic University. Deputy Director of Research Institute for World Economy. A frequent visitor to the UK.

Mr Pál Ipper (Ee-per)

TV presenter and commentator. On 31 January, he was the news reader who presented comment on the Prime Minister's forthcoming visit. A broadcaster of long experience, he was Hungarian Radio's reporter in New York in the 1960s. From TV, his is among the best-known faces in Hungary today.



Foreign and Commonwealth Office

London SW1A 2AH

2 February 1984

John Selous

A.S.C. 6/2.

Prime Minister's Visit to Hungary; 2-4 Feb.

/ A toutes fins utiles, I enclose an additional note on Chemical Warfare to add to the points to make enclosed with my letter of 1 February.

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street



CDE : POINTS TO MAKE ON MAIN WARSAW PACT PROPOSALS

ADDITIONAL POINTS ON BANNING CW FROM EUROPE

1. The UK has not possessed CW since the end of the 1950s.
No plans to resume production.

2. Huge Soviet CW offensive capability (estimated at some 300,000 tons) and reports of CW use outside Europe underline need for worldwide ban.

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E. B.

VISIT OF THE PRIME MINISTER TO HUNGARY

2 - 4 FEBRUARY 1984

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VISIT OF THE PRIME MINISTER TO HUNGARY: 2-4 FEBRUARY 1984

LIST OF BRIEFS

1. Steering Brief with annexes on:
 - Annex A - Points for use in private conversations in Budapest
 - Annex B - Opening Statement for the Plenary Talks with the Hungarian Prime Minister
 - (a) Hungarian Political Situation (including History of Hungary)
 - (b) Hungarian Foreign Policy
 - (c) Hungarian Economic Situation
 - (d) Reform in Hungary
 - (e) Personalities
 - (f) Statistics
2.
 - (a) East/West Political Relations (including Afghanistan and Poland)
 - (b) East/West Economic Relations
3. Arms Control and Disarmament
4. Middle East
 - (a) Arab/Israel
 - (b) Iran/Iraq
5. Central America
6. CSCE/CDE
7. EC/Hungary: EC/CMEA
8. Bilateral Relations
 - (a) Political
 - (b) Commercial
 - (c) Cultural

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VISIT OF THE PRIME MINISTER TO HUNGARY: 2-4 FEBRUARY 1984

STEERING BRIEF

INTRODUCTION

1. This visit is important in three ways:-

- it is the first visit by a British Prime Minister to Hungary since the War, and probably the first by the Prime Minister of either country to the other since Hungary separated from Austria in 1918;

- it will be the Prime Minister's first visit to a Warsaw Pact country since she took office, apart from her stopover and meeting with Kosygin at Moscow Airport in 1979;

- it falls at a time of peculiar complexity in East/West relations, with the first INF missiles deployed and operational, the CDE just launched, the Soviet Union rudderless and sulky, and the East Europeans more uneasy than ever at their own impotence: never has East/West dialogue looked more necessary or more full of problems.

2. The task will be to seize this triple opportunity, imaginatively but without exaggeration. Hungary can never be more than a secondary power, even within Europe. Only in economic policy is there conscious deviation from Moscow's line towards decentralisation, individual incentive and market forces. Even here the picture by Western standards is one of low productivity, sloppy management and pervasive inflexibility. In other fields, especially foreign policy, Hungary wears a mask of wall-to-wall conformity with Moscow.



Not surprisingly, 'Anglo-Hungarian relations' has in recent years meant no more than periodic visits at the level of Foreign Minister and below, trade not exceeding £100 million a year in either direction and some cultural contact, mostly between specialists.

3. Yet the Hungarian experiment is much more than it seems: more daring, and more subtle. The long term objective seems to be a society that will be Central rather than Eastern European in character: still no doubt a member of the Warsaw Pact and of CMEA (assuming those institutions survive), still a one-party state, with the press controlled and overt dissent forbidden: but offering its citizens a way of life having more in common with its old partner Austria than with any of its neighbours to the East. In this perspective, the real threat to Hungary's national independence is Russia: a soft market and a useful supplier of raw materials, but politically backward, obtuse and unpredictable; while the West is seen as the source of technology, innovation, artistic quality and ideas.

4. To wear one mask while pursuing the other objective requires all the finesse and cynicism that are the Hungarian trademarks.

5. Even more than other East European countries, Hungary supports and is an active practitioner of East/West dialogue. Lord Carrington (1980) and Sir Geoffrey Howe (September 1983) have visited Budapest. Mr Marjai, a Deputy Prime Minister with economic responsibilities, came to London in March 1983 and called on the Prime Minister. Hungarian contacts with other Western countries, especially the FRG, have been more intensive still. It is significant that the Hungarians feel able to receive the Heads of Government of the three INF basing countries (Britain, Italy and the FRG) within the first six months of 1984, at a time when Moscow is showing its displeasure by curtailing



contacts of this kind.

Objectives

6. In this situation, the Hungarian objectives for the visit are likely to be:-

- (a) to project Hungary as a significant and economically viable country in its own right, while underlining that it is communist and loyal to its alliances;
- (b) to put across an orthodox Warsaw Pact line on international questions, tempered with genuine Hungarian concern over the state of East/West relations;
- (c) if necessary, to try to pin the blame on NATO for the Soviet walk-out in Geneva and for 'counter-measures' in Eastern Europe; to see whether there is any mileage in criticising the United States;
- (d) to press for continued British support for Hungary's approach to the European Community, and for access to our markets and loan funds;
- (e) in private rather than in the formal sessions to stress that the sort of developments Hungary has in mind are made more difficult at times of East/West tension.

7. British objectives are as follows:-

- (a) to show recognition of what is distinctive in the Hungarian course, and implicitly to encourage its



continuation;

- (b) to convey a political message which will catch the attention of the Hungarians and of their allies to whom they will relay it;
- (c) to contribute positively and significantly to the East/West dialogue;
- (d) to assess how strong are the political and economic strains between the Soviet Union and Eastern Europe;
- (e) to improve the prospects for Anglo-Hungarian trade.

TACTICS

8. The Hungarians will be obliged to report on the talks to Moscow and to their other allies. This means that any direct criticism of the Soviet Union will produce a rebuttal for the record, probably at length. Even without such an excuse, they may feel the necessity to expound the Soviet line on the causes of current East/West tension, the wickedness of the Reagan administration etc. The formal meetings will therefore be less valuable than the more private talks, for which every possible opportunity should be seized. Particularly important will be the call on Kadar, whose experience and standing in Eastern Europe are unique and who has known Andropov since 1956. Annex A to this Brief contains points suitable for use in private with Kadar or others, as opportunity may permit. Although the Hungarians will not want to be thought of as message-carriers, the thoughts which the Prime Minister may wish to plant in the Hungarian mind for onward transmission to Moscow are as follows:



- (iii) Hungary and the European Community
- (iv) points from Mr Lazar's statement
- (v) bilateral political and commercial (and cultural) relations

Deputy Prime Minister Marjai

When Mr Marjai calls it would be appropriate to persuade him to open with an account of the Hungarian economy and the prospects for continued economic reform. Topics for discussion would be:

- (i) The Hungarian economic reform
- (ii) Hungary and the European Community
- (iii) Anglo-Hungarian trade
- (iv) Prospects within CMEA

President Losonczi

This will be a short protocol call: bilateral relations and the need to improve East/West dialogue at a difficult time would be appropriate.

Mr Kadar

The meeting will be at Central Committee Headquarters and limited to 3 or 4 a side. Kadar is likely to explain the progress Hungary has made since 1956 and to state his concern about the international situation. He tends to speak for some time before being ready for an exchange of views. With the points for use in private conversation at _____



Annex A in mind, the Prime Minister may wish to try to draw him on:

- (i) Hungary's role in Europe and her future aspirations
- (ii) the relationship with the Soviet Union
- (iii) the leadership situation in Moscow
- (iv) the way forward in East/West relations

The effective time for all talks will be halved by interpretation.

Invitations

10. In accordance with normal practice, the Prime Minister will wish to invite Mr Lazar to visit Britain. Depending on the impression she forms, the Prime Minister may also wish informally to invite Mr Kadar to visit London. He has been to Bonn and Paris in recent years but at a better time in East/West relations. He is unlikely to accept an invitation for some time. But its issue would send a very clear signal that we want to remain in touch.

11. Summary of Briefs

Brief No 1 Steering Brief

Steering Brief with Annexes on points for use in private conversation and an Opening Statement for talks with the Hungarian Prime Minister. Background on Hungary and Personality Notes.



Brief No 2(a) East/West Political Relations

Our aim is to identify and build on areas of common interest and to reduce tension and risks of misunderstandings. UK shares this approach with US and allies in NATO. No illusions that progress will be quick or easy.

Brief No 2(b) East/West Economic Relations

Policy is to conduct East/West trade on the basis of mutual commercial advantage, consistent with our international obligations and security concerns.

Brief No 3 Arms Control and Disarmament

West want early progress on arms control, especially nuclear and new technologies. Concern to see progress also on chemical weapons and conventional forces.

Brief No 4(a) Arab/Israel

Need for new momentum in the peace process. Importance of support for moderate Arabs in their efforts to break the deadlock.

Brief No 4(b) Iran/Iraq

UK wish to see early end to war and to prevent escalation. Support any realistic mediation efforts.

Brief No 5 Central America

Share US concern at threat of externally supported subversion and approve US policy aims. We want a peaceful settlement and, to this end, support the Contadora initiative.



Brief No 6 CSCE/CDE

Stockholm Conference should get down to substantive negotiation of practical measures as soon as possible.

Brief No 7 EC/Hungary

We support proposal for EC/Hungary trade agreement. Many practical difficulties to be overcome but political significance of the initiative most important.

Brief No 8(a) Bilateral Political Relations

Bilateral political relations are good, but scope for development in commercial, economic and cultural fields.

Brief No 8(b) Commercial Relations

Commercial relations are good despite modest level of trade. (UK exports Jan-Nov 1983 £84 m, UK imports £49 m). Some promising major projects for British firms.

Brief No 8(c) Cultural Relations

Official programme runs well but we would like greater freedom for Hungarians to use Embassy library and more direct contact with educational, cultural and scientific institutions.

EASTERN EUROPEAN DEPARTMENT

FOREIGN AND COMMONWEALTH OFFICE

26 JANUARY 1984



BRIEF NO 1 (a)

HUNGARIAN POLITICAL SITUATION

Kádárism

1. Since 1948, the Hungarian political system has been dominated by the Communist Party (renamed in 1956 as the Hungarian Socialist Workers' Party (HSWP)), described in the Constitution of 1972 as 'the Marxist-Leninist party of the working class ... the leading force in society'. The party maintains control of all aspects of Hungarian life. However since 1959 this control has not been as rigorously enforced as it is in most other countries in Eastern Europe. János Kádár, who was installed as First Secretary of the HSWP by the Soviet Union during the 1956 uprising, has based his internal policies on the principle of national reconciliation under the slogan 'He who is not against us is with us' (a conscious reversal of Mátyás Rákosi's pre-1956 'He who is not with us is against us'). The main - almost obsessive - aims of the Kádár regime have been to achieve legitimacy, to improve the material circumstances of the Hungarian people, and to reach an accommodation with the fact of Soviet occupation and domination.

2. Kádár's policy of reconciliation and 'national alliance' has led to the introduction of less repressive domestic policies, some artistic and cultural freedom, freer contacts with the West, and, in 1968, to the more flexible system of economic management known as the New Economic Mechanism (NEM) (see Brief No 1(d)). It has also produced settled relations with both the Protestant and Catholic churches (though some Catholics - in particular, we believe, junior clergy - consider that the Church is too subservient to the regime and would like to



see it play a more positive role, notably in the social sphere). Pursuance of his policy has meant that despite its monopoly of power, the Party has had to make some concessions. The HSWP has shown itself sensitive to public opinion and has on occasion altered or delayed policy implementation when it expected strong public opposition, for example in the announcement of price rises. The HSWP also takes care to prepare the way for policies which are likely to be unpopular and to explain the need for them. As a result, the implementation of unpalatable policies is generally smoother in Hungary than in other East European countries.

The Soviet Role

3. One of the bases of Kádár's success is the recognition, by both leadership and people, of the inevitability of the Soviet armed presence (some 60,000 Soviet troops have been 'temporarily stationed' in Hungary since 1948). Thus, Kádár remains aware of the need to avoid annoying or embarrassing the Soviet Union. In return for this reliability, he has been permitted a considerable degree of latitude on internal affairs. One of the purposes of Kádár's official visit to the Soviet Union in July 1983 was evidently to explain to Andropov Hungary's divergent economic policies and to assess the attitude of the Soviet leader towards possible future reform measures in Hungary. He appears to have obtained Andropov's tacit approval of the course Hungary is currently pursuing. Since then he has also visited Warsaw, Prague and East Berlin where part of his purpose may also have been to reassure his Warsaw Pact allies that, whatever references they may read in the Western media about "creeping capitalism" in Hungary, there is no incompatibility between the Hungarian reform and its socialist commitment.



