


SECRET

# 10 DOWNING STREET

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FILE TITLE: UK/Hungary Relations		SERIES
Internal Situation		HUNGARY
<u>CLOSED</u>		PART: 3
PART BEGINS: March 1987	PART ENDS: June 1990	CAB ONE: 

PART  
CLOSED



PREM 19/3034

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**PART**

**CLOSED**



Ministry of Agriculture, Fisheries and Food  
Whitehall Place, London SW1A 2HH

*celk*

*Eric Amis*

*CAF 2/16*

From the Minister

CONFIDENTIAL

PRIME MINISTER

*Filed on "Poland" Rebus Pt 12. ml*

I minuted you on 11 April to record the main conclusions drawn from my visits to Poland, Czechoslovakia and Bulgaria earlier this year. In view of your own and Nicholas Ridley's forthcoming visits, I am now writing to report on my recent visit to Hungary.

I visited Hungary from 10 to 13 June, accompanied by Edmund Vestey and other businessmen representing the agricultural and food sectors. At the request of the newly-elected Hungarian Government, our food processing businesses were strongly represented in this party.

In common with other Central and Eastern European countries, Hungary faces major economic problems. Its international debt at \$20 billion is the highest in per capita terms in the Eastern bloc. Inflation is running at 25 to 30%. The forthcoming budget, which has been discussed with the IMF, is likely to be very restrictive, although less restrictive than first feared due to a unexpectedly good export-led trade surplus so far this year.

A key issue being faced by the Hungarian Government is the difficult question of returning State and co-operative land to private ownership. This is the central plank of the Smallholder's Party, whose President, Ferenc Nagy, has, as

Minister of Agriculture, secured one of the two senior Ministerial posts obtained by the Smallholders in their coalition with the dominant Hungarian Democratic Forum. I discussed the problems associated with this policy in some depth with Mr Nagy. He is still debating options with his Government colleagues. It is likely that a cautious approach will be adopted with profitable co-operatives being less at risk of break-up and restrictions being placed on the amount of land which a single individual or private enterprise can own. However, the effective injection of land costs or rentals into enterprises' balance sheets will come as a major shock, making many State enterprises uneconomic. This could increase investment opportunities as assets are disposed of.

Hungary has a relatively liberal approach to foreign investment, allowing foreign majority shareholdings or outright ownership in most sectors.

Despite the risks, Hungary probably provides more attractive commercial opportunities for British businessmen than a number of other Central European countries. But a major retraining effort is needed to get Hungarian senior and middle management and marketing skills up to standards competitive with Western economies. There are also likely to be continuing shortages of domestic capital for investment, and a substantial amount of unemployment as the inefficient firms are shaken out.

The Hungarians are very conscious of these problems. As regards management and marketing skills, they fully appreciate the assistance the UK can provide through the Know How Fund and which the European Community and Group of 24 can provide through the multi-lateral PHARE programme. However, some criticisms were expressed over the lack of concrete expression in Hungary of UK-funded projects. Hungary naturally makes comparisons with Polish benefits under the Know

How Fund: although I understand KHF commitments are running at higher levels than expected I hope adequate funds will be available later this year, particularly in the management and marketing areas.

I discussed with Nagy the stimulus to the whole agriculture and food sector which would be provided by the introduction of modern supermarketing methods. I shall be raising this with one or two of the major chains here. This is also an area where I believe the Know How Fund could be put to productive use, particularly in the training of local management.

Finally, the Hungarians are also very concerned about the impact of the European Single Market, particularly the development of unified standards, on their trade with the West. I found it necessary on several occasions to stress that the scope for increased agricultural and food exports to the EC was limited. They will be making a major drive for an Association Agreement in the second half of this year to protect their existing outlets.

I am copying this minute to Douglas Hurd, John Major, Nick Ridley, Lynda Chalker, other members of OD(AE) and to Sir Robin Butler and HM Ambassador in Budapest.



J S G

Ministry of Agriculture, Fisheries and Food  
26 June 1990

Roland:  
Pets #12

HUNGARY



CONSERVATION

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T111/90



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SUBJECT CC MASTER  
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10 DOWNING STREET  
LONDON SW1A 2AA

THE PRIME MINISTER

1 June 1990

Dear Mr. Nemeth,

Thank you for your kind letter of 27 April. I was very glad to receive it.

Since my visit in 1984, I have followed events in Hungary with keen interest. The transition from a one party state to a new democracy has been remarkable and your role in this process has been central. I have admired your clear commitment to restoring democracy. Your firm stewardship has taken the Hungarian economy through a testing period.

I much enjoyed our meeting in December last year. I hope that we shall meet again soon.

With every good wish,

Yours sincerely

Margaret Thatcher

Mr. Miklos Nemeth

*[Handwritten mark]*

EPK.



Foreign and Commonwealth Office

London SW1A 2AH

31 May 1990

Dear Charles,

69

Hungary: Reply to Message from Mr Nemeth

Thank you for your letter of 23 May about a letter of 27 April from the outgoing Hungarian Prime Minister, Miklos Nemeth.

Mr Nemeth wrote to the Prime Minister to thank her for British support for reform in Hungary. As Prime Minister, Mr Nemeth won the respect of politicians from other parties. He was one of only two former communist party members to be elected to parliament from a constituency. He is likely to remain an important political figure.

I enclose a draft reply.

Yours ever,

(R H T Gozney)  
Private Secretary

C D Powell Esq  
10 Downing Street



From: Prime Minister

To: Miklos Nemeth



Thank you for your kind letter of 27 April. I was very glad to receive it.

Since my visit in 1984, I have followed events in Hungary with keen interest. The transition from a one party state to a new democracy has been remarkable and your role in this process has been central. I have admired your clear commitment to restoring democracy. Your firm stewardship has take the Hungarian economy through a testing period.

I much enjoyed our meeting in December last year. I hope that we shall meet again soon.

With every good wish.

*en*

HUNGARY - Reli pr 3





10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

23 May 1990

BK || I enclose a farewell letter to the Prime Minister from Mr Németh, the retiring Hungarian Prime Minister. I think the Prime Minister would like to reply and I should be grateful for a draft.

Charles Powell

Richard Gozney Esq  
Foreign and Commonwealth Office

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UNCLASSIFIED  
FM FCO  
TO IMMEDIATE BUDAPEST  
TELNO 222  
OF 220945Z MAY 90

MESSAGES TO NEW HUNGARIAN GOVERNMENT  
1. GRATEFUL IF YOU WOULD PASS THE FOLLOWING MESSAGE  
FROM THE PRIME MINISTER TO DR ANTALL AS SOON AS HIS APPOINTMENT  
AS PRIME MINISTER HAS BEEN CONFIRMED BY PARLIAMENT.  
BEGINS

I SEND YOU MY WARM CONGRATULATIONS ON YOUR APPOINTMENT  
AS PRIME MINISTER OF HUNGARY AND WISH YOU EVERY SUCCESS IN  
TACKLING THE FORMIDABLE TASKS WHICH LIE AHEAD. WE SHALL  
CONTINUE TO OFFER PRACTICAL HELP AND SUPPORT, AND I LOOK  
FORWARD TO WORKING CLOSELY WITH YOU. WITH EVERY GOOD WISH.  
ENDS

2. THERE WILL BE NO SIGNED ORIGINAL.

HURD

YYYY

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MAIN

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MR P J WESTON  
MR TAIT

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23 MAY 1990		
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INDEX	PA	Action Taken



*Mr Powell  
at C*

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

22 May 1990

MESSAGE TO DR. ANTALL

*BF* ||| Thank you for your letter of 21 May proposing a message from the Prime Minister to Dr. Antall on his appointment as Prime Minister of Hungary. I am sure the Prime Minister will want to send a message and enclose a slightly modified version, which may be despatched.

C. D. POWELL

Richard Gozney, Esq.,  
Foreign and Commonwealth Office.

celk

MESSAGES TO NEW HUNGARIAN GOVERNMENT

1. Grateful if you would pass the following message from the Prime Minister to Dr. Antall as soon as his appointment as Prime Minister has been confirmed by Parliament:

Begins:

I send you my warm congratulations on your appointment as Prime Minister of Hungary and wish you every success in tackling the formidable tasks which lie ahead. We shall continue to offer practical help and support and I look forward to working closely with you. With every good wish.

Ends.

2. There will be no signed original.



Foreign and Commonwealth Office

London SW1A 2AH

21 May 1990

Dear Charles,

Formation of a New Hungarian Government:  
Message to Dr Antall

The coalition negotiations in Hungary are complete, and Dr Antall's appointment as Prime Minister is likely to be confirmed by the Hungarian Parliament on 22 May.

The Prime Minister sent a message to Dr Antall after his election victory. She might like to send a further message congratulating him on his appointment.

I enclose a draft.

Yours ever,

Richard Gozney

(R H T Gozney)  
Private Secretary

C D Powell Esq  
10 Downing Street

# OUT TELEGRAM

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9	MESSAGES TO NEW HUNGARIAN GOVERNMENT
10	1. Grateful if you would pass the following message from the
11	Prime Minister to Dr Antall as soon as his appointment as Prime
12	Minister has been confirmed by Parliament:
13	Begins:
14	I am <del>delighted</del> to send you my warm congratulations on your
15	appointment as Prime Minister of Hungary & I wish you every
16	success in tackling the formidable tasks which lie ahead. We
17	shall continue to offer practical help and support.
18	Ends.
19	2. There will be no signed original.
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27	PS/MR WALDEGRAVE
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29	EED

and I look forward to working closely with you.

With every good wish

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NN

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10 DOWNING STREET

Prime Minister

You told Mr. Tam  
Dalyell, in answer  
to a Question following  
your statement on  
Dublin, that you  
would acquaint  
yourself with the  
work of Professor  
Paul Hare on Hungary.  
I attach the

shortest example  
which I can  
find.

COB  
1075

## HERIOT-WATT BUSINESS SCHOOL

Business and Investment Opportunities in Hungary

March 14th, 1990

The Hungarian Economy Today (Professor Paul Hare, Heriot-Watt University)

## OUTLINE

In the postwar period, the Hungarian economy was run along the lines of the Soviet-type planning system for over 20 years, though even during that period there were calls for reform and severe criticisms of the Soviet model. But in the mid-sixties, the country embarked on a path of economic reforms, starting with the so-called New Economic Mechanism which reformed many areas of economic life; its most notable achievement was the abolition of the traditional practice of breaking down annual plans to form compulsory plans for each individual enterprise. Even though the 1970s saw some retreat from reforms, the old planning system was never restored.

The last decade has witnessed a combination of serious economic problems - sluggish growth and even stagnation, very slow growth of living standards after two decades of rather rapid growth, an enormous hard currency debt (amounting to almost \$20bn by the end of the decade, the highest in the region in per capita terms) - and a resurgence of economic reforms. This latest round of reforms also touched on several areas, particularly to do with the institutional structure, which had not previously been tackled. Thus the 1980s reforms package included:

- price reform (competitive pricing)
- enterprise councils
- small firms, cooperatives and other units
- mergers of ministries, etc.
- banking reform
- bankruptcy law
- bond market
- enterprise law (1988)
- income taxation and VAT (1988)

Taken together, these measures could easily give the impression that the Hungarian economy had already introduced the major measures needed to make it behave like a market type economy by the late 1980s.

But it didn't. Although for most everyday commodities, the Hungarian domestic market does not suffer from the gross shortages common elsewhere in Eastern Europe, and the variety/quality of available consumer goods is clearly higher than elsewhere, the position is considerably worse than in neighbouring countries like Austria. Within industry, shortages of good quality materials and components are said to be widespread (though again, far less severe than in the other East European countries) and this, among other things, indicates a need for much more effective management. The country's record in innovation is quite weak, despite having a relatively large science and technology establishment; and many products are simply not yet of a high enough quality to market successfully in Western countries, which is where sales need to be achieved, of course. Structural change has been rather slow and many enterprises are still tied in to the CMEA market, based on high volume, low technology sales.

At the same time, the Hungarian state itself, despite all the reforms listed above, did not withdraw its tentacles from individual enterprises. Many reform economists in Hungary itself have characterised the economy as a 'bargaining' economy, since enterprises could protect themselves by dealing

with the right authorities, rather than being obliged to perform well in the market; one instance of this was the complete failure of the bankruptcy law to change enterprise behaviour. Hence what looked like a market-type economy at first glance was unable to function properly because of extensive political interference in the workings not only of the economy in general (and I do not think anyone would disagree with the need to operate some form of macroeconomic policy), but of individual enterprises. The situation was not unlike the British experience of political involvement in nationalised industries, except that in the Hungarian case this sector covered practically the whole economy.

Given all this, it was perhaps fortunate that Eastern Europe began to loosen up politically towards the end of the 1980s, because it became increasingly clear that only a major political change could really change the way the economy of each country functioned. In the Hungarian case, these political changes got underway sooner than elsewhere and accelerated in 1989, with the virtual collapse (and re-naming) of the old ruling party, the Hungarian Socialist Workers' Party. Multi-party elections, with no special place reserved for the communists (unlike in Poland, in the 1989 elections there), are due to take place on March 25th, 1990.

For the economy, the new political situation has already seen the beginnings of privatisation and a massive increase in the number of joint ventures between Hungarian and Western companies. All the likely contenders for power after the election have expressed their determination to push Hungary faster in the direction of a market economy, and the present Parliament has already obliged the communists to close down their party cells, which used to function in all workplaces. Consequently, the likelihood of political interference in the economy has been much reduced (though not removed altogether, of course, because many of the same people remain in positions of influence, so established personal networks may remain influential).

Nevertheless, the move to a market economy is taking place against the background of a difficult macroeconomic situation. In addition to the hard currency debt mentioned above, there has been some increase in inflation in the last year or so, partly due to the very necessary steps taken to reduce subsidies to production and consumption. Structural change has also accelerated, as Hungary seeks to reduce its present trading surplus with the Soviet Union (in transferable roubles), and prepares for its Eastern trade to shift to a hard currency basis (as soon as 1991?). One effect of this has been to force large scale layoffs at some of Hungary's larger companies. This unemployment is not confined to businesses trading with the East, though. The Hungarian authorities seem to have accepted that some unemployment is inevitable right across the board, as they stop protecting inefficient firms and force them to operate effectively in the market, or fail. Since the labour market had previously been very tight, with some firms simply unable to expand because of labour shortage, a modest level of unemployment will help to make the economy a good deal more flexible. It will, though, be painful for those affected, since the economy has enjoyed continuous full employment for the last several decades.

As Hungary transforms itself into a form of market economy (and the precise form is not at all clear yet), it will be receiving support from a number of sources, including the following:

IMF (short term, balance of payments loan; terms close to agreement);

World Bank (loans for various infrastructure projects);  
European Investment Bank (likely to provide about 1 bn ecus);  
Commercial Banks (refinancing some of the existing debt);  
Individual governments (e.g. the UK's Know-How Fund for  
Hungary).

In addition, the EC is in discussion with Hungary over the question of relaxing trade restrictions (agreed to occur by 1995, but could be sooner), and over Hungary's participation in various of the EC's collaborative programmes, notably in technology and education/training. Finally, both the US government and COCOM are expected to announce shortly that the list of items whose export to the East is prohibited (mainly high technology products deemed to have actual or potential military significance) will be greatly shortened.

In Hungary's new, and still changing, economic and political situation, it is evident that there will be enormous opportunities for business ventures of all kinds. For Western companies, these could range from simple exporting and importing operations through to various forms of joint venture bringing technology, marketing and financial skills to Hungary, and producing goods and services which can be marketed in the West (and, increasingly, in the East, too, as this area gradually returns to hard currency trade). In addition, there is scope for the provision of business-related training and consultancy services to help existing and new businesses in Hungary to perform better both in their own domestic market, and internationally. What is interesting at the moment, is that these opportunities seems to be taken up most enthusiastically by West German firms. While this is not unwelcome in Hungary, I have found great interest, during several recent visits to Hungary, in doing business with other EC countries, including the UK. To date, UK companies have become involved in rather few of the new and restructured businesses in Hungary, but there is no doubt that there is a huge amount of business to be won, by firms prepared to put in the effort.

PGH/13.03.90

SUBJECT CL MASTER OPS.

I think a way letter

(2)

back is called for Translation!

Prime Minister  
of the Republic of Hungary

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

Prime Minister

A farewell  
message from Mr.  
Nemethy. CAP  
23/5

Dear Prime Minister,

As a result of the recent parliamentary elections, the political structural changes have been completed in Hungary. The history of the Party State, as a model enforced on the Hungarian nation four decades ago, has come to an end for good. The Republic of Hungary is already a multi-party parliamentary democracy, a state of law by European standards as well.

The term of the Government headed by myself has come to an end as a result of the elections, and my responsibility as Prime Minister has expired. We fulfilled the tasks we set ourselves at the start of my term in office; we have preserved the peaceful and constitutional nature of the transition, and we handed over a working economy, a governable country to the Parliament, the composition of which reflects the will of the electors, and to the Government to be approved by this Parliament.

Prime Minister, when we made difficult decisions to implement this far-reaching reform, which included the change of the political structure, the creation of a market economy, and the competitiveness of the economy, it was a great encouragement that our efforts were accompanied by sympathy, moral and political support and supportive intentions - already evidenced by concrete measures - from the developed, democratic countries of the world.

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL NO. T 866/8

The Hungarian people highly appreciate the help given by the British Government and British political and business circles. This support and your personal contribution not only gave impetus to British-Hungarian relations, but also played a significant role in concluding the Agreement and creating fruitful cooperation between Hungary and the European Community. I would like to express my gratitude for the constructive attitude shown by Great Britain in creating the PHARE project supporting the East European reforms.

It was an unforgettable experience to meet you last December. I am convinced that your visit to Budapest later this year will provide an opportunity for the new Hungarian Prime Minister to exchange views about British-Hungarian relations and those important international issues which will have effects on the future of our countries and peoples. I do hope with all my heart that this visit will provide me with an opportunity to meet you again.

Prime Minister, I truly believe that the Hungarian people can count on Great Britain's, your and your Government's kind attention, support and readiness for cooperation.

At the same time I would like to assure you that, as a member of the recently elected Hungarian Parliament, I will work steadily on developing further the relations between our countries, strengthening the better understanding and confidence between our peoples and creating our common aim, the United Europe.

I would like to take this opportunity to wish you, Honourable Prime Minister, further success in your responsible position, carried out in the favour of your country and people.

Budapest, 27th April, 1990

Yours sincerely,

(Miklós Németh)

A MAGYAR KÖZTÁRSASÁG MINISZTERTANÁCSÁNAK  
ELNÖKE

Öexcellenciája  
Margaret Thatcher úrnő  
Nagy-Britannia és Észak-Írország  
miniszterelnöke

L o n d o n

Tisztelt Miniszterelnök Asszony!

A közelmúltban megtartott parlamenti választások eredményeként Magyarországon kiteljesedett a politikai rendszerváltás. Végérvényesen lezárult a magyar nemzetre több mint négy évtizeddel ezelőtt rákényszerített modell, a pártállam története. A Magyar Köztársaság immár európai mércével mérhető jogállam, többpártrendszerű parlamentáris demokrácia.

A választásokkal végéhez ért az általam vezetett kormány hivatali időszaka, lejárt miniszterelnöki megbízatásom. Amit másfél évvel ezelőtti hivatalba lépésemkor magunk elé tűztünk, teljesítettük. Mindvégig megőriztük az átmenet békés, alkotmányos jellegét, s működőképes gazdaságot, kormányozható országot adunk át a választók akaratának megfelelő összetételű új parlamentnek, az általa kinevezésre kerülő kormánynak.

Miniszterelnök Asszony!

A mélyreható reformok kibontakoztatásához, a politikai rendszerváltás végrehajtásához, a piacgazdaság kiépítéséhez, a gazdaság versenyképességének megteremtéséhez nélkülözhetetlen nehéz döntések meghozatalában bátorítást jelentett számunkra a törekvéseinket kísérő széles körű rokonszenv, erkölcsi-politikai támogatás, a világ fejlett, demokratikus országai részéről konkrét lépésekben is megnyilvánuló segítő szándék.



A magyar nép nagyra értékeli a brit kormány, a brit politikai és gazdasági körök támogatását. Ez a támogatás és az Ön személyes közbenjárása nemcsak a magyar-brit kapcsolatoknak adott ösztönzést, de jelentős szerepet játszott abban is, hogy megállapodás jöhessen létre és gyümölcsöző együttműködés alakuljon ki Magyarország és az Európai Közösségek között. Szeretnék köszönetet mondani azért a konstruktív magatartásért is, amelyet Nagy-Britannia a kelet-európai reformokat támogató PHARE program kialakításában tanusított.

Maradandó élményt jelentett számomra az Önnel való találkozás az elmúlt év decemberében. Bizonyos vagyok abban, hogy ezévi budapesti látogatása az új magyar miniszterelnöknek is alkalmat ad arra, hogy véleményt cseréljen Önnel a magyar-brit kapcsolatokról és az országaink, népeink jövőjét befolyásoló fontos nemzetközi kérdésekről. Szívből remélem, hogy a látogatás számomra is lehetőséget ad majd az Önnel való újabb személyes találkozásra.

Tisztelt Miniszterelnök Asszony!

Bízom abban, hogy a Magyar Köztársaság, a magyar nép a jövőben is számíthat Nagy-Britannia, az ön és kormánya jóindulatú figyelmére, támogatására, együttműködési készségére.

Egyúttal szeretném Önt arról biztosítani, hogy a most megválasztott új magyar Országgyűlés tagjaként magam is következetesen fogok tovább munkálkodni országaink kapcsolatainak továbbépítésén, a népeink közötti megértés és bizalom erősítésén, közös célunk, az egységes Európa megteremtésén.

Az alkalmat felhasználva kívánok Önnek, tisztelt  
Miniszterelnök Asszony további sikereket ahhoz a felelősség-  
teljes munkához, amelyet hazája, népe érdekében folytat.

Budapest, 1990. április 27.

Őszinte tisztelettel:

*Miklós Németh*

( Németh Miklós )

CONFIDENTIAL  
FM BUDAPEST  
TO IMMEDIATE FCO  
TELNO 256  
OF 110815Z APRIL 90  
INFO ROUTINE EAST EUROPEAN POSTS, UKDEL NATO, WASHINGTON, BONN  
INFO ROUTINE PARIS, ACTOR

NEXT HUNGARIAN GOVERNMENT: FOREIGN POLICY *mf*

SUMMARY

1. NO GREAT CHANGES LIKELY IN HUNGARY'S FOREIGN POLICY. GRADUAL MOVES TOWARDS FURTHER WESTERN INTEGRATION AND MEASURED DISENGAGEMENT FROM COMECON AND WARSAW PACT. NEUTRALITY THE LONG-TERM AIM. ROMANIA IDENTIFIED AS MAIN BILATERAL PROBLEM AREA. ANGLO HUNGARIAN RELATIONS SHOULD PROSPER.

DETAIL

EAST/WEST

2. THE HUNGARIAN DEMOCRATIC FORUM (MDF), LIKE ALL THE MAIN PARTIES WANTS TO PURSUE A FOREIGN POLICY FIRMLY BASED ON NATIONAL INTERESTS. THEIR OVERALL ORIENTATION IS EURO-CENTRIC. JOZSEF ANTALL, THE LEADER OF THE MAJORITY DEMOCRATIC FORUM (MDF) SAID ON 9 APRIL THAT 'OUR IMMEDIATE GOAL IS TO JOIN IN THE PROCESS OF EUROPEAN INTERGRATION, WITH THE FINAL GOAL OF JOINING THE EC'. BUT HE OBSERVED THAT 'THE ATLANTIC CONCEPT IS NOT ALIEN TO US EITHER'. THEY ALSO WANT TO BOOST RELATIONS WITH JAPAN.

3. DEVELOPING TIES WITH THE WEST WOULD BE A SHORT-TERM COUNTER-BALANCE TO THE RELATIONSHIP WITH THE USSR AND OTHER EAST EUROPEANS. BUT ANTALL SPEAKS OF PUTTING HUNGARY'S RELATIONS WITH COMECON MEMBERS 'ON A NEW BASIS'. THE MDF STILL RECOGNISES THE IMPORTANCE OF THIS MARKET. HOWEVER, THEY SEEK 'FAIR ECONOMIC TIES WITH THE SOVIET UNION'.

SECURITY POLICY

4. HUNGARIAN NEUTRALITY IS SEEN AS A REALITIC AIM FOR THE FUTURE. JESZENSZKY THE MAIN FOREIGN POLICY ADVISER, REITERATED ON 9 APRIL THAT 'WE WISH TO WITHDRAW FROM THE WARSAW PACT, TO BECOME NEUTRAL OR NONALIGNED'. THERE HAS BEEN LITTLE COMMENT IN THE LAST

FEW DAYS ON SOVIET TROOP WITHDRAWALS, SUGGESTING THAT THE MDF WILL EITHER ACCEPT THE DEAL NEGOTIATED BY FOREIGN MINISTER HORN FOR WITHDRAWAL BY JUNE 1991 OR GO FOR SOME COSMETIC CHANGES. THE HUNGARIAN ARMY IS TO BE 'WELL-EQUIPPED' AND 'DEFENCE ORIENTED'. NATIONAL SECURITY WILL BE MORE WIDELY DEFINED, TAKING INTO ACCOUNT THREATS TO THE ENVIRONMENT, ENERGY SUPPLIES, ETC. IN THE CONTEXT OF PROMOTING SECURITY, ANTALL SAID THAT HE IS READY TO MEET GORBACHEV.

#### REGIONAL ISSUES

5. HUNGARY UNDER THE MDF WILL REGARD HERSELF AS HAVING A RESPONSIBILITY FOR THE HUNGARIAN MINORITIES BEYOND NATIONAL BORDERS. IN ANTALL'S WORDS, 'WE MUST SUCCEED IN IDENTIFYING OURSELVES WITH THE WHOLE NATION OF 15 MILLION HUNGARIANS BOTH INSIDE AND OUTSIDE HUNGARY. GOOD RELATIONS WITH ROMANIA ARE IMPORTANT. 'OUR FUTURE RELATIONS DEPEND ON HOW ROMANIA SOLVES THE TRANSYLVANIAN ISSUE.' THE HUNGARIAN MINORITY IN SLOVAKIA HAS NOT YET BEEN SINGLED OUT FOR COMMENT.

#### PHILISOPHICAL ORIENTATION

6. THE MDF AS A POLITICAL PARTY HAS NOW ACQUIRED CONTACTS WITH MANY FOREIGN PARTIES. THERE IS CLOSE CO-OPERATION WITH THE PARTIES WHICH COMPRISE THE EUROPEAN PEOPLE'S PARTY AND EUROPEAN DEMOCRATIC UNION. ITS CHRISTIAN DEMOCRATIC VIEWS ARE SEEN AS FALLING NATURALLY WITHIN THE FRENCH OR FRG MODEL, WHILE THEIR MIDDLE CLASS LIBERAL VALUES HAVE BEEN COMPARED (BY THE MDF) WITH THOSE OF THE US DEMOCRATS. NO DOUBT THESE ORIENTATIONS WILL HAVE AN IMPACT ON THE CLOSENESS OF RELATIONS WITH GOVERNING PARTIES ELSEWHERE IN EUROPE.

#### BILATERAL IMPLICATIONS

7. IT IS TOO EARLY TO SAY HOW THE MDF VICTORY WILL AFFECT ANGLO-HUNGARIAN RELATIONS. BUT THERE IS EVERY REASON TO SUPPOSE THEY WILL BE GOOD. FRIENDLY RELATIONS HAVE EXISTED BETWEEN THIS EMBASSY AND A NUMBER OF LIKELY MDF MINISTERS FOR SOME TIME. WE HAVE ALREADY INVOLVED MDF MEMBERS IN MANY BILATERAL PROGRAMMES AND VISITS TO THE UK AND MOST OF THE LEADERSHIP ARE KNOWN TO US. ANTALL HIMSELF, THOUGH NOT ANGLOPHONE, IS SAID TO BE A FAN OF THE BBC HUNGARIAN SERVICE. THOUGH NOT BY NATURE A WARM OR OUTGOING G  
FIGURE, HE GREATLY APPRECIATED HIS RECENT VISIT TO

BRITAIN AND REFERED FREQUENTLY IN CAMPAIGN SPEECHES TO HIS MEETING WITH THE PRIME MINISTER.

## COMMENT

8. NONE OF THE ABOVE POINTS TO ANY MAJOR SHIFTS IN HUNGARY'S CURRENT FOREIGN POLICY. AS IN MOST AREAS OF POLICY MAKING, THE MDF APPROACH WILL BE PRAGMATIC AND GRADUAL. THERE WILL BE NO SUDDEN SWING TOWARDS THE EC OR AWAY FROM COMECON AND THE WARSAW PACT. BUT THE OVERALL TENDENCIES WILL BE IN THE RIGHT DIRECTION. WE DO NOT YET KNOW WHO THE FOREIGN POLICY TEAM WILL BE BUT CHANGES ARE CERTAIN WITHIN THE FOREIGN MINISTRY AND NEW AMBASSADORS WILL BE APPOINTED TO SENIOR POSTS.

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Devet .

Another BF .

Andre

*With the compliments of*

**EASTERN EUROPEAN DEPARTMENT**

**FOREIGN AND COMMONWEALTH OFFICE  
LONDON, SW1A 2AH**



Foreign and Commonwealth Office  
London SW1A 2AH

52

pa

Telephone 01-

J A Birch Esq CMG  
BUDAPEST

Your reference

Our reference

Date

10 April 1990

END	DEC	1
11 APR 1990		

Dear Ambassador

MESSAGE TO JOZSEF ANTALL

1. I would be grateful if you would pass the attached message of congratulations from the Prime Minister to Dr Antall, (as amended by No. 10.).

Yours ever,

Adam.

A Noble  
Eastern European Department

DCCAAK

SUBJECT  
~~CE MASTER  
OPS~~

~~PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. ....~~

I send you my warm congratulations on your success in yesterday's elections. Hungary has been at the forefront of the changes in Eastern and Central Europe, and your elections were a further major step forward. We shall continue to follow developments in Hungary with great interest and to offer our practical support for reform.

I was very pleased to see you in London and hope we can meet again in Budapest before too long.

With every good wish.





*M. L. M.*  
*all*

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

10 April 1990

MESSAGE TO THE NEW HUNGARIAN PRIME MINISTER

Thank you for your letter of 9 April proposing a message of congratulations from the Prime Minister to the new Hungarian Prime Minister. It may issue in the amended form enclosed.

C. D. POWELL

R.N. Peirce, Esq.,  
Foreign and Commonwealth Office.

*Meh  
Call*

MESSAGE TO THE NEW HUNGARIAN PRIME MINISTER

I send you my warm congratulations on your success in yesterday's elections. Hungary has been at the forefront of the changes in Eastern and Central Europe, and your elections were a further major step forward. We shall continue to follow developments in Hungary with great interest and to offer our practical support for reform.

I was very pleased to see you in London and hope we can meet again in Budapest before too long.

With every good wish.



Foreign and Commonwealth Office

London SW1A 2AH

9 April 1990

*Dev Anand*

Message to New Hungarian Prime Minister

The second round of the Hungarian elections took place on 8 April and the Hungarian Democratic Forum (HDF) are now expected to lead to a new coalition government. It is almost certain the Jozsef Antall, whom the Prime Minister met on 19 March, will be the next Prime Minister.

The HDF have won a convincing victory over their main rivals, the Association of Free Democrats. It may be some time before a government is formed, but given the scale of the HDF success it would be right to send a message to Antall.

I enclose a draft message.

*Tonson*  
*Peirce*

(R N Peirce)  
Private Secretary

C D Powell Esq  
10 Downing Street

Draft message to new Hungarian Prime Minister

I send you my warm congratulations on your success in yesterday's elections. Hungary has been at the forefront of the changes in Eastern and Central Europe and your elections were a significant landmark in establishing pluralist democracy. We shall be watching developments in Hungary with great interest and will continue to offer our practical support for reform.

I enjoyed seeing you in London and hope we can meet again in Budapest before too long.

with every good wish.

RESTRICTED



*File No*

*o: Transylvania*

10 DOWNING STREET  
LONDON SW1A 2AA

*cc for PC*

*From the Private Secretary*

9 April 1990

TRANSYLVANIA: MESSAGES TO THE PRIME MINISTER

Thank you for your letter of 6 April about the various messages to the Prime Minister about the situation in Transylvania. I agree that it would be right to wait until there is a new Hungarian Government in place before attempting to reply: and that it would be prudent to delay any reply to the Romanian Prime Minister until we can also write to the Hungarians.

CHARLES POWELL

Richard Gozney, Esq.,  
Foreign and Commonwealth Office.

RESTRICTED



Foreign and Commonwealth Office

RESTRICTED

London SW1A 2AH

6 April 1990

Dear Charles,

Transylvania: Messages to the Prime Minister from Hungarian  
Political Parties and from the Romanian Government

You will have seen Budapest telegrams 198 and 199 about the messages from the Hungarian Alliance of Free Democrats (AFD) to the Prime Minister on 20 March asking her to intervene in the dispute between Hungary and Romania. (I enclose copies). We have now received from the Hungarian Embassy the enclosed letter to the Prime Minister from Dr Antall, President of the other main political party, the Hungarian Democratic Forum. This letter also criticises the Romanian government.

The Free Democrats and the Democratic Forum are the front runners after the first round of the general election in Hungary on 25 March. They are now competing in the second round on 8 April, after which it may be some time before a coalition is formed. In these circumstances it is quite likely that any reply from the Prime Minister will be used by the recipient to seek political advantage. We therefore recommend that the Prime Minister delay replying until a coalition government is in place.

I also enclose a letter to the Prime Minister from the Romanian Prime Minister, Mr Roman. Since his position in Romania is not disputed there is less sensitivity about replying directly to him. Nonetheless the jealousy between Hungary and Romania is such that it would be preferable to reply to both at the same time. We shall provide further advice and draft replies to the Romanian message and the two Hungarian ones after the new Hungarian government has been formed.

We shall also delay, until after 8 April, a reply to a Note from the Hungarian Embassy covering an "appeal" from 11 Hungarian parties about the bilateral dispute with Romania.

Yours ever,  
Richard Gozney

(R H T Gozney)  
Private Secretary

C D Powell Esq  
10 Downing Street

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TELNO 199  
OF 221500Z MARCH 90  
INFO IMMEDIATE BUCHAREST

MIPT: HUNGARY/ROMANIA

TEXT OF LETTER TO PRIME MINISTER FOLLOWS:

QUOTE

MARCH 20, 1990

DEAR PRIME MINISTER

IN ROMANIA, ONE VIOLENT ACTION FOLLOWS ANOTHER AGAINST THE HUNGARIAN ETHNIC MINORITY. THE DRAMATIC EVENTS OF THE PAST DAYS REQUIRE AN IMMEDIATE, FIRM STANCE WHICH TAKES IN ACCOUNT MORE THAN THE OBVIOUS AND SEVERE VIOLATIONS OF HUMAN RIGHTS. IF THESE OCCURRENCES ARE NOT HALTED, AND IF THE HUNGARIAN MINORITY, THREATENED WITH PERSECUTION, DOES NOT RECEIVE ADEQUATE PROTECTION, THE DEMOCRATISATION PROCESS IN ROMANIA WILL BE ENDANGERED. IN ADDITION, THE WORSENING OF HUNGARIAN/ROMANIAN RELATIONS MAY PROMPT THE HUNGARIAN DEMOCRACY, AS WELL, TO SUFFER INCREASED DIFFICULTIES FROM HIGHLY CHARGED POLITICAL EMOTIONS.

THE ALLIANCE OF FREE DEMOCRATS ASKS YOU, MRS PRIME MINISTER, TO USE YOUR POSITION AND STANDING TO SPEAK OUT AND RAISE ISSUE THAT THE ROMANIAN STATE SHOULD SERVE ALL OF ITS CITIZENS, AND PROVIDE EQUAL AND PHYSICAL PROTECTION, SECURITY, AND HUMAN DIGNITY TO ALL MINORITIES, PARTICULARLY HUNGARIANS.

IT IS NOT TOO LATE, BUT EVEN A FEW DAYS DELAY WOULD BE DISASTROUS. WITH THIS IN MIND, IT IS NOW THAT OUR REGION HANGS IN THE BALANCE OF POSSIBLY BEING INTERGRATED WITH THE WEST AND THE EUROPEAN COMMUNITY, OR FALLING INTO THE DEPTHS THAT HAVE SO REPRESSED THE BALKANS FOR DECADES.

SIGNED BY BALINT MAGYAR ON BEHALF OF THE LEADERSHIP OF THE ALLIANCE OF FREE DEMOCRATS. UNQUOTE

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MR TAIT  
MR GREENSTOCK  
MR SLATER  
MISS SPENCER  
MR MOSS

ADDITIONAL 11

MR APPELYARD CABINET OFFICE  
MR MANNING CABINET OFFICE  
MR REEVES CABINET OFFICE  
ASSESSMENTS STAFF CAB OFFICE

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OF 221445Z MARCH 90  
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HUNGARY/ROMANIA

SUMMARY

1. FREE DEMOCRATS APPEAL TO PRIME MINISTER FOR HELP OVER HUNGARIAN MINORITY IN ROMANIA.

DETAIL

2. MIFT CONTAINS TEXT OF A LETTER TO THE PRIME MINISTER FROM THE ALLIANCE OF FREE DEMOCRATS ABOUT THE SITUATION OF THE HUNGARIAN MINORITY IN ROMANIA. IT ASKS THE PRIME MINISTER TO CALL ON THE ROMANIAN STATE TO PROVIDE EQUAL SECURITY AND HUMAN RIGHTS TO ALL ITS CITIZENS, IN PARTICULAR THE HUNGARIAN MINORITY.

3. IN DELIVERING THIS LETTER, BALINT MAGYAR (FOREIGN POLICY SPOKESMAN OF THE ALLIANCE) SAID HE HOPED THAT AS MANY WESTERN LEADERS AS POSSIBLE WOULD SPEAK OUT AND ATTEMPT TO CALM THE SITUATION. THE ALLIANCE HAVE DELIVERED SIMILAR LETTERS TO OTHER WESTERN LEADERS AND WILL BE PUBLICISING THEM. I SAID THAT WE SHARED HUNGARIAN CONCERN ABOUT COMMUNAL STRIFE AND THE THREAT TO DEMOCRACY. THE FOREIGN SECRETARY HAD SPOKEN ON THIS DURING HIS VISIT.

4. AS IT IS THE EVE OF THE GENERAL ELECTION, THERE IS A PARTY POLITICAL ELEMENT TO THE LETTER AND WE MAY WELL GET OTHER APPEALS. I DO NOT THEREFORE THINK THAT IT CALLS FOR A WRITTEN REPLY. BUT THE FREE DEMOCRATS ARE ONE OF THE LEADING CONTENDERS FOR POWER AND I WOULD LIKE TO BE ABLE TO GIVE THEM AN ORAL RESPONSE.

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PS/MR WALDEGRAVE  
PS/PUS  
MR P J WESTON  
CHIEF CLERK  
MR TAIT  
MR GREENSTOCK  
MR SLATER  
MISS SPENCER  
MR MOSS

ADDITIONAL 11

MR APLEYARD CABINET OFFICE  
MR MANNING CABINET OFFICE  
MR REEVES CABINET OFFICE  
ASSESSMENTS STAFF CAB OFFICE

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PS/NO 10  
RESIDENT CLERK, ODA  
DISASTER UNIT, ODA

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The Rt. Hon. Margaret Thatcher MP  
Prime Minister  
No.10. Downing Street  
London SW1

London 26th of March 1990

*Dear Prime Minister,*

I have the honour to enclose hereby the text of the letter of Mr. József Antall, President of the Hungarian Democratic Forum. Due to the urgency of the contents we received the letter by wire.

Having received the original letter we will forward it immediately.

*Yours sincerely,*

*Gábor Bródi*

Mr. Gábor Bródi

Minister Plenipotentiary  
Chargé d'Affairs of the  
Republic of Hungary

Dear Madam Thatcher,

Remembering our recent substantive conversation we had in a warm atmosphere, I feel that, convinced of your understanding and sympathy, I can turn to you with full confidence in a matter of concern which appears to jeopardize the spirit and future of the entire process of transformations in Eastern-Central Europe.

I refer to the anti-Hungarian pogroms of recent days in Romania, which claimed a toll of casualties at Marosvásárhely in the "Kristallnacht" of 20 March. A Hungarian writer and politician of Transylvania, with European fame, András Sütő, who asked the Romanian hooligans who had broken into the Hungarian House of Marosvásárhely to show restraint, is receiving intensive treatment at a Budapest hospital where he was taken from Romania by a special flight after he had been beaten on the head and ribs.

The pogroms, in which a chauvinistic minority of the Romanian people is involved, have taken place because the Hungarian minority of nearly 3 million has set out, after the revolution, to regain its nationality rights, which, limited from the very beginning, it was gradually deprived of during the 25 years of the Ceausescu regime. Characteristically, the pogrom of Marosvásárhely was arranged because in a town with Hungarian majority the Hungarian sign-board had also been affixed on a pharmacy. As is proved by television reports and other reliable eye-witnesses, the pogroms were carried out by organized and incited Romanians who had been transported from other localities for that purpose. It must be emphasized that, amid the ethnic hatred which had been fomented for weeks, the Hungarian minority as well as the Hungarian political leaders have displayed the greatest measure of restraint and tolerance as they are convinced that nationality questions cannot be solved except in the spirit of democracy and pluralism, in keeping with the spirit and letter of the agreements reached in the Helsinki process.

Signs show, however, that the restraint of Hungarians and our willingness, of which we have given so much evidence since the revolution, to lay the basis for understanding and cooperation have not yet borne fruit. Certain circles resort to chauvinistic instigation and even to casting the ridiculous spectre of a Hungarian armed intervention in an effort to have people forget Romania's economic problems and its government's uncertainty. The Romanian Government bears an enormous responsibility in this matter. First, because it failed to meet its promises given to the minorities in the days of the revolution, although the revolution had been sparked off by the peaceful resistance of László Tőkés, a brave Hungarian pastor, in Temesvár and the Hungarian Government and people were the first to provide assistance exceeding their strength for the Council of National Salvation from the outset. Second, because it acted in a hesitant and cowardly manner during the current atrocities, did not prevent the obvious organization of pogroms, and its military and police forces looked on the bloodshed with folded arms, while now it is trying to shift the responsibility on to others under hollow pretexts and with falsifications. All this can well be a part of an electoral campaign, but, as you will certainly agree, hopes for democracy, for human and minority rights run rather low in a country where instigation against nationalities is seen as an infallible formula for electoral success.

Dear Madam Thatcher,

The current developments in Romania are of concern not only to Romanians and minorities in Romania, not only to Hungarians. What is at stake is the record of achievements by Eastern and Central Europe during the whole glorious year of 1989. If democracy is lost now, with international terrorism prevailing, in Romania, the defeat will be a political and moral one of all Europe, one of the entire community of civilized nations.

At this moment we in Hungary are preparing for the first free elections, and for the safe victory of the opposition, after more than 40 years, but our joy on the eve of the election is somberly overshadowed by the tragedy in Romania.

We, Hungarians, do hope that Europe will recognize its vital interests in this critical situation and will use all possible means to prevent the massacre of innocent Hungarians and to remind Romania's leading political forces of their immense responsibility. Romania must not be Balkanized, on the contrary, we must be working towards strengthening the position of the Romanian advocates of democracy in order to enable that country to get rid of the quarter-century mental marks of a fascist dictatorship as soon as possible and to join the community of European democracies.

Please allow me, Madam Thatcher, to enclose herewith the Appeal to the Romanian People by the Hungarian opposition parties and also to recall that the Hungarian Government has requested the governments of the Helsinki process and the senior officials of the United Nations to use their influence with the Romanian Government to stop the atrocities and to investigate the truth.

Budapest, 23 March 1990.

With my highest consideration,

( József Antall )

President

of the Hungarian Democratic Forum

No.: 34/1990.

London, 26th of March 1990

The Embassy of the Republic of Hungary presents its compliments to the Foreign and Commonwealth Office and has the honour to enclose herewith an "Appeal" issued by all Hungarian parties with possible parliamentary representation, which constitutes the common national consent.

The parties concerned raise the attention of the international community to the dangers derived from the infringement and contempt of the lawful rights of ethnic minorities, which could query the process of transformation in the Central-Eastern European region, and the process of the unification of Europe. At the same time the Appeal should like to mobilize the democratic forces of Romania against the extremists.

In the Appeal the parties concerned expressed their opinions about the minority rights in accordance with the UN Charter, the documents of the Helsinki process, the generally accepted norms of International Law and the official position taken by the Government of the Republic of Hungary.

The Embassy of the Republic of Hungary avails itself of this opportunity to renew to the Foreign and Commonwealth Office the assurance of its highest consideration.

