

PREM 19/2732

CONFIDENTIAL FILING

VISITS TO THE UK OF THE
HUNGARIAN PRIME MINISTER

HUNGARY

JULY 1987

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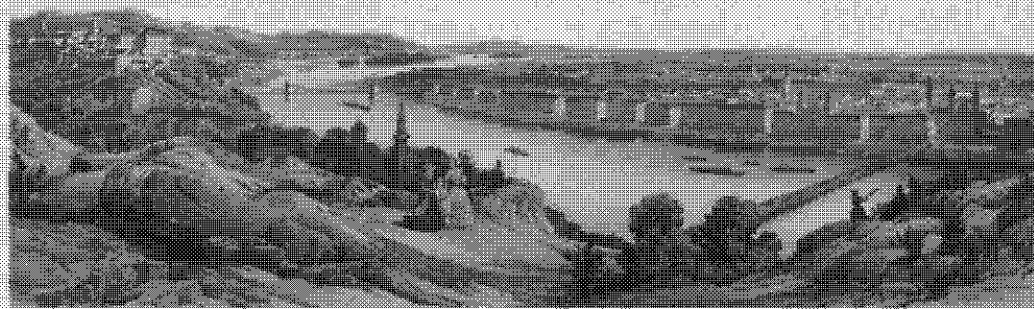
The Rt. Hon. Margaret Thatcher, MP
Prime Minister of Her Majesty's
Government in the United Kingdom
of Great Britain and Northern
Ireland

10 Downing Street
London SW1A 2AA

MIKLÓS NÉMETH

**Chairman of the Council of Ministers
of the Republic of Hungary**

Pest-Buda
1848



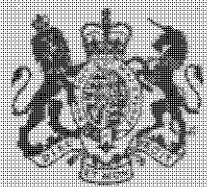
Belleeg iij ivel!
Happy New Year!
Bonne Nouvelle Année!
Glückliches Neujahr!
O Holau Fegau!
Feliz Ano Novo!

Wm. J. ...

*Sandmann, Franz Josef: Post-Buda a Gellérthegyről-1848
Kézirat, a Kiscelli Múzeum gyűjteményéből.*

Készült a Kibicsakai Kézír. Gyűjteményben. Tervezte: Sós. Béla

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10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

15 December 1989

Dear Prime Minister,

May I just say how very kind of you it was to send me the very beautiful Herend coffee set. It is a magnificent gift and it has given great pleasure.

I was very glad that you were able to carry out your visit to London and found our talk most interesting and worthwhile. We shall continue to follow events in Hungary with the greatest interest and sympathy. Meanwhile I send you warm good wishes for Christmas and the New Year.

Yours sincerely
Raymond Daliber

His Excellency Mr. Miklos Nemeth

Subject CC MASTER
MEETING RECORD

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

13 December 1989

Dear Lidia,

PRIME MINISTER'S MEETING WITH THE HUNGARIAN PRIME MINISTER

The Prime Minister had a talk this morning with the Hungarian Prime Minister. Mr. Nemeth was accompanied by the Hungarian Ambassador and Mr. Kovacs, State Secretary at the Hungarian Ministry of Foreign Affairs. HM Ambassador, Budapest was also present.

The Prime Minister said that people in Britain very much admired what was happening in Hungary. Hungary's reforms had led the way for others in Eastern Europe. We were also impressed by the determination the Hungarian Government was showing in negotiations with the IMF. She invited Mr. Nemeth to tell her about the latest developments.

Mr. Nemeth said that Hungary had been presented with an historic opportunity. It had the chance to achieve its freedom without risk of intervention by foreign forces. This was due primarily to international developments in which the Prime Minister had played a key role. It would be a crime for Hungary to miss this opportunity or let the process of obtaining Hungary's freedom be reversed. This meant that it was essential to do nothing to undermine the position of Mr. Gorbachev. He knew Gorbachev's immediate colleagues, and there was no-one else who could remotely match what Mr. Gorbachev was doing. If he were to go, things would rapidly get worse and we might have to wait 60 or 70 years for another Gorbachev. He thought the Soviet leadership recognised that the West was not trying to exploit the current difficulties and hardships of the Soviet Union, although they had not liked Chancellor Kohl's ten-point plan for Germany. He was confident that the Soviet Union would abide by its policy of non-intervention and allow the countries of Eastern Europe to choose their own political system. This had been made clear at the recent Warsaw Pact Summit, and had been welcomed by everyone except Ceausescu who had spoken of dangerous developments in certain East European countries. The Prime Minister commented that we had done everything possible to support Mr. Gorbachev from the beginning. Whenever she met him, he seemed dominant within the Soviet system. He must have some enemies but they did not appear powerful enough to bring him down.

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Mr. Nemeth agreed that Gorbachev's position was solid. Indeed he tended to emerge strengthened from every crisis. He certainly faced a lot of problems with the economy, the nationalities, strikes and so on. His real problem was that the new policies had been only half-heartedly adopted by the bureaucracy. The old system was no longer working and the new one had not really got started. Seventy years of egalitarianism had shaped the mentality and conduct of people in the Soviet Union. It was difficult for the notion of incentives to take root. The first task was to change the mentality of the people. He thought Gorbachev made a mistake in trying to carry out agricultural and economic reform simultaneously. He should have given priority to food production and ensured that the Soviet people were well fed, and only then go on to other things. Ethnic strife in the Soviet Union was a time bomb. There was a real risk of civil war unless the Soviet armed forces were kept at constant readiness. All the republics wanted independence, in particular the Baltic republics, and Gorbachev faced a massive task in trying to reinvigorate the federation. Another of Gorbachev's failures had been in the area of price reform. Until that had been put right, there was nothing to be done with the Soviet economy. Gorbachev wanted price reform but without leaving anyone worse off. Energy supply was another disaster area and the impact was being felt in Hungary and other East European countries. Oil supplies at present were some 25/30% below levels contracted for. The transport system was in ruins: Ryzhkov had told him that whole trains carrying coal simply disappeared and no-one ever saw them again. It was rather like the 1920s.

Mr. Nemeth continued that, as a result of all this, opposition to Communism was growing in the Soviet Union and debate over the leading role of the Communist Party could not long be suppressed. He thought that Article 6 of the Soviet constitution would have to be withdrawn in due course. From his own contacts, he knew that Gorbachev agreed with this but thought it too difficult in the present situation. He wanted to get stability first. Gorbachev faced a difficult choice. Either he could give in to pressure from conservatives and go back to the command economy: or he could take a great leap forward to a market system. In practice he was trying to combine the two and this simply would not work. Ryzhkov would today be presenting a new economic programme which would impose austerity measures and return to the command system for two or three years with the intention of moving to a market system from 1993 onwards. The danger was that 1993 would never arrive.

Turning to the risk to Gorbachev from within the Soviet Communist Party, Mr. Nemeth said that opposition was undoubtedly strengthening. Conservatives in the politburo were using regional Communist Party leaders as a front for their own opposition. This was potentially a dangerous phenomenon. There had been open comments at the recent Central Committee meeting to the effect that if Margaret Thatcher, George Bush and the Pope were all in favour of perestroika, then something must be wrong. Mr. Nemeth said he had been asking himself how Gorbachev could be

helped in the face of this. He was taking some of the necessary steps anyway, reducing bureaucracy, cutting military expenditure, changing military factories over to civil production, allowing people to rent land. He also seemed firm in his resolve not to interfere in Eastern Europe, although he was criticised by a lot of people for this. The Prime Minister commented that Mr. Gorbachev needed countries like Hungary to succeed so that he could point to them as an example of what could be done. Mr. Nemeth agreed. Indeed Gorbachev had said as much to him, remarking that the Hungarian reforms must not fail, otherwise that would remove a trump-card from his hand. His own assessment was that Gorbachev's future would be decided in the shops. He must find a way to get consumer goods there, whether by taking loans or some other means. Otherwise he would face the anger and outrage of the people. They were already queuing for bread. It would be helpful if the West could pave the way for the Soviet Union to join the GATT. Ryzhkov had shown great interest in Hungary's experience of joining the international financial institutions. The West should also continue to encourage arms reductions. Another area where we could help was education and management training. Hungary was establishing an international bankers school and management training centre in Budapest and were ready to make courses available to the Russians. He hoped very much that the United Kingdom would help with the supply of teachers.

Turning to Hungary's problems, Mr. Nemeth gave an account of the far reaching changes which had been introduced in Hungary's political and economic life. Hungary wanted to become a genuine democracy. They knew that economic reform could not succeed without political reform. It had been a pity in retrospect that Kadar had put on the brakes in 1985. He had never quite understood the reasons for that. Even so, Hungary had constantly tested the limits of Soviet tolerance, whether in foreign policy - establishing relations with Israel and South Korea - or in the introduction of democracy and pluralism. Now they were embarked on a programme of extending private ownership, boosting enterprise, encouraging foreign investment, stimulating small and medium sized businesses, and developing local self-government. This meant dismantling a whole jungle of decrees and regulations. They hoped to have the programme complete by May. They could look for little help from the East, given the scale of the Soviet Union's own problems and were therefore desperate for help from the West. If not, there was a real danger that the reform movement in Eastern Europe would collapse, resulting in a massive migration of people. He knew that agreement must be reached with the IMF and that the price of this would be harsh. He was ready to take the necessary measures by cutting subsidies, adjusting the exchange rate to market rates, liberalising prices and the conditions of the capital market and pursuing very strict monetary and financial policies. The toughest of all would be the changeover from Eastern to Western markets for Hungarian exports. He hoped the Prime Minister would do everything possible to encourage British business to invest in Hungary and transfer expertise.

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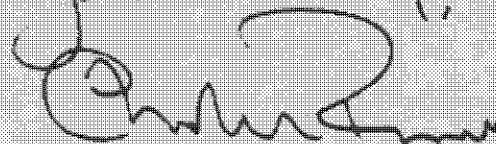
- 4 -

The Prime Minister repeated that we very much admired what was happening in Hungary. She understood the difficulties of an IMF programme. But once it was signed, Hungary could look to a good deal of help from the West. We were determined that Hungary and Poland should not fail in making a transition from a Communist to a democratic and free enterprise system.

Mr. Nemeth said that he very much hoped the tough budget he was proposing would go through Parliament. He had seen leaders of all the political parties on Friday and they had promised him not to assail the government. Experience would show. The Prime Minister said that democracy must never become a public auction of promises. There was very widespread recognition in the European Community and more generally in the West for Mr. Nemeth's achievements and strong support for what he was doing. She was convinced that he would succeed.

Discussion had to break off at this point for the official lunch. I do not yet have details of what may have transpired during the lunch. The Prime Minister's speech at lunch drew on the enclosed text although it was not delivered verbatim.

I am copying this letter and enclosure to John Gieve (HM Treasury), Brian Hawtin (Ministry of Defence), Neil Thornton (Department of Trade and Industry) and Sonia Phippard (Cabinet Office).

You diary,


(C.D. POWELL)

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

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PRIME MINISTER

LUNCH WITH THE HUNGARIAN PRIME MINISTER

You are giving lunch for the Hungarian Prime Minister after your talks with him tomorrow. A list of guests and table plan are in the folder. You will see that the Earl and Countess of St. Andrews are coming: he was in our Embassy in Budapest for a while during his time in the Foreign Service.

You will also need to make a short speech. I attach a suggested text though I have no doubt that you will do it even better off the cuff.

C. D. POWELL

12 December 1989

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PRIME MINISTER

MEETING WITH THE HUNGARIAN PRIME MINISTER

You have a meeting with the Hungarian Prime Minister tomorrow followed by lunch. Mr. Nemeth's original three-day visit has had to be foreshortened to a single day, because he has to take part in an urgent budget debate. In addition to his talks with you and the lunch, he will see the Lord President, the Foreign Secretary, the Chancellor of the Exchequer and the Leader of the Opposition.

The programme starts with a Guard of Honour ceremony in the Foreign Office Courtyard at 1130. There is then an hour for talks. Since there will be four a side (including interpreters), you may like them to be in the Cabinet Room. Lunch is at 1245 for 1300.

The outlook for Hungary is fairly bleak at present and so it is for Mr. Nemeth too. Although there has been impressive political change, the economy is wallowing, and it will be touch and go whether Mr. Nemeth is able to get an austerity programme through the Hungarian Parliament of a type which will meet IMF criteria. There are due to be Parliamentary elections in March at which Mr. Nemeth's party (the residue of the former Communist Party) is likely to be heavily defeated. Nonetheless, Mr. Nemeth is young, able and a Good Thing. The assessment is that he will be around as a considerable force in Hungarian politics for quite some time.

You might start by asking him to give you an account of internal developments in Hungary and how he sees the prospects, both for the parliamentary and the Presidential elections.

You could then move on to East/West relations. You will want to explain your general philosophy about the need for stability and to preserve alliances as a framework within which change can take place. You will want to underline our welcome for closer

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- 2 -

association between those countries in Eastern Europe which are introducing genuine democracy and the European Community, as well as our support for Hungary's application for membership of the Council of Europe. You may like to ask Mr. Nemeth's views on just how far he thinks the Soviet leaders will allow Eastern European countries to go. We have hitherto assumed that continued membership of the Warsaw Pact is Mr. Gorbachev's bottom line, but that internally they are free to proceed with democracy and economic reform. Does Mr. Nemeth share this assessment? Or does he think that Hungary might one day move towards neutrality on the model of Austria? It will also be interesting to know what view he takes of the situation within the Soviet Union, and how Mr. Gorbachev will cope with the pressures there from the nationalities and from a population dissatisfied with the failure of economic reform.

As regards Hungary's economic problems and our readiness to help, you will want to encourage him to take the painful but necessary decisions to secure an IMF programme (he seems impressively determined to this). There is the prospect of a major adjustment loan from the West conditional upon an IMF agreement. We are helping through our Know-How Fund and greater trade access for Hungary to the EC. We are determined that Hungary's efforts to make the transition from communism and State control should succeed and be rewarded.

There are a number of other bilateral matters which might come up:

- Bilateral Trade

We have a number of joint ventures, and John Redwood recently went to Hungary to discuss the establishment of a stock exchange and to assess the opportunities for UK business arising out of Hungary's privatisation programme. We are doing what we can to encourage investment. If Mr. Nemeth raises possible relaxation of COCOM controls, you will have to say that we worry that sensitive exports could be diverted to other Warsaw Pact countries.

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- Visit by The Queen

The Hungarians are very keen to secure a visit by The Queen, but we are not in a position to promise one yet. However, the Prince and Princess of Wales will go in May next year.

- English language teaching

You recently wrote to Mr. Nemeth reaffirming our readiness to expand English language teaching in Hungary. We shall follow that up in practical ways.

- General Meszaros

This is another case where an East European nation wants the body of one of its heroes back but the closest surviving relative won't agree - in this case until all Russian troops have left Hungary. There is nothing we can do to over-rule this, but time is likely to solve the problem (but not very fast: the surviving relative is 74 but extremely vigorous!)

- Visas and work permits

From this Monday, Hungarian businessmen are eligible for multiple entry visas, which should make visits easier for them. We are doing our best to process applications for work permits quickly.

- Hong Kong

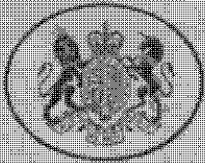
Mr. Nemeth may ask for an Hungarian Trade Office or Consulate in Hong Kong. You will want to explain that we have to move very cautiously on this for fear of rousing Chinese suspicions.

A fuller note by the FCO is in the folder, together with a telegram from our Man in Budapest (who will be present).

