

PRIME MINISTER

Hungarian Deputy Prime Minister

His name is pronounced Moryoy.

Brian Cartledge, who will be attending, has told me that he thinks that what Mr. Marjai would really like is a good discussion about the role of the State in the economy. You could ask him to describe the Hungarian economic reform programme. Page 14 of this brief states that "Hungary's new economic mechanism is an ambitious programme to reform economic management, aiming to shift to a more market-orientated system based on world prices".

You should also be aware of Hungary's approach to us last year about the possibility of negotiating a trade agreement with the European Community (page 17 of the brief) - but he is unlikely to raise it because his Ambassador here and other officials accompanying him are not aware of this project.

Pages 5 - 7 of the brief contain some interesting notes on Marjai. He appears to have got his job because of speaking out of turn when Ambassador in Moscow. He has a reputation for vigorous defence of Hungary's national interests - and privately told Brian Cartledge last year that he supported our action over the Falklands.

A.J.C.

7 March 1983



Foreign and Commonwealth Office

London SW1A 2AH

4 March 1983

*Joe Th...*Visit of Mr Marjai, Hungarian Deputy Prime Minister: 6-11 March

The Prime Minister has agreed to receive a call from Mr Marjai, Hungarian Deputy Prime Minister, at 11.00 am on Tuesday 8 March.

I enclose three sets of briefing for this call, including a short steering brief, personality notes and briefs on East/West relations, Hungary's economic situation and EC/Hungary relations.

Mr Marjai would like to be accompanied by his interpreter, Mr Banlaki, and the Hungarian Ambassador, Dr Banyasz. Our Ambassador in Budapest, Mr Cartledge, will also be available. Mr Joseph Simon will be present to interpret for the Prime Minister.

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

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VISIT OF MR JÓZSEF MARJAI, HUNGARIAN DEPUTY PRIME MINISTER:
6-11 MARCH 1983

Steering Brief

1. Mr Marjai (pronounced MORYOY) will call on the Prime Minister on Tuesday 8 March at 11.00 hours. He will be accompanied by the Hungarian Ambassador, Dr Banyasz and an interpreter, Dr Banlaki. Personality notes are attached. HM Ambassador at Budapest, Mr Bryan Cartledge, and a British interpreter, will also attend.

Purpose of the Visit

2. Mr Marjai's visit, of which the Secretary of State for Trade is formally the host, will symbolise British support for economic policies which differentiate Hungary from its CMEA partners. Mr Marjai is the driving force behind Hungary's economic reform and her attempt to become a full member of the international financial and trading community.

Recent Bilateral Visits


3. Inward - Mr Puja, Foreign Minister:
February 1982;

Dr Horn, Deputy Head of the International
Department of the Hungarian Socialist Workers
(ie Communist) Party: October 1982;

Mr Szarka, Deputy Foreign Minister: February
1983;

Mr Melega, Deputy Foreign Trade Minister;
February 1983;

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Outward - Lord Carrington: 1980
Mr Rifkind: June 1982
Mr Rees: October 1982

4. An invitation to the Prime Minister to visit Hungary was extended by Mr Lazar, the Hungarian Prime Minister, to Mr Wilson in 1975. This was renewed in 1982 by Mr Puja. The Prime Minister has decided against a visit to Hungary this year. The Foreign and Commonwealth Secretary may visit Hungary in the summer recess but this should not yet be mentioned to the Hungarians.

Internal Situation and Foreign Policy

5. The internal situation in Hungary is more relaxed than in any other Warsaw Pact country. But in foreign affairs the Hungarians adhere faithfully to the Soviet line, particularly where loyalty to the Soviet Union can be demonstrated without material cost to Hungarian national interests.