The "Opposition"

4. There is little organised opposition in Hungary. A small number of dissidents exist and there is some circulation of samizdat publications. In December 1982 the authorities closed down the only samizdat bookshop and seized the duplicating equipment. There were also other indications of a clamp down on the dissidents, including the beating up of one of them in September 1983 and his subsequent trial and sentencing in December. The motives for the authorities' actions are unknown but it is possible that they were reacting to criticism from other Warsaw Pact countries of the relatively liberal atmosphere in Hungary. An unofficial peace movement with a mainly young membership formed itself and appeared to be growing in influence to the point where the authorities felt the need to act against it in July 1983 with the result that it disbanded itself (though a few members still meet in private). The authorities have as a result put more steam behind the official peace movement which it supports, arguing that peace is an official objective and does not need unofficial and potentially anti-government organisations.

Economic Recession and Economic Reform

5. The Hungarian leadership is now facing particularly difficult times as a result of the world economic recession and Hungary's large foreign debt burden. Living standards, which rose steadily during the 70s, have stagnated and may even be beginning to fall for some people. There is concern as to the possible effects of this on internal stability. The domestic supply situation remains good but foreign travel, a safety valve of great psychological and symbolic importance for Hungarians, has fallen significantly over the past two years. Many Hungarians will be less comfortable this



year, but the incidence of actual hardship is unlikely to increase significantly; savings and "second economy" activity will still provide a cushion for many. The real problem will lie in the fact that those features of the internal situation - particularly low infrastructure investment and social expenditure, coupled with widening income differentials - which were just tolerable during a period of rising living standards and expectation, will become much less so during a period of downturn.

6. There is a danger that conservative opponents of the reform, eg middle-ranking local party members and trade unionists, may try to use the current period to arrest its progress. There have been some signs of this. The resolution agreed by the enlarged meeting of the Central Committee (mid-term congress) in April 1983 contained a number of notably conservative references. The authorities have for some months been taking a harder line towards those too openly critical of the regime. Party officials have emphasised the need for "greater discipline" in the media. Meanwhile the Party's formidable public relations machinery is endeavouring to reconcile the population to the necessity for further belt-tightening and to the inevitability of greater inequalities of income if the economic reform is to succeed. But the fact remains that if Hungary cannot, by the end of 1984 (which will be a particularly difficult year anyway because of a bunching of \$1.5 billion of debt falling due for repayment) show clear signs of success in the battle for solvency, the future of the reform - and of the reformers - will inevitably be called into question.

Political Reform

7. Despite this, the reformers within the Party seem determined to press ahead. The qualified support for the



pursuance of the reform given at the April meeting of the Central Committee was reinforced at the Central Committee's July session. In December Parliament endorsed plans to reform the electoral system, eg it will be legally obligatory to have multiple candidatures in every constituency. The practical effect of this will be limited and Party control will not be weakened - there is no intention that candidates should be allowed to run on an "anti-socialist" platform. As a symbolic step, however, the introduction of (obligatory) multiple candidatures has importance.

8. The leadership are keen that current tensions in East/West relations should not affect Hungary's internal policies, but they have been placed in a potentially vulnerable position vis-a-vis their Warsaw Pact allies. They will far more willingly make concessions to orthodoxy in their foreign and cultural policy than in the way they run their economy.

The Succession to Kádár

9. Kádár's skill in securing what is considered in Hungary as the best deal under the circumstances, the simplicity of his style of leadership and his preference for persuasion rather than coercion have made him a genuinely popular figure. His betrayal of the 1956 revolution is forgotten or forgiven. But he is now 71 and though he still appears to be mentally and physically fit, there are signs that he may be ageing and perhaps losing his touch. There is no obvious successor; Kádár has avoided nominating or grooming one. It is likely that Kádár's successor will not deviate radically from the path of "Kádárism". But he will have to grapple with the problems and contradictions which Kádárism has brought or has failed to solve - disillusionment among young people, even with the relatively relaxed internal

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regime, inadequate housing and social facilities, growing differentials between the rich and poor and ideological contradictions. The tensions which these problems produce do not pose an immediate challenge to the regime but they may in time prove difficult for the Party to handle.

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A HISTORY OF HUNGARY

Who Are the Hungarians?

1. The Hungarians are of mixed ethnic origin, descended from a group of tribes whose most permanent home in ancient times was in what is now the European part of the Soviet Union, below the Volga bend on the Western side of Urals. Linguistic evidence suggests that they are relations - now very distant - of the Finns and Estonians from whom they separated in prehistoric times. The (modern) Hungarian story runs thus: the Finno-Ugrian people came to a signpost on their travels which said "Hungary". Those who could read turned left for the Carpathian Basin, the others turned right for Helsinki. (The Finns tell this joke the other way round).

Early History

2. Under pressure from other fiercer tribes, the Magyars, by now united into one group, moved into the Carpathian Basin in 896, conquering the Slav and Turkish people already in the region. Some of these fled, others remained and intermingled with the Hungarians. For 60 years, their surprise attacks into the heart of Central and Western Europe (they crossed the Alps and Pyrenees) spread fear among their opponents. Otto I the Holy Roman Emperor who had previously used them as allies against others, turned on the Hungarians and inflicted a crushing defeat on them at the Battle of Augsburg in 955, from which only 7 blinded men were sent back to Hungary. Their rulers, taking stock of their new situation, decided to accept Christianity and receive a crown from a Catholic pope. They were formed into a Christian kingdom (in name at least) under St Stephen on Christmas Day in the year 1000.

Hungary's Renaissance and the Turkish Occupation

3. Their conversion transformed them eventually from lawless marauders into members of the comity of nations. They survived the Tartar invasion of the 13th century which left the country in ruins. When, a year after their arrival, the Tartars withdrew just as suddenly as they had come, "there was nothing to be found back in our land, except the bones and skulls of those murdered and the destroyed walls of our cities, still red from the blood so freely shed".

4. By the end of the 15th century, Hungary's place in the pecking order in Europe was about the same as that of England. They stood just within the confines of Catholic Europe with a Renaissance monarch, Mathias Corvinus (1440-1490). After Mathias' death decline started with a peasant rebellion, put down in 1514. The leader of the rebellion, George Dozza was burned alive on a white hot throne and his lieutenants forced to eat his charred flesh. The Turks overran the country after the Battle of Mohács in 1526, taking the capital Buda in 1541. Hungary was divided into 3, the centre



including the capital under direct Turkish rule, the North (now Slovakia) and West under the Habsburgs while Eastern Hungary and Transylvania remained under the control of Hungarian princes who were obliged to accept Turkish suzerainty. Thus the Hungarian court and Hungarian culture survived in this period only in these Eastern areas. Much of the rest was devastated and depopulated by constant fighting between Turks and Habsburgs, and between Habsburgs and the now strongly Protestant Hungarians in the West. In central Hungary, many, especially children were enslaved and sent out of Hungary to the East.

5. At the end of the 17th century, after the victory over the Turks at Vienna the Habsburgs conquered all of Hungary. The liberation of the capital Buda was not an entirely happy event for the native population. Liberations in Hungary seem to have done more damage than the oppression they sought to destroy.

6. The first rebellion against them was led by Prince Francis Rákóczi early in the 18th century. The French supported this rebellion at the beginning, but later changed sides. English public opinion was sympathetic to Rákóczi but Britain was an ally of the Habsburgs in the period of the war of the Spanish succession.

National Revival and the 1848 Revolution

7. Prompted by the French revolution as much as by the spirit of the enlightenment a national revival began in the last decades of the 18th century. Under pressure to adopt German as the Universal Language, the Hungarians began to turn again to their own language, Magyar, which had by this time been reduced to a language of serfs. This led to a linguistic nationalism and the seeds of later problems with the non-Magyar peoples of the lands under the Hungarian crown were sown at this time.

8. Pressure for reform in Hungary was led by Count Szechenyi the "greatest of Hungarians" who attempted single-handedly to liberalise and modernise his country. Kossuth went even further: he demanded national democracy, industrialisation, the end of feudalism, equal taxation and the inclusion of all in the body of the nation. These demands became the basis for Hungary's major struggle for independence in 1848 and 1849. War developed between Vienna and Budapest and in April 1849 Kossuth formally denounced the Habsburg dynasty and declared Hungary a republic. In June 1849, appealing for support from outside Hungary he said "the freedom of Europe will be determined on Hungarian soil". The Hungarian forces defeated the Imperial Army in a number of battles, but were finally crushed when the 18 year old Emperor Franz-Josef called in Russian aid in accordance with the terms of the treaty of the "Holy Alliance".

9. The rebellion was brutally suppressed. A bloodbath ensued: 13 of Hungary's generals were hanged, thousands were imprisoned, Kossuth went into exile and Szechenyi ended his own life after years in an insane asylum. British public opinion had been outraged by the events in Hungary, but British policy had supported the Habsburgs.



The Compromise Era

10. Eventually, difficulties in other parts of the empire as well as in Hungary, led the Austrians to work out the so-called "Compromise" in 1867, establishing the dual Austrian-Hungarian monarchy which lasted for over 50 years. Kossuth protested at the terms of this agreement which contained none of the social reforms demanded in 1848 and gave the more extreme Hungarians the opportunity to pursue a harsh nationality policy. In a letter written from exile, he predicted disaster for Hungary as a result.

The Two World Wars

11. With faultless consistency, Hungary has always chosen or been obliged to take the wrong side in war. They gave full support to the 1914-18 war effort, although they had little to gain from it. When collapse came it was total. With 2 million Hungarian prisoners of war outside Hungary, the country could not survive. The Austro-Hungarian monarchy fell apart and Hungary's independence was declared in October 1918. Under the Treaty of Trianon in 1920 Hungary lost 2/3rds of her former territory and 3/5ths (over 10.6 million) of her population. The majority were Slovaks, Romanians and Serbs, but they also included over 3 million Hungarians. Hungary's foreign policy between the wars was dominated by the desire to regain the "lost territories". The Hungarians turned eventually to Germany for redress and under the Vienna awards of 1938 and 1940 regained some territory from Czechoslovakia and Romania and later also from Yugoslavia. These areas were lost again by the Peace Treaty signed in Paris in 1947.

12. In 1919 a "Republic of Councils" (a Soviet-style republic) was set up under the leadership of Bela Kun who had returned from exile in the Soviet Union. It lasted only 5 months. After intervention by the Romanians the "Red Terror" perpetrated by Kun was followed by an even more ferocious "White Terror" under Admiral Horthy. Hungary, technically still a kingdom, then settled down under Horthy as Regent for nearly a quarter of a century. Under German pressure which increased after the Anschluss and Munich, Hungary moved gradually towards Fascism. The pro-British sympathies of the Prime Minister, Teleki however kept Hungary comparatively free of Axis domination until April 1941 when he committed suicide on learning that it had been agreed, in violation of the Hungarian-Yugoslav Friendship Treaty, to let German troops go through Hungary to attack Yugoslavia. Hungary declared war on the Soviet Union in June 1941 and on the United States in December. Britain declared war on Hungary in December 1941.

13. German troops occupied the country in March 1944. In October 1944 Horthy tried to extricate Hungary from the war but was forced to resign and taken to Germany. The Germans put the Hungarian Nazi Party the "Arrow Cross" in power. They began a reign of terror in Hungary in which 100,000 Jews were murdered. Soviet troops were by now already in Hungary and Budapest fell after a 3 month siege in February in 1945. The capital was reduced to rubble, destroyed by Allied raids, house to house fighting and destruction by the Germans /who



who blew up every bridge over the Danube.

The Communist Takeover and 1956

14. The Soviet troops were followed by Soviet political experts, accompanied by Hungarian communists living in exile in the Soviet Union, among them Rákosi and Imre Nagy. The communists had little popular appeal, but by the use of "salami" tactics on the other political parties, communist control was complete by the end of 1948. In 1949 parliament was dissolved and in the elections that followed, the Government's list received a majority of 95%. There were no opposition candidates.

15. Nationalisation of nearly all branches of industry was swiftly followed by the collectivisation of agriculture, enforced with much brutality. Living standards were drastically reduced as a result of the industrialisation programme. The power of the trade unions and the churches was broken. All those considered hostile were eliminated by execution, imprisonment or enforced destitution.

Among the infamous trials of this period were those of Cardinal Mindszenty and Laszlo Rajk, the Foreign Minister. Hundreds of thousands were arrested as enemies of the state; thousands were murdered or sent to concentration camps on false charges. Spitting on the pavement could be construed as an act against the state.

16. Stalin's death and Khrushchev's subsequent denunciation of him eventually brought about a crisis in Hungary which led to revolution. Unwilling to resign, Rákosi made the strain more intense with half measures in an attempt to retain power. Ironically many of the worst features of the period from 1945-1953 had been modified or removed by the time the revolution took place in 1956.

17. The uprising began on 23 October 1956 with a huge demonstration of sympathy for Poland by unarmed students. Street-fighting broke out and lasted a week. The Soviet army withdrew and it seemed that the Hungarians had won the day. Nagy who was made Prime Minister on 24 October, eventually succeeded in forming a coalition government a week later. Political prisoners were released and a democratic party programme proclaimed. On 1 November Nagy declared Hungary's neutrality, withdrew from the Warsaw Pact and appealed to the United Nations to support his policy. On 4 November Soviet troops returned to Budapest and after 3 days of bloody fighting, the Hungarians defending Budapest had to lay down their arms. By December all fighting had ceased but a nationwide general strike lasted until the end of the year. Kádár meanwhile had left Budapest and set up a rival government with Soviet backing. Nagy was kidnapped by Soviet officials while under a guarantee of safe conduct and taken to Romania. He was executed in June 1958 after a secret trial.