C.P.
CHARLES POWELL

12 December 1989

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Foreign and Commonwealth Office
London SW1A 2AH

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12 December 1989

Jan Charles,

Visit of the Hungarian Prime Minister

Mr Miklos Nemeth, the Hungarian Prime Minister, is to call on the Prime Minister at 11.45 on Wednesday 13 December. (The meeting will be preceded by a Guard of Honour in the FCO quadrangle at 11.30.) He will be accompanied by the Hungarian Ambassador Dr Györke; Mr Kovacs, State Secretary at the Hungarian MFA, and an interpreter. Our Ambassador in Budapest, Mr Birch, and a British interpreter will also be present. The Prime Minister will be giving a lunch for Mr Nemeth immediately after the talks.

Mr Nemeth's predecessor, Mr Grosz visited the UK at the invitation of the Prime Minister in May 1988.

In the formal talks, the Prime Minister may wish to concentrate on events in the Soviet Union and Eastern Europe; EC/Hungary; UK assistance to Hungary and other bilateral issues. The Hungarians have agreed. Mr Nemeth will also want to touch on English language teaching in Hungary; UK involvement with the Petö Institute; visa regulations and the repatriation of the remains of General Meszaros.

Mr Nemeth may renew the invitation to HM The Queen to visit Hungary extended by Mr Grosz in May 1988. If the question is raised the Prime Minister might like to say that The Queen already has a programme of overseas visits stretching well into the future to which she is committed. The Prince and Princess of Wales will visit Hungary in May 1990.

Hungary Internal

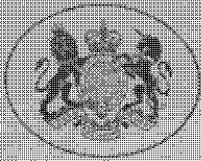
The country is undergoing a quiet revolution. The pillars of the traditional Communist regime are being dismantled, and free general elections are in prospect.

The old communist party, the Hungarian Socialist Workers' Party (HSWP) was disbanded at a Congress in October 1989. The new party which emerged from the ashes, the Hungarian

/Socialist

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*ARC
Bashley*



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Socialist Party, has got off to a bad start, attracting only a minority of former HSWP members. Traditionalists within the old party including Karoly Grosz have declared the decision to found a new party invalid and hope to resurrect the HSWP at a congress.

A referendum on 26 November voted narrowly against an early and direct presidential election. The President will now be elected by Parliament after the general election in March. This is a setback for Imre Pozsgay; his chances of election now look slim.

Parliament will probably be dissolved in December, with elections in March. The outcome is difficult to predict. The Hungarian Socialist Party and the old socialist order may be routed. Support for the main opposition groups is unclear. The main danger is that a large number of different parties will win seats, resulting in a messy coalition government which would have difficulty in forcing through crucial economic reform.

Bilateral relations

Bilateral relations are excellent. Mr Major announced the establishment of a £25m Know-how Fund for Hungary in October, to operate from April 1990. Subject to Mr Nemeth's views, the best areas for our advice might be finance and banking, privatisation, and the restructuring of old industries.

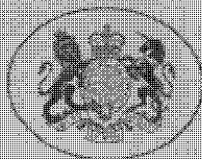
Pető Institute

A separate line on possible UK funding of the International Pető Institute will follow.

English Language Teaching and Academic Exchanges

In replying to a letter from Mr Nemeth, the Prime Minister reaffirmed our strong commitment to expanding English Language Teaching in Hungary. We favour the training of English language teachers (the multiplier effect of training trainers). The Hungarians also want to extend academic exchanges. On 10 October the Royal Society and the Hungarian Academy of Sciences agreed to expand bilateral educational links. The European Council gave instructions that training programmes similar to those for EC nationals should be made available to Eastern European countries. The European Council also agreed to set up a "European Vocational Training Foundation."

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General Meszaros

The Hungarians want the return of the remains of General Meszaros, the only remaining hero of the 1848 revolution who is buried outside Hungary (in Herefordshire). The remains belong to a Miss Szabo whom we believe to be the General's closest surviving relative, who lives in America and who remains opposed to repatriation as long as there are Soviet troops on Hungarian soil. The Hungarians are trying to get round Miss Szabo's opposition by claiming that she is not the closest surviving relative. But our information does not suggest that anyone in Hungary has a stronger claim. The final decision on repatriation rests with the Home Secretary and we understand that he is unwilling to override the wishes of Miss Szabo. We shall need to look at the question again when Miss Szabo dies. But the Prime Minister may wish to tell Mr Nemeth that on current evidence we cannot change our position.

Visas

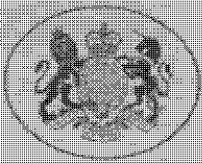
Mr Nemeth may raise the question of visas. The vast majority of applications are processed within the 14 day time limits we impose on ourselves. Tim Sainsbury informed the Select Committee for Trade and Industry on 6 December that Hungarian businessmen would be eligible for multiple entry visas for up to two years, from Monday 11 December. We have no plans to abolish visas.

Work Permits

Increasing numbers of Hungarians are coming to the UK to work and train under the main Work Permit Scheme and the Training and Work Experience Scheme. Under the main Scheme, which covers people with professional qualifications, senior executive experience or rare technical skills, most work in the academic, medical and construction fields (areas of high skill shortages in the UK) where they are making an important contribution. In the 1990s, we expect many more Hungarians to come here under TWES, which is for less qualified people. Mr Nemeth may suggest a quota system. The Department of Employment do not think this appropriate or necessary. The Hungarians benefit under the current open-ended system. The Department try to process applications quickly.

/Bilateral

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Bilateral Trade

Bilateral trade has shown little change in recent years, with exports around £100m and imports around £80m. The latest figures (January-September 1989) show exports at £87m and imports at £76m, compared with £72m and £70m for the same period in 1988. The UK was fourth among OECD suppliers to Hungary in 1988 behind West Germany, Austria and Italy. Scope for increasing exports in the short term is limited by Hungary's economic problems and hard currency shortages. The privatisation and restructuring of Hungarian industry are likely to provide the best opportunities but there will still be scope for day-to-day business in the traditional areas of semi-manufactures, chemical and electrical and engineering components.

The most significant UK joint venture (and probably the third largest in Hungary) is that between the British company Telfos and the Ganz railway vehicle factory formed, in August 1989 and known as Ganz Hunslett. It will allow a British firm access to the East European market for rolling stock, in which the Hungarians have had a strong position. Telfos hold 51% of the shares and have made a cash injection of £2 m. There are twelve other UK Joint Ventures known to the DTI. John Redwood visited Hungary 5-8 December to discuss the establishment of a Stock Exchange and opportunities for UK business arising out of Hungary's privatisation programme. The Hungarian Privatisation Commissioner is due to visit the UK early next year.

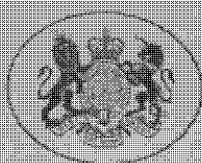
Mr Nemeth may raise COCOM and the recent Hungarian offer (to the US) of guarantees against diversion in return for greater access to high technology items. It is attractive in principle but would be hard to implement in practice with any reasonable assurance of non-diversion to other Warsaw Pact members. Both Governments and private companies have limited resources to police strategically sensitive exports. Verification may be increasingly used as a condition for export on a case by case basis, but increased exports of sensitive technology would have to be effectively monitored if COCOM's protective role were not to be undermined. The Hungarian proposal is under consideration in COCOM.

International Relations

Hungary's policy is to seek closer integration with the West. As well as pursuing closer links with the EC, Hungary applied for membership of the Council of Europe in November

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and is expanding relations with the OECD and EFTA. At the same time the Hungarians are seeking modernisation of the Warsaw Pact to give it a more political role and to allow the East Europeans a proper voice.

It would be useful to have Mr Nemeth's view of the limits of Soviet tolerance in Eastern Europe. Although there has so far been no inclination on the part of the new East European leaderships (or most of the opposition groups) to question seriously membership of the Warsaw Pact, public pressure may build up for faster withdrawals of Soviet forces and perhaps in the longer run for departure from the Warsaw Pact. This might well be acceptable in the longer term to the Soviet Union - at least in the case of Hungary. But it is likely, as Mr Pozsgay suggested during his recent visit to London, that the Soviet Union would react badly to any precipitate moves on the part of Hungary or other East European states to leave the Pact.

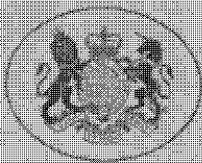
Hong Kong/Hungary

The Hungarians have recently made informal approaches in London, Budapest and Peking about the possibility of setting up a Trade Office or Consulate in Hong Kong and of a relaxation of the Hong Kong restrictions on travel to Hong Kong by Hungarian businessmen. If Mr Nemeth raises this subject, the Prime Minister may wish to draw attention to the Hong Kong Government's recent decision to relax its visa requirements for businessmen from all East European countries (eg by lifting numerical restrictions). She may also wish to stress Hong Kong's desire to increase its trade and investment links with Hungary and to strengthen its role as an international business and conference centre. But the Prime Minister should be non-committal about the idea of opening a Trade Office. The Hong Kong Government do not wish to rush matters because of Chinese sensitivity about a permanent Soviet or East European presence in Hong Kong being used as a base for intelligence activities against China.

Foreign Economic Relations and Relations with the EC

Mr Nemeth will ask for the Prime Minister's views on the Strasbourg Summit and the future of EC relations with Eastern Europe. He will be particularly interested in the possibilities of closer institutional links. The Prime Minister might like to confirm the UK's approach based on differentiation, political response to political reform, and the importance of a dynamic relationship leading to closer institutional links where justified. We are committed to working with Hungary to maximise the potential of its trade and economic cooperation agreement.

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Mr Nemeth has told us he thinks an agreement with the IMF is in sight but he will face a battle to get the measures approved by Parliament (on 18 December). Despite profound misgivings, the Hungarian Government seems to have accepted the need for a progressive devaluation of the forint to reduce the current account deficit, a new law to force bankruptcy on loss-making enterprises, and lower subsidies on housing and rents. The Prime Minister might like to draw on the following points:

- Recognise that the tough policies the IMF is demanding will be painful. But no alternative.
- Distasteful medicine needed to revive the economy and to bring about structural reforms.
- Major financial help from Western countries' in prospect, particularly the \$1 billion adjustment loan agreed in principle by the European Council, but is conditional on an IMF agreement.
- Britain admires Hungary's determination to repay debt and their persistent efforts to reform the economy. The next stage of economic reform will be critical.
- Bilaterally, and through the Community, UK determined to help this process of reform. Community has already agreed a range of measures: improved trade access, grant of status of generalised System of Preferences, European Investment Bank lending and aid for agricultural reform, environmental protection and training. The OECD (Group of 24) ministerial on 13 December will give further impetus. Important to have Hungarian advice on how best we can help, eg in environmental field.
- Bilaterally, the UK Know-how Fund stands ready to help with training consultancy and advice for the transition to a free market would welcome views on targets for the fund.

I enclose personality notes on Mr Nemeth and Mr Kovacs, and a copy of Mr Nemeth's programme. I am copying this letter to Paul Kerfoot (Dept of Social Security).

J S Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

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NEMETH, MIKLOS

Prime Minister since November 1988.

Born 1948 Graduate of the Karl Marx University of Economics in Budapest. From 1971-77 he was a lecturer at Karl Marx University. He was a Deputy Head of Department at the National Planning Office from 1977-81, when he joined the Economic Policy Department of the Central Committee. In June 1987 he was appointed Secretary for Economic Affairs and was simultaneously elected to the Central Committee. He became a member of the National Assembly in October 1988 and succeeded Grosz as Prime Minister in November 1988.

Nemeth has the reputation of being a hard-worker and a very bright economist who rose quickly through the Party ranks. When he took over the premiership he had little political experience and was not well known among the Hungarian population. But recently he has been getting out from under Grosz's shadow, aligning himself with the more radical reformers and establishing his authority in the Government.

KOVACS, LASZLO

STATE SECRETARY FOR FOREIGN AFFAIRS 1989

Born 1939. Worked his way up through the KISZ (Communist youth organisation) apparatus, finally becoming KISZ Secretary for Foreign Affairs. Served abroad briefly in Prague, on secondment. Joined the Research Section of the HSWP International Department in the 1970s. Promoted to Deputy Head of Department, dealing with developed capitalist countries, in 1983. Held position of Deputy Foreign Minister from May 1986 until his recent promotion to State Secretary in succession to Dr Horn.

A regular participant at Anglo-Hungarian Round Tables. Visited the UK as Deputy Foreign Minister in February 1988, largely to prepare the way for Grosz's visit in May 1988.

Kovacs is highly intelligent, polite and polished. He has a low key but self-confident approach. Never misses a trick.

Kovacs speaks good English, though sometimes prefers to use an interpreter for formal calls.

Programme

WEDNESDAY, 13 DECEMBER

0855 hrs Arrive at London Heathrow Airport by Special Flight
from Budapest
Special Waiting Room, South Side

Met by the Minister of State for Foreign
and Commonwealth Affairs,
The Hon William Waldegrave MP

0900 Leave the Airport by car
(approx)

1000 Arrive at the Residence of the Ambassador of the
(approx) Republic of Hungary *to the Court of St James's*
1 Lowndes Square, SW1

Private Meeting

1045 Leave the Residence of the Ambassador of the Republic
of Hungary *to the Court of St James's*

1055 Arrive at The Privy Council Office
70 Whitehall, SW1

Met by a Private Secretary to The Lord President of the
Council and Leader of the House of Commons,
Mrs Diana Goldsworthy

1100 Call on The Lord President of the Council
and Leader of the House of Commons,
The Rt Hon Sir Geoffrey Howe MP

1125 Leave The Privy Council Office

1130 Arrive at the Foreign and Commonwealth Office
Quadrangle
King Charles Street, SW1

Met by the Prime Minister,
The Rt Hon Margaret Thatcher MP

A Guard of Honour found by the 2nd Battalion
Grenadier Guards under the command of Major Timothy
Breitmeyer, with the Regimental Colour,
the Corps of Drums of the Battalion
and the Regimental Band of the Scots Guards
is mounted in the Quadrangle

WEDNESDAY, 13 DECEMBER (Cont'd)

His Excellency the Prime Minister of the Republic of Hungary will inspect the Guard of Honour accompanied by the General Officer Commanding London District and Major-General Commanding the Household Division,
Major-General Simon Cooper

- 1145 hrs Proceed to 10 Downing Street accompanied by the Prime Minister,
The Rt Hon Margaret Thatcher MP
- Talks with the Prime Minister,
The Rt Hon Margaret Thatcher MP
- 1245 Luncheon given by Her Majesty's Government
for Host : The Prime Minister,
1315 The Rt Hon Margaret Thatcher MP
- 1445 Leave 10 Downing Street
- 1450 Arrive at Westminster Abbey
Great West Door
- Met by the Dean of Westminster,
The Very Reverend Michael Mayne
- His Excellency the Prime Minister of the Republic of Hungary will lay a Wreath on the Tomb of The Unknown Warrior
- 1510 Leave Westminster Abbey
- 1515 Arrive at 11 Downing Street
- Talks with the Chancellor of the Exchequer,
The Rt Hon John Major MP
- 1550 Leave 11 Downing Street
- 1555 Arrive at The Palace of Westminster
Members' Entrance, House of Commons
- Met by the Private Secretary to the Leader of the Opposition,
Mr Charles Clarke
- 1600 Talks with the Leader of the Opposition,
The Rt Hon Neil Kinnock MP
- 1630 Proceed to Committee Room 6

WEDNESDAY, 13 DECEMBER (Cont'd)

(italics) Discussions with Members of the House of Commons
Select Committee on Foreign Affairs
Chairman: The Rt Hon David Howell MP

1715 hrs Leave The Palace of Westminster

1730 Arrive at the Embassy of the Republic of Hungary
35 Eaton Place, SW1

Press Conference

1815 Meeting with Prominent Members of the Hungarian
Community

1900 Reception given by His Excellency the Ambassador
to of the Republic of Hungary to the Court of St James's,
2030 and Mrs Györke

Dress: Lounge Suit

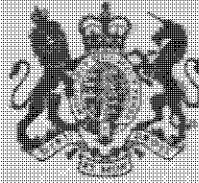
2000 Leave the Embassy of the Republic of Hungary

2045 Arrive at London Heathrow Airport
Special Waiting Room, South Side

2100 Depart by Special Flight for Budapest

The Special Representative of the Secretary
of State for Foreign and Commonwealth Affairs,
Sir Derek Dodson
will bid farewell

RESTRICTED



10 DOWNING STREET
LONDON SW1A 2AA

MS
Mr. Nemeth

apc

From the Private Secretary

10 November 1989

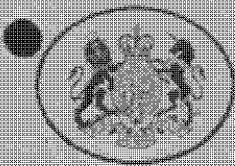
VISIT BY THE HUNGARIAN PRIME MINISTER

62/11
Thank you for your letter of 10 November about the visit of Mr Nemeth. I am sure the Prime Minister would be very content to see Mr Nemeth invited as a guest of government and herself to be the host for a visit. The Prime Minister can manage a guard of honour at 1130 on 13 December as you propose, and I should be grateful if the necessary arrangements for this could be made.