Objectives

6. The following are the UK and likely Hungarian objectives for Mr Marjai's visit to Britain:

UK

- (a) To demonstrate our encouragement for the more liberal economic policies which increasingly differentiate Hungary from its CMEA partners;
- (b) To give a boost to our trade prospects within the limits imposed by Hungary's present financial situation;

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- (c) To see how Mr Marjai views the prospects for further economic and political development in Hungary as well as in the CMEA.

Hungary

- (a) To lobby for financial support, promote Hungary's image as a worthwhile risk, and promote trade prospects;
- (b) To seek a sympathetic understanding of the aims of the Hungarian economic reform and to emphasise the distinctive character of Hungary;
- (c) To seek reassurance that HMG's policy of differentiation between Eastern European countries remains in force;
- (d) To pursue quietly and in strict confidence the possibility of a free trade agreement between Hungary and the EC.

Tactics

7. The Prime Minister may wish to ask Mr Marjai about Hungary's immediate and longer term economic prospects, and seek his assessment of Hungary's future role within the CMEA; as well as to ask whether Hungary's short term financial difficulties may impede the prosecution of the economic reform. Mr Marjai will probably seek an assurance of continuing British support for Hungary as a country which is endeavouring to safeguard and promote its particular national interest, despite the geographical and thus political handicaps under which it labours. He will be aware that Hungary's freedom of manoeuvre ultimately depends on the overall state of East-West relations; he will no

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doubt be grateful for the Prime Minister's assessment of the present state of East-West relations. Mr Marjai has stressed that not everyone in his delegation is aware of the Hungarian initiative over a possible trade agreement with the EC (see separate brief on EC/Hungary relations). Unless Mr Marjai refers to it himself it would be preferable not to mention the subject.

8. Short briefs are attached on East-West economic relations, Hungary's economic situation and EC-Hungary relations

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Flag B
Flag C

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JÓZSEF MARJAI (MOR-YOY)

Deputy Prime Minister since April 1978 with responsibility for industry, agriculture and relations with Comecon. Member of the Central Committee, and of the Economic Policy Committee.


Born 1923. He entered the Foreign Service in 1948 and having been Chief of Protocol and Head of Political Guidance was promoted to the rank of Minister (Counsellor) in 1955. He served as Minister to Switzerland between 1956 and 1959, and as Ambassador to Czechoslovakia from 1959 to 1963. He returned to the Ministry of Foreign Affairs before being appointed Ambassador to Yugoslavia in 1966. He returned in 1970 to become Deputy Foreign Minister with responsibility for Western Europe, during which time he was host to Mr Anthony Royle, Parliamentary Under Secretary at the FCO. On the promotion of Puja to the rank of Minister in 1973, he was made State Secretary. In January 1974 he visited the Soviet Union and was received by Mr Kosygin. In December 1974 he was host to Mr Hattersley. He was elected a member of the Central Committee in July 1976 and appointed Ambassador in Moscow the next month. Received Lord Goronwy Roberts in September 1978, and Lord Limerick in May 1980.

Married with one son. He speaks German, some French, but no English.

(Edited extract from HM Ambassador Budapest's letter of 14 February 1983)

Marjai is something of an enigma. During his 30 years (1948-1978) as a career diplomat he does not seem to have made a very favourable or positive impression on Westerners. Former British Ambassadors have described him as, variously, 'a grey apparatchik', 'dowdy' and 'odd'. Other former


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Western Ambassadors to Hungary have expressed considerable surprise over Marjai's ascent to the top level of government, having regarded him as, at best, a dull if competent diplomat. The following account, from a good Hungarian source, of how Marjai came to be translated from a diplomatic career to politics and economic management goes some way towards explaining the paradox.

