Case Number: 2015-0779-M

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Original OA/ID Number: 584

Document ID: 9504033

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FROM: BRILL, K

KEYWORDS: HUNGARY

PERSONS:

SUBJECT: BACKGROUND PAPER FOR PRES MTG W/ HUNGARIAN PM HORN ON 6 JUN

ACTION: SEE 9504077 FOR FINAL ACTION

DUE DATE: 29 MAY 95

STATUS: C

STAFF OFFICER: FRIED

LOGREF: 9504077

FILES: WH

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White House Guidelines, September 11, 2006
By KDM, NARA, Date 5/11/2018
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Dan Fried
MEMORANDUM FOR ANDREW D. SENS
EXECUTIVE SECRETARY
NATIONAL SECURITY COUNCIL

Subject: Background Papers for the President's Meeting with Hungarian Prime Minister Horn, June 6, 1995

Attached are background papers for the President's use in his meeting with Hungarian Prime Minister Horn on June 6, 1995.

Kenneth C. Brill
Executive Secretary

Attachment:

As stated
The Hungarian Socialist Party (MSP), the successor to the Communist-era Hungarian Socialist Workers Party, won a plurality of the vote and an absolute majority in Parliament in elections held in May, 1994. The MSP, which pledged to continue economic reform and privatization while softening its effects, formed a coalition with the liberal Alliance of Free Democrats (SzDSz). Observers judged the elections, which offered a broad variety of choices across the political spectrum, free and fair. While the election campaign focused largely on economic issues and a substantial decline in living standards since 1990, extremist politicians continued to be marginalized; unreformed communists took 3.3 percent and ultranationalists 1.4 percent of the vote.

Asserting control of the Hungarian economy and maintaining the support of traditional constituencies has presented Prime Minister Horn a significant challenge. During his first eight months in power, economic reform and privatization stalled. Concurrently, the government did little to reduce unsustainable budget and current accounts deficits. Finally, on March 12, amid concerns over a possible loss of international investor confidence fueled by the crisis in Mexico, the dismissal of the Finance Minister and the cancellation of a major privatization deal, Horn announced an economic austerity package.

The austerity program is expected to be only the first step in a process that will cut government spending, especially on the basic social welfare system. Although unavoidable if the country is to negotiate a Standby Agreement with the IMF, maintain access to international financial markets and continue to attract major direct foreign investment, the program is neither popular nor well-understood. It has strained society and the labor-oriented MSP. The opposition terms the measures harsh and recessionary and seeks to exploit the program for political gain. Since February, MSP support has dropped from 38% to 24% and the coalition partner SzDSz, which had commanded 24% support, has dropped to 17% and into a tie for second place with two opposition parties. Horn wants strong international support to help silence critics and unify party support.

The Horn government has three foreign policy priorities, the most important being to seek rapid western integration, including into the OECD, the EU and, most significantly, NATO. There appears to be general societal support for this objective.

The government basically respects human rights and civil liberties, though problems with due process continue. Strong societal discrimination against minorities, especially Roma (Gypsies), is sometimes reinforced by police behavior. Also, the coalition has not adopted a law to regulate the electronic media. While there appears to be agreement that the media must be insulated from political pressure, appropriate modalities have not been identified. Rumors of politically-motivated dismissals at the state-run radio and television exist, but the government claims budget forces are responsible for cut-backs.
The Socialists in their first eight months in power failed to address seriously Hungary's worsening financial situation. Prime Minister Horn drove his government's two leading economic reformers out of office. His personal intervention to stop the HungarHotel chain privatization exacerbated worries about an impending financial crisis, especially because privatization proceeds are a vital source of revenues. Comparisons to Mexico were inevitable, given Hungary's huge twin current account and budget deficits, its heavy foreign debt burden (the highest per capita in the region), and little progress on structural reform.

In late February, Prime Minister Horn finally seemed to get the message that Hungary's economic situation was unsustainable. He then appointed reform-minded professionals to head the Finance Ministry and the Hungarian National Bank. On March 12, he announced an austerity program to deal with the country's financial imbalances and structural problems. The program seeks to cut the budget deficit down to 6-7 percent of GDP, contrasted with the 10 percent initially forecasted, and to slice the current account deficit to 5-6 percent of GDP, from the 9.5 percent registered in 1994. The major elements of the March 12 program are: a 9 percent immediate devaluation and smaller monthly devaluations, an 8 percent import surcharge, and dismissing some state employees and means-testing some social services. Horn implemented most of these measures using his executive authority, and the Socialist-controlled parliament is expected to enact soon implementing legislation for the balance of the program. Preliminary April data seem to indicate the program is beginning to have a positive impact.

