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Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

You asked to be brought up to date.

The Hungarian position on QRS is unreasonable. But the position of the EC/Hungary in the Community - is little better

6 July 1984

See Answer, But the position of the EC/Hungary in the Community - is little better
att. C.D.P. 6/7

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

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

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

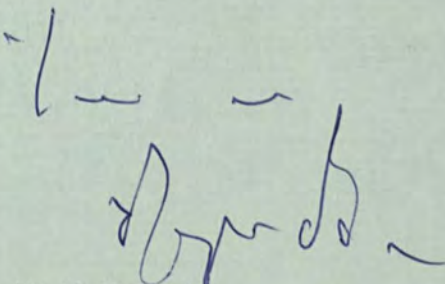
It is not clear whether the very hard line the Hungarians have been taking of late is a consequence of pressure from the Russians, or is based on their own judgement that the Community may not be able to offer them much. There is some evidence that after Andropov's death the Russian attitude hardened;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



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

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

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


(R B Bone)
Private Secretary

C D Powell Esq
10 Downing Street

6 JUL 1984

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