FOREIGN AND COMMONWEALTH OFFICE  
Clive House, Petty France  
LONDON SW1

Encl.: 1



## APPEAL

The Agrarian Union, the Alliance of Young Democrats (FIDESZ), the Independent Smallholders' Party, the Patriotic Electoral Coalition, the Christian Democratic People's Party, the Hungarian Democratic Forum, the Hungarian People's Party, the Hungarian Socialist Party, the Hungarian Social Democratic Party, the Alliance of Free Democrats, and the Entrepreneurs' Party jointly express their protest against the brutal attacks on Hungarians in Transylvania that threaten the very existence of the entire Hungarian population in Romania. The situation emerging in the wake of the fascistoid pogrom in Marosvásárhely poses a threat to the process of democratic change under way in Eastern-Central Europe as well as to the peace and security of the continent. Prompted by anxiety about these grave perils, we address a joint appeal to the people and nations of Romania, to all parties and organizations committed to Romania's democratic development, to all honest Romanian citizens who wish to attain the prosperity of their country in the spirit of universal human values and European norms.

The December Revolution, the heroes of which have earned the admiration of the whole world, has offered a historical opportunity for transforming the relations between the two countries on new, democratic foundations. The Hungarian people has given evidence of its earnest aspiration for reconciliation by receiving the refugees fleeing from the dictatorship and providing unselfish aid for those afflicted and in need.

The tragic developments of the past days in Romania, the resurgent extremist trends and the bloodshed in Marosvásárhely serve to compromise the process of democratizing the Romanian society and threaten with the emergence of a new dictatorship. In our conviction, all those events tend to jeopardize the implementation of the rights of minorities, including the nationality rights of Hungarians, living in Romania and are even inconsistent with the



national interests of the Romanian people, as Romania may exclude itself from a new democratic Europe by disregarding the rights set forth in international instruments.

Fomenting chauvinistic sentiments and tolerating open violence give rise to fears in the Carpathian Basin and in the whole region and, unless action is taken in time to contain such trends, will continue to poison relations among the peoples living here and may cause serious damage to their mutual relations. The rebirth of the countries of Eastern-Central Europe and the creation of modern European democracy call for a rethink of the role and significance of national minorities and require guarantee for their rights within national and international frameworks. Unless this is done, the elementary social conditions for modernization in the countries of the region cannot be created and Eastern-Central Europe may even miss the chance of progress, with its development likely to be arrested for a long time to come.

We pledge our full solidarity with Hungarians in Transylvania and all Romania in the face of attacks against them. Aware of the common destiny of the Hungarian and Romanian peoples, of all peoples in the Carpathian Basin, we reaffirm our faith in the friendship of our peoples. We support the rightful endeavours of Hungarians in Romania to exercise their individual and collective rights, convinced that thereby they serve the prosperity of Romania as well. We reject any form of violence and call on all democratic and progressive forces to make joint efforts against the resurgent fascist trends. The 11 parties declare their solidarity with all democratic forces in Romania and stand ready to do their utmost, in accordance with the documents of the Helsinki process as well as the generally accepted norms of international law, to promote cooperation and friendship between, as well as the peaceful development of, the two peoples and countries on behalf of building a united and democratic Europe.

We are confident that the democratic forces of Romania will be able to curb violence and to overcome the crisis. Hopes to do so are afforded by the spirit and the documents of the meeting of Hungarian and Romanian intellectuals held in Budapest on 19-20 March 1990.

Budapest, 22 March 1990.

March 1990

Excellency,

In the Statement of the Romanian Government of March 21st, 1990, we have expressed our position and the deep concern regarding the events taking place in some localities in Romania, considering that a correct and objective assesment of the situation can come out only from an exact knowledge of the facts and the reasons generating them.

However, I wish to address myself to You, in the spirit of the good relations existing between our countries, in order to underline the gravity of the activity of the nationalistic -chauvinistic and revisionist instigation carried out by certain circles in Hungary against Romania.

Naturally, the problems connected with the existance of national minorities in our country present some difficulties, inherited from the past, but they

./.

THE RIGHT HONOURABLE  
MARGARET THATCHER  
PRIME MINISTER OF THE UNITED KINGDOM  
OF GREAT BRITAIN AND NORTHERN IRELAND

have - under the new conditions created by the Revolution of December 1989 - all prospects to find a proper settlement, on the basis of the observance of the fundamental freedoms and of the human rights of all the citizens of the country, no matter if they are Romanians, Magyars or of other nationalities. As a matter of fact, the Magyar minority, very like other national minorities, has been together with the Romanians on the barricades of the Revolution, shedding together their blood for the ideals of freedom, democracy, economic and social progress.

In a time of difficulties we are confronted with in the process of passing from totalitarian dictatorship to democracy when we, more than ever, need the international solidarity, we have conveyed an appeal to the Hungarian authorities to put an end to the hostile manifestations and attitudes against Romania, so that we should be able to settle the problems we have, including those regarding the ensurance of full equality of all inhabitants of our country, in calm and peace, on the basis of understanding, tolerance and mutual respect.

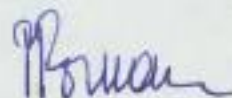
At the same time, we have taken the necessary steps to avoid new confrontations and to restore the calm. We have also appealed to the Government of Hungary to give up the dangerous actions of denigration and misinformation undertaken both in the relations with our

country and internationally, which seriously impede the efforts of the Romanian Government.

It is for this reason why I wish to appeal to You to use Your influence in order to put an end to all outside interference in the affairs of Romania, so that its citizens, irrespective of nationality, could fully devote their endeavours to the fulfilment of the ideals of democracy, freedom and dignity that united them in the days of Revolution and the wisdom and the values of civilization prevail in the inter-state relations.

Please accept the assurances of my highest esteem and consideration along with the desire to have a direct dialogue for the benefit of a better mutual knowledge and of the deepening of the co-operation between our countries, for the promotion of peace and understanding in Europe and all over the world.

Petre Roman



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FM BUDAPEST

TO IMMEDIATE FCO

TELNO 212

OF 271030Z MARCH 90

INFO PRIORITY WASHINGTON, PARIS, BONN, UKDEL NATO

INFO PRIORITY EAST EUROPEAN POSTS, ACTOR, MODUK FOR MODAD

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MY TELNOS 209 AND 210 (TO FCO ONLY): HUNGARY: GENERAL ELECTION

## SUMMARY

1. THE HUNGARIAN DEMOCRATIC FORUM (CENTRE RIGHT) AND THE ALLIANCE OF FREE DEMOCRATS (LIBERAL CENTRE LEFT) EMERGE CLOSE TO EACH OTHER, AND WELL AHEAD OF THE REST. BOTH CLAIM THEY WILL BE THE MAJOR PARTY AFTER THE 8 APRIL SECOND ROUND. BOTH WILL MEANWHILE COURT THEIR NATURAL ALLIES. THE WINNER: DEMOCRACY. THE LOSER: COMMUNISM. THOUGH THE OUTLINES OF A TWO-PARTY SYSTEM ARE ALREADY APPARENT, THE HARD TIMES AHEAD COULD FORCE THE TWO MAIN PARTIES INTO A GRAND COALITION.

## DETAIL

2. FURTHER COMPUTER/TELECOMMUNICATIONS PROBLEMS MEANT THAT, BY 0700Z ON 27 MARCH, ONLY 80% OF THE VOTES (3.9 MILLION, ON A TURNOUT OF AROUND 63%) HAD BEEN COUNTED. ON THAT BASIS, THE SITUATION WAS AS FOLLOWS:

HUNGARIAN DEMOCRATIC FORUM (HDF):	25%	[your guess]
ALLIANCE OF FREE DEMOCRATS (AFD):	21%	
SMALLHOLDERS:	12%	
HUNGARIAN SOCIALIST PARTY:	11%	
FEDERATION OF YOUNG DEMOCRATS (FIDESZ):	9%	
CHRISTIAN DEMOCRATS:	6%	

3. THESE PERCENTAGES ARE FOR THE VOTES CAST FOR PARTIES ON THE COUNTY LISTS. ASSUMING THEY ARE REFLECTED IN THE FINAL OUTCOME, THEN THESE 6 PARTIES WILL DIVIDE BETWEEN THEM 152 MANDATES ON THE (20) COUNTY LISTS AND THE 58 MANDATES ON THE NATIONAL LIST IE 210 OF THE OVERALL 386 SEATS IN THE NEW PARLIAMENT. THE OTHER 6 MAIN PARTIES, WHO HAVE YET TO BREAK THE 4% THRESHOLD, WILL FAIL TO QUALIFY. THE COMMUNISTS AND SOCIAL DEMOCRATS WILL THEREFORE BE UNREPRESENTED IN THE NEW PARLIAMENT.

4. BECAUSE OF THE FIRST-ROUND REQUIREMENT TO OBTAIN MORE THAN 50% OF THE VOTES CAST IN EACH CONSTITUENCY, ONLY 5 MPS HAVE SO FAR BEEN DIRECTLY ELECTED. IT IS THESE FURTHER 171 CONSTITUENCY SEATS THAT WILL BE DECIDED IN THE SECOND ROUND ON 8 APRIL, WHEN IT WILL BE 'FIRST PAST THE POST'. ANY CANDIDATE OBTAINING MORE THAN 15% OF THE FIRST ROUND VOTE IS ENTITLED TO RUN AGAIN.

5. BOTH THE DEMOCRATIC FORUM (CENTRE RIGHT LED BY JOZSEF ANTALL) AND THE FREE DEMOCRATS (LIBERAL CENTRE LEFT LED BY JANOS KIS) ARE CLAIMING THAT THEY WILL WIN THE SECOND ROUND AND EMERGE AS THE LARGEST PARTY. AS BEFITS BOTH THEIR LONGSTANDING RIVALRY AND THE NEEDS OF THE MOMENT, THEY ARE TALKING OF OTHER PARTIES AS THEIR POTENTIAL COALITION PARTNERS (THOUGH BEING CAREFUL NOT TO RULE OUT A GRAND COALITION INVOLVING BOTH OF THEM). OF THOSE OTHER PARTIES, FIDESZ IS THE NATURAL ALLY OF THE FREE DEMOCRATS, THE CHRISTIAN DEMOCRATS THAT OF THE DEMOCRATIC FORUM. THE AFD AND THE HDF WILL THEREFORE BE TRYING HARD OVER THE NEXT TWO WEEKS TO WORK OUT ELECTORAL PACTS WHEREBY THEIR NATURAL ALLY WILL STAND DOWN IN INDIVIDUAL CONSTITUENCIES AND THUS AVOID VOTE SPLITTING.

6. THE WILD CARD IS THE SMALLHOLDERS. THOUGH THEY DID LESS WELL THAN ANTICIPATED, THEIR POSITION IS NONETHELESS LIKELY TO BE CRUCIAL. THEIR ROOTS ARE RURAL/CHRISTIAN, BUT THEY ARE STRONGLY PRO-PRIVATE ENTERPRISE. NOT SURPRISINGLY THEY ARE KEEPING THEIR CARDS VERY CLOSE TO THEIR CHEST.

COMMENT

7. THE BIG WINNER IS DEMOCRACY. THE ELECTIONS HAVE BEEN FREE, FAIR AND (DESPITE THE COMPUTER GLITCHES) CHEERFULLY AND REASONABLY WELL-ORGANISED. THE BIG LOSER IS COMMUNISM: THE POLITICAL BULLY BOYS, THE HYPOCRISY AND THE ENFORCED ECONOMIC BACKWARDNESS OF THE PAST 40 YEARS HAVE BEEN DECISIVELY REJECTED.

8. THE HUNGARIANS' CONTINUING POLITICAL MATURITY HAS REMOVED THE SMALL FRY, SO THAT THE NEW PARLIAMENT WILL HAVE TWO MAJOR PARTIES AND ONLY FOUR OTHERS. THE OUTLINES OF A WEST EUROPEAN SYSTEM ARE ALREADY APPARENT. THE COUNTRY, AND THE INTERNATIONAL COMMUNITY, HOWEVER, MAY NOT YET BE READY FOR CLASSICAL ADVERSARIAL PARLIMENTARIANISM, AND MAY HANKER FOR A GRAND COALITION. THIS WOULD CONTAIN SOME UNCOMFORTABLE BEDFELLOWS, AND WOULD NECESSITATE SOME VERY HARD BARGAINING. THE NEXT TWO WEEKS WILL BE CRUCIAL AS THE TWO MAIN CONTENDERS STRIKE DEALS AND ALLIANCES FOR THE SECOND ROUND ELECTION OF CONSTITUENCY SEATS ON 8 APRIL. ONLY WHEN THOSE RESULTS ARE KNOWN CAN THE SHAPE OF A COALITION GOVERNMENT BE FINALLY DETERMINED.

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Mr DCA  
bc PC  
JW

SUBJECT CC MASTER

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

19 March 1990

Dear Richard.

PRIME MINISTER'S MEETING WITH DR. JOZSEF ANTALL

The Prime Minister had a talk this afternoon with Dr. Jozsef Antall, President of the Hungarian Democratic Forum. Dr. Antall was accompanied by Professor Eniko Bollobas, Mr. Geza Jeszenszky and a third person whose name I never got (but he was a Count).

The Prime Minister started by referring to the election results in East Germany which had been a tremendous defeat for socialism of whatever variety. Dr. Antall said that he had told the Labour Party spokesman on foreign affairs that morning that people in Eastern and Central Europe would not accept socialism. The Prime Minister continued that an important lesson was never to let the centre-right fragment. Dr. Antall said that unfortunately it had not been possible to avoid this in Hungary. His original aim had been to unite all the centre-right parties but others had made this impossible. Nonetheless he hoped that the Hungarian Democratic Forum would get between 20 and 30 per cent of the votes; together with the Christian Democrats and the Smallholders Party, this could give them an absolute majority. So far as he was concerned, a coalition with the Hungarian Socialist Party was unthinkable. The Prime Minister commented that Mr. Nemeth had acted courageously, particularly in securing an agreement with the IMF. Dr. Antall said that it was important not to be deceived about the Free Democrats. They were really a centre-left party, despite their attempts to claim otherwise. There were many former Marxists among their number. They had obtained considerable support in the American press and accused the Hungarian Democratic Forum of being nationalistic and anti-semitic. This was absolutely untrue.

The Prime Minister asked about the economic situation. Dr. Antall said that the future government of Hungary would have a grave legacy. The agreement with the IMF had been based, in part, on fraudulent figures. His Party was committed to develop a full-blooded market economy and would maintain a strict financial policy to maintain solvency. The Prime Minister said that she would like to hear a clear declaration of support for the agreement with the IMF. Dr. Antall said the agreement was undoubtedly a good thing for Hungary. Despite the fact that it entailed severe measures and would involve hardship, it opened the way for further financial help from abroad.

Dr. Antall said that Hungary very much wanted to secure investment from British firms and he hoped the Prime Minister would encourage this. Indeed many people in Hungary wanted to

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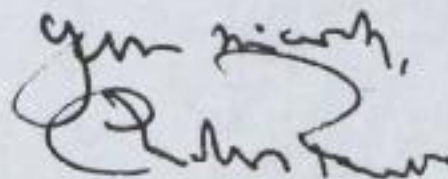
see a much bigger British presence in Eastern and Central Europe as a balance to Germany's influence. The Prime Minister referred to the help we were giving through the European Community and our Know-how Fund. Dr. Antall said that the Bank of England was penalising Hungary, which had always been a reliable debtor. The Prime Minister said that Mr. Nemeth had already written to her about this and she was looking into it.

Dr. Antall said there were fears in Central Europe about German unification. People in Hungary were convinced that a united Germany should be a member of NATO. The most dangerous outcome would be a neutral Germany. The Prime Minister agreed. Dr. Antall continued that it was good news that Soviet troops would leave Hungary, although hard to understand why it had to take one and a half years. The Prime Minister said she sympathised with this view but, at the same time, one had to understand the problems for Mr. Gorbachev of dealing with the returning forces and making the necessary arrangements for them. Dr. Antall observed that there was a sort of post-World War I mood in the Soviet Union, with the return of a defeated army. He thought the Soviet Communist Party were probably rather frightened of the consequences. At worst, Gorbachev's own position might be undermined.

Dr. Antall said that he and his Party were very worried about the treatment of the Hungarian minority in Romania and about manifestations of nationalism in Czechoslovakia. He wanted to emphasise that he was raising these points not with any intention of opening a discussion on borders, but simply out of concern to see minority rights defended. He thought the West should pay more attention to the situation in Romania: and would also be grateful if the Prime Minister could mention his concern to President Havel. The Prime Minister said that it would indeed be disastrous to reopen borders in Europe and unpick the Helsinki Agreements.

Dr. Antall concluded by emphasising once again the need for a British presence in Central Europe and especially in Hungary. If his Party won the elections, they would seek more co-operation of every sort with the United Kingdom, as well as help with privatisation. He hoped that he could tell the press that the Conservative Party would support the Hungarian Democratic Forum through the EDU and in other ways. The Prime Minister indicated that he could do so.

I am copying this letter to Simon Webb (Ministry of Defence), Robert Canniff (Chancellor of the Duchy of Lancaster's Office) and Sonia Phippard (Cabinet Office).

  
(CHARLES POWELL)

Richard Gozney, Esq.,  
Foreign and Commonwealth Office.

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PRIME MINISTER

MEETING WITH DR JOZSEF ANTALL

You are to see Dr Jozsef Antall, President of the Hungarian Democratic Forum, on Monday. He will be accompanied by two colleagues. Kenneth Baker saw him in Budapest last week.

Mr Antall is generally regarded as the most likely next Prime Minister of Hungary. His party is centre-right and, at least until recently, seemed likely to emerge as the largest party following the elections. But it is being hotly pursued by the Free Democrats, who have recently overtaken them in the opinion polls. They are more centre-left, although their economic policies claim to be Thatcherite.

You will want to read Kenneth Baker's note of his meeting Mr Antall which is in the folder.

You will be seeing Mr Antall only a few days before the Hungarian elections (on 25 March). Whoever wins will face major problems with the economy. Negotiations on an IMF arrangement have been concluded and you will want to urge the importance of a future Government honouring the arrangement. Without it, Hungary's prospects of access to foreign loans and investment will be very poor.

You will want to sound out Mr Antall's views on Hungary's future alignment, in particular whether he believes Hungary should remain in the Warsaw Pact. You might also enquire about his contacts with the Soviet Union and with Mr Gorbachev.

On the bilateral front, you may mention your intention to visit Hungary in mid-September and refer to the Know-How Fund which we have set up and which will start operating in April.

You will find a fuller note by the FCO in the folder.

C D P  
C. D. POWELL  
16 March 1990

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Foreign and Commonwealth Office

London SW1A 2AH

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16 March 1990

Dear Charles,

Call by Dr Jozsef Antall

Dr Jozsef Antall, President of the Hungarian Democratic Forum (HDF) and a leading contender to be Hungary's next Prime Minister, is calling on the Prime Minister on 19 March at 1600.

Dr Antall will be in London from 18 - 19 March as a COI visitor. He will be calling on Mr Baker and Mr Waldegrave and will have meetings with The Labour Party, The Conservative Council for Eastern Europe, and Mr Robert Maxwell. Antall will want to brief the Prime Minister on the current situation in Hungary and the Democratic Forum's policies should it be the major partner in the next Hungarian government.

Hungary Internal

Hungary's first fully free elections in 40 years are on 25 March. Much of the impetus for reform in Hungary came from the Hungarian Socialist Workers' Party (the old Community Party) and its successor the Hungarian Socialist Party, under the twin pressures of an increasingly confident opposition and a rapidly deteriorating economy. The attempt by reformers to break with the past last October, to develop a new democratic socialist party, has failed. The Hungarian Socialist Party will lose power after the general election. Nemeth's personal standing is quite high, and he will probably have a future in Hungarian public life. But the dead weight of Communist rule in towns and valleys throughout Hungary has led to a widespread determination to vote against the Hungarian Socialist Party.

The new Hungarian government is most likely to be a coalition. The Democratic Forum, which represents nationalist/ conservative values, is a leading contender to be the major partner, but the alliance of Free Democrats is closing the gap. The balance could be held by the numerous smaller parties. There is a danger that the elections will produce a weak and fragmented government.

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### Hungarian Economy

Hungary faces a serious economic crisis. Its industrial infrastructure is ageing; its domestic finances are in difficulty. The country is heavily in debt to foreign creditors and faces serious balance of payments problems. The Hungarians have an enormous rouble surplus on their trade with the Soviet Union, and have suspended most imports of goods from the Soviet Union. This in turn is adversely affecting their own exports and is leading to unemployment. At the same time, the Hungarians are suffering from reduced supplies of Soviet aid (partly inefficiency, partly the fact that the Russians can get a better price on the world market). The test for the new Hungarian government will be to maintain the momentum of economic reform set by the present government. Negotiations on a crucial IMF arrangement were recently concluded. Some of the opposition parties seem to want to renegotiate an IMF agreement after the elections. The Prime Minister might underline the importance that we attach to sticking to the arrangement and stress that we hope that a new Hungarian government will honour it. If adherence to the IMF programme wavers, Hungary's prospects for continued access to foreign commercial loans and investment would be poorer. The Prime Minister might also seek Antall's view of the steps already taken to put State companies into private hands, and to ask if he has any further plans for privatisation.

### Relations with the Soviet Union/Warsaw Pact

The Prime Minister might ask Antall about Hungary's relations with the Soviet Union. The Hungarian Foreign Minister, Dr Horn, visited Moscow on 10 March and signed an agreement on the withdrawal of Soviet troops from Hungary. Horn said in Moscow that Hungary was not at present considering withdrawing from the Warsaw Pact and the leaders of the Democratic Forum share this view. The Prime Minister may wish to seek Dr Antall's views on the future of the Warsaw Pact and prospects for Hungarian/Soviet relations after the elections.

### Bilateral Relations

Bilateral relations are excellent. Prime Minister Nemeth visited the UK in December 1989 and the Foreign Secretary visited Budapest on 27 February - 1 March 1990. The Prince and Princess of Wales will be visiting Hungary from 7-10 May. The Prime Minister plans to visit in September 1990; she may wish to tell Mr Antall.

/The

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The Chancellor announced a £25 million Know How Fund for Hungary in October 1989. It will begin operating in April to provide training and assistance in financial services, management, privatisation and English Language Training. We hope to second two British experts to the State Privatisation Agency soon.

Dr Antall will be accompanied by his two most senior advisers, Professor Bollobas and Dr Jeszenszky. The latter is a Professor of history and has been tipped as the next Foreign Minister or Ambassador in Washington or London. A British interpreter, Ms Edith Adler, will also be present. I enclose a personality note on Mr Antall and a short note on the Hungarian Democratic Forum.

Yours ever,

(R H T Gozney)  
Private Secretary

C D Powell Esq  
10 Downing Street

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DR JOZSEF ANTALL

Born 1932. Antall took part in the 1956 Revolution. He is a historian with many publications to his name. He worked as a secondary school teacher before becoming Director of the Seemelweiss Medical History Museum and Library. Antall was a founding member of the Hungarian Democratic Forum and came to prominence during Round Table talks with the Communist Party in 1989. He became leader of the Democratic Forum in October 1989. He is tactically astute, but there are some doubts about his ability to provide firm leadership. He is a leading contender to be Hungary's next Prime Minister. He recently visited the United States where he met President Bush and Mr Baker. He speaks no English.

#### HUNGARIAN DEMOCRATIC FORUM (HDF)

The HDF started in September 1987 as a movement of writers, poets and historians who were calling for greater democracy. It is still the largest party and has the broadest base. At by-elections in Summer 1989 it became the first opposition group to win seats in Parliament. There are some lingering doubts about the HDF's economic policies, but it is a leading contender to be the major partner in a coalition government. It has recently distanced itself from the ruling Hungarian Socialist Party.

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## CONSERVATIVE

THE PRIME MINISTER

15th March, 1990

You are to see Dr. Jozsef Antall, Leader of the Hungarian Democratic Forum (HDF), at 4 p.m. on Monday. I will be seeing him in the morning.

As you know, I was in Hungary on 9th March seeing the main opposition parties. I spent about one hour at the HDF's Budapest Headquarters: Dr. Antall was present for the first twenty minutes of the meeting, before departing to address a rally in the country.

Dr. Antall was keen for his party to forge strong links with the Conservative Party. He and other spokesmen put in a strong pitch to the effect the HDF had the best credentials to be our sister Party in Hungary, and that this could emphatically not be said of their rivals, least of all the Alliance of Free Democrats.

THE RIGHT HON. KENNETH BAKER MP  
CHAIRMAN OF THE PARTY



Dr. Antall gave us a short history of the Democratic Forum: it was established in 1987, and registered legally in 1988, preceding its rivals.

Dr. Antall emphasised that his party was 'right of centre' in the European sense. It advocated the preservation of national values and embodied certain liberal Conservative ideals. 'Social and humanistic' elements had played a major role in its thinking, as had 'Christian Democratic values, based on co-operation between the different levels of society'.

The HDF was 'not far from the Conservative Party', especially in its political and economic platform. It identified with the Conservative Party of Butler, Macmillan and Eden - periods of history following economic crises and therefore comparable with Hungary's present situation. Dr. Antall said that the HDF had applied for membership of the EDU.

Dr. Antall was at pains to stress that his party had no 'sympathy' for the views of Hitler or Stalin: their influence on his country had been a tragedy for Hungary. Dr. Antall emphasised the friendship of Hungarians for the British people - despite the events of the First and Second World Wars. War with Britain had never been the 'desire of the Hungarian

people'. It had occurred because of 'geopolitics'.

Dr. Antall produced a certificate (attached), which he presented to me, given to his father by General Alexander, praising his role in helping allied servicemen to escape.

Dr. Antall commented briefly on the overall political scene. He said that the HSP (the reformed Communist Party) represented no threat electorally to the HDF, although it was still heavily represented in local government and in large enterprises and co-operatives. The HDF had done all it could to neutralise that influence.

Turning to the Alliance of Free Democrats (AFD), Dr. Antall said that some of them were former Marxists. The AFD was a heterogeneous organisation, with people like Gaspar Tamas on its right wing. But it regarded itself as firmly in the centre-left camp. Janos Kis, one of its collective leadership (with whom I had lunch) had said, according to Antall, that the Free Democrats wanted to occupy the position in Hungarian politics occupied by Socialists and Social Democrats in the West. The Free Democrats' economic policy was contradictory: on the one hand they argued for very liberal market economics taking inspiration from Friedman and Thatcherism, on the other they argued for a moratorium on Hungary's debt repayments. They also failed to pay attention to the 'realities' of the Hungarian situation, which required

a free market but also a more measured and gradualist approach.

Dr. Antall's aides vigorously denied after his departure a rumour - apparently emanating from a television interview the previous evening - in which Dr. Antall was alleged to have suggested that he would be prepared to go into a coalition, if need be, with the HSP. There was 'no way', we were told, that he or the HDF would countenance that.

#### Comment

Dr. Antall was quite an impressive man, with a more statesmanlike air about him than some of the others we met on Friday. It is not hard to imagine him as Hungary's next Prime Minister. His party seemed to be better organised, and, in general, closer to us than the others we met - although all five parties had strands of thought which had a familiar ring. The HDF also has, I suspect, a latently interventionist bent.

The HDF's relations with its principal rival, the Free Democrats, who have recently overtaken it by a couple of points in polls, are tense. The HDF was clearly keen to secure a firm place in our affections, and, more importantly to receive our financial and material assistance. Indeed they have written requesting very substantial material help which

we have told them we are, regrettably, not in a position to give. Although the HDF is the EDU's favoured party - and I suspect, is likely to be ours too - I have thus far stopped short of endorsing them as such, sticking instead to the line that we are for the time being keen to meet and get to know the range of centre-right parties in the emerging democracies. On material assistance, I have told them that I plan to reinforce the Party's organisation vis a vis Eastern Europe, but have not promised specific help.



file

Ed

bc PC

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

13 March 1990

HUNGARY

Thank you for your letter of 12 March.  
We have Mr. Antall in the diary for 1600 on  
Monday 19 March. It would be helpful to have  
some briefing before the weekend.

BF //

(CHARLES POWELL)

Richard Gozney, Esq.,  
Foreign and Commonwealth Office.



Foreign and Commonwealth Office

London SW1A 2AH

*uk*

Charles

I have told  
FCO - 1600  
on Mon 19 March

12 March 1990

Amanda

Have we got  
this in W  
diary? OK

AP  
13/3

Dear Charles,

Hungary

I confirm that Jozsef Antall, leader of the Hungarian Democratic Forum, can visit London in time to see the Prime Minister on the afternoon of Monday 19 March, one of the two dates which Amanda Ponsonby suggested should be possible. He would be accompanied by an advisor and an interpreter. I should be grateful if you or Amanda would give us a time for the call, to pass on to him.

We shall brief in the normal way.

Yours ever,

Richard Ponsonby

(R H T Gozney)  
Private Secretary

C D Powell Esq  
10 Downing Street

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FM BUDAPEST  
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TELNO 175  
OF 091552Z MARCH 90

*Amanda*  
*Can we dit him in?*  
*Cra*

VISIT TO LONDON BY THE LEADER OF THE HUNGARIAN DEMOCRATIC FORUM

1. I SPOKE TO DR JOZSEF ANTALL ON 9 MARCH AND SAID THAT THE PRIME MINISTER WOULD BE ABLE TO SEE HIM IN LONDON ON EITHER 16 OR 19 MARCH IN THE AFTERNOON HE WAS VERY PLEASED AND IMMEDIATELY OPTED FOR 19 MARCH. HE WOULD LIKE TO BRING TWO COLLEAGUES WITH HIM, ONE OF WHOM WOULD ACT AS INTERPRETER. I SAID WE WOULD MEET THE COST OF AIR FARES AND HOTEL ACCOMMODATION.

2. WE WILL SPEAK TO HIS STAFF OVER THE WEEKEND TO GET FURTHER IDEAS ABOUT A PROGRAMME. MR KENNETH BAKER, WHO IS IN BUDAPEST, SUGGESTED HE SHOULD CALL AT THE CONSERVATIVE CENTRAL OFFICE. I ASSUME DR ANTALL WILL TRAVEL ON SUNDAY 18 MARCH AND TRY TO RETURN TO BUDAPEST ON THE EVENING OF 19 MARCH IF THE PROGRAMME AND FLIGHTS PERMIT.

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Foreign and Commonwealth Office

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From the Secretary of State

1 March 1990

*Ria Minister*

*Dear Prime Minister,*

Hungary

*CDM 43  
ms*

Polling starts on 25 March. There will be two and perhaps three rounds but by the end of April there is likely to be a centre-right coalition in power. The opposition parties are emphatic that they will not share power with existing Ministers, whose Socialist Party is not expected to get more than 10-15% of the vote. This is not because they despise present Ministers, like Nemeth and Horn, but because at the local level the present government depend on the old Communist bosses and structure which the opposition are determined to get rid of.

There are three leading centre-right parties, the Forum, the Free Democrats and the Smallholders. I visited the headquarters of the Forum and the Free Democrats; Kenneth Baker, in a well-timed visit, will see all three next week. The Forum is the longest established and the most moderate, but is losing ground to the other two.

They are all three in favour of privatisation and a market economy, but with nuances on speed and scope. In our party contacts, we shall need to be careful of a whiff of anti-semitism said to hang over one or two of the individuals, though none whom I met.

The Prime Minister





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Nemeth is worried about the opposition campaigns. In particular, there is a Forum poster of an unattractive square-headed soldier with the slogan in Russian: "Comrade, it's over." (The Government expect to reach agreement with the Russians on the evacuation of troops on the same timing as the Czechs, though the strain on the railways is a problem.) Nemeth also thinks they are irresponsible on economics. In fact they struck me as hazy in detail but clear that Hungary would have to go through an austere period under IMF tutelage. The campaign so far seems rather lacklustre, with 41% don't know.

They have virtually stopped exporting to the USSR because their rouble surplus is unusable. The oil and electricity from the USSR continues to fall well below the agreed totals. The consequent restructuring of industry will be painful and something on which we can advise through the Know-How Fund. The Fund will start to operate next month and looks promising in terms of projects of quality. After a slow start, there is now a pick-up in British business interest, with enquiries running at more than three times last year's rate.

On the other hand, Ministers are concerned that our banks (as a result of the Bank of England's matrix) are holding up the international financial effort - see the letter which Nemeth gave me for you. I am investigating.

It would be excellent if you could go to Hungary again in the autumn.

I am copying this letter to Kenneth Baker.

DOUGLAS HURD

*[Handwritten signature]*  
Douglas Hurd

*[Already agreed]*

TRANSLATION OF LETTER TO THE PRIME MINISTER FROM PRIME  
MINISTER NEMETH OF HUNGARY

Dear Mrs Thatcher

Having in mind our recent personal meeting and interesting discussion, I feel encouraged to address myself to you.

Lately in the British and international press news were published according to which Bank of England expressed warnings against risks connected to financial transaction with Eastern European countries, including Hungary, because of their economic problems.

May I seize this opportunity to point out in this connection that although Hungary has, no doubt, difficulties positive trends started to be dominant. The democratisation procedure in the political life has been successful and with the first free general elections after 1947 it will arrive at a decisive point on March 25, 1990. On the other side, measures of cardinal importance have been taken in the field of economic life such as tax and price-reform, liberalisation, transformation law, partly deletion, partly cutting of state subsidies. A short-term government program has also been worked out in the meantime to speed up the economic development. The new Hungarian political parties, too, are in agreement with it.

I am of the opinion that under this circumstances Hungary, having played in the transformation process in the eastern part of Europe a pioneer role and Hungary's

economy might deserve confidence and support from abroad which, in fact, we can experience. I am afraid, however, that the warning expressed by the Bank of England and the "matrix" categorisation of Hungary with its consequences have a negative influence on the traditionally good relations to the British banks with their Hungarian counterparts. I think that this cooperation should be maintained also in the future.

Hoping sincerely that we can count on your positive attitude, I would like to ask you, dear Mrs Thatcher, to assist us in realising this intention by informing the competent British places that Hungary, as a reliable partner, is firmly decided to implement the economic reform. I would highly appreciate your kind assistance.

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FROM PRIVATE SECRETARY

SECRETARY OF STATE'S VISIT TO HUNGARY: MEETING WITH PRIME MINISTER NEMETH

## SUMMARY

1. NEMETH SPEAKS AS A MAN WHOSE DAYS ARE NUMBERED. HE CLEARLY FEELS THAT, WHILE THE GOVERNMENT HAVE BEHAVED RESPONSIBLY, THE OPPOSITION HAVE ALLOWED DEMOCRACY TO GO TO THEIR HEADS. HE IS PARTICULARLY WORRIED AT WHETHER THE IMF AGREEMENT WILL STICK IF THE OPPOSITION PARTIES TAKE POWER. SENDS A WRITTEN MESSAGE TO THE PRIME MINISTER ABOUT BANK OF ENGLAND DEBT PROVISIONING REQUIREMENTS.

## DETAIL

2. THE SECRETARY OF STATE SPENT THE BEST PART OF AN HOUR WITH NEMETH TODAY. NEMETH GAVE AN APOLOGIA FOR HIS GOVERNMENT'S POLICIES. THEY HAD GOT THROUGH A TOUGH BUDGET IN AGREEMENT WITH THE IMF. THEY HAD PUSHED THROUGH REFORM PEACEFULLY AND NOT IN RESPONSE TO PRESSURE FROM THE STREETS. IT WAS HUNGARY WHICH HAD SUCCESSFULLY TESTED THE MARGINS OF SOVIET TOLERANCE AND PAVED THE WAY FOR OTHER COUNTRIES. REFORM HAD COME FROM WITHIN THE PARTY AND WOULD BE COMPLETE ONCE THE ELECTIONS TOOK PLACE.

3. NEMETH PAINTED WHAT I UNDERSTAND IS A CHARACTERISTICALLY HUNGARIAN IE GLOOMY, PICTURE. THROUGHOUT HISTORY, HUNGARY'S SUCCESSFUL REFORMS HAD BEEN CRUSHED BY EXTERNAL FORCES. HUNGARY'S FRIENDS ALWAYS LEFT HER IN THE LURCH OR CHEATED HER, 1956 BEING THE MOST RECENT EXAMPLE. ALL THESE EXPERIENCES HAD WORKED THEIR WAY DEEP INTO THE SOUL OF THE HUNGARIAN PEOPLE. HE HOPED HISTORY WOULD NOT REPEAT ITSELF.

4. NEMETH SAID THAT OF THE 50 POLITICAL PARTIES NOW JOCKEYING FOR POSITION, FOUR WOULD COME OUT CLEARLY FROM THE ELECTIONS: THE HUNGARIAN DEMOCRATIC FORUM, THE SMALLHOLDERS' PARTY, THE ALLIANCE

OF FREE DEMOCRATS AND THE HUNGARIAN SOCIALIST PARTY (HIS OWN PARTY). A NUMBER OF OTHERS WOULD GET PAST THE 4% THRESHOLD BUT WOULD NOT BE SIGNIFICANT. HE SAW TWO MAIN DANGERS. THE FIRST WAS THAT NO PARTY WOULD BE ABLE TO COMMAND SUFFICIENT SUPPORT TO LAST FOR LONG, SO THERE WOULD BE CONSTANT CHANGES AS IN ITALY. THAT WAS ALRIGHT FOR ITALY WHERE THE ECONOMY WAS STRONG BUT THE ECONOMY WAS COMPARATIVELY WEAK. THE SECOND RISK WAS THAT THERE WOULD BE A LOW TURN-OUT (THE LATEST UNPUBLISHED POLLS SUGGESTED 41%). IF THERE WERE THEN A COALITION GOVERNMENT BUT WITH ONLY 51% OF THE VOTE, MAYBE LEAVING THE LARGEST PARTY IN OPPOSITION, THEN IT COULD BE VERY DIFFICULT FOR THE GOVERNMENT TO GOVERN AND OPPOSITION COULD TAKE TO THE STREETS. WHAT HUNGARY NEEDED WAS A MULTI-PARTY, NON-EXTREME GOVERNMENT.

5. NEMETH DEPLORED THE CONDUCT OF THE ELECTION CAMPAIGN BY THE OPPOSITION FORCES. THE HUNGARIAN DEMOCRATIC FORUM POSTER, WHICH SHOWED THE BACK OF A FAT, RUSSIAN OFFICER WITH THE CAPTION 'COMRADES, IT'S OVER', IMPLIED THAT THE HDF WOULD BE RESPONSIBLE FOR GETTING THE RUSSIANS OUT OF HUNGARY. BUT AN AGREEMENT ON SOVIET TROOP WITHDRAWAL WOULD BE SIGNED ON 15 MARCH AND THE NEGOTIATIONS HAD STARTED A LONG TIME BEFORE. THE GOVERNMENT HAD ASKED THE PARTIES NOT TO MAKE SOVIET WITHDRAWAL A CAMPAIGN ISSUE. HOW WOULD THE NEW GOVERNMENT FACE GORBACHEV AFTER SLOGANS LIKE THAT? SIMILARLY, THE FREE DEMOCRATS WERE SUGGESTING THAT THEY COULD RENEGOTIATE THE TERMS OF THE IMF DEAL, WHICH WAS COMPLETELY IRRESPONSIBLE. NEMETH HAD DISCUSSED THE DEAL WITH ALL THE PARTIES, WHO HAD AGREED THAT THEY WOULD NOT USE IT FOR ELECTORAL PURPOSES. THERE WAS NO HONOUR AMONG THIEVES. HE HOPED THE OPPOSITION WOULD BE MORE RESPONSIBLE AFTER THE ELECTION AND, IF THEY WERE IN POWER, WOULD STAND BY THE IMF AGREEMENT.

6. NEMETH SAID HE UNDERSTOOD THE CAUTION OF BRITISH BANKERS ABOUT INVESTING IN HUNGARY, BUT THEIR CAUTION HAD AN UNFAVOURABLE IMPACT ON OTHERS. HE SAID HE HAD WRITTEN

TO MRS THATCHER AND HANDED OVER THE TEXT. IT IS CLEAR FROM THIS (MIFT TO FCO ONLY) THAT HIS REAL COMPLAINT IS ABOUT BANK OF ENGLAND DEBT PROVISIONING REQUIREMENTS.

7. THE SECRETARY OF STATE NEMETH NOT TO GET TOO WORKED UP OVER POLITICAL SLOGANS. 'YANKS GO HOME' HAD BEEN ON PRACTICALLY EVERY HOARDING THROUGHOUT BRITAIN FOR MANY YEARS. HE ACCEPTED THAT THE ECONOMIC SIDE WAS MORE SERIOUS. WAS THERE ANY IMPARTIAL BODY WHICH COULD IMPRESS ON ALL THE PARTIES THE IMPORTANCE OF GOING

DOWN THE IMF PATH? WE WOULD DO WHAT WE COULD FROM THE OUTSIDE BUT THE ADVICE REALLY NEEDED TO COME FROM WITHIN HUNGARY. NEMETH SAID HE HAD TAKEN UP THESE MATTERS WITH THE LEADERS OF THE FOUR PARTIES. WHEN THE DEPUTY PRESIDENT OF THE IBRD HAD VISITED HUNGARY A FEW WEEKS PREVIOUSLY, HE HAD BEEN IN DESPAIR AT THE SUPERFICIALITY OF THE OPPOSITION'S IDEAS. IF HE AND THE FOREIGN MINISTER (HORN) FOUND THEMSELVES IN OPPOSITION AFTER THE ELECTIONS (AND HE DID NOT DOUBT THAT, AS INDIVIDUALS, THEY WOULD BE RE-ELECTED) THEY WOULD TRY TO KEEP THE OPPOSITION PARTIES ON THE STRAIGHT AND NARROW BY REMINDING THEM OF THEIR EARLIER APPROVAL OF THE IMF DEAL. THE IMF/IBRD WOULD HAVE TO CONTINUE TO BE VERY TOUGH.

#### SOVIET UNION

8. IN REPLY TO A QUESTION FROM THE SECRETARY OF STATE, NEMETH SAID THAT THE SITUATION IN THE SOVIET UNION WAS TENSE AND NEARING AND EXPLOSION. UP TILL NOW, HOWEVER, GORBACHEV HAD NOT HAD GENUINE POWER. NOW HE WOULD HAVE IT. IF HE COULD SOLVE THE NATIONALITY ISSUES, REVITALISE AGRICULTURE AND CUT MILITARY EXPENDITURE THEN AFTER A TOUGH 3-5 YEARS HE COULD COME OUT ON TOP. NEMETH DID NOT SUGGEST HOW THIS COULD BE DON BUT DID SAY THAT THERE WERE HUGE INTEREST FROUPS WORKING AGAINST GORBACHEV, NOT ONLY THOSE REPRESENTING THE INERTIA OF THE BUREAUCRACY BUT THE INTERESTS OF THE DIFFERENT REPUBLICS AS WELL. THE SOVIETS NEEDED A SUCCESSFUL FEDERATION. NOTHING MUST BE DONE IN EAST OR CENTRAL EUROPE TO EXACERBATE GORBACHEV'S DIFFICULTIES. THEY DID NOT WANT TO HAVE TO WAIT ANOTHER 70 YEARS FOR A REFORMER. APART FROM ANYTHING ELSE, THE IMPACT OF THE SOVIET ECONOMY, AND THE CMEA, WAS VERY NEGATIVE AS FAR AS HUNGARY WAS CONCERNED. THERE 1 BILLION DOLLAR TRADE SURPLUS WITH THE SOVIET UNION, WHICH THEY COULD ONLY SPEND ON GOODS T THAT NOBODY WANTED, HAD FORCED THEM TO RESTRAIN EXPORTS. WITH WESTERN HELP, HUNGARY COULD COME THROUGH. HE HAD TALKED TO THE BANK OF INTERNATIONAL SETTLEMENTS. THEY WOULD BE WILLING TO MAKE ARRANGEMENTS FOR AN INTERNATIONAL CONSORTIUM. HUNGARY NEEDED A BRIDGE OF ABOUT 1.5 BILLION DOLLARS.

#### COMMENT

9. THE SECRETARY OF STATE THINKS THAT NEMETH'S CONCERN OVER THE FUTURE OF THE IMF DEAL IS WELL FOUNDED. HE UNDERSTANDS THAT THE IMF ARE REFUSING TO REACH A CONCLUSION WITH THE PRESENT HUNGARIAN GOVERNMENT AND WANT TO AWAIT THE OUTCOME OF THE ELECTIONS. IT COULD, HOWEVER, BE DAMAGING IF THERE WERE DELAY. IT WOULD BE MUCH EASIER FOR AN INCOMING GOVERNMENT TO ACCEPT A FAIT ACCOMPLI THAN TO HAVE TO NEGOTIATE WITH THE IMF, WEIGHED DOWN WITH HALF-

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PROMISES FROM THE CAMPAIGN, TO TRY TO NEGOTIATE A BETTER DEAL.  
THE SECRETARY OF STATE WOULD BE GRATEFUL FOR ADVICE ON THIS.

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~~RESIDENT CLERK~~  
MISS SPENCER

NNNN



Foreign and Commonwealth Office

London SW1A 2AH

30 January 1990

Dear Charles,

Hungary

Thank you for your letter of 18 January about a possible call on the Prime Minister by Mr Gaspar Miklos Tamas.