Nonetheless, Hungarians, the IMF and other observers recognize that the March 12 program constitutes only one step -- albeit a key first step -- in addressing Hungary's difficult economic situation. The Horn Government acknowledges it must take the unpopular step of curbing extensive entitlements and social benefits, if it hopes to avoid a stabilization crisis in the short to mid-term. The IMF and the Horn Government are now discussing when and what additional measures should be taken. If the IMF and the Hungarians conclude a stand-by loan agreement, this would likely unleash substantial credits from Germany and other multi-lateral and private lenders.

Hungary has made great strides in establishing a free market economy. It still needs to complete financial sector reform and to revitalize its privatization effort. The government claims a privatization law passed in May should accelerate the privatization of the many remaining mid-size and large state enterprises. The private sector in Hungary has expanded rapidly; it now generates over 60 percent of GDP and employs more than 40 percent of the labor force. Hungary has attracted more foreign direct investment than any other country in the region, about $8.5 billion since 1989.
Hungary's foreign policy has three priorities: integrating rapidly with the West and its institutions, improving relations with neighboring countries -- particularly those with Hungarian minorities, and supporting the rights of minority Hungarians abroad. Internationally, Hungary has been supportive in the former Yugoslavia, has been an exemplary OSCE chairman, and will soon participate in both the UN Forces in Cyprus (UNFICYP) and in the Sinai Multinational Force and Observers (MFO) Missions.

Hungary's number one goal is western integration. It has applied for membership in the EU and the OECD, actively participates in Partnership for Peace, and wants to join NATO and the WEU. Hungary hopes to be among the first, if not the first new Central European member of NATO. In testimony to its commitment, Hungary has set aside $5 million from a severely restricted budget to fund PfP participation. Concerned that its membership could be deferred until other states qualify, Hungary has called for candidates to be admitted when ready. Defense Minister Keleti has told Secretary Perry that Hungary could be "militarily ready" in three years. Sensitive to charges it might oppose other applicants, Hungary has supported Romanian membership in principle. It has offered to forego its veto over other new members from the region when admitted.

Hungary maintains cordial relations with Russia, including on NATO expansion. Russian debts to Hungary carried forward from the Soviet-era have been settled in part with transfers of military equipment and future transfers are likely. Although Hungary characterizes NATO expansion a sovereign decision for NATO and the applicants involved, it has expressed appreciation for the need to establish and maintain a dialogue with Russia. Hungarian leaders contend that Yeltsin has not objected to Hungarian NATO membership in discussions of the issue. In an example of Hungary influencing Russia, it was Hungary as OSCE Chairman-in-Office earlier this year that succeeded in getting Russia to welcome OSCE Chechnya missions.

The rights of ethnic Hungarians living outside Hungary and relations with neighboring countries are major, inter-dependent issues. This is especially so with Slovakia and Romania, where some 550,000 and 2 million Hungarians live. Latent tensions over borders and minority rights could upset regional stability. Hungary hopes to address the issues, and promote its western integration, through the negotiation of bilateral treaties with both Romania and Slovakia. Slovakia and Hungary have concluded an agreement that awaits ratification in the face of nationalist opposition. Additionally, there is a dispute in interpretation of a key provision. Negotiations with Romania continue. The problem is the issue of autonomy and interpretations of Council of Europe Recommendation 1201, which mentions autonomy. The Council of Europe, aware of the issue, has offered to "mediate." We are eager to see the dispute resolved; western institutions are unlikely to expand into areas with such unresolved disputes.
HUNGARY: BILATERAL MILITARY AND SECURITY ISSUES

Over the last few years, the U.S. and Hungary have developed a solid bilateral security relationship, encompassing, inter alia, regular bilateral security consultations, a range of defense training and exchange programs, and numerous bilateral and multilateral military activities. Hungary, eager to integrate itself into NATO and to modernize and professionalize its restructuring, and resource-starved military, is an enthusiastic security partner with us. Stimulated by the advent of PFP and the NATO enlargement process, elimination of anachronistic Cold War-era restrictions on arms transfers, and a major increase in requested security assistance in FY96, we expect that bilateral US - Hungarian military relations will continue to expand apace in coming years.