18. The unofficial figure for deaths in street-fighting in Budapest is over 20,000. The great majority of those involved were young. The United Nations estimated that at least 16,000 young people were taken from the streets and from houses and deported to the Soviet Union. 2,000 people were executed and 15,000 were still imprisoned /in



in connection with the uprising in 1958. In addition to the large number of casualties, between 150,000 and 200,000 fled Hungary to the West.

The Kadar Era

19. Kádár's conduct in 1956 is not easy to explain. He must have assumed that, given Nagy's declaration of neutrality, the Soviet Union would not accept the implied realignment of Hungary and would be bound to invade. On that view, Hungary's best chance of survival lay in making the best accommodation possible with the Soviet Union.

20. Kádár was now universally reviled as a turncoat and traitor. He had in any case to proceed cautiously. It took some while to efface the physical traces of the Uprising. It took still longer to effect even a modest improvement in living standards and to create, externally as well as internally relaxation in the atmosphere. It was not till 1961 that Kádár instituted a tactical reversal of Rákosi's policy - a platform of national reconciliation under the slogan "he who is not against us is with us". Non-communists provided they co-operated with the party, were to be allowed to hold important positions. Class discrimination was dropped in higher education, restrictions on travel to and from the West were eased, party control on culture was relaxed and in March 1963 there was an amnesty affecting political prisoners.

21. Signs of economic difficulties accumulated. At the end of 1965 the need for radical economic reform was admitted and in January 1968 the "New Economic Mechanism" was introduced, allowing limited operation of market forces and a degree of decentralisation in the economy. Political reforms have been restricted to change in the electoral law and official encouragement of participation by the public in the country's affairs through the local councils, trade unions and National Assembly.

10 January 1984

Research Department
Foreign and Commonwealth Office



Brief No 1 (b)

HUNGARIAN FOREIGN POLICY

Soviet Influence

1. Hungarian foreign policy is closely coordinated with that of the Soviet Union. Hungarian pronouncements on all foreign policy issues where there is no direct Hungarian interest at stake - the Middle East, Africa, Grenada, China - slavishly follow the Soviet line. Occasionally on a major issue closer to home Hungarian public statements contain nuances reflecting Hungary's different priorities. On INF, for example, they began at one point to lay more stress than Moscow on the need to maintain East/West contact despite the dangerous situation created by NATO deployment and generally attempted to put a calmer interpretation on the possible consequences for Hungary (eg stress was laid on the unlikelihood of nuclear weapons being placed on Hungarian soil, and on Hungary's inability to face any extra financial burdens). But there are signs that these divergences may have led to a Soviet rap over the knuckles which soon re-established orthodoxy. Thus, the Soviet walk-outs from Geneva and Vienna talks and the Warsaw Pact planned counter-measures now receive vigorous support from the Hungarians, who also refer frequently to the virtues of the Prague Declaration of January 1983.

2. The Hungarians sometimes maintain some distance from the rest of the Warsaw Pact by being one of the last Eastern European countries to comment on foreign policy questions, and Soviet pressure may be necessary before Hungary will commit herself. (An example of this was the Falklands crisis, on which Hungarian reporting was generally factual and balanced, with little independent Hungarian comment. Privately, many Hungarians expressed support for Britain's action). Once a commitment has



been made, official pronouncements are strictly in line with those of the Soviet Union. In private, Hungarians reveal their doubts and fears, especially about "Marxist adventurism" and Soviet paranoia, their damaging effect on détente, and possible consequent restriction of Hungary's own freedom of manoeuvre.

Economic Foreign Policy

3. Hungary has shown, however, a real will to pursue policies which would not normally enjoy Soviet approval in areas where the foreign policy consequences of their economic policy are inescapable. Their liquidity problems in 1982 made the IMF an obvious place to turn to in order to restore Western banking confidence, even at the risk of incurring Soviet displeasure at this Westward lurch. The current attempt to come to an agreement with the EC, a vitally important market for Hungarian exports, comes in the same category. It is when asked how the Soviet Union reacted to these potentially dangerous unorthodoxies that Hungarians argue, with some justification in this limited context, that they have an independent foreign policy and do not need Soviet permission.

Relations with Western Europe

4. Hungarian spokesmen have said that their own foreign policy should mirror the differentiated approach adopted by the West towards the Soviet Union and the countries of Eastern Europe, and that relations between a socialist country and capitalist countries need not always exactly reflect the state of Soviet-American relations. Provided differentiated Western treatment does not go too far, it suits Hungary well, eg to be treated differently from Poland. And Hungary's own short-term economic difficulties have made it imperative for links with the



West and the markets of the developing world to be expanded and maintained. Although Hungarian policy of gaining as much as possible from detente, in pursuit mainly of economic and trade interest, goes back to 1975, the last two years have seen an unusually active series of visits abroad by Hungarian Ministers responsible for economic and foreign affairs, in particular to Western Europe, the Far East and Latin America. The importance the Hungarians attach to the maintenance of a dialogue with the West has been demonstrated over the last 18 months by the number of high-level visits. To mention Heads of Government alone, in May 1982 Kádár paid his second visit in five years to the FRG; in July 1982 President Mitterrand visited Budapest; 1983 saw the French Prime Minister (in July) and Vice President Bush (in September) in Budapest. The Prime Ministers of the UK and of Italy and the Federal German Chancellor will all be visiting Hungary during the first half of 1984. There were signs that the Hungarians were embarrassed by the possible proximity of the visits by leaders of INF stationing states early in the year and sought to spread them out. Mr Craxi will be visiting Budapest in March or April and Chancellor Kohl in June. There have been numerous visits in both directions at Foreign Minister level, including Sir Geoffrey Howe in September 1983.

Relations with the US

5. US/Hungarian relations significantly improved after the return of St Stephen's Crown in 1978 and the conclusion of an annually renewable most favoured nation trade agreement. They reached something of a high point with Mr Bush's visit, only to nose dive - at least in terms of public consumption - after Bush's Vienna speech which in Hungarian eyes moved badly from the acceptable policy of "differentiation" to the unacceptable one of "division" between Warsaw Pact countries. The US/Hungary



relationship is now ambivalent; the Hungarians see the advantage of being treated as favoured communists, but go out of their way to deny any suggestion that they deserve this treatment for reasons of either capitalist tendencies or disloyalty to the Warsaw Pact. They are vigorously anti-American in their propaganda, but privately helpful and welcoming to senior American visitors and diplomats who may be useful in trade and financial terms. They feel they are carefully watched in this relationship by their Warsaw Pact partners.

Third World

6. Hungary has also devoted considerable effort to a number of Third World areas, including Latin America, Africa and the Middle East (which has become a very important market for Hungary). Publicly, Hungary endorsed the Soviet attitude towards less-developed countries. There are, however, signs that Hungary may be adopting a more sophisticated approach to the problem and reconsidering where the real interests of the socialist countries lie.

Andropov

7. Andropov's succession was generally welcomed in Hungary. He is thought to be knowledgeable about the country and to be a supporter of Hungary's economic reform. One of the objects of Kádár's visit to the Soviet Union in July 1983 was to win endorsement of current Hungarian economic policy and to reassure the Russians that Hungary is still a loyal communist state. The current uncertainties surrounding the Soviet leadership cause considerable anxiety in Budapest.

RJLAAJ

Brief No 1(c)

HUNGARIAN ECONOMIC SITUATION

1. The Hungarian economy is in difficulty. It faces problems common to other East European countries; debt, low productivity, expensive energy and poor quality exports. In the 1970s Hungary borrowed heavily to develop its industry and expand its exports and economic relations with the West. Living standards rose quite dramatically. But world recession, an adverse change in the terms of trade and high interest rates have forced Hungary to introduce unpopular austerity measures and to slow down the economic reform.

2. Hungary lacks most industrial raw material and relies heavily on manufacturing and agriculture for its economic output. The industrial sector (heavy engineering, chemicals and food processing) produces 40% of GDP and agriculture 20%. Exports, comprising 40% of total output, are divided evenly between CMEA and the outside world. Hungary is therefore heavily dependent on foreign trade.

3. The private sector contributes about 20% of GDP mostly in agriculture, small scale manufacturing and services. It is a controversial sector ideologically. But it provides many people with a second income and the level of goods and services they expect. Some official encouragement is now being given to small private businesses. The "black" or second economy is accepted as an essential but uncomfortable (and not yet taxed) part of the system.

4. Hungary is the most market-orientated country in the CMEA. There has been a determined effort to decentralise, to respond to consumer demand and to reduce subsidies. This had led to a progressive alignment of domestic prices with world prices, in the interests of international



competitiveness, and an active exchange rate policy. Hungary joined the IMF in 1982.

5. As a result of balance of payments pressures in Eastern Europe generally after 1980, Hungary became vulnerable to creditors' loss of confidence. A liquidity crisis early in 1982 was overcome only at the expense of some recentralisation, import restrictions and painful belt-tightening. The Government's immediate objectives are to preserve international solvency and to protect living standards. The pressures are expected to ease slightly in 1984. But living standards will remain static, investment will be below planned levels and the scope for economic experimentation and reform will be limited.

6. These features are likely to continue during 1984-87 while debt service obligations remain high. Hungary will continue to depend heavily on exports, especially to the West (hence the attempts to secure a reduction in EC import restrictions, particularly on agricultural goods and manufactured exports). Hungary must also rely on creditors to roll over some maturing debts. Total external debt in September 1983 was US\$8.9 billion, \$7.4 billion in convertible currency.

7. The Hungarians recognise that we helped at the worst stage in the 1982 crisis. The UK made a significant contribution to special loans from Western central banks and this prompted renewed commercial bank lending.

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REFORM IN HUNGARY

1. "The Reform" in Hungary was first introduced in 1968. It was known as the "New Economic Mechanism" (NEM). It comprised a package of measures designed to increase productivity, improve efficiency, especially foreign trade performance, and make the economy more flexible. It sought to shift the emphasis in economic management from administrative directives to market forces. Central administrative specification of material inputs and production and sales programmes were abandoned. One-year operational plans were replaced by five-year plans which established the main lines of economic development. The allocation of investment resource was partially decentralised. Wages and prices were liberalised - up to a point. Domestic prices were linked to world market prices. Gradually it has led Hungary away from its centralised Stalinist system of economic management to one which gives a degree of independence and responsibility to individual managers and workers.

2. These ambitious objectives ran into a number of difficulties and there have been long periods when progress came to a complete halt. 1968, the year in which the Soviet Union showed in the Czechoslovak context what it was prepared to do to "reform" that got out of hand, was hardly the most auspicious year in which to start. Within Hungary itself, the pre-1968 administrative structure contained habits and individuals who found these innovative theories hard to swallow. And Hungary's CMEA trading partners, with whom her closest economic links remained, were not about to make any comparable changes. The first oil price shock brought back to the surface more conservative instincts and made it easy for opponents of reform to portray it as too risky for such economically dangerous times. This led to a period of recentralisation in the seventies which gradually undermined many of the principles of the reform, though its



basic element - the abolition of centrally directed production - survived.

3. In 1980, however, the pro-reform elements in the HSWP again seized the initiative and introduced a series of new measures designed to restore and strengthen some of the original concepts of the by now weakened reform. Since then, slow but steady progress has been made. Inefficient large enterprises have been broken up. Legislation allowing various kinds of flexible, small enterprises was introduced in 1982, and these are now burgeoning. Substantial new measures affecting prices, wages and investment are planned for 1984/85. All this has produced an environment in which certain individuals and groups have been able substantially to increase their standard of living. People in the country can combine their primary job on the state farm or co-operative with financially more rewarding work on their own private plot. In the towns, the enterprising can get lucrative jobs in the expanding services sector. However, by no means all the population have benefited from the reform. The bulk of the population still work in traditional "socialist" state industry, for low wages, augmenting their income if they can by unofficial spare time work. Moreover, the emergence of new, more flexible enterprisal forms based on individual initiative and financial incentive has, in places, highlighted the shortcomings and basic inefficiency of traditional "socialist" state industry.

4. As the reform gained new impetus in the 1980s, the Hungarian leadership became increasingly aware of the need to have some kind of parallel political reform to go with economic decentralisation. Changes to the electoral system are being prepared which will make it compulsory for at least two candidates to stand in each constituency at parliamentary and local elections. These changes will not affect the basic power structure: the HSWP will retain its



monopoly of power. Their impact will be greater at local level than in Parliament which - despite recent calls for a strengthening of its powers - remains more or less a rubber-stamp of decisions taken elsewhere. Nonetheless, these cautious moves towards a pluralism of views, however circumscribed, do reflect a genuine feeling, attributable at least in part to the progress of the economic reform, that people should be given a greater say not only in strictly economic decisions but in other spheres of life as well.

5. The Hungarians are extremely sensitive to what they consider to be misrepresentations, especially in the Western media, of what the reform is trying to achieve. They hotly deny that it represents any form of "creeping capitalism", stressing that the two basic pillars of a socialist state (the socialist ownership of the means of production and the one-party state) remain intact.



BRIEF 1(e)

PERSONALITY NOTES ON:

BAJNOK Zsolt

BANYASZ Rezso

KADAR Janos

LAZAR Gyorgy

LOSONCZI Pal

MARJAI Joszef

TIMAR Mátyás

VARKONYI Péter

VERESS Peter



ZSOLT BAJNOK (BOY-NOK) .

State Secretary, Head of the Information Office of the Council of Ministers.

He presided at the Press Conference given by Vice President Bush in Budapest in September 1983.

