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

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

2. BEGINS:

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

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

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

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

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

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

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

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

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

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

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

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