Mr Tamas is a senior member of the Association of Free Democrats, a leading opposition group which grew out of the Budapest dissident movement and which advocates liberal free-market principles. The Association of Free Democrats is often at odds with the largest opposition party, the more nationalist Hungarian Democratic Forum. Mr Tamas was elected to the Hungarian Parliament in a by-election on 13 January 1990 and is his party's first MP. He is a frequent visitor to the UK (he has an English wife), and speaks excellent English. He has called on Mr Waldegrave on previous visits. He writes for the Spectator.

The Hungarian general election will be held on 25 March, and the leading players want to demonstrate their good standing with foreign governments. We also have an interest in broadening our contacts at all levels with the major parties in the run-up to the elections (the Secretary of State will do this during his visit to Budapest, now fixed for 27 February-1 March). Nevertheless the case in purely foreign policy terms for singling out Mr Tamas for a call on the Prime Minister, from among a host of worthy bidders from Eastern Europe, must be regarded as marginal. The political case may be stronger.

Yours ever,

*Richard Gozney*  
(R H T Gozney)  
Private Secretary

C D Powell Esq  
10 Downing Street



HUNGARIAN. *Beata* P73



IN CONFIDENCE



10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

FILE  
DA  
fe

[YOUNG.DCA]

MISS PHIPPARD  
CABINET OFFICE

**KNOW-HOW FUND FOR HUNGARY: INTEREST OF LORD YOUNG**

I have seen a copy of Stephen Wall's letter of 18 January to you about Lord Young's proposed involvement in the Know-How Fund for Hungary. I should record that Lord Young telephoned me this morning to ask whether there were any messages which he should pass on to Mr. Pozsgay and Mr. Nemeth on the Prime Minister's behalf. He then volunteered that he had decided on reflection not to pursue his involvement with the Know-How Fund after his reconnaissance visit, on which he would be accompanied by a DTI official. He thought that to do so would make him vulnerable to slurs about deriving financial benefit so soon after having been a Minister, from activities financed by the Government. He would keep his interest in Hungary on behalf of Salomon Bros. but that was of course entirely separate. I said that it seemed to me a wise decision.

I am copying this minute to Stephen Wall (Foreign and Commonwealth Office).

(CHARLES POWELL)

18 January 1990

IN CONFIDENCE

*afe*



Foreign and Commonwealth Office

London SW1A 2AH

18 January 1990

*I agree that  
is the right course  
of action - we must  
act absolutely correctly.*

*I had assumed that had*

*Rice Minister*

*You should be  
aware of this. CAP 171*

*Young  
would  
only  
ask for expenses  
not*  
**Dear Sonia,**

Know-How Fund for Hungary: Interest of Lord Young

You should be aware of Lord Young's proposed involvement in the Know-How Fund for Hungary.

In early November, Lord Young wrote to Mr Waldegrave proposing that he should set up and head a consultancy which would undertake a broad programme in Hungary financed by the Know-How Fund. Areas to be covered included the encouragement of small businesses and self-employment, enterprise training in schools, and the potential for employee ownership.

The involvement of Lord Young raised difficult and sensitive questions. No price was put on his scheme but it could have amounted to a sizeable portion of the overall Fund. Lord Young was proposing to offer his services at commercial rates; he could end up making a substantial profit from the Fund. On the advice of Mr Lankester, the ODA Accounting Officer, Mr Waldegrave replied to Lord Young suggesting a reconnaissance visit with terms of reference which defined the purpose of the visit as the identification of specific projects for detailed study and implementation, on the understanding that such projects would be put out to competitive tender among suitably qualified British firms, including Lord Young's own company.

Lord Young replied with the suggestion that he should submit terms of reference for a three year management contract with a break clause in the contract following the reconnaissance visit. Although the existence of a break clause would provide some comfort, there is the danger of a "creeping commitment" to Lord Young's company. A three-year management contract would in itself be a substantial project, which would have to be put out to competition. After discussion with the Foreign Secretary, Mr Waldegrave decided that we should be prepared to finance more than one reconnaissance visit by Lord Young over a period of, say, six months.

I enclose a draft letter which Mr Waldegrave intends to send to Lord Young. The Foreign Secretary asked me to let Sir Robin Butler see it in case he has any comments to offer on the approach we propose to take.

IN CONFIDENCE



I am copying this letter to Charles Powell (No 10).

*Yours,*  
*Stephen Wall*  
(J S Wall)  
Private Secretary

Miss Sonia Phippard  
Cabinet Office

IN CONFIDENCE

DRAFT LETTER FROM MR WALDEGRAVE

Thank you for your letter of 8 December, and for your further letter of 10 January recording the invitation from Imre Pozsgay. I agree that it may be necessary to mount more than one reconnaissance mission to prepare proposals for different detailed activities, and we would be prepared to finance a number of such visits, over a limited period of, say, six months. After that, as you already know, our arrangements require open competition for the consultancy and other work which would follow. I fear this precludes our financing a three-year management contract which, I am advised, would itself be a substantial project.

I appreciate how frustrating these procedures can be. But if you are still willing to proceed on the more limited basis of one or more reconnaissance visits, you may wish to let us have more detailed proposals and terms of reference, particularly for the initial visit which you propose to make later this month.

The Rt Hon Lord Young of Grafham  
28 York Terrace West  
London NW1 4QA

MJD



225

bc R

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

18 January 1990

**HUNGARY**

I understand that the leader of one of the Hungarian Conservative Parties, Mr Tamas, is likely to be in the United Kingdom from 25 to 27 February. We have received renewed requests from several sources for him to see the Prime Minister. I should be grateful for advice. I imagine the purpose of the meeting would be as much political as foreign affairs.

bc |

**CHARLES POWELL**

R H T Gozney Esq  
Foreign and Commonwealth Office

mem



ELIZABETH HOUSE  
YORK ROAD  
LONDON SE1 7PH  
01-934 9000

Charles Powell Esquire  
Private Secretary  
10 Downing Street  
LONDON  
SW1A 2AA

F-8 JAN 1990

*Dear Charles*

*Dear*  
You copied to Stephen Crowne a letter dated 16 November to Richard Gozney with which was enclosed a letter to the Prime Minister from the Hungarian Prime Minister about the teaching of English in Hungary.

We have seen a copy of the "points for inclusion" submitted by the British Council to the FCO and are content with these. No separate DES input is necessary.

I am copying this to Richard Gozney.

*I am very sorry this has been delayed.*

*Yours sincerely*

JOHN RATCLIFF  
Private Secretary



ELIZABETH HOUSE  
YORK ROAD  
LONDON SE1 7PH  
01-934 9000

Charles Powell Esquire  
Private Secretary  
10 Downing Street  
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SW1A 2AA

EB JAN 1990

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I am copying this to Richard Gozney.

*I am very sorry this has been delayed.*

*Yours sincerely*

JOHN RATCLIFF  
Private Secretary



Unofficial translation!

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

October 31, 1989

Dear Prime Minister,

It is a determined endeavour of the Hungarian Government to create the conditions for Hungary's closing ranks with Europe in social and cultural fields as well. School education in foreign languages constitutes a key issue for us in this regard. As you are aware, Russian had been a compulsory language in primary, secondary and higher education in Hungary since 1949. Last May, the Hungarian Government abolished this practice and offered free choice for the people to study other foreign languages instead. The Government is making considerable efforts to increase the number of those who study to become teachers of foreign languages. This year the number of university students studying in English, German and French languages has been already increased by 43 %. This will go up to 100 % in the future. However, we are still short of such secondary institutions for implementing our efforts, that provide high-level language teaching for students between the age of 10-18. Therefore, our Government has the honour to request You, that if the popularization of English culture in Central Europe is indeed a special interest to you, the Hungarian Government will most warmly welcome

your assurances of support in this area. The Hungarian Government will also welcome the opening up of an English secondary school by Her Majesty's Government in Hungary.

May I kindly ask, Dear Prime Minister, that Her Majesty's Government discuss this proposal by the Hungarian Government. I would like to hope that our aim, that is, the creation of a unified Europe with the participation of the Central European region, will also meet the intention of Her Majesty's Government.

Yours sincerely,

/S/

/ Miklós Németh /

Chairman of the Council of  
Minister of the Republic of  
Hungary

MARGARET THATCHER,  
Nagy-Britannia és Észak-Írország Egyesült Királysága  
miniszterelnöke

L o n d o n

Tisztelt Miniszterelnök-asszony!

A magyar kormány elhatározott szándéka, hogy az ország Európához való felzárkózásának társadalmi, kulturális feltételeit is megteremti. Ebben alapkérdés számunkra a nyugati nyelveken való iskoláztatás. Mint Ön előtt ismeretes, Magyarországon 1949 óta az orosz kötelező nyelvként szerepelt az általános, a középiskolákban és a felsőoktatási intézményekben. Most az idén, májusban ezt a magyar kormány eltörölte és helyette szabad választást adott a lakosságnak az idegen nyelvek tanulásában. A kormányzat rendkívüli erőfeszítéseket tesz a nyugati nyelvek tanárainak beiskolázására. Már ebben az évben 43 %-kal emeltük az angol, német és francia nyelven, egyetemen tanulók számát. A következőkben ez az emelkedés 100 %-os lesz. Ezekhez az erőfeszítéseinkhez azonban hiányoznak azok a középszintű intézmények, amelyek már 10-18 éves korban biztosítják a felsőfokon való nyelvtanulást. Ezért kormányunk kéressel fordul Önhöz: amennyiben Önöknek az angol kultúra terjesztése Közép-Európában szívügyük, úgy a magyar kormány igen szívesen venné, ha ezen a területen támogatásukról tudnák biztosítani. A magyar kormány igen örülne, ha az Ön kormánya Magyarországon angol középiskolát nyitna.

Tisztelt Miniszterelnök-asszony, kérem kormányával a magyar kormány kérését vitassa meg és remélem, hogy szándékunk: az egységes Európa megteremtését a közép-európai régió részvételével, találkozik az Önök kormányának szándékával is.

Budapest, 1989. október "31"

Üdvözlettel!

*Németh Miklós*  
Németh Miklós

HUNGARY: Keszthely, 1933



1933

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*Dug* *Mr. Powell*

*In case you have not already  
seen this telegram. A useful  
quotation.*

HUNGARY: PRESIDENT'S NEW YEAR MESSAGE

SUMMARY

*Lv Applegate  
4/1*

1. SZUROS DECLARES SOCIALISM A FAILURE. HUNGARY AIMS AT A MIXED OWNERSHIP SOCIAL MARKET ECONOMY. HOPES FOR EARLY WITHDRAWAL OF SOVIET TROOPS. REASSERTS HUNGARY'S CLAIM TO BE THE DEMOCRATIC PIONEER, AND RESPONSIBLE FOR ALL HUNGARIANS.

DETAIL

2. THERE WERE SOME EYE-CATCHING POINTS IN THE INTERIM PRESIDENT'S NEW YEARS MESSAGE. SZUROS SAID THAT THE ECONOMIC AND POLITICAL PRACTICE OF THE PAST 40 YEARS, "DECLARED AS SOCIALISM", HAD PROVED TO BE A FAILURE, AND "RAN COUNTER TO THE LAWS OF REALITY, FREEDOM AND THE GENERAL REQUIREMENTS OF JUSTICE". HUNGARY NOW AIMED AT AN ENTERPRISE-BASED, MIXED OWNERSHIP SOCIAL MARKET SYSTEM THAT WOULD ENCOMPASS NATURAL DIFFERENCES IN INCOME AS WELL AS MEASURES TO RELIEVE HARDSHIP.

3. EXTERNALLY, HUNGARY WOULD CONTINUE A POLICY OF BALANCED OPENNESS. SHE HOPED FOR THE EARLY WITHDRAWAL OF SOVIET TROOPS AND PROGRESS TOWARDS GENERAL EUROPEAN DISARMEMENT. HUNGARY HAD BEEN THE FIRST IN CENTRAL EASTERN EUROPE TO EMBARK ON REFORM AND WAS STILL AHEAD IN BUILDING DEMOCRACY. SHE REMAINED RESPONSIBLE FOR THE FATE OF ALL 15-16 MILLION HUNGARIANS, AND LOOKED FORWARD TO A NEW PAGE OF HUNGARIAN-ROMANIAN RELATIONS.

COMMENT

4. SZUROS IS A SURVIVOR WITH AMBITIONS TO MAKE HIS INTERIM PRESIDENCY PERMANENT AFTER MARCH'S PARLIAMENTARY ELECTIONS. HE IS THUS IN THE BUSINESS OF MAKING POPULAR STATEMENTS, AND WAS CAREFUL TO LINK HIS REMARKS ABOUT SOCIALISM TO THE 1949-88 RAKOSI/KADAR ERA. BUT, AS KADAR'S ONE TIME AMBASSADOR TO MOSCOW AND THE GDR, AND ONLY LAST YEAR CENTRAL COMMITTEE SECRETARY FOR INTERNATIONAL AFFAIRS, HIS WORDS ARE NONETHELESS STRIKING AS

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AN EXAMPLE OF CHANGED THINKING.

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VISIT OF THE HUNGARIAN PRIME MINISTER: 13 DECEMBER

THE HUNGARIAN SCENE

SUMMARY

1. NEMETH HEADS A BELEAGUERED GOVERNMENT STRUGGLING TO AVERT ECONOMIC COLLAPSE AND SURVIVE AS A POLITICAL FORCE. A BUDGET CRISIS LED HIM TO SHORTEN HIS VISIT. HE WILL ASK FOR HELP AND SUPPORT. HIS SOCIALIST (REFORM COMMUNIST) PARTY WILL LOSE THE MARCH ELECTION BUT HE IS TOUGH AND FAIR MINDED ENOUGH TO HAVE A FUTURE.

DETAIL

2. WHEN MR NEMETH ARRIVES IN LONDON ON 13 DECEMBER HE WILL HAVE THREE MAIN CONCERNS- THE HUNGARIAN ECONOMIC CRISIS, THE COLLAPSE OF COMMUNISM IN EASTERN EUROPE AND HIS OWN POLITICAL FUTURE.

3. NEMETH IS 41, AN ECONOMIST WHO ROSE RAPIDLY THROUGH THE RANKS OF THE HUNGARIAN SOCIALIST WORKERS PARTY TO BECOME PRIME MINISTER IN 1988. IT WAS HE, WITH POZSGAY AND NYERS, WHO SAW SOME YEARS AGO THAT WITHOUT FUNDAMENTAL CHANGE AND REFORM THE PARTY AND THE COUNTRY WERE DOOMED. BUT THE REFORM DIVIDED AND BROKE THE PARTY AND UNLEASHED ENOUGH HOSTILITY TOWARDS THE REGIME FOR THE OPPOSITION TO SEIZE THE INITIATIVE AND VIRTUALLY DICTATE THE PATH TO DEMOCRACY. NEMETH, NOW A MEMBER OF THE SUCCESSOR HUNGARIAN SOCIALIST PARTY, HEADS A GOVERNMENT OF FORMER COMMUNIST PARTY MEMBERS AND TECHNOCRATS. THEY LIVE ON BORROWED TIME. NO ONE EXPECTS THE SOCIALIST PARTY TO WIN NEXT MARCH'S GENERAL ELECTION THOUGH NEMETH HIMSELF IS QUITE POPULAR. THE BEST THEY CAN HOPE FOR IS A FEW POSTS IN AN OPPOSITION LED COALITION.

4. UNDERLYING THIS DRAMA OF THE COLLAPSE OF A COMMUNIST SOCIETY, AND IN LARGE MEASURE THE CAUSE OF IT, IS HUNGARY'S ECONOMIC CRISIS. THE COUNTRY IS ON THE VERGE OF BANKRUPTCY, WITH A STAGNANT ECONOMY, FALLING LIVING STANDARDS, BELCHING SMOKESTACKS AND CREDITORS AT

THE DOOR. WITHOUT AN IMF STANDBY AGREEMENT IN JANUARY, HUNGARY WILL HAVE TO RESCHEDULE ITS DEBTS NEXT SUMMER. THE IMF MEDICINE IS STRONG- DEVALUATION, SUBSIDY REDUCTION, RESTRUCTURING AND UNEMPLOYMENT. NEMETH TOLD ME LAST WEEK HE WAS READY TO SWALLOW IT BUT THOUGHT HIS CHANCES WERE ONLY 60 PER CENT OF GETTING PARLIAMENT TO APPROVE THE REQUIRED BUDGET. IT IS THIS CRISIS WHICH AT THE LAST MOMENT HAS CAUSED NEMETH SEVERELY TO CURTAIL HIS VISIT TO BRITAIN. MUCH WILL DEPEND ON WHETHER HE CAN CONVINCE HIS COLLEAGUES AND THE PUBLIC THAT WITHOUT AN IMF AGREEMENT THE WEST WILL NOT DELIVER THE FINANCIAL HELP HUNGARY NEEDS TO PREVENT ECONOMIC AND SOCIAL DISORDER. NEMETH WILL ARGUE IN LONDON THAT HUNGARY IS ON THE THRESHOLD OF ADOPTING THE FREE MARKET AND DEMOCRATIC INSTITUTIONS WE HAVE BEEN ADVOCATING FOR 40 YEARS AND THAT WE SHOULD NOT DESERT HUNGARY IN ITS HOUR OF NEED. HE WILL PLEAD FOR INVESTMENT AND KNOW-HOW. IT IS NEMETH'S CREDIT THAT HE SEEMS DETERMINED TO FOLLOW THE AUSTERITY COURSE AND NOT HEAP ALL THE PROBLEMS ONTO HIS SUCCESSORS AND POLITICAL RIVALS.

5. THE SOVIET UNION STILL CASTS A LONG SHADOW. NEMETH SAYS RUSSIAN HANDS ARE OFF EASTERN EUROPE AND THE RED ARMY WILL GO HOME. THE TANKS OF 56 AND 68 MAY NEVER ROLL AGAIN. BUT HALF OF HUNGARY'S EXPORTS GO EAST AND RUSSIA SUPPLIES THE VITAL ENERGY AND RAW MATERIALS. THESE ARE POWERFUL LEVERS OF PERSUASION. NEMETH BELIEVES, BOTH BY CONVICTION AND OF NECESSITY, THAT HUNGARY MUST REMAIN ON TERMS WITH MOSCOW AND A MEMBER OF THE WARSAW PACT, WHATEVER HAPPENS IN CENTRAL EUROPE. THE EVENTS IN PRAGUE AND EAST BERLIN ARE WELCOMED BECAUSE THEY GOT RID OF HONNECKER AND HUSAK AND MAKE IT IMPOSSIBLE TO PUT THE CLOCK BACK. BUT THEY ALSO AROUSE FEARS ABOUT STABILITY, THE SURVIVAL OF GORBACHEV, AND THE DOMINANCE OF A GREATER GERMANY.

6. IN CAPACITY, SKILL AND DETERMINATION NEMETH IS WELL AHEAD OF HIS OPPOSITION PARTY RIVALS. BUT HE AND THE SOCIALIST PARTY HAVE TOO MUCH COMMUNIST BAGGAGE TO APPEAL TO THE ELECTORATE. IT IS IRONIC THAT THE REFORM MOVEMENT HE SUPPORTED WILL SHORTLY UNSEAT HIM AND THAT HE COULD BE OUT OF OFFICE EVEN SOONER IF THE COMMUNIST APPOINTED PARLIAMENT REJECTS HIS BUDGET. HE HAS NEVERTHELESS PLAYED A MAJOR ROLE IN HUNGARY'S TRANSFORMATION. IT IS WORTH RECALLING THAT IT WAS NEMETH'S BRAVE DECISION IN SEPTEMBER TO STAND BY HUNGARY'S CSCE PRINCIPLES, AND NOT THE EAST GERMAN BULLIES, THAT ENABLED THE GDR REFUGEES TO LEAVE FROM HUNGARY. HE KICKED THE FIRST HOLE IN THE BERLIN WALL AND IT HAS PROVED THE DEATH KNELL OF THE PARTY BOSSES, SAVE CEAUSECU, IN EASTERN EUROPE. NEMETH STILL HAS A CRUCIAL ROLE TO PLAY IN THE NEXT FEW MONTHS IN KEEPING HUNGARY ON



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AN EVEN POLITICAL AND ECONOMIC KEEL AND HE IS LIKELY TO REMAIN  
FIRMLY ON THE POLITICAL SCENE.

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10 DOWNING STREET  
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THE PRIME MINISTER

30 November 1989

Dear Prime Minister,

Thank you for your letter about English teaching in Hungary. We are pleased that you have turned to Britain for assistance in this field. I agree that language training will play a vital role in drawing Europe together.

Since 1987, the British Council has been providing staffing, materials and consultancy services to the official dual language schools in Hungary. It will be increasing resources for this project. We are also studying how to help retrain Hungarian teachers of Russian. We hope that Britain will have a major role in this important project and the British Council is submitting a report to your Ministry of Culture and Education. The British Council is also considering the establishment of an English Teaching Centre in Budapest to teach young adult professionals, and possibly secondary school pupils.

In your letter, you mention the possibility of British support in opening an English secondary school in Hungary. We will look at this idea carefully but generally believe that investment in training teachers is more effective in that the creation of a new generation of well qualified teachers of English would have the greatest impact on English teaching. We hope to invest substantially in this field.

I am looking forward to our meeting in December, and hope to discuss these exciting proposals further with you then.

Yours sincerely

Margaret Latimer

His Excellency Mr. Miklos Nemeth



Foreign and Commonwealth Office

London SW1A 2AH

29 November 1989

*Jean Charles,*

Hungary

You wrote on 16 November enclosing a letter to the Prime Minister from Mr Nemeth, the Hungarian Prime Minister, about British assistance in the field of language training in Hungary. I enclose a draft reply.

I am copying this letter and enclosure to Stephen Crowne (Department of Education and Science).

*Yours ever,*

(R H T Gozney)  
Private Secretary

C D Powell Esq  
10 Downing Street

DRAFT LETTER FROM THE PRIME MINISTER

His Excellency  
Mr Miklos Nemeth  
Prime Minister of the Republic of Hungary

cm

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Hungary - Reus PR3



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HUNGARY : REFERENDUM RESULTS AND CONSEQUENCES

SUMMARY

1. HIGHER THAN EXPECTED TURN OUT PRODUCES TINY MAJORITY IN FAVOUR OF POSTPONING PRESIDENTIAL ELECTIONS UNTIL AFTER PARLIAMENTARY ELECTIONS, WHICH WILL PROBABLY BE NEXT MARCH. MAJOR VICTORY FOR ASSOCIATION OF FREE DEMOCRATS. GOOD FOR DEMOCRACY TOO. SETBACK FOR HUNGARIAN DEMOCRATIC FORUM AND FOR POZSGAY.

DETAIL

2. IN A SURPRISINGLY HIGH TURN-OUT (60 PER CENT) THE ELECTORATE DECIDED BY A TINY MAJORITY THAT THE PRESIDENTIAL ELECTION SHOULD BE POSTPONED UNTIL AFTER THE FREE PARLIAMENTARY ELECTIONS NEXT SPRING. THE ELECTORATE ALSO RESOUNDINGLY BACKED THE FREE DEMOCRATS' POSITION (AND PARLIAMENTS) ON THREE OTHER QUESTIONS (95 PER CENT IN FAVOUR OF ABOLISHING THE WORKERS' MILITIA, BANNING ALL POLITICAL ACTIVITY AT THE WORKPLACE AND CALLING THE OLD COMMUNIST PARTY TO ACCOUNT FOR ITS EXTENSIVE ASSETS).

3. THE RESULT MEANS THAT HUNGARY'S FIRST WESTERN-STYLE PRESIDENTIAL ELECTION WILL NOT NOW TAKE PLACE ON 7 JANUARY (AS PROVIDED FOR BY PARLIAMENT IN OCTOBER). INSTEAD, PROBABLY ON 11 OR 18 MARCH, A NEW FREELY-ELECTED PARLIAMENT WILL BE CHOSEN. PARLIAMENT WILL THEN DECIDE WHETHER TO CHOOSE THE PRESIDENT, OR WHETHER TO CALL A PRESIDENTIAL ELECTION.

4. THE CLEAR VICTORS ARE THE ASSOCIATION OF FREE DEMOCRATS. DESPITE HAVING THE HUNGARIAN SOCIALIST PARTY AND THE DEMOCRATIC FORUM (THE LARGEST OPPOSITION GROUP) RANGED AGAINST THEM, AND WITH VERY LIMITED RESOURCES, THEY HAVE MANAGED IN THE PROCESS TO :

(A) PREVENT POZSGAY, OR ANYONE ELSE LINKED TO THE OLD SYSTEM, GETTING HIS HANDS ON THE PRESIDENCY BEFORE MULTI-PARTY ELECTIONS TO PARLIAMENT.



(B) ESTABLISH THEMSELVES AS MUCH MORE THAN BUDAPEST-BASED LIBERAL INTELLECTUALS.

(C) GIVE THE OPPOSITION MORE TIME TO GET ITS ELECTION CAMPAIGN ORGANISED.

(D) FURTHER UNDERMINE THE LEGITIMACY OF THE PRESENT (COMMUNIST APPOINTED) GOVERNMENT.

5. THE OUTCOME IS A SLAP IN THE FACE FOR THE HUNGARIAN DEMOCRATIC FORUM. HITHERTO THE LARGEST AND MOST POPULAR GROUP, THEY BADLY MISCALCULATED IN ADVISING THE ELECTORATE TO BOYCOTT THE REFERENDUM, IN THE HOPE THAT A TURNOUT OF LESS THAN 50 PER CENT WOULD INVALIDATE THE RESULT. THE HIGH TURNOUT WAS THUS A VICTORY FOR THE DEMOCRATIC PROCESS AND SUGGEST THAT HUNGARIANS WERE NOT APATHETIC ABOUT THEIR FIRST CHANCE IN OVER 40 YEARS TO VOTE FREELY.

6. THE OUTCOME IS ALSO A FURTHER SETBACK FOR THE REFORM COMMUNISTS. ONLY A FEW WEEKS AGO, POZSGAY COULD HAVE LOOKED FORWARD TO ASSUMING THE PRESIDENCY, VIRTUALLY UNCHALLENGED, AT THE BEGINING OF 1990. HE MAY YET DO SO LATER NEXT YEAR BUT THE POWERS OF THE PRESIDENT ARE LIKELY TO BE FURTHER DIMINISHED BY THE NEW PARLIAMENT TO THOSE OF A FIGUREHEAD AND POZSGAY'S HUNGARIAN SOCIALIST PARTY LOOKS IN EVEN WORSE SHAPE AFTER THE REFERENDUM.

BIRCH

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file Vb  
cc Sir P Crowder

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

16 November 1989

HUNGARY

I enclose a copy of a letter to the Prime Minister from the Hungarian Prime Minister about the teaching of English in Hungary. I should be grateful for a draft reply.

I am copying this letter and enclosure to Stephen Crowne (Department of Education and Science).

CHARLES POWELL

Richard Gozney, Esq.,  
Foreign and Commonwealth Office.

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FM BUDAPEST  
TO PRIORITY XCO  
TELNO 509  
OF 060925Z NOVEMBER 89  
INFO ROUTINE WASHINGTON, UKDEL IMF/IBRD, ACTOR

HUNGARY: BALANCE OF PAYMENTS EMERGENCY

1. THE FINANCE MINISTER ANNOUNCED ON 2 NOVEMBER THAT THE END-YEAR HARD CURRENCY BALANCE OF PAYMENTS DEFICIT IS IN DANGER OF EXCEEDING US DOLLARS 1.4 BN AND THAT HUNGARY WAS HEADING 'INTO THE BRINK OF INSOLVENCY'. ALTHOUGH NO ACTION WOULD BE TAKEN TO RAISE THE 10 PER CENT CUSTOMS DUTY ON IMPORTED WESTERN CARS, THE GOVERNMENT WAS IMMEDIATELY SUSPENDING THE PAYMENT OF TOURIST ALLOWANCE UNTIL 20 NOVEMBER, WHEN A NEW SYSTEM WOULD BE INTRODUCED RESTRICTING INDIVIDUAL ENTITLEMENTS TO US DOLLARS 300 OVER 4 YEARS.

COMMENT

2. THE CRISIS HAS BEEN LOOMING SINCE MID-YEAR, WHEN A DEFICIT FIGURE OF US DOLLARS 1BN WAS FIRST MENTIONED. BUT THIS IS THE FIRST PUBLIC ADMISSION THAT THINGS ARE WORSE THAN EXPECTED. IT SUGGESTS THAT THE DEFICIT WILL BE US DOLLARS 1BN MORE THAN THE 1989 TARGET, AND EQUIVALENT TO GETTING ON FOR 20 PER CENT OF HUNGARY'S HARD CURRENCY EARNINGS.

3. 'SHOPPING TOURISM', RATHER THAN THE MEASURES INTRODUCED IN JANUARY TO LIBERALISE 40 PER CENT OF IMPORTED CAPITAL GOODS, IS THE MAIN CULPRIT. OVER FORTY THOUSAND WESTERN CARS HAVE ALREADY BEEN IMPORTED IN 1989 (1988: 7,000). THE APPARENTLY INSATIABLE DEMAND FOR THESE AND OTHER WESTERN CONSUMER GOODS REMAIN UNABATED, FUELLED BY:

(A) RUMOURS THAT DRACONIAN DUTIES ARE ABOUT TO BE INTRODUCED AND

(B) AN ABILITY EASILY TO OBTAIN HARD CURRENCY (EITHER HELD OVERSEAS, KEPT UNDER THE MATTRESS OR AT UNOFFICIAL EXCHANGE RATES IN AUSTRIA), WHICH THE INTRODUCTION OF UNCONDITIONAL HARD CURRENCY LOCAL BANK ACCOUNTS IN SEPTEMBER HAS FAILED TO CHANNEL INTO DOMESTIC SAVINGS, DESPITE GOOD RATES OF INTEREST.

4. IT IS DIFFICULT TO AVOID THE CONCLUSION OF TOO LITTLE, TOO

LATE. THE SIMPLE INTRODUCTION OF A MEASURE NOT UNLIKE OUR OWN #50 ALLOWANCE IN THE 1960'S WILL NOT SUFFICE WITHOUT THE ESTABLISHMENT OF A RAFT OF CONTROLS AND INVESTIGATORY MECHANISMS WHICH, IN OTHER AREAS, THE GOVERNMENT HAS BEEN ENDEAVOURING TO DISMANTLE. NO HUNGARIAN POLITICIAN WILL WANT TO INTRODUCE A SORT OF FINANCIAL SECRET POLICE. APART FROM PROPERTY, THERE ARE FEW OTHER SAFE INVESTMENT OUTLETS. FEARS OF CONFISCATION STILL RUN DEEP AMONG THOSE WITH MONEY. THE IMF WILL NO DOUBT BE LOOKING FOR AT LEAST SOMETHING MORE WHEN NEGOTIATIONS ON A NEW STAND-BY AGREEMENT BEGIN LATER THIS MONTH, ESPECIALLY IF, AS SEEMS INCREASINGLY LIKELY, HUNGARY IS SOON FORCED TO APPEAL FOR SOME SORT OF SHORT-TERM BRIDGING FACILITY TO WARD OFF A LIQUIDITY CRISIS.

BIRCH

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Unofficial translation!

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

October 31, 1989

Dear Prime Minister,

It is a determined endeavour of the Hungarian Government to create the conditions for Hungary's closing ranks with Europe in social and cultural fields as well. School education in foreign languages constitutes a key issue for us in this regard. As you are aware, Russian had been a compulsory language in primary, secondary and higher education in Hungary since 1949. Last May, the Hungarian Government abolished this practice and offered free choice for the people to study other foreign languages instead. The Government is making considerable efforts to increase the number of those who study to become teachers of foreign languages. This year the number of university students studying in English, German and French languages has been already increased by 43 %. This will go up to 100 % in the future. However, we are still short of such secondary institutions for implementing our efforts, that provide high-level language teaching for students between the age of 10-18. Therefore, our Government has the honour to request You, that if the popularization of English culture in Central Europe is indeed a special interest to you, the Hungarian Government will most warmly welcome

your assurances of support in this area. The Hungarian Government will also welcome the opening up of an English secondary school by Her Majesty's Government in Hungary.

May I kindly ask, Dear Prime Minister, that Her Majesty's Government discuss this proposal by the Hungarian Government. I would like to hope that our aim, that is, the creation of a unified Europe with the participation of the Central European region, will also meet the intention of Her Majesty's Government.

Yours sincerely,

/S/

/ Miklós Németh /  
Chairman of the Council of  
Minister of the Republic of  
Hungary

MARGARET THATCHER,  
Nagy-Britannia és Észak-Írország Egyesült Királysága  
miniszterelnöke

L o n d o n

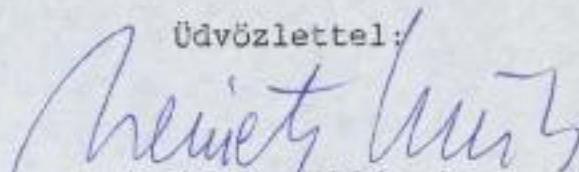
Tisztelt Miniszterelnök-asszony!

A magyar kormány elhatározott szándéka, hogy az ország Európához való felzárkózásának társadalmi, kulturális feltételeit is megteremti. Ebben alapkérdés számunkra a nyugati nyelveken való iskoláztatás. Mint Ön előtt ismeretes, Magyarországon 1949 óta az orosz kötelező nyelvként szerepelt az általános, a középiskolákban és a felsőoktatási intézményekben. Most az idén, májusban ezt a magyar kormány eltörölte és helyette szabad választást adott a lakosságnak az idegen nyelvek tanulásában. A kormányzat rendkívüli erőfeszítéseket tesz a nyugati nyelvek tanárainak beiskolázására. Már ebben az évben 43 %-kal emeltük az angol, német és francia nyelven, egyetemen tanulók számát. A következőkben ez az emelkedés 100 %-os lesz. Ezekhez az erőfeszítéseinkhez azonban hiányosnak azok a középszintű intézmények, amelyek már 10-18 éves korban biztosítják a felsőfokon való nyelvtanulást. Ezért kormányunk kéréssel fordul Önhöz: amennyiben Önöknek az angol kultúra terjesztése Közép-Európában szívügyük, úgy a magyar kormány igen szívesen venné, ha ezen a területen támogatásukról tudnák biztosítani. A magyar kormány igen örülne, ha az Ön kormánya Magyarországon angol középiskolát nyitna.

Tisztelt Miniszterelnök-asszony, kérem kormányával a magyar kormány kérését vitassa meg és remélem, hogy szándékunk: az egységes Európa megteremtése a közép-európai régió részvételével, találkozik az Önök kormányának szándékával is.

Budapest, 1989. október "31."

Üdvözlettel:

  
/ Németh Miklós /



SUBJECT CC MASTER

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10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

27 October 1989

## PRIME MINISTER'S MEETING WITH MR. POSZGAY

The Prime Minister had a talk this afternoon with the Hungarian Deputy Prime Minister, Mr. Poszgay, who was accompanied by the Hungarian Ambassador. HM Ambassador Budapest was also present.

The Prime Minister recalled Mr. Poszgay's visit in April when he had not exactly been optimistic about the prospects for Hungary. There had been very exciting developments since then and she wanted to hear his views both about the way ahead for Hungary and more widely in Eastern Europe. Could he explain why there had been breakthroughs in Hungary and Poland, but not in other Eastern European countries?

Mr. Poszgay said that he particularly remembered the inspiring speech which the Prime Minister had given at the reception at the Barbican during his earlier visit. Very positive changes had taken place since then and he wanted to assure the Prime Minister that they were irreversible. The Prime Minister had asked why they had not happened elsewhere in Eastern Europe. He believed that they would do so soon. The Prime Minister commented that Hungary had always been ahead of the rest of Eastern Europe. Mr. Poszgay confirmed this. Although there was much suppressed feeling in Hungary, he believed that the situation was under control and the transition to democracy would be smoother than in Poland. The elections would be free and Hungary saw no need to follow the Polish example of allocating seats in advance. His hope was that a strong government able to take strong action would emerge from the elections.

Mr. Poszgay continued that the main worry was the economic situation. Hungary was getting a revival of free enterprise but not yet strongly enough. They did not need aid so much as investment capital and help in moulding market conditions. The Hungarian government was very grateful for the United Kingdom's offer of a Know-How Fund. It was also excellent news that the United States had yesterday granted Hungary unlimited mfn status. He noted that the new constitution gave guarantees for all types of ownership and also provided for the state to withdraw from most areas of economic life. The key factor differentiating



Hungary from, for example, the Soviet Union was that the spirit of free enterprise was still alive and well. There was a passionate interest in owning land. But he returned to his main point: the crying need was for investment capital. That was what Hungary required most of all.

The Prime Minister asked about Hungary's relations with the Soviet Union. Mr. Poszgay said that he had met Mr. Gorbachev in the summer. In essence the Soviet Union had two requirements: first, that Hungary should avoid a civil war-type situation which might lead to outside intervention; and second that they should not spectacularly leave the Warsaw Pact. This left plenty of freedom of manoeuvre. For instance, Hungary had recently restored relations with Israel and had taken a sovereign decision on letting East German refugees go to Austria. He hoped that Hungary would soon be a country in which no foreign troops were stationed. In this sense, Hungary was in an entirely different sort of geopolitical situation than Poland. (Throughout Mr. Poszgay was at pains to emphasise the differences rather than the similarities between Hungary and Poland).

Mr. Poszgay raised the subject of COCOM, saying that he knew the West had reason to be suspicious. But Hungary was willing to give whatever guarantees were necessary to make it possible to acquire the equipment necessary to create a sophisticated industry. They were ready, for instance, to have a COCOM office in Budapest to monitor the uses to which restricted items would be put.

The Prime Minister concluded by saying that it was vitally important that Hungary and Poland should succeed in breaking away from Communism. Their success mattered to the whole free world, as well as to the others in the Soviet Union and Eastern Europe.

I am copying this letter to John Gieve (H M Treasury), Brian Hawtin (Ministry of Defence), Neil Thornton (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

(C. D. POWELL)

Richard Gozney, Esq.,  
Foreign and Commonwealth Office

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PRIME MINISTER

25 October 1989

YOUR MEETING WITH MR POZSGAY

May I add one cautionary note?

Pozsgay is running for President and will want to extract maximum publicity from his meeting with you, as his subsequent meeting with President Bush, and present it as endorsement of his candidature. On the other hand, as a Communist since 1950 and as Minister under Kadar, he has a distinctly murky record. Of course as an experienced opportunist he may prove in the end an effective reformer; but I imagine you would not want to leave the impression that this is the only way forward for Hungary: there are other more genuinely democratic figures. There is the other consideration that on present form he and his revamped party may well lose the elections.

  
PERCY CRADOCK

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PRIME MINISTER

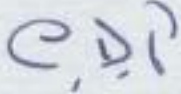
MEETING WITH MR. POZSGAY

You are to see Mr. Pozsgay, the Hungarian Deputy Prime Minister and Presidential candidate for the new Hungarian Socialist Party on Friday afternoon. You last saw him in April when you went with him to the Barbican for the inaugural reception for the "Britain Salutes Hungary" Festival.

There have of course been major developments in Hungary since then with which you are well familiar. You will want to see how he assesses the prospects both in Hungary, in Poland and in the Soviet Union. It will be very interesting to know of the sort of guidelines they have received from the Russians on the limits to which they can go in internal reform.

We have announced a £25 million Know-How Fund for Hungary to match the one we offered Poland and he should be pleased with that. They are also likely to need a new IMF agreement and bridging finance while it is put into place. We would be ready to play our part in that.

On the bilateral front, the Hungarian Prime Minister is coming to see you in December. We are continuing contacts about the possibility of our providing assistance to the PETO Institute for Conductive Education. The Hungarians have been slow to come forward with details of their plans and costs but we now have sufficient information. You can say that we hope soon to be able to offer a firm contribution.

  
CHARLES POWELL

25 October 1989

CONFIDENTIAL

cell  
6-4



Foreign and Commonwealth Office

London SW1A 2AH

23 October 1989

Jean Dominic,

Call by Mr Imre Pozsgay

Mr Imre Pozsgay, Minister of State (= Deputy Prime Minister) and presidential candidate for the newly formed Hungarian Socialist Party (HSP) is calling on the Prime Minister on 27 October at 1500.

Mr Pozsgay is Hungarian patron of the "Britain Salutes Hungary" Festival which he will open with the Duke and Duchess of Kent on 25 October. He last visited Britain in April to attend an inaugural reception for the Festival. He also called on the Prime Minister. As the Hungarian Socialist Party's candidate in the forthcoming presidential elections, Pozsgay will be anxious to brief the Prime Minister on the current political and economic situation. He will also, of course, be seeking to advance his candidature for the Presidency: he will not be the only candidate. He will also wish to discuss assistance to Hungary and may raise the question of the Peto Institute.

Hungary Internal

Political and economic reform in Hungary has gathered momentum since Mr Pozsgay's previous visit. The Party Congress in October adopted a radical manifesto which provides for the creation of a non-Marxist party. A Hungarian Socialist Party was established and Pozsgay was nominated as its Presidential candidate. But despite these encouraging signs, the creation of the new Party was seen by many as a disappointing compromise between reformists, centrists and the hardliners whom Pozsgay had hoped would be forced out. The future of the HSP remains unclear and the struggle between different factions may continue. Some of the old party members, including Grosz, are trying to maintain a Marxist-Leninist party, bearing the old name.

Attention is now focussed on the Presidential election. This seems likely to be scheduled for late

/November

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November, with the first fully free general elections for 40 years next spring. However some in the opposition are bitterly opposed to this timetable and want to see the new President elected by the new Parliament. Pozsgay's position may have been damaged by the HSP's failure to make a clean break with the past. He had been hoping to stand virtually unopposed, but some credible opponents are now emerging.

The outcome of the general election is uncertain. Many Hungarians remain sceptical and distrustful of the HSP and even many within the Party expect that they will be forced into a coalition with opposition groups. There is still great disarray among the latter, but to judge from four by-elections this summer, groups like the Democratic Forum can command considerable support. They may profit from a protest vote.

#### Western Economic Assistance and the Know-How Fund

Britain's new £25 million Know-How Fund for Hungary offers training, consultancy and advisory services, the skills which the Hungarians will need to run an open society. It fits into the wider Western efforts, initiated by the Economic Summit in July and coordinated by the EC.

An EC/Hungary Agreement on trade and economic cooperation was signed last September. The Hungarians are now keen to make early moves to strengthen the relationship. While we do not rule out closer institutional links in the longer term, the Prime Minister might say that we believe that the trade and cooperation agreement now in force provides an excellent basis for developing economic relations and that both parties should focus their efforts on making the agreement work.

Hungary's deteriorating budget and external deficits are threatening a fresh liquidity crisis. A new IMF agreement will be needed to reassure foreign investors, on whom Hungary's economic recovery depends. The Hungarians have not yet requested international bridging finance; if they did we would be ready to play our part subject to the normal conditions.

#### Relations with the Soviet Union

The Prime Minister may like to ask about Hungary's relations with the Soviet Union. The Soviet Union is showing an encouraging readiness to stand back from developments in Hungary. It is not clear where the bottom line may lie, but as Mr Gorbachev told the Prime

/Minister

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Minister in September it seems to be coherence of the Warsaw Pact.

Bilateral Relations

Bilateral relations remain excellent. The Know-How Fund will reassure the Hungarians that we support the reforms in Hungary. The Hungarian Prime Minister Miklos Nemeth will be visiting Britain in December and will be calling on the Prime Minister on 13 December. Mr Waldegrave visited Hungary in July and Mr King in September.

Department of Health officials have been in Budapest this week for talks on the Peto Institute. The Institute provides special treatment (known as conductive education) for disabled children, including many from Britain. The Hungarians have plans to establish a new international institute, so that they can treat many more patients, and have looked to us for a contribution. During talks in January the Minister of State for Social Security and the Disabled, Nicholas Scott, said that the Government would consider such a request sympathetically, providing that the Hungarian side produced details of their plans and costings. The Hungarians were slow in responding but a team from the Department of Health visited Budapest on 17/18 October. They now have sufficient information, and together with other interested Departments will be working to establish a suitable level for a UK contribution.

The Prime Minister may like to say that we hope soon to be able to offer a firm contribution.

Mr Pozsgay will be accompanied by the Hungarian Ambassador and an interpreter. I enclose personality notes. *John Birch, HMA Budapest, will also be present.*

*Yours ever,*

(R H T Gozney)  
Private Secretary

D C B Morris Esq  
10 Downing Street

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IMRE POZSGAY

Born 1933. He joined the party in 1950 and held a variety of posts in journalism, and the party bureaucracy until his appointment as Deputy of Minister of Culture in 1975. He became Minister of Culture in 1976 and added Education to his portfolio in 1980.