Born 1932, he took his secondary education in the Budapest Reformatus (Calvinist) Secondary School and then graduated as a teacher. In 1954 he began a career as a journalist and until 1979 he worked in the various departments of the Hungarian News Agency (MTI). In 1979 he transferred to the governmental information office and became its head in 1980.

He is not known to speak other languages than Hungarian. At one stage he was a speed-writing champion.

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DR REZSŐ BÁNYÁSZ (BARN-YARS)

Hungarian Ambassador in London

Born 1931

Graduated from Budapest University Faculty of Law in 1954: became Foreign Editor of "Magyar Ifjusag" and then "Népszava" until he joined the MFA in 1961, working in the Press Department. Press Attache in Stockholm 1962-68, then Deputy Head and later Head of Press Department, MFA, 1968-72. Personally chosen by the Foreign Minister to be deputy Permanent Representative of Hungary to the United Nations 1972-76. Secretary of the Committee for European Security and Co-operation 1976-78. Deputy Head of the Hungarian Delegation at the Belgrade Conference. Head of Press Department, MFA from March 1978 until July 1981.

Married with two children. His wife speaks English; he speaks English, German and Swedish. A pleasant and helpful man, an active Head of Department and proving to be an energetic and constructive Ambassador.

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JÁNOS KÁDÁR (KAA-DAA-R)

First Secretary of the Central Committee of the Hungarian Socialist Workers' Party. Member of the Political Committee: Member of the Presidential Council: Member of the National Assembly.

Born 1912. Apprenticed as a toolmaker and imprisoned several times for Communist activities. In 1942 he became a member of the Central Committee. Arrested by the Germans in 1944, but escaped. In 1945 he organized the Budapest Party and became its Deputy First Secretary. In 1948 he was elected to the Politburo and subsequently became Minister of the Interior. In this capacity he was responsible for the trial of Mindszenty and the trial and execution of his close friend, Foreign Minister Rajk. In 1950 he gave up his Ministerial post to concentrate on Party work but in April 1951 he was arrested, and charged with espionage, treason and Titoism. After being brutally treated in prison, he was released in 1954 and although not completely rehabilitated filled various minor Party posts.

After the fall of Rakosi in July 1956, Kádár was re-elected to the Politburo and gave his support to the Nagy Government. At first he appeared to support the Hungarian Revolution. He is reported to have at first defied the Russians, at one point threatening to fight their tanks with his bare hands, but then broke with Nagy, apparently over the question of Hungarian neutrality and withdrawal from the Warsaw Pact, and fled to the Soviet Embassy. Soon after he set up a Soviet-backed Government, at first on Soviet territory.

By early 1957 he was indisputably head of the new regime as First Secretary, and Prime Minister and universally hated and reviled by the population as a traitor. By 1958, when



he resigned the Premiership, he had been responsible for the brutal liquidation or suppression of those who had been prominent in the Revolution (including many young people) although it is not clear what his role was in the subsequent execution of Nagy. A visit by Khrushchev in April 1958 confirmed his position. He resumed the post of Prime Minister from 1961 to 1964. In 1972 he presided over a compromise between the reformist and conservative groups in the Party. There are frequent rumours that he wishes to retire, but the power struggle over the succession and popular pressure have prevented him from standing down. In September 1974 he led a high level Party and Government delegation to Moscow. In July 1975 he met the Foreign Secretary, Mr James Callaghan, and in December 1976 he made a highly successful visit to Austria. In 1977 he made further successful and well-publicised visits to West Germany, Italy (and the Vatican). He visited France in 1978 and revisited West Germany in 1982. He received Lord Carrington in 1980 and Sir Geoffrey Howe in September 1983. In July 1983, he made an important visit to Moscow, where Mr Andropov (who had been Ambassador for the USSR to Hungary in 1955-57 and was instrumental in installing Kádár in his present position after the 1956 Revolution) appears to have given his endorsement of current Hungarian policies. He also visited Warsaw, Prague and East Berlin in quick succession in the autumn/winter of 1983 - an unusually taxing programme for a man of his age.

Kadar is a formidable man who has been in charge of Hungary for over twentyfive years. Memories of his lurid past and the crimes and betrayals of the fifties have, in Hungary, been overlaid by the conciliatory policies of the last 20 years. He is now generally identified with the gradual improvement of conditions for Hungarians and respected for his ability to handle the Russians. He is a good orator but his usual style is quiet and there is no trace of any "cult

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of personality" in Hungary. He has not groomed a successor - a matter of concern to many Hungarians.

He is a keen football supporter and chess player, and enjoys shooting and the cinema, especially Westerns. To meet he is impressive, alert and vigorous, and handles discussions in a businesslike way. He seems in reasonable health, though he is not very robust and may be beginning to tire. He is a chain smoker. Married, but no children. His wife worked in the Government Information office but has now retired. He does not speak English.

HGMAAT

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GYORGY LAZAR (LAA-ZARR)

Prime Minister: Member of the Political and Central Committees: Member of the Economic Policy Committee of the Central Committee.

Born 1924 of working-class parents. Having attended Technical College he worked as a draughtsman from 1942 to 1948. He joined the Party in 1945. He joined the National Planning Office in 1948 and rose to become its Vice President in 1963. Appointed Minister of Labour in 1970, he was given the job of implementing statutory wage increases as part of the New Economic Mechanism. In June 1973 he was promoted to Deputy Prime Minister with apparently overall responsibility for planning at both Party and Government levels. He was elected to the Politburo in March 1975. In May 1975 he was appointed Prime Minister in succession to Fock. Since then he has made several visits abroad, including France (1979) and FRG (1981).

He received Lord Carrington during the latter's visit to Hungary in 1980 and Sir Geoffrey Howe during his visit to Hungary in September 1983.

He owns a fine library and is a nature-lover who likes rambling and hunting. His wife is a secondary school teacher of Russian and Hungarian. They have one son born in 1951 who graduated from Budapest University in 1976.

Quiet-spoken and not a stimulating conversationalist. Friendly and straightforward. He is hard-working and intelligent, but more of an implementer than an innovator. From time to time there have been rumours of ill-health, possibly arthritis in the leg. In January-February 1983, he took leave for reasons of health, but since then appears to have carried out his duties as normal.

He speaks Russian, German and French - but not English.



PAL LOSONCZI (LOSH-ONTSKY)

President (of the Presidential Council) and Head of State:
Member of the Political and Central Committees. Member of
the National Assembly.

Born 1919. Of peasant stock, he worked on the land until
1948. Having joined the Party in 1945 he was instrumental
in getting his old landlord, Count Szechenyi, safely out of
Hungary. He became Chairman of a cooperative farm, a
position he held until 1960. During this period he became a
member of the National Assembly (1953), an alternate member
of the Central Committee (1954), and then a full member
(1957). He was Minister of Agriculture from 1960 to 1967,
when he was made President. He was appointed to the
Politburo in July 1975.

Performs his ceremonial duties with dignity and address. He
gave a dinner in honour of the Duke of Edinburgh in February
1973 and again in August 1978. He received Mr Callaghan in
July 1975.

Married. He speaks only Hungarian. In 1979, he underwent
surgery to his spinal column, which probably helps to
explain his erect bearing.



JOZSEF MARJAI (MORR-YOY)

Deputy Prime Minister. Member of the Central Committee, and of the Economic Policy Committee.

Born 1923. He entered the Foreign Service in 1948 and having been Chief of Protocol and Head of Political Guidance was promoted to the rank of Minister (Counsellor) in 1955. He served as Minister to Switzerland between 1956 and 1959, and as Ambassador to Czechoslovakia from 1959 to 1963. He returned to the Ministry of Foreign Affairs before being appointed Ambassador to Yugoslavia in 1966. He returned in 1970 to become Deputy Foreign Minister with responsibility for Western Europe, during which time he was host to Mr Anthony Royle, Parliamentary Under Secretary at the FCO. On the promotion of Puja to the rank of Minister in 1973, he was made State Secretary. In January 1974 he visited the Soviet Union and was received by Mr Kosygin. In December 1974 he was host to Mr Hattersley. He was elected a member of the Central Committee in July 1976 and appointed Ambassador in Moscow the next month. He has become the driving force behind Hungary's economic reform and behind the country's efforts to loosen her CMEA bonds and become a full member of the international financial and trading community in her own right. He received his present appointment as Deputy Prime Minister with responsibility for industry, agriculture and relations with CMEA in April 1978.

Received Lord Goronwy Roberts in September 1978 and Lord Limerick in May 1980. He visited the UK in March 1983 and was received by the Prime Minister.

Married with one son. He speaks German and some French and appears to be learning English: he can understand a fair amount, but does not speak it. A small, dowdy man, he is treated with respect by senior officials. An odd but very



energetic character with a cryptic sense of humour. When he was in the Ministry of Foreign Affairs he was said to work late every night, and was sometimes described as the "intellectual" of the Ministry. Is reported to be a hard bargainer. Now spoken of as a possible future Prime Minister providing some reported health problems do not become too serious. During his Ambassadorship, he allegedly crossed swords with the then Deputy Prime Minister Gyula Szeker, who, in his view, was too lenient in negotiating with the Russians. A doughty patriot.



Dr MÁTYÁS TIMÁR (TEE-MARR)

President of the Hungarian National Bank (with the rank of State Secretary): Member of the Central Committee and of the National Assembly: Member of the Economic Policy Committee of the Central Committee: Chairman of the Committee of Economic Sciences of the Hungarian Academy of Sciences.

Born 1923. A leather worker, he joined the Party in 1943. He then studied law at Budapest University and in 1949 joined the Ministry of Finance of which he became a Minister in 1962. He held this post until 1967 when he was appointed Deputy Prime Minister - but subsequently lost his position in June 1973. In 1975 he became President of the Hungarian National Bank, a powerful and technically very competent Hungarian institution. He is a committed reformer and attaches great importance to the Bank's standing in the international financial world.

He received Mr Peyton, Minister for Transport Industries in 1972, Mr Julian Amery in 1973, Mr Roy Hattersley in 1974, Lord Limerick and Lord (then Mr Gordon) Richardson in 1980. In 1982 he kept in close contact with the Bank of England and Lord Richardson during a period when Hungary was in serious need of further international finance.

His English is halting. He is slightly better in French and German but prefers to use an interpreter. His wife is an immunologist in the Biological Research Institute in Budapest. She speaks quite good English. They have two daughters, one of whom is married.

He is pleasant, highly intelligent and articulate. He is impressive and speaks with calm authority. Interested in the visual arts but not so much in music. He and his wife are devoted to their weekend cottage and garden in Visegrad.



PÉTER VÁRKONYI (VARR-KONYIE)

Minister for Foreign Affairs. Member of State Radio and Television Advisory Committee.

Born 1931. A Party member since 1948. Having graduated at the Foreign Affairs Academy, he was posted to Washington in 1951 but was declared persona non grata by the United States Government in retaliation for the expulsion of an American diplomat from Hungary. He served in London from 1951 to 1953 and in Cairo before becoming Head of the MFA Press Department. He joined the Secretariat of the Council of Ministers in 1961 and from 1965 to 1969 worked as Kádár's Private Secretary. He later became Deputy Head of the Foreign Affairs Department of the Party before taking up the post of Head of the Information Office of the Council of Ministers in 1969, with the rank of State Secretary. He became a member of the Central Committee in March 1980. Was Editor-in-Chief of Nepszabadsag from March 1980 before being appointed Secretary of the Central Committee in 1982. Appointed Minister for Foreign Affairs in July 1983. His journeys abroad since then included visits to the USA (September 1983) and to the FRG (December 1983).

Married. He speaks excellent English. His wife is a jolly extrovert, who also speaks English. Seriously injured in 1975, taking several months to recover. In his diplomatic career he had a record of intelligence work. He is said still to enjoy Kádár's confidence. His move from Central Committee Secretary to Foreign Minister was a shift sideways rather than a demotion. A cool, perhaps cold customer behind an affable exterior. He has a brother who is currently Hungarian Ambassador in Zimbabwe and at least one son.



PETER VERESS (VEY-RESH)

Minister of Foreign Trade since March 1979. Member of the Central Committee.

Born 1928 in Transylvania. Having served as Commercial Counsellor at Damascus and Tel Aviv, and as a Deputy Head of Department in the Ministry of Foreign Trade, he was appointed Deputy Minister in March 1971. Responsible for general economic and theoretical questions, he frequently acted as publicist for his Ministry. He was appointed Ambassador to France in December 1974. Succeeded Jozsef Biro as Minister of Foreign Trade in March 1974. He has been a member of the Central Committee since March 1980 and of the State Planning Commission since June 1980, when he was also appointed a member of the Economic Policy Committee of the Council of Ministers.

In 1972 he attended the Third Anglo-Hungarian Economic Colloquium organised by the Great Britain/East Europe Centre. In November 1973 he received Mr Amery during the Minister of State's official visit. Visited Britain at the invitation of the Minister for Trade, February 1981. Was host to Mr Peter Rees (Minister for Trade) in Budapest in October 1981. He is to visit the UK in April 1984 in connection with Hungarian Days in the UK.

Married, he speaks fluent English.

Very westernised. He has a relaxed, easy manner and answers questions frankly. A keen theatre-goer.

BOBAAB



AJC

FERENC ESZTERGALYOS (ESTER-GUYOSH)

Deputy Minister for Foreign Affairs.