Charles Powell

Stephen Wall Esq
Foreign and Commonwealth Office

RESTRICTED



Foreign and Commonwealth Office

London SW1A 2AH

RESTRICTED

10 November 1989

Dear Charles,

Visit by Hungarian Prime Minister

The Hungarian Prime Minister, Miklos Nemeth, has accepted the Prime Minister's invitation for talks on 13 December. These will be at 1130 hrs, followed by lunch at 1245 hrs. In view of our good relations and our interest in encouraging the reform process in Hungary, the Foreign Secretary recommends that Mr Nemeth should be received as a guest of the government. We have suggested that Mr Nemeth (who is an economist) should see as much as possible of British business, banking and industry and enquired whether he would be able to come for a 3-day visit. He would be able to come from 12-14 December. I am therefore writing to seek the Prime Minister's formal approval to host such a visit. We would also recommend a guard of honour for Mr Nemeth on 13 December. If the Prime Minister agrees, the best time and place would be immediately before the call on her at 1130 hrs on 13 December in the FCO Quadrangle.

Since his appointment in November 1988, Mr Nemeth has maintained the pace of reform set by his predecessor, Karoly Grosz, and has recently shown a growing independence from his party in deciding issues crucial to developing political pluralism. He has for example pushed legislation through parliament which bans political organisations in the workplace. Given the climate of economic and political change in Hungary, and the creation of a Know-How Fund for Hungary, Mr Nemeth's visit will provide an excellent opportunity to show how Britain can help Hungary.

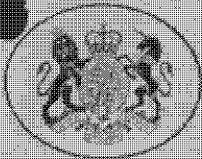
Jaw.
Stephen Wall

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

RESTRICTED

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

12 May 1989

Handwritten notes:
Amanda
w/steed
AP
1975
OB.MF

Dear Charles,

Visit by the Hungarian Prime Minister in December

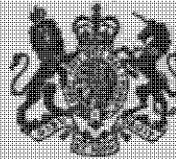
Our Embassy in Budapest have now informed us that the Hungarian Foreign Ministry has agreed the date of 13 December for Mr Nemeth's lunch and talks with the Prime Minister. Amanda Ponsonby said that this was your preferred date.

Yours ever,

Richard Gozney
(R H T Gozney)
Private Secretary

C D Powell Esq
PS/10 Downing Street

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

16 May 1988

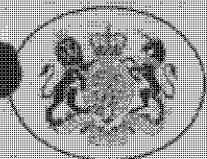
EC/Hungary: Message from the Prime
Minister to Chancellor Kohl

Thank you for your letter of 13 May enclosing a draft message from the Prime Minister to Chancellor Kohl about negotiations between the European Community and Hungary. The Prime Minister is content for this to issue.

I am copying this letter to Stephen Ratcliffe (Department of Trade and Industry) and Shirley Stagg (MAFF).

(CHARLES POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.



Foreign and Commonwealth Office

London SW1A 2AH

13 May 1988

*Eric Austin
Agree to send
this message?*

Dear Charles,

Yes Mr Austin 13/5

EC/Hungary: Message from Prime Minister to
Chancellor Kohl

In your letter of 5 May reporting the Prime Minister's meeting with Grosz, you suggested that she would wish to send an early message to Chancellor Kohl urging fresh efforts to complete the negotiations during the German Presidency. I attach a draft message, which incorporates a new proposal agreed between the Foreign Secretary, Lord Young and Mr MacGregor on how the Germans might break the deadlock in the negotiations.

Yes Mr

I am copying this letter and its enclosure to Stephen Ratcliffe (DTI) and Shirley Stagg (MAFF).

*Yours ever,
L Parker*

(L Parker)
Private Secretary

C D Powell Esq
PS/10 Downing Street

OUT TELEGRAM (CONT)

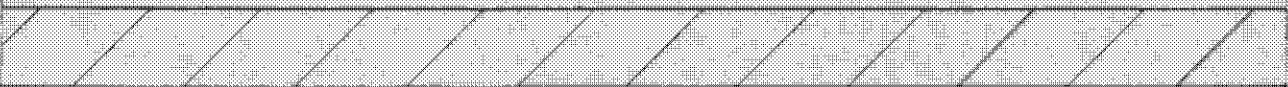
	Classification CONFIDENTIAL	Caveat	Precedence IMMEDIATE
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1 <<<<
 2 with the Hungarians that the major stumbling blocks to progress
 3 are the timing of abolition of the most sensitive quantitative
 4 restrictions (QRs) and the period of application of a
 5 supersafeguards clause. The Hungarians made it clear that they
 6 could, in principle, accept a supersafeguard clause, provided
 7 it was transitional and time-limited. It is therefore my
 8 impression that they would be prepared to give very serious
 9 consideration to a Community proposal whereby the most sensitive
 10 QRs would be abolished by the end of 1995 and supersafeguards
 11 would apply for a three year period thereafter ie until the end
 12 of 1998. From that point, normal GATT rules would apply, as
 13 qualified by Hungary's protocol of accession to the GATT.

14
 15 3. I hope that you will look seriously at this proposal. I am
 16 convinced that such an initiative will be necessary if early
 17 progress is to be made. I well appreciate that some of our
 18 Community partners may find it difficult to agree to this more
 19 flexible approach. But I can promise you strong British support
 20 (exclam). Ends.

21
 22 4. For Budapest. Please inform Bartha that the Prime Minister
 23 has sent a message to Kohl urging him to make a fresh effort to
 24 break the current deadlock in the EC/Hungary negotiations. You
 25 should explain that the formula proposed to Kohl is based on
 26 Bartha's indications to us last week of what might be acceptable
 27 to Hungary. We very much hope therefore that if this proposal
 28 is adopted as a Community position, Hungary will not reject it.
 29 You should impress on Bartha, as necessary, that he should not
 30 (not) reveal knowledge of the UK initiative, in view of
 31 Community competence.

32
 33 5. For UKRep Brussels. In view of the fact that the UK
 34 has hitherto been among the hardliners on the need for



For distribution order see Page Catchword:

OUT TELEGRAM (CONT)

	Classification CONFIDENTIAL	Caveat	Precedence IMMEDIATE
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1 <<<<
2 supersafeguards post-1998, please inform the Commission in
3 confidence of the Prime Minister's initiative with Kohl. You
4 should draw as appropriate on the background in TUR.

6 HOWE

8 YYYY

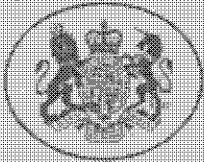
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for distribution order see Page Catchword:

MUNDEN 4 visits of PM July 87.



From the Minister

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

cc: [unclear]

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

*CD
12/5*

12 May 1988

Dear Geoffrey,

EC/HUNGARY

Thank you for copying to me your letter of 9 May to David Young.

As you know, my main concern in connection with the EC/Hungary trade negotiations is the sensitivity of some UK domestic agricultural, and particularly horticultural, production to trade from the Eastern Bloc.

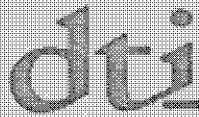
I feel it is important to make every effort to ensure that UK producers receive no less protection than their Continental counterparts (my letter of 3 March refers) but your earlier endorsement of my suggestion that agricultural QRs should not be settled until after 1992 and thereby become part of a harmonised EC approach, whatever that may be, towards imports does not seem to be at stake in your current proposal. I appreciate the real political benefits in a UK initiative towards the conclusion of an EC/Hungary agreement and I am content with the line suggested in paragraph 2 of your letter of 9 May, ie that the Prime Minister indicates to Chancellor Kohl our willingness to agree to a Community offer of abolition of all QRs towards Hungary by the end of 1995, coupled with a proposal that super-safeguards should apply for a further period of 3 years up to 1998.

I am copying this letter to David Young, Sir Robin Butler and Charles Powell (10 Downing Street).

*Yours,
JH*

JOHN MacGREGOR

Hugo's Visit of Hungarian Pt.



the department for Enterprise

CDD
12/5

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

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Miss Spences, (EDGE)

Direct line 215 5422
Our ref PS3ASK
Your ref
Date 11 May 1988

Cc Parliament to the Powell 11/10

✓ PS
AS/Mrs Chatter
PS/Mr Mellow
✓ Mr Ken
✓ Mr Letford
EAD
13/0.
Mr Ferguson
Mr Teakdale 21/5

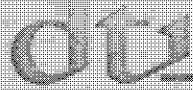
The Geoffrey,

Thank you for your letter of 9 May inviting me to agree to a modification of the position we have taken on applying a supersafeguard clause within the EC/Hungary Agreement.

I accept your analysis of the situation and the course you propose. We have argued that if QR's are to be abolished by 1998 we would still need supersafeguards after that date, but the Hungarians have made it clear that the application of supersafeguards beyond 1998 is not acceptable to them. And such support as we have within the Community for our position is limited and possibly unreliable.

We are now committed to taking an initiative to get the negotiations moving again but, as you say, we would have no leverage without indicating some flexibility on supersafeguards. In the circumstances, I think your proposal for abolition of QRs by 1995 followed by three years of supersafeguards, all within the framework of a 10 year agreement, is our best option. It would demonstrate flexibility and commitment and, if successful, would establish supersafeguards as a precedent for other negotiations with Eastern Europe and in GATT.





the department for Enterprise

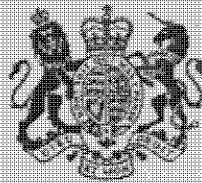
I am content that the Prime Minister should make this proposal to Chancellor Kohl on the basis that other Member states must also show similar flexibility to get the negotiations moving again. If we are to make this concession, it is more important than ever that we maintain our firm line on the relationship of the agreement to GATT. It will be necessary to ensure that supersafeguards take precedence over GATT procedures and that the 'normal' safeguard rules provided for in the agreement are exhausted before there is any recourse to GATT. We must also ensure we receive the maximum credit from the Hungarians for our initiative but I am sure you already have this in mind.

I am copying this letter to John MacGregor and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to read 'John MacGregor', written in a cursive style.



PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. 170/88



File

DSG

cc: FCO

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FILE CC
made, OPS

10 DOWNING STREET
LONDON SW1A 2AA

T

THE PRIME MINISTER

11 May 1988

Dear Prime Minister,

You were very kind to send me the beautiful Herend porcelain. It matches very well with some pieces which my son brought for me when he visited your country. It is a most thoughtful gift and will give me lasting pleasure.

We enjoyed your visit and I valued our talk very much.

With warm good wishes,

Yours sincerely

Rajawadee Chakrabarti

—

His Excellency Mr. Karoly Grosz

80



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

bc PC
10 May 1988

EC/HUNGARY

The Prime Minister has seen a copy of the Foreign Secretary's minute of 9 May to your Secretary of State about the European Community's negotiations with Hungary. She very much agrees that we must show some readiness to move ourselves on the issue of supersafeguards if she is to make a convincing appeal to Chancellor Kohl to persuade others to budge on issues of difficulty to them.

I am copying this letter to Lyn Parker (Foreign and Commonwealth Office), Shirley Stagg (Ministry of Agriculture, Fisheries and Food) and Trevor Woolley (Cabinet Office).

(CHARLES POWELL)

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

lho



FCS/88/095

SECRETARY OF STATE FOR TRADE & INDUSTRY

EC/Hungary

1. At her meeting with the Hungarian Prime Minister on 5 May, the Prime Minister promised Grosz that she would urge Chancellor Kohl to push for progress in the EC's negotiations with Hungary, and that the UK would make every effort to work for an early and successful conclusion.

2. This means that we must look again at the one area - supersafeguards - where the UK position blocks progress. As you know, we have insisted that supersafeguards should apply for a 5 year period beyond 1998 (when it is proposed that the most sensitive QRs - list C - should be removed). But the Hungarian team made it very clear in last week's talks that, while they might be prepared to accept supersafeguards, they would do so only on a transitional basis, and on condition that normal GATT rules would apply after 1998. I suspect they will not move from that position sufficiently far to accept ours; but I also suspect that they might agree to a Community offer of abolition of all QRs by the end of 1995, coupled with a proposal that supersafeguards should apply for a further period of 3 years, ie up to 1998. Would that not suffice for us?

3. If you and John MacGregor agree we might suggest that this proposal should feature in the early message to Kohl which the Prime Minister wishes to send. It seems

/clear

Prime Minister
I would have thought
we must do this

Yes Mr CAB
9/12

EC(E) c/c

EC 13

PS/Mrs Chalker

PS/Mr. Mellor

Mr. Braithwaite

Mr. Kerr

Mr. Ratford

EE D

Mr. Judd Cabinet

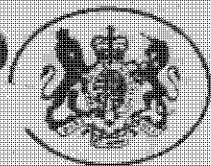
Mr. Powell No 10

Hon M Pakenham

UK/EEC Brussels

P. Harborne Budapest

Gr 9/12



clear to me that if such a message were to contain only exhortation to greater effort, and no sign of UK flexibility on supersafeguards, Kohl's effort in response would be directed against us.

4. I am copying this minute to John MacGregor and to Sir Robin Butler.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
9 May 1988

Approved by the Foreign Secretary & signed in his absence abroad.

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T646/88

SUBJECT
CCMadv
ops.

2

PRIME MINISTER

MESSAGE RECEIVED FROM THE PRESIDENT OF HUNGARY - 7 MAY AT
1815 HOURS:

"To the Right Honourable Margaret Thatcher, M.P., Prime
Minister, London.

Leaving the territory of the United Kingdom of Great Britain
and Northern Ireland, I avail myself of this opportunity to
renew to you my gratitude for the cordial reception and the
rich programme. I am convinced that our talks will promote
greater development for the relations between our two
countries and will contribute to defending European co-
operation.

President of Hungary"

CDP

C. D. POWELL

7 May 1988

mf

DS2AHH

From: Miss Spencer, ECD(E)
 Date: 6 May 1988
 cc: PS/Mrs Chalker
 PS/Mr Mellor
 Mr Braithwaite
 Mr Ratford
 Mr Figgis, EED
 Mr Budd, Cabinet Office
 Mr Powell, No 10
 The Hon M A Pakenham,
 UKRep Brussels
 P Harborne Esq, Budapest

Mr Kerr
 Private Secretary

EC/HUNGARY

Problem

1. To provide the Prime Minister with a proposal to put to Chancellor Kohl which might help to break the current deadlock in the EC/Hungary negotiations.

Recommendation

2. I recommend that, as a first step, the Secretary of State should write to Lord Young to propose that the UK should be prepared to show further flexibility over the question of timing of QR abolition and supersafeguards. I submit a draft.

3. If this is agreed, I further recommend that the Prime Minister should then write to Chancellor Kohl to suggest that such an initiative on the Community's part might help to provide a breakthrough in the negotiations. I recommend that we should then in parallel instruct HMA Budapest to

inform the Hungarians in confidence (given Community competence) that the Prime Minister is taking this initiative with Chancellor Kohl in view of Prime Minister Grosz's appeal to her (and other Government Ministers) during his visit yesterday. EED concur.