When Marjai was in his second year (1978) as Hungarian Ambassador in Moscow, having been elected to the Central Committee of the Party prior to taking up that appointment, he took part in the annual bilateral economic consultations for which, on this occasion, Deputy Prime Minister Gyula Szeker had come to the Soviet capital to lead the Hungarian delegation. The main item on the agenda was a Soviet proposal affecting Soviet/Hungarian trade which had been considered by the Economic Committee of the HSWP a few days earlier. Szeker's task was to break the news to Soviet comrades that their ideas had not found favour in Budapest: he told the Russians that the proposal had been rejected by the Hungarian leadership by 5 votes to 2 but then hastened to assure his Soviet hosts that he himself had been one of the two who had voted in favour. At this point, Ambassador Marjai cut Szeker short and told him in blunt terms that by disclosing the details of Party deliberations in Budapest he was violating Party rules and betraying the autonomy of the HSWP. The meeting apparently broke up in some confusion and shortly afterwards Marjai returned to Budapest, on his own initiative, in order to submit his resignation as Ambassador, assuming that after the scene in Moscow he would not in any case be allowed to remain there. Kádár's reaction, however, was to promote Marjai to the post of Deputy Prime Minister, in appreciation of his defence of Hungary's national interests, and to give him the very portfolio which up until then had been Szeker's.

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One of Marjai's distinctive characteristics is precisely his dogged championship of specifically Hungarian interests and the extent to which he views these in an historical perspective which goes back far beyond the Communist takeover in Hungary. He has, for example, spoken sympathetically of Count Bethlen, the reactionary but able Prime Minister of Hungary under Admiral Horthy from 1921-1931 who endeavoured, in the wake of the Treaty of Trianon, to retrieve Hungary's political fortunes by restoring the country's solvency and rebuilding its economy: in the event, he was scuppered by the crash of 1929/30 but there are intriguing parallels between Bethlen's skilful introduction of Hungary, via the League of Nations, into the international financial community in order to revitalise the economy with Western credits, and Hungary's recent admission to the IMF and current orientation of its trade towards Western markets. Marjai evidently respects the vigorous defence of their national interests by others: he made a point of expressing to our Ambassador privately in May last year, his support for HMG's action over the Falklands.

Marjai is a short, owlish man and in discussion has a rather disconcertingly throw-away style. He appreciates frank, straight-forward speaking and has little time for protocol or empty courtesies. He has a good, if slightly pawky, sense of humour and also, allegedly, a taste for the spicier kind of joke with which he is unlikely to be regaled in London. He is a chronic workaholic, harries his subordinates unmercifully (although he commands their profound respect) and is said to have a short temper.

Prime Minister Lázár has been ill and may resign quite soon. Marjai is the candidate most frequently mentioned as Lázár's probable successor although there is another school of thought, to which our Ambassador gives more credence, which considers Marjai too abrasive and impatient to be given the

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leadership of the Council of Ministers team. He would also be rather wasted in a job which carries with it a good deal of ceremonial chores and it is likely that he would rather retain his present responsibility for running the Hungarian economy.

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DR REZSO BANYASZ

Hungarian Ambassador in London


Born 1931

Graduated from Budapest University Faculty of Law in 1954: became Foreign Editor of "Magyar Ifjúság" and then "Nepszava" until he joined the MFA in 1961, working in the Press Department. Press Attache in Stockholm 1962-68, then Deputy Head and later Head of Press Department, MFA, 1968-72. Personally chosen by the Foreign Minister to be deputy Permanent Representative of Hungary to the United Nations 1972-76. Secretary of the Committee for European Security and Co-operation 1976-78. Deputy Head of the Hungarian Delegation at the Belgrade Conference. Head of Press Department, MFA from March 1978 until July 1981.

Married with two children. His wife speaks English; he speaks English, German and Swedish. A pleasant and helpful man, an active Head of Department and proving to be an energetic and constructive Ambassador.