Since his appointment as General Secretary of the People's Patriotic Front, (an outlet for political activity outside the Communist Party) in 1982, he has been at the forefront of moves towards political reform. He is now seen as Hungary's leading reformer and is the HSP's nominee for the State Presidency.

NEW AMBASSADOR OF HUNGARY

DR JÓZSEF GYÖRKE (pronounced Dyur-kay)

Dr Györke was born in Zalaszentgrot, Hungary on 6 July 1942. After graduating from the Moscow State Institute for International Affairs in 1967 he joined the Hungarian Foreign Ministry. He was posted to Dar-es-Salaam from 1969-71 and 1976-79 and to Addis Ababa from 1971-73. In 1981 he joined the International Department of the Central Committee of the Hungarian Socialist Workers' Party, and from 1984 to 1989 was a deputy head of the department dealing primarily with developing countries. He took a doctorate in political science in 1985. He has been closely involved in the development of Hungarian foreign policy over recent years. This is his first Ambassadorial appointment.

Dr Györke is married with three children, two of whom will be going to school here. Dr Györke speaks very good English; he also speaks Russian and Swahili.



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FROM BUDAPEST  
TO IMMEDIATE FCO  
TELNO 480  
OF 111245Z OCTOBER 89

*Note for File*  
                      
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*issue*

MY TELNOS 475, 476, AND 479: HUNGARY: NEW HSP LEADERSHIP

SUMMARY

*ch*

1. RECOMMENDATION THAT THE PRIME MINISTER SHOULD SEND A MESSAGE OF CONGRATULATIONS TO THE NEW PARTY PRESIDENT.

DETAIL

2. I THINK THAT IT IS IN OUR INTEREST FOR THE PRIME MINISTER TO SEND SUCH A MESSAGE. THE OUTCOME OF THE PARTY CONGRESS IS IN THE WESTERN INTEREST (MY TELNO 479). A MESSAGE HAS BEEN SENT BY PRESIDENT GORBACHEV. GENSCHER HAS SENT MESSAGES TO NEMETH, POZSGAY AND HORN (AS MEMBERS OF THE GOVERNMENT). THE PRIME MINISTER WILL BE RECEIVING BOTH POZSGAY AND NEMETH OVER THE NEXT TWO MONTHS. A MESSAGE TO NYERS WOULD AVOID ANY THOUGHT THAT HMG FAVOURS THEM, AS UNQUALIFIED REFORMERS, OVER NYERS. A MESSAGE WAS ALSO SENT TO GROSZ AFTER HE BECAME HSWP PARTY SECRETARY IN MAY 1988.

3. A SHORT MESSAGE ON THE FOLLOWING LINES WOULD BE APPROPRIATE:

''PLEASE ACCEPT MY WARM CONGRATULATIONS ON YOUR ELECTION AS THE FIRST PRESIDENT OF THE HUNGARIAN SOCIALIST PARTY. I CONTINUE TO FOLLOW HUNGARY'S COURAGEOUS PROGRESS TOWARDS THE RESTORATION OF A DEMOCRATIC SOCIETY WITH KEEN INTEREST. I WISH YOU EVERY SUCCESS IN YOUR EFFORTS TO CARRY THAT PROCESS FORWARD.''

4. FCO PLEASE PASS TO HEADS OF MISSION SECTION (FOR HE MR J A BIRCH).

HARBORNE

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*Pl. file  
ei***HUNGARY: HSWP/HSP CONGRESS**

## SUMMARY

1. LONG DRAWN OUT STRUGGLE BETWEEN REFORMERS AND CENTRISTS PRODUCES NEW HUNGARIAN SOCIALIST PARTY. POZSGAY'S UNWILLINGNESS TO LEAD THE REFORMERS OUT OF THE PARTY PUT NYERS IN THE DRIVING SEAT AND GAVE GROSZ LEVERAGE. NYERS' PRIORITY UNITY AT ALMOST ANY PRICE. END RESULT EXTRAORDINARY BY ANY COMMUNIST PARTY STANDARDS. BUT NOT THE CLEAN BREAK WITH THE PAST THAT THE REFORMERS WANTED. FINAL POSITION OF SOME LEADING FIGURES STILL UNCERTAIN. REFORMERS/REACTIONARIES' STRUGGLE CONTINUED THROUGHOUT SUNDAY AND TODAY OVER NEW PARTY ORGANISATION, LEADERSHIP STRUCTURES, PROGRAMME AND ACTUAL LEADERSHIP. FURTHER REPORT WHEN SITUATION CLARIFIED.

## DETAIL

2. ON SATURDAY 7 OCTOBER, THE HSWP ADOPTED (1202 FOR : 159 AGAINST : 38 ABSTENTIONS) A STATEMENT ON THE CHARACTER OF THE NEW HUNGARIAN SOCIALIST PARTY. TEXT IN MIFT. AS FORESEEN (MY LETTER OF 29 SEPTEMBER TO THE DEPARTMENT AND BUDAPEST TELNO 404, IT IS FUNDAMENTALLY A DEAL BETWEEN THE REFORMERS (MOST OF WHOSE PRINCIPLES ARE INCORPORATED) AND THE CENTRISTS (DETERMINED NOT TO DECRY ALL OF THE PAST 40 YEARS), AIMED AT MINIMIZING DEFECTIONS).

3. THE DELEGATES DIVIDED INTO 9 MAIN FACTIONS. SOME JOINED NONE. BUT THE STRUGGLE BOILED DOWN TO ONE BETWEEN THE REFORM GROUP (AROUND 500 MEMBERS) AND THE PEOPLE'S DEMOCRATIC PLATFORM (WITH SOMETHING OVER 200 MEMBERS, BUT BOLSTERED BY OTHER SMALLER FACTIONS, AND WHOSE NAME INDICATES ITS FLAVOUR). THE REFORMERS NEVER HAD AN OVERALL MAJORITY SINCE HIS ABILITY TO CLAIM TITLE TO THE PARTY'S ASSETS WOULD HAVE BEEN OPEN TO SEVERE DOUBT, AND HAVING FAILED TO GET MOSCOW'S SUPPORT (SEE PARA 4), POZSGAY WAS UNWILLING TO LEAD HIS TROOPS OUT OF THE HSWP, THUS PUTTING NYERS IN THE DRIVING SEAT (WHOSE PRIORITY ALL ALONG HAS BEEN PARTY UNITY), AND GAVE GROSZ, BEREZ AND OTHERS LEVERAGE

WHICH THEY HAVE USED. THE NEW PARTY ENDORSES THE MULTI - PARTY SYSTEM, A SOCIAL MARKET ECONOMY, RESPECT FOR FUNDAMENTAL HUMAN RIGHTS AND FREEDOMS, AND MAKES A NUMBER OF GESTURES TOWARDS OPPOSITION POLITICAL FORCES. BUT IT DOES NOT, AS THE REFORMERS WANTED, TURN ITS BACK DEFINITELY ON THE HSWP: IT REJECTS THE PARTY STATE AND DEMOCRATIC CENTRALISM, BUT '' CONTINUES THE LASTING TRADITIONS OF THE SOCIALIST AND COMMUNIST MOVEMENT''. THIS IS VERY MUCH IN LINE WITH GROSZ'S PHILOSOPHY OF, AS HE PUTS IT, NOT DENYING THE ACHIEVMENTS AND VALUES OF THE PAST 40 YEARS.

4. THE ONLY MEMBER OF THE FOUR-MAN PRAESIDIUM WHO IDENTIFIED HIMSELF WITH ANY OF THE GROUPS WAS NEMETH (REFORM GROUP). POZSGAY'S PERFORMANCE SO FAR HAS NOT BEEN REASSURING TO MOST HUNGARIANS TO WHOM WE HAVE SPOKEN. HAVING ANNOUNCED TEN DAYS AGO THAT HE WOULD BE GOING TO MOSCOW, THE VISIT WAS CANCELLED: BECAUSE, WE ARE TOLD THAT IT WOULD NOT BE CONVENIENT, THAT GORBACHEV WAS EMBROILED IN PREPARATIONS FOR HIS VISIT TO THE GDR AND THAT EVERYTHING THAT HAD TO BE SAID HAD ALREADY BEEN SAID TO NYERS AND GROSZ IN JULY (BUDAPEST TELNO. 378). THE REFORMERS THUS ALWAYS HAD AN UPHILL STRUGGLE : BY REFUSING TO GIVE POZSGAY ITS BLESSING, MOSCOW THUS FORTIFIED BOTH NYERS AND GROSZ.

5. THERE HAVE BEEN NO FORMAL DEFECTIONS YET. BUT, ON THE ONE HAND, DEPUTY PRIME MINISTER MEDGYESSY HAS SAID THAT ''BECAUSE OF THE UNCONVINCING NATURE OF THE COMPROMISE, I HAVE YET TO DECIDE IF I WILL BE A MEMBER OF THE HUNGAIRIAN SOCIALIST PARTY''.

ON THE OTHER HAND, ALL THOSE WHO VOTED AGAINST (INCLUDING GROSZ) AND ABSTAINED HAVE NONETHELESS CONTINUED TO PARTICIPATE. HARD-LEFT EXTREMISTS LIKE RIBANSKI ARE MAINTAINING THAT THE CONGRESS HAD NO RIGHT TO DISOLVE THE HSWP, THAT IT THEREFORE STILL EXISTS AND CONTINUES TO OWN ITS ASSETS AND THAT HE AND HIS FOLLOWERS ARE STILL HSWP MEMBERS. GROSZ, ASKED IF HE WOULD JOIN THE NEW PARTY, SAID HE WOULD NOT BUT THEN SAID HE WOULD AWAIT THE OUTCOME OF THE DEBATE ON PARTY STATUTES AND MANIFESTO ''BEFORE DECIDING WHERE I BELONG''. POZSGAY HAS EMPHASISSED THE NEW PARTY'S REJECTION OF OLD DOGMA AND METHODOLOGY AND ITS COMMITMENT TO DEMOCRATIC SOCIALISM AND A PLURALISTIC LAW-BASED STATE, BUT HAS ALSO PUBLICALLY EMBRACED THE PEOPLE'S DEMOCRATIC PLATFORM AND ENDORSED THE NOTION OF DIFFERENT TRENDS WITHIN THE NEW PARTY.

6. UNCERTAINTY PREVAILED THROUGHOUT THE REST OF SATURDAY AND SUNDAY ON THE NEW PARTY STATUTES, NEW LEADERSHIP STRUCTURE, MANIFESTO AND

LEADERSHIP PERSONNEL. ALTHOUGH THIS IN PART REFLECTED THE NOVELTY OF THE SITUATION, THE INABILITY TO REACH CONCLUSIONS SO FAR DERIVES PRINCIPALLY FROM THE CONTINUING STRUGGLE BETWEEN THE REFORMERS AND CENTRISTS WHICH IS EMBODIED IN THE STATEMENT OF CHARACTER OF THE NEW PARTY. IT SEEMS THE NEW PARTY HAS VOTED TO CONTINUE ACTIVITY AT THE WORKPLACE (A FURTHER DEFEAT FOR POZSGAY). THERE IS FORMALLY ONLY TODAY LEFT TO TAKE THE REMAINING DECISIONS, THOUGH IT IS BY NO MEANS CERTAIN THAT THIS WILL BE SUFFICIENT. WE WILL REPORT AGAIN FURTHER WHEN THE SITUATION IS CLEARER.

7. FCO PLEASE PASS TO HEADS OF MISSION SECTION FOR MR J A BIRCH.

HARBORNE

YYYY

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ADDITIONAL 1

MR J A BIRCH HOMS

NNNN



*file has*

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

28 September 1989

*Der R. d. d.*

I should be grateful if the enclosed message to President Soares from the Prime Minister could be sent to our Embassy in Budapest for delivery as soon as possible.

*Yours sincerely,*

(C. D. POWELL)

Richard Gozney, Esq.,  
Foreign and Commonwealth Office.

*do*

SUBJECT  
ce MASTER  
OPS.



PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. 168/89

10 DOWNING STREET  
LONDON SW1A 2AA

THE PRIME MINISTER

28 September, 1989.

Dear Mr. President.

I was dreadfully sorry to hear that your son had been badly injured in a plane crash. It must be deeply worrying and upsetting for you and your wife. I am sure he is getting the best possible attention. He will be very much in all our thoughts and we shall pray that he makes a good recovery.

Yours sincerely

Rajiv Gandhi

His Excellency Dr. Mario Soares

do



File  
DA  
PC

10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

7 September 1989

**HUNGARY**

The new Hungarian Ambassador told me this morning that Mr. Pozgay would be in London from 25-27 October and would very much like to call on the Prime Minister. I am sure the Prime Minister would wish to see him. It looks from the telegrams as though his star is in the ascendant and he has a reasonable chance of being elected President. We could offer him a meeting at 1500 on 27 October. I should be grateful if our Embassy in Budapest could propose this to him.

I enclose a copy of a reply to the Prime Minister's message of condolence on the death of Janos Kadar which the Ambassador left with me.

(C.D. POWELL)

J.S. Wall, Esq.,  
Foreign and Commonwealth Office.

R



Non-official Translation

The Rt Hon Margaret Thatcher MP  
Prime Minister

L o n d o n

Dear Prime Minister,

On behalf of the Hungarian Socialist Workers' Party, of its Central Committee and myself I hereby express our Gratitude for your message sent after János Kádár passed away. At the same time I convey to You the thanks of his widow and family.

I should like to seize this opportunity to assure You, that our Party's firm intention is to further develop and improve the mutually advantageous Hungarian-British relations in all walks of life, which was the ambition of János Kádár as well, and which he untiringly worked for.

Budapest, 17th of August, 1989.

Sincerely Yours

( Rezső Nyers )

Margaret Thatcher  
brit miniszterelnök részére

L o n d o n

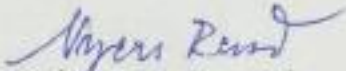
Tisztelt Miniszterelnök Asszony!

A Magyar Szocialista Munkáspárt, pártunk Központi Bizottsága és a magam nevében ezúton köszönöm meg Kádár János elhunytá alkalmából küldött üzenetét. Tolmácsolom egyúttal özvegye és a család köszönetét is.

Az alkalmat megragadva szeretném Önt biztosítani: pártunknak határozott szándéka, hogy tovább fejlődjenek és az élet minden területén gazdagodjanak a Kádár János által is szorgalmazott angol-magyar kapcsolatok, hogy azok mindkét ország számára előnyöket hozzanak.

Budapest, 1989. augusztus 17.

Őszinte híve:

  
(Nyers Rezső)



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

*From the Minister of State for Social Security and the Disabled*

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State  
Foreign and Commonwealth Office  
London SW1

21 July 1989

*Dear Geoffrey,*

PETO INSTITUTE

You will recall that I wrote to John Major recently about UK financial support for the proposed International Peto Institute. John sent you a copy of his reply to me of 13 May. John's letter is very helpful in that it clears the way for negotiations with the Hungarians within the ceilings mentioned. I am concerned however that we should take steps now to ensure the money is available before we commit ourselves.

I have taken the lead on this subject as Minister for the Disabled. However in that capacity I do not have control over any of the spending programmes in which this might fall, and I do not think it would be right for me to enter into agreements with the Hungarians which would commit spending Ministers without clearing my lines first. As you know a number of Ministers have a close interest, particularly yourself, Ken Baker, David Mellor and Malcolm Rifkind. I think therefore we need to identify a lead Department for the purposes of making a PES bid on behalf of all interested departments for expenditure likely to fall in 1990/91 and 1991/92. At this stage only a marker bid would be possible as we are still awaiting full details from the Hungarians on how exactly the money would be spent.

In my view there are strong arguments for FCO taking the lead here. Support for the International Institute will have immediate beneficial spin-offs in terms of our relations with Hungary and the Eastern Block generally. By contrast the benefits for education and health services in this country which we hope to see from our links with the new Institute will take much longer to come on stream and in terms of overall services will have only a limited impact.

E.R.

I would be grateful if you would give this early consideration. I am rather concerned about timing. The PES cycle is already well advanced. The Hungarians are making progress in putting together the information we have requested and are anxious for an early response from us. There is continuing interest in Parliament; Roger Skelmersdale is likely to come under some pressure when he answers an Oral Question from Lord Auckland before the recess. And the "Britain salutes Hungary" festival in late October will reawaken interest in Peto from the media and pressure groups. I should be grateful if you would agree to enter the necessary Survey bid for this. Otherwise, I do not see how the negotiations with the Hungarians can be taken forward.

I am sending copies of this letter to the Prime Minister, Kenneth Baker, Malcolm Rifkind, Kenneth Clarke, Peter Walker, Tom King, John Major and David Mellor.

*Yours sincerely*

*Nick*

NICHOLAS SCOTT





FILE

810

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

7 July 1989

**HUNGARY**

The Prime Minister has signed the enclosed message to the Hungarian Communist Party authorities following the death of Mr. Kadar. I should be grateful if it could be delivered as soon as possible.

(C. D. POWELL)

Richard Gozney, Esq.,  
Foreign and Commonwealth Office.

RV

FILE SKW



10 DOWNING STREET  
LONDON SW1A 2AA

THE PRIME MINISTER

I have learned with sadness of the death of Janos Kadar. Mr. Kadar played a role of great importance in the evolution of Hungarian policy. Although he came to power at a time of tragic repression, he lived to steer Hungary towards the beginning of the process of reform which is under way now. He also presided in the mid 1980s over a period of improvement in Anglo-Hungarian relations which culminated in my visit to Hungary in 1984 and his to Britain in 1985. Both countries have benefited from that improvement which has since been taken much further. On behalf of Her Majesty's Government, I extend our sincere condolences to you and to Mr. Kadar's family.

*Margaret Thatcher*

7 July 1989



10 DOWNING STREET  
LONDON SW1A 2AA

THE PRIME MINISTER

I have learned with sadness of the death of Janos Kadar. Mr. Kadar played a role of great importance in the evolution of Hungarian policy. Although he came to power at a time of tragic repression, he lived to steer Hungary towards the beginning of the process of reform which is under way now. He also presided in the mid 1980s over a period of improvement in Anglo-Hungarian relations which culminated in my visit to Hungary in 1984 and his to Britain in 1985. Both countries have benefitted from that improvement which has since been taken much further. On behalf of Her Majesty's Government, I extend our sincere condolences to you and to Mr. Kadar's family.

*Nargant Shalva*

7 July 1989



Foreign and Commonwealth Office

London SW1A 2AH

6 July 1989

*Dear Charles,*

Hungary: Janos Kadar

The death of the former General-Secretary of the Hungarian Socialist Workers Party, Janos Kadar, has been announced. The Foreign Secretary thinks it would be appropriate for the Prime Minister to send a message of condolence. The Prime Minister met Kadar during her visit to Hungary in 1984, and he paid a return visit here in 1985. I enclose a draft text.

Kadar was deposed from the post of General-Secretary in May 1988, to be replaced by Grosz. He was given the largely honorary title of Chairman of the Central Committee. When it became clear that his health was failing, he was relieved of this post and of his membership of the Central Committee at a Central Committee meeting on 8 May.

Kadar played an ambiguous role in the events of 1956, which is likely to come under increasing scrutiny in the international and Hungarian press as Hungarian re-assessment of 1956 continues. It would be unwise, therefore, to make much reference in the message to Kadar's earlier career. The Hungarian Central Committee's own message to Kadar when he was relieved of his post in May contained a judicious balance of praise and blame, reflecting the ambivalent views of the Hungarian establishment towards Kadar. The enclosed draft message concentrates on bilateral matters, beginning with the Prime Minister's visit to Hungary in 1984.

*Yours ever*

*Richard Gozney*

(R H T Gozney)  
Private Secretary

C D Powell Esq  
10 Downing Street



SW2AX2

DRAFT MESSAGE ON THE DEATH OF JANOS KADAR

FROM THE PRIME MINISTER TO MR NYERS, PRESIDENT OF THE  
HUNGARIAN SOCIALIST WORKERS PARTY

"I have learned with sadness of the death of Janos Kadar. Mr Kadar played a role of great importance in the evolution of Hungarian policy. Although he came to power at a time of tragic repression, he lived to steer Hungary towards the beginning of the process of reform which is under way now. He also presided in the mid 80's over a period of improvement in Anglo-Hungarian relations which culminated in my visit to Hungary in 1984 and his to Britain in 1985. Both countries have benefitted from that improvement which has since been taken much further. On behalf of Her Majesty's Government, I extend our sincere condolences to you and to Mr Kadar's family."

ca..

Jp 0829

MR POWELL

c Sir Robin Butler

Hungary: Recent Developments

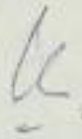
At a Hungarian Party Central Committee plenum which opened on 23 June, a four-man Party Presidium was set up to guide the country until the Party Congress to be held on 7 October. Its members are Nyers, the new Party Chairman, General Secretary Grosz, Prime Minister Nemeth and Politburo member Poszgay. The new Presidium has proposed the expansion of the Politburo to become a 21-member Executive Political Committee. These changes considerably strengthen the reformers' hands in the Party leadership.

2. Grosz, who has been widely criticised for some months for lack of leadership, retains his post, but with diluted authority. It is not clear whether he has survived because he had sufficient support in the Central Committee; or whether the reformers - as they have recently claimed - wanted to avoid exacerbating divisions in the Party, and possibly precipitating a split. Nyers, as the new Party Chairman (who replaces Kadar, who resigned last month on health grounds) is the senior member of the Presidium, and thus of the Party as a whole. Aged 66, he is a former member of the Social Democratic Party (absorbed into the HSWP in 1948), was expelled from the Politburo in 1975 after his economic reforms encountered Soviet disapproval, and was only readmitted in May 1988. Nemeth, Prime Minister since November 1988, is a Harvard-trained economist and advocate of a market economy. Poszgay, the most committed reformer, has been a Politburo member since May 1988 and State Minister for political affairs since November 1988. Within the last few weeks, debate on the direction the Party should take, as well as the power struggle between Grosz and Poszgay, have been made 'more

public. Poszgay has made it clear that he wants the HSWP to become a new type of Party based on social democratic ideas. Grosz has countered that while the Party should break with the Stalinist model, it must return to its Marxist roots.

3. After weeks of sterile exchanges, a Hungarian Round Table, modelled on the Polish Round Table, opened on 13 June. Trilateral talks (HSWP; Opposition groups; and conservative organisations including the Trades Union Council) have begun, and a number of working groups set up. In order to persuade the opposition to attend the Round Table, the Party made important concessions including the agreement to hold fully free elections next year.

4. After several weeks of indecision and public disagreement, the Party now seems to have been galvanised into action. The results of the Polish elections in early June may have brought the message home that if elections are to go ahead, the Party has a great deal to do to present a united front - if this is possible, given its various disparate elements - to improve its standing in the eyes of the voters.



PERCY CRADOCK

27 June 1989

ZCZC  
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DD 270630Z MADRI  
FM FCOLN TO MADRI  
262025Z JUN  
GRS 538

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TO DESKBY 270630Z MADRID  
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HUNGARY: CENTRAL COMMITTEE MEETING.

SUMMARY

1. EXTENDED MEETING PRODUCES IMPORTANT STRUCTURAL CHANGE OF PARTY. FOUR MAN PRESIDUM FORMED, WITH NYERS ELECTED PARTY PRESIDENT. LOSS OF POWER FOR GROSZ. A FURTHER STEP FORWARD FOR REFORMERS. PARTY CONGRESS SET FOR 7 OCTOBER.

DETAIL

2. THE HSWP'S CENTRAL COMMITTEE MET ON 23/24 JUNE LASTING A DAY LONGER THAN PLANNED. A NEW FOUR MAN PRESIDUM WAS CREATED TO MANAGE THE PARTY UNTIL THE NEW CONGRESS. THE FOUR ARE: REZSO NYERS, AS NEWLY-ELECTED PARTY PRESIDENT SEMI-COLON KAROLY GROSZ, AS GENERAL SECRETARY, MIKLOS NEMETH AND IMRE POZSGAY.

3. BENEATH THE PRESIDUM A NEW 21 MEMBER EXECUTIVE COMMITTEE WAS FORMED. IT COMPRISES THE FOUR PRESIDUM MEMBERS, THE REMAINING 5 OF THE FORMER POLITBURG (HAMORI, IVANYI, JASSO, TATAI AND VASTAGH) AND EX-OFFICIO ALL FOUR CENTRAL COMMITTEE SECRETARIES (FEJTI AND IVANYI PLUS JANOS BARABAS AND JENO KOVACS, ELECTED AT THIS CENTRAL COMMITTEE SESSION). THE REMAINDER ARE MOSTLY REGIONAL PARTY SECRETARIES AND FACTORY MANAGERS.

4. THE CENTRAL COMMITTEE ALSO FIXED THE PARTY CONGRESS FOR 7 OCTOBER AND NOMINATED POZSGAY AS THE HSWP CANDIDATE FOR THE PRESIDENCY OF THE REPUBLIC - 'WHENEVER THE ELECTIONS ARE CALLED'. IT ALSO DROPPED GROSZ FROM THE HSWP'S ROUND TABLE TEAM - THE NEW LINE-UP IS NYERS, POZSGAY, FEJTI, IVANYI.

COMMENT

5. GROSZ'S POWERS HAVE BEEN REDUCED AND AS HE ADMITTED IN A TV INTERVIEW, HIS DUTIES ARE TO BE RESTRICTED TO DAY-TO-DAY ADMINISTRATION OF THE PARTY AND INTERNAL PARTY MATTERS. DROPPING HIM FROM THE ROUND TABLE TEAM LOOKS LIKE MORE DAMAGE LIMITATION. AT THE SAME TIME, POZSGAY'S NOMINATION AS PRESIDENTIAL CANDIDATE AND INCLUSION IN THE PRESIDUM ARE VERY POSITIVE FOR HIM AND THE REFORMERS. THE MEETING DID NOT GO ENTIRELY THEIR WAY, HOWEVER, CSBA TABAJDI, A DEPUTY HEAD OF DEPARTMENT IN THE SECRETARIAT AND DE FACTO SPOKESMAN FOR A REFORM CIRCLE WAS SUSPENDED FROM DUTY FOR MAKING STATEMENTS IN THE PRESS ABOUT GROSZ AND ABOUT THE SECURITY THREAT POSED BY ROMANIA.

6. THERE IS CIRCUMSTANTIAL EVIDENCE THAT THIS MEETING DID NOT GO ACCORDING TO PLAN. NOT ONLY DID IT RUN INTO SATURDAY, BUT IT ABANDONED A MAJOR AGENDA ITEM ON RELIGIOUS AFFAIRS. IT APPEARS THAT THE DEBATE ON THE PARTY CONGRESS BECAME THE FORUM IN WHICH TO FORCE THE ISSUE OF PARTY LEADERSHIP.

7. THIS RESULT SHOULD BE SEEN AS A TEMPORARY MEASURE (WHICH POZSGAY CALLED A SUBSTANTIAL COMPROMISE). COLLECTIVE LEADERSHIP IS PRESENTED AS A MEANS OF MANAGING THE HSWP ONLY UNTIL THE CONGRESS IN OCTOBER. THE VERY FACT THAT THE PRESIDUM WAS CREATED AND GROSZ'S POWERS REDUCED FOR THE COMING 3 MONTHS IS A TELLING INDICATION OF THE EXTENT OF DISSATISFACTION WITH HIS LEADERSHIP AND LACK OF CONFIDENCE IN HIS ABILITY TO PREPARE THE PARTY FOR THE CONGRESS. DUMPING GROSZ NOW, IN THE AFTERMATH OF THE NAGY FUNERAL AND THE SPEECHES AT IT, WOULD HAVE GIVEN THE WRONG SIGNALS TO MOSCOW. THIS ARRANGEMENT COULD SCARCELY BE A CLEARER SIGN OF A WISH TO DROP HIM IN OCTOBER.

JOHNS

HOWE

PTMIAN 7097

NNNN



Foreign and Commonwealth Office

London SW1A 2AH

cc/c

CF 18 May 1989  
Pl - let me see  
his letter.  
Oh  
18/5

Dear Charles,

Hungary: Gaspar Miklos Tamas

In your letter of 5 May you asked for advice on whether the Prime Minister should see the Hungarian Gaspar Miklos Tamas.

The Foreign Secretary does not advise in favour of a meeting. Mr Tamas is a leading figure in the Hungarian Association of Free Democrats. This is only one opposition force of many and by no means the largest in Hungary. In any case Mr Tamas is not here as an official representative of this party.

Mr Waldegrave has met Mr Tamas and is hoping to see him again to discuss the latest developments in Hungary.

Yours ever,

(R H T Gozney)  
Private Secretary

C D Powell Esq  
PS/10 Downing Street

HUNGARY. Related Pt 3



CONFIDENTIAL

*estc*



Treasury Chambers, Parliament Street, SW1P 3AG

*CO 16/5*

Nicholas Scott Esq JP MP  
Minister of State for Social Security and the Disabled  
Richmond House  
79 Whitehall  
London  
SW1A 2NS

13<sup>th</sup> May 1989

*Dear Nick,*

PETO INSTITUTE

Thank you for your letter of 8 May.

*top of file*

I am entirely content for you to open negotiations with the Hungarians, subject to your proposed ceiling on UK contribution for 1990-91 and 1991-92 and to the conditions in the fourth and sixth paragraphs of your letter.

But at this stage, I am not sure that it is necessary to find new money above existing departmental baselines. Once the level of the UK contribution has been settled, and the conditions applying to it agreed, we can then consider in the Survey whether extra resources should be provided, or whether this relatively small amount of money, spread over two years and several departments, should be absorbed. In response to any bid I shall want to pursue the points in my letter of 28 March to Geoffrey Howe.

I am copying this letter to the Prime Minister Geoffrey Howe, Kenneth Baker, Kenneth Clarke, Malcolm Rifkind, Peter Walker, Tom King and David Mellor.

*Yours Ever,*

JOHN MAJOR

CONFIDENTIAL



MG

NLC/3718p



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

cc/c

*From the Minister of State for Social Security and the Disabled*

The Rt Hon John Major MP  
 Chief Secretary to the Treasury  
 Treasury Chambers  
 Parliament Street  
 LONDON  
 SW1P 3AG

C-108  
9/5

8 May 1989

*Dear John,*

PETO INSTITUTE

with PG?/CDP

I have seen your letter of 28 March to Geoffrey Howe, and also Kenneth Baker's of 5 April. I feel that the politics of the case for UK support to the International Peto Institute has, to some extent, overtaken the normal time scale of professional evaluation of conductive education as an innovative technique. I thought that it would help if I reported to you where things now stand. I hope that you will then be able to agree financial parameters within which I can set in train further negotiations with the Hungarians.

The Peto Institute has featured in a number of recent high-level conversations with the Hungarian Government. The Hungarian Foreign Minister, Dr Varkonyi, visited London in March and was granted a meeting with the Prime Minister, at which the Peto Institute was raised as an important example of co-operation between the UK and Hungary. I have seen Charles Powell's record of this meeting, which records Dr Varkonyi as stating that Britain's help with International Peto Institute was essential, upon which "the Prime Minister commented that the Institute was a unique body in which did remarkable work in conductive education. We certainly hope to play a helpful role".

Since the negotiations in January, I have had a number of letters and Parliamentary Questions from MPs on both sides of the House, expressing anxiety that the UK should make a firm offer of funding before too long, and I know that other Ministers have also been approached on this. The appeal for the International Institute was launched on 14 March, and I sent a message conveying support in general terms from the UK Government. I have recently received a reply from the Hungarian Deputy Prime Minister, thanking us for this

support, but impressing on us the urgency of clarification of the position concerning funding as soon as possible. Finally, you should be aware that there will be an announcement this week that the Prince and Princess of Wales will be visiting the Peto Institute in 1990, and that the Princess of Wales will lay the foundation stone for the new Institute. To my mind all these developments mean that it will be very embarrassing if we were not in a position to make a firm offer to the Hungarians by the summer.

At the same time, I fully agree with you that we need to pin down the Hungarians very firmly on the cost of their proposals and on what the UK would receive in return. We have continually been frustrated by the absence of a detailed budget, and we have insisted on a detailed financial analysis (using a pro-forma which we shall have to provide). We have also laid down that a condition for any UK contribution would be the continuation of the experimental development in Birmingham and have insisted that the Hungarians allocate additional places to Birmingham trainees in 1989. Public opinion at home has welcomed the fact that we see involvement in the International Institute as a means to widening and enhancing services in this country. Significantly, I have not received any adverse comments recently from the professional bodies which were more sceptical a year or so ago.

I should like to make it clear that I am not seeking an allocation from the Contingency Reserve for 1989-90. Although I now understand that the Hungarians are trying to bring forward their timetable, they told us in January that they could find from their own sources the money needed in 1989, and that they required money from us (and other countries) for 1990 and beyond. What I am seeking is your agreement to a ceiling of UK Government funds from 1990-91, over and above existing Departmental baselines. Within this I can negotiate further with the Hungarians, with a view to arriving at as low a figure as possible which would enable us to gain the benefits for UK families which we are seeking.

I have always recognised that we shall need to find private funds to match any Government contribution to the International Institute, and I have authorised steps to be taken to identify a fund-raiser who could be set a target and paid by his result. On the understanding that any public money would need to be matched by private money, I am seeking agreement to a ceiling of £5m of UK Government money, spread over two financial years from 1990-91, over and above the existing baselines of the several departments with an interest.

If this were agreed in principle, officials could discuss Vote allocation etc for inclusion in the Survey discussions. If I were authorised to negotiate within that ceiling, I would undertake to press very hard to arrive at a lower figure, and to obtain firm undertakings from the Hungarians on what we would get in return, and I would ask my officials to seek assistance from your's in pursuing these objectives with sufficient rigour.

F.R.

In the light of the developments which I have described in this letter I think that it is urgent for the negotiations to proceed to the next stage, and I therefore hope very much that you will be able to agree to the ceiling which I have requested, as a basis for further negotiations.

I am copying this letter to the Prime Minister, Geoffrey Howe, Kenneth Baker, Kenneth Clarke, Malcolm Rifkind, Peter Walker, Tom King and David Mellor.

Yours truly,

Nick.

NICHOLAS SCOTT



me  
h  
c/c  
(7)

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

5 May 1989

HUNGARY

It has been suggested that the Prime Minister ought to see Caspar Tamas who is apparently leader of one of the Hungarian opposition parties, the Free Democratic Alliance. I should be grateful for advice on whether this is something which the Prime Minister ought to do.

C. D. Powell

Richard Gozney, Esq.,  
Foreign and Commonwealth Office.

RESTRICTED

KK

RESTRICTED

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MDLIAN 6657

RESTRICTED  
FM BUDAPEST  
TO PRIORITY FCO  
TELNO 197  
OF 271402Z APRIL 89

MY TELS NO 179 AND 186 : POZSGAY VISIT

SUMMARY

1. POZSGAY'S MEETING WITH THE PRIME MINISTER FRONT PAGE NEWS IN ALL PAPERS. BRITISH SUPPORT FOR HUNGARIAN REFORM HIGHLIGHTED IN ALL ACCOUNTS.

DETAIL

2. THE VISIT OF POZSGAY TO LONDON (25 - 26 APRIL) WAS FRONT PAGE NEWS IN ALL HUNGARIAN DAILIES. A PICTURE OF HIM MEETING THE PRIME MINISTER WAS CARRIED IN ALL THE ILLUSTRATED PAPERS. HEADLINES CONCENTRATED ON BRITISH INTEREST IN THE HUNGARIAN REFORM PROCESS AND OFFERS OF SUPPORT FOR IT. THE GOVERNMENT DAILY SAID LONDON HAD CONFIDENCE IN THE HUNGARIAN REFORM. ACCOUNTS OF THE VISIT NATURALLY HIGHLIGHTED DISCUSSIONS WITH MRS THATCHER. PARTS OF HER SPEECH WERE QUOTED, ESPECIALLY THE WARM EXPRESSIONS OF SUPPORT FOR HUNGARY'S REFORM.

3. THE VISIT FIGURED PROMINENTLY ON THE EVENING TV NEWS TOO. THE BBC WORLD SERVICE ALSO CARRIED A FIVE MINUTE INTERVIEW IN WHICH POZSGAY AGAIN SPOKE OF THE NEED TO PRESS ON WITH REFORMS, INCLUDING FREE ELECTIONS IN 1990, AND OF A POSSIBLE FURTHER PARTY CONFERENCE.

4. WHEN THE HEAD OF CHANCERY MET POZSGAY AT THE AIRPORT, HE WAS PLAINLY DELIGHTED WITH THE TALKS AND ESPECIALLY WITH THE PRIME MINISTER'S BARBICAN SPEECH. THE MEETING WILL HAVE STRENGTHENED POZSGAY'S PERSONAL POSITION. GIVEN THE HIGH REGARD IN WHICH THE BRITISH GOVERNMENT'S ECONOMIC SUCCESS AND THE PRIME MINISTER PERSONALLY ARE HELD IN HUNGARY, THE VISIT WILL ALSO HAVE A VERY POSITIVE IMPACT ON THE REFORM PROCESS ITSELF.

APPLEYARD

YYYY

PAGE 1  
RESTRICTED



Just returned from a five-week tour of the Soviet Union, **NORMAN STONE** sees 'very hopeful' signs of reform in the eastern bloc

# Communism goes West

**Y**ESTERDAY, two curious events coincided. A Hungarian minister was in London to launch the Barbican's Hungarian Festival and to exchange speeches quite informally with Mrs Thatcher.

Meanwhile, news came from Russia that a quarter of the Central Committee of the Communist Party—their equivalent to our parliament—had been summarily dismissed, including that ancient warhorse, Andrei Gromyko, whose strangely wooden memoirs have recently been doing the rounds in the West.

What does it mean?

In this country certain ideas are basic, but seldom thought about, rather like the air we breathe. "Civil society" is one of them—the ability to act without reference to politics for most of the time. You read, write, apply for jobs, educate your children without bothering about politics.

But civil society is precisely what Communism is not about. Under Communism everything is a matter of politics: they even closed down the Boy Scouts. To this day in most Communist countries various freedoms which we take for granted are restricted to people whom the Party trusts.

In practice, this system has come to mean that everyone tells lies and works badly. Goods vanish from the shops and things do not function simply because there is so much stealing and under-the-counter dealing.

## Currency

Formal society has about as much reality as the formal currency: and in Russia, as I



*Hungarian State Minister Imre Pozsgay meets Mrs Thatcher*

Riley, while all around there is demoralisation and degradation. How are sensible Communists to get round this problem? The answer must be for them to appeal to the West. This is what is now happening. What a relief it is to hear such voices coming from Communist countries—especially Hungary, one of the most colourful of European states, with, in relatively recent times, a resplendent contribution to the world, from nuclear physics to the origins of Hollywood.

State Minister Mr Imre Pozsgay, who talks with obvious sincerity about the need for Hungary to develop a civil society, is very good at acquiring friends abroad. The press conference he gave yesterday was one of the most remarkable gather-

ful place—perhaps even in the European Parliament. For generations now enlightened people have been misled into supposing that Communism could be turned into just another democratic Left-wing movement if only we were nice to it. It would abandon all that tiresome and boring ideological baggage. There have even been dissident Communists who thought the same, though their fate in the past has been nasty and in Stalin's time deadly.

Now, "reform Communists" must be taken seriously, for they are making the running in Hungary, in the Baltic republics of the Soviet Union, and, to judge from Moscow's dismissal of one quarter of the Central Committee, in the heart of Communism itself.

the open Communist countries such as Poland, and now, Russia, the criticisms of the system are endless. The Soviet press nowadays is extraordinarily revealing. To put it bluntly, people do non-jobs for non wages; shops are empty; living conditions are dreadful, and there are literally millions of bureaucrats in positions of power who benefit from it all and will frustrate changes.

What is the way out? Here the more advanced Communist countries are arriving at a solution: it is called capitalism. You reform parliamentary bodies so as to be able to sack masses of senior people, as we have seen in Russia and Hungary. Another way, which you can see in China, is for popular protest, usually by students, to be encouraged so that the party bosses will be terrified into change.

Another option is to take up contacts with western businesses, but not in the old parasitical manner, so that they can become established and really teach the locals how to work.

## Backward

This process is going on in Hungary, Poland, and as I have just seen, particularly in the Baltic states and the Ukraine. Finally, you allow private factories to emerge, dealing in something like proper money, legally guaranteed and employing up to 500 people. Even backward Czechoslovakia is moving in this direction. But in it all, Hungary is taking the lead.

Would Moscow really mind? This connects with my second piece of news from yesterday—Mr Gorbachev's clearing out of dead wood from the Central Committee.

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## Currency

Formal society has about as much reality as the formal currency: and in Russia, as I recently realised, the black market rate is now 15 times the official one. No wonder central and eastern Europe is the homeland of surrealism.

Sensible Communists know this. They can see how Western Europe works, and know that they must step back to allow an honest, hard working society to redevelop. The difficulty is that there are not very many sensible Communists.

This ostensibly rational system has produced a species of feudalism in which local party bosses, often distinguished by a peculiar combination of stupidity and cunning, lead the life of



Hungarian State Minister Imre Pozsgay meets Mrs Thatcher

Riley, while all around there is demoralisation and degradation. How are sensible Communists to get round this problem? The answer must be for them to appeal to the West. This is what is now happening. What a relief it is to hear such voices coming from Communist countries—especially Hungary, one of the most colourful of European states, with, in relatively recent times, a resplendent contribution to the world, from nuclear physics to the origins of Hollywood.

State Minister Mr Imre Pozsgay, who talks with obvious sincerity about the need for Hungary to develop a civil society, is very good at acquiring friends abroad. The press conference he gave yesterday was one of the most remarkable gatherings which I have ever attended. What he said amounted to a disavowal of traditional Communism.

The Hungarian Party, he said, must cease to be an ideological one: its members might even practise a religion. The party must recognise that economic improvements could not happen without political change, with proper opposition parties having certain rights guaranteed by a new constitution, and a real parliament passing real laws with an independent Civil Service to carry them out. He looks forward to a period of change in Europe, in which a neutral Hungary can find her right-

ful place—perhaps even in the European Parliament. For generations now enlightened people have been misled into supposing that Communism could be turned into just another democratic Left-wing movement if only we were nice to it. It would abandon all that tiresome and boring ideological baggage. There have even been dissident Communists who thought the same, though their fate in the past has been nasty and in Stalin's time deadly.

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## Messier

A neutral Hungary feeding Western capital to the Soviet Union would have many obvious advantages, the more so as Hungary, left to her own devices, would simply turn into a messier, though livelier, version of Austria.

The difficulties of reforming Communism are a bit like the difficulties of reforming Liverpool, only redoubled. You are dealing with a bureaucratic mentality which would make Messrs. Hatton, Scargill and Todd seem the last word in Liberal enlightenment. The remarkable thing, is that in

now, Russia, the criticisms of the system are endless. The Soviet press nowadays is extraordinarily revealing. To put it bluntly, people do non-jobs for non wages; shops are empty; living conditions are dreadful, and there are literally millions of bureaucrats in positions of power who benefit from it all and will frustrate changes.

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Would Moscow really mind? This connects with my second piece of news from yesterday—Mr Gorbachev's clearing out of dead wood from the Central Committee.

The Central Committee of the Communist Party of the Soviet Union is one of those strange bodies that Communism produces. Once upon a time it had fewer than a dozen members, who planned the Bolshevik revolution. Then, when Lenin faced trouble and had to argue within it, he just expanded its numbers to about 400 so that it would be an effective body.

After a long period of scepticism I am convinced that serious people on the other side of the Iron Curtain want change. But we must not expect miracles overnight.

The author is Professor of Modern History at Oxford University.

“After a long period of scepticism I am now convinced that serious people on the other side of the Iron Curtain want change”

2 " SUBJECT  
cc Mr. Pozsgay. Record.



*Mr. Pozsgay*  
*etc*

10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

25 April 1989

PRIME MINISTER'S MEETING WITH THE HUNGARIAN STATE MINISTER

The Prime Minister had a talk this afternoon with Mr. Imre Pozsgay, Hungarian State Minister. Mr. Pozsgay was accompanied by the Hungarian Ambassador.

The Prime Minister said that developments in Hungary were very exciting, particularly the prospect of a multi-party system. We were anxious for Hungary to succeed and the changes being introduced had our full support. Mr. Gorbachev had also given the impression of willing Hungary's reforms to succeed so that he could point to what was possible and encourage his own people. She recognised, however, the problem of inflated expectations. There were bound to be difficulties, particularly with economic reform, at the beginning.

Mr. Pozsgay said that it was indeed a turbulent period in Hungary. Mr. Gorbachev was right: Hungary could be regarded as a point of reference. It was the first example in history of a country making the transition from Stalinist dictatorship to multi-party democracy. Moreover, it was being done peacefully and without any of the attendant drama and crises which characterised Poland. After forty years of Communist Party monopoly of power, Hungary's political culture was inevitably warped. Moreover, the new government had the paradoxical experience of promising people a better future while the situation actually continued to deteriorate. It would not be easy to break out of this downward spiral, but he and his colleagues were determined to succeed. They were no less determined that change should be peaceful. That would be a very important precedent for the rest of Eastern Europe.