Born 1927. Served in Hungarian Legation in Vienna from 1957-60. Ministry of Foreign Affairs from 1961-63. Appointed Minister, later Ambassador to Sweden, Norway and Iceland in 1963. Head of Department VI in MFA from August 1969. Returned to MFA as Under-Secretary in 1974, following a spell in Vietnam. Ambassador in Washington from 1975-81. Head of Western Department from 1981-83. Promoted to Deputy Minister for Western countries in August 1983.

Married. Both he and his wife speak good English.

Amiable and cooperative. Somewhat long-winded but an effective operator.



LAJOS NAGY (NODGE)

Director General, Ministry of Foreign Affairs.

Born 1932. Served in London from 1960-65. American desk of MFA, later Assistant and then Deputy Head of Western Department of MFA from 1965-68. Washington from 1968-70. Madrid from 1970-73. Head of Protocol, MFA from 1973-77, then Ambassador to Venezuela, Jamaica and Trinidad and Tobago. Returned to Western Department of MFA in July 1981 and became its Head in August 1983.

Married. Speaks excellent English.

Intelligent. Pleasant and well-disposed but sticks closely to official lines. Directly responsible for British affairs.

HUNGARY1. Population and Land Area

(a) Land Area	93,030 km ²
(b) Population (1981)	10.7 mill
(c) Population Growth Rate (1970-80)	0.4 % pa

2. Economic(i) Gross National Product

1981

(a) Total	22,550 US\$ mill
(b) Growth Rate	3.1 % pa
(c) Position in Total GNP League Table	47 (of 189)
(d) Per Capita	2,100 US\$
(e) Position in Per Capita League Table	70 (of 189)

(ii) Overseas Finance

(a) <u>Exchange Rates</u>		1979	1980	1981	1982	
Forint per	£1 Sterling =	75.482	75.679	69.585	64.123	
	US \$1 =	35.578	32.532	34.314	36.631	
(b) <u>Balance of Payments</u>		1979	1980	1981	1982	US\$ mill
Exports		7,949	8,877	8,894	9,057	
Imports		-8,509	-9,020	-8,855	-8,579	
Invisibles and Transfers (net)		-382	-434	-937	-898	
Current Account		-942	-577	-898	-420	
Capital Account		706	1,230	425	1,003	
Balancing Item		71	-150	30	357	
Overall Balance		-165	503	-433	940	
(c) <u>International Reserves</u>		1979	1980	1981	1982	US\$ mill
Total Reserves		1828	2090	1652	1154	
Months of Imports covered		2.27	2.32	1.76	1.26	

(iii) Foreign Trade

(a) <u>Main Exports</u>	1976	1981	%
Raw Materials & Semi-Finished Goods	29.5	29.5	
Capital Goods & Transport Equipment	27.3	25.3	



Raw & Processed Foods	23.1	25.2	
Manufactured Consumer Goods	17.7	15.9	
Fuels & Electric Energy	2.4	4.1	
(b) <u>Main Export Markets</u>	<u>1977</u>	<u>1982</u>	%
USSR	30.4	34.7	
FRG	8.7	7.6	
GDR	9.2	6.5	
Czechoslovakia	7.2	5.7	
Poland	4.9	3.9	
(United Kingdom)	1.3(13th)	0.9(20th)	
(c) <u>Main Imports</u>	<u>1976</u>	<u>1981</u>	%
Raw Materials & Semi-finished Goods	49.7	49.0	
Capital Goods & Transport Equipment	20.8	17.6	
Fuels & Electric Energy	11.2	15.1	
Manufactured Consumer Goods	7.9	9.2	
Raw & Processed Foods	10.4	9.1	
(d) <u>Main Import Sources</u>	<u>1977</u>	<u>1982</u>	%
USSR	27.5	30.1	
FRG	10.9	12.0	
GDR	8.2	6.9	
Czechoslovakia	5.5	5.4	
Austria	4.7	5.1	
(United Kingdom)	2.0(13th)	1.8(13th)	
(e) <u>UK Trade with Hungary</u>	<u>1977</u>	<u>1982</u>	
Total UK Exports	61.9	77.4	£ mill
Total UK Imports	43.2	44.1	
Real Growth of Imports (five years ending)	1.1	-4.4	% pa
Position in UK Export League Table	66	63	(of 197)
(iv) <u>Development Aid</u>			
(a) <u>Reported Aid Receipts</u>	<u>1981</u>	<u>1982</u>	US\$ mill
Not applicable. However, we believe that Hungary has given as aid the following:			
Aid disbursements	23.1	15.3	



(v) <u>Inflation</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	% pa
Consumer Price Index	9.1	4.6	6.9	
(vi) <u>Overseas Debt</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	%
(a) Debt Service Ratio	33.7	32.7	35.1	
(b) Overseas Debt/Exports	84.2	73.6	NA	
(c) Overseas Debt/GNP	38.6	34.2	NA	
(vii) <u>Overseas Direct Investment</u>				
(a) UK Investment in Hungary			NA	
(b) Position in UK League Table			NA	
(c) Hungarian Investment in UK			NA	

UK MAJOR EXPORTS TO HUNGARY IN 1982 (£m)

<u>Description</u>	<u>SITC</u>	<u>Value</u>	<u>% of Total</u>	<u>Cumulative</u>
Organo-inorganic and hetrocyclic compounds	515.00	3.9	5.0	
Disinfectants, fungicides, etc	591.00	3.3	4.2	
Carboxylic acids	513.00	2.8	3.5	
Miscellaneous chemical products	598.00	2.7	3.4	
Specialised industrial machinery and equipment	728.00	2.6	3.4	19.5
Medicinal and pharmaceutical products	541.00	2.4	3.1	
Textile yarn	651.00	2.3	2.9	
Analysing and measuring equipment	874.00	2.2	2.9	
Paper and paperboard	641.00	2.1	2.7	
Electrical machinery and apparatus	778.00	1.9	2.4	14.0
Manufactures of base metal	699.00	1.8	2.3	
Nitrogen-function compounds	514.00	1.8	2.3	
Pumps and compressors (other than for liquids)	743.00	1.7	2.1	



Meat and edible offals	11.00	1.6	2.1	
Heating and cooling equipment	741.00	1.6	2.1	10.9
Wool and other animal hair	268.00	1.3	1.7	
Hydrocarbons	511.00	1.3	1.6	
Synthetic fibres (for spinning)	266.00	1.3	1.6	
Pigments, paints and varnishes	533.00	1.2	1.6	
Non-electrical machinery tools and mechanical equipment	745.00	1.1	1.4	7.9



UK total exports to Hungary 1982 (£m) = 77,445.8

VISIT BY THE PRIME MINISTER TO HUNGARY
2-4 FEBRUARY 1984

EAST/WEST POLITICAL RELATIONS INCLUDING POLAND AND
AFGHANISTAN

POINTS TO MAKE

East/West Political: Relations with Soviet Union

1. Deterioration in East/West relations during past few years regrettable but a fact - West cannot ignore Soviet behaviour:- military build up, Afghanistan, Poland, Human Rights. But not helpful to rehearse at length respective views of responsibility for current situation.
2. Aim of East and West should be to identify and to build on areas of common interest; to find means of reducing tension and risks of misunderstanding. Will be a long term process.
3. Share this approach with US and Allies in NATO. President Reagan's speech of 16 January; an important reaffirmation of determination to establish "a constructive and realistic working relationship with Soviet Union". I also have made clear UK's commitment to seeking better relationship between East and West.
4. Sir G Howe's meeting with Mr Gromyko in Stockholm on 19 January useful. UK likely to have further bilateral contacts with Russians this year. But no illusions that progress on major points of difference will be quick or easy. Ultimately trust depends on deeds not just words.

Policy towards Eastern Europe

5. Our policy towards Eastern Europe is to acknowledge the diversity of the countries in the area and to seek to build on points in common with each, whether in political, economic, commercial, cultural or in other fields.

Poland

6. With other Western governments we continue to follow developments in Poland closely. Matter of considerable concern to public and Parliamentary opinion in UK. Look for deeds not words from Polish authorities and must judge their actions by practical effects. Remains difficult to see how any lasting political or economic stability can be achieved without genuine dialogue and cooperation between government and Polish people.

7. Note Mr Kadar visited Poland, October last year. How do you see situation developing? Is Hungarian experience relevant to Poland's future?

Afghanistan

8. Recent overwhelming UN vote shows international concern undiminished.

9. Support Cordovez's efforts to implement provisions of UN resolutions. Realistic way forward if political will exists. Soviet commitment to withdrawal timetable is lacking. Prospects for progress in 1984?

(Soviet/Karmal Proposals - if raised)

10. No guarantee of withdrawal of Soviet forces; no consultation with Afghan people.



EAST/WEST RELATIONS INCLUDING POLAND AND AFGHANISTAN

ESSENTIAL FACTS

East/West Political: Hungarian Position

1. This brief covers the ground for the formal plenary session. More sensitive subjects for use in private discussion and in tête a tête meetings are covered in the Steering Brief.
2. Kádár's association with Andropov dates back to 1956 when he was Soviet Ambassador in Budapest and was instrumental in bringing Kádár to power in the wake of the uprising. In light of this experience, Kádár may have had high expectations of Andropov and his attitude towards Hungary. But there is evidence that the Hungarians are disappointed by Andropov's performance and his lack of grip on the economic and international scene. The poor state of East/West relations hurts the Hungarians who do best when the lines of communication are open and they are under less compulsion to toe the Soviet line.

Western Relations with Soviet Union

3. Opening session of CDE at Stockholm provided opportunity for West to call for more constructive relationship and broader dialogue with Soviet Union. President Reagan's speech of 16 January gave further impetus to common Alliance approach. Will if sustained have an effect on Soviet thinking, although immediate response (notably Gromyko's speech of 18 January) was predictably critical.

Superpower relationship

4. Gromyko's harshly anti-American CDE speech contrasted with lengthy meeting with Shultz. Illustrated ambiguity of Soviet approach: unremitting efforts to blacken Reagan, but cautious interest in moving back to substantive dialogue, provided that the Russians are not seen as demandeurs. Rate of movement will be slow. Gromyko agreed in principle to "further bilateral discussions" which could imply a further Shultz/Gromyko meeting, but no date mentioned. Russians unlikely to want US/Soviet summit this year, which they would see as giving unwarranted political credit to Reagan. Uncertainties about Andropov's health also an inhibiting factor.

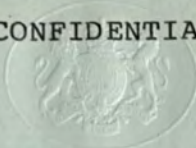
Poland

5. Situation generally stable. Jaruzelski has continued to consolidate his regime's control. But none of Poland's basic problems has been addressed or solved. Dialogue/cooperation between Government and governed still absent. Although much darker than in 1980/81, Polish political landscape not however without its distinctive features. Strength of Church's position demonstrated by success of Pope's visit. Despite potentially harsh new laws passed at end of martial law (July 1983) there is now in practice less repression than in 1982. Present internal situation in Poland also compares well with that in other Eastern European countries: Romania, Czechoslovakia and in some respects even in Hungary itself. Still evidence that present Polish Government like its predecessors wishes to retain and develop links with West not only to achieve economic advantage but to retain some elbow room to express Polish identity distinct from Soviet Union.

Afghanistan

6. On 23 November 1983 UN General Assembly adopted fifth resolution on Afghanistan calling inter alia for the

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immediate withdrawal of foreign (ie Soviet) troops. Voting was 116-20-17, a record majority of 96.

7. Soviet refusal to agree timetable for troop withdrawal remains crucial obstacle to progress of UN initiative. Cordovez now proposes to draw up a document identifying agreements reached and outstanding problems. Plans to revisit area in April.

8. Hungary follows Soviet line, but without great enthusiasm.

EASTERN EUROPEAN DEPARTMENT
FOREIGN AND COMMONWEALTH OFFICE

25 January 1984

BOBAAC

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VISIT OF THE PRIME MINISTER TO HUNGARY: 2-4 FEBRUARY 1984

EAST/WEST ECONOMIC RELATIONS

POINTS TO MAKE (Defensive)

1. (UK attitude to East/West trade?) We believe trade should be conducted on commercially sound terms and on basis of mutual advantage. But it must also be consistent with both our broad security concerns and our international obligations.

2. (What about COCOM?) We naturally maintain list of strategic goods to be embargoed, just as you have your own rules about what not to sell to us. But this covers only a small percentage of our trade. (If pressed about possibility of tighter control of technology transfer). We believe procedures for controlling items agreed in COCOM should be properly implemented, and have undertaken a review to ensure this. (What about US pressure for wider COCOM controls?) All proposals in COCOM are subject to full debate between members; unanimous agreement is necessary before action.

3. (What about the future of Western credit terms?) OECD Consensus participants agreed in October on new interest rate levels for officially backed export credits. UK of course adheres to Consensus line, which in future will be more sensitive to movements in market rates.



EAST/WEST ECONOMIC RELATIONS

ESSENTIAL FACTS

1. We should not raise points about East/West Economic Relations, technology transfer, or credit with the Hungarians. UK policy on East/West trade is in line with that agreed with our Western partners at Williamsburg, NATO, and elsewhere.
2. But the Hungarians will be aware of publicity given to our efforts to tighten up on COCOM enforcement procedures. They will also know of US pressure in COCOM for wider controls on technology transfer to Soviet bloc countries. This particularly affects computers. Overall, COCOM covers only a fraction of British exports to Warsaw Pact nations - about 4.5% in 1981 - and most of these are approved for export under the COCOM exceptions procedures.
3. The OECD Export Credit Consensus group agreed in October on new interest rate levels for officially backed western export credits. Hungary is in the Category II group of 'intermediate' countries for which the interest rate now stands at 10.35% - 10.7%. The Consensus also approved in October a new automatic adjustment system to keep its agreed interest rates more in line with movements in market rates in the future.

