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FM BUDAPEST

TO IMMEDIATE FCO

TELNO 123

OF 101447Z JUNE 86

INFO PRIORITY MOSCOW

INFO ROUTINE UKDEL NATO, SOFIA, WARSAW, EAST BERLIN, BUCHAREST

INFO ROUTINE PRAGUE, BELGRADE, BONN, PARIS

INFO SAVING VIENNA, ATHENS, BRUSSELS, UKREP BRUSSELS, COPENHAGEN

INFO SAVING DUBLIN, THE HAGUE, LUXEMBOURG, ROME, MADRID, LISBON

GORBACHEV'S BILATERAL VISIT TO HUNGARY : 8 - 9 JUNE

SUMMARY

1. APPARENTLY NO NASTY SURPRISES FOR THE HUNGARIANS. RELAXED ATMOSPHERE WITH CLOSE RAPPORT BETWEEN THE LEADERS. CAUTIOUS SOVIET ENDORSEMENT OF KADAR'S ECONOMIC REFORM POLICIES BALANCED BY REPEATED EMPHASIS ON THE NEED FOR GREATER CMEA INTEGRATION. SPECULATION THAT GORBACHEV TOOK THE OPPORTUNITY TO REVIEW CONTENDERS FOR THE HUNGARIAN LEADERSHIP.

DETAIL

2. GORBACHEV ARRIVED AT LUNCHTIME ON 8 JUNE, TWO DAYS IN ADVANCE OF THE WARSAW PACT SUMMIT. HE HELD FOUR AND A HALF HOURS OF TALKS WITH KADAR THAT AFTERNOON, AFTER WHICH A COMMUNIQUE WAS ISSUED (COPIES BY BAG). INFORMAL DISCUSSIONS CONTINUED IN THE EVENING. ON 9 JUNE HE LAID WREATHS AT HUNGARIAN AND SOVIET WAR MEMORIALS, VISITED THE CSEPEL MACHINE TOOL FACTORY WHERE HE AND KADAR ADDRESSED A WORKERS RALLY (MAIN POINTS IN MY TELNOS 118, 119 AND 120) AND WENT ON A WALKABOUT IN THE DOWNTOWN PEDESTRIAN ZONE WHERE THE RESPONSE OF PASSERS-BY WAS PRETTY LUKE-WARM

THIS WAS FOLLOWED BY A VISIT TO THE ROZMARING AGRICULTURAL COOPERATIVE AND PLANT RESEARCH INSTITUTE. LATER HE MET POLITBURO AND PARTY SECRETARIES IN THE CENTRAL COMMITTEE BUILDING AND ATTENDED A GALA DINNER IN PARLIAMENT. HIS WIFE ACCOMPANIED HIM FOR MOST OF THIS PROGRAMME.

3. BOTH THE SOVIETS AND HUNGARIANS CLAIM TO BE WELL SATISFIED WITH THE VISIT. ON THE SURFACE, A SMILING GORBACHEV AND A RELAXED KADAR APPEARED TO GET ON WELL TOGETHER. GORBACHEV TOLD A JOURNALIST THAT THERE WERE NO PROBLEMS TO TROUBLE THE BROAD AND DEEP BILATERAL RELATIONSHIP. THE COMMUNIQUE SPEAKS OF A " FULL IDENTITY OF VIEWS " ON EVERY FUNDAMENTAL ISSUE. GORBACHEV'S REMARK AT CSEPEL THAT THE CPSU FOLLOWS WITH ATTENTION AND RESPECT THE EFFORTS OF HUNGARY AND OTHER SOCIALIST COUNTRIES TO SOLVE THEIR BY NO MEANS SIMPLE PROBLEMS (MY TELNO 120) IS BEING TAKEN AS A CAUTIOUS ENDORSEMENT OF CURRENT REFORM POLICIES.

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4. ON FOREIGN POLICY, THE COMMUNIQUE PREDICTABLY REFLECTS CURRENT SOVIET PREOCCUPATIONS, CRITICISING EXTREMIST CIRCLES OF THE UNITED STATES AND ITS ALLIES, WHO FREQUENTLY USE IMPERIALIST INTERVENTION, VIOLENCE AND ECONOMIC DISCRIMINATION AGAINST SOVEREIGN STATES. FAVOURABLE OPPORTUNITIES POST-GENEVA REMAIN UNUTILISED. IF THE UNITED STATES SHOWED GENUINE READINESS FOR AGREEMENT, IT WOULD BE POSSIBLE TO IMPROVE RELATIONS. BUT IT ALSO INCLUDES A USEFUL SOVIET PLUG FOR HUNGARY'S CSCE INITIATIVES.