Background

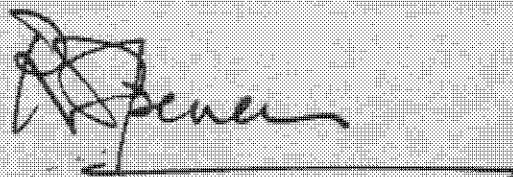
A 4. During his calls yesterday on the Secretary of State, Lord Young and the Prime Minister, Grosz made a special plea for UK support to help break the deadlock in the EC/Hungary negotiations. He and his officials strongly argued their case for progressive elimination of the most sensitive QRs (list C) ideally by 1992, but at worst between 1992 and 1998. They added in private that they would be prepared to accept supersafeguards on condition that they would not remain in force beyond 1998 (after which normal GATT safeguards would apply). The Hungarian argument about the non-availability of product lists is no longer directly relevant, as the Commission yesterday handed over a complete set to the Hungarian negotiating team.

5. The Hungarians know that the UK have so far been the prime mover within the Community for the continuation of supersafeguards beyond 1998 to protect the most sensitive (list C) products following their liberalisation at that time. The traditionally progressive EC member states, including the Presidency, have however been prepared to show greater flexibility on this point, though the Germans would have some difficulty in accepting abolition of list C products before 1998.

6. Any letter from the Prime Minister to Chancellor Kohl urging him to make fresh efforts in the negotiations would need to demonstrate that we are prepared to show greater flexibility in our position and that our ideas would stand a reasonable chance of being accepted by the Hungarians (assuming we can get the rest of the Community on board).

The proposal in the draft letter to Lord Young (QR abolition by end of 1995, followed by a 3 year period of supersafeguards) stands a fair chance of being accepted by the Hungarians, taking account of the comments made by Bartha in the meetings and in the margins - if they genuinely want to conclude the negotiations. If we put it forward, we should be able to tell the Hungarians (privately) that the UK had taken the initiative in seeking to break the log jam. It would then put the onus on the Presidency to persuade the Community as a whole.

7. As a first step, we need to obtain the agreement of Ministers in DTI, as the lead Department on the trade aspects and MAFF, as there are a number of agricultural QRs covered by the agreement. Our initial soundings, at official level in DTI and MAFF, suggest that they would recommend their Ministers to support this initiative.



Rosemary Spencer

I agree. The idea of a message to Kohl causes me no qualms — provided that we have sorted out in advance our position on supersafeguards. If we can't signal to Kohl that we are now ready to be more flexible on safeguards, his reply to the Prime Minister is all too predictable.

JLKew
6/2

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: Secretary of State

Reference R12AAI

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO: Secretary of State for Trade and Industry

Your Reference

Copies to:

See below

EC/HUNGARY

PRIVACY MARKING

.....In Confidence

CAVEAT.....

SUBJECT:

1. At her meeting with the Hungarian Prime Minister on 5 May, the Prime Minister promised Grosz that she would urge Chancellor Kohl to push for progress in the EC's negotiations with Hungary, and that the UK would make every effort to work for an early and successful conclusion.

2. This means that we must look again at the one area - supersafeguards - where the UK position blocks progress. As you know, we have insisted that supersafeguards should apply for a 5 year period beyond 1998 (when it is proposed that the most sensitive QRs - list C - should be removed). But the Hungarian team made it very clear in last week's talks that, while they might be prepared to accept supersafeguards, they would do so only on a transitional basis, and on condition that normal GATT rules would apply after 1998. I suspect they will not move from that position sufficiently far to accept ours; but I also suspect that they might agree

Enclosures—flag(s).....

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

PRIVACY MARKING

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In Confidence

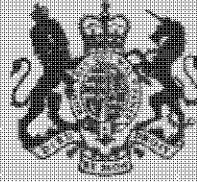
to a Community offer of abolition of all QRs by the end of 1995, coupled with a proposal that supersafeguards should apply for a further period of 3 years, ie up to 1998. Would that not suffice for us?

3. If you and John MacGregor agree we might suggest that this proposal should feature in the early message to Kohl which the Prime Minister wishes to send. It seems clear to me if such a message were to contain only exhortation to greater effort, and no sign of UK flexibility on supersafeguards, Kohl's effort in response would be directed against us.

4. I am copying this letter to John MacGregor and to Sir Robin Butler.

CONFIDENTIAL

MEETING RECORD
SUBJECT
CC MASTER



of the MS
CPC
Marty Keast

10 DOWNING STREET

LONDON SW1A 2AA

5 May 1988

From the Private Secretary

JP (see PS)

Dear dyn,

PRIME MINISTER'S MEETING WITH THE HUNGARIAN
PRIME MINISTER

The Prime Minister had a talk this evening with the Hungarian Prime Minister. Mr Grosz was accompanied by Mr Kovacs, the Deputy Foreign Minister and the Hungarian Ambassador. HM Ambassador, Budapest was also present.

Introduction

The Prime Minister recalled her visit to Hungary in 1984 which had made a deep impression on her. She asked that her regards be conveyed to Mr Kadar. Mr Grosz thanked the Prime Minister for inviting him to the United Kingdom. Her visit to Hungary was remembered with great pleasure. She was a very popular person there. Indeed the visit had been a milestone in relations between Britain and Hungary. Now it was his good fortune to be the first Hungarian Prime Minister to visit the United Kingdom since the Second World War. He brought greetings from Mr Kadar and also from Mr Ryzkhov who had recently been in Budapest and had told him at length about her visit to the Soviet Union.

Economic and Political Reforms in Hungary

The Prime Minister said that there was a great air of change in East/West relations. It was an exciting moment to be in government but placed a heavy responsibility on leaders to give a lead and convince their people of what needed to be done. We were following very closely what was happening in Hungary. She was pleased to hear that agreement had just been reached with the IMF. The fact was that the measures needed to get the economy right would impose some hardship in the short term, while the benefits would take longer to work through. It was essential not to waver.

Mr Grosz said that Communist societies faced serious psychological and ideological problems. They had all made the mistake of relegating the individual and putting too much emphasis on uniformity. Hungary was perhaps ahead of other Communist societies in beginning to break away from this. They had learned the lessons of 1956 when the ruling party had

CONFIDENTIAL

completely lost the support of the population. It was greatly to Mr Kadar's credit that the situation had changed since then. He had seen the need for Hungary to implement socialism flexibly and in keeping with its own traditions. This had given the country a period of rapid development. But that momentum was now exhausted. New ways had to be found to free people's energies and make the economy more dynamic.

Mr Grosz continued that the immediate task was to reform the structure of Hungary's economy. He had studied the Prime Minister's speeches and had learned greatly from them. But not all her solutions could be adopted in Hungary, where the state owned 95 per cent of the means of production and the private sector only 5 per cent (although that 5 per cent produced 20 per cent of the national income). Hungary was working out a new strategy which would give the private sector a greater share in the economy and provide those working for the state with more incentives. The latter was an essential ingredient. For instance they were experimenting with issuing shares to employees in large firms. The response had been good, with some 25-30 per cent of employees subscribing. To date only those actually working in a particular firm were allowed to acquire shares in it. But a Bill was now in preparation which would allow anyone to acquire shares. The aim was to obtain access to a mix of state, private and foreign capital. There was also a particular need to achieve a better distribution of resources. At present the state took too much and left too little to individual enterprises. He would like to see market forces playing a bigger role. It was no secret that such proposals were causing some heart-searching within the Hungarian Party and Government because they marked a significant breach with long standing policies and traditions. He hoped that such reforms would lead to a qualitative change in people's lives in Hungary, above all by reducing the role of the state.

The Prime Minister welcomed the changes that were taking place. The great scourge of the twentieth century was the notion that Government's created wealth. It would be important to change people's psychology so that they did not automatically look to Government for their standard of living and also to establish a clear link between effort and reward. Small business had a particular role to play in Hungary's development. Mr Grosz said that the price of the changes he had described was a significant increase in Hungary's indebtedness. His priority was to obtain sufficient resources to enable him to carry through the major adjustments which he envisaged. Hungary would need help from outside, for instance in the form of joint ventures. These could help introduce new ways of thinking as well as bring additional resources. He had been encouraged by his discussion on this with the CBI. Joint ventures could also provide training in management which was particularly necessary. To sum up, he wanted to swing the gates wide open on Hungary's politics and economy and introduce more modern thinking.

East/West relations

The Prime Minister referred to the changes which Mr Gorbachev was making in the Soviet Union. In essence he understood that seventy years of Communism had failed to produce the increase in living standards and the quality of life which was needed and that in consequence the Soviet Union was falling ever further behind western societies. Its position as a super-power was owed exclusively to its military strength. She believed that Gorbachev was determined to see these changes through even though he was encountering very substantial difficulties. Mr Grosz agreed. There were great constraints in the Soviet Union. Hungary was more fortunate, being such a small society by comparison. Both Gorbachev and Ryzkhov had plenty of courage and resolve. But Ryzkhov had recently told him that they were encountering even greater difficulties than they had expected. Apparently the real problem was not so much the resistance of the bureaucracy as the fact that the great mass of ordinary people found it hard to comprehend the changes which were being made. The rigid system which had been imposed in the Soviet Union for so long meant that there was just not the necessary degree of political awareness. The Prime Minister agreed that the problem was basically one of psychology and communication. The fault of Communist societies was that they discouraged leadership. People waited to be told what to do. Even though a very different atmosphere now was evident in the Soviet Union, it would be a long time before the results of Mr Gorbachev's reforms came through.

The Prime Minister continued that glasnost and perestroika offered new opportunities for Eastern Europe. They enlarged individual freedom and once that process started it would be difficult to halt it. It was one of those moments in history when there was a chance to take a major step forward. Equally it was important to manage change and not to go too fast. This was where relations between countries on either side of the East/West divide, such as Britain and Hungary, could help by giving support and encouragement.

Mr Grosz agreed with the Prime Minister's analysis. He emphasised the great differences between conditions in the Soviet Union and those in Eastern European countries. The Soviet Union was much less developed. He believed that it would now focus much more on its internal problems rather than its world role. As the Prime Minister had said, this should create opportunities for East European countries. But then they faced many problems too. For instance things were bad in Romania. The Prime Minister asked whether Mr Grosz expected the Romanian regime to last. Mr Grosz thought that it would. People did not like the present leadership but tolerated it. Moreover there was a fairly broad band of people in Romanian who to be frank had been corrupted and had a vested interest in the present regime. While he would not give much for Ceausescu's long term prospects, he would probably survive for the time being.

Mr Grosz continued that the main problem in Poland was

the state of the economy. Political tensions there stemmed from economic difficulties and the huge debts which Poland had amassed. The Prime Minister said she could not see how Poland would get out of its difficulties. The Poles did not seem to understand the need for sustained sacrifices if they were ever to cure their economy. The decision to hold a referendum, in effect on the question whether there should be price rises, had shown very erratic political judgment on the part of the Polish leadership. The outcome had been perfectly predictable. Mr Grosz said that he had recently asked General Jaruzelski why he had held the referendum. Jaruzelski had said that people had to be given the choice whether to carry out reforms rapidly with a heavier burden in the short term, or spread them out over a longer period so that the burdens were rather less. Characteristically the Polish people had opted for rapid reform with lesser burdens which was the one option not on offer. He thought that Jaruzelski wanted gradual reform. There was tremendous unrest below the surface and the leadership had to proceed cautiously. The problem with Solidarity was that they had no real alternative concept. The Prime Minister agreed that Solidarity had not known how to use freedom when they had won it. Mr Grosz commented that Solidarity's performance also showed how much easier it was to be in opposition than in Government.

The Prime Minister said that the situation in Yugoslavia was almost as difficult. She had seen Mr. Djuranovic recently, and found him very depressed about the prospects. How did Mr. Grosz see the situation in Bulgaria? Mr. Grosz said that the Bulgarians had produced a number of quite clever ideas, but had failed to put them into practice. They were confused by Gorbachev's policies and rather fearful of them. They were therefore stuck with half solutions.

EC/Hungary

Mr. Grosz referred to Hungary's disappointment at the lack of progress in its negotiations for a Trade and Economic Cooperation Agreement with the European Community. The Prime Minister said that the United Kingdom was keen to see the negotiations brought to a successful conclusion. We were being as helpful as we could. The problem was that some European Community Member States wanted to keep their quantitative restrictions. Mr. Grosz said that the fact of the quantitative restrictions was not a real problem. The difficulty was that the Hungarians still did not know what products those restrictions would apply to. The Community had failed to hand over a list. In any case, the amount of trade involved was not very large, which made him inclined to think that the difficulties on the European Community side were political in origin. Hungary was knocking on the door, but there was no answer. The Prime Minister said that she fully understood Hungary's frustration with the lack of progress. We would knock on the door as well. She would pursue the matter with Chancellor Kohl and if necessary raise it at the European Council in Hanover. It was absurd that the negotiations had dragged on so long without a result, although the Hungarians should not underestimate the importance and

difficulty of an agreement, and the need for proper safeguard provisions. Mr. Kovacs interjected that the United Kingdom was insisting on a super-safeguard clause, going well beyond normal GATT safeguards, which would be activated in the event of a sudden surge of imports of sensitive products. Mr. Grosz added that he doubted the need for this since Hungary was not exporting any products to the Community which were likely to create turmoil. The Prime Minister retorted that if there was no problem, then the safeguard provisions should not cause any difficulty. The fact was they were necessary to reassure some of the Mediterranean countries. She repeated that the United Kingdom would do its best to bring the negotiations to an early and successful conclusion.

Visits

Mr. Grosz invited the Prime Minister to pay a further visit to Hungary. She really would be very welcome. The Prime Minister said that she would like to come again, although this time in the summer. Mr. Grosz then handed over a letter of invitation to The Queen to visit Hungary at a convenient date. I have written separately about this.

Television

The Prime Minister said that she would be giving an interview to Hungarian Television straight after the meeting. She asked whether there were any particular points which Mr. Grosz would wish her to make. Mr. Grosz said it would be helpful if the Prime Minister could express her interest in and support for Hungary's reforms, and repeat what she had said to him about the EC/Hungary Agreement. The transcript of the subsequent interview will be available to you.

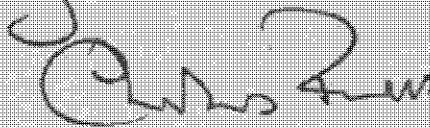
Speeches

The texts of the prepared speeches by the Prime Minister and Mr. Grosz were circulated at the dinner (I enclose a copy of Mr Grosz' text). However, both of them in the event made entirely different speeches off the cuff. Since we had no recording equipment to hand, they are lost for ever. But they were very good.

Finally, I should say that my bland bureaucratic prose does not do justice to what was a lively and stimulating exchange, nor to Mr. Grosz's evident enthusiasm for change and reform. He came across as impressively self-assured and determined to press ahead, although often sombre about the scale of the difficulties facing Hungary.

We shall need to follow up the point on EC/Hungary. I think the Prime Minister would wish to send an early message to Chancellor Kohl urging fresh efforts to complete the negotiations during the German Presidency, and giving notice that she would otherwise expect to raise the matter at the Hanover European Council.

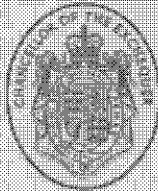
I am sending copies of this letter to Alex Allan (HM Treasury), Stephen Ratcliffe (Department of Trade and Industry), and Trevor Woolley (Cabinet Office).

Yours sincerely,


C.D. Powell

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

[Handwritten mark]



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

5 May 1988

C D Powell, Esq
No.10 Downing Street
London SW1A 2AA

[Handwritten initials: EDP 575]

[Handwritten: Dear Charles]

VISIT OF HUNGARIAN PRIME MINISTER

If Mr Grosz raises relations with the IMF, the Prime Minister should know that the Hungarians are reported to have agreed a programme with the IMF (Budapest telegram No 204 on 3 May.) We do not have details but understand that further devaluation has been postponed although 'compensatory action' has been taken on interest rates.