TRADE RELATIONS AND EXPORTS DEPARTMENT

FOREIGN AND COMMONWEALTH OFFICE

24 JANUARY 1984



BRIEF NO 3

VISIT OF THE PRIME MINISTER TO HUNGARY: 2-4 FEBRUARY 1984

ARMS CONTROL AND DISARMAMENT

POINTS TO MAKE

1. Regret Soviet action in withdrawing from INF negotiation and suspending START. West wants Russians to return to all the arms control negotiations. West will set no pre-conditions in any forum. Consultations between Western Governments are intensive: US proposals therefore reflect Western views as a whole.
2. Need for new modernised weapon systems can be greatly reduced through successful arms control. Especially important to reach agreements covering arms involving new technologies, to pre-empt new arms races. But West must continue to keep forces up to date to maintain confidence in defences.
3. Pleased that arrangements for next round of MBFR to begin in March. West committed to seeking balance at lower levels of conventional forces in Europe.
4. A worldwide verifiable ban on chemical weapons more urgent than ever. Regional ban no substitute. Hope Hungary will support current negotiations in Committee on Disarmament.



BRIEF NO 3

ARMS CONTROL AND DISARMAMENT

ESSENTIAL FACTS

1. New Soviet missiles being deployed into Eastern Europe as so-called counter-measures to NATO's Pershing II and cruise missiles are, at least for the present, confined to East Germany and Czechoslovakia. The Hungarians have said publicly that because of their country's position there is no need for Hungary to accept new missiles. The Hungarian Government have followed an orthodox Moscow line on INF, for example in support of the Soviet walk-out from the negotiations on 23 November.

2. As a result of the Shultz/Gromyko bilateral in Stockholm resumption of MBFR is due on or about 16 March. (In December the West's proposal to resume in late January was rejected.)

3. The Warsaw Pact's proposal for a zone free of chemical weapons was repeated by the Soviet Union on 10 January. It is imprecise geographically and short on stringent verification. NATO supports a comprehensive ban through negotiations at the Committee on Disarmament.

Defence Department
Foreign and Commonwealth Office

24 January 1984

VISIT OF THE PRIME MINISTER TO HUNGARY: 2-4 FEBRUARY 1984

ARAB/ISRAEL

POINTS TO MAKE

1. Present stalemate in peace efforts in no-one's interests. Undermines stability in the region. UK/Ten committed to continuing active diplomacy on basis of our well-established principles. Time short for those who seek negotiated settlement.
2. Have made very clear our opposition to Israel's settlements policy in West Bank and Gaza which is eroding basis for a settlement. But Arab failure so far to challenge Israel to negotiations has permitted that policy to continue unhindered. Hope Arafat/Mubarak meeting, decision to readmit Egypt to the Islamic Conference Organisation and recall of Jordanian Parliament indicate new constructive phase in peace process.
3. Recognise consistent Warsaw Pact position of principle. But how can this be implemented? International Conference does not seem feasible while gap between the parties remains so wide. Supported Reagan plan as best existing basis for compromise.

ARAB/ISRAEL

ESSENTIAL FACTS

1. Hungarian attitudes to Arab/Israel are a carbon copy of the Soviet approach. This can be summed up as the pursuit of two main objectives:

I) regaining a central role in a solution of the Arab/Israel dispute and

II) preventing the US from scoring a diplomatic victory by engineering peace either in Lebanon or in the region.

Both states are committed to the Soviet proposal for an International Conference and echo Brezhnev's six-point plan of 15 September 1982 (modelled on the Fez Arab summit proposals of 9 September). The Conference envisaged calls for the PLO to attend on an equal footing with other participants. This makes it a non-starter with Israel and the US. The continuing failure of US peace efforts in the region will no doubt encourage the Soviet Union and her allies to think (with some justification) that Arab states will increasingly turn to the Soviet Union for a solution. The growth of Syrian influence is also encouraging for them.

2. Arafat met Mubarak on 22 December and spoke of the need to 'force a polarisation' of the PLO and consolidate his leadership. He has since held a series of internal PLO meetings and appears to have made some progress to this end. He may well be able to achieve majority support at a meeting of the Palestine National Council (the Palestinian 'parliament') which he hopes to convene in February, and which his implacable opponents in the PLO will no doubt boycott. But doubts remain whether he will be able to get a mandate sufficiently flexible to make a success of a renewed dialogue with King Hussein. Arafat says he will go to Amman soon. King Hussein may choose to use the Jordanian parliament, recalled on 9 January, to give himself a mandate to speak for the Palestinians of the West Bank if Arafat should let him down as he did in April 1983.



3. The 4th Islamic Conference which met in Casablanca 16-19 January agreed to readmit Egypt to the Islamic Conference Organisation. Egypt, now a member of the Security Council, wishes to reinvolve itself in the Arab/Israel problem. President Mubarak is reported to have plans to visit Jordan and Iraq.

Near East and North Africa Department
Foreign and Commonwealth Office
25 January 1984



BRIEF NO 4(b)

VISIT OF THE PRIME MINISTER TO HUNGARY : 2 - 4 FEBRUARY 1984

IRAN/IRAQ

POINTS TO MAKEEnding the Conflict

1. UK wish to see an early end to the conflict. Immediate aim must be to prevent escalation of attacks on economic targets. Support any diplomatic efforts which may help end the war. Mediation by the Secretary-General may eventually offer best hope. What is the Hungarian view?

The War

2. Signs of increased Iraqi confidence in ability to continue war. Iranian reaction to any Iraqi attack on their oil exporting facilities unpredictable. Iranians more cautious recently, presumably because they fear provoking outside intervention. Must urge both sides to avoid escalation. [If asked: If the conflict spreads we will need first to explore all possible diplomatic options.]

Arms Sales [Defensive]

3. We remain strictly neutral and have not supplied lethal items of equipment to either side.



BRIEF NO 4(b)

IRAN/IRAQ

ESSENTIAL FACTSThe War

1. The land war has slowed down but Iraqi attacks on civilian targets and Iranian convoys in the Gulf continue. The Iraqis have not so far used their five French Super Etendard aircraft equipped with Exocet, but will not give assurances that they will avoid action which might goad Iran into retaliating against Gulf States or trying to close the Straits of Hormuz.

2. The United States have told the Iraqis it is not in the US interest to see Iraq defeated. This and renewed support from the Russians and the Gulf States may reduce the immediate likelihood of Iraqi attempts to escalate the war; but in the longer term confidence in US support might make the Iraqis more inclined to risk escalation.

Mediation

3. Iran has denounced UNSCR 540, passed in October 1983, which called for an end to hostilities in the Gulf area, yet until recently, has observed its provisions. Iraq insists on implementation, yet violates it by attacks on shipping in the Gulf and on Iranian civilian targets.

4. The UN Secretary-General, with UK encouragement, has been considering how best to combine the Iranian request for another UN mission to visit the area to examine civilian casualties and the evidence of Iraq's use of chemical weapons (rejected by Iraq), with the Iraqi wish for a UN mediator to visit the area to follow up SCR 540 (rejected by Iran). At the recent Casablanca Islamic Conference (Iran refused to attend), the Secretary-General proposed to the Iraqi Foreign Minister that such a combined mission
/should be



should be undertaken by his Assistant, Cordovez, to lay the ground for a further mission by his Special Representative, Mr Palme. Iraq refused to accept any mission that investigated civilian casualties. Cordovez will now speak to the Iranian representative in New York : we shall be kept in touch with developments.

Arms Sales

5. There is no truth in recent stories that the UK is supplying chemical weapons to Iraq.

Hungarian Views

6. Hungary has supplied a small amount of equipment to Iraq. The Soviet Union has shown recent signs of increasing its support for Iraq. Hungary will no doubt keep in step.

Middle East Department
Foreign and Commonwealth Office
24 January 1984



BRIEF NO 5

VISIT OF THE PRIME MINISTER TO HUNGARY: 2-4 FEBRUARY 1984
CENTRAL AMERICA
POINTS TO MAKE

1. Apart from Belize, not a priority area for UK. But we support basic US policy aims, share US anxiety at threats to regional stability from externally-supported subversion. Kissinger Report underlines area's importance for US security.

2. Political reform and economic development essential in Central America. US committed to both. Revolutionary violence and insurgency obstruct that process.

3. We want to see an end to all violence in region. Support constructive and peaceful efforts to that end, including Contadora. But no easy or quick solutions.

US military activity (if raised)

4. US helping governments whose political and economic reform efforts are deliberately threatened by externally-aided insurgency and terrorism. If this insurgency stops US military protection will no longer be /needed.



needed.

Nicaragua peace proposals (if raised)

5. Glad Nicaragua now apparently adopting more flexible approach. Countries concerned must now judge whether her proposals form adequate basis for negotiation.



BRIEF NO 5

CENTRAL AMERICA

ESSENTIAL FACTS

Hungarian policy towards Central America

1. Hungarian policy towards Central America is low-key, following closely the Soviet line.

Kissinger report

2. The National Bipartisan Commission on Central America reported on 11 January. It emphasised the threat to US security posed by the exploitation of local political factors by external powers and recommends both a comprehensive economic development package and increased military aid. President Reagan announced on 14 January his intention to put to Congress a plan, based on the Report, to achieve "Peace, democracy and development" in Central America.

Contadora

3. The Contadora countries announced on 9 January further steps towards implementation of the 21 points agreed in September, notably concerning the reduction of arms and outside military advisers in the region, and the
/elimination



elimination of cross-border subversion. Some momentum has thus been maintained but the greatest difficulties lie ahead.

Nicaraguan moves

4. Nicaragua has negotiated skillfully within Contadora, and is courting Western public opinion with a series of apparent liberalising concessions, among them the promise of elections in 1985. Few believe the opposition parties will be given any real chance to contest them, and Sandinista power is likely to be confirmed.

Mexico and Central America Department
Foreign and Commonwealth Office
24 January 1984



BRIEF NO 6

VISIT OF THE PRIME MINISTER TO HUNGARY: 2-4 FEBRUARY 1984
CSCE/CDE
POINTS TO MAKE

1. Pleased that so many Foreign Ministers attended opening. Early decision by NATO Foreign Ministers to do so sign of importance we attach to Stockholm Conference and CSCE process as a whole.
2. Hope that the Conference will now get down to substantive negotiations as soon as possible.
3. We and our allies have already tabled proposals designed to make a practical and verifiable contribution to reducing the risk of an outbreak of conventional hostilities in Europe in accordance with the mandate agreed at Madrid.
4. We shall evaluate others' proposals against mandate criteria (militarily significant, politically binding, verifiable, covering whole of Europe).



BRIEF NO 6

CSCE/CDE

ESSENTIAL FACTS

1. CDE opened in Stockholm on 17 January with speeches by Foreign Ministers. Members of the Alliance tabled proposals on 24 January. These cover observation and inspection of military activities, advance notification of such activities, and exchanges of information. Their aim is to reduce the risk of surprise attack through increased openness about normal military structures and behaviour. Warsaw Pact proposals foreshadowed in opening speeches likely to centre around declaratory measures such as a treaty on No First Use of Force. Hungarian Foreign Minister also highlighted chemical and nuclear weapon free zones. The first stage of the CDE is confined to negotiation of confidence and security building measures. The mandate was agreed at the Madrid CSCE follow up meeting and progress will be reviewed at the next such meeting in Vienna in 1986. We have made it clear that we do not rule out moving from a stage concentrating on measures of military transparency to subsequent stages dealing with restrictions on military activities and reductions in force levels. If sufficient progress were made it might then be appropriate to reaffirm commitments not to use force as in the UN Charter and Helsinki Final Act. But the foundations must be laid first.

DEFENCE DEPARTMENT

Foreign and Commonwealth Office

25 January 1984



BRIEF NO 7

VISIT OF THE PRIME MINISTER TO HUNGARY: 2 - 4 FEBRUARY
1984

EC/HUNGARY : EC/CMEA

POINTS TO MAKE

EC/Hungary

1. You know from the Secretary of State's visit in September the importance that we attach to a possible trade agreement. We are continuing to urge our partners in the Community to make it possible for the Commission to bring forward a draft mandate; the scaling down of Hungarian objectives evident in your recent discussions with the Commission should help. Haferkamp's report of his talks with Mr Veress has helped to focus discussion in the Community, and we hope that negotiations can soon be opened.

2. (If the Hungarians express impatience)

We understand how you feel. But you want an agreement with real economic content, which will have real economic consequences for member states. In the present economic and industrial climate, the EC must establish the market implications of your requests before taking decisions. This has taken time. Confirmation that you are now ready for negotiations



will enable the Commission to make rapid progress in completing this process. We shall urge them to do so. The recent Presidency statement to the European Parliament was encouraging.

3. (If the Hungarians express concern at the political importance being attached to an agreement in the West)

We recognise the importance of not over-stressing this aspect publicly. But member states have to justify to their Parliaments and public opinion the concessions required to make an agreement possible. This increases the importance of reciprocal concessions by Hungary.