Mr. Pozsgay continued that Hungary was further ahead with political reform than economic reform. Even so, much remained to be done in the political field. It was a major operation to transform a system in which the Communist Party had controlled everything into a constitutional state, and to persuade the Party that it had to share power. But the



economic difficulties were even more profound. Hungary's western friends did not fully appreciate the depth of the problems and the totally uneconomic state of most of Hungary's industry. Something like one third of the national budget went on subsidies, mostly to loss-making enterprises. Heavy industry, in particular, had an entrenched position which was very difficult to shift. There was a crying need for foreign investment - and investment rather than credit. Hungary's debts were too high already and debt service payments were crippling. There should be no fears about outside investment: there were guarantees against nationalisation and provisions for remittance of profits. The Prime Minister observed that some companies who wanted to invest in Hungary ran into bureaucratic obstacles. Mr. Pozsgay agreed that the bureaucracy was appalling.

Mr. Pozsgay said that he wanted to underline the differences between Hungary's position and that of, for instance, the Soviet Union. Hungary was much more advanced and was taking steps that Mr. Gorbachev would not begin to contemplate within his own empire. The Prime Minister asked whether Mr. Pozsgay was optimistic about the chances of success. Mr. Pozsgay said that he was determinedly so. But the support of Hungary's friends would be needed. The Prime Minister said that she was confident that Hungary would get through its difficulties.

The meeting had to finish at this point so that both the Prime Minister and Mr. Pozsgay could attend the "Britain Salutes Hungary" reception.

I am copying this letter to Alex Allan (H.M. Treasury) and Neil Thornton (Department of Trade and Industry).

C. D. POWELL

Richard Gozney, Esq.,  
Foreign and Commonwealth Office.



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Group

Foreign and Commonwealth Office

London SW1A 2AH

24 April 1989

Richard Gozney  
24/4/89

Dear Charles,

Call by Pozsgay

Mr Pozsgay may raise the question of the International Peto Institute (which provides conductive treatment for crippled children, including a number of British children) when he calls on the Prime Minister on Tuesday 25 April. The Prime Minister may like to say that Ministers are considering the possibility of a UK Government contribution to the Institute. We need, however, to have more details of the plans and budget, as promised in the recent letter from the Hungarians to the Minister for the Disabled, Mr Nicholas Scott, for the scheme in order to work out a firm offer. We hope also to match any Government contribution with money from private sources.

Yours ever,

Richard Gozney  
(R H T Gozney)  
Private Secretary

C D Powell Esq  
10 Downing Street



Foreign and Commonwealth Office

London SW1A 2AH

21 April 1989

Dear Charles,

Call by Mr Imre Pozsgay

Mr Imre Pozsgay, State Minister (Deputy Prime Minister) and member of the Politburo of the Hungarian Socialist Workers' Party, is to call on the Prime Minister on 25 April at 1645.

Mr Pozsgay is Hungarian patron of the "Britain Salutes Hungary" Festival to be held at the Barbican in October - November, and is here to attend an inaugural reception. As the leading reformer in the Party he will wish to use his call on the Prime Minister to focus on recent political and economic developments in Hungary.

Hungary Internal

Since Dr Varkonyi's visit in March, Hungary's reform programme has hit a rocky patch and divisions in the leadership of the Party have become more apparent. The recent Politburo changes fell far short of the major strengthening of the reform wing which many had expected. Pressure for further leadership changes and more decisive action on reform is likely to increase. But Grosz is wary of going to far too fast; many in the Party are bemused by the speed of change. Pozsgay and Grosz have attempted to preserve the facade of Party unity, but Pozsgay's attendance, with four other Politburo members, at a reform group rally on 15 April was further evidence of profound divisions. The Prime Minister may like to probe how far the leadership has a common philosophy and policy.

Meanwhile there is disarray among the alternative groups, who have yet to win the support of the mass of the population. The groups are resisting any kind of pre-election pact with the Socialist Workers' Party. Unless this changes, the Party will either have to adopt an election law which guarantees a Party majority or risk a free election in 1990. Given the weak and divided nature of the opposition the Party might even win the latter.

With zero growth, declining real incomes and a forecast of rising unemployment, economic prospects are grim.

/Economic



Economic reforms have run out of steam. Reports are filtering in of a new draft government programme to give renewed impetus to economic reform. Measures envisaged apparently include increased hard currency trade with the Soviet Union and some form of association with the European Community.

#### Relations in the Soviet Union

Mr Pozsgay will no doubt be interested in President Gorbachev's recent visit to the UK. After Grosz's visit to the Soviet Union in March the Hungarians were keen to stress Gorbachev's endorsement of their reforms. Despite much speculation, the official Hungarian line is that neutrality is not on the agenda at present.

#### Bilateral Relations

The Hungarians are afraid that spectacular developments in Poland will eclipse their own considerable progress on reform. The visit by the Prince and Princess of Wales (May 1990), the first to Eastern Europe, should reassure them. But it would be useful for the Prime Minister to reiterate our support for the reforms in Hungary (which in the economic field far outstrip those in Poland) and to urge that they be pursued with vigour as the only way out of Hungary's dire economic situation. She could add that we are looking at practical ways of helping the Hungarians as well as the Poles.

The Hungarians are pleased that the Prime Minister has agreed to a working visit by Prime Minister Nemeth later this year. We have put your preferred date (13 December) to them. Mr Waldegrave will visit Hungary at the end of May and Mr Younger in September.

Mr Pozsgay will be accompanied by the Hungarian Ambassador, Dr Domokos, and an interpreter. I attach personality notes.

*Yours ever,*

*R. H. T. Gozney*  
(R H T Gozney)  
Private Secretary

C D Powell Esq  
PS/10 Downing Street

POZSGAY, IMRE

Minister of State, General Secretary of the People's Patriotic Front (PPF) since 1982 and Politburo member since May 1988.

Born in 1933, Pozsgay has been a Party member since 1950. In 1965 he became Head of the Agit-Prop Department of a County Party Committee. In 1970 he took over the post of Deputy Head of the Agit-Prop Department of the Central Committee, and subsequently became Deputy Editor-in-Chief of the Party's theoretical journal. Having also worked as a television interviewer, he was appointed Deputy Minister of Culture in 1975. He was promoted to Minister in 1976 and added Education to his portfolio in 1980.

Since becoming Minister of State, Pozsgay has been at the forefront of moves towards political reform. He is now one of the most popular members of the leadership.

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He and his wife both seem to speak only Russian apart from Hungarian. He visited the UK in November 1986.

DOMOKOS, MÁTYÁS DR

Ambassador of the Hungarian People's Republic.

Dr Domokos has been Ambassador to Britain since September 1984 and is also accredited to the Republic of Ireland.

He was born on 28 October 1930 in Hungary. An economist by training, Dr Domokos worked in the Foreign Trade Ministry until 1974, when he joined the Ministry of Foreign affairs. He was Ambassador to the UN in Geneva from 1974 - 1979, then Head of the MFA's Department for International Organisations, dealing inter alia with multi-lateral disarmament, from 1979 - 1984. As Ambassador in London Dr Domokos has showed himself determined to get results.

He is married with one daughter and speaks excellent English.

cc Byke up.

PRIME MINISTER

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MEETING WITH MR POZSGAY

You are to see Mr Pozsgay, the Hungarian Deputy Prime Minister and the leading reformer in Hungary, on Tuesday. He will also attend the 'Britain Salutes Hungary' festival with you.

Full background is in the PCO letter and our Ambassador's telegram. The main purpose of the meeting is to hear first hand how he sees the prospects for reform and to reassure him of our continuing support for what is being done in Hungary. The Hungarians feel the Poles are getting more attention and reward for their reforms, even though they have been implementing change for much longer.

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He will also want to be reassured that we do not go along with some of the ideas being aired in Washington for dealing with Eastern Europe (the Kissinger plan). You can tell him that we have argued against them and you think it is unlikely that the Americans will in fact follow this course. You might also tell him something about your discussions with Mr Gorbachev.

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C.P.T.

CHARLES POWELL  
21 April 1989

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MY TELNO 179 : POZSGAY'S MEETINGS WITH MINISTERS : BRIEFING

SUMMARY

1. KEY TO POZSGAY'S APPROACH IS CURRENT REVIEW OF WESTERN POLICY. KEEN TO ENSURE THAT PROCESS ON REFORM IN HUNGARY IS FULLY RECOGNISED. INCREASING STRAIN ON BALANCE OF PAYMENTS. POLITICAL REFORM PROCESS STILL MOVING FORWARD RAPIDLY.

DETAIL

2. THE KEY TO POZSGAY'S APPROACH IS LIKELY TO BE THE PRESENT REVIEW OF WESTERN POLICY TOWARDS EASTERN EUROPE IN THE LIGHT OF PRESIDENT BUSH'S SPEECH ON 17 APRIL, AND DISCUSSIONS WITHIN NATO AND THE EUROPEAN COMMUNITY. THE HUNGARIANS ARE KEEN TO ENSURE THAT THE IMAGINATIVE BLEND OF POLITICAL SUPPORT AND PRACTICAL HELP PROPOSED BY PRESIDENT BUSH FOR POLAND (QUITE CORRECTLY IN THE HUNGARIAN VIEW) SHOULD ALSO BE APPLIED, ON A CASE BY CASE BASIS, TO HUNGARY. THEY CONSIDER THAT, DESPITE THE DIFFERENT HISTORICAL BACKGROUNDS, THE REFORM PROCESSES IN BOTH COUNTRIES ARE ADVANCING AT ROUGHLY THE SAME PACE AND IN THE SAME DIRECTION.

3. THE HUNGARIAN GOVERNMENT'S MOST IMMEDIATE CONCERN IS THE CURRENT STATE OF THE ECONOMY, ON WHICH THE FATE OF THE REFORM PROCESS WILL LARGELY HINGE. THE BALANCE OF PAYMENTS DEFICIT FOR THE FIRST QUARTER OF THIS YEAR WAS 600 MILLION DOLLARS AGAINST A PROJECTED 500 MILLION DOLLARS FOR THE WHOLE YEAR. THIS WAS LARGELY DUE TO A MISMANAGED ANNOUNCEMENT OF HIGHER CUSTOMS DUTIES TEN DAYS IN ADVANCE, PROMPTING OVER ONE MILLION HUNGARIANS TO FLOCK TO AUSTRIA TO SPEND HARD CURRENCY HOLDINGS. PRODUCTION IS STILL STAGNATING AND THE INFLATION RATE IS RISING, FUELLED BY REDUCED CONSUMER PRICE SUBSIDIES AND TWO DEVALUATIONS IN THE LAST MONTH. THE GOVERNMENT HAS BEEN SEVERELY CRITICISED FOR THE CUSTOMS FIASCO, FOR SHARP INCREASES IN MEDICINE CHARGES AND AN ABORTIVE MOTORWAY TOLL SCHEME.



4. THE FIRST QUARTER'S RESULTS WILL PLACE A HEAVY STRAIN ON THE BALANCE OF PAYMENTS PROSPECTS FOR THE WHOLE YEAR, GIVEN HUNGARY'S SUBSTANTIAL DEBT SERVICE REPAYMENT OBLIGATIONS (CLOSE TO 3 BILLION DOLLARS THIS YEAR). THE HUNGARIANS HAVE ALWAYS MAINTAINED THEIR DEBT REPAYMENTS, AND ARE STILL SET AGAINST RESCHEDULING. YET FOR THE FIRST TIME REFERENCES ARE BEING MADE TO THE 1982 LIQUIDITY CRISIS WHEN THE BANK OF ENGLAND MASTERMINDED A SHORT-TERM RESCUE OPERATION THROUGH THE BIS. WHILE GOVERNMENT LEADERS HAVE NOT SUGGESTED THAT THE PROBLEM IS APPROACHING THE SERIOUSNESS OF 1982, THE PRESENT POSITION IS CLEARLY CAUSING INCREASING ANXIETY.

5. POZSGAY'S VIEWS ON THE INTERNAL SCENE REFLECT HIS OWN PARTICULAR POSITION AS THE COUNTRY'S LEADING REFORMER. THE POLITICAL REFORM PROCESS IS STILL MOVING FORWARD RAPIDLY TOWARDS THE PARLIAMENTARY ELECTIONS DUE NEXT YEAR, WHICH SEEM LIKELY TO CONTAIN AT LEAST A SIGNIFICANT ELEMENT OF FREE VOTING. THE CONSTITUTIONAL LEGISLATION IS UNDER URGENT PREPARATION. A MAJOR GOVERNMENT RESHUFFLE IS DUE IN MAY. YET POZSGAY PROBABLY UNDERSTATES THE DIFFICULTY OF PRESSING AHEAD WITH THE AMBITIOUS PROGRAMME WITHOUT PROVOKING A PARTY SPLIT. WHILE THE PARTY HAS NOW FORMALLY ABANDONED DEMOCRATIC CENTRALISM, AND IS ALLOWING PLATFORM FREEDOM FOR DIFFERENT VIEWS, GROSZ RECENTLY DENOUNCED THE NEW REFORM GROUPS NOW SPRINGING UP WITHIN THE PARTY. IT WILL ALSO NOT BE EASY TO ENSURE THAT A NEW PARTY CONFERENCE COMES OUT UNEQUIVOCALLY FOR REFORM. POZSGAY IS RIGHT TO ARGUE THAT WITH THE REFORMERS IN THE FOREFRONT THERE WOULD BE A BETTER CHANCE OF REACHING AN ACCORD WITH THE OPPOSITION PARTIES, BUT SO FAR INTRANSIGENCE ON BOTH SIDES HAS PREVENTED AGREEMENT. WHILE THIS TIME-CONSUMING PROCESS CONTINUES, THE ECONOMY IS COMING UNDER INCREASING STRAIN.

6. AGAINST THIS BACKGROUND, THE HUNGARIANS ARE LOOKING FORWARD IN THE FIRST INSTANCE FOR AN ASSURANCE THAT THE WEST'S CASE BY CASE APPROACH FULLY RECOGNISES THE PROGRESS HUNGARY HAS ALREADY MADE. IN PRACTICAL TERMS THIS MEANS RENEWED EXPRESSIONS OF SUPPORT FOR HUNGARIAN REFORM FROM WESTERN GOVERNMENTS AND THE EC WHEN EASTERN EUROPE IS UNDER DISCUSSION, CONTINUED UNDERSTANDING IN THE IMF AND IBRD, FLEXIBILITY OVER QUOTAS IN THE EC, PLUS CONSTRUCTIVE ENGAGEMENT IN THE FORM OF INVESTMENT, TRADE AND THE TRANSFER OF MANAGEMENT SKILLS. IN THE LONGER TERM THE HUNGARIANS ARE PROBABLY WONDERING ABOUT A MODIFIED BRADY PLAN FOR POLAND AND HUNGARY (DESPITE THE OBVIOUS ANOMALIES) AND SOME KIND OF WESTERN INVESTMENT PACKAGE ON THE LINES OF THE AMERICAN (PRIVATE

SECTOR) HUNGARY FUND. FINALLY, IF THE LIQUIDITY SITUATION TAKES A SHARP TURN FOR THE WORSE, THEY MAY LOOK FOR A REPEAT OF THE 1982 EXERCISE. I DOUBT IF POZSGAY WILL ARTICULATE ALL THESE CONCERNS SO CLEARLY, BUT THEY WILL BE AT THE BACK OF HIS MIND.

7. IN THE DISCUSSIONS, I SUGGEST THAT MINISTERS MIGHT MAKE THREE BASIC POINTS: REAFFIRMATION OF SUPPORT FOR THE REFORM PROCESS: STRONG ENCOURAGEMENT FOR A MODERATE ATTITUDE BY BOTH SIDES TO ALLOW AGREEMENT BETWEEN PARTY AND OPPOSITION: THE NEED FOR A HEIGHTENED SENSE OF URGENCY ON THE PART OF THE GOVERNMENT IN IMPLEMENTING REFORM MEASURES SO THAT THE PRESENT IMF PROGRAMME CAN BE PROLONGED TO PROVIDE AN EFFECTIVE MEDIUM-TERM ECONOMIC FRAMEWORK.

APPLEYARD

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DEPARTMENT OF HEALTH AND SOCIAL SECURITY

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Telephone 01-210 3000

*From the Minister of State for Social Security and the Disabled*

Stephen Wall Esq  
Private Secretary to  
The Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State for Foreign & Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing Street  
LONDON  
SW1A 2AL

COO  
2076

19<sup>th</sup> April 1989

Dear Stephen,

INTERNATIONAL PETO INSTITUTE: BUDAPEST, HUNGARY

The Hungarian Ambassador, Dr Matyas Domokos today called upon Mr Scott to deliver the attached letter from Dr Peter Medgyessy, the Hungarian Deputy Prime Minister.

The letter concerns the plans for the new International Peto Institute in Budapest, and also refers to the recent talks between the Prime Minister, the Foreign Secretary and Dr Varkonyi, the Hungarian Foreign Minister. Mr Scott has asked me to forward a copy to you for your information.

I am copying this letter to Charles Powell at No 10 and also to the Private Secretaries to Kenneth Baker, Malcolm Rifkind, Peter Walker, Tom King and Kenneth Clarke.

Yours sincerely  
Andrew Brant

ANDREW BRANT  
Assistant Private  
Secretary

Mr. Nicholas Scott, MBE, JP, MP  
Minister of State  
Department of Social Security  
L o n d o n

Dear Mr. Scott,

I am pleased to inform you that in accordance with the decision of the Council of Ministers of the Hungarian People's Republic and in harmony with the talks carried out between the representatives of the Hungarian and the British Governments I held an international press conference on March 14, 1989 where I made our decisions and ideas concerning the establishment of an International Pető Foundation as well as an International Pető Institute public. For your information I enclose a copy of the briefing papers and documents distributed at the international press conference.

I highly appreciate the message you conveyed to me before the press conference. I have informed the journalists about that, too. I am convinced that its content has also contributed to raising the international interest as well as to strengthening the trust of the public opinion, British public opinion in particular, towards the intention that those in need in other countries of the world should also be provided with the proper level of services of conductive education. Please convey my thanks to all those in the British Government who promote the fulfilment of our common objectives.

I have been informed by Dr. Péter Várkonyi, Minister for Foreign Affairs that during his talks in London, on March 15-16 his negotiating partners on every level have shown interest for the establishment of the Pető method in Great Britain. I find it particularly important that Prime Minister Margaret Thatcher and Secretary of State for Foreign and Commonwealth Affairs Sir Geoffrey Howe have assured our Foreign Minister of the intention of the British Government to participate through the International Pető Foundation in the establishment of the International Pető Institute.

May I inform you, Minister of State, that we will make a decision soon about the site for the new Institute. After that we will be able to prepare the plan documentation and the budget. I will immediately inform you as soon as they are ready.

As far as the selection of the site is concerned a new possibility has emerged since the visit of the Hungarian Government delegation to London, in January. The Foundation would like to build in a site of appropriate size for the International Institute in one of the most beautiful parts of Budapest, on the territory of the Csillebérc Pioneer's Camp. This solution would significantly decrease the costs and the time for the construction, since the site is well infra-structured and some of the already existing buildings can also be utilised. In this case the capacity of the Institute could be enlarged faster, however the costs of the project would emerge sooner. A significant part of the investment cost would be needed already this year and the remaining amount by the end of 1990.

We are looking forward to receive the official British answer concerning the British participation in the establishment of the International Pető Institute. It is needed partly because of the possible speeding up of the construction and also to enable us to make judgements on the proposals and initiatives of British institutes and groups showing continuous interest towards our cooperation. The Board of Trustees of the International Pető Foundation have informed me that the Birmingham Institute had also put forward a proposal for long term cooperation, but the Board is not in a position to conclude an agreement before the final decision of the British Government is made. I think it is - in the British interests as well that the trustees of the Foundation received a satisfying answer from the British partner. We have registered enquiries from other parts of the United Kingdom, namely from Scotland and from Northern Ireland, too.

Minister of State,

May I thank you again for your constructive cooperation in promoting the case of the International Pető Institute. On the basis of the supportive promises of Mrs. Thatcher and Sir Geoffrey Howe expressed to our Foreign Minister, I would like to ask for your assistance to bring about a final governmental decision about the British financial participation as soon as possible.

Please accept the assurances of my highest consideration.

Sincerely yours,

(Dr. Péter Medgyessy)



MAGYAR NÉPKÖZTÁRSASÁG MINISZTERTANÁCSA  
ELNÖKHELYETTESE

Nicholas Scott urnak,  
Szociális ügyek Minisztériumának  
államminisztere

Kedves S c o t t Ur!

Tájékoztatom, hogy a Magyar Népköztársaság Minisztertanácsa határozatának megfelelően, a magyar és a brit kormány megbízottai közt folyt tárgyalásokkal összhangban, 1989. március 14-én nemzetközi sajtóértekezletet tartottam, melyen ismertettem a Nemzetközi Pető Alapítvány, illetve a Nemzetközi Pető Intézet létrehozásával kapcsolatos döntéseinket, elképzeléseinket. Mellékelem az Ön tájékoztatására a sajtókonferencián közreadott tájékoztatók és dokumentumok egy-egy példányát.

Nagyra értékeltem azt az üzenetet, melyet a konferenciát megelőzően juttatott el nekem. Ezt is ismertettem a sajtótájékoztatón. Meggyőződésem, hogy az abban foglaltak is hozzájárultak a nemzetközi érdeklődés felkeltéséhez és erősítették - mindenek előtt a brit - közvélemény bizalmát az iránt, hogy a rászorultak belátható időn belül a világ más országaiban is részesülhetnek a konstruktív nevelés, megfelelő színvonalu szolgáltatásaiban. Kérem, továbbítsa köszönetem a brit kormányzaton belül mindazoknak, akik munkájukkal elősegítik a közös célunk megvalósítását.

Dr. Várkonyi Péter külügyminiszter arról tájékoztatott március 15-16-án, Londonban folytatott megbeszéléseivel kapcsolatban, hogy tárgyalópartnerei minden szinten érdeklődést mutattak a Pető-módszer nagy-britanniai meghonosítása iránt. Különösen fontosnak tartom, hogy Margaret Thatcher miniszterelnök asszony és Sir Geoffrey Howe, külügy- és nemzetközösségi miniszter biztosították külügyminiszterünket a brit kormány azon szándékáról, hogy részt vesznek a Nemzetközi Pető Alapítvány útján a Nemzetközi Pető Intézet létrehozásában.

Tájékoztatom, Államminiszter Ur, hogy az új Intézet létesítéséhez szükséges terület ügyében a döntés rövidesen megtörténik. Ezt követően módunk lesz az előzetes tervdokumentáció és költségvetés elkészítésére. Ezekről is haladéktalanul tájékoztatni fogom.

A terület kiválasztására vonatkozóan a magyar kormányküldöttség januári, londoni tárgyalása óta új lehetőség merült fel. Budapest egyik legszebb részén, a Csillebércei Uttörőtábor területén kíván az Alapítvány a Nemzetközi Intézet számára megfelelő nagyságu területet beépíteni. Ez a megoldás jelentősen csökkenthetné a költségeket és a beruházás megvalósításához szükséges időt, mivel a terület teljesen közművesített és egyes, már meglévő épületek is hasznosíthatók. Ez esetben az Intézet fogadó kapacitása gyorsabban lenne bővíthető, ugyanakkor a létesítés költségei is előbb jelentkezének. Ez esetben azonban a beruházási összeg jelentős részére még ez évben, a teljes összegére pedig 1990 végéig szükség lenne.

A Nemzetközi Pető Intézet létrehozásában való brit részvétellel kapcsolatban várjuk a brit hivatalos választ. Ezt egyrészt a beruházás esetleges felgyorsulása, másrészt az együttműködés iránt folyamatosan érdeklődő brit intézetek és csoportok javaslatainak, kezdeményezéseinek elbírálása teszi



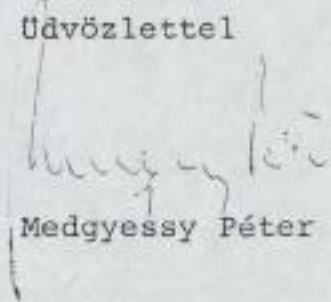
szükségessé. A Nemzetközi Pető Alapítvány Kuratóriuma arról tájékoztatott, hogy a Birminghami Intézet is hosszú távu megállapodási javaslatokat tett, azonban nincsenek abban a helyzetben, hogy a brit kormány végső állásfoglalása előtt e megállapodást megköthessék. Ugy vélem, hogy a brit érdekek is azt kívánják, hogy az Alapítvány kezelői megnyugtató módon választ kapjanak a brit partnertől. Más egyesült királyságbeli, skót, észak-ír érdeklődést is számon tartunk.

Államminiszter Ur!

Még egyszer szeretném megköszönni eddigi konstruktív közreműködését a Nemzetközi Pető Intézet ügyének előremozdításában. Kérem, hogy - építve arra a támogató ígéretre is, melyet Thatcher asszony és Sir Geoffrey Howe fejezett ki külügyminiszterünknek - segítse elő, hogy minél előbb végleges kormányzati döntés szülessen a brit pénzügyi részvételről.

Kérem, fogadja nagyrabecsülésem.

Üdvözlettel

  
dr. Medgyessy Péter

PRESS RELEASE

PRESS CONFERENCE HELD IN BUDAPEST  
ON MARCH 14th 1989

## Opening Speech of Dr. Péter Medgyessy Deputy Prime Minister

It is an inexpressible grief for a family or friends to see a child disabled. Unfortunately it is not an uncommon problem these days. Nearly 20 million people in the world are disabled due to the damage to their central nervous system. To improve their condition, Dr. András Pető, pedagogue developed a method that can make a great number of children in the Pető Institute in Budapest to live a self-reliant life and to learn.

The Hungarian Government is proud of being in possession of such an intellectual asset. Being aware of this we established a nationwide network in Hungary that can totally meet the needs of the nation.

Results based on the method applied in the Pető Institute are internationally recognized. Not only Hungarian children take their first independent steps in the present Pető Institute but children from other countries, too. Approximately 100 children from Britain, the Federal Republic of Germany, Israel as well as Arab and other countries are presently being educated in the Institute. Demands greatly outnumber the places available. Several thousand children from 23 countries are on the waiting list for assessment and/or education. Excessive demands are jeopardizing the quality-level of work, thus the success of the education itself. This is why there is no alternative to expanding the present Pető Institute.

The Hungarian Government feels it has a moral duty to open the doors of the Institute and do everything in its power for the worldwide dissemination of the method of conductive pedagogy. Therefore the Council of Ministers of the Hungarian People's Republic initiates the construction of a new International Pető Institute in Budapest that is larger, better equipped and more suitable to meet current and future demands. This expansion focuses on two immediate objectives: admission of a much greater number of children on one hand and high-level training of conductor students on the other.

- Training of conductors is continuing in the Pető Institute and takes four years. The training leads to a degree which is the highest qualification of its kind in the world. The new Institute will be operational with full capacity by 1992 at the latest. Taking into consideration the four year training period the adequate number of conductors will be available by that time. This is an indispensable precondition of the education of a significantly higher number of both in- and outpatient disabled children. A permanently higher level of conductor training is a long term condition for further expansions.

The International Pető Institute is ready to open its doors to all those who wish to participate in the use, development and dissemination of the Pető-method. The Institute - with its professional expertise and support - is at the disposal of other countries in establishing and operating institutes of their own applying the Pető-method.

The establishment of the International Pető Institute requires significant financial resources and international co-operation. Therefore the Hungarian Government launched an International Foundation. It has granted to the Foundation the right to use the conductive education method as an intangible asset and further endows the Foundation with the present Pető Institute (including its buildings, site, fittings and equipment) as well as the piece of land for housing the new International Pető Institute. The Hungarian Government appeals to Governments, institutions and individuals of other countries to contribute their donations to the creation of the new International Pető Institute as well as to the earliest possible implementation of the noble aims held by the Institute. The property (assets) of the Foundation is currently being handled by the seven-member Board of Trustees. Its administration and management may be monitored by the benefactors who are entitled to control the appropriate use of their donations. The composition of the Board of Trustees is not considered definite; it can be modified later according to the interests of the International Pető Foundation and the International Pető Institute.

The Hungarian Government has already expended great efforts to meet the international demand and to facilitate the dissemination and development of the method. We expect that the interest will continue to grow and institutes will be established in other countries as well, with the desire to apply the Pető-method. We believe that such an international interest can only be appropriately handled by a scientific society. Therefore we shall support the establishment of an International Pető Society. Its duty must be the evaluation and dissemination of the achievements in conductive education in Hungary and elsewhere; the protection and guarantee of the professional quality of the Pető-method and that of conductor training and co-ordination of the international research work. The Society should be the international centre for further advancement and training.

We hope our aim is made clear: we wish to facilitate that anyone in the world can benefit from conductive education. In our efforts we count on the co-operation of all interested and generous supporters.

We kindly request the representatives of the press and the mass media in general

- to publish the Appeal;
- to make the decision of the Hungarian Government known worldwide;
- to disseminate information on the Institute; and
- mobilize as many supporters as possible for the establishment of the International Pető Institute with the aim of accelerating the implementation of our common objective.

PRESS RELEASE

PRESS CONFERENCE HELD IN BUDAPEST  
ON MARCH 14th 1989

**APPEAL**  
**of the Council of Ministers of the Hungarian People's Republic**

The Council of Ministers of the Hungarian People's Republic

- with respect to the fact that more than 20 million people in the world are disabled due to damage to their central nervous system;
- recognizing that it was Dr. András Pető, pedagogue who had created the most effective method in the world – the Pető Conductive Education – for improving the condition of these people that is successfully applied in the Pető Institute in Budapest;
- recognizing that according to the experiences gathered in Budapest 80 out of 100 children in the 3 to 5 year age-group – all of whom have been declared unreceptive by other methods – become apt to learn and to live an independent life in their own community;
- being aware of the responsibility deriving from the international reputation of the Budapest Pető Institute based on the experience of a great number of visitors from all over the world to the Institute – taking into consideration that in addition to the Hungarian children, children from other countries are educated there, and many more would come since several thousand children are on the waiting list from 23 countries – and the demand for places is steadily increasing;
- guided by the sense of duty to enable as many children as possible who are in need all over the world to benefit from conductive education by making the Pető-method available worldwide as soon as possible.

initiates the creation of an International Pető Institute in Budapest that can meet future demands.

The International Pető Institute is

- to be constructed in a suitable environment at the latest by 1992;
- to provide the opportunity for a great number of disabled persons from all over the world to gain admission;
- to enrol trainee-conductors from all interested countries, who will – as a result of a four-year training course – obtain a degree;

- ready to open its doors to those who wish to participate in the further development, research, and application of the Pető-method as well as making it available worldwide;
- keen to support the setting up and operation of institutes applying the Pető-method in other countries.

In order to finance the construction and operation of the International Pető Institute, the Council of Ministers of the Hungarian People's Republic has launched the International Pető Foundation – trusting that it will provide a solid basis for starting the construction and simultaneously stimulate others sharing this noble aim, it has granted to the Foundation the following:

- all rights of application of the conductive education method as a highly valuable intellectual product;
- the site and the building as well as the fixtures, fittings and equipment of the Pető Institute currently applying the method;
- the financial support to be rendered to the Pető Institute until the completion of the International Pető Institute;
- the site to house the International Pető Institute.

The total value of the above is – according to expert estimates – approximately 140 million US dollars. An additional 60 million US dollars are needed for the completion of the International Pető Institute in the form of donations by subscribers and would-be benefactors. Governments, institutions and individuals are equally welcome to join the Foundation, all those who wish to promote the establishment of the International Pető Institute.

The Council of Ministers of the Hungarian People's Republic therefore

- appeals to the Governments, institutions and individuals and invites them to join the International Pető Foundation and contribute to the earliest possible implementation of the noble aspirations of the Institute;
- respectfully requests those who wish to join the Foundation should notify their intention to the International Pető Institute (address: Budapest XII., Kútvolgyi út 6.), or send their donations directly to the foreign currency account of the International Pető Foundation, Nr.: 050 1112 01401 144 at the Hungarian Credit Bank, or to the Forint account Nr.: 215-90200-6209 at the same Bank.

PRESS RELEASE

PRESS CONFERENCE HELD IN BUDAPEST  
ON MARCH 14th 1989

**Council of Ministers'  
Decision**

on the Establishment of the International András Pető Foundation

1. The Council of Ministers supports the initiative to establish the International Pető Institute with the aim of creating facilities for the education and teaching of a substantially increased number of disabled children from Hungary and other countries as well as for the necessary conductor training on a high level according to the method devised by Dr. András Pető, pedagogue – and already practised in the Hungarian Institute bearing his name. In order to implement this aim the Council of Ministers establishes the International András Pető Foundation.
2. As a Hungarian contribution the Council of Ministers grants to the Foundation the right to use the Conductive Education method as an intangible asset and further endowes the Foundation with
  - the site, building, fittings and equipment of the Pető Institute practising the method at present;
  - the site to house the International Pető Institute.
3. A Co-ordinating Committee will undertake the task of organization relating to the establishment of the International Pető Institute and the International András Pető Foundation. The Council of Ministers designates Mrs. Andrea Deák to be the Chairman of the Committee; members are to be nominated by the Deputy Prime Minister. The Co-ordinating Committee will operate until the opening of the International Pető Institute.
4. The Bureau of the Council of Ministers supervises the International András Pető Foundation on behalf of the Council of Ministers.
5. The relevant Letter of Foundation is attached to this Decision.

Budapest, 4th November, 1988

DR. PÉTER MEDGYESSY  
Deputy Prime Minister

PRESS RELEASE

PRESS CONFERENCE HELD IN BUDAPEST  
ON MARCH 14th 1989

**LETTER OF FOUNDATION**

The Council of Ministers of the Hungarian Peoples' Republic (herein-after called the Founder) decided to establish a Foundation in order to internationally extend and develop the method of conductive pedagogy as well as to further improve the level of conductive education under the following conditions:

1. The name of the foundation: International András Pető Foundation (herein-after called the Foundation).
2. Aims of the Foundation:
  - a) the financing of the construction of the new International Pető Institute located in Budapest in order to satisfy international demands,
  - b) providing material support for the further development of the work relating to therapy, education, training and research to be carried out in the International Pető Institute,
  - c) providing material support for the activity to be carried out by the future International Pető Society relating to the international recognition and publicity of the conductive education method as well as to scientific research,
  - d) providing material support for people in need of conductive education as well as for those who wish to learn the conductive education method according to the conditions stipulated by the Board of Trustees and those joining the Foundation as benefactors,
  - e) accepting material resources necessary for the realization of aims set by the Foundation as well as enhancing its assets through investments.
3. The Foundation's initial capital assets are worth 140 million US dollars which the Founder will put at the disposal of the Foundation within 30 days from the publication of the Decision declaring its establishment according to the following particulars:
  - the conductive education system as a valuable intellectual product;
  - the site, building, fittings and equipment of the present Pető Institute applying the method;
  - site on which the International Pető Institute will be located.

Financial and material donations – with or without conditions – of Hungarian and other individuals and organizations joining the Foundation at a later stage will become part of the assets of the Foundation in case they are accepted by the Board of Trustees.

The Board of Trustees decides the appropriation of the Foundation's resources according to the stipulations of this Letter of Foundation as well as to the conditions set by the benefactors and agreed by the Board of Trustees.

4. The seat of the Foundation is the International Pető Institute (address: Budapest XII., Kútvölgyi út 6.)
5. The Body representing the Foundation is the Board of Trustees consisting of 7 members nominated and authorized by the Founder and headed by the director of the International Pető Institute. The Board of Trustees acts in line with the rules approved by the Founder.
6. The Founder designates the Pető Institute to be responsible for the management, material and administrative conditions of the Foundation. The Foundation and the Pető Institute will conclude an agreement on the implementation of duties relating to the management.
7. The Foundation is established for an unlimited period of time. In the event of the dissolution of the Foundation, the Pető Institute will receive the nett assets of the Foundation on the condition that these assets will be used for the purpose stipulated in point 2 of this Letter of Foundation.

Budapest, 4th November, 1988

On behalf of the Council of Ministers of the Hungarian People's Republic

DR. PÉTER MEDGYESSY  
Deputy Prime Minister



## PRESS RELEASE

### PRESS CONFERENCE HELD IN BUDAPEST ON MARCH 14th 1989

## The Pető Institute

The launch of conductive education and conductive training are immediately identified with the name of dr. András Pető, a Hungarian pedagogue. He received his complex basic education and initial professional experience in Vienna and later he became consultant or head of several famous Austrian clinics and health institutes. He returned to Hungary in 1938 and on the basis of his studies, experience and child oriented interest started in 1945 the education of motor-disabled children in a carefully integrated system. This new system, i.e. the organisation and implementation of the conductive education program demanded a new form of training. This is why dr. András Pető has in an unprecedented way developed and organised the training of conductors to degree level. He founded his first institute with 80 places in 1950 and the present Pető Institute is a testament of its development.

The aim of conductive education is the complex development of the personality. The method is child, learning and education based. It requires the active co-operation and awareness of the child and it ensures his or her interest and motivation throughout the learning process. The method is considered complex for it involves all that can be expected from the child of the relevant age-group. Movement, speech and mental ability are not separately or consecutively but simultaneously developed by the method that demands social contact and generates emotions. This process is founded on the theory that the motor-disabled child develops and learns in the same way as healthy children do, however appropriate direction and guidance are to be provided for him or her.

Conductive education attaches great significance to the human dimension, i.e. to the interpersonal relationship within the children group and to the relation between the conductor and the child as well as to the relation between the child and parents. It does not use special instruments or machines for its guiding principle is that it is not the environment that must be changed but the disabled should be made capable of adapting themselves to normal conditions. Conductive education is not a rehabilitation technique or a therapy, not even a mere method but it is a system, the success of which is influenced by several factors.

Conductive pedagogy is not magic of course however experiences and results prove that the conductive education method originated in Hungary over a 40 year period is one of the most successful ways of rehabilitating the motor-disabled.

The system devised by Professor Pető has further been developed since his death and it has gained a great number of followers.

The duty of the Institute embraces

- the conductive education of the disabled,
- training of conductors leading to a degree,
- research work relating to conductive pedagogy.

The Pető Institute educates motor-disabled children up to the age of 14 as well as adults whose motor-disorders originate from damage to their central nervous system.

Services provided by the Institute for the disabled are:

- advice: complex examination of the applicants based on the principles of conductive pedagogy and selection of the appropriate form of education for each individual,
- mother assisted or so called "parents' school" group: education of babies and infants with the contribution of their parents,
- after-care group: activity for discharged children attending kindergarten and school with the aim of stabilizing and further stimulating their progress,
- day-care, kindergarten and school groups for children residing in Budapest,
- internal kindergarten and school groups for children residing outside Budapest,
- out-patient groups for disabled adults residing in Budapest.

Hungarian hospitals and clinics guide motor-disabled children from their babyhood according to an organised pattern. 80 percent of the annual 600-700 applicants are under the age of 3. For the time being 500 in-patient children, 1000 out-patients and approximately 100 children and adults from outside Hungary benefit from conductive education.

Records go back more than 20 years. More than five thousand disabled persons have been educated here during this period. Details indicate that the success rate was 85 percent in the age group of six and under, 75 percent in the 6 to 10 year age group and 60-70 percent above the age of ten. It can be considered a success if the child becomes self-reliant, and is apt to integrate himself or herself with his normal surroundings, i.e. kindergarten or school corresponding to the relevant age-group. The average conductive education term is 2 to 3 years, however it is varied to a large extent for education may last from six months up to even 6-8 years. The necessary length of conductive education is basically determined by age, complexity and extent of the damage and intellectual ability. 90-95 percent of the discharged patients maintain the maximum results of their educational level but it largely depends on the local environment and the family.

Essential elements of the conductive education system and important conditions for its successful application are the following:

- to begin the education as early as possible,
- education from babyhood until completion of the process according to stable principles and concepts,
- assistance in adaptation and after-care,
- conductor training,
- complex and structured conductive education programme.

Conductive education and the work of the Institute are internationally known. An increasing number of people from many countries wish to come: during the last three years 967 non-Hungarian patients have been admitted from 52 countries and several thousands are on the waiting list. Hundreds of visitors have participated in courses held by the Pető Institute and 23 conductor trainees from the United Kingdom, the Federal Republic of Germany, Japan and Israel study at the Institute. Graduated conductors from Japan are already practising in their own country. A similar institute is operating in Birmingham, United Kingdom for more than a year with the on-side assistance of Hungarian conductors, based on an agreement between the Hungarian and British Governments. The Pető-method attracts ever increasing interest worldwide ranging from neighbouring Austria to far-away Australia, New Zealand and the United States etc.

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HUNGARY : POLITBURO CHANGES

SUMMARY

1. FOUR POLITBURO MEMBERS SACKED, TWO NEW MEMBERS, SO POLITBURO REDUCED FROM ELEVEN TO NINE MEMBERS. CENTRAL COMMITTEE ENLARGED. NET EFFECT TO STRENGTHEN GROSZ'S CENTRIST POSITION AND TO LEAVE PRESENT POLICIES LARGELY UNCHANGED. NEW PHENOMENON OF REFORM GROUPS WITHIN THE PARTY, AND PROJECTED RALLY IN KECSKEMET ON SATURDAY, CAUSING INCREASING CONCERN OVER RISKS OF AN OPEN SPLIT.

DETAIL

2. FOUR MEMBERS OF THE POLITBURO WERE DISMISSED, AND TWO NEW MEMBERS ELECTED, AT THE CENTRAL COMMITTEE MEETING ON 12 APRIL. THOSE SACKED WERE JANOS BEREZ (IDEOLOGY AND INTERNAL AFFAIRS), CSEHAK (HEALTH AND SOCIAL SERVICES), SZABO (AGRICULTURE) AND LUKACS (PARTY ORGANISATION). THE TWO NEW MEMBERS WERE MIHALY JASSO (53, BUDAPEST PARTY SECRETARY SINCE LAST JUNE) AND PAL VASTAGH (43, CSONGRAD COUNTY PARTY SECRETARY SINCE DECEMBER). VASTAGH WAS ONLY ELECTED TO THE CENTRAL COMMITTEE AT THIS SESSION AND THEN PUT STRAIGHT INTO THE POLITBURO. THE EFFECT OF THE CHANGES IS TO REDUCE THE POLITBURO FROM ELEVEN MEMBERS TO NINE.

3. THE CENTRAL COMMITTEE ALSO EXPANDED ITS OWN MEMBERSHIP BY TEN FROM 110 TO 118. THE TEN NEW CENTRAL COMMITTEE MEMBERS INCLUDE DEPUTY MINISTER LASZLO KOVACS, FOUR PROVINCIAL PARTY SECRETARIES, A BUDAPEST SECRETARY, THE BUDAPEST SECRETARY OF KISZ, THE PARTY SPOKESMAN, AND THE PRESIDENT OF THE CHAMBER OF COMMERCE.

4. THE EXPECTED DISCUSSION OF CHANGES IN THE GOVERNMENT DID NOT TAKE PLACE AND WILL PROBABLY NOW BE POSTPONED UNTIL THE NEXT CENTRAL COMMITTEE MEETING IN MAY. DEPUTY FOREIGN MINISTER KOVACS' ELECTION TO THE CENTRAL COMMITTEE IS A LOGICAL PRELUDE TO HIS BECOMING STATE SECRETARY AS HORN MOVES UP TO REPLACE VARKONYI.

## COMMENT

5. THE SACKING OF BEREZ, CSEHAK AND SZABO HAD BEEN EXPECTED (MY TELNO 159). THE DISMISSAL OF LUKACS HAD BEEN RUMOURED EARLIER BUT STILL CAME AS MORE OF A SURPRISE. HE IS NOW LIKELY TO TAKE OVER AS CHAIRMAN OF THE PARTY'S CONTROL COMMISSION, A LARGELY HONORIFIC POST. NO DECISION HAS BEEN MADE ABOUT BEREZ'S FUTURE THOUGH HE MAY BECOME AMBASSADOR TO MOSCOW. IT LOOKS AS THOUGH CSEHAK WILL RETAIN HER MINISTERIAL POST BUT SZABO SEEMS DESTINED FOR RETIREMENT. THE PROCEDURE FOR THE ELECTION OF THE NEW POLITBURO WAS UNUSUAL IN THAT THE ENTIRE EXISTING POLITBURO RESIGNED AND A NEW ELECTION TOOK PLACE. FOLDESI (GROSZ'S ADVISER) TOLD ME TODAY THAT THIS WAS GROSZ'S TACTIC WHEN SOME OF THE ORIGINAL POLITBURO WHO HAD BEEN SLATED TO GO HAD REFUSED TO RESIGN. GROSZ HAD THEN DEMANDED THAT THE WHOLE POLITBURO RESIGN AND BE PUT UP FOR RE-ELECTION.