Hungary has so far avoided rescheduling with both the banks and the Paris Club but will need to implement meticulously the terms of the IMF stand-by arrangement if it is to continue to service foreign debt and maintain the ability to borrow new money.

Copies go to the private secretaries of the Secretaries of State for Foreign Affairs, Trade and Industry, Social Services, Education and Science and the Environment.

[Handwritten signature]

[Handwritten signature]

J M G TAYLOR
Private Secretary



Via MJD CW
cc PC
Enc. sent to FCO

10 DOWNING STREET
LONDON SW1A 2AA

5 May 1988

From the Private Secretary

When the Hungarian Prime Minister called on the Prime Minister this evening, he handed over a letter to The Queen from the President of the Presidential Council of the Hungarian People's Republic, containing an invitation to her to visit Hungary at a mutually convenient date, and asked that this be conveyed to The Queen. I enclose the original of the invitation together with a translation.

The Prime Minister said that she would certainly transmit the invitation to Her Majesty. She knew that The Queen had a very heavy programme of visits stretching well into the future, and thought it unlikely that the invitation could be taken up in the near term. She was sure, however, that The Queen would be grateful for the suggestion.

I am sending a copy of this letter to Tony Galsworthy (Foreign and Commonwealth Office).

Charles Powell

The Rt. Hon. Sir William Heseltine, KCB, KCVO.

May 4, 1988

Her Majesty
Queen Elizabeth II
L o n d o n

Your Majesty,

I am delighted to see the relations between our countries evolve on the basis of mutual respect and serve the interests of our peoples. Regular high-level contacts and notably the current meeting between Mrs. Margaret Thatcher and Mr. Károly Grósz are a significant contribution to this end. I am convinced that these talks at the prime ministers' level will lend a new impetus to Hungarian-British cooperation. Developments on the international scene also create conditions conducive to relations of ours encompassing not only political dialogue and economic cooperation but scientific, technical and cultural exchanges and human contacts as well.

We think of the visits made to Hungary over the last few years by members of Your Majesty's family as outstanding events of the relations between our countries. I am pleased to be able to receive, in a matter of days, His Royal Highness the Duke of Kent in Budapest.

Your Majesty,

It would be a great honour for the Hungarian People's Republic if we could welcome Your Majesty on an official visit to Hungary. I am convinced that this visit would make a contribution of tremendous importance to broadening

relations between the Hungarian People's Republic and the United Kingdom and to strengthening confidence and understanding between our peoples.

May I avail myself of this opportunity to present to Your Majesty the assurances of my highest consideration.

Károly Németh
President
of the Presidential Council
of the
Hungarian People's Republic

PRIME MINISTER

Dinner for Hungarian Prime Minister
Thursday, 5 May

I attach the list of guests attending
the dinner tomorrow evening together with
a draft seating plan. The seating plan
has been seen by Charles Powell.

Agree?

Sue Goodchild

4 May 1988

*Interpreters

LIST OF GUESTS ATTENDING THE DINNER TO BE GIVEN BY THE PRIME MINISTER
IN HONOUR OF HIS EXCELLENCY MR. KAROLY GROSZ, PRIME MINISTER OF THE
HUNGARIAN PEOPLE'S REPUBLIC ON THURSDAY, 5 MAY 1988 AT 7.45 PM FOR 8.00 PM
LOUNGE SUIT

The Prime Minister

Hungarian Suite

*His Excellency Mr. Károly Grosz	Hungarian Prime Minister
His Excellency Dr. László Kapolyi	Commissioner of the Council of Ministers
His Excellency Mr. Ferenc Bartha	State Secretary of the Ministry for Trade
His Excellency Mr. László Kovács	Deputy Minister for Foreign Affairs
*His Excellency Mr. Ferenc Rátkai	Deputy Minister for Education
Mr. Tamás Beck	Chairman of the Hungarian Chamber of Economy
His Excellency the Ambassador of the Hungarian People's Republic and Madame Domokos	
His Excellency Dr. József Hajdú	Ambassador, Head of Protocol Department, MFA
*Major General Sandor Kállai	First Deputy Commander in Chief of the Government Security Service

HM Government

Rt. Hon. Sir Geoffrey Howe, MP and Lady Howe	
Rt. Hon. Douglas Hurd, MP and Mrs. Hurd	
Rt. Hon. George Younger, MP and Mrs. Younger	Defence links with Hungary
Rt. Hon. John Moore, MP and Mrs. Moore	DHSS planning cooperation with Peto Institute for Conductive Education, Budapest
The Hon. Alan Clark, MP and Mrs. Clark	Visited Hungary 1987

Labour MPs

Rt. Hon. Harold Walker, MP
and Mrs. Walker

Conservative MPs

Mr. Robert Adley, MP
and Mrs. Adley

Chairman, British Hungarian
Parliamentary Group

House of Lords

The Lord Beloff
and Lady Beloff

The Lord Wyatt
and Lady Wyatt

Lady Wyatt is Hungarian

Stock Exchange

Mr. Graham Ross Russell
and Mrs. Ross Russell

Deputy Chairman, Stock Exchange Council
(Hungary is developing a bond and stock
market)

Industry

Sir James Cleminson
and Lady Cleminson

British Overseas Trade Board. East
European Trade Council. Recently visited
Hungary

Sir Paul Girolami
and Lady Girolami

Chairman, Glaxo

Sir Ronald McIntosh
and Lady McIntosh

Chairman, APV (Joint Venture in Hungary)

Sir Anthony Jolliffe
and Lady Jolliffe

President, London Chamber of Commerce
(trading interests with Hungary)

Media

Mr. Bruce Anderson

Sunday Telegraph

Sir David English
and Lady English

Daily Mail

Scientific

Medical

Sir Walter Bodmer
and Lady Bodmer

Imperial Cancer Research. European/
Eastern Bloc Council for Cancer Research

Mr. Douglas Shapland

Chairman, The Spastics Society
Has just returned from Hungary

Agricultural

The Earl of Selborne
and Countess of Selborne

Chairman, Agricultural and Food Research
Council

Miscellaneous

Mr. John Roper
and Mrs. Roper

Chairman, Great Britain-East Europe Centre

Mr. Henry Wrong
and Mrs. Wrong

Director, Barbican Centre (organising
Hungarian Festival, London, 1989)

Miscellaneous (continued)

Professor Michael Branch and Mrs. Branch	Director, School of Slavonic and East European Studies, University of London
Dame Judi Dench and Mr. Michael Williams	actress and actor
Lady Solti	wife of Sir Georg Solti conductor
Mr. Antal Dorati and Mrs. Dorati	composer and conductor. Born in Hungary
Miss Jean Muir and Mr. Harry Leuckert (husband)	British Fashion designer

Officials

Sir John Blelloch and Lady Blelloch	PUS, Northern Ireland Office
Mr. Len Appleyard 10 Downing Street	HM Ambassador, Budapest
Miss Carol Thatcher	
Mr. Charles Powell	

PRIME MINISTER

* HE MR. KAROLY GROSZ

HE Dr. Laszlo Kapolyi

Rt. Hon. Sir Geoffrey Howe

Lady Howe

HE Mr. Ferenc Bartha

HE Mr. Laszlo Kovacs

Rt. Hon. Douglas Hurd

Mrs. Hurd

* HE Mr. Ferenc Ratkai

Rt. Hon. John Moore

Rt. Hon. George Younger

Mr. Tamas Beck

Mrs. Younger

Madame Domokos

HE Hungarian Ambassador

Mrs. Moore

The Earl of Selborne

The Hon. Alan Clark

Mrs. Clark

Rt. Hon. Harold Walker

Mrs. Walker

HE Mr. Jozsef Hajdu

Sir Ronald McInrosh

The Countess of Selborne

The Lord Beloff

The Lady Wyatt

The Lady Beloff

The Lord Wyatt

Lady Girolami

Sir Anthony Jolliffe

Mr. Antal Dorati

Lady Solti

Sir James Cleminson

Lady McIntosh

Lady Jolliffe

Sir Paul Girolami

Miss Jean Muir

* Major General Sandor

Sir David English

Lady Bodmer

Sir John Blemloch

* Kallai
Lady English

Lady Blemloch

Mr. Len Appleyard

Mrs. Dorati

Sir Walter Bodmer

Mr. Graham Ross Russell

Mr. Henry Wrong

Mr. Robert Adley

Mrs. Wrong

Lady Cleminson

Dame Judi Dench

Mrs. Ross Russell

Mr. Michael Williams

Mr. Douglas Shapland

Mr. John Roper

Professor Michael Branch

Miss Carol Thatcher

Mrs. Adley

Mrs. Branch

Mrs. Roper

Mr. Bruce Anderson

Mr. Harry Leuckert

Mr. Charles Powell

ENTRANCE

PRIME MINISTER

cc. Mr. Ingham

INTERVIEW WITH HUNGARIAN TV

You have agreed to do a brief interview with Hungarian TV immediately after your meeting with Mr. Grosz tomorrow. The interviewer is Mr. Aczel, who interviewed you at the time of your visit to Hungary four years ago.

Points which you will want to get across are:

- your warm memories of your visit to Hungary;
- the degree to which the relations between Britain and Hungary have blazed a trail for improved East/West relations on a wider scale. We have been an example to others;
- both countries have approached their relationship on a realistic basis, not trying to detach each other from their respective alliances and loyalties;
- the important role played in these relations by personal contacts and your desire to see these further enlarged. You should mention your gratitude for the help which so many British children have received from the Peto Institute for Conductive Education;
- our interest in and sympathetic support for the political and economic reforms being pursued in Hungary. We shall be willing to support Hungary in its negotiations with the IMF for a stand-by arrangement;
- the importance you attach to Mr. Grosz's visit, the first by a Hungarian Prime Minister since the War. You will want to give a brief account of the subjects discussed;

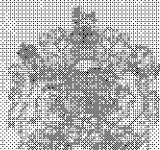
- your admiration for the way in which Hungary is working out its own solutions to its problems;
- our consistent support for an agreement between Hungary and the EC;
- your views on the Gorbachev phenomenon, conveying some sense of excitement at the changes which could be in prospect in the Soviet Union and their implications for Eastern Europe.

Some fuller briefing by the FCO is attached.

C.D.P.
CDP

4 May, 1988.

JD3BJL



CDD
12/5

BUCKINGHAM PALACE

11th May, 1988.

Dear Charles.

copy

Thank you for your letter of 5th May to Bill Heseltine, with which you enclosed a letter to The Queen from the President of the Presidential Council of the Hungarian People's Republic. I have laid this before Her Majesty, who has noted the invitation contained in the letter and has noted with approval the terms of the Prime Minister's response to the Hungarian Prime Minister.

I am sending a copy of this letter to Tony Galsworthy, and I would be grateful if the Foreign and Commonwealth Office could submit a draft reply to the President in due course.

Yours ever,

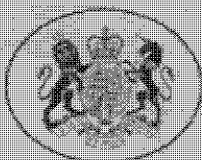
Ken.

(KENNETH SCOTT)

C. Powell, Esq.



Hawesbury: 1st of Pm July 59



Foreign and Commonwealth Office

London SW1A 2AH

3 May 1988

Dear Charles,

Visit of Hungarian Prime Minister

Thank you for your letter of 28 April recording the Prime Minister's agreement to an interview with Endrei Aczel of Hungarian television at 1800 hrs on 5 May.

Mr Aczel (pronounced: OT-SAIL) is delighted. He has said he would like the interview to cover the following:

- (i) (briefly) UK/Hungarian relations and what has been achieved by Mr Grosz's visit;
- (ii) EC/Hungary, and especially why the UK supports Hungary's application;
- (iii) UK relations with Eastern Europe in general;
- (iv) the Gorbachev phenomenon, and the Prime Minister's personal relations with Gorbachev;
- (v) trends in East/West relations and UK/Hungarian relations in the four years since Mr Aczel's last interview with the Prime Minister, including the significance, with hindsight, of the Prime Minister's own visit to Budapest.

The Prime Minister will not, I imagine, need to be briefed on most of this agenda. You will have seen my letter to you of 29 April, about the call on the Prime Minister by Mr Grosz. I attach some notes on UK relations with Eastern Europe, on which the Prime Minister may like to draw, and some additional points on EC/Hungary to cover item (ii) above.

Mr Aczel will travel with Mr Grosz's party and will contact the No 10 Press Office direct to finalise arrangements for the interview.

Yours ever

L Parker
(L Parker)
Private Secretary

UK RELATIONS WITH EASTERN EUROPE

- Have tried to get away from bloc approach; recognise enormous diversity in Eastern and Central Europe; need to approach each country individually.
- Security not just a matter for superpowers. Agree with Hungarians on importance of smaller states. Flow of people, ideas and information important in building knowledge and confidence. Not just matter for governments. Important for individuals too. Hungary a front-runner in range of private travel and contacts.
- Official relations vary with extent of historical, commercial and cultural links. Naturally closer with those whose outlook and practices are closer to our own. But aim for frank and honest dialogue with all countries, not glossing over problems where we perceive them. Foreign Secretary has visited all East European countries, and been twice to Hungary.
- Time of change in Eastern Europe. Most governments have recognised deficiencies of traditional centrally-planned system. Some, like Hungary, are keen to reform outdated structures. Naturally welcome this, and will do what we can to help.
- Also welcome any moves to give peoples of Eastern Europe greater freedom in their personal lives and greater say in running of their countries. Hard times ahead. Cannot expect people to cooperate if not trusted and consulted by governments. Consent much more effective than coercion. Glad Hungarians seem aware of these factors.
- Eastern Europe always unhappy in rigid Stalinist straitjacket. Glad cultural diversity and national identities have reasserted themselves. Hope process will

continue.

EC/Hungary

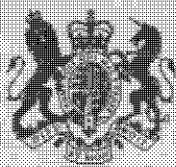
- UK instrumental within Community in pushing for early negotiations with Hungary: hence paternal interest in it. More importantly, UK support is recognition of efforts Hungary has made to develop its economy, in order to enable it to trade more broadly with Community. Agreement would also highlight the importance which Britain and other members of the Community attach to relations with Hungary.

MONSARY: V. 1. 7

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10 DOWNING STREET

Prime Minister

Hungarian Prime Minister

I think you will
be interested to read
these accounts of a
press conference given
by Mr. Gross in
Hungary, on the
eve of his visit here.

CB

3/5

Dissidents launch umbrella front in Hungary to campaign for democracy

Kadar could be toppled as calls for change mount

Misha Glenn in Vienna

THE HUNGARIAN Prime Minister, Mr Karoly Grosz, has admitted that the party General Secretary, Mr Janos Kadar, may be asked to step down at the forthcoming conference of the Hungarian Socialist Workers' Party.

Speaking to Western journalists on the eve of a visit to Britain, Mr Grosz said that delegates to the extraordinary conference, which begins on May 20, will discuss whether Mr Kadar should be replaced.

"It will be up to the delegates elected to the conference to decide whether they can continue to count on the activity of Janos Kadar as General Secretary of the party, or whether they will choose someone else," he said.

Mr Kadar, aged 75, who has held the top party post in Hun-

gary since the defeat of the revolution in 1956, is said to be fighting for his political life.

A powerful alliance of technocratic and liberal forces in the Hungarian party is keen to see a change at the top.

The conference, convened to discuss its ideological difficulties, has taken on enormous importance both inside and outside the party.

Mr Grosz, known for his cautious approach to delicate political issues, said yesterday that it was quite conceivable that Mr Kadar would be elected honorary head of the party, while a younger person was appointed to the working position of General Secretary.