High-Level Visits: Secretary Perry hosted Hungarian Defense Minister Keleti in mid-May. Numerous high-ranking U.S. defense officials, including CINCUSAFE Jamerson, have visited Budapest recently. GOH officials regularly underline Hungary's desire to play a constructive, supportive role in European and international security (e.g., OSCE, UNFICYP, MFO).

Bilateral Security Consultations: We have held three DoD-led Bilateral Working Groups (BWGs) with Hungary, the last in November 1994. U/S Davis hopes to chair the first session of the Bilateral Security and Arms Control Dialogue -- security consultations between foreign ministries -- in Budapest later this year.

Security Agreements: Keleti and Secretary Perry signed a Memorandum of Cooperation on Defense Relations, a non-binding, framework document similar to those signed with several other CE states. The two also signed a General Security of Military Information Agreement, which governs transfers of classified data, and a Master Data Exchange Agreement, which covers cooperative R&D efforts.

Training/Exchanges: Hungary actively participates in the International Military Education & Training (IMET) program, which accents civil-military relations, professional military education, and English instruction to senior and ascendant defense officials. We have requested an increase in IMET funding from $700,000 in FY95 to $950,000 in FY96. (The GOH consistently ranks English instruction among its highest priorities; it is also establishing a NATO language training center in Budapest this year.) Hungary was also host to the first resident, EUCOM-sponsored Military Liaison Team, which is overseeing an FY95 $533,000 program of exchanges.

Security Assistance: Through FY95 our modest security assistance program has largely been limited to IMET. Our significantly increased FY96 request marks a watershed in our developing defense relationship, however. We have requested $10m under the Warsaw Initiative ($3.2m grant FMF, $6.8m DoD), $4m in other grant FMF, and IMET. If appropriated, the Hungarians could use U.S. aid to support their participation in PFP activities (through equipment transfers, training, and exercise support) and to acquire other NATO-compatible systems. A sizeable share ($6.25) of Hungary's WI allocation could also help fund implementation of the Regional Airspace Management Initiative in Hungary (through construction of a National Command Center). Budapest is currently one of only three CE posts with dedicated security assistance officers.
Equipment Transfers: As they undergo a major military downsizing, restructuring, and modernization -- and seek to lessen their dependence on the NIS for supplies of military equipment and spare parts -- the Hungarians will look increasingly to the U.S. as a source of defense technologies. To date, Hungary is the only CE country to have concluded a government-to-government purchase of defense equipment (a $13m transfer of IFF equipment) from the USG. Hungary has also expressed interest in a range of US-origin equipment, ranging from air defense radars and missiles (HAWK and PATRIOT) to communications gear to F-16s. (We are close to authorizing the first transfer to any CE state of classified data on a US defense system - HAWK - to Hungary.) Given Hungary's difficult financial situation at present, short-term prospects for major U.S. or foreign procurement are unlikely, absent generous financing (complicated by Hungary's worsening credit rating) or other arrangements. Hungary recently received an excess field hospital through the grant EDA program. Earlier this year, Hungary was included in the list of countries for which the USG agreed to consider, on a case-by-case basis, requests for transfers of sophisticated lethal defense systems.

F-16s: Worried about instability in neighboring regions and hopeful of acquiring NATO-compatible air defense systems, Hungary was, in 1992, the first CE state to explore acquisition of advanced U.S. combat aircraft (F-16s). Given the then-nascent state of our security relations, as well as strict policy prohibitions against the transfer of sophisticated technologies into the region, we politely rebuffed that inquiry. To address its immediate air defense needs, and under pressure from Moscow, the cash-strapped Hungarian government in 1993 reluctantly agreed to write off $800 million of Russia's $1.7 billion dollar debt in exchange for Russian delivery of 28 MiG-29 aircraft. Despite the MiG-29 acquisition, Hungary in March 1995 made a formal request for data on the F-16, a request that led to an unclassified USAF briefing on F-16s in Budapest in late April. Recently, Lockheed submitted a request to market the F-16 (including transfer of technical data) to Hungary; no decision to approve that request has yet been made.

Other Programs: The Hungarians have also agreed to participate in the President's Regional Airspace Initiative, which includes a commitment to expend substantial national funds (estimated at $40m) to construct a NATO-compatible airspace management/air sovereignty regime. The U.S., for its part, hopes to contribute over $6m to the Hungarians for this effort. Hungary is also participating in the Defense Resources Management Study and other DoD-sponsored projects.