5. NO DOUBT AT SOVIET INSISTENCE, THERE IS CONSIDERABLE EMPHASIS ON THE NEED FOR GREATER ECONOMIC COOPERATION AND INTEGRATION, A DOMINANT THEME OF THE COMMUNIQUE AND GORBACHEV'S CSEPEL ADDRESS AND REFLECTED IN THE CHOICE OF VISITS TO TWO HIGH-TECHNOLOGY CONCERNS WORKING IN COLLABORATION WITH SOVIET PARTNERS. THE COMMUNIQUE STRESSES THE NEED TO ACCELERATE SPECIALISATION AND COOPERATION AND TO ESTABLISH A NEW MECHANISM OF ECONOMIC INTEGRATION WITHIN THE CMEA, A THEME WHICH GORBACHEV UNDERLINED IN HIS CSEPEL ADDRESS (MY TELNO 120). KADAR'S SPEECH AT THE SAME OCCASION SOUNDED MORE EQUIVOCAL. REPEATING THE WORD " REALISTIC " THREE TIMES IN AS MANY MINUTES, HE REFERRED TO DEVELOPING MULTILATERAL RELATIONS WITH CMEA BUT ALSO TO " MAKING BETTER USE OF THE POSSIBILITIES LATENT IN THE INTERNATIONAL DIVISION OF LABOUR " (AN ALLUSION TO COMMERCIAL LINKS WITH THE WEST) HE WAS LESS THAN BULLISH ABOUT THE DOMESTIC ECONOMY, LAMENTING THE UNSATISFACTORY IMPLEMENTATION OF THE SEVENTH FIVE YEAR PLAN SO FAR THIS YEAR. THE PARTY SUPPORTED LEADERS WHO DEMAND HIGHLY ORGANISED AND DISCIPLINED WORK, BUT ADDED " . . . AND THOSE WHO WORK WELL ". IMPROVING OUTPUT MUST TAKE PRIORITY OVER QUESTIONS OF INCOME DISTRIBUTION.

6. SOME COMMENTATORS ARE SPECULATING THAT, TO KADAR'S ANNOYANCE, GORBACHEV USED HIS CALL AT THE CENTRAL COMMITTEE AS A KIND OF FINAL SELECTION BOARD FOR KADAR'S EVENTUAL SUCCESSOR. THIS IS COUPLED WITH RENEWED RUMOURS THAT KADAR WILL ACCEPT AN HONORIFIC PARTY POST NEXT YEAR, MID-WAY BETWEEN CONGRESSES. PREDICTABLY, HUNGARIAN PARTY OFFICIALS DISMISS ANY SUGGESTION THAT GORBACHEV WAS CONDUCTING JOB INTERVIEWS. THE TRUTH IS PROBABLY SOMEWHERE IN-BETWEEN.

COMMENT

7. THE CAREFULLY NURTURED IMPRESSION OF SWEETNESS AND LIGHT IN SOVIET/HUNGARIAN RELATIONS WAS OF COURSE TO BE EXPECTED. IF THERE WERE DIFFERENCES, FUNDAMENTAL OR OTHERWISE, THEY WERE SKILFULLY AND EFFECTIVELY HIDDEN. IN PUBLIC RELATIONS TERMS AT LEAST, THE VISIT WENT WELL AND THE HUNGARIANS HAVE GOOD REASON TO BE PLEASED.

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8. THE TRUTH WILL TAKE TIME TO EMERGE. IT MAY BE THAT NEITHER SIDE SAW THIS AS THE OCCASION TO PRESS THEIR DIFFERENCES. BUT I WOULD BE SURPRISED IF THIS WERE THE CASE. WHEN HE SAW THE SPANISH PRIME MINISTER RECENTLY IN MOSCOW, GORBACHEV WAS CRITICAL OF FOREIGN ECONOMIC DEPENDENCE WHICH WAS A POLITICAL LEVER, CITING POLAND AND HUNGARY IN THAT CONTEXT (PARA 5 OF FCO TELNO 111 TO UKDEL NATO). GORBACHEV'S EMPHASIS ON THE NEED FOR GREATER CMEA INTEGRATION NO DOUBT REFLECTS THIS CONCERN. WHEN PETER UNWIN SAW DR VARKONYI JUST BEFORE HIS DEPARTURE FROM HUNGARY, THE FOREIGN MINISTER WAS STRANGELY THROWN WHEN ASKED ABOUT THE LIKELY IMPACT OF GORBACHEV'S VISIT. HE SAID THAT THE VISIT WOULD BE WELCOME BUT WOULD NOT MAKE FUNDAMENTAL CHANGES (SEMI-COLON) AND HIS LAST WORDS TO THE AMBASSADOR WERE '' HUNGARIAN POLICY WILL CONTINUE TO BE MADE IN BUDAPEST AND NOWHERE ELSE ''. METHINKS HE DID PROTEST TOO MUCH.

9. EC AMBASSADORS WILL DISCUSS GORBACHEV'S BILATERAL VISIT AND WARSAW PACT SUMMIT ON 13 JUNE. I WILL REPORT FURTHER IF ANYTHING INTERESTING EMERGES.

COLVIN

FCO PASS SAVING VIENNA, ATHENS, BRUSSELS, UKREP BRUSSELS, COPENHAGEN DUBLIN, THE HAGUE, LUXEMBOURG, ROME, MADRID AND LISBON

EAST WEST & US/SOVIET RELATIONS

LIMITED

[COPIES SENT TO NO 10 DOWNING STREET]

SOVIET D
DEFENCE D
R D
PLANNING STAFF
EED
NAD
WED
ACDD
CRD
NEWS DEPT.
INFO DEPT.
FED
NED
PUSD
PROTOCOL DEPT.

PS
PS/LADY YOUNG
PS/MR RENTON
PS/MR EGGAR
PS/PUS
MR DEREK THOMAS
MR GOODALL
MR FERGUSSON
SIR W HARDING
MR RATFORD
MR DAUNT
MR DAVID THOMAS
MR LONG

CHIEF CLERK
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MR BARRINGTON
MR WINCHESTER

[REPEATED AS REQUESTED]

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