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DR GYÖRGY BÁNLAKI (BANLOKI)

First Secretary, MFA

Born 1948

Attended Karl Marx University, Budapest 1967-71. Assistant UK Desk Officer 1971-72 and Private Secretary to the Hungarian Ambassador in London 1972-73. In Saigon (Secretary to the Hungarian Delegation in International Commission of Control) 1974-75. Returned to the Vth Department in the MFA 1975-77. Press Attache, Hungarian Embassy in London 1977-81, and now works on American Desk in the MFA. Interpreted for Mr Puja on his visits to London in 1977 and 1982 and for Lord Carrington in Hungary in October 1980. Married (his wife is Polish) with one daughter. Speaks excellent English and Russian.

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VISIT OF MR MARJAI, HUNGARIAN DEPUTY PRIME MINISTER:
6-11 MARCH

EAST/WEST ECONOMIC RELATIONS

Points to Make (Defensive)

1. (Effects of studies on Hungarian/Western trade?)
Wrong to predict outcome of studies, but would guess no dramatic changes likely in overall prospects for East/West trade. UK remains in favour of mutually beneficial trade within normal limits of commercial, financial and strategic prudence.
2. (Adverse effects on trade of tighter credit policies)
Credit terms set by OECD Export Credit Consensus. Next round of Consensus talks being held this month. Cannot predict results. But on recent revision of ECGD premium categories, can assure you no discrimination against Hungary. Revision has affected many countries and reflects present delicate market situation. Could be reversed if situation changes.

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VISIT OF MR MARJAI, HUNGARIAN DEPUTY PRIME MINISTER:
6-11 MARCH 1983

East/West Economic Relations

Essential Facts

1. Studies following up Summary of Conclusions now launched in NATO (Security Aspects of East/West Economic Relations), COCOM (Strategic Technology; and Other High Technology), and OECD (East/West Trade and Commercial Relations; and Energy Requirement Study). No proposals on harmonisation of credit policy towards USSR and Eastern Europe yet put forward by Americans.
2. Studies not a subject to raise with Hungarians, although we may need to reassure them should they express concern.
3. Hungarians long benefitted from large subsidies inherent in an OECD Export Credit Consensus interest rate lower than commercial interest available in UK. This now altered with lower UK commercial rates and an increased rate at OECD. Hungary also recently downgraded from ECGD premium Category B to Category C and may express concern at this.

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VISIT OF MR MARJAI, HUNGARIAN DEPUTY PRIME MINISTER:
6-11 MARCH 1983

Economic Situation

Points to Make

1. Congratulate Hungary on adopting responsible attitude toward overcoming debt problem. UK played its part in helping to raise loans through the BIS and encouraging rapid agreement between IMF and Hungary on membership and the 1982-83 programme. Hungary's reactions to the IMF programme?
2. Aware of Hungary's need to raise new loans in 1983. Cannot direct Banks: but Bank of England aware of political importance we attach to Hungary.
3. Is an early CMEA summit likely? Hungary's thoughts on evolution of economic relations with CMEA? Is IMF membership compatible in long run with present CMEA trade and payments arrangements?

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VISIT OF MR MARJAI, HUNGARIAN DEPUTY PRIME MINISTER:
6-11 MARCH 1983

Economic Situation

Essential Facts

1. Hungary, one of the most developed economies in Eastern Europe, depends heavily on trade, exporting almost two-fifths of her output. Trade is evenly divided between East and West, but depends crucially on USSR to supply her with oil and on West to supply manufactures.
2. Hungary's New Economic Mechanism is an ambitious programme to reform economic management aiming to shift to a more market-oriented system, based on world market prices. However, recent economic problems have restricted the Government's ability to press on with the reforms.
3. The economy ran into trouble in 1981-82 mainly due to Hungary's inability to raise new loans from Western banks and the withdrawal of credit by OPEC and CMEA lenders. Her external debt is nearly \$9bn, debt service takes one-third of convertible currency export earnings. Debt service obligations were met in 1982 only after Western governments intervened (offering short-term loans through the BIS, encouraging commercial banks to resume lending and agreeing to accept Hungary into the IMF and World Bank). Hungary quickly agreed an adjustment programme with the IMF and as a result will obtain up to \$580m from the IMF in 1982-83.
4. The Government's priority in 1983 is to improve the country's liquidity position and to maintain debt service payments. Other goals, notably the preservation of workers living standards, are subordinate to this. Need for austerity accepted: measure of consequent social unrest not excluded.