6. THERE IS NO CLEARLY DISCERNIBLE PATTERN IN THE CHANGES BUT THE NET EFFECT IS TO STRENGTHEN GROSZ'S CENTRIST POSITION AND TO GET RID OF SOME DEADWEIGHT IN THE POLITBURO. FOLDESI COMMENTED THAT THE MOVES WERE AN INDICATION THAT GROSZ AND POZSGAY WOULD CONTINUE TO WORK TOGETHER IN THE REFORM CENTRE. THE CHANGES WOULD ALSO BRING IN A HIGHER NUMBER OF MUNICIPAL AND PROVINCIAL PARTY SECRETARIES, AN AREA WHERE THE POLITBURO HAS BEEN INCREASINGLY OUT OF TOUCH WITH GRASSROOTS SENTIMENT. BUT THE CHANGES FALL WELL SHORT OF THE MAJOR STRENGTHENING OF THE REFORM GROUP WHICH PRIME MINISTER NEMETH AND OTHERS HAD EARLIER BEEN ENVISAGING. SO THE RESULT IS LIKELY TO BE A CONTINUATION OF PRESENT POLICIES.

7. A NEW ELEMENT WITHIN THE PARTY HAS RECENTLY BEEN THE EMERGENCE OF SO-CALLED REFORM GROUPS WHICH HAVE BEEN PUBLISHING STATEMENTS ATTACKING SOME PARTY POLICIES AND PROPOSING CHANGES. POZSGAY, NYERS AND POSSIBLY PRIME MINISTER NEMETH ARE DUE TO ADDRESS A REFORM GROUP RALLY IN KECSKEMET ON SATURDAY. ACCORDING TO FOLDESI, GROSZ WAS WORRIED IN CASE THESE ACTIVITIES LED TO AN OPEN SPLIT IN THE PARTY, WITH THE HARDLINERS BREAKING AWAY. BUT APPARENTLY GROSZ AND POZSGAY HAVE REACHED A GENTLEMAN'S AGREEMENT THAT THE KECSKEMET RALLY WILL NOT LEAD TO A BREACH WITHIN THE POLITBURO.

APPLEYARD

YYYY

SPD

~~Anast~~



Can you  
grad down  
Woodhouse  
CB

10 DOWNING STREET

~~Anast~~

Charles  
Quite  
agree

See PM's AP  
11/4

note: dwey. it is  
better to have the  
meeting here, as  
we agreed, rather  
than at the  
Barbican.

CDP.



10 DOWNING STREET

~~Charles~~



I have  
spoken to  
Woodrow.

He was pleased  
to hear that  
Mr Pozsgay  
was coming to  
No 10

Amarda  
12/4

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file  
apc

10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

11 April 1989

HUNGARY

I wrote to you yesterday about the approach from the Hungarian Ambassador asking the Prime Minister to see Mr Pozsgay. The Prime Minister has now agreed to this and will see him at 1645 on 25 April. I should be grateful for briefing.

BS11

Charles Powell

Richard Gozney, Esq.,  
Foreign and Commonwealth Office.

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KK



CAP (1)

Prime Minister

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

I hope you  
10 April 1989

could agree to  
X. He is the  
leading reformer  
in Hungary.

CDD  
1976

Dear Lilland,

The Hungarian Ambassador came to see me this morning on a couple of matters. First, he wanted to follow up on the question raised by the Hungarian Foreign Minister of a possible visit by the Hungarian Prime Minister in the autumn. Mr. Nemeth wondered whether a visit towards the end of October or early November might be possible. He had in mind only a brief working visit. I said that I would look at these dates although it tended to be a very busy time for the Prime Minister. An alternative might be nearer the middle of December. You might like to discuss possibilities with Amanda Ponsonby. I think all that is needed from the Prime Minister's point of view is an hour or so of talks and a meal.

Second, the Ambassador mentioned the visit later this month of Mr. Pozsgay for the "Britain Salutes Hungary" reception. He understood that the Prime Minister would be attending that reception which was very much appreciated. It would be enormously helpful if the Prime Minister could also give Mr. Pozsgay half an hour of her time. I said that I would look into this. We could in fact find time for a short meeting in the late afternoon of 25 April. Are you content for me to offer this?

X

Yes - I told  
W-W that I could  
do it immediately  
following the reception - they  
will have to find a  
private room at the Barbican

Yours sincerely  
C. D. Powell

Richard Gozney, Esq.,  
Foreign and Commonwealth Office.

mb



file



10 DOWNING STREET

LONDON SW1A 2AA

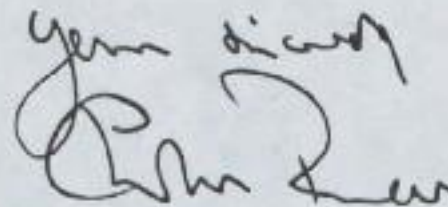
From the Private Secretary

10 April 1989

Dear L. Kent,

The Hungarian Ambassador came to see me this morning on a couple of matters. First, he wanted to follow up on the question raised by the Hungarian Foreign Minister of a possible visit by the Hungarian Prime Minister in the autumn. Mr. Nemeth wondered whether a visit towards the end of October or early November might be possible. He had in mind only a brief working visit. I said that I would look at these dates although it tended to be a very busy time for the Prime Minister. An alternative might be nearer the middle of December. You might like to discuss possibilities with Amanda Ponsonby. I think all that is needed from the Prime Minister's point of view is an hour or so of talks and a meal.

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Yours sincerely  


(C. D. POWELL)

Richard Gozney, Esq.,  
 Foreign and Commonwealth Office.



ELIZABETH HOUSE  
YORK ROAD  
LONDON SE1 7PH  
01-934 9000

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

- 5 APR 1989

*Sam Geoffrey*

PETO INSTITUTE

Thank you for your recent note about the Peto Institute.

As you will know our line in the interdepartmental discussion has been that:

- a. we are impressed with the potential of conductive education and support the moves to establish it as an option in the UK;
- b. we want to see the Birmingham Institute firmly established;
- c. before long, we want British conductors to be able to be trained in the UK;
- d. we want to ensure the continued support and co-operation of the Peto Institute for all of the above and for the successful conclusion of the DES research project into the efficacy of conductive education in the UK which is due to report in 1992.

We recognise that these objectives are interdependent and that to secure them requires the support of the Hungarians. We also accept that conductive education has become an important part of Anglo-Hungarian relations. I can assure you that we shall continue to support the present negotiations over the International Institute although I must, in all fairness, point out that it has not been possible for the DES to make a financial contribution at the present time.

John Butcher took the opportunity of expressing personally our support for the new Institute and our wish to work co-operatively with the Hungarians during the Hungarian Foreign Minister's recent courtesy call here. Like yourself, he has been impressed by all he has heard about conductive education and is looking forward to visiting the Peto Institute later this year.

*John Butcher*  
*John Butcher*

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Mr SANDERS  
Miss PERSON  
Mr DGF - AUS.  
Mr [unclear]  
Mr [unclear]

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State for Foreign Affairs  
Foreign & Commonwealth Office  
King Charles Street  
London  
SW1A 2AH

28 March 1989

Dear Foreign Secretary,

PETO INSTITUTE

Thank you for the note about the Peto Institute which you passed to me in Cabinet last Thursday.

I know you will appreciate that the Treasury cannot make an informed judgement about the therapeutic and educational merits of conductive education. In the first instance this must be for health and education departments and their professional advisers. You will be aware however that there is by no means unanimity about its value. Clinical opinion, both inside and outside government, is mixed, and I gather the physiotherapists' professional body are particularly sceptical. We still await results from the DES-funded evaluation of the Birmingham development. Nor have I yet seen any firm proposition from the Hungarians.

Nevertheless, as I said in my letter of 17 January to Nick Scott, I would not object if one or more of the departments directly concerned were to decide that some of their money should be put into this venture. Department of Health, for example, have a centrally-financed health budget of well over £½ billion in 1989-90. You will understand my drawing the conclusion that colleagues are not fully convinced of the value of conductive education if they are not prepared to find resources from their existing budgets.

There is a further consideration. Making money available from the Reserve specifically for this purpose would indicate that the Government attached particular importance to the project. But I think that would send quite the wrong signal while the research into its efficacy is inconclusive and while professional opinion remains divided. A high profile addition for this purpose could attract criticism and adverse comparison with other, perhaps higher priority, projects.

So I hope you will see that this is not a case of the Treasury blocking worthwhile expenditure. But I would need to see clearer evidence of the merits - and indeed evidence that our colleagues are more convinced than their actions so far have suggested - before I could contemplate authorising new money.


Yours sincerely,

P. Wainwright

PP JOHN MAJOR

[Approved by the Chief Secretary and signed in his absence]

# **A** The National Archives

DEPARTMENT/SERIES ..... <i>PREM 19</i> ..... PIECE/ITEM ..... <i>3034</i> ..... (one piece/item number)	Date and sign
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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

16 March 1989

Dear Richard,

## PRIME MINISTER'S MEETING WITH THE HUNGARIAN FOREIGN MINISTER

The Prime Minister had a talk this morning with the Hungarian Foreign Minister. Dr. Varkonyi was accompanied by the Hungarian Ambassador and a notetaker. H.M. Ambassador, Budapest was also present.

By far the greater part of the discussion was about the situation in Hungary. The Prime Minister wanted to hear about the exciting developments there. The Soviet Union was experiencing even greater difficulties than forecast with its reforms, because there was no tradition of enterprise. She thought that Mr. Gorbachev was relying on Hungary to demonstrate that reform could produce benefits.

Dr. Varkonyi said that Hungary was going through a difficult period of transition. Political and economic reforms were going ahead simultaneously and great changes in attitude were required of everyone. Hungary was firmly committed to a multi-party system although, he added rather cautiously, the government would not itself establish additional parties. A full multi-party system would probably only operate in time for the 1995 elections. Major changes were also in hand in the economy. Subsidies were being reduced. Private firms could employ up to 500 people, which meant in effect there was no effective limit on them. Provision had been made for equal treatment for state-owned firms, co-operatives, private firms and firms in foreign ownership. Hungary was seeking foreign capital for investment. What it all amounted to was the establishment of a new Hungarian model. Even those involved in creating it did not know exactly where it would lead beyond the general goals of a mixed economy, a multi-party system and a clear separation of powers between the executive and judiciary. Everything was moving much more quickly than expected.

Dr. Varkonyi continued that there was some opposition from those who were unwilling to take responsibility and ordinary people were experiencing the hardships of change before the benefits. But he was confident that the government could keep their support. The main problem was to escape from

SA

the economic bind. This ought to be possible. Hungary had a good workforce, good managers, a good tradition of entrepreneurship and incentives. On the external side all remaining physical barriers on the border between Hungary and Austria were being removed. Budapest hoped to host the 1995 World Exhibition jointly with Vienna. Dr. Varkonyi added that Hungary was very grateful for the Prime Minister's help in securing its agreement with the European Community.

The Prime Minister asked what impact the changes in Hungary were having in other Warsaw Pact countries. The situation in Rumania was dreadful. But there was no doubt interest on the part of some of the others. Dr. Varkonyi said that change in Czechoslovakia was very slow. The system in the GDR was very different from Hungary: he did not expect any real change there. But there was very close collaboration with Poland, where equally rapid developments were in progress. The Prime Minister commented that opposition to reform in the Soviet Union seemed to be on the increase. "God forbid it succeeds", was Dr. Varkonyi's response. The Prime Minister said that she doubted whether the reform in Hungary could have got as far as it had without Mr. Gorbachev's blessing. There was no doubt that he was a man of considerable vision and courage.

Dr. Varkonyi then mentioned the Peto Institute. There was already good co-operation in this area with Britain and Hungary counted on Britain's help with the International Peto Institute. The Prime Minister commented that the Institute was a unique body which did remarkable work in conductive education. We certainly hoped to play a helpful role.

Dr. Varkonyi reminded the Prime Minister that she had a standing invitation to visit Hungary. If she was unable to take it up this year, perhaps Mr. Nemeth could come to the United Kingdom in the second part of the year. The Prime Minister said this would be very welcome. Meanwhile, she could tell Dr. Varkonyi that the Prince and Princess of Wales would be happy to visit Hungary in mid-1990. Dr. Varkonyi expressed pleasure.

I am copying this letter to Alex Allan (H M Treasury) and Brian Hawtin (Ministry of Defence).

*Yours sincerely,*  
*Chris Powell*

C. D. POWELL

Richard Gozney, Esq.,  
Foreign and Commonwealth Office



Foreign and Commonwealth Office

London SW1A 2AH

16 March 1989

Dear Charles,

Call by the Hungarian Foreign Minister

We have just had confirmation that The Prince and Princess of Wales have agreed to visit Hungary in spring 1990, for 3 days in the week 7-11 May.

The Hungarians have invited HM The Queen to visit Budapest. But the normal procedure would be for the Hungarian Head of State to make an inward visit first, and for another member of the Royal Family to go to Hungary before HM The Queen. The proposal for a visit by The Prince and Princess of Wales has not been discussed with the Hungarians. But the Prime Minister may wish to tell the Foreign Minister that The Prince and Princess of Wales would like to visit Hungary in May next year.

We hope The Princess of Wales will be willing to inaugurate the new International Peto Institute for handicapped children, which Dr Varkonyi is likely to raise with the Prime Minister.

Yours,  
*Stephen Wall*  
(J S Wall)  
Private Secretary

C D Powell Esq  
10 Downing Street



PRIME MINISTER

MEETING WITH THE HUNGARIAN FOREIGN MINISTER

You are to see the Hungarian Foreign Minister briefly tomorrow morning. You last saw him when he came here in 1985.

The last few months have seen very rapid political change in Hungary with the formation of alternative political groups and new parties, with the prospect eventually of a multi-party system. There will be limits: it will not be permissible to advocate a non-Socialist Hungary. But the changes have been radical and far-reaching. Many Hungarians, including senior party officials, are speculating about neutrality on the model of Austria or Sweden as an eventual goal.

The radicalism is matched on the economic side, although success has been rather limited. Unemployment is rising, real incomes are falling and there is zero growth. Hungary has a one year agreement with the IMF and wants to negotiate a longer term facility. The Russians seem to have tolerated all this change without blinking and Gorbachev recently expressed full confidence in the Hungarian leadership. But one is bound to wonder how long this can last.

You will want to ask Dr. Varkonyi to give his own account of the political and economic reforms and his assessment of the Soviet attitude. You may also like to seek his views of the prospects for the Soviet Union against the background of Gorbachev's forthcoming visit.

There are no problems on the bilateral front. But it would be appropriate to mention the Peto Institute and express our thanks for the help with conductive education given to British children by the Institute in Budapest, and say that we hope to be fully involved in the new international Peto Institute (we

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- 2 -

hope if the Treasury agree to be able to contribute financially).

Dr. Varkonyi may renew the invitation to you to visit Hungary again. There is no pressing need for this. But you might like in turn to invite the new Hungarian Prime Minister to visit Britain in due course.

C.D.P.

C. D. POWELL  
14 March 1989

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KAYASB



Foreign and Commonwealth Office

London SW1A 2AH

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14 March 1989

*Jean Charles,*Call by the Hungarian Foreign Minister

Dr Peter Varkonyi is to call on the Prime Minister on 16 March at 12.30 hrs. The Prime Minister met him during his last visit to the UK in March 1985.

The Hungarians have said Dr Varkonyi would like to focus mainly on the progress of political and economic reform in Hungary and on East-West relations. He may also raise British support for Hungary's economic restructuring; Prime Ministerial visits; and the International Peto Institute.

Hungary Internal

Since Grosz's visit last May, Hungary has been through a period of astonishingly rapid political reform, in response to popular demands. New laws on association and assembly have legalised the many alternative groups which have mushroomed and permitted the formation of political parties. The Party has committed itself to accepting a multi-party system. The new Constitution is likely to drop all reference to the leading role of the Party but retain a commitment to socialism (undefined).

Many key decisions have yet to be taken, for instance on electoral procedures and the rights of new parties. The latter will probably have to pledge themselves to upholding the Constitution, which will exclude advocacy of a non-socialist Hungary. The Communist Party remains fundamentally undecided on its eventual goal.

Grosz's position seems secure, though radical reformers in the Politburo have pushed him further and faster than his own cautious approach would dictate. Opposition to reform remains substantial among the Party orthodox, in the bureaucracies which stand to lose power, and in traditional industries which are threatened.

/Economic

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### Economic

Political reform has been matched in the economic field, although the Government has been forced to reduce domestic consumption and increase exports. Reform includes the reduction of state subsidies, new laws to stimulate foreign investment, bond and stock markets and a new law which will enable large State-owned companies to be privatised in due course. But with zero growth, declining real incomes and a forecast of rising unemployment, the government will need to show great determination to maintain course.

The reforms are under-pinned by a one-year IMF Standby Arrangement which expires in May. The Hungarians would like to extend it to the end of the year and to negotiate a longer-term IMF facility thereafter. It will be vital to keep the support of the IMF, since Hungary's external financial position is vulnerable; per capita foreign debt is the highest in Eastern Europe, and Hungary has to raise some \$2 billion a year to service it.

### Soviet attitude

The Russians have so far viewed Hungarian reforms with equanimity. During Prime Minister Nemeth's visit to Moscow last week, Gorbachev expressed full confidence in the Hungarian leadership, and accepted in private that a multi-Party system suited Hungarian circumstances. The chief Soviet interest appears to be in stability. Academician Bogomolov has even suggested that a Hungary along Swedish or Austrian lines would not threaten Soviet security, but he is probably ahead of official thinking. Some Hungarians, even senior Party officials, do see neutrality is a possible eventual goal for Hungary. The Prime Minister may wish to seek Varkonyi's assessment of The Soviet attitude.

### Bilateral Relations

Our relations with Hungary are excellent, with contacts flourishing in many areas, eg financial expertise, management training, English language teaching.

### The Peto Institute

The UK has long-standing ties with this Institute for children with disorders of the central nervous system. Some 70 children are at present in Budapest. The Institute pioneered "conductive" treatment. The main centre for conductive education in the UK is the Birmingham Foundation, to which the DES and the Department of Health have contributed

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funds. Kenneth Clarke, David Mellor, Nicholas Scott and Michael Forsyth have all made visits. In discussions with the Hungarian Government Nicholas Scott has led for the UK as Minister for the Disabled.

An International Peto Institute is now being set up. An international appeal will be launched in Budapest on 14 March. Ministers have said that they would like the UK to be involved, but not to the exclusion of other countries. We hope to make a firm offer of financial support (any Government money being matched by private funds) in return for continuing support for conductive education in this country. UK Ministers will seek the Chief Secretary's agreement to a maximum of £5m of Government money. The Prime Minister may like to thank Dr Varkonyi for the help given to UK families in Budapest; note that UK Ministers have been very impressed by the work of the Institute; and send good wishes to the International Institute. She might say she hopes the UK will be fully involved.

Prime Ministerial Visits

Dr Varkonyi will repeat Mr Grosz's invitation to the Prime Minister to pay a second visit to Hungary. We see no pressing need. The Prime Minister may like to invite the new Hungarian Prime Minister, Mr Miklos Nemeth, to visit the UK. Mr Nemeth was due to come here last year as Party Secretary for Economic Affairs. He is a young (40) technocrat whose primary responsibility is to manage the Hungarian economic reforms. Varkonyi will be accompanied by the Hungarian Ambassador, Dr Domokos, and an official from the Hungarian MFA. All three speak excellent English. Personality notes are attached. HM Ambassador in Budapest, Mr Leonard Appleyard, will also attend.

\* 1 of 3 MPA officials with a HWD;  
they've not yet decided which.

Yours ever,  
*Richard Gozney*  
(R H T Gozney)  
Private Secretary

C D Powell Esq  
10 Downing Street

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VÁRKONYI, PÉTER DR

Minister for Foreign Affairs and Member of the Central Committee of the HSWP (since 1975).

Várkonyi was born in 1931 and has been a Party member since 1948. Having graduated at the Foreign Affairs Academy, he was posted to Washington in 1951 but was declared persona non grata by the US Government in retaliation for the expulsion of an American diplomat from Hungary. He served in London from 1951-53 and in Cairo before becoming Head of the MFA Press Department. He held a number of other posts, including Private Secretary to Kadar (1965-69) and Editor-in-Chief of the Party newspaper, before being appointed Secretary of the Central Committee in charge of foreign affairs in 1982. He became Minister for Foreign Affairs in July 1983. He met Sir Geoffrey Howe (September 1983 and March 1987) and Mrs Thatcher (February 1984) when they visited Hungary. Várkonyi last visited the UK in March 1985.

He is married and speaks excellent English.

DOMOKOS, MÁTYÁS DR

Ambassador of the Hungarian People's Republic.

Dr Domokos has been Ambassador to Britain since September 1984 and is also accredited to the Republic of Ireland.

He was born on 28 October 1930 in Hungary. An economist by training, Dr Domokos worked in the Foreign Trade Ministry until 1974, when he joined the Ministry of Foreign affairs. He was Ambassador to the UN in Geneva from 1974 - 1979, then Head of the MFA's Department for International Organisations, dealing inter alia with multi-lateral disarmament, from 1979 - 1984. As Ambassador in London Dr Domokos has showed himself determined to get results.

He is married with one daughter and speaks excellent English.

ETW:

HORVÁTH, ERNŐ

Head of Department V, Hungarian Ministry of Foreign Affairs.

Born in 1931. Formerly Ambassador in Kuwait. Horvath's Department deals with the North Atlantic developed countries, including the UK. Speaks excellent English.

Qr:

KOMORÓCZKI, ISTVÁN DR

Private Secretary to the Minister of Foreign Affairs.

Born in 1956. Dr Komoróczki acts as spokesman for the Ministry of Foreign Affairs, as well as being Private Secretary to Dr Várkonyi. He has served in Sweden. Speaks excellent English.

Qr:

ALFÖLDY, TÁDÉ

UK Desk Officer, Ministry of Foreign Affairs.

Born in 1946. Mr Alföldy began his career working for the World Federation of Democratic Youth. He served under Horvath in Kuwait. Speaks excellent English.



RESTRICTED



*see below  
etc*

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

2 March 1989

*Dear Sir,*

VISIT OF THE HUNGARIAN FOREIGN MINISTER

Thank you for your letter of 1 March about the visit of the Hungarian Foreign Minister. The Prime Minister could see Dr. Varkonyi for half an hour at 12.30 on 16 March.

*BK* //

*Yours sincerely,*

CHARLES POWELL

R. H. T. Gozney, Esq.,  
Foreign and Commonwealth Office

RESTRICTED

*h*



Foreign and Commonwealth Office

London SW1A 2AH

1 March 1989

Eric Austin

Y  
/ is not him? They need  
an urgent.

Dear Charles,

CAF 1/3

Visit of the Hungarian Foreign Minister

Dr Varkonyi will be visiting the UK on 14-17 March, at the invitation of the Foreign Secretary. He will be the first high-level Hungarian visitor since Grosz came here last May. The Foreign Secretary believes it would be valuable if he could have a short call on the Prime Minister, as he did on his last visit to the UK, in March 1985. He speaks excellent English.

Hungary remains at the forefront of the process of reform in Eastern Europe. The pace of political change has been accelerating, and well outstrips anything contemplated in the Soviet Union. New political organisations are mushrooming and can now operate legally. The Central Committee has just agreed that the country should work towards a multi-party system, and the modalities of this are being worked out. Some reformers talk openly of trying to create a "post-Communist society". In the economic field, new legislation has opened up the economy to market forces, private enterprise and foreign investment. These processes are not without their critics, whether in the Party, the provinces or industry. In the Politburo, Grosz seems to have endorsed the ideas of leading reformers while cautioning of the need not to go too far too fast.

Our links with Hungary are broader and more varied than with any other East European country. Management training, financial advice and English language teaching are three important areas. We hope there will be some UK input to a new international institute to be set up in Budapest for the education of handicapped children by the unique Peto method.

Hungary offers the best prospect for peaceful democratic change in Eastern Europe. Grosz's views were certainly influenced by his visit to the UK last year, and the Hungarians remain deeply grateful for the Prime Minister's help in speeding up agreement on a trade and cooperation agreement with the EC. A call on the Prime Minister by Varkonyi would signal our approval of Hungarian efforts and demonstrate the special nature of our bilateral links. The Foreign Secretary believes the Prime Minister would find it interesting to have a first-hand account of the latest developments in Hungary.

Yours ever  
Richard Gozney

(R H T Gozney)  
Private Secretary

C D Powell Esq  
10 Downing Street

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FM BUDAPEST  
TO PRIORITY FCO  
TELNO 47  
OF 010931Z FEBRUARY 89  
INFO ROUTINE EAST EUROPEAN POSTS, WASHINGTON, ACTOR, UKDEL NATO  
INFO SAVING BONN, PARIS

HUNGARY : THE INTERNAL SCENE

SUMMARY

1. RAPID MOMENTUM OF POLITICAL REFORM. HARDLINERS KEEPING THEIR HEADS DOWN BUT REGROUPING FOR A COUNTER-ATTACK. DIFFICULT ECONOMIC BACKGROUND. NEXT TWELVE MONTHS WILL BE A DECISIVE PERIOD IN HUNGARIAN POST-WAR HISTORY. THE OUTCOME STILL FINELY BALANCED.

DETAIL

2. IN HUNGARY NOWADAYS NEW POLITICAL DEVELOPMENTS SUCCEED EACH OTHER DAILY. BUT IT IS PERHAPS A SUITABLE MOMENT TO STAND BACK FROM THE HEADLONG PACE OF EVENTS TO TRY TO ASSESS ONCE AGAIN THE PRESENT BALANCE OF FORCES AND THE PROSPECTS FOR THE FUTURE.

3. THE POLITICAL REFORM PROGRAMME IS STILL GOING AHEAD FULL-STEAM. THE INDEPENDENT TRADE UNIONS AND ALTERNATIVE GROUPS, SOME OF WHICH NOW CALL THEMSELVES POLITICAL PARTIES, HAVE BEEN LEGALISED AND ARE OPERATING NATIONWIDE IN AN ATTEMPT TO BUILD UP SUPPORT. THE OFFICIAL PRESS HAS BEEN LIBERALISED, AND THE ALTERNATIVE GROUPS AND PRIVATE ENTREPRENEURS ARE NOW PUBLISHING THEIR OWN INDEPENDENT NEWSPAPERS. THE HUNGARIAN GOVERNMENT, LED BY JUSTICE MINISTER KULCSAR, IS WORKING ON AN EXTREMELY AMBITIOUS PROGRAMME OF NEW CONSTITUTIONAL LEGISLATION (MY TELNOS 35 AND 36) WHICH WILL BE CONSIDERED BY THE CENTRAL COMMITTEE AND PARLIAMENT BETWEEN NOW AND AUTUMN. IF APPROVED AS PRESENTLY ENVISAGED THE LEGISLATION WOULD BRING ABOUT A FUNDAMENTAL CHANGE IN THE POLITICAL STRUCTURE, AND BRING IT MUCH CLOSER TO A NORMAL WESTERN EUROPEAN MODEL. A WHOLE RANGE OF PREVIOUSLY TABOO SUBJECTS, SUCH AS 1956 AND SOVIET TROOP WITHDRAWALS, ARE NOW FREELY DISCUSSED. THE PARTY IS TALKING ABOUT GOING INTO THE NEXT PARLIAMENTARY ELECTIONS AS PART OF A VOLUNTARY GRAND COALITION INCLUDING THE MAIN ALTERNATIVE POLITICAL GROUPS ON THE BASIS OF A MODIFIED MULTIPARTY SYSTEM. SO THE REFORMERS HAVE MADE MUCH MORE HEADWAY THAN ANY OF US

WOULD HAVE PREDICTED.

4. YET IT WOULD BE PREMATURE TO CONCLUDE THAT THE BALANCE OF FORCES HAS IRREVERSIBLY SWUNG IN THEIR DIRECTION. THE PARTY REMAINS DEEPLY DIVIDED. THE HARDLINERS HAVE BEEN KEEPING THEIR HEADS DOWN RECENTLY AFTER THEIR FAILURE LAST AUTUMN TO DEFLECT THE REFORM PROGRAMME. BUT IN MY VIEW THEY ARE REGROUPING FOR A RENEWED COUNTER-ATTACK IN THE SPRING, ESPECIALLY AT THE FEBRUARY AND MARCH CENTRAL COMMITTEE MEETINGS. POSZGAY'S RECENT STATEMENT ON 1956 (MY TELNO 44) MAY PROVE TO HAVE BEEN TACTICALLY ILL-TIMED. THE POLITBURO DECIDED YESTERDAY TO CONVENE A SPECIAL CENTRAL COMMITTEE MEETING ON 10 FEBRUARY TO DISCUSS QUOTE TOPICAL POLITICAL QUESTIONS UNQUOTE. THIS MEETING, OR THE ONE SCHEDULED FOR 20 - 21 FEBRUARY, WILL TRY AT THE THIRD ATTEMPT TO REACH AGREEMENT ON A BROAD STRATEGY ON THE CONSTITUTION AND ELECTION SYSTEM. THE PLAIN FACT IS THAT IF THE HARDLINERS DO NOT FIGHT BACK IN THE NEXT FEW MONTHS, BY AUTUMN THE POLITICAL, INSTITUTIONAL AND ECONOMIC STRUCTURE OF HUNGARY WILL HAVE CHANGED IN SUCH A WAY AS TO MAKE THEIR POSITION MUCH MORE DIFFICULT TO SUSTAIN. MEANWHILE THE ALTERNATIVE GROUPS/PARTIES ARE ALSO DIVIDED INTERNALLY AND AMONGST THEMSELVES. NATURALLY ENOUGH THEY REGARD THE PARTY'S PROPOSALS WITH PROFOUND SUSPICION AND IT IS STILL AN OPEN QUESTION WHETHER THEY WILL BE PREPARED TO JOIN A COALITION IN ANY SIGNIFICANT NUMBERS.

5. AS THE YEAR-END FIGURES BECOME AVAILABLE, IT SEEMS CLEAR THAT HUNGARY'S ECONOMY PERFORMED BETTER LAST YEAR THAN ANTICIPATED, THANKS TO AN EXPORT BOOM. LOOKING AHEAD, MUCH OF THE NECESSARY LEGISLATION FOR ECONOMIC RESTRUCTURING HAS ALREADY BEEN PASSED BY PARLIAMENT. THE PARTY LEADERSHIP CONTINUALLY REAFFIRMS ITS COMMITMENT TO A MARKET-ORIENTED MIXED ECONOMY, AND HAS BEGUN THE PAINFUL PROCESS OF REDUCING SUBSIDIES TO CONSUMER PRICES AND TO LOSS-MAKING COMPANIES. YET THE ECONOMIC BACKGROUND REMAINS EXTREMELY DIFFICULT, PRINCIPALLY DUE TO THE VERY HEAVY DEBT SERVICE REQUIREMENTS. THE HUNGARIANS ARE DETERMINED TO OBTAIN FURTHER IMF SUPPORT, AND GROSZ APPARENTLY REACHED AGREEMENT IN PRINCIPLE WITH CAMDESSUS LAST WEEKEND TO EXTEND THE PRESENT SBA. BUT THE RAPIDITY OF THE PRESENT CHANGES, AND THE INERTIA OF OFFICIALS AND COMPANY MANAGERS, ARE IMPOSING A CONSIDERABLE STRAIN ON THE SYSTEM. AS LIVING STANDARDS FALL, AND THE PROSPECT OF UNEMPLOYMENT IN TRADITIONAL INDUSTRIES DRAWS CLOSER, THE RISK THAT ECONOMIC DISCONTENT COULD PROVIDE A FLASHPOINT FOR OPEN UNREST CAN NEVER BE RULED OUT.

6. ALL THE PRINCIPAL DECISION-MAKERS INSIDE AND OUTSIDE THE PARTY ARE KEENLY AWARE THAT THE NEXT TWELVE MONTHS WILL BE A DECISIVE PERIOD IN HUNGARY'S POST-WAR HISTORY. ALTHOUGH FOR THE MOMENT THE REFORMERS HAVE SEIZED THE INITIATIVE, IT IS BY NO MEANS A FOREGONE CONCLUSION THAT THEY WILL WIN THE HARD BATTLES WHICH LIE AHEAD. MANY HUNGARIANS ARE DEEPLY PESSIMISTIC ABOUT THE FUTURE ON THE BASIS OF THEIR EXPERIENCE OF THE LAST 40 YEARS. GROSZ AND HIS COLLEAGUES WILL REQUIRE EVERY OUNCE OF POLITICAL SKILL, NERVE AND MODERATION TO KEEP THE NATIONAL CONSENSUS TOGETHER. I THINK THERE IS AN EVEN CHANCE THAT THEY WILL GET AWAY WITH IT, BUT THE OUTCOME REMAINS FINELY BALANCED.

APPLEYARD

YYYY

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HUNGARY : MULTI-PARTY SYSTEM

SUMMARY

1. ACCORDING TO JUSTICE MINISTER KULCSAR, THE HUNGARIAN CONSTITUTIONAL REFORM PROGRAMME IS NOW BEING SIGNIFICANTLY ACCELERATED. KEY LAWS LIKELY TO BE PRESENTED TO PARLIAMENT IN EARLY AUTUMN, INCLUDING A NEW CONSTITUTION AND A PARTY LAW, WHICH WILL REGULARISE AND PROTECT THE NEW POLITICAL PARTIES. THE COMMUNIST PARTY INTENDS TO FORM A VOLUNTARY GRAND COALITION WITH THE MAIN ALTERNATIVE PARTIES. THE AIM IS TO CREATE A POLITICAL SYSTEM CLOSER TO THE WESTERN EUROPEAN MODEL THAN THE EAST EUROPEAN SYSTEM BY NEXT YEAR.

DETAILS

2. WHEN I CALLED ON 25 JANUARY ON JUSTICE MINISTER KULCSAR I ASKED HIM ABOUT THE CURRENT STAGE OF THE CONSTITUTIONAL REFORM PROGRAMME IN WHICH HE IS PLAYING THE LEADING ROLE. KULCSAR IS A CLOSE ALLY OF POSZGAY AND SPENT FOUR YEARS TEACHING CONSTITUTIONAL LAW AT AN AMERICAN UNIVERSITY.

3. KULCSAR REPLIED THAT THE PASSAGE OF THE LAWS ON ASSOCIATION AND ASSEMBLY (MY TELNO 19) REPRESENTED A FUNDAMENTAL CHANGE IN THE HUNGARIAN POLITICAL SYSTEM. IT WAS ALSO A MARKED STEP FORWARD THAT THE PARTY LEADERSHIP HAD AGREED TO PRESENT A NEW LAW ON POLITICAL PARTIES TO PARLIAMENT ON 1 AUGUST. IN ADDITION WORK WAS NOW GOING AHEAD RAPIDLY ON THE NEW DRAFT CONSTITUTION, AND LAWS ON ELECTIONS AND A CONSTITUTIONAL COURT WHICH WERE NOW SCHEDULED TO BE PRESENTED TO PARLIAMENT IN EARLY AUTUMN. THUS THE WHOLE TIMETABLE OF THE CONSTITUTIONAL REFORM PROGRAMME HAD BEEN SUBSTANTIALLY ACCELERATED.

4. KULCSAR SAID THAT THE BASIC PRINCIPLES OF THE CONSTITUTION WERE NOW BEING DISCUSSED WITH PARLIAMENTARY COMMITTEES. AN OUTLINE TEXT

WOULD BE PRESENTED TO PARLIAMENT IN EARLY MARCH. THIS WOULD COVER CONTROVERSIAL ISSUES LIKE THE LEADING ROLE OF THE PARTY WHICH WOULD NO LONGER BE ENSHRINED IN THE CONSTITUTION. IF PARLIAMENT APPROVED THE BASIC OUTLINE DOCUMENT, THE TEXT WOULD BE WORKED UP DURING THE SUMMER AND PRESENTED IN FULL IN EARLY AUTUMN. KULCSAR ADDED THAT MUCH PREPARATORY WORK HAD BEEN DONE IN SECRET IN THE ACADEMY OF SCIENCES OVER THE PAST THREE YEARS AGAINST THE EVENTUALITY OF CHANGES IN THE POLITICAL SYSTEM.

5. THE LAW ON THE POLITICAL PARTIES WOULD GOVERN THREE PRINCIPAL ASPECTS: REGISTRATION, FINANCIAL CONTROL AND LEGAL SUPERVISION. THE NEW POLITICAL GROUPS WOULD REGISTER AS POLITICAL PARTIES. KULCSAR HAD DELIBERATELY KEPT BACK THE LAW ON POLITICAL PARTIES SINCE HE WANTED THEIR LEGALITY TO BE GOVERNED NOT BY THE ADMINISTRATION NOR BY THE LOWER COURTS, BUT BY THE NEW CONSTITUTIONAL COURT. THE PURPOSE WAS TO PROTECT THE POLITICAL PARTIES FROM INTERFERENCE OR SUPPRESSION BY THE AUTHORITIES. THE COMPOSITION OF THE CONSTITUTIONAL COURT WOULD ACCORDINGLY BE VERY HIGH-LEVEL.

6. SO FAR, KULCSAR SAID, THE KEY POLITICAL DECISIONS ON THE ELECTORAL LAW HAD NOT YET BEEN TAKEN. THERE WAS STILL A DEBATE ON WHETHER THE ELECTIONS SHOULD BE ON A CONSTITUENCY BASIS, OR A SET OF NATIONAL LISTS ON A PROPORTIONAL REPRESENTATION BASIS, OR A MIXTURE OF BOTH. PERSONALLY HE THOUGHT THAT THE END RESULT WOULD BE MIXTURE SINCE HE DOUBTED WHETHER THE NEW POLITICAL GROUPS WOULD YET BE SUFFICIENTLY REPRESENTED NATIONWIDE TO SCORE WELL IN CONSTITUENCY ELECTIONS. THERE WAS ALSO A DEBATE ON WHETHER THE PRESENT PRE-SELECTION PROCESS OF CANDIDATES BY THE PATRIOTIC PEOPLE'S FRONT (PPF) SHOULD BE DISCONTINUED. PERSONALLY HE WAS AGAINST PRE-SELECTION AND THOUGHT THAT THE PPF HAD OUTLIVED ITS ROLE. BUT THIS CRUCIAL ISSUE STILL HAD TO BE FOUGHT OVER.

7. KULCSAR CONFIRMED THAT THE PARTY'S TACTIC WOULD BE TO ENTER THE PARLIAMENTARY ELECTIONS, STILL SCHEDULED FOR NEXT YEAR, IN A VOLUNTARY GRAND COALITION WITH THE THREE OR FOUR MAJOR POLITICAL GROUPS, NOW OPERATING AS SEPARATE PARTIES. THIS WOULD BE A TOTALLY DIFFERENT PICTURE FROM THE ARTIFICIAL COALITION IMPOSED BY THE COMMUNIST PARTY AFTER THE WAR. SO THE PARTY COULD CONFIDENTLY EXPECT TO HAVE A MAJORITY, POSSIBLY ON ITS OWN AND CERTAINLY WITH THE COALITION. THE REMAINDER OF THE SEATS WOULD BE OCCUPIED BY INDEPENDENTS AND REPRESENTITIVES OF THE NEW PARTIES WHICH HAD DECIDED AGAINST JOINING THE COALITION. THE NEW GOVERNMENT MIGHT WELL CONTAIN MINISTERS FROM THE POLITICAL PARTIES IN THE COALITION.

SUCH AN ARRANGEMENT WOULD REQUIRE CONSIDERABLE MODERATION FROM THE PARTY AND THE MAJOR POLITICAL GROUPS, WHICH WERE STILL DIVIDED ABOUT WHETHER TO ACCEPT THIS PLAN. BUT IT WOULD PROVIDE THE NECESSARY STABILITY FOR A MANAGED TRANSITION FROM THE PRESENT STRUCTURE TOWARDS A GENUINE MULTI-PARTY SYSTEM.

8. KULCSAR CONCLUDED THAT, IF HIS PROGRAMME GOT THROUGH AS PLANNED, HUNGARY WOULD END UP BY NEXT YEAR WITH A POLITICAL SYSTEM MUCH CLOSER TO THE CURRENT WESTERN EUROPEAN MODEL THAN THE PREVAILING EAST EUROPEAN SYSTEM OF THE PAST 40 YEARS, WHICH HE DESCRIBED AS A HISTORICAL ABERRATION. IN ADDITION HUNGARY WAS LIKELY TO ABANDON ITS PRESENT SOVIETISED NATIONAL EMBLEM IN FAVOUR OF EITHER THE KOSSUTH EMBLEM (1848) OR, PREFERABLY, THE ANCIENT ROYAL EMBLEM WITH ST STEPHEN'S CROWN. ALL IN ALL, THE WHOLE PLACE WOULD LOOK A LOT DIFFERENT.

9. COMMENT IN MIFT.

APPLEYARD

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10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

24 January 1989

I enclose a copy of the Hungarian  
Prime Minister's reply to the recent  
message from the Prime Minister.

CHARLES POWELL

Richard Gozney Esq  
Foreign and Commonwealth Office

ca



We know  
c/c

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

21 January 1989

HUNGARY

Bernard Ingham has asked me to pass on a tit-bit of information. Professor John Fyfe is apparently doing a lot of work for the Hungarian Government on industrial restructuring. He has said that Mr. Grosz is particularly keen to secure British rather than American help with his economic reform programme.

C. D. Powell

Richard Gozney, Esq.,  
Foreign and Commonwealth Office.

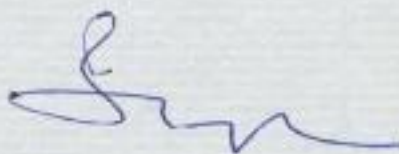
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MR POWELL

I saw Professor John Fyfe, whom I have known for over 20 years, and whom the Prime Minister invited to lunch for the Sultan of Oman a few years ago, who told me last night that he is doing a lot of work for the Hungarian Government on industrial restructuring.

He said that Grosz was very keen to secure British rather than American help with his economic reform programme.

You may feel it useful to let FCO and DTI know this.



BERNARD INGHAM  
January 19, 1989

~~PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. ....~~

*Rich Austin  
Reply from Mr*

Unofficial Translation!

*Hungarian Prime  
Minister*

*mt*

*CDP  
241*

Dear Prime Minister,

I thank you most sincerely for your good wishes on the occasion of my election as Prime Minister. The message of your letter has confirmed my conviction that our efforts to develop the relations between our two countries are identical and that I am able to count on your cooperation in my work.

May I take this opportunity to confirm the invitation extended to you earlier to visit Hungary. I hope that you will be able to pay us this visit and this will provide us with the opportunity to meet in person, as well as to widen the cooperation between our governments.

Please accept the assurances of my highest consideration.

Budapest, December 1988

Yours sincerely,

Miklós Németh

The Rt Hon Margaret Thatcher, MP  
Prime Minister  
10 Downing Street  
L o n d o n

*Dear Prime Minister,*

Őszintén köszönöm a miniszterelnökké megválasztásom alkalmából küldött jókívánságait. Levelének üzenete tovább erősítette bennem azt a meggyőződést, hogy az országaink közötti kapcsolatok továbbfejlesztésére irányuló törekvéseink azonosak és munkám során számíthatok az Ön együttműködésére.

Megragadom az alkalmat, hogy megerősítsem magyarországi látogatására szóló meghívását. Remélem, élni tud vele, s ez módot adhat személyes találkozásunkra, a kormányaink közötti együttműködés további bővítésére.

Kérem, fogadja legjobb kívánságaimat.

Budapest, 1988. december

*Yours sincerely*  
*Németh Miklós*  
Németh Miklós

The Rt Hon Margaret Thatcher, MP  
Prime Minister  
10 Downing Street  
L o n d o n



10 DOWNING STREET  
LONDON SW1A 2AA

THE PRIME MINISTER

CR.  
21 December 1988

*Dear General Secretary,*

Thank you for your kind letter of 30 November. May I wish you every success in your task as General Secretary of the Hungarian Socialist Workers Party. I share your hope that we shall have further opportunities to talk. It is kind of you to invite me to visit Hungary again: I should like to take this up in due course.

I also wish every success to Mr. Nemeth in his new post as Prime Minister and hope to have the opportunity to meet him before too long.

With every good wish,

*Yours sincerely*  
*Royal Highness*

His Excellency Mr. Karoly Grosz.



10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

21 December 1988

I enclose the Prime Minister's reply to the recent letter from Mr Grosz, General Secretary of the Hungarian Socialist Workers Party. I should be grateful if the text could be telegraphed to Budapest for delivery as soon as possible.

Charles Powell

Lyn Parker Esq  
Foreign and Commonwealth Office.

A large handwritten mark resembling a checkmark is visible in the lower right corner of the page.



R20112



Foreign and Commonwealth Office

London SW1A 2AH

20 December 1988

Dear Charles,

Thank you for your letter of 8 December enclosing Mr Grosz's letter to the Prime Minister of 30 November. I enclose a draft reply from the Prime Minister.