Although the Prime Minister has been careful not to attack the General Secretary directly, Western observers in Budapest believe that Mr Grosz has become impatient with Mr Kadar's autocratic methods.

Since becoming government leader last June, Mr Grosz has introduced bold monetarist regulations, which include Eastern Europe's first taxation system. Mr Kadar and the Old Guard, as it is known, have not greeted this policy with any enthusiasm.

The Prime Minister also reacted yesterday to Sunday's founding conference of the Network for Free Initiatives.

The meeting, which was attended by over 200 people, identified the establishment of a pluralist parliamentary democracy in Hungary as its long-term goal.

The dissident philosopher, Janos Kis, said: "We are not an organisation, we are not a movement, we are just a framework."

But he added: "There should be a real and genuine political opposition, and for that the network could be very useful as a

first step." The launch followed an appeal six weeks ago by a group of 46 intellectuals which collected over 900 signatures.

This is the first time that opposition groups have created such a broad political front. It includes representatives of the so-called "democratic opposition", environmental groups and church leaders.

Mr Grosz suggested that the network should have waited seven months before announcing itself. In December, his government intends to pass a law regulating organisations not connected with party or state.

However, Mr Grosz said he thought that it would be counter-productive for the state to intervene with repressive measures against such opposition groups.

The founding congress of the network has been well-timed, as it is likely to benefit from the evident disarray in the party.

Hungarian party to vote on future of Janos Kadar

THIRTY two years after becoming Hungarian leader at the suppression of the 1956 uprising, Janos Kadar's position as leader of the Communist party is in the balance.

Karoly Grosz, the prime minister and a favourite to succeed him, told British journalists on the eve of his own visit to London that the succession question is on the agenda of the extraordinary party conference which begins on May 20.

"It will be up to the delegates to decide whether to count further on Janos Kadar or to choose someone else." Old trees are very valuable, he said, but sometimes they prevent younger ones growing up in their shadow.

After months of speculation, this is the first official confirmation that Janos Kadar and several others of the 12-member Politburo are under pressure to go. The draft proposals for the conference, the first of its kind since

From Nicholas Thorpe
in Budapest

1957, were fiercely attacked by local party organisations. Such criticism, a wave of expulsions from the party, and the continued mushrooming of autonomous citizens' groups have combined with the early summer heat to create a mood of ferment and expectation in the country.

On Sunday several hundred people crammed into a Budapest restaurant to found the Network of Free Initiatives, a framework of dissidents, youth, environmental and church groups, and individuals whose long-term aim is multi-party parliamentary democracy.

"Repressing alternative views would harm our national interests, as it would mean excluding people who wish to build the nation," said Mr Grosz. But he also suggested they wait until a new

law on associations goes before parliament in December.

The party conference was necessary because of the mistakes made at the 13th Party Congress in 1985. The only possible way out for the Hungarian economy was to follow several of the steps taken by Margaret Thatcher in Britain. Ordinary Hungarians will soon be able to buy shares, and British-style management training, and an institutional framework for international capital will be set up, he said.

Mr Grosz comes from the city of Miskolc in the industrial north-east of Hungary. The International Monetary Fund recently postponed further credit to Hungary due to lack of progress in industrial restructuring. The first redundancies in the steel and textile industries and the closing down of small businesses already threaten to bring post-industrial gloom, familiar in parts of Britain, to his home town.

Hungarian leader hints at removal of Kadar

From Richard Bassett, Budapest

Hungary's forthcoming Communist Party conference, expected to begin on May 20, will almost certainly settle the issue of Mr Janos Kadar's successor as party leader, Mr Karoly Grosz, the Prime Minister, said here yesterday.

He told a group of British journalists on the eve of his visit to London tomorrow that it would be up to the delegates at the conference to "decide whether they can continue to count on Janos Kadar as leader of the party or whether they would prefer to choose someone else".

He added somewhat enigmatically: "The party is thinking of a successor, and if you ask me after May 10 when the Central Committee has met, I shall be more confident."

Mr Kadar, who is said by sources in Budapest to be unwilling to relinquish the leadership of the party he has led since 1956, has been under considerable pressure to step down in recent months. The belief of many people within the party — that Hungary must adopt vigorous "restructuring" to escape galloping inflation and the worst debt crisis of any country within the Eastern Soviet bloc — has reinforced this pressure.

But Mr Grosz, who at 57 is believed to be keen to step into Mr Kadar's shoes, yesterday implied that he was not a suitable candidate.

"I've been working in the Government for less than 10 months," he said. "Though it is natural to think of me as a candidate, I must say that, were I a voter, I would not choose a Prime Minister who has enjoyed power for only 10 months. A longer time is needed to show efficiency in politics."

Mr Grosz also hinted that should Mr Kadar not heed a call by the party to step down, he could be removed. "The Central Committee has authority to recall any elected party leader at any time."

Mr Grosz, when not talking about the succession problem,

was openly enthusiastic about Mrs Thatcher, who will be his host during the three-day visit.

During a long discussion of British politics, the Hungarian Prime Minister returned repeatedly to his theme of lavish praise for Mrs Thatcher. He said: "The experience of the British Government since 1979 and its restructuring of industry since then holds valuable lessons for Hungary. We must learn to see things through your eyes."

But he admitted that Hungary, however enthusiastically it embraced Thatcherism, would find it impossible to

opportunity to debate the pluses and minuses of the socialist system.

Meanwhile, the first meeting organized by hundreds of Hungarians calling for a multi-party democracy took place on Sunday evening without interference from the authorities. More than 700 Hungarians, dissidents, writers, and artists signed a wide-ranging manifesto demanding an end to the Communist Party's monopoly of power.

The manifesto also called for the removal of Soviet troops stationed on Hungarian soil and for several other reforms which would radically transform the country.

The organization, called Network of Free Thinkers, is probably the most striking symptom to date of the changes taking place in Hungary as the call for reform both within and without the party gathers momentum.

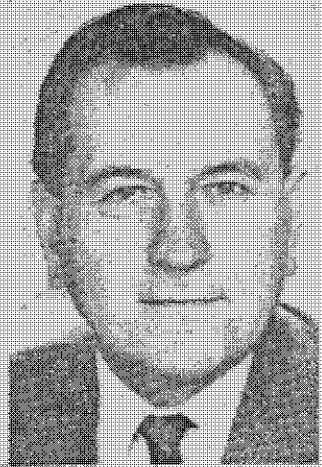
The signatures on the manifesto were only numbered in hundreds, but the organizers were confident that they revealed a potential support numbering several thousand people.

However, several Network members admitted that the organization's future depended on the ability of members to remain loyal in the face of official pressure and the attitude of the Government.

Although the organization's inaugural meeting was tolerated by the authorities, it is unlikely to have found favour with the more inflexible members of the party.

Even Mr Grosz said in yesterday's interview that pressure for change from without the party was something which was usually the result of a minority that was "nursing grievances".

Parliament was "essential" for such changes, Mr Grosz said. He added that the future of such organizations as the Network would depend on the decisions taken within Parliament later this year.



Mr Grosz: Seeking to learn from British experience.

revitalize its economy as Britain had apparently done.

Although Mr Grosz is committed to reform, he nevertheless made it clear yesterday that he would not be in favour of changes imposed on the party from without.

"There are thousands of ways of struggling for change within a party. Those who do so without must learn to take the consequences of parting company with the party."

Sources in Budapest later yesterday interpreted this as a thinly veiled reference to the recent expulsion of several party members who have criticized the system.

Mr Grosz is a forceful personality with whom Mrs Thatcher will have ample

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PRIME MINISTER

MEETING WITH THE HUNGARIAN PRIME MINISTER

You are to see Mr. Grosz on Thursday.

Since your visit in 1984, we have accorded Hungary a privileged place in our relations with Eastern Europe, and Mr. Grosz's visit is a further mark of it. The visit comes at a time of change in Hungary: Kadar will not last much longer, and his departure is likely to lead to a further spurt of political and economic reform. The talks will be a chance to encourage these reforms, offer support for the standby programme being negotiated with the IMF, and obtain an insider's view of development in Eastern Europe and the Soviet Union. From Grosz' point of view, an important aspect of the meeting will be to learn how you have turned round the British economy and what lessons there may be for him in this.

You might begin by enquiring after Mr. Kadar and sending him your regards. You might then say that you understand that there is an important Party Conference on 20 May and invite Mr. Grosz to tell you what is likely to be agreed there. You follow developments in Hungary with special sympathy and interest. You welcome the decision to abolish exit visas. You look forward to hearing- at the meeting and over dinner - about the development of parliament's role.

On the economic front, you might compliment Mr. Grosz on the improvement in Hungary's current account deficit and determination to finalise a standby agreement with the IMF. Subject to the detailed terms, we very much hope to be able to support this.

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We shall be happy to see trade develop further. There is ample credit cover available. Lord Jellicoe led a mission of industrialists last month. You might commend BAe's proposals for leasing the 146 aircraft, which contain imaginative ideas on counter-purchase.

On EC/Hungary, you could reaffirm our commitment to seeing negotiations successfully concluded. We have always been in the forefront of support for Hungary. But there will have to be adequate provisions to protect particularly sensitive products from market disruption.

In discussing our bilateral relations, you will want to welcome the growth in contracts of all sorts and the establishment of the Count Szechenyi scholarship. You should also say a word of appreciation for the treatment being given to British children at the Peto Institute for Conductive Education in Budapest.

Thereafter you will want to have a full talk about East/West relations. Particular points of interest would be how Mr. Grosz sees the prospects for Gorbachev's reforms and the forthcoming party conference, whether he has further information on the alleged tussle between Gorbachev and Ligachev, and his assessment of the situation in Poland and in Rumania.

There are a number of points which he may raise:

- Visa fees. These are standard for everyone and there is no prospect of our reducing them. We have to cover our costs. But procedures have recently been improved for business visitors and senior officials.
- Remains of General Meszaros. We cannot return the remains if there is significant opposition on the part of the family.
- English Language Teaching. This is already the British

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Council's most important activity in Hungary. In addition there are five British teachers in place; British specialists run summer schools; Hungarian teachers of English attend courses here; and the British Council provide consultancies.

- Invitation to The Queen. The advance programme is already heavily booked, but you are sure that an invitation would be considered in the normal way.

C.D.P.
C. D. POWELL

2 May 1988

KAYABF

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Foreign and Commonwealth Office

London SW1A 2AH

29 April 1988

CDP 29/4

Dear Charles,

Visit of Hungarian Prime Minister

will CDP?

Since Robert Culshaw's letter earlier today we have received advice from our Ambassador in Budapest that on EC/Hungary Mr Grosz would welcome the Prime Minister's views on the future shape and intentions of the common market, and that he may wish to discuss the detail of the EC/Hungary negotiation.

Since the detailed elements of the negotiation should already have been discussed during Mr Grosz's calls on the Foreign Secretary and on Lord Young it should not be necessary for the Prime Minister to go beyond the line which you already have. On the single market, the Prime Minister may wish to say that we expect to see progress in key areas such as liberalisation of capital movements, financial services, opening up public purchasing and standards. We shall also be pressing for further liberalisation of transport services. Our aim is to remove all unnecessary obstacles to trade inside the EC; but this should not lead to any need for more barriers against trade from outside.

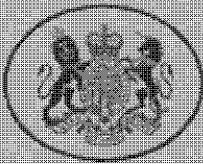
long ever,

L Parker

(L Parker)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

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Foreign and Commonwealth Office
CONFIDENTIAL London SW1A 2AH

29 April 1988

See Charles

R. A. Smith

*CBP
29/4*

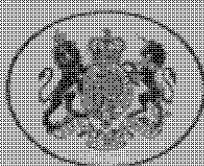
Visit of Hungarian Prime Minister

Mr Karoly Grosz, the Hungarian Prime Minister, is to call on the Prime Minister at 1630 on Thursday 5 May. He will be accompanied by the Hungarian Ambassador, Dr Domokos; a Deputy Foreign Minister, Mr Kovacs; and an interpreter, Mr Szombati. Personality notes, and Mr Grosz's programme, are enclosed. Our Ambassador in Budapest, Mr Appleyard, will also be present. The Prime Minister is to give a dinner for Mr Grosz later that evening.

The Prime Minister invited Mr Grosz's predecessor, Mr Lazar, to visit Britain during her visit to Budapest in February 1984. Mr Grosz himself was due to come to London last summer, as Budapest Party Secretary. On becoming Prime Minister, he made clear that one of his first priorities was to visit Britain. He has expressed admiration for the way the British economy has been turned round, and has said he wants in particular to discuss the relevance of British experience for Hungary.

In the formal talks, the Prime Minister may wish to concentrate on bilateral subjects; Hungarian economic restructuring and relations with the IMF, and Britain's economic experience; EC/Hungary; and East/West relations including the impact of Gorbachev on Soviet relations with Eastern Europe. The Hungarians have agreed with this broad agenda. Among bilateral subjects, they have said that Mr Grosz will want to discuss trade and economic cooperation; the high level of British visa fees; cooperation in English language teaching in Hungary; and our refusal to allow the remains of General Meszaros to be transferred to Hungary from Herefordshire. The Hungarian Ambassador has said that Mr Grosz will also hope to discuss, perhaps over dinner, more sensitive political questions relevant to Hungary's future, including relations between Government and Parliament. Mr Grosz may also refer to the recent influx of refugees into Hungary from Romania, and ask for the British Government's moral support. The Prime Minister may wish to express sympathy at the practical difficulties. If the financial aspect is raised, she may wish to say that any such support would have to come through the UNHCR.

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Mr Grosz will no doubt invite the Prime Minister to pay a further visit to Hungary. The Prime Minister may wish to accept in principle. But we see no need for any further visit in present circumstances.

Mr Grosz may also mention a possible invitation to HM the Queen to visit Hungary. The Prime Minister might wish to take note, making the point that the Queen's programme of overseas visits is heavy, and is usually decided years in advance, but saying that any invitation would of course be considered in the normal way.

Hungary Internal

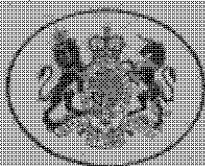
Mr Kadar has become the main obstacle to faster change. His potential successors, of whom Mr Grosz is a front-runner, are jockeying for position. Mr Grosz undoubtedly sees his visit to London as helpful in this context. He also hopes to use it to gain support for his programme of political and economic reform.

A special Party Conference is to be held in Budapest on 20 May to discuss future reforms. During 1987, legislation was introduced on enterprise bankruptcies (the first in Eastern Europe), and on banking reform, allowing the creation of potentially independent commercial banks. This has been followed, from 1 January 1988, by the introduction of VAT, and personal income tax. Mr Grosz wishes to take further similar measures to improve productivity and remove economic distortions, even if this means higher unemployment and inflation. Naturally, this approach is arousing opposition.

Mr Grosz's government is also pursuing political reform. Exit visas were for instance abolished on 1 January 1988 (although those with a criminal record still have difficulty getting passports). The Hungarian Parliament (in which Mr Grosz is a polished performer) has begun to see some real debate, and voting is not always unanimous. But it is not clear whether Mr Grosz is able or wishes to extend political reform. Four Party members have recently been expelled, including a prominent liberal MP, ostensibly for indiscipline but in fact for flirting with concepts of liberal democracy. Mr Grosz is having to tread a fine line between old-style conservatives, grouped around Mr Kadar, and liberals who wish to move towards stronger parliamentary control over the executive, if not towards a multi-party system.

Hungary/IMF

Hungary's foreign debt has been climbing rapidly, and now stands at some \$18 bn (gross). It has so far avoided rescheduling, and there is no sign that it wishes to go down that road. The current account deficit in 1987, at \$850m, was



an improvement on 1986 (\$1.4 bn). Hungary can still raise new money on international markets. But banking confidence has become more fragile. It is vital to reduce dependence on foreign loans. This in turn requires radical restructuring of industry, even though this may carry serious social costs in the short term.