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5. Hungary will need to raise at least \$600m of new medium-term loans from Western banks in 1983. Early attempts to obtain new loans rejected (wrong banks approached, too soon): a more considered approach may have more success.

6. Hungary is a relatively small trading partner of the UK, taking 0.14% of our exports and supplying 0.09% of our imports in 1982.

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VISIT OF MR MARJAI, HUNGARIAN DEPUTY PRIME MINISTER:
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EC/Hungary Relations (Defensive)

Points to Make

Possible EC/Hungary Trade Agreement (The Horn Approach: for use only if raised)

1. Interested to hear of this important approach. Welcome it but believe you will need now to obtain a greater level of interest from our partners whom you have approached. Know you are discussing it fully with Peter Rees and Malcolm Rifkind.

Possible EC/Hungary Agriculture Agreement

2. Community consideration of Hungarian requests has now begun. In general UK likely to have fewer problems than other Member States. If this is a priority for you, suggest you lobby in other EC capitals.

Concessions on Import Restrictions (including textiles)

3. Suggest you mention this to Peter Rees, though since it is a matter within Community competence, you will understand that he cannot negotiate. But must be remembered that economic situation in UK and other Member States remains difficult. Situation in UK textile industry particularly critical; over 180,000 jobs lost since the beginning of 1980.

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VISIT OF MR MARJAI, HUNGARIAN DEPUTY PRIME MINISTER:
6-11 MARCH 1983

EC/Hungary Relations

Essential Facts

Possible EC/Hungary Trade Agreement (the Horn approach)

1. In October 1982, Dr Horn, No.2 in the International Secretariat of the Hungarian Communist Party, told Mr Rifkind in a personal and confidential message to the Foreign and Commonwealth Secretary that Hungary was interested in negotiating a trade agreement with the EC, analogous to the EC/Austria agreement, providing for free trade in industrial products and as much as possible in improved access for agricultural products. This goes far beyond what the EC has hitherto been prepared to offer the CMEA countries. It is also much more than the EC has given Yugoslavia.
2. Knowledge of the Horn approach in Hungary is highly restricted: although Mr Marjai knows of it, the Hungarian Ambassador and the other officials accompanying him do not. It is therefore unlikely that he will raise it with the Prime Minister. We are making arrangements for him to speak privately to Mr Rifkind and Mr Rees about it on 8 March. The Hungarians are presenting the approach as having considerable political importance in terms of Hungarian relations with the West and the Soviet Union. But it poses substantial practical difficulties in present economic circumstances. They have treated it very confidentially, and have approached only the Germans, French and (recently) Italians to get a political feel as to whether there would be enough in what the Community could offer to justify launching a negotiation which would sour their relations

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with the Russians. Our partners have reacted with apparent indifference. Our objective therefore is to leave the Hungarians with a favourable impression of our attitude and to shift the focus of their attention to the French, Germans and Italians, whose lack of interest risks putting us in an exposed position.

Possible EC/Hungary Agriculture Agreement

3. The Hungarians have made a separate open approach to the Commission for liberalisation on trade in agricultural products. We have made clear to the Hungarians that their problems lie with other Member States.

Concessions on Import Restrictions

4. The UK, like other Member States, maintains quantitative restrictions on certain Hungarian products in sectors where our industry suffers acutely from low cost imports. Since external trade falls within Community competence (which the Hungarians, like other East Europeans, do not formally recognise) the quotas are regulated by the Commission in respect of individual Member States. Apart from steel and textiles, where Hungary has sectoral agreements with the EC, the restrictions are imposed by autonomous EC decision.

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