Yours ever

(L Parker)  
Private Secretary

C D Powell Esq  
Private Secretary  
10 Downing Street

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: Prime Minister

Reference

DEPARTMENT:

TEL. NO:

Your Reference

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ROOM NO:

SECURITY CLASSIFICATION

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TO: His Excellency  
Mr Karoly Grosz  
General Secretary of the Hungarian  
Socialists Workers' Party

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SUBJECT:

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..... In Confidence

CAVEAT .....

Thank you for your kind letter of  
30 November. *May!* Allow me to wish you every success  
in your task as General Secretary of the Hungarian  
Socialist Workers Party. ~~as well as~~ May I also wish every  
success to Mr Nemeth in his new functions as  
Prime Minister. I hope that I shall have an  
opportunity to meet him in due course.

~~I too much enjoyed our discussions~~  
~~during your visit to London in May. This marked~~  
~~a new stage in the relationship between our two~~  
~~countries. I certainly hope that we shall have~~  
~~further opportunities to continue our exchange of~~  
~~views. Thank you for your invitation to visit~~  
~~Hungary again: I should like to take this up in~~  
~~due course.~~

*"I also wish every success*  
*to Mr. Nemeth in his new post as*  
*Prime Minister & hope to see him*  
~~I am sure that the cooperation and friendship~~  
~~between our two countries will continue to develop~~

~~in the year ahead.~~ *appealing to meet*  
*him before the year.*  
*With every good wish*

Enclosures flag(s) .....

*c.*

HUNGARIAN  
RELATIONS PT 3



original in box



shw

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

8 December 1988

BU

The Hungarian Ambassador called on me this morning to deliver the enclosed letter from Mr. Grosz to the Prime Minister. The Prime Minister will want to reply in due course and I should be grateful if you could let me have a draft.

(C. D. POWELL)

Lyn Parker, Esq.,  
Foreign and Commonwealth Office.

21

The Right Honourable  
Margaret Thatcher, MP, FRS  
First Lord of the Treasury  
and Prime Minister of the United Kingdom  
of Great Britain and Northern Ireland  
L o n d o n

(Dear Prime Minister,)

As You may already know, the Hungarian National Assembly, upon my request, relieved me from my duties as Prime Minister on 24th November, 1988 and elected Miklós Németh, Esq., as the new Head of the Hungarian Government. By its decision, the National Assembly honoured my intention that in the future I wish to devote my full attention and energy to fulfil my duties as the General Secretary of the Hungarian Socialist Workers' Party. My resolve has been reinforced by my conviction that the renewal of the Hungarian economy and the acceleration and successful realization of the reform process primarily depend on creating the political conditions to this end. As a consequence of the political system of our country, it is the Hungarian Socialist Workers' Party that must assume the role of initiator in this regard.

Dear Prime Minister,

Upon leaving my office as Prime Minister, allow me to express my gratitude for the special attention and will for co-operation that You have shown for my country. It gives me great pleasure to recall the memories of my visit to London and those of Your hospitality, especially the most substantive exchange of views I had the honour to pursue with You. I do hope that in my capacity as General Secretary of the Hungarian Socialist Workers' Party I will still have the opportunity to maintain our personal contacts. I also hope that having a standing invitation, You will visit Hungary soon, when I shall have the honour of meeting You again.

The new Chairman of the Council of Ministers of the Hungarian People's Republic, Miklós Németh, Esq., is a devoted supporter of the Hungarian reform processes. In his previous positions as well he has shown consistent activity in order to renew the Hungarian economy. During the forthcoming period which is decisive for our country, he will work as Head of Government in establishing a democratic and socialist constitutional state where different forms of economic ownership, including foreign capital too, operate efficiently. He will work in the interest of widening Hungary's international relations, that our country could make its contribution to the improvement of East-West relationship, and that we could soon close ranks with leading countries in world development. I do sincerely hope, Prime Minister, that he will also be able to reckon with Your good attention and support in these efforts. I am confident that Your co-operation with Mr. Németh and his Government will be of success, and that the development of Hungarian-British relations will also contribute to the improvement of the conditions for Hungarian economic and social advance.

Dear Prime Minister,

Allow me to express my kindest regards and to assure You of my most sincere consideration.

Budapest, 30th November, 1988

(Yours sincerely.)

(Károly Grósz)

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(already T'd)

MESSAGE TO NEW PRIME MINISTER

1. PLEASE TRANSMIT THE FOLLOWING MESSAGE FROM THE PRIME MINISTER TO MR NEMETH AS SOON AS POSSIBLE. BEGINS: I SHOULD LIKE TO OFFER YOU MY CONGRATULATIONS ON YOUR APPOINTMENT AS PRIME MINISTER OF HUNGARY. I AM KEEN TO SEE RELATIONS BETWEEN BRITAIN AND HUNGARY CONTINUE TO DEVELOP IN WARMTH AND IN SUBSTANCE AND WISH YOU EVERY SUCCESS IN YOUR IMPORTANT TASKS. WITH BEST WISHES, YOURS SINCERELY, MARGARET THATCHER. ENDS.  
2. SIGNED ORIGINAL FOLLOWS BY BAG.

HOWE

YYYY

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PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T.178/88



10 DOWNING STREET  
LONDON SW1A 2AA

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cc fco

THE PRIME MINISTER

27 November 1988

*Your Prime Minister,*

I should like to offer you my congratulations on your appointment as Prime Minister of Hungary. I am keen to see relations between Britain and Hungary continue to develop in warmth and in substance and wish you every success in your important tasks.

With best wishes,

*Yours sincerely*

*Margaret Thatcher*

His Excellency Mr. Miklos Nemeth





FILE

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

27 November 1988

I enclose the Prime Minister's message to the new Hungarian Prime Minister. I shall be grateful if the text could be telegraphed to Budapest for delivery as soon as possible.

(C. D. POWELL)

Lyn Parker, Esq.,  
Foreign and Commonwealth Office.

CP

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Foreign and Commonwealth Office

London SW1A 2AH

24 November 1988

Dear Charles,

New Hungarian Prime Minister

It is expected that Mr Miklos Nemeth will be appointed Prime Minister of Hungary, succeeding Mr Karoly Grosz, at today's session of the Hungarian National Assembly.

Mr Nemeth has been Central Committee Secretary for Economic Affairs since June 1987, when he was simultaneously elected to the Central Committee. His promotion to Prime Minister, at only 40, marks a peak in his speedy rise through the party ranks. I enclose a personality note.

Given the excellent state of our bilateral relations and the recent Prime Ministerial visits in both directions, an early message to Mr Nemeth from the Prime Minister would be appropriate. I enclose a draft text.

Yours ever,

(L Parker)  
Private Secretary

C D Powell Esq  
10 Downing Street

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NEMETH, Miklos

Central Committee Secretary for Economic Affairs.  
Member of the Central Committee and Politburo of the HSWP.  
Member of National Assembly (Oct 1988)

Born in 1948 at Monok. Graduate of the Karl Marx University of Economics, Budapest. A Party member since 1968. From 1971 to 1977 he was a lecturer at Karl Marx University of Economics. 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, rising to Deputy Head of the Department, then to Head of Department in January 1987. In June 1987 he was appointed Secretary for Economic Affairs and was simultaneously elected to the Central Committee. He was elected to the Politburo at the Party Conference in May 1988.

Nemeth has the reputation of being a hard-worker and a bright economist.



D53/ADL

MESSAGE TO THE NEW HUNGARIAN PRIME MINISTER

"I should like to offer you my warmest congratulations on your appointment as Prime Minister of Hungary. I greatly enjoyed my conversations with Mr Grosz, from which I am fully aware of the challenges that lie ahead. We in Great Britain wish you every good fortune in tackling them."

a high) ~~we place a high value on the contacts which have developed between Britain & Hungary in recent years, & with the view to the very pleased to welcome Mr. Grosz. I hope that relations will~~

~~we place a high value on the relations which we have built up between~~

I am keen to see relations between Britain & Hungary continue to develop in substance & in warmth & in substance & with you trying to see relations in your important tasks. with but with.

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FCO TELNO 305 : EC/HUNGARY : PRIME MINISTER'S MESSAGE

1. THE MFA GAVE ME A PERSONAL MESSAGE FROM PRIME MINISTER GROSZ TO MRS THATCHER IN RESPONSE TO HER MESSAGE OF 26 SEPTEMBER. IN HANDING OVER THE MESSAGE THE MFA OFFICIAL CONCERNED (GOBOLYOS, HEAD OF EUROPEAN DEPT) EMPHASISED THE REMARKABLE IMPACT WHICH THE MESSAGE, AND ITS SKILFUL TIMING, HAD HAD ON PRIME MINISTER GROSZ AND THE HUNGARIAN GOVERNMENT IN GENERAL.

2. THE TEXT OF THE MESSAGE IS AS FOLLOWS:

BEGINS

THE AGREEMENT ON TRADE, COMMERCIAL AND ECONOMIC COOPERATION SIGNED BY THE HUNGARIAN PEOPLE'S REPUBLIC AND THE REPRESENTATIVES OF THE EUROPEAN ECONOMIC COMMUNITY, ON SEPTEMBER 26, IN BRUSSELS, IS A SIGNIFICANT STEP FORWARD IN RELATIONS BETWEEN HUNGARY AND THE COMMUNITY, AND ITS MEMBER-COUNTRIES.

IT IS MY CONVICTION THAT THE AGREEMENT IS IN HARMONY WITH THE SPIRIT OF THE HELSINKI DOCUMENT, AND IS IN FAVOUR OF THE INTERESTS OF ALL THE PARTIES CONCERNED AND THE CAUSE OF ALL-EUROPEAN COOPERATION.

THE SUPPORT GRANTED BY THE GOVERNMENT OF THE UNITED KINGDOM AND YOUR PERSONAL HELP, MRS PRIME MINISTER, HAD GREATLY CONTRIBUTED TO THE REACHING OF THE AGREEMENT, HELPING WITH THE RECONCILIATION OF INTERESTS AND THE UNDERSTANDING OF THE HUNGARIAN OBJECTIVES. THE SUPPORT YOU GAVE IN THE LAST PHASE OF THE NEGOTIATIONS IN OVERCOMING THE DIFFICULTIES - IN ACCORDANCE WITH THE PROMISE YOU MADE AT OUR MEETING IN MAY THIS YEAR - WAS OF ESPECIALLY GREAT IMPORTANCE.

I WOULD LIKE TO EXPRESS OUR THANKS FOR ALL THIS ON BEHALF OF THE GOVERNMENT OF THE HUNGARIAN PEOPLE'S REPUBLIC. I WOULD ALSO LIKE TO THANK YOU FOR YOUR KIND MESSAGE YOU SENT ON THE DAY WHEN THE AGREEMENT WAS SIGNED, AND THE GOOD WISHES WHICH I WOULD LIKE TO

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RETURN.

I MYSELF AM CERTAIN TOO THAT THE AGREEMENT WILL CREATE NEW  
POSSIBILITIES FOR FURTHER IMPROVEMENT IN RELATIONS BETWEEN THE  
HUNGARIAN PEOPLE'S REPUBLIC AND THE UNITED KINGDOM. I DO TRUST  
THAT IT WILL ALSO HELP WITH THE REALISATION OF THOSE PLANS ON  
COOPERATION ON WHICH WE WERE ABLE TO EXCHANGE VIEWS IN LONDON,  
WHILE I WAS ENJOYING YOUR HOSPITALITY.

I VERY MUCH HOPE THAT WE MAY CONTINUE THE EXCHANGE OF VIEWS -  
WHICH HAS BEEN MOST INTERESTING AND ILLUMINATING FOR ME -  
IN BUDAPEST AT AN EARLY DATE.

ENDS

APPLEYARD

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INFO ROUTINE UKREP BRUSSELS, EAST EUROPEAN POSTS

FRAME EXTERNAL

UKREP BRUSSELS TELNO 2736 : EC/HUNGARY AGREEMENT

SUMMARY

1. PRIME MINISTER'S MESSAGE GIVEN PROMINENT COVERAGE. EC AGREEMENT WELCOMED IN HUNGARIAN PRESS BUT NO ILLUSIONS.

DETAIL

2. THE PRIME MINISTER'S MESSAGE TO GROSZ (FCO TELNO 305) WAS PROMINENTLY FEATURED IN ALL THE OFFICIAL NEWSPAPERS YESTERDAY. DURING LADY TRUMPINGTON'S CALLS ON HUNGARIAN MINISTERS IT WAS CLEAR THAT THE HUNGARIAN GOVERNMENT WAS DELIGHTED WITH THE PRIME MINISTER'S GESTURE AND ENCOURAGED BY THE SUBSTANCE OF THE MESSAGE. SO FAR NO OTHER EC HEADS OF GOVERNMENT HAVE SENT MESSAGES, SO THAT THE MOVE WAS PARTICULARLY APPRECIATED. BOTH THE HUNGARIAN MINISTERS AND THE PRESS RECALLED THE VITAL SUPPORT GIVEN BY THE PRIME MINISTER PERSONALLY AT THE CRUCIAL POINT IN THE NEGOTIATIONS LAST MAY.

3. THE HUNGARIAN PRESS HAS WELCOMED THE SIGNATURE OF THE AGREEMENT WHICH IS SEEN AS AN HISTORIC STEP IN HUNGARY'S EFFORTS TO ACHIEVE MUCH CLOSER LINKS WITH WESTERN EUROPE AND A MORE WIDER INTEGRATION WITH THE WORLD ECONOMY OUTSIDE COMECON. CONSIDERABLE EMPHASIS WAS PLACED ON THE FACT THAT HUNGARY WAS THE FIRST EAST EUROPEAN COUNTRY TO SIGN AN AGREEMENT WITH THE COMMUNITY. AT THE SAME TIME THE PRESS ARGUED THAT HUNGARY SHOULD HAVE NO ILLUSIONS THAT THE AGREEMENT WOULD LEAD AUTOMATICALLY TO AN IMMEDIATE INCREASE IN TRADE. HUNGARIAN COMPANIES WOULD HAVE TO WORK HARD TO INCREASE THEIR EXPORTS TO EC COUNTRIES.

4. DURING LADY TRUMPINGTON'S DISCUSSIONS IT WAS CLEAR THAT IN THE NEGOTIATIONS ON THE AGRICULTURAL PROTOCOL THE HUNGARIANS ANTICIPATED CONSIDERABLE DIFFICULTIES WITH FRANCE, ITALY AND THE MEDITERRANEAN COUNTRIES, BUT EXPECTED THAT THE BRITISH ATTITUDE WAS LIKELY TO BE BROADLY HELPFUL. THE MINISTRY OF TRADE

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ALSO STRESSED THAT WITHIN THE CAIRNS GROUP HUNGARY'S STANCE WAS  
CLOSEST TO THE POSITION TAKEN IN THE EC BY BRITAIN ON CAP REFORM.

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EC/HUNGARY: SIGNING OF TRADE AGREEMENT

1. PLEASE PASS THE FOLLOWING MESSAGE FROM THE PRIME MINISTER TO PARTY LEADER GROSZ ON 26 SEPTEMBER, PREFERABLY BEFORE 1230 LOCAL TIME.

'I AM WRITING TO LET YOU KNOW HOW DELIGHTED I AM THAT THE AGREEMENT BETWEEN THE EC AND HUNGARY ON TRADE, COMMERCIAL AND ECONOMIC COOPERATION IS FINALLY BEING SIGNED TODAY IN BRUSSELS. I AM PARTICULARLY PLEASED THAT THE BRITISH GOVERNMENT WAS ABLE TO PLAY ITS PART BOTH DURING OUR PRESIDENCY, WHEN THESE LENGTHY AND COMPLEX NEGOTIATIONS WERE LAUNCHED, AND MORE RECENTLY IN HELPING TO BRING THEM TO A SUCCESSFUL CONCLUSION.

I LOOK FORWARD WITH CONFIDENCE TO THE FURTHER DEVELOPMENT OF TRADE AND ECONOMIC RELATIONS BETWEEN HUNGARY AND THE EUROPEAN COMMUNITY, AND BILATERALLY WITH THE UK. THE UK, FOR ITS PART, WILL DO ALL IT CAN TO ENSURE THAT THE AGREEMENT IS IMPLEMENTED TO THE FULL, TO OUR MUTUAL BENEFIT.

I RECALL WITH PLEASURE YOUR VISIT TO LONDON IN MAY, AND HAVE BEEN FOLLOWING DEVELOPMENTS IN HUNGARY SINCE THEN WITH KEEN INTEREST. I WISH YOU EVERY SUCCESS WITH YOUR FURTHER PLANS FOR ECONOMIC AND POLITICAL REFORM.'

2. THERE WILL BE NO/NO SIGNED ORIGINAL.

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10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

23 September 1988

EC/HUNGARY

Lyn Parker wrote to you on 23 September recommending the Prime Minister should send a short message to Mr Grosz welcoming signature of the EC/Hungary agreement on 26 September. I am sure that the Prime Minister would be content to do this, and the draft message enclosed with Lyn's letter may be despatched.

COPY OF  
TELEGRAM REQUESTED

96.9.

CHARLES POWELL

Resident Clerk,  
Foreign and Commonwealth Office

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Foreign and Commonwealth Office

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London SW1A 2AH

23 September 1988

Dear Charles,

EC/Hungary

The EC/Hungary Agreement on Trade, Commercial and Economic Cooperation will be signed at a ceremony in Brussels on 26 September in the margins of the Foreign Affairs Council.

You will recall that the UK has taken a close interest in this Agreement: at the outset by providing the impetus under our Presidency in 1986 to ensure negotiations got off the ground; and more recently by the Prime Minister's action to break the deadlock in the negotiations through her intervention with Chancellor Kohl last May, following Mr Grosz's visit to London. The Hungarians were very appreciative of the Prime Minister's initiative, and fully recognise that the UK was instrumental in enabling the negotiations to be brought to a successful conclusion.

The Foreign Secretary considers that it would be worthwhile for the Prime Minister to send a short message to Grosz welcoming signature of the Agreement and reaffirming the importance we attach to developing our trade and economic relations further. I enclose a draft in the form of a telegram to Budapest.

The signing ceremony will take place at 1230 (local time) on 26 September. Ideally we should despatch the telegram to reach Budapest by first thing on Monday morning. \*

Yours ever,

*L Parker*

(L Parker)  
Private Secretary

C D Powell Esq  
10 Downing Street

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\* The Resident Clerk will hold the top copy

# OUT TELEGRAM

		Classification <b>RESTRICTED</b>	Caveat	Precedence <b>DB: 260700Z</b>	
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YYY Y MAIN ADDITIONAL NNNN		File number <b>R17AAV</b>	Dept <b>ECD(E)</b>	Drafted by (Block capitals) <b>R KYLES</b>	Telephone no <b>270-2291</b>
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OUT TELEGRAM (CONT)

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benefit.

I recall with pleasure your visit to London in May, and have been following developments in Hungary since then with <sup>Keen</sup> interest. I wish you <sup>Every</sup> success with your further plans for economic and political reform.'

2. There will be no/no signed original.

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Catchword:

DER BOTSCHAFTER  
DER BUNDESREPUBLIK DEUTSCHLAND  
Baron Rüdiger von Wechmar

London, 22 July 1988

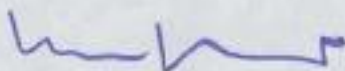
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Dear Prime Minister,

I have the honour to transmit to you  
the enclosed letter from Herr Helmut Kohl,  
Chancellor of the Federal Republic of  
Germany.

A courtesy translation is also attached.

I am, Dear Prime Minister,  
Yours sincerely



Her Excellency  
The Rt. Hon. Margaret Thatcher, MP  
Her Majesty's Prime Minister and  
First Lord of the Treasury  
L o n d o n

PERSONAL MESSAGE  
SERIAL No. T 107 D 188

BUNDESREPUBLIK DEUTSCHLAND  
DER BUNDESKANZLER

Bonn, den 7. Juli 1988

Ihrer Exzellenz  
Frau Margaret Thatcher, PM  
Premierminister des Vereinigten  
Königreichs  
Großbritannien und Nordirland

London

Sehr geehrte Frau Premierminister,  
liebe Margaret,

für Ihr Schreiben vom 18. Mai 1988, in dem Sie mir die Unterstützung der britischen Regierung für die Verhandlungen zwischen der Europäischen Gemeinschaft und Ungarn über den Abschluß eines Handels- und Kooperationsabkommens zugesichert haben, danke ich Ihnen sehr.

Der Allgemeine Rat hat sich am 13. Juni 1988 in Luxemburg auf eine gemeinsame Position der Gemeinschaft für die Verhandlungen mit Ungarn verständigen können und damit die Voraussetzung für den erfolgreichen Abschluß am 30. Juni 1988 geschaffen.

Mit freundlichen Grüßen

JK  
L. J. J.



Translation

The Federal Republic of Germany  
The Federal Chancellor

Bonn, 7 July 1988

The Rt. Hon.  
Margaret Thatcher, MP,  
Prime Minister of the  
United Kingdom of  
Great Britain and  
Northern Ireland,  
London

Prime Minister,  
Dear Margaret,

Thank you very much for your letter of 18 May assuring me of the support of the British Government in the negotiations on a trade and co-operation agreement between the European Community and Hungary.

At its meeting in Luxembourg on 13 June the General Council reached agreement on a common Community position for the negotiations with Hungary and thus established the basis for their successful conclusion on 30 June.

Yours sincerely,

(sgd) Helmut Kohl



Foreign and Commonwealth Office

London SW1A 2AH

29 June 1988

CJP

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29/6

Dear Charles,

Message from Hungarian Prime Minister

During a call on Mr Mellor yesterday, the Hungarian Ambassador handed over the attached letter to the Prime Minister from Mr Grosz, and asked us to pass it on.

Yours ever

(L Parker)  
Private Secretary

C D Powell Esq  
10 Downing Street

Öexcellenciája  
Margaret Thatcher asszonynak,  
az Egyesült Királyság  
miniszterelnöke

SUBJECT cc Mante  
OPS

L O N D O N

Tisztelt Miniszterelnök Asszony!

Megtiszteltetésnek és kapcsolataink szempontjából biztatónak tartom, hogy Ön megkülönböztetett figyelmet szentel a magyarországi fejleményeknek. Jóleső érzéssel vettem kézhez üzenetét, melyet a Magyar Szocialista Munkáspárt főtitkárává történt megválasztásom alkalmából küldött. Saját politikai életútján bizonyára Ön is érezte már, hogy a nemzetközi támogatás értékes bátorítást ad az új feladatokhoz és megbízatáshoz. Az Ön üzenetét jóindulatú ösztönzésnek tekintem, amire a jövőben is szeretnék építeni. Kérem, fogadja köszönetemet a jókívánságokért, amelyeket szívből viszonzok.

Kedves Miniszterelnök Asszony!

Ezt az alkalmat is megragadom, hogy ismételten megköszönjem azt a figyelmet és gondoskodást, amelyben látogatásom idején engem és kíséretemet részesített.

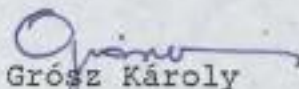
Meggyőződésem, hogy a nyílt, őszinte véleménycserék jól szolgálták a népeink közti bizalom további erősítését, az együttműködés bővítését. Remélem, hogy a találkozásunk eredményeként felszínre kerülő lehetőségeket teljes mértékben kihasználjuk, s bízom abban, hogy Budapesten mielőbb

újra találkozhatunk. Szeretném megragadni ezt az alkalmat, hogy megismételjem Önnek szóló meghívásomat. Bármely kölcsönösen megfelelő időpontban szívesen látom Magyarországon.

Befejezésül szeretném még egyszer kifejezésre juttatni reményemet abban, hogy az elkövetkező évek során módunk lesz további személyes találkozásokra, gyümölcsöző együttműködésre.

Budapest, 1988. június 17.

Őszinte tisztelettel



Grósz Károly  
az MSZMP főtitkára  
a Magyar Népköztársaság  
Minisztertanácsa elnöke



File 560

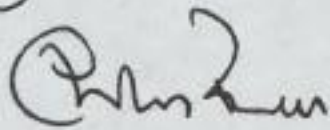
10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

14 June 1988

Dear Lyn,

I enclose a copy of a message which the Prime Minister has received from Mr. Kadar in response to her letter on the occasion of his retirement.

Yours sincerely,  


(C. D. POWELL)

Lyn Parker, Esq.,  
Foreign and Commonwealth Office.

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all

The Rt. Hon. Mrs. Margaret Thatcher  
Prime Minister

Dear Mrs. Thatcher,

I received your kind letter of May 23, on the occasion of my relief of the post of General Secretary. I thank you for your consideration.


Our personal meetings, exchanges of views made deep and everlasting impressions on me. I do agree with your evaluation and I also think that these discussions - in accordance with our intention and just in the right time - have contributed to the improvement of the East-West relations.

May I take this opportunity to wish you good health and all the best.

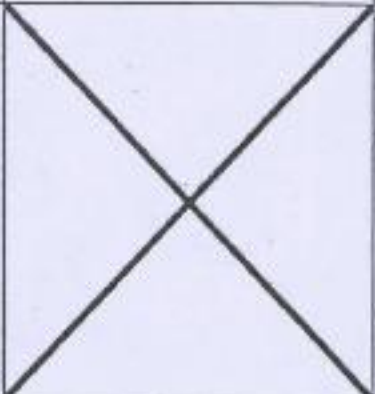
With much respect

János Kádár

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DEPARTMENT/SERIES ..... <i>PREM 19</i> ..... PIECE/ITEM ..... <i>3034</i> ..... (one piece/item number)	Date and sign
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DEPARTMENT/SERIES <p style="text-align: center;"><i>PREM 19</i></p> ..... PIECE/ITEM ..... (one piece/item number) <i>3034</i>	Date and sign
Extract details:  <i>Craddock to Powell dated 9 June 1988 with attachment</i>	
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INFO IMMEDIATE EAST EUROPEAN POSTS, WASHINGTON, UKDEL NATO

HUNGARY: CHANGE OF GENERATIONS

SUMMARY

1. THE DEPARTURE OF KADAR MARKS THE END OF AN ERA. SWEEPING SCALE OF TRANSFORMATION. GROSZ NOW HAS ALL THE AUTHORITY AND POLITICAL BACKING HE NEEDS TO CARRY OUT HIS ECONOMIC REFORM PROGRAMME. OUTCOME SHOULD PROVIDE HUNGARY WITH DECISIVE LEADERSHIP. EXCELLENT RESULT FOR RELATIONS WITH BRITAIN.

DETAIL

MY TELS N0249 AND 250.

2. THE DEPARTURE OF KADAR MARKS THE END OF A DECISIVE ERA IN HUNGARY'S POST-WAR HISTORY AND THE DEFINITIVE PASSING OF POWER TO THE NEXT GENERATION. THE CHANGES FORESEEN IN OUR TELNO 244 BEFORE THE WEEKEND ALL TOOK PLACE, BUT THE SWEEPING SCALE OF THE TRANSFORMATION HAS TAKEN EVERYONE BY SURPRISE. EIGHT OUT OF THIRTEEN POLITBURO MEMBERS WERE VOTED OUT. THIS HAS TO BE ONE OF THE MOST DRAMATIC TRANSFERS OF POWER IN EAST EUROPEAN COMMUNIST HISTORY.

3. GROSZ NOW HAS UNCHALLENGED AUTHORITY AS GENERAL SECRETARY AND PRIME MINISTER. HE HAS ALL THE POLITICAL BACKING HE NEEDS TO PUSH THROUGH HIS PROGRAMME. THE NEW POLITBURO, WHICH NOW NUMBERS ELEVEN INSTEAD OF THIRTEEN MEMBERS, HAS AN OVERWHELMING MAJORITY OF REFORMERS FROM GROSZ'S GENERATION, WITH SUBSTANTIAL ECONOMIC AND MANAGEMENT EXPERIENCE. THE AVERAGE AGE HAS FALLEN FROM 60 TO 53 YEARS. ABOUT A THIRD OF THE CENTRAL COMMITTEE MEMBERSHIP WAS ALSO CHANGED. THE WHOLE OPERATION IS A PERSONAL TRIUMPH FOR GROSZ, WHO SHOWED CONSIDERABLE COURAGE AND DETERMINATION IN PURSUIT OF A HIGH RISK STRATEGY.

4. THE MAIN IMPACT OF THE CHANGES WILL BE FELT IN ECONOMIC POLICY. AS GROSZ TOLD MINISTERS IN LONDON, HE IS RESOLVED TO PRESS AHEAD

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WITH STRUCTURAL CHANGE INCLUDING DRASTIC CUTS IN SUBSIDIES TO LOSS-MAKING INDUSTRIES AND GREATER FREEDOM FOR THE PRIVATE SECTOR AND INDIVIDUAL INITIATIVE. THE NEWCOMERS TO THE POLITBURO, ESPECIALLY POZSGAY, NYERS AND NEMETH, ARE ALL COMMITTED SUPPORTERS OF THIS POLICY. THE IMF HAS NOW AGREED A 370 MILLION DOLLAR STANDBY ARRANGEMENT WITH A TOUGH SET OF CONDITIONS. SO GROSZ HAS EVERY INCENTIVE TO GET MOVING NOW THAT THE CAUTIOUS OLD GUARD HAS BEEN SO COMPREHENISVELY SWEEP ASIDE.

5. IN LONDON AND IN HIS INAUGURAL SPEECH LAST NIGHT, GROSZ ALSO SPOKE OF THE NEED FOR MORE GLASNOST AND DEMOCRATISATION. THE CONFERENCE ITSELF WAS AN EXERCISE IN GREATER OPENNESS SINCE FOR ONCE THE OUTCOME WAS NOT FIXED IN ADVANCE. THE NEW POLITBURO CONTAINS A NUMBER OF FIGURES PROMINENTLY IDENTIFIED WITH POLITICAL REFORM, ESPECIALLY POZSGAY AND NYERS. GROSZ'S OWN INSTINCTS ARE CLOSER TO GORBACHEV'S IN THAT HE SEEMS PREPARED TO ACCEPT A WIDER RANGE OF DEBATE AND CRITICISM, BUT REMAINS DISTINCTLY WARY OF REAL POWER-SHARING. IN PARTICULAR IT WILL BE INTERESTING TO SEE THE EXTENT TO WHICH HE WILL STILL BE READY TO ALLOW GREATER LATITUDE TO PARLIAMENT SINCE HE HAS NOW CAPTURED THE PARTY POWER BASE.

6. KADAR, AFTER 30 YEARS OF OVERRIDING AUTHORITY, HAS BEEN ALLOWED TO WITHDRAW WITH DIGNITY TO A SPECIALLY CREATED HONORIFIC POSITION AS PARTY CHAIRMAN. WITHOUT HIS POLITBURO SEAT HE WILL BE BEREFT OF SUSTAINED INFLUENCE ON POLICY-MAKING. FOR THE LAST 18 MONTHS, HE CLUNG STUBBORNLY TO POWER, SACRIFICING MUCH OF HIS PERSONAL PRESTIGE IN THE PROCESS. AS THE MONTHS PASS I SUSPECT THAT THE MAGNITUDE OF HIS HISTORIC ACHIEVEMENT WILL BE INCREASINGLY RECOGNISED AND HIS REPUTATION WILL BEGIN TO RECOVER.

7. THERE ARE LIKELY TO BE FURTHER CONSEQUENTIAL CHANGES FOLLOWING THE CONFERENCE. WITHIN THE PARTY, FOR EXAMPLE, IT WOULD MAKE SENSE TO APPOINT IVANY (CURRENTLY BUDAPEST MAYOR AND A NEW POLITBURO MEMBER) AS BUDAPEST PARTY SECRETARY IN PLACE OF HAVASI, WHO WAS DROPPED FROM BOTH THE POLITBURO AND CENTRAL COMMITTEE. AT THE STATE LEVEL, PRESIDENT NEMETH, WHO IS NO LONGER EITHER IN THE POLITBURO OR CENTRAL COMMITTEE, MAY HAVE TO BE REPLACED. THERE IS LIKELY TO BE A GOVERNMENT RESHUFFLE. FOREIGN MINISTER VARKONYI, WHO HAS BEEN THERE FOR FIVE YEARS, MAY MOVE ON. IT LOOKS AS THOUGH GROSZ INTENDS TO KEEP THE PRIME MINISTER POST FOR AT LEAST SIX MONTHS, BUT I SUSPECT THAT AT SOME POINT HE WILL RELINQUISH IT IN FAVOUR OF A TECHNOCRATIC MINISTER (EG MEDGYESSY).

8. THE CLEAR-CUT OUTCOME NOW PROVIDES HUNGARY WITH THE DECISIVE

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AND UNITED POLITICAL LEADERSHIP WHICH THE COUNTRY BADLY NEEDS. THE GENERAL REACTION HERE SO FAR HAS BEEN FAVOURABLE, ALTHOUGH THERE MAY ALSO BE SOME APPREHENSION ABOUT THE TOUGH ACTION NECESSARY ON THE ECONOMY. I SUSPECT THAT THE COMPREHENSIVE VICTORY FOR THE REFORMERS MAY BRING SOME COMFORT FOR GORBACHEV AS HE BRACES HIMSELF FOR HIS OWN PARTY CONFERENCE.

9. FROM BRITAIN'S STANDPOINT, THE ELECTION OF GROSZ PLACES IN COMMAND A POLITICAL FIGURE WHO IS AN AVOWED ADMIRER OF MRS THATCHER AND WHO HAS JUST RETURNED FROM A HIGHLY SUCCESSFUL VISIT TO LONDON, IN ITSELF A HELPFUL FACTOR IN THE LEADERSHIP CONTEST.

ALREADY HUNGARIANS ARE SAYING THAT HAVING INVITED GORBACHEV TO BRITAIN JUST BEFORE HE BECAME LEADER, MRS THATCHER HAS DONE THE SAME AGAIN WITH GROSZ.

APPLEYARD

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SIR JOHN FRETWELL

MR RATFORD  
PS/MR MELLOR  
RESEARCH  
PLANNING

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MR POWELL ✓

c Sir Robin Butler

Rie Minister

CBP  
23/5Hungarian Party Conference

The Hungarian Communist Party Conference took place on 20-22 May. It was the first such meeting since 1957. It resulted in a major reshuffle of the Politburo. The Prime Minister, Karoly Grosz, becomes General Secretary, while retaining his Prime Ministership "temporarily" (his own words). Kadar has been booted upstairs to become Party Chairman (a new post), losing his Politburo seat. Virtually all the other members of the "old guard" (including the State President, Karoly Nemeth) have been swept from their seats in the Politburo and the Central Committee, where there have also been a number of changes (although we do not yet have details). Kadar keeps his Central Committee slot. Those Politburo members who have been dropped (altogether 8 out of 13) are replaced by new members committed in varying degrees to reform.

2. It has been clear for some time that a major shake-up might take place at the Conference. There is widespread dissatisfaction in Hungary over recent economic reverses, and the inability or unwillingness of the Party leadership to tackle them. A number of reports have suggested that Kadar was determined to stay in power. He may, however, finally have recognised the inevitable, possibly following a recent Politburo meeting. His own main speech to the Conference recognised that there had been mistakes, and admitted that there was a need to "rejuvenate" the composition of leading bodies. For the rest, however, it was an old-fashioned performance. His new role as Party Chairman is unlikely to be substantial: one of the Politburo survivors, Berecz, has admitted that no-one yet knows what the job involves.

3. The personnel changes seem certain to lead to an acceleration of reform. Some sacred cows are already being slaughtered. Grosz said at the Conference that there could be no guarantee of job security unless workers were efficient. Production had to be profitable. People had to get away from the idea that the state would always help them out. Another of the new appointees, Rezső Nyers, told the Conference that he believed that Hungary was moving towards a "Socialist market economy".

4. The appointment of Poszgay to the Politburo seems to confirm that reform will also go well beyond the economy alone. Poszgay has maintained links to dissident groups while serving as Secretary-General of the Patriotic Peoples' Front, and is committed to giving more power to the Hungarian Parliament. He also favours a greater role for referenda. Nyers is reported even to believe that a multi-party system is inevitable in Hungary, although not in his lifetime (he is 65). Grosz ruled this out in his Conference speech (not surprisingly), but also claims to favour making Hungary's political structure more open and flexible, and apparently takes a fairly benign view of people who are anxious to establish "free associations", provided that they are not "opposed to socialism" (Kadar, by contrast, denounced such groups in his Conference speech).

5. Gorbachev has sent a warm message of congratulations to Grosz on his appointment. Gorbachev may well feel pleased at the success of the "reformist" camp in Hungary. But Soviet hardliners may see, in Grosz's success, a further dangerous step, with uncertain consequences for the future; and hence an illustration of the riskiness of over-vigorous reform. They can probably comfort themselves, however, with the thought that the election arrangements for the Soviet Party Conference (due to begin on 28 June) are likely to preclude any such sweeping changes in senior personnel in the USSR.

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*SUBJECT CC MASTER  
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**PRIME MINISTER'S**

**PERSONAL MESSAGE**

**SERIAL No.** *T80/88*

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TO DESKBY 231000Z BUDAPEST

TELNO 181

OF 230835Z MAY 88

INFO ROUTINE MOSCOW, EAST EUROPEAN POSTS, WASHINGTON, PARIS

INFO ROUTINE UKDEL NATO, UKREP BRUSSELS

TELECON HARBORNE/LEWIS: ELECTION OF NEW SECRETARY GENERAL

1. NO 10 HAVE APPROVED THE FOLLOWING MESSAGE FROM THE PRIME MINISTER TO GROSZ. BEGINS:

I SEND YOU MY WARMEST CONGRATULATIONS ON YOUR ELECTION AS GENERAL SECRETARY OF THE HUNGARIAN SOCIALIST WORKER'S PARTY. I KNOW FROM OUR RECENT TALK IN LONDON THAT YOU WILL TACKLE YOUR NEW TASKS WITH ENERGY AND DETERMINATION. I WISH YOU EVERY SUCCESS WITH THE CHALLENGES FACING YOU AND YOUR COUNTRY. ENDS.

2. PLEASE LET US KNOW AS SOON AS MESSAGE HAS BEEN DELIVERED.

HOWE

YYYY

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QO K.

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10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

23 May 1988

I enclose the signed version of the  
Prime Minister's message to Mr. Kadar.  
I should be grateful if you could arrange  
for it to be despatched as soon as possible.

(CHARLES POWELL)

Lyn Parker Esq  
Foreign and Commonwealth Office



10 DOWNING STREET  
LONDON SW1A 2AA

THE PRIME MINISTER

23 May 1988

*Dear Mr. Kadar,*

As you lay down the day-to-day burdens of office, I would not like this moment to pass without paying a personal tribute to your achievements. I recall with particular pleasure my own visit to Hungary and your own visit here and the conversations which we had. I believe they played an important part in the current improvement in East/West relations.

I send you my best wishes for your health and happiness in the years ahead.

*Kind regards*

*Yours sincerely*

*Margaret Thatcher*

His Excellency Mr. Janos Kadar



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INFO IMMEDIATE EAST EUROPEAN POSTS, WASHINGTON, UKDEL NATO

MIPT : HUNGARIAN PARTY LEADERSHIP RESHUFFLE : COMMENT

SUMMARY

1. HARD-WON VICTORY FOR GROSZ AND HIS GENERATION. VIRTUALLY ALL OF KADAR'S OLD GUARD HAVE BEEN SWEEPED FROM THE POLITBURO, WITH SOME EVEN LOSING THEIR CENTRAL COMMITTEE SEATS. GROSZ, WHO SUCCESSFULLY PLAYED A HIGH RISK GAME, NOW HAS THE AUTHORITY AND POLITBURO BACKING TO PUSH THROUGH HIS REFORM PROGRAMME. KADAR RETAINS ONLY AN HONORIFIC POST OUTSIDE THE POLITBURO. A PERSONAL TRIUMPH FOR GROSZ.

DETAIL

2. WE SHALL WANT TO COMMENT LATER AFTER DISCUSSING THE CHANGES WITH HUNGARIAN CONTACTS. NEVERTHELESS, YOU MAY FIND IT USEFUL TO HAVE A RAPID REACTION.

3. THE RESHUFFLE REPRESENTS A HARD-WON VICTORY FOR GROSZ AND HIS GENERATION. WITH THE EXCEPTION OF SZABO ALL OF KADAR'S OLD GUARD HAVE BEEN REMOVED FROM THE POLITBURO INCLUDING KADAR HIMSELF. WE MANAGED TO HAVE STONEMAN (INFORMATION OFFICER) ACCREDITED TO THE PRESS CENTRE, SO THAT HE SAW MOST OF THE PROCEEDINGS ON CLOSED CIRCUIT TELEVISION. IT SEEMED CLEAR THAT KADAR WAS UNWILLING TO GO, AND HE PROBABLY PUT UP A STIFF FIGHT BEHIND THE SCENES. HIS NEW POST AS CHAIRMAN OF THE PARTY, WHICH I BELIEVE IS UNPRECEDENTED, IS AN OBVIOUS HONORIFIC FUNCTION TO PERMIT HIM A DECENT DEPARTURE FROM THE CENTRE OF POWER.

4. THE NEW POLITBURO LOOKS STRONGLY REFORM-MINDED WITH THE INCLUSION OF REFORMERS AMONG THE YOUNGER GENERATION OF EXISTING MEMBERS AND THE PROMOTION OF FIGURES PUBLICLY IDENTIFIED WITH RAPID CHANGE LIKE POZSGAY, NYERS AND MIKLOS NEMETH. THE PROMOTION OF IVANYI AND MRS TATAI WAS NOT EXPECTED THOUGH THEY ARE POPULAR FIGURES. THE POSITION OF PRESIDENT NEMETH MUST NOW COME UNDER SCRUTINY. HE HAS LOST HIS POLITBURO SEAT AND TRADITIONALLY THE PRESIDENT HAS NORMALLY BEEN IN THE POLITBURO. THE SELECTION OF PARTY SECRETARIES IS UNSURPRISING, BUT MAINTAINS THE ACCENT ON REFORM WITH THE POSSIBLE EXCEPTION OF PAL, WHO IS ESSENTIALLY A RATHER ACADEMIC FIGURE IN CHARGE OF SCIENCE AND TECHNOLOGY.

5. SO THE PRINCIPAL VICTOR IS CLEARLY GROSZ WHO SUCCESSFULLY

PLAYED A HIGH RISK GAME. HE NOW HAS THE PERSONAL AUTHORITY AND THE POLITBURO BACKING TO PUSH THROUGH HIS ECONOMIC REFORM PROGRAMME. OTHER WINNERS ARE POZSGAY, WHO PLAYED AN EQUALLY CLEVER GAME, AND NYERS, WHO HAS ALWAYS BEEN A SYMBOL OF POLITICAL AND ECONOMIC REFORM. THE MAIN LOSERS, APART FROM KADAR, ARE LAZAR, GASPAR, KARDLY NEMETH, DVARI, ACZEL, HAVASI AND MAROTHY, WHO WERE ALL DROPPED FROM THE POLITBURO. GASPAR, LAZAR, DVARI AND HAVASI APPEAR EVEN TO HAVE LOST THEIR CENTRAL COMMITTEE SEATS, THOUGH WE WILL NEED TO CHECK THIS.

6. THE CONFERENCE ITSELF WAS A MIXTURE OF OLD-FASHIONED CENTRALISM AND NEW-STYLE TOLERANCE OF CRITICISM. THE SPEAKERS COULD BE CLASSIFIED INTO TWO BROAD GROUPS: THOSE WHO WANTED WIDER POLITICAL REFORM AND THOSE WHO SIMPLY WANTED TO MAKE THE EXISTING STRUCTURE MORE EFFICIENT. BOTH GROSZ AND POZSGAY MADE EFFECTIVE SPEECHES ON THE SECOND DAY, WITH POZSGAY DRAWING THE LONGEST APPLAUSE OF ALL. KADAR MADE A RAMBLING UNSCRIPTED SPEECH ON THE THIRD DAY WHICH CLEARLY LEFT HIS AUDIENCE BORED AND UNIMPRESSED. THE DRAFTING OF THE CANDIDATES LIST TOOK MUCH LONGER THAN EXPECTED AND IT LOOKS AS THOUGH IN THE FINAL STAGES OF THE PROCEEDINGS THE GLOVES REALLY CAME OFF.

7. I AM MOST GRATEFUL FOR THE WAY IN WHICH THE CONGRATULATORY MESSAGE TO GROSZ WAS CLEARED WITH EXEMPLARY PROMPTNESS. I WILL DELIVER IT FIRST THING TOMORROW.

APPLEYARD

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BYHPAN 3797

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**HUNGARIAN PARTY LEADERSHIP RESHUFFLE**

SUMMARY

1. KADAR REPLACED BY GROSZ AS GENERAL SECRETARY AND LOSES HIS POLITBURO SEAT. GROSZ CONTINUES AS PRIME MINISTER AS WELL FOR THE PRESENT. VIRTUALLY CLEAN SWEEP OF OLD GUARD. COMMENT IN MIFT.