A tough IMF Standby programme has been largely agreed, although not yet endorsed by the Executive Board (because of an unresolved problem over Hungarian actions on interest rates).

The Prime Minister may wish to welcome the programme as further evidence of Hungary's commitment to restructure its economy. She may wish to say that, subject to a detailed examination of its terms, the UK hopes and expects to be able to support it.

EC/Hungary

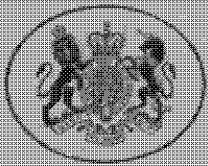
The Community is negotiating a trade and economic cooperation agreement with Hungary. The main element is a Community commitment to abolish a large number of quantitative restrictions (QRs) on Hungarian exports to the EC by 1998. In return, the Community is seeking counter-concessions from the Hungarians, including improved procedures for the issuing of import licences, increased quotas on EC exports of consumer goods, and better access for EC businessmen to the Hungarian market.

The Prime Minister may wish to reaffirm the strong political importance the UK attaches to early and successful conclusion of the negotiations. She will however also wish to urge Mr Grosz not to underestimate the far-reaching nature of the agreement and the importance we - and our Community partners - attach to ensuring that the text contains adequate safeguard provisions to protect particularly sensitive products from market disruption following liberalisation.

Bilateral Relations

These have continued to make real progress since the Prime Minister's visit in 1984 and Mr Kadar's visit to London in 1985. Among the Warsaw Pact countries, Hungary is responding best to our policy of increased contact. Many genuinely useful professional contacts now take place independently of either Government (eg a symposium last month on criminal policy, initiated by Mr Alex Carlile QC MP). Hungary's human rights record is not unblemished. But it is better than any other in the Warsaw Pact. There are no bilateral personal cases, or other major bilateral political problems.

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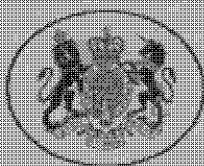


The Prime Minister may wish to be aware that the Foreign Secretary plans to tell Mr Grosz, earlier in the day, that a special scholarship is being created, funded jointly by the Foreign and Commonwealth Office and Shell, to be called the "Count Szechenyi Scholarship", for a Hungarian to study at a British University; and that an agreement will be signed during the visit, with MAFF, on agricultural exchanges. The Hungarians have proposed an agreement on building and construction. The Department of the Environment are studying a Hungarian draft. If Mr Grosz raises this, the Prime Minister could say that it is being carefully considered. We would wish to be clear that an agreement would help to increase trade.

The Prime Minister may wish to pay tribute to the treatment being given to British children in Budapest at the Peto Institute for Conductive Education (mainly cerebral palsy). Several hundred British children have attended the Institute. The DHSS are about to send a team to Budapest, partly to study the Peto method. The Hungarian Minister of Health, Mrs Csehak, has been invited to visit Britain later this year. Mr Nicholas Scott, DHSS, intends to visit Hungary in September. The Hungarians wish to establish a special annexe to the Institute, for treatment of non-Hungarian children. Mr Grosz may mention this, and suggest that HMG might contribute. The Prime Minister may wish to say that we shall be glad to continue and perhaps expand the expert exchanges with the Peto Institute currently carried out under the bilateral UK/Hungarian Health Cooperation Agreement. But she will wish to avoid any financial commitment in relation to the proposed international annexe.

On commercial relations, UK exports have remained steady in recent years at around £100m. In 1986 and 1987 we were in 7th position among OECD suppliers to Hungary. Over 60% of Hungary's trade is with the West. Given its size and present economic difficulties, Hungary is unlikely ever to become a major market for the UK. But there are no difficulties over credit: there is room for further business with ECGD under both Section 1 and Section 2. There are opportunities for British companies in the modernisation and restructuring of Hungarian industry, especially in transport (where the Hungarian Minister of Transport, Dr Toth, has just paid a useful visit to London, and has a particularly good relationship with Mr David Mitchell); metallurgy; energy production and conservation; chemicals and agriculture. The Prime Minister may wish to refer to a visit to Hungary last month by an industrial delegation led by Lord Jellicoe; and to commend in particular British Aerospace's latest proposals for leasing of the 146, which include imaginative ideas on industrial cooperation and counter-purchase, and also take account of the Hungarian shortage of hard currency. Nothing would give UK/Hungarian trade a better stimulus than this deal.

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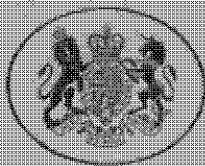
Mr Grosz for his part may raise three bilateral issues:

(i) Visa fees. The Hungarians have complained repeatedly about delays caused by our visa procedures, and about the level of fees (a short-visit visa for a Hungarian costs more than 30% of the average monthly salary). Our procedures have recently been improved and speeded up. The Foreign Secretary wrote to the Hungarian Foreign Minister on 4 April to say that we had made special arrangements for senior officials and businessmen, and other improvements. This was well received. But Mr Grosz is likely to mention our visa fees. The Prime Minister may wish to say that the fee is a standard charge for visitors from all countries. There is no likelihood of any reduction, because we aim to recover the cost of our visa system through these receipts.

(ii) English language teaching (ELT). The Hungarians are pushing hard for more ELT for special (especially scientific and technological) purposes. The British Council have sent an independent consultant to Budapest to report on opportunities and needs. The consultant's review, presented in October 1987, is still being studied by both sides. Under the Anglo-Hungarian Cultural Exchange Programme, ELT is already the British Council's most important activity in Hungary. There are five British teachers in place. British specialists run summer schools in Hungary. And Hungarian teachers of English attend training courses run by British teachers in the UK and Hungary. The British Council also provide various consultancies and supply teaching materials etc. The Prime Minister may wish to point to this impressive range of activity, and take note without commitment of any request Mr Grosz may make for it to be extended.

(iii) Remains of General Meszaros. The Hungarian authorities have several times asked us to authorise transfer of the remains of General Meszaros, a leader of Kossuth's 1848 rebellion, from Titley Cemetery in Herefordshire to Hungary. Their most recent request was in January 1988, when they presented a petition signed by 18 Hungarian citizens who claim to be General Meszaros' closest surviving relatives. A Miss Szabo, who lives in New York and owns the grave at Titley, also claims (with apparent justification) to be the nearest relative. She opposes any transfer of the remains (as does for instance the Hungarian Freedom Fighters' Association in Great Britain). Ministers recently decided that there was no basis to change their earlier view that, in these circumstances, the remains should not be moved. The Hungarians have been so informed. Mr Grosz may question this decision. The Prime Minister may wish to say that we cannot return the remains if there is significant opposition on the part of the family.

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I am sending copies of this letter to the Private Secretaries to the Chancellor of the Exchequer, Secretaries of State for Trade and Industry, Social Services, Education and Science, and the Environment, and to the Head of the OD Secretariat.

Yours ever

A handwritten signature in dark ink, appearing to read 'R N Culshaw', written in a cursive style.

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street

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GROSZ VISIT: MEETING WITH THE PRIME MINISTER

SUMMARY

1. GROSZ'S PERSONAL ADMIRATION FOR THE PRIME MINISTER, ECHOED BY KADAR AND RYZHKOV. GROSZ'S MAIN TOPICS WILL BE BILATERAL RELATIONS, TRADE, EAST-WEST RELATIONS, ECONOMIC RESTRUCTURING, EC/HUNGARY AND IMF.

DETAIL

2. I CALLED THIS MORNING ON PRIME MINISTER GROSZ FOR AN HOUR IN PREPARATION FOR HIS VISIT TO LONDON NEXT WEEK. WE HAD SPENT YESTERDAY EVENING TOGETHER AT THE ENGLAND/HUNGARY FOOTBALL MATCH, SO HE WAS IN A RELAXED OPEN MOOD.

3. GROSZ BEGAN BY SAYING THAT HE HAD THE GREATEST POSSIBLE PERSONAL ADMIRATION FOR THE PRIME MINISTER, AS INDEED HE HAD SAID IN AN INTERVIEW IN TODAY'S GOVERNMENT NEWSPAPER. HE HAD BEEN AN ADMIRER OF HERS OVER A NUMBER OF YEARS. IN PARTICULAR HE HAD GREAT RESPECT FOR THE DEDICATION AND RESOLVE WHICH SHE BROUGHT TO THE IMPLEMENTATION OF HER POLICIES. THESE POLICIES HAD BROUGHT ABOUT THE SUCCESSFUL REGENERATION OF THE BRITISH ECONOMY. ONE OF THE PRIME PURPOSES OF HIS VISIT WOULD BE TO LEARN FROM THE EXAMPLE SET BY THE PRESENT BRITISH GOVERNMENT ON THE SUCCESSFUL RESTRUCTURING OF THE ECONOMY.

4. GROSZ WENT ON TO SAY THAT LAST MONDAY EVENING HE HAD HAD A THREE-HOUR CHAT WITH KADAR, WHO, HE REMARKED IN AN ASIDE, LIKED TO REMINISCE MORE AND MORE THESE DAYS. MUCH OF THE DISCUSSION HAD BEEN TAKEN UP WITH KADAR'S WARM MEMORIES OF HIS OWN VISIT TO LONDON AND PARTICULARLY HIS MEETING WITH THE PRIME MINISTER. HE HAD GIVEN GROSZ A GOOD DEAL OF ADVICE ON THE NEED TO SPEAK OPENLY AND FRANKLY, BECAUSE THIS WAS ALSO

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MRS THATCHER'S STYLE. GROSZ SAID HE HAD RECEIVED MORE ADVICE FROM SOVIET PRIME MINISTER RYZHKOV WHO WAS HERE A WEEK AGO ON AN OFFICIAL VISIT. RYZHKOV HAD SPENT NEARLY AN HOUR TELLING HIM WHAT AN ENORMOUS IMPRESSION MRS THATCHER HAD MADE ON GORBACHEV AND RAISER GORBACHEV. HE WOULD BRING RYZHKOV'S GOOD WISHES TO THE PRIME MINISTER. BOTH RYZHKOV AND KADAR HAD MENTIONED WITH CONSIDERABLE RELISH THE PRIME MINISTER'S INTERVIEW WITH SOVIET JOURNALISTS IN WHICH, IN KADAR'S OWN WORDS, SHE HAD MASSACRED THEM. SO HE WOULD BE COMING TO LONDON WITH PLENTY OF PERSONAL ADVICE AS WELL AS A HUGE STACK OF BRIEFING.

5. THE MAIN TOPICS WHICH GROSZ EXPECTED TO COVER WITH THE PRIME MINISTER WERE BILATERAL RELATIONS SEMI COLON TRADE SEMI COLON EAST/WEST RELATIONS, INCLUDING ARMS CONTROL SEMI COLON ECONOMIC RESTRUCTURING SEMI COLON HUNGARY'S NEGOTIATIONS WITH THE EC AND THE IMF.

6. GROSZ MADE CLEAR THAT THE KEY ISSUE IN THE DISCUSSION FROM HIS STANDPOINT WOULD BE ECONOMIC REFORM. AS PRIME MINISTER, HE WAS DETERMINED TO PRESS AHEAD WITH THE MODERNISATION OF THE HUNGARIAN ECONOMY, AND ALSO WITH FURTHER POLITICAL CHANGE. HE WOULD LIKE BRITISH COMPANIES TO PARTICIPATE IN THIS PROCESS, ESPECIALLY IN KEY SECTORS LIKE HEAVY ENGINEERING, THE STEEL INDUSTRY, CHEMICAL INDUSTRY AND AGRICULTURE.

7. GROSZ WOULD LIKE TO RESERVE THE MORE DETAILED BILATERAL QUESTIONS FOR HIS DISCUSSION WITH THE SECRETARY OF STATE (SEE MY SECOND TELEGRAM). SO THIS PART OF THE DISCUSSION COULD BE QUITE SHORT AND GENERAL, THOUGH HE WOULD WISH TO EMPHASISE THE IMPORTANCE WHICH HIS GOVERNMENT ATTACHED TO THE PRESENT VISIT, THE FIRST BY A HUNGARIAN PRIME MINISTER SINCE WORLD WAR TWO. ON EAST/WEST RELATIONS, HE WOULD LIKE TO HEAR THE PRIME MINISTER'S VIEWS ON THE PRESENT STATE OF PLAY AND THE PROSPECTS FOR FURTHER PROGRESS ON ARMS CONTROL. HE WOULD BE HAPPY TO TALK ABOUT THE PRESENT SITUATION IN EASTERN EUROPE.

8. ON EC/HUNGARY, GROSZ SAID THAT HUNGARY HAD NO ILLUSIONS THAT THE COUNTRY WOULD DERIVE ENORMOUS IMMEDIATE ECONOMIC BENEFITS FROM AN AGREEMENT. ON THE CONTRARY, THIS WAS PART OF A LONG-TERM PROCESS BY WHICH HUNGARY WISHED TO BRING HER ECONOMY MUCH CLOSER TO WESTERN MARKET PRINCIPLES AND TO ACHIEVE MUCH GREATER INTEGRATION WITH THE REST OF EUROPE. HE WAS WELL AWARE THAT PROBLEMS COULD NOT BE SOLVED BY OBSOLETE IDEOLGOY. SO HE WOULD WELCOME THE PRIME MINISTER'S ADVICE ON THE FUTURE SHAPE AND

PAGE 2
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INTENTIONS OF THE COMMON MARKET SO THAT THE HUNGARIANS COULD GET A CLEARER PICTURE OF THE EXTENT TO WHICH THEY WOULD NEED TO ADAPT THEIR OWN ECONOMIES AND THEIR TRADING PRACTICIES IN THE YEARS AHEAD. THIS WAS WHY IT WAS SO IMPORTANT FOR HUNGARY TO HAVE A SIGHT OF LIST B, THE ITEMS OF WHICH THE COMMUNITY WOULD LIKE TO RETAIN RESTRICTIONS AFTER 1989. HE KNEW THAT BRITAIN HAD CONSISTENTLY SUPPORTED HUNGARY IN THE NEGOTIATIONS SO FAR AND WOULD HOPE THAT THE PRIME MINISTER WOULD REAFFIRM THIS SUPPORT IN THEIR DISCUSSIONS. HUNGARY HAD ALSO BENEFITED FROM BRITAIN'S SUPPORT IN THEIR DISCUSSIONS WITH THE IMF. HERE AGAIN HE HOPED TO OBTAIN AN EXPRESSION OF CONTINUED SUPPORT.

9. GROSZ MADE CLEAR THAT HE WOULD GIVE A FRANK PICTURE TO THE PRIME MINISTER OF THE PRESENT ECONOMIC AND POLITICAL SITUATION IN HUNGARY, WHICH WAS AT A CRUCIAL STAGE. HE REVEALED THAT THE CENTRAL COMMITTEE MEETING ON 10 MAY, IMMEDIATELY AFTER HIS RETURN, WAS LIKELY TO TAKE IMPORTANT DECISIONS ON PERSONNEL CHANGES AT THE VERY TOP, THOUGH KADAR HIMSELF WOULD REMAIN, POSSIBLY IN A DIFFERENT CAPACITY FROM GENERAL SECRETARY OF THE PARTY. THERE WOULD ALSO BE MINISTERIAL CHANGES. THIS WOULD OPEN THE WAY FOR A MORE CONSTRUCTIVE AND WIDE-RANGING DEBATE AT THE SPECIAL PARTY CONFERENCE ON 20 MAY (MY THIRD TELEGRAM GIVES BACKGROUND AND MORE DETAILS).

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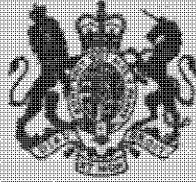
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ADDITIONAL 9

PS/PRIME MINISTER
MR WESTON, CABINET OFFICE

BANK OF ENGLAND
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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

28 April 1988

VISIT OF HUNGARIAN PRIME MINISTER

Thank you for your letter of 27 April recommending that the Prime Minister should give a brief interview to Hungarian television as part of their coverage of the visit of the Hungarian Prime Minister next week. This is pretty short notice. But the Prime Minister would be prepared to do a short interview immediately after her talks with Mr. Grosz, that is at 6.00 pm on 5 May.