4. (If pressed on detailed aspects of the negotiations) You will not expect me to speculate on detail in advance of general discussions.

5. (If the Hungarians stress their desire not to be treated as a state trader) This is something you should discuss with the Commission. But my personal advice is that it is neither necessary nor in Hungary's interests to become involved in a theological argument on what is or is not a state trader. Any agreement will by definition put Hungary in a more favourable position than most other state traders, and amount to an acknowledgement that her economic policies are more liberal than theirs.

EC/CMEA

6. Community still ready to conclude an EC/CMEA agreement; but agreement cannot substantively cover trade or establish a Joint Commission. (If appropriate) The Community is competent to reach trade agreements with third countries but the CMEA is not a directly comparable body. This is an issue of principle for the Community: progress depends on CMEA recognising this - as Commission made clear in their letter to Mr Lukanov in April 1981.

7. Hungarians have suggested that CMEA might soon resume negotiations with EC. Any sign of this? When?





ESSENTIAL FACTS

1. In 1974 the Community proposed bilateral trade agreements between the EC and individual member countries of the Council for Mutual Economic Assistance (CMEA), to replace the bilateral agreements between individual EC Member States and certain CMEA members. The CMEA counter-proposed a far-reaching EC/CMEA framework agreement, covering trade and a Joint Commission to oversee implementation, as a prerequisite for any bilateral agreements.
2. The CMEA, unlike the Community has no supranational competence in the trade field, and the Community did not wish to increase its effectiveness as a vehicle of Soviet control over Eastern European economies by attributing trade competence to it. The Community was prepared to consider an insubstantial framework agreement, but took the view that matters of commercial substance were for agreements between the EC and individual CMEA members - a position privately welcomed by some of the CMEA's East European members.
3. On 30 October 1980 Lukanov (Bulgarian President of the CMEA's executive committee) wrote to M. Thorn (then President of the Council) blaming the Community for the lack of progress in the negotiations and questioning the usefulness of further meetings unless



the Community showed more flexibility. The Commission's reply to Lukanov of 9 April 1981 made clear that it was for the CMEA to move first. The Commission have yet to receive a response.

4. Romania, alone in the CMEA, broke ranks in 1980 by concluding a bilateral trade agreement with the EC which provided for the elimination of autonomous quantitative restrictions on certain industrial products; Hungary would like to do the same if the terms are right (see para 5ff below). The Hungarians profess to believe that the CMEA may soon return to the negotiating table, and that once this happens their own freedom to negotiate with the Community will be curtailed. Despite some slight recent evidence of a softening in the Soviet attitude towards the EC we have no specific collateral for this: it would be worth probing a little.

5. Hungarian interest in an EC/Hungary trade agreement was first mentioned during the visit to London in March 1983 of Mr Marjai the Hungarian Deputy Prime Minister; we earned Hungarian gratitude by our positive response. UK Ministers raised the subject during the March Foreign Affairs Council, urging our partners to take full account of the political dimension as well as the narrow commercial



considerations which on their own would produce a negative EC response; it is in the Community's interests to encourage economic and political diversity in Eastern Europe by strengthening links with a country which seeks a limited economic departure from Communist orthodoxy.

6. The Hungarian requests have not always been expressed consistently, but concentrate on improvements in three areas: tariff concessions, abolition of quantitative restrictions (QRs) on Hungarian industrial exports, and agriculture. The Commission has sought reactions from member states as the basis for a negotiating mandate. UK responses have been as follows:

(a) tariff concessions: We would be prepared in principle to see the EC offer non-discriminatory tariff concessions in areas where the Hungarians are leading suppliers (although some products may give us difficulty);

(b) abolition of quantitative restrictions (QRs) on Hungarian industrial exports: the Hungarians are offering nothing here as it is a matter of principle that discriminatory QRs conflict with the GATT of which they are a signatory. We think the Commission should propose the abolition of all industrial QRs for the



duration of any agreement and the introduction of VRAs (perhaps at increasing levels) on QR limited products where trade exists, and, where necessary, on other sensitive products. We should want to be able to reinstate QRs (or preserve VRAs) in the event of the Agreement being allowed to lapse;

(c) agriculture: this, in spite of the Hungarians' willingness to offer greater access to their own market for EC agricultural products, remains a difficult area for us and more so for other member states (especially where Hungarian beef exports are concerned). We have said that if there is a majority of member states in favour of a QR review, we will give positive consideration to another form of safeguard mechanism for our three sensitive horticultural QRs. On products other than beef we have encouraged the Commission to be as liberal as possible in their proposals.

7. Other member states, despite protestations of political goodwill, have been much less forthcoming and the commission have made little headway in putting a negotiating position together. The Hungarians complained to Sir G Howe, during his visit in September, about the lack of progress (though exempting us from blame). When Thorn visited Budapest in November the Hungarians openly criticised the



Commission for dragging their feet. But the Commission were unwilling either to draft a mandate which would either go too far for member states or not far enough for the Hungarians. Member states were, as we pointed out, therefore under no pressure to modify their positions.

8. This deadlock now appears to have been broken. When Haferkamp talked with Hungarian External Trade Minister Veress on 17/18 January, the Hungarians appear to have moderated their requests. They no longer expect the elimination of all quantitative restrictions in the lifetime of the agreement, or a preferential agreement on tariffs. They appear also to have accepted the principle of a safeguard clause, although they still object to a reciprocity provision, and insist on some concessions on beef (though not - as had been previously thought - as a sine qua non for negotiations). They have emphasised their desire not to be treated as a state-trader (and thus subject to a special EC regime); they want (quite unrealistically) to be treated as ordinary members of GATT. The Hungarians will now reflect (until after the Prime Minister's visit) on the Commission's ideas before saying whether they want to open negotiations.

9. The January Foreign Affairs Council reacted



cautiously but not discouragingly to the Haferkamp/Veress talks; the French Presidency are taking a more positive line (and Cheysson gave the subject a positive mention in his Presidency statement to the European Parliament on 18 January). The Commission will now put forward a draft mandate as soon as possible, with a view to negotiations starting (if the Hungarians agree) in March or April.

10. The Hungarians will want to use the Prime Minister's visit to secure a reaffirmation of our helpful line, to help build up the pressure on other member states to agree an acceptable mandate. This we should give: but we should not be drawn on the details of the Community's likely position, or our own, which are matters for the Commission. They may also - as they did with Haferkamp - show nervousness about EC countries playing up the political importance of an EC/Hungary agreement. We should be sympathetic to their sensitivities, but we and other member states will have to defend any agreement domestically, and would be hard pressed to do so on purely economic grounds.

European Community Department (External)
Foreign and Commonwealth Office
24 January 1984



BRIEF NO 8(a)

PRIME MINISTER'S VISIT TO HUNGARY: 2-4 FEBRUARY 1984

BILATERAL POLITICAL RELATIONS

POINTS TO MAKE

General

1. Glad that bilateral relations in good shape. Attach importance to our relations with Hungary, and see prospects for development, especially in commercial, economic and cultural fields. Hope for more opportunities for ordinary people to visit and meet each other; and for British Council role to be widened.

2. Despite differences we share many common interests. Great value in maintenance of a regular political dialogue. Glad also that we have been able to assist Hungary in contacts with financial institutions and over approach to EC.

Visits

3. Glad that Foreign Trade Minister Veress (Ver-esh) will be here for "Hungarian Days" in April.

General Meszaros (Met-Zar-Oss) (Defensive)

4. Regret there is no change in the position. The Home Office cannot authorise the return of General Meszaros's remains because the nearest surviving relative has refused permission.



UK/Hungarian Consular Convention (Defensive)

5. Difficulty lies in British system of registering deaths. Regret no procedure by which nationality of a deceased person comes to attention of local Registrar. If Embassy learns of death it should contact Registrar direct for copy of death certificate. If any problems - contact FCO.

Convention on Legal Cooperation (Defensive)

6. Regret we have great difficulty with some of agreements your propose. Reason - incompatibility between our respective legal systems.



ESSENTIAL FACTS

General

1. Although cordial, political relations are not substantial given Hungarian support of USSR in foreign affairs/defence. Economic relations better - UK helped over Hungarian access to IMF/IBRD; has actively urged EC partners to be forthcoming over Hungarian approach and Hungarians know this. Scope for increased commercial exchange; the Prime Minister may wish to urge the Hungarians to give equal consideration to British firms, despite historical fixation with Austria/FRG. Scope also for increased cultural activity by the British Council. (Separate detailed briefs on all these subjects).

Visits

2. Foreign Trade Minister Veress will open "Hungarian Days" (commercial/economic exhibition and symposium) in London on 9 April. Foreign Minister Varkonyi is expected to repay Sir G Howe's visit, probably in the autumn. Recent British visitors, apart from Sir G Howe, include Lord Carrington (October 1983). Mr Giles Shaw (PUSS, Department of Energy) may visit Hungary in the spring.

General Meszaros

3. The Hungarian Government want to repatriate the remains of General Meszaros, a Hungarian leader of the 1848 revolt against Austria, who is buried in Herefordshire. Their application has been refused by the Home Office since a great great niece living in the US, who owns the grave, has objected. (She again confirmed her objection in January). This matter comes up during all Ministerial visits. The Hungarians are aware of the Home Office position but have



raised the subject in advance of the Prime Minister's visit, and are likely to do so to Mrs Thatcher in person.

Consular Convention

4. The Hungarians are concerned that their Embassy does not hear quickly enough about Hungarians who die in Britain. The authority competent to record deaths is the local Registrar. It rarely comes to his attention that the deceased is a foreign national since there is no requirement for nationality to be stated.

Convention on Legal Cooperation

5. The Hungarians wish to negotiate a new Convention on Legal Cooperation, to include civil and criminal matters. Not UK practice to conclude such comprehensive agreements, largely because our system, based on common law principles, is incompatible with that of many other countries. Existing Convention, dating from 1935, deals only with civil law.

Personal Cases

6. No points to raise, but two current cases:

Gabor Douglas Oltyan

Oltyan (dual national living in Hungary) has Hungarian father and (divorced) British mother, Mrs R Stevenson. Mrs Stevenson has written to the Prime Minister seeking help in securing Douglas' emigration. HM Embassy has been fully involved. Douglas was briefly imprisoned in Bulgaria after an 'escape' attempt, but is now back in Hungary. Hungarians indicate informally that they will let him go.



Peter (Pierre) Dupré

Dupré has been sentenced to two years imprisonment for trying to smuggle East Germans into Yugoslavia. Matter still sub judice (appeal pending) so intervention by HMG not appropriate. No apparent miscarriage of justice. HM Embassy providing consular services.

Eastern European Department
Foreign and Commonwealth Office
24 January 1984

BOBAAE



BRIEF NO 8(b)

VISIT OF THE PRIME MINISTER TO HUNGARY: 2-4 FEBRUARY 1984

COMMERCIAL RELATIONS

POINTS TO MAKE (References are to paragraphs in ESSENTIAL FACTS)

Commercial relations (Para 1)

1. Note that commercial relations form an important part of Anglo-Hungarian relations as a whole. Welcome the number of Ministerial and high level visits in both directions, and the close cooperation between our respective Chambers of Commerce and other organisations.

2. Note that trade promotion programme looks healthy. UK has several activities planned in Hungary over next few months. Look forward to "Hungarian Days" to be held in UK in April and visit of Mr Veress. Such visits and events have an important part to play in further developing our mutual commercial relations. Hope they will continue.



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UK/Hungarian Trade (paras 2-7)

3. Note that there have been some signs of a recovery in bilateral trade in 1983 after the stagnation in 1982 due to the effects of the recession on both countries. UK exports to Hungary rose by nearly 22% in 1983 (January-November) compared with the same period in 1982. The increase in imports from Hungary was even higher at 28%. Would welcome Hungarian views on future trends and prospects for UK/Hungarian trade.

UK Companies' Interests (paras 8-12)

4. Note that there are a number of projects in which British firms are interested. These include the proposed transit gas pipeline for which the Cooper Rolls consortium is bidding; the proposed Low Density Polyethylene (LDPE) plant at Leninvaros for which it is understood that Sim Chem Ltd have been short-listed; ^(now awarded to Japanese) British Aerospace's interest in supplying the HS146 to Malev; and Davy McKee's interest in the modernisation of aluminium plants in Hungary.

5. In the medium term we see particular scope in building up our regular trade in "consumables" such as chemicals, pharmaceuticals and electrical components. There are already strong links between UK companies and Hungarian enterprises in these sectors, including many active co-operation agreements. Hope these can be further strengthened.

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6. Also see good prospects for cooperation in the energy sector. Mr Shaw, PUSS Energy, will be taking up Dr Kapolyi's invitation to visit Hungary.

DEFENSIVE POINTS

Export Credit (para 4)

7. ECGD gives and will continue to give the best possible support for credits to Hungary consistent with international obligations (eg the OECD Consensus) and normal operating rules.

Protective Measures (Paras 6-7)

8. This is a matter for discussion in the context of the proposed bilateral agreement between Hungary and the EC. In general terms, the UK has pursued liberal trading practices and will continue to do so.



COMMERCIAL RELATIONS

ESSENTIAL FACTS

Commercial Relations

1 Our commercial relations with Hungary, both at the governmental and business level, are generally good. A bilateral framework is provided officially by the annual UK/Hungarian Joint Commission (next meeting in London, June 1984) and is reinforced in both directions by various visits and events. Planned in 1984 are:-

a) High level visits - to Hungary : Mr Shaw (PUSS, Energy); Lord Jellicoe (Chairman, British Overseas Trade Board); Lord Shackleton (Chairman, East European Trade Council).