DETAIL

2. THE HUNGARIAN LEADERSHIP RESHUFFLE TURNED OUT TO BE CLOSELY ON THE LINES OF MY TELNO 244. THE MAIN POINTS ARE THAT KADAR HAS FINALLY AGREED TO GIVE UP HIS GENERAL SECRETARY POST IN FAVOUR OF GROSZ WHO IS SIMULTANEDUSLY PRIME MINISTER AS WELL, AT LEAST FOR THE TIME BEING. KADAR BECOMES CHAIRMAN OF THE PARTY, BUT HAS LOST HIS POLITBURO SEAT.

3. THE NEW POLITBURO REPRESENTS A VIRTUAL CLEAN SWEEP OF KADAR'S OLD GUARD. IT INCLUDES THE FOLLOWING PREVIOUS MEMBERS: BERECZ (AGITPROP), CSEHAK (HEALTH), GROSZ, HAMORI (YOUTH), SZABO (AGRICULTURE). THE FOLLOWING NEW MEMBERS HAVE BEEN ELECTED: POZSGAY (PATRIOTIC FRONT), NYERS (THE FATHER OF THE 1968 REFORM), LUKACS (PARTY ORGANISATION), MIKLOS NEMETH (ECONOMY), MRS TATAI (FACTORY MANAGER) AND IVANYI (CURRENTLY MAYOR OF BUDAPEST).

4. THE FOLLOWING WERE ELECTED PARTY SECRETARIES: BERECZ, FEJTI, LUKACS, MIKLOS NEMETH, PAL AND SZURDS. ALL WERE ALREADY PARTY SECRETARIES.

5. COMMENT IN MIFT.

APPLEYARD

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EED 6  
SOVIET 5  
SIR JOHN FRETWELL 1

Mr Powell, No 10



*With the compliments of*

THE PRIVATE SECRETARY

The Foreign Secretary  
thought you - and possibly  
the Prime Minister - might  
be interested to see this.

*Highwater*

FOREIGN AND COMMONWEALTH OFFICE

SW1A 2AH

29/9.



*e OR*  
*29/4*

## HUNGARY: TURNING-POINT AND REFORM

## SUMMARY

1. Main pressures for basic change come from inside Hungary. Economic decline is prime motive force. Gorbachev effect intensifies existing tensions in leadership and society (paragraphs 1-4).
2. Communist Party as focal point for conflicting pressures. Latest leadership reshuffle was cunning tactical victory for Kadar. Yet political system increasingly perceived to be incapable of coping with changing world. Erosion of Party's authority and Kadar's popularity (paragraphs 5-6).
3. Widening debate on political reform inside and outside Party. Parliament and Patriotic People's Front could become potential channels for genuine expression of public opinion. Disquiet in trade unions, middle class and youth (paragraphs 7-13).
4. Hungary faces next twelve months with greater sense of uncertainty and foreboding than for many years. Daunting task for Grosz's Government to implement the austerity programme and to restore confidence and national consensus. Shift in mood of country in last three months. Spirit of brooding pessimism (paragraphs 14-16).
5. Your September 1985 Despatch still valid. Main practical measure for us to encourage Grosz to opt for more deregulation and market forces. Your Budapest speech. Need to strengthen contacts. Odds still in favour of peaceful evolution towards more pluralist society. If Government mishandles its difficult task, the odds could begin to shift (paragraphs 17-18).

BUDAPEST  
24 AUGUST 1987



British Embassy  
BUDAPEST

24 August 1987

The Rt Hon Sir Geoffrey Howe QC MP  
Foreign and Commonwealth Office  
LONDON SW1

Sir

HUNGARY: TURNING-POINT AND REFORM

1. Kadar stated last month that Hungary had reached a watershed. Certainly the nation faces a time of difficult decisions with pressures for fundamental change intensifying from within Hungary and from outside. The Party itself is debating the next stage of economic and political reform based on a report "Turning-Point and Reform", which makes an apt title for this despatch. As the new Government braces itself for a testing winter, this seems a suitable moment to examine these complex processes, and to try to offer some insights into the prospects for the months ahead. The Duke of Wellington wisely observed over 150 years ago that "beginning reform is beginning revolution". How the leadership handles the next phase of reform will have a crucial bearing on the country's future.

Economic Pressure

2. The main pressures for basic institutional change come from inside Hungary. The prime motive force is the rapidly deteriorating state of the economy and the mounting debt burden. From the middle of 1985 the economy slipped into a steep decline. The slide stemmed directly from the disastrous decision, taken by Kadar himself at the March 1985 Party Congress, to abandon an austerity programme that was beginning to work in favour of concessions to the consumer. The resulting consumer boom at home was largely financed by borrowing abroad. A few key figures will illustrate the parlous state of the economy. Last year the budget deficit (\$1 bn) was twice the original target. The hard currency current account deficit reached a record level (\$1.4 bn), larger even than during the liquidity crisis in 1982. Hungary's total borrowing in 1986 amounted to \$3.8 bn, bringing the country's gross external debt stock to \$16 bn. Hungary

/is still ...



is still able to borrow, mainly from the Japanese banks. The debt maturity profile has improved. But interest rates have been raised, and the loans are becoming more difficult to put together. The decline in performance has continued so far this year, although there have been some recent signs of a partial improvement. It looks as though Hungary may need to borrow around \$2.5 bn every year for the next four years to stay afloat.

3. No wonder, faced with this bleak reality, that even Kadar himself has had to accept that radical corrective action can no longer be postponed. After a couple of botched attempts, and the waste of nearly two years of irreplaceable time, the Party has now given the Government the daunting task of implementing a formidable two-phase austerity programme. The first phase, due to last three or four years, will consist of short-term corrective measures. Phase two, which will overlap, will involve more fundamental industrial restructuring. Under phase one, the prices of nearly all staple consumer items have already been significantly increased this year - by about 20% on average. Rumours are going round about more consumer price rises, cuts in spending on public transport and social services and another autumn devaluation. The Government is also committed to reducing the subsidies which at present prop up an army of loss-making nationalised industries. This could lead to the closure of some major enterprises under the new Bankruptcy Law. Estimates vary widely on the total number of lay-offs which could be involved. The Government has released no figures, but officials talk in private about 100,000 people eventually becoming temporarily unemployed. Whatever the global total, the process could involve some concentrated pockets of unemployment in regions heavily dependent on traditional industries. The Government has also committed itself to an ambitious programme of tax reform from 1 January 1988. The programme includes the introduction, for the first time in a Communist country, of personal income tax and VAT, though without the parallel changes in the price and wages structures which are equally essential. The underlying aim is to maintain revenue levels but to shift the main tax burden from profitable companies to the individual consumer. There is widespread recognition that drastic action is required to drag the economy back onto the rails. But the Government's programme will reduce the living standards of many sections of the population, and is bound to be unpopular.

#### Gorbachev Effect

4. Before looking in more detail at the growing pressures inside Hungarian society, it is perhaps worth dealing briefly with the pressures from outside. The most obvious change has been the advent of a younger, reforming leader in the Soviet Union. After some initial hesitation, and despite continuing fears about his political survival, the Hungarian leadership has unreservedly supported Gorbachev's reform policies. They see his internal programme as a vindication of the lonely road pioneered by Kadar for the past

/30 years. ...



30 years. They believe that his foreign policy offers the best hope for a desperately needed period of stability in international relations, and for Hungary to increase her own room for manoeuvre, particularly in CSCE. They are especially keenly interested in conventional force reductions. They reckon that such reductions would improve the East-West climate (thus easing Hungary's access to Western finance, markets and technology), reduce the burden of military spending on the budget and possibly provide the distant vision of Soviet troop withdrawals. Yet at the same time, Gorbachev's youth and innovative vigour offer a stark contrast to Kadar's position as a figure dating way back to the era of Eisenhower and Krushchev. Gorbachev's sweeping rhetoric about openness and democratisation has created rising expectations in broader society and encouraged the radical reformers inside the Party to press for more rapid political change. In Hungary, unlike in the Soviet Union, the pressure for reform comes from below, the inertia from above. On the economic front, the insistent demands for the supply of more high-quality goods to the Soviet Union have come at a very bad moment for Hungary. Finally, Gorbachev's programme has seemed to many Hungarians to challenge the fundamental values, doctrines and very nature of the Communist system. The Communist Party's claim to a monopoly of power is based on the supposedly unique correctness of Marxist doctrine, and the concept of the single truth. Glasnost and the tolerance of diversity appear to mark the beginning of a tacit break with the classic Bolshevik concept of a vanguard Party leading the untutored and unseeing masses. After all, in Prague recently Gorbachev conceded that "no single Party has a monopoly of truth". Articles in the Soviet press by Shmelyov and others, implying that "the experiment has failed", have had an unsettling effect in Hungary, a country which is deeply imbued with Western values and where orthodox Marxism has never had much of a real hold. So the net effect of Gorbachev's ideas has been to intensify existing tensions within the Hungarian leadership and society as a whole.

#### Communist Party

5. The Communist Party is the focal point for all these internal and external pressures. It alone can decide the pace of change. Yet the Party itself is bitterly divided and seemingly incapable of coping effectively with generational change. From our regular contacts with the Party Secretariat we detect a burgeoning crisis of confidence, especially among the younger and abler officials. The latest leadership reshuffle in July, which brought in Grosz as Prime Minister, was a cunning tactical victory for Kadar. He retained the band of complacent old cronies with whom he feels comfortable and who support him in the Politburo. Once again he beat off a determined attempt by the Party machine to make him accept an heir apparent in the shape of Grosz as Deputy Party leader.

/Instead, ...





Instead, he deliberately kept the succession race wide open by promoting Berecz to the Politburo as a counterweight to Grosz. In doing so, he signalled his intention to soldier on until the next Party Congress in 1990. Admittedly, by making Grosz Prime Minister he has put in to the key position the leading Party official most capable of providing the energy, determination and political skills necessary to implement the economic recovery programme. Yet at a moment when the country was crying out for decisive, revitalised leadership Kadar opted for a dose of political sleight-of-hand, blatantly designed to keep himself in power in his 75th year. To many people these manoeuvres must seem like a fist-fight on the deck of the Titanic. A senior official privately echoed the popular mood when he cynically dismissed the reshuffle as "same girls, different rooms".

6. Many people in the Party, as well as outside, realise full well the longer-term implications of the Party's failure to act in a timely and decisive fashion. One of Kadar's uncontested achievements has been the modernisation and humanisation of Hungarian Communist society. But the leadership has not succeeded in creating a political system to manage such a complex society in a rapidly changing world. More particularly, it has not proved able to cope with the growing incompatibility between an increasingly pluralist economy and a rigid one-Party political structure. Or to manage the switch from a Marxist shortage economy towards a modern growth economy where market forces are allowed to operate freely. Kadar's method has been to avoid strife in decision-making. Given Hungary's geopolitical position, and its turbulent recent history, this may often have been the sensible choice. But it has meant that reforms have consistently fallen short of their stated objectives. This policy worked pretty successfully when conditions in the world economy were favourable, when the environment around Hungary was relatively static and when additional domestic resources could be mobilised through the second economy. Now the trends in the world economy have moved against Hungary, especially in the vital agriculture sector. The potential of the second economy remains limited by the encircling forests of legislation and by the inability of ordinary human beings to hold down two or three jobs indefinitely. Faced by pressing problems in their daily lives, many Hungarians have been deeply disillusioned by the Party's repeated hesitation over reforming the outdated economic and political structure. The most famous dramatist of the Austro-Hungarian Empire, Grillparzer, could have been describing the general feeling in Hungary now when he wrote of the Habsburgs: "Here is the curse upon our noble house, on half-trod ways to half-done deeds we strive uncertain, with but half our means". From our contacts with Hungarians at all levels of society we detect an increasing disposition to blame Kadar personally and the Party as a whole for allowing the country to get into the present mess by not taking corrective action much earlier.

/There is ...



There is also a widespread lack of confidence that the leadership will necessarily get it right in future. The realisation is growing that, at a key moment when popular pressures for reform are accumulating, the weakened state of the economy may dictate restrictive policies which make further reforms even more difficult to implement.

### Political Reform

7. The Party has taken some account of the rising popular impatience with the incompetence of the present system and the tidal surge in favour of democratic change. It was Gorbachev himself who said "we must learn to live in democratic conditions". Many people in the Party machine have been looking for ways of injecting greater pluralism into the system without altering the basic structure: enhanced consultation but no real power-sharing. The tradition of reform in Communist societies has been a pendulum motion of steady advance, followed by sudden repulsion as the barriers surrounding the leading role of the Party are touched. Such discussion inevitably pushes the Party up against the dangerous issue of its own legitimacy. In Hungary this turns on the tragic and ignoble events of 1956: still the dominant factor in contemporary politics. The report "Turning-Point and Reform" includes some pretty radical proposals to bring about a basic shift in institutional power. It argues that the Party's constitutional position should be confined to overall policy guidance, leaving implementation to Party members active in economic organisations, Government, representative bodies and the media. The Party should no longer be able to call the implementing bodies to account for their decisions "on a basis of subordination". Party, Government and representative functions should be separated organisationally and personally at all levels. Within the Party elected and representative bodies should have greater weight vis-a-vis the apparatus. Different currents of opinion should be permitted and alternative economic and political positions formulated. Candidates for Parliament should be allowed to stand for election on an independent programme and permitted to form groups in Parliament where the legislative function should be concentrated. The rights of organisations and individuals should be recognised and guaranteed. The Government's position should be strengthened with the scope of its authority legally defined. Informal control of the press should be replaced by a clear and transparent information policy.

8. The report reflects a wider ferment about constitutional change in the academic world, the democratic opposition and in the margins of the Party itself. The samizdat press, eagerly read by Party leaders, contains some wide-ranging ideas for fundamental change, mainly expressed in the magazine Beszelo (Speaker). In the Party's own theoretical journal last month a Budapest academic, Istvan Schlett, outlined ideas for a civil society or rechstaat.

/This would ...



This would be based on laws which would define the citizens' rights and obligations in a clearly comprehensible and publicly-known fashion. The scheme would abolish the (little used) arbitrary features of the present system and mark a step towards a more modern polity in line with Hungary's European traditions. The Party has so far kept its internal debate shrouded in secrecy apart from announcing that the leading role of the Party will be on the agenda of a Central Committee meeting next month. There are still plenty of people in the Party machine who fear that democratisation will weaken discipline and lead to a loss of control. Nevertheless, outside the Party the tide of opinion in favour of reform is beginning to gather pace.

#### Parliament

9. Many Hungarians increasingly see Parliament as one potential channel for the growing demand for a central forum which reflects more truthfully the real views of ordinary people. This may seem a surprising view to take of a Parliament which meets only four times a year, for two days at a time, making eight days a year in all. Yet, there are some belated but welcome signs of new life stirring. In 1985 the Hungarians made multi-candidate elections to Parliament compulsory. All the candidates have to be vetted by the Party, but many are not Party members. The elections themselves do not seem to be rigged. Senior political magnates can no longer expect to be elected as a perk of office if they do not nurse their constituencies. The effect of this change has been gradually to give MPs a keener sense of accountability to their electors, and less of a feeling of blind obligation to the Party for patronage. This attitude has become firmer in recent months as the economic situation has worsened. For example, when the Government changes involved in the recent Party reshuffle were presented to Parliament, the managers were so worried that this would no longer be the traditional rubber-stamp exercise that for the first time the vote was held in closed session. In the event the changes were approved but the procedure, and the unsatisfactory nature of the changes themselves, so infuriated the House that an unprecedented number of MPs voted against or abstained on Government business in the subsequent debates on the finance and justice bills. The Minister of Finance is expected to have an even rougher ride over the Government's tax proposals when Parliament meets in mid-September to debate the Government's economic programme. As a leading member of the democratic opposition wrote recently: Parliament is still far from being a democratic body, but it is coming to mirror the country.

/PPF ...



### PPF

10. The other organisation which could become a more potent outlet for public opinion is the Patriotic People's Front (PPF). The PPF was originally set up as a Party-dominated front organisation to sweep in all the other political parties not proscribed by the Communists. Since the arrival of its present Secretary General, Imre Pozsgay, the PPF has taken on a distinctly different role, amounting in some people's eyes to a quasi-opposition Party. The PPF has always had formal responsibility for election procedures. Under Pozsgay's leadership the PPF promoted and managed the introduction of multi-candidate elections, with the effects I have just described. The PPF was the guiding spirit behind the "Turning-Point and Reform" report. The authors came from the Ministry of Finance's Institute of Financial Studies, which the Party Agitprop Department wanted to close down. In the event the authors are now trying to set themselves up in private practice as consultants. Pozsgay himself is Hungary's closest equivalent to a major Western politician. He was sent to the PPF as a form of political exile for independent behaviour as Minister of Culture. He is now an immensely popular national figure who has simultaneously tapped into the nationalist/populist mainstream of the countryside and the liberal reformism of the urban intellectuals. For some people he seems like the reincarnation of Imre Nagy. Not surprisingly, perhaps, he is bitterly disliked by the Party machine. He freely admitted to me recently that he stands no chance of coming to power by going up the Party ladder. He says he accepted that he could only take over at a time of crisis, but is reluctant to force the crisis.

### Trade Unions

11. There is no doubt that for the Party leadership the two most sensitive and important sectors of society are the Trade Unions and the middle class. The Trade Unions have traditionally been a privileged arm of the system, with their leaders enjoying senior positions in the Party. The leader of the Hungarian TUC (SZOT) is an ageing member of Kadar's Gang of Four in the Politburo. The Trade Union leadership has always included some of the most hide-bound advocates of inertia, voicing fears that any reform would unleash centrifugal forces the Party could not control. SZOT has normally functioned as a downward transmission belt for Party instructions and a guarantor that the prevailing order of low pay, subsidised prices and undemanding responsibilities would be maintained for its members. This cosy arrangement has already been eroded substantially by Kadar's economic reforms. These have allowed workers to use factory machines legally after hours for private contract work in the second economy. The sanctioning of the second economy has created large, ever-widening income disparities. In addition, workers could now face a combination this winter of higher prices and enforced redundancies. Many consider

/that this ...



that this would be a betrayal of the Marxist commitment to full employment. Others robustly argue that this shows the system has failed. Some workers will probably also be hit by the tax proposals as well, though not many seem to have tumbled to this yet. So the workers face a markedly unsettling period ahead, both materially and psychologically. So do the Trade Unions who may find themselves for the first time having to stand up for the workers against official policy. There have been unconfirmed rumours of labour unrest in several cities. There have also been some public rumblings of discontent from the Trade Unions. Their leaders are lobbying hard behind the scenes to build in as many exceptions to the programme as possible in order to blunt the impact.

### Middle Class

12. For long it has been an index of Kadarism's success that Hungary only has a handful of dissidents who have been prepared to voice their dissatisfaction in public through samizdat and occasional demonstrations. But behind the so-called democratic opposition there is a great body of teachers, writers, journalists, academics, lawyers, and professional people who have lived reasonably comfortably with the system for thirty years. It has given them a substantial measure of prosperity and personal freedom compared with their Eastern neighbours. Most have done well enough out of the system not to want lightly to place in jeopardy the life which they have carved out for themselves. Yet, ironically thanks to the relatively open society created by Kadar, these are the people who have a sophisticated understanding of a pluralist Western political and economic system, and the benefits which it brings. Their own history and cultural links exert a powerful gravitational pull towards the West. The standards they set themselves relate to life in Vienna and Frankfurt, not Moscow or Prague. They find it disillusioning and shameful, for example, that Hungarian glasnost cannot probe into 1956 at least until Kadar goes. As the film-maker Eisenstein remarked bitterly "truth always triumphs in our lives, but often our lives are not long enough". They are in no doubt about the need for basic systemic change. Their views are at present best reflected by Pozsgay and the PPF, and more hesitantly and obliquely in Parliament. The urban liberal intellectuals are now being increasingly attracted by the surging current of nationalist/populist ideas. They are the audience for the academic journals, the more daring economic reviews and papers circulated privately. On the practical level, many of the middle class have transparent incomes, and reckon they will be unfairly hit by the tax proposals. The economic managers and entrepreneurs, who provide the impetus to the Kadar reforms, are increasingly alarmed at the idea that the tax inspectors might be let loose on their books. They do not want to give up their hard-earned BMWs or fashionable holiday villas dotted in the Buda Hills. So the reform-minded middle class is increasingly apprehensive about the likely double impact on them of higher prices and personal income tax.

/Youth



### Youth

13. The Hungarian leadership keeps a pretty wary eye on the views of the younger generation. The Communist Youth Organisation (KISZ) functions more as a defender of the practical interests of its members than as a Party propaganda machine. In the relatively liberal Communist society of Hungary, where the privileges of Party membership must be among the most modest anywhere in this part of the world, KISZ has to compete hard to attract any members. The General Secretary is the statutory younger man in the Politburo. He has taken an increasingly outspoken pro-reform stance, partly no doubt mirroring the views of his members. But the quiescence in the campuses which has characterised the last thirty years may be changing. Hungarian youth has been fed on a diet of Queen pop group, Formula One races, Woody Allen films, Jesus Christ Superstar, and, shortly, Crocodile Dundee and MacDonalds' hamburgers. The present generation of students seems more questioning and more concerned with universal moral values than the previous rather materialist and depoliticised generations who had to pick up the pieces in their private lives after 1956. Pozsgay has recently been going round making more openly critical speeches to student audiences. Even in the churches the formation of "base communities" (groups of young believers outside the hierarchy) is causing a new level of ferment. In the Catholic Church, the new somewhat pliant Archbishop is under pressure from the Vatican and from the younger grass-roots clergy to play a more Polish role.

### Prospects

14. Hungary now faces the next twelve months with a greater sense of uncertainty and anxious foreboding than for very many years. Grosz and his Government, which is soon to be reshuffled, face a truly daunting task. If the Government's austerity programme and tax proposals are implemented as planned, they risk provoking resentment in a remarkably broad sweep of the population, ranging from the middle classes in state and private enterprises to workers in town and country. It will take all Grosz's undoubted vigour and determination to force through the restructuring of Hungarian industry, still suffering from the Soviet legacy of muddle, bureaucratisation, low productivity and misdirected investment. Grosz may decide to delay implementation of the tax proposals in view of the reaction from Parliament and from other social organisations. He will doubtless want to push hard for an agreement with the EC. He will have to come to some accommodation with the IMF, probably in the form of a Standby Arrangement in the late autumn. The resulting IMF conditionality may turn out to be a useful ally - and scapegoat. Even then the country could still run into a balance of payments crisis next year. Nor can Grosz be sure that his rivals for the succession will give him the backing he needs to pull the country through. He obviously realises that he

/is pursuing ...



is pursuing a high-risk strategy. But he has little choice, since this is make or break for him: if he fails to deliver Kadar will try to dump him. He must also be acutely aware that the charismatic figure of Pozsgay is waiting in the wings to answer a summons to save the nation.

15. Yet in addition to all these formidable practical difficulties, Grosz faces an even greater problem. A subtle but profound shift has taken place in the mood of the country in the space of the past three months. There is a growing expectation of change but a brooding sense of pessimism about the ability of the system to manage the change justly and successfully. As the people return to reality after the summer break alongside Lake Balaton they face a winter of rising prices, falling living standards and higher taxes. If the tax proposals simply drive entrepreneurs out of the second economy, as many people fear, the results could be little short of catastrophic. If the special interest groups in the system riddle the Government's programme with loopholes the long-run effect will be damaging. Grosz needs to instill a sense of confidence in the population that hardship now will be rewarded by future prosperity. He clearly understands this all too well, and will set about the task briskly. However, the waves of radical rhetoric spreading out from Moscow could have the paradoxical effect here of reinvigorating pressures for more radical institutional change, at a moment when the Party is likely to be arguing that constitutional reform is a luxury the country cannot afford. I suppose no political power group readily self-destructs for the greater good. I do not think that Grosz and his team will be instinctively receptive to the ideas in "Turning-Point and Reform". When last I saw him a month ago he implied he will go for the minimum political reform which he can get away with. He may seek to strengthen the independent role of the Government, and possibly Parliament, as a tactical device to compensate for his lack of a secure majority in the Politburo. This would lead to more of a polarisation between the Party and Government, which many reformers would regard as a favourable development.

16. In the longer run, most Hungarians, I believe, would settle for reverse Finlandisation as their ultimate goal: ie getting to the position of the Finns, but starting from the other end. They will want this process to occur by gradual peaceful evolution, and not by violent destabilisation. But if over a period of time the Government's programme bites really deep into living standards, if the burden is thought to be unfairly distributed, and if people get the idea (however mistaken) that under Gorbachev the threat of Soviet intervention is less inhibiting, then the Government could begin to face a formidable new political challenge. The possibility that some unforeseen flashpoint event (eg a prolonged major strike or worker occupation in a large enterprise scheduled for closure) could crystallise any ambient discontent at some time in the future can no longer be excluded. The very fact that for the first time our Hungarian contacts are now speculating about the possibility of

/political ...



political turbulence, or an economic crisis drifting into a crisis of the regime, illustrates the magnitude of Grosz's task and the urgent need for him to recreate a new national consensus if he is to succeed.

### British Policy

17. I do not believe that the ferment and uncertainty of the current scene challenge the basic validity of your Despatch of September 1985. By Communist standards Hungary for the past thirty years has evolved into a relatively settled, tranquil and liberal society based on a pragmatic consensus between the ruling Party and people. We need to take account now in our calculations of the new atmosphere here created by internal economic and political developments, the reverberations of Gorbachev's reform programme, the revival of Magyar nationalism and the progressive erosion of Marxism as a credible operating ideology. There are some obvious parallels too with the trend of events in Poland and Yugoslavia. The main practical measure we and other EC countries can take, I suggest, is to continue to encourage Grosz and his team to opt for "escaping forwards" (in Pozsgay's graphic phrase) towards greater decentralisation, liberalisation, deregulation and privatisation of Hungarian political and economic life. Your speech in Budapest in March, which carried this message, was widely read and commented on in private. Britain has a position of special authority in Hungarian minds. When Grosz visits London next year he will come as an avowed disciple of the Prime Minister's successful policy of restructuring and revitalising the British economy. We have been told, for example, that in case of need the Communist Party here is urgently studying how the British Government broke the miners strike - an ironic footnote to the tragi-comic history of Scargillism. To achieve our aims we need to continue to maintain and strengthen our contacts, especially at the key Ministerial level, but also across the board. In this task our cultural and technological links are a major asset. These contacts must include the democratic opposition whose role is likely to increase with time.

### Conclusion

18. Your watchwords for dealing with Gorbachev - realism, vigilance and an open mind - apply equally here. We rightly want to see the system change: and change it inevitably will. I do not believe that the process can now be stopped, still less reversed. In a region of paramount strategic sensitivity, we want this to come about by the ebb and flow of peaceful incremental evolution

/towards ...





towards a more pluralist society. When I came here a year ago I thought the odds were strongly in favour of orderly transition, though with some inevitable zigzags on the way. I think they still are, since most people have too much at stake to want to risk a repeat of 1956. But if the Government badly mishandles its difficult task, the odds could start to shift.


19. I am sending copies of this despatch to HM Representatives at Moscow, East European Posts, Washington, Bonn, Paris, Rome, UKDel NATO and UKRep Brussels.

I am, Sir, yours faithfully

*L V Appleyard*

L V APPLEYARD

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EMBASSY OF THE HUNGARIAN PEOPLE'S REPUBLIC  
LONDON

25, EATON PLACE,  
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01-286 7191/4048

66/1987

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T133A/87  
6th July, 1987

CDO  
13/7

The Embassy of the Hungarian People's Republic presents its compliments to the Foreign and Commonwealth Office of the United Kingdom of Great Britain and Northern Ireland and has the honour to request that the following communication be respectfully forwarded to Her Excellency The Rt Hon Mrs. Margaret Thatcher MP, Prime Minister and First Lord of the Treasury.

C/P-1

"His Excellency the President of the Council of Ministers of the Hungarian People's Republic, Mr. Károly GRÓSZ, has the honour to express his sincere thanks for the congratulations and kindest regards sent by The Rt Hon Mrs. Margaret Thatcher MP, Prime Minister and First Lord of the Treasury on the occasion of his election as President of the Council of Ministers of the Hungarian People's Republic. His Excellency the President of the Council of Ministers avails himself of this opportunity to assure the Prime Minister of his continuous intention to develop bilateral relations between our two countries, and of his readiness for cooperation in furthering the cause of international peace and progress, and to send his personal best wishes to the Rt Hon Mrs. Margaret Thatcher MP, Prime Minister and First Lord of the Treasury."

The Embassy of the Hungarian People's Republic avails itself of this opportunity to convey to the Foreign and Commonwealth Office of the United Kingdom of Great Britain and Northern Ireland the assurances of its highest consideration.

FOREIGN AND COMMONWEALTH OFFICE  
OF THE UNITED KINGDOM OF GREAT BRITAIN  
AND NORTHERN IRELAND  
London





PM MINISTER'S  
PERSONAL MESSAGE

SERIAL No. T127/87

file cc Master  
OPS

10 DOWNING STREET  
LONDON SW1A 2AA

cc FCO

IT  
MESSAGE

THE PRIME MINISTER

29 June 1987

Dear Prime Minister

I send you my warm congratulations and best wishes on your appointment as Prime Minister of the Hungarian People's Republic. Relations between our two countries are very friendly and I have the happiest memories of my own visit to Hungary and the visit to Britain of Mr. Kadar. I look forward to working closely with you in our common aim of strengthening relations between East and West.

Yours sincerely

Margaret Thatcher

His Excellency Mr. Karoly Grosz

ech

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CFK



Foreign and Commonwealth Office

London SW1A 2AH

25 June 1987

Dear Charles,

Message to New Hungarian Prime Minister

Karoly Grosz has been nominated to take over from Gyorgi Lazar as Prime Minister of Hungary as part of a series of major personnel changes in the Hungarian leadership. We understand from our Embassy in Budapest that the official announcement is likely to be made today.

Relations with Hungary are warmer and fuller than with any other Warsaw Pact country, and memories among the Hungarian public of the Prime Minister's visit to Budapest in 1984 and of General Secretary Kadar's to London in 1985 remain vivid. We recommend that the Prime Minister send the attached message to Mr Grosz. If the Prime Minister is content, we shall send the text to Budapest for transmission as soon as Mr Grosz's appointment has been officially confirmed.

Yours ever,

(L Parker)  
Private Secretary

C D Powell Esq  
PS/10 Downing Street

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: PM

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO: Mr Karoly Grosz

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

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SUBJECT:

.....In Confidence

CAVEAT.....

I send you my warm congratulations and best wishes on your appointment as Prime Minister of the Hungarian People's Republic. Relations between our two countries are very friendly and I have the happiest memories of my own visit to Hungary and the visit to Britain of Mr Kadar. I look forward to working closely with you in our common aim of strengthening relations between East and West.



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FOLLOWING FROM PRIVATE SECRETARY

SECRETARY OF STATE'S MEETINGS WITH HUNGARIAN PRIME MINISTER  
AND GENERAL SECRETARY OF HUNGARIAN SOCIALIST WORKERS' PARTY

SUMMARY

1. THE SECRETARY OF STATE MET LAZAR AND KADAR THIS AFTERNOON. CONVERSATION WITH LAZAR BUSINESS-LIKE BUT NOT VERY SUBSTANTIAL. CONVERSATION WITH KADAR SOMEWHAT DISCURSIVE AND PHILOSOPHICAL. KADAR URGES WEST TO TAKE GORBACHEV SERIOUSLY AND TO PUT HIM TO THE TEST IN ARMS CONTROL MATTERS.
2. LAZAR EXPRESSED SATISFACTION WITH THE STATE OF ECONOMIC RELATIONS, BUT THOUGHT THEY HAD MORE POTENTIAL, IN PARTICULAR IN THE FIELD OF JOINT VENTURES AND COOPERATION IN THIRD MARKETS. HE WELCOMED THE MPPA AND AGREEMENT ON SCIENCE AND TECHNOLOGY. HE URGED BETTER ARRANGEMENTS FOR VISA ISSUE. THE SECRETARY OF STATE AGREED THAT THERE WAS SCOPE FOR AN IMPROVEMENT IN COMMERCIAL RELATIONS. HE EXPLAINED THAT AN ABOLITION OF VISA CONTROLS WAS NOT IN PROSPECT, BUT THAT WE WOULD DO WHAT WE COULD TO IMPROVE THE EFFICIENCY OF OPERATION OF THE SYSTEM.
3. LAZAR SAID THAT HUNGARY WANTED TO SEE AN ARMS CONTROL AGREEMENT, AND NOW SAW SOME REAL PROSPECT OF PROGRESS. THEY STRONGLY SUPPORTED THE RECENT SOVIET/WARSAW PACT PROPOSALS AND GORBACHEV'S LATEST PROPOSITION. HE REGARDED THE FIRST WESTERN REACTIONS AS ENCOURAGING.
4. THE SECRETARY OF STATE SAID THAT THE SEARCH FOR GREATER CONFIDENCE BETWEEN EAST AND WEST WAS AT THE HEART OF THE ARMS CONTROL PROCESS. STOCKHOLM HAD BEEN A USEFUL MOVE FORWARD, AND WE WERE LOOKING FORWARD TO OUR PRIME MINISTERS VISIT TO MOSCOW. WE WELCOMED MR GORBACHEV'S RECENT RESPONSE TO WESTERN PROPOSALS ON INF ZERO ZERO, BUT VERIFICATION AND CONSTRAINTS ON SRINF REMAINED ESSENTIAL COMPONENTS. WE RECOGNISED THAT NOT ALL PARTS OF THE ARMS CONTROL AGENDA COULD BE LINKED, AND WOULD WELCOME A SEPARATE INF AGREEMENT. HOWEVER THE MORE PROGRESS THAT WAS MADE ON NUCLEAR WEAPONS CONTROL, THE MORE IMPORTANT NEGOTIATIONS ON CHEMICAL WEAPONS AND CONVENTIONAL WEAPONS BECAME.

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5. LAZAR AGREED THAT THERE WAS A COMPLEX INTER-RELATIONSHIP BUT IT WAS NECESSARY TO MAKE A START SOMEWHERE. IF THIS WAS SUCCESSFUL IT WOULD PRODUCE CONFIDENCE TO GO AHEAD. THE GORBACHEV PROPOSALS WERE NOT THE FINAL WORD. THE SECRETARY OF STATE ASKED LAZAR ABOUT PROSPECTS FOR ECONOMIC REFORM IN HUNGARY. HE REPLIED THAT IN THE PAST THE HUNGARIAN GOVERNMENT HAD BEEN OVER OPTIMISTIC ON THE PACE OF REFORM. THEIR PRESENT ECONOMIC DIFFICULTIES STEMMED PARTLY FROM THAT. HOWEVER THE ULTIMATE GOALS WERE REALISTIC AND THEIR REQUIREMENTS UNCHANGED. THEY WOULD CONTINUE ON THE SAME COURSE, AND WERE CONFIDENT OF GETTING THERE IN THE END.

6. THE MEETING WITH KADAR LASTED CONSIDERABLY LONGER THAN SCHEDULED. KADAR HAD MUCH TO SAY ABOUT HIS SATISFACTION WITH BILATERAL RELATIONS, AND REMINISCED ABOUT THE PRIME MINISTER'S VISIT TO BUDAPEST AND HIS OWN TO LONDON. HE WELCOMED THE SECRETARY OF STATE'S DECISION TO RETURN TO A SECOND TIME TO HUNGARY BEFORE OTHER EAST EUROPEAN COUNTRIES.

7. THE SECRETARY OF STATE SAID THAT THE PRIME MINISTER'S FORTHCOMING VISIT TO MOSCOW WOULD BE SIGNIFICANT. WHILE TOTALLY COMMITTED TO MAINTAINING THE INTEGRITY OF WESTERN SECURITY SHE BELIEVED IT POSSIBLE TO REACH AN INF AGREEMENT PROVIDED THAT PROBLEMS OF VERIFICATION AND SINF WERE SATISFACTORILY DEALT WITH. HE WOULD WELCOME KADAR'S VIEW OF GORBACHEV'S LIKELY APPROACH.

8. KADAR SAID THAT THE SOVIET AND WARSAW PACT PROPOSALS WERE SERIOUS ONES. AFTER A PERIOD OF STAGNATION THERE WERE NOW SOME POSITIVE SIGNS OF CHANGE IN EAST/WEST RELATIONS. THE HELSINKI PROGRESS HAD ADVANCED, EVEN IF VERY SLOWLY, AND STOCKHOLM AND EVEN BUDAPEST HAD BEEN USEFUL STEPS FORWARD. SOVIET/US NEGOTIATIONS WERE BY FAR THE MOST IMPORTANT AREA. THERE HAD BEEN POSITIVE CHANGES ON THE SOVIET SIDE, AND A NEW RECOGNITION ON THE SOVIET PART THAT SECURITY MUST MEAN MUTUAL SECURITY. THE SOVIET UNION NOW ACCEPTED THAT NO COUNTRY COULD NOWADAYS GUARANTEE ITS OWN SECURITY ENTIRELY THROUGH ITS OWN EFFORTS.

9. THE MAIN SIGNIFICANCE IN AN INF AGREEMENT WOULD BE THAT IT WOULD BE THE FIRST SUCH AGREEMENT WHICH WOULD INCLUDE AN ACTUAL REDUCTION OF NUCLEAR ARMAMENTS. HE THOUGHT THAT SUCH AN AGREEMENT SHOULD BE MADE UNCONDITIONAL, BECAUSE OTHER TYPES OF NUCLEAR WEAPONS HAD BEEN THERE BEFORE THE DEPLOYMENT OF INF. HE UNDERSTOOD THE WESTERN CONTENTION THAT IF NUCLEAR WEAPONS WERE ABOLISHED WARSAW PACT TANKS COULD OCCUPY WESTERN EUROPE IN TWO DAYS; BUT THE WARSAW PACT WAS NOW PREPARED TO OFFER TALKS ON CONVENTIONAL WEAPONS AS WELL SO THAT THERE WERE PROPOSALS FOR TALKS OVER THE WHOLE RANGE. THERE WAS ALSO A NEW OPENNESS ON VERIFICATION ON THE SOVIET PART.

10. AS A HUNGARIAN HE COULD NOT ANSWER AUTHORITATIVELY ON HOW FAR GORBACHEV COULD GO. BUT HIS PERSONAL OPINION WAS THAT THERE WERE NO LIMITS TO THE INITIATIVES HE COULD TAKE IF THEY WERE

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/M. M. M. M.



MATCHED BY PARALLEL INITIATIVES ON THE WESTERN SIDE. HE WAS STRUCK BY THE PARADOX THAT WHEREAS IN THE PAST THE WEST HAD MADE PROPOSALS WHICH THE SOVIET UNION DID NOT ACCEPT, THE POSITION NOW WAS THAT THE SOVIET UNION HAD ACCEPTED THE WESTERN PROPOSALS AND ADDED NEW ONES OF THEIR OWN, BUT NOW THE WEST WAS REFUSING TO ACCEPT THEM. AT REYKJAVIK IT HAD BEEN THE AMERICANS NOT THE RUSSIANS WHO HAD BEEN DOUBTFUL ABOUT PROPOSALS ON VERIFICATION. THE SOVIET UNION COULD NOW GO TO THE LIMIT ON VERIFICATION BUT ONLY ON THE BASIS OF RECIPROCALITY.

11. THE SECRETARY OF STATE SAID THAT WESTERN PERCEPTION OF THE ZERO ZERO OPTION HAD NOT IN ANY WAY CHANGED. IT HAD BEEN LINKED WITH SRMF AT THE OUTSET.

12. KADAR SAID THAT LOOKING AT THE SOVIET UNION MORE GENERALLY HE WAS STRUCK BY THE EXTENT OF QUESTIONING IN THE WEST ABOUT WHETHER OR NOT IT WAS IN WESTERN INTERESTS FOR GORBACHEV TO SUCCEED AND WHETHER OR NOT THE WEST SHOULD HELP HIM TO DO SO. THE WEST SHOULD LOOK AT THE MUTUAL INTEREST, AND SHOULD NOT THINK IN TERMS OF DOING FAVOURS TO GORBACHEV. THE PRESENT TREND IN THE SOVIET UNION WAS PERMANENT, BUT GORBACHEV'S ASPIRATIONS WERE NOT SIMPLE TO ACHIEVE. HOWEVER HE DID NOT THINK THERE WAS ANY OTHER VIABLE SOLUTION TO THE SOVIET PROBLEMS THAN THAT WHICH GORBACHEV PRESCRIBED.

13. HE ADMIRED MRS THATCHER'S FIRMNESS, BUT THOUGHT SHE ALSO HAD AN EXCELLENT SENSE OF POLITICS, AND WAS NOT GOING TO MOSCOW PURELY IN ORDER TO SEE GORBACHEV'S BLUE EYES. IF SHE TOOK HER SENSE OF REALITY AS WELL AS HER SENSE OF FIRMNESS HER TRIP WOULD NOT BE IN VAIN. HE SENT HIS BEST WISHES FOR THE TRIP.

14. THE SECRETARY OF STATE SAID HE WAS NOT SURE THAT THE WEST COULD EXERCISE MUCH INFLUENCE ON THE OUT-TURN OF EVENTS IN THE SOVIET UNION AND HE AGREED THAT HE HAD TO THINK IN TERMS OF OUR OWN SECURITY. BUT WE WOULD ALL WELCOME THE ADVENT OF A MORE HUMANE SOCIETY IN THE SOVIET UNION. IT MIGHT BE THAT EVEN GORBACHEV DID NOT KNOW WHETHER HE WAS TRYING TO IMPROVE THE SOVIET UNION PURELY IN ORDER TO HAVE A BETTER AND EASIER LIFE, OR WHETHER HE WAS THE BETTER TO DEFEND HIMSELF AGAINST THE WEST. HE MIGHT WELL ASK THE SAME QUESTION ABOUT THE WEST.

15. KADAR REPEATED THAT HE COULD NOT SAY EXACTLY WHAT GORBACHEV HAD IN MIND FOR THE FUTURE. BUT THE TEST OF ANYONE LAY IN DEEDS. GORBACHEV SHOULD BE PUT TO THE TEST. IF HE WANTED TO SPEAK OF MUTUAL SECURITY, HE SHOULD BE GIVEN THE OPPORTUNITY TO PROVE HIS CASE. NO-ONE COULD SEE FOREVER INTO THE FUTURE, BUT IT SEEMED LIKELY THAT THERE WOULD BE DIFFERENT SYSTEMS IN EAST AND WEST FOR AS LONG AS ONE COULD FORSEE, AND THE BEST POSSIBLE RELATIONSHIP SHOULD BE SOUGHT BETWEEN THEM. THE SITUATION WAS QUITE DANGEROUS ENOUGH, AND WE DID NOT HAVE FOREVER TO FIND ANSWERS.

16. KADAR ALSO SPOKE OF HUNGARY'S ECONOMIC POLICY AND ITS RELATIONSHIP TO CHANGE IN THE SOVIET UNION. HUNGARY HAD HAD A CONSISTENT FOREIGN AND ECONOMIC POLICY FOR MANY YEARS, AND HAD HAD TO WORK HARD FOR THE CHANGES IT HAD SECURED IN THE PAST 30 YEARS. POLICIES WOULD CONTINUE UNCHANGED INTO THE FUTURE. HOWEVER THE FACT THAT THE POLITICAL WEATHER FORECAST WAS BETTER IN MOSCOW WAS ALSO FAVOURABLE TO HUNGARY; IN FACT THE ASPIRATIONS OF THE SOVIET LEADERSHIP WERE SIMILAR TO THOSE OF THE HUNGARIAN LEADERSHIP AND THE SOVIET UNION WOULD NOT IMPED HUNGARY'S EFFORTS.

17. HUNGARY HAD SERIOUS ECONOMIC DIFFICULTIES, BOTH SHORT AND LONG TERM. HE HAD BEEN SOMEWHAT ENYMOUS OF WESTERN LEADERS WHO WERE ABLE TO LEAVE A GREAT MANY DECISIONS TO THE PRIVATE SECTOR. TO SOME EXTENT HE HAD EMULATED THEM IN DE-CENTRALISING THE ECONOMY. THERE WERE ALREADY SOME USEFUL RESULTS. ECONOMIC REFORM WOULD CONTINUE, AND PROBLEMS WOULD BE SOLVED IN TIME.

18. THOUGH WE MIGHT NOT FIND IT EASY TO BELIEVE, HUNGARY'S ECONOMIC POLICY HAD BEEN SHAPED THROUGH THE CONSENSUS OF A GREAT MANY PEOPLE AND ENJOYED THE SUPPORT OF PUBLIC OPINION. NOBODY WANTED THE GENERAL TREND TO CHANGE, ALTHOUGH THERE MIGHT BE MANY SPECIFIC CLAIMS AND DEMANDS. THERE HAD BEEN SO MANY CRISES IN HUNGARY'S HISTORY THAT NO MORE WERE NEEDED NOW.

19. IN CONCLUSION KADAR ASKED FOR HIS BEST WISHES TO BE CONVEYED TO THE PRIME MINISTER.

APPLEYARD

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EAST WEST & US/SOVIET RELATIONS  
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BI TO DR R. BANYASZ 24.11.47

PART 3 begins:-

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