You will want to discuss details with Mr. Bates in our Press Office.

C. D. POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

ca



Foreign and Commonwealth Office

London SW1A 2AH

28 April 1988

*CDP
28/4*

Dear Charles,

Visit of the Hungarian Prime Minister

Thank you for your letter of 23 April enclosing a redraft of the Prime Minister's speech at her dinner for the Hungarian Prime Minister on 5 May.

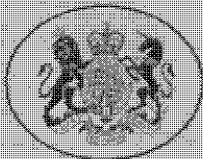
We have no comments on the redraft. We will make a copy available to the Hungarian Embassy, and arrange translation and printing as requested.

Yours ever,

L Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street



Foreign and Commonwealth Office

London SW1A 2AH

27 April 1988

Dear Charles,

Visit of Hungarian Prime Minister, 4 - 7 May:

The editor of Hungarian TV News, Endrei Aczel, has asked if he may interview the Prime Minister for Hungarian TV as part of their coverage of the visit of Mr Grosz. The Prime Minister may remember that it was Aczel who interviewed her in 1984 before her visit to Hungary. Aczel would conduct the interview in English, which he speaks excellently, and would make himself available at any time convenient to the Prime Minister.

The interview would have top billing in Hungary and would undoubtedly make a considerable impact. There is strong interest in Hungary in the way the British economy has been turned round in recent years and in the lessons that this might have for Hungary. The Foreign Secretary shares the view of our Ambassador in Budapest, Mr Appleyard, that an interview with Hungarian television would be useful. It would be an opportunity to underline our approach to current East/West issues, and also to encourage steps towards further economic and political reform in Hungary (on which Grosz is under pressure from more conservative potential successors to Kadar).

The Foreign Secretary recognises that the heavy pressures on the Prime Minister's diary may well rule out an interview. If however she wished to agree, we would of course ascertain in advance what ground the interviewer would wish to cover, and provide suitable background material.

Yours ever,
L Parker
(L Parker)
Private Secretary

PRIME MINISTER

c Mr Ingham

VISIT OF THE HUNGARIAN PRIME MINISTER

The Hungarian Prime Minister is here next week and will have talks and dinner with you on Thursday.

The Hungarians have asked very late in the day whether you would do a television interview. It is really very difficult next week which is terribly busy. The only possibility might be immediately after your talks with Mr. Grosz which end at 1800, with the next engagement dinner at 1945.

If you did it then, there would be two options:

- a straightforward interview of 15/20 minutes; or
- you and Mr. Grosz might be interviewed jointly. This would be a novelty, but could appeal in Hungary.

I would not want to press you on this.

Agree no television interview?

OR

Agree short interview on your own? *Yes*

OR

Agree short interview with Mr. Grosz.

CDP
CHARLES POWELL

27 April 1988

VC4ANW



file
SDP

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

23 April 1988

Dear Lyn,

VISIT OF THE HUNGARIAN PRIME MINISTER

I enclose a copy of the Prime Minister's speech at the dinner for the Hungarian Prime Minister. The Prime Minister herself is content with this, and subject to any comments you may have, it could be sent for translation and printing. We shall need a dozen copies in Hungarian not later than the morning of 5 May.

Bf //

Yours sincerely,

C D POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office

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GROSZ VISIT : THE ISSUES ON HIS MIND

SUMMARY

1. THREE KEY ISSUES: RELATIONS WITH BRITAIN, ECONOMIC REFORM AND DOMESTIC POLITICAL SITUATION, WHICH HAS REACHED AN IMPORTANT STAGE. GROSZ A COMMITTED REFORMER. AVOWED ADMIRER OF PRIME MINISTER'S POLICIES. OPEN, PRAGMATIC AND DIRECT.

DETAIL

2. GROSZ WILL HAVE THREE MAJOR ISSUES ON HIS MIND DURING HIS VISIT. THESE ARE RELATIONS WITH BRITAIN, THE HUNGARIAN ECONOMY AND HIS DOMESTIC POLITICAL SITUATION. YOU MAY FIND IT USEFUL TO HAVE BACKGROUND ON THESE ISSUES AND ON HIS PERSONALITY.

RELATIONS WITH BRITAIN

3. THE HUNGARIAN LEADERSHIP REGARDS THIS AS AN EXCEPTIONALLY IMPORTANT VISIT, THE FIRST BY A HUNGARIAN PRIME MINISTER SINCE WORLD WAR TWO. THEY ARE KEEN TO MAINTAIN THE SEQUENCE OF HIGH-LEVEL EXCHANGES INITIATED BY THE PRIME MINISTER AND KADAR. THE HUNGARIANS REGARD THIS AS AN ELEMENT OF CONTINUITY AND DIALOGUE IN EAST/WEST RELATIONS. THEY ALSO SEE THESE EXCHANGES AS CONFIRMATION OF HUNGARY'S STATUS AS A SMALL NATION WITH A SPECIAL ROLE IN INTERNATIONAL AFFAIRS AT THE OUTER EDGE OF THE WARSAW PACT. THEY WOULD LIKE TO DIVERSIFY THEIR TRADE AWAY FROM EXCESSIVE DEPENDENCE ON WEST GERMANY AND AUSTRIA. FINALLY, THE HUNGARIANS ARE CONSCIOUS OF BRITAIN'S KEY ROLE WITHIN THE ALLIANCE, THE EUROPEAN COMMUNITY, THE IMF AND THE INTERNATIONAL BANKING COMMUNITY: ALL ARE OF IMMEDIATE RELEVANCE TO HUNGARY TODAY.

ECONOMIC PROBLEMS

4. IN HUNGARY POLITICS ARE MAINLY ECONOMICS. FROM THE FINAL QUARTER OF 1987 THE HUNGARIAN ECONOMY HAS BEEN MAKING A GRADUAL

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RECOVERY FROM THE DECLINE SINCE MID-1985. THE 1987 YEAR-END BALANCE OF PAYMENTS DEFICIT (846 MILLION US DOLLARS) WAS LESS THAN ANTICIPATED AND EXPORTS HAVE CONTINUED TO RECOVER. SO THE BALANCE OF PAYMENTS DEFICIT FOR THE FIRST QUARTER OF THIS YEAR (250 MILLION US DOLLARS) HAS BEEN HALVED COMPARED WITH THE SAME PERIOD LAST YEAR. THE VISITING IMF TEAM ARE REASONABLY CONFIDENT THAT THE CUSTOMARY UPSWING IN THE SECOND HALF OF THE YEAR WILL BRING THE ANNUAL TARGET FIGURES WITHIN REACH. THEY EXPECT TO REACH AGREEMENT SOON TO ENABLE THE IMF TO DISCUSS A STANDBY ARRANGEMENT IN MAY.

5. NEVERTHELESS GROSZ IS ACUTELY AWARE THAT THE ECONOMIC REFORM PROCESS MUST BE PRESSED FORWARD VIGOROUSLY. HE HAS COMMITTED HIMSELF TO A TOUGH PROGRAMME OF CUTS IN STATE SUBSIDIES TO UNPROFITABLE INDUSTRIES, DEREGULATION OF BUSINESSES, ENCOURAGEMENT TO THE PRIVATE SECTOR, AND REFORM OF THE TAX, WAGES AND PRICES STRUCTURE. HE HAS BEEN PREVENTED FROM PUSHING THIS PROGRAMME THROUGH BY KADAR AND THE OLD GUARD. SO A FIRM ENDORSEMENT OF ECONOMIC REFORM FROM THE PRIME MINISTER WOULD BE VERY USEFUL TO HIM BACK HOME, SINCE THE HUNGARIANS ARE KEENLY AWARE OF BRITAIN'S SUCCESSFUL RECORD OF INDUSTRIAL REGENERATION.

POLITICAL FRAMEWORK

6. HUNGARY COULD BE ON THE EVE OF THE MOST IMPORTANT PERIOD OF CHANGE FOR THE PAST THIRTY YEARS. GROSZ BELIEVES KADAR HAS NOW ACCEPTED THAT MOST OF THE OLD GUARD IN THE POLITBURO WILL BE OUSTED AT THE CENTRAL COMMITTEE MEETING ON 10 MAY, SHORTLY AFTER HIS RETURN (MY TELNO 190). THE DECISIONS WOULD PROBABLY HAVE TO BE ENDORSED AT THE SPECIAL PARTY CONFERENCE TEN DAYS LATER. ACCORDING TO GROSZ, KADAR MAY BE PREPARED TO SACRIFICE HIS GENERAL SECRETARY POST, IN ORDER TO RETAIN THE HUSAK OPTION OF A SEAT IN THE POLITBURO. KADAR MAY OF COURSE BE PLAYING A DOUBLE GAME AND THERE ARE MANY UNCERTAINTIES IN THE SITUATION. BUT IF GROSZ'S SCENARIO IS PROVED RIGHT, KADAR WOULD EFFECTIVELY BE DEPRIVED OF HIS AUTOMATIC MAJORITY IN THE POLITBURO, THUS MARKING THE DEFINITIVE PASSING OF POWER TO THE NEXT GENERATION.

7. GROSZ IS THE FRONT-RUNNER TO SUCCEED KADAR AS GENERAL SECRETARY, IF HE GIVES UP THIS POST. IN THAT CASE I WOULD EXPECT GROSZ TO KEEP POWER IN HIS HANDS BY PROMOTING A TECHNOCRATIC MINISTER TO BE PRIME MINISTER. THE PARTY CONFERENCE, THE FIRST SINCE 1957, COULD BE AN UNPREDICTABLE OCCASION. BUT IF GROSZ IS CONFIRMED IN POWER, THE CONFERENCE IS LIKELY TO

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ENDORSE A WIDE-RANGING PROGRAMME OF ECONOMIC AND POLITICAL REFORM WHICH WOULD KEEP HUNGARY AT THE FOREFRONT OF INNOVATION IN THE WARSAW PACT.

GROSZ'S PERSONALITY

8. GROSZ IS AN AVOWED ADMIRER OF THE PRIME MINISTER'S POLICIES, ALTHOUGH BY TRAINING AND EXPERIENCE HE IS A COMMITTED MARXIST IN THE GORBACHEV MOULD. HE HAS PLACED HIMSELF AT THE HEAD OF PRESSURE FOR REFORM WHICH, UNLIKE IN THE SOVIET UNION, COMES FROM BELOW. HE HANDLES THE PRESS AND PARLIAMENT SKILFULLY. HE STILL LACKS EXPERIENCE IN WORLD AFFAIRS, WHERE HE WILL BE KEEN TO LEARN THE PRIME MINISTER'S VIEWS. IN DISCUSSION HE IS PRAGMATIC, OPEN AND DIRECT. HE CERTAINLY LOOKS TO BE THE ONE HUNGARIAN POLITICAL FIGURE WITH THE RESOLVE AND STAMINA TO PUSH THROUGH THE NEXT PHASE OF ECONOMIC REFORMS WHICH THE COUNTRY VITALLY NEEDS.

APPLEYARD

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DTI, OT3/5

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V/A
cc to PC
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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 October 1987

VISIT OF THE HUNGARIAN PRIME MINISTER

Thank you for your letter of 13 October about the invitation to Mr. Grosz to come here next year. I think that 5-6 May are the dates likely to suit the Prime Minister best. Her preference is likely to be a dinner on the evening of Thursday, 5 May.

CHARLES POWELL

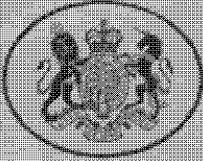
Lyn Parker, Esq.,
Foreign and Commonwealth Office.

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Foreign and Commonwealth Office

London SW1A 2AH

13 October 1987

Dear Charles,

Visit of Hungarian Prime Minister

In your letter of 28 July, you said that the Prime Minister was content that we should invite the new Hungarian Prime Minister, Grosz, for a visit in the second or third quarters of next year.

Grosz has accepted with pleasure. The Hungarians have said they hope the visit could take place in April or May.

The Foreign Secretary agrees that, if the Prime Minister's diary allows, it would be useful if Grosz could come sooner rather than later. The visit will be an important stimulus to the Hungarians to stick to their programme of economic adjustment and to undertake further political reforms.

Grosz plans to stay for two or three working days. On the basis of what we know of the Prime Minister's plans and the Foreign Secretary's commitments the following seem possibilities:

- ✓ 20 - 22 April
- ✓ 27 - 29 April
- ✓ 5 - 6 May

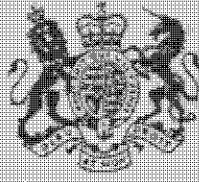
I should be grateful if you could let me know whether any of these dates would suit the Prime Minister. As you know from my letter of 27 July, her involvement will be limited to a meeting and a lunch or dinner. If any of the above dates are possible, it would be helpful if you could indicate what timing and which meal she would prefer.

Towser, L Parker
(L Parker)
Private Secretary

C D Powell Esq
PS/10 Downing Street

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

28 July 1987

Dear Lyn:

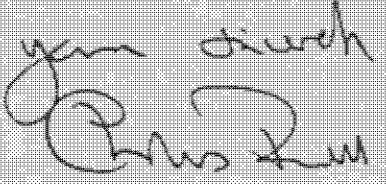
RELATIONS WITH EASTERN EUROPE AND YUGOSLAVIA

Thank you for your letter of 27 July about the way ahead in our relations with Eastern Europe. *First of all relations with*

The Prime Minister agrees in principle that we should invite a member of the Yugoslav Federal Presidency to London, but would wish this to be in early 1988. We already have as many visitors as we can manage in the second half of 1987.

The Prime Minister is also content that we should invite the new Hungarian Prime Minister to visit the United Kingdom next year, although we should look for dates in the second or third quarters of 1988. In this case, as for the Yugoslavs, she notes that her own involvement would be limited to a meeting and a lunch or dinner.

The proposal for a visit by the Prime Minister to Poland in 1988 raises a number of questions. The Prime Minister thinks that it would have to be clear in advance that not only would she be able to meet Lech Walesa, but that she would also be able to visit Father Popieluszko's grave, meet church leaders and appear on television. It would be helpful to know whether you think these conditions could be met, before putting the question of a visit back to the Prime Minister for a decision.

Yours sincerely,

Charles Powell

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

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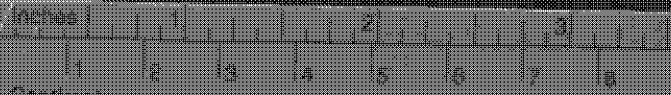
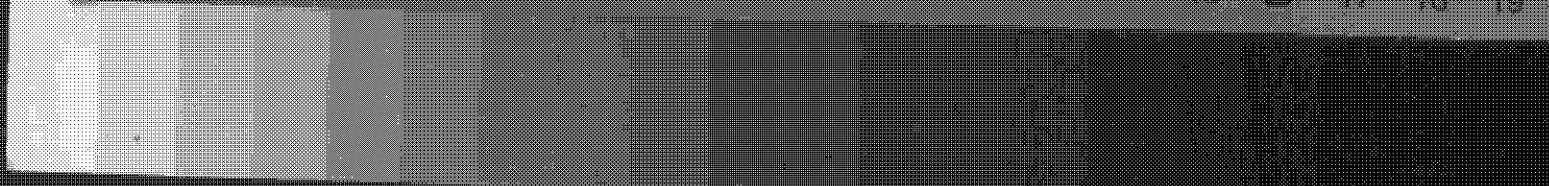
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A 1 2 3 4 5 6 M 8 9 10 11 12 13 14 15 B 17 18 19



Inches

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1 2 3 4 5 6 7 8

Centimetres

Colour Chart #13

Blue

Cyan

Green

Yellow