- to the UK : Mr Veress (Hungarian Minister of Foreign Trade), 8-12 April, at invitation of Mr Channon (UK Minister for Trade).

b) Commercial events - in Hungary : British Technical Week (13-17 February); Manchester Chamber



of Commerce Mission (12-16 March); official British Industrial Delegation (7-11 May).

- in London : 'Hungarian Days'
(9-13 April).

The Foreign Secretary, Sir Geoffrey Howe, also visited Hungary in September 1983 where he had discussions with Mr Veress.

UK/Hungarian Trade

2 Details of UK/Hungarian trade are as follows:

	£m				
	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u> (Jan-Nov)
UK Exports	60.8	69.0	84.2	77.4	84.4
UK Imports	51.9	43.3	40.8	44.0	48.9
Balance (in <u>UK's favour</u>)	8.9	25.7	43.4	33.4	35.5



UK exports to Hungary in 1982 compared with some of our EC partners were as follows:-

<u>UK</u>	<u>West Germany</u>	<u>Austria</u>	<u>Italy</u>	<u>France</u>
£77.4m	£620m	£215m	£130m	£120m

The strength of the West German position arises from obvious geographical advantages, lower transport costs, similar technical standards and the fact that German is the most widely spoken foreign language in Hungary. The West Germans have also taken advantage of the spare capacity and lower labour costs in Hungary. Nevertheless, UK/Hungarian trade seems to have recovered better than that of our leading EC competitors in 1983.

3 Despite continuing austerity measures in Hungary, including import restrictions, which depressed the 1982 results, our exports reached a record level (at least in value terms) in 1983. Our main successes were achieved in chemicals, machinery and equipment, non-ferrous metals, textile yarns and fabrics.

4 Around 40% of these exports were covered by ECGD and despite the Hungarians' shortage of hard currency ECGD's payment experience there has been excellent.



5 Due largely to the recession, imports from Hungary have been sluggish but opportunities should increase as the recession eases. The 1983 figures reflect this. The Hungarians are also paying more attention to the quality and marketing of their products. Our main imports from Hungary are clothing, chemicals, fruit and vegetables, electrical appliances and footwear.

6 A continuing bone of contention for the Hungarians, is the UK's remaining quantitative restrictions on some of their goods. However, with trade in textiles covered by the Multi Fibre Arrangement and steel by a Voluntary Restraint Arrangement only a few Hungarian products remain subject to our autonomous quota regime. Mr Veress admitted to the Foreign Secretary that their removal was more a point of principle than a serious impediment to UK/Hungarian trade. Some relaxations have in fact been made in the autonomous quotas for 1984 but further substantial relaxations are unlikely in the near future, unless in the context of the proposed EC/Hungary Agreement [see Brief 7(a)].

7 Regulations governing the UK system of quotas and other quantitative restrictions on imports of goods from Hungary are the responsibility of the European Community (EC). However, the interpretation of the terms of Hungary's Protocol of Accession to



the GATT in 1973, which required their "progressive" removal, remains a particular source of contention between the EC and Hungary.

UK Industrial Interests

8 Given the present state of the Hungarian economy, there are few new opportunities for major projects. There is fierce international competition for the few that are on offer. One is the proposed Hungarian section of the pipeline to bring gas from Siberia to Italy. Several consortia, one led by Cooper Rolls Ltd, are bidding for a turnkey contract for the project (at a total cost of nearly £600m). Progress depends on ratification by the Italian authorities of a commercial agreement to purchase Soviet gas; currently the Italians seem in no hurry. Sim-Chem Ltd (formerly Simon Carves) have been shortlisted for the supply of a £46m Low Density Polyethylene plant to be built in Leninvaros. ^{(now awarded to Japan).} Davy McKee (Poole) Ltd are involved in a study with the Hungarians on the modernisation of 2 aluminium plants worth up to £25m.

9 Other achieved or potential business includes: British Aerospace - possible sale of HS146 to Malev (Hungarian State Airlines), worth up to £100m; Dowty Hydraulic Units Ltd have supplied equipment for marshalling yards and additional sales could be worth £10m; Wimpey technology is being employed in the



building of flats - 5,000 built so far and up to 19,000 more planned; Telestage Associates Ltd are negotiating a £4½m contract for the staging and equipment of the new National Theatre in Budapest.

10 The energy sector is also looking increasingly promising. Dr Kapolyi, the Minister for Industry (which includes the energy brief), has proposed some form of intergovernmental agreement on energy cooperation and a special trade promotion event in this field. Mr Giles Shaw, PUSS Energy, will be visiting Hungary some time this year; dates have not yet been agreed.

11 Good opportunities for trade in the medium term also lie in the continuing development of two-way trade in semi-manufactures, components and industrial consumables. The UK already does regular business in these areas, particularly in the chemical sector (including ICI, Shell, BP and the Wellcome Foundation); electronics and electrical engineering (GEC, ICL, Plessey); and the energy sector (NEI, Babcock Contractors Ltd and Dowty Mining Ltd).

12 Largely as a result of hard currency shortages, Hungary is increasingly looking for "industrial cooperation" with western companies, involving licensing or some form of joint marketing and/or manufacturing. There are some 60 cooperation agreements



between UK companies and Hungarian enterprises. Foster Wheeler Power Products Ltd are at present discussing cooperation with the Hungarians over the supply of fluidised bed technology and are to submit proposals for a licensing agreement. David Wilson and Associates, in cooperation with the Hungarian organisations Pannonia/Csepel, will be jointly bidding for a steel plant in the USSR which could be worth up to £150m.

OT4/1

Department of Trade and Industry

23 January 1984



PRIME MINISTER'S VISIT TO HUNGARY : 2-4 FEBRUARY 1984

BRIEF NO 8(b)

COMMERCIAL RELATIONS

Sim-Chem Ltd (Points to Make, para 4
Essential Facts, para 8)

Brief No 8(b) advises that Sim-Chem Ltd (formerly Simon Carves) had been shortlisted for the supply of a £46m Low Density Polyethylene Plant to be built in Leninvaros. The company have just been informed (30.1.84) that the contract will be offered to a Japanese lead consortium whose bid was \$20m lower than Sim-Chem's. The higher quality of Sim-Chem's equipment and technology was acknowledged by the Hungarians but with the prevailing economic circumstances of the country, the much lower Japanese bid had to be accepted. The difference in price was largely a measure of the licence fees which the two companies had to include for the technology which they intended to use.

OT4/1

Department of Trade & Industry

31 January 1984



CONFIDENTIAL

BRIEF NO 8(c)

VISIT OF THE PRIME MINISTER TO HUNGARY : 2 - 4 FEBRUARY 1984

CULTURAL RELATIONS

POINTS TO MAKE

1. We value our cultural relations with Hungary and were very pleased with the cordial and productive negotiations for the 1984/86 cultural exchange programme held in London last November.

2. We welcome the increasing number of direct exchanges and links between academics in our two countries.

3. We wish to build on this good relationship, and to remove any obstacles to the improvement of English language teaching in Hungary. In particular, we would like to see greater freedom for individual Hungarians to make use of the Embassy Cultural Section's services by visiting the library and offices; and freedom for the Cultural Attaché and his staff in Budapest to make direct contact with educational, cultural and scientific institutions and bodies.

(If Raised)

4. We are pleased that the Hungarian Government will host the Cultural Forum in 1985. We hope that leading British cultural personalities will attend. Activities such as this demonstrate the continuing vitality of the CSCE process.



CULTURAL RELATIONS

ESSENTIAL FACTS

1. Our cultural relations with Hungary have been governed by programmes of culture, educational and scientific exchanges since 1962. (Before this, there was a gap after the Hungarians forced the British Council to withdraw from Budapest, where it had operated since the end of the Second World War in 1945, on unwarranted charges of espionage.) These programmes, which are negotiated at two-yearly intervals in alternate capitals, are implemented on our side by the British Council.
2. Despite comparative freedom (by Warsaw Pact standards) enjoyed in Hungary, the standard totalitarian restrictions on travel and access apply. Within these limitations, our bilateral cultural relations are good.
3. Our prime objective is to bring about a change of attitude on the part of the Hungarian authorities in order to achieve some relaxation of the restrictions they place on contacts between their citizens and the Cultural Section in our Embassy.
4. The Hungarians express enthusiasm for and recognise the value of English language teaching, yet there appears to be a ban on teachers using the Cultural Section library. Teachers number only one per cent of membership. Similarly, because access to and contacts with educational institutions are controlled by the Ministry of Culture and Education, the Cultural Attaché is unable to make spontaneous visits to institutions throughout Hungary where English is taught in order to discuss teaching requirements

/and to



and to arrange loans of books, films and other teaching materials.

5. The removal of these limitations and the establishment of a more open relationship (in accordance with CSCE undertakings) would automatically lead to better cultural relations between us as well as to improved English language teaching in Hungary. This would be in all our interests and would be consistent with the wish of both sides to improve bilateral relations generally. It would also benefit the 'private' Hungarian.

Cultural Forum

6. The Hungarian Government have undertaken to host the Cultural Forum, proposed at the Madrid CSCE Review Meeting. The Forum will take place in Budapest in 1985, preceded by a meeting of experts in November 1984. We are planning our tactics, which we intend to coordinate with our Allies.

7. The Hungarians and other East European countries may press for Ministerial attendance at the Forum but our present thinking is that this would be inappropriate.

CULTURAL RELATIONS DEPARTMENT
FOREIGN AND COMMONWEALTH OFFICE

19 January 1984

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

1 February 1984

John Smith

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2.*

Prime Minister's Visit to Hungary: 2-4 February

/ You asked for some additional briefing on the Warsaw Pact proposals at the Stockholm Conference for the Prime Minister's visit to Hungary. I enclose a list of the main points to make under each of the six most prominent proposals in the speeches made by Warsaw Pact Foreign Ministers in the first week of the Conference. So far only the Romanians have formally tabled proposals. These include the idea of a treaty on the non use of force but throw no light on what it would look like in detail.

/ I also attach for background a copy of a more detailed brief prepared for Sir J Bullard who will have the necessary supporting documentation.

John Smith
R B Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

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PART 1 ends:-

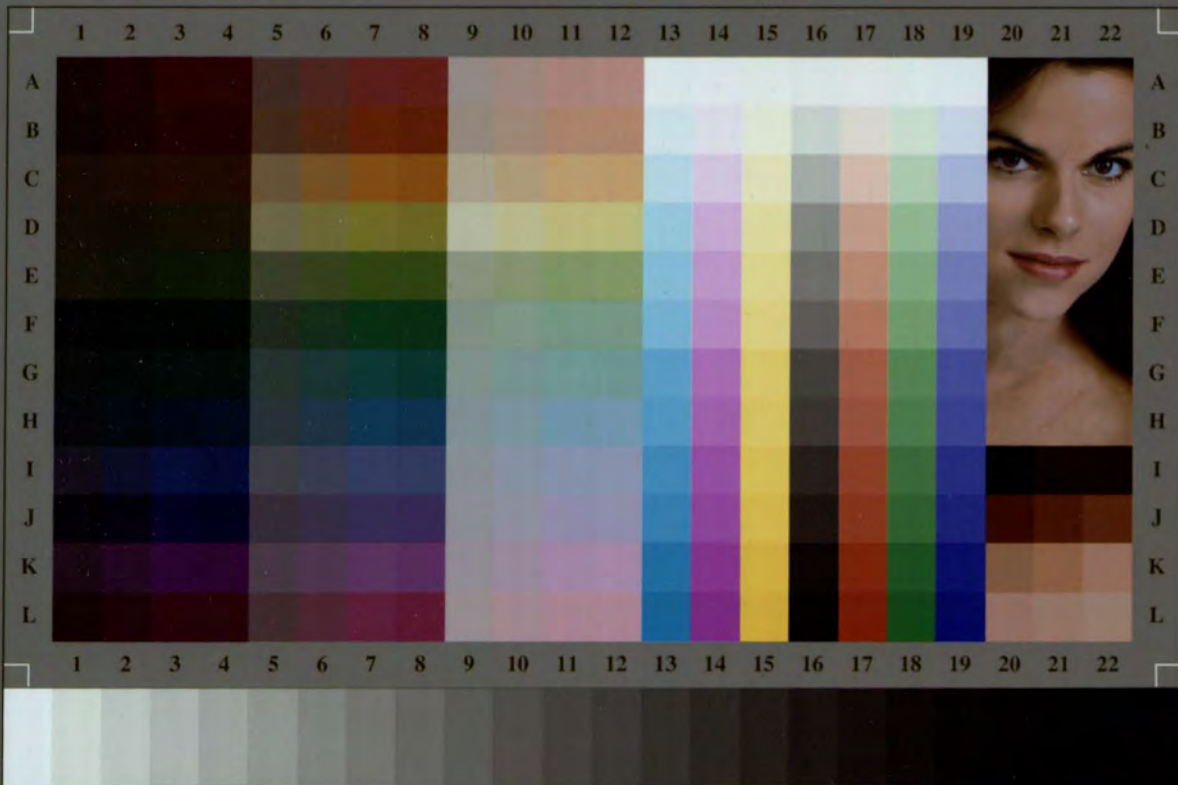
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PART 2 begins:-

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