Exercises: Hungarian units have already exercised alongside U.S. units in several multilateral PFP exercises and plan to send a platoon to "Cooperative Nugget" at Fort Polk, LA, in August. The U.S. and Hungary will conduct a bilateral search and rescue (SAR) exercise in Hungary in July in preparation for an expanded multilateral PFP exercise in Hungary in 1996.

Key Non-Proliferation Regimes: Hungary is the only CE member of the MTCR and is one of several CE states belonging to the Australia Group. Based upon GOH assurances related to arms transfers to terrorist-supporting states, the USG has supported Hungarian membership in the COCOM successor regime.
UNCLASSIFIED

HUNGARY: ECONOMIC ISSUES

U.S. Support at the IMF: Hungary seeks our support at the IMF to obtain a loan agreement. Prime Minister Horn has stated that such an agreement is "quintessential" to prevent the international financial community from sharply restricting credits to Hungary. Those credits are needed to help finance the country's huge current account and budget deficits. President Clinton laid down our position in a letter to Prime Minister Horn; he wrote that we will not seek to weaken IMF conditionality, though we do urge IMF staff to enter into negotiations without delay and in earnest. Talks with the IMF now focus on what stabilization measures, beyond those unveiled on March 12, the Horn Government should take and when.

U.S. Support at the OECD: In early 1994, President Clinton announced our backing for early membership in the OECD by Hungary and its CEFTA neighbors. Hungary has made significant progress in preparing itself for OECD membership and intends to establish soon full current account convertibility in accord with Article VIII of the IMF. Senior personnel changes within the Hungarian Government delayed the ambitious review schedule originally established by the OECD. A first review by the key investment and capital movements committees is now set for June.

Renewal of GSP: Hungary has benefitted greatly from the GSP program. In 1994, the majority of its exports to the U.S. entered duty-free under that program. The Horn Government wants Congress to renew the GSP program, which will expire on July 31. Once several trade complaints with certain countries are addressed, we hope to allow the use of cumulative rules of origin with GSP for the members of CEFTA, including Hungary.

Defense Industry Trade Initiative: The USG may send a Defense Industry Trade Mission to Central Europe this Fall. An exploratory conference this Summer is intended to explain our arms transfer policies to Hungary and its neighbors and also to identify areas of common interest -- in the form of opportunities for direct sales, licensing arrangements, joint R&D, co-development and co-production -- to pursue afterward.

Trade and Investment: The U.S. leads all other countries with almost $4.0 billion invested in Hungary, but we account for only three percent of Hungary's trade turnover ($309 million of exports to and $470 million of imports from Hungary in 1994). The phase-in of a free trade agreement with the EU and simple geography depress U.S. export opportunities in Hungary.

OPIC and EXIMBANK Programs: Since 1990, OPIC has committed more than $560 million dollars in insurance and financing support to U.S. investors in Hungary. OPIC also supports three equity funds that plan to raise privately more than $300 million to invest in Central Europe. EXIMBANK has financed nearly $140 million of transactions in Hungary since 1988; sales of Boeing airplanes account for over 90 percent of this amount. EXIMBANK intends to sign an agreement with its Hungarian counterpart to facilitate joint exports to third country markets.

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HUNGARY: ASSISTANCE PRIORITIES

Hungary’s transition to a prosperous, democratic and secure country depends in large part on continuing economic and political reforms and on seriously addressing its unsustainable budget and current account deficits. The stabilization package announced March 12, is only a first step; additional painful and politically-unpopular structural adjustment measures are called for in order to gain the necessary support from the IMF and the international capital markets. USG assistance has made significant contributions in the transition so far, and we are ready to help in the design and implementation of stabilization measures. Even with the Deputy Secretary’s intervention, Hungary has not yet concluded a bilateral assistance agreement which would provide certain tax and duty exemption for our programs, although prospects seem promising for resolution of remaining differences.

USG assistance has played an important role in supporting privatization and financial sector reform, two of our principle objectives in Hungary. GOH delays, however, have caused some of our programs to be underutilized in recent months.

Since 1989, the U.S. has committed over $800 million (including OPIC and Eximbank programs) to Hungary’s economic and political transition. Hungary ranks second to (but still considerably below) Poland in terms of the Support for East European Democracy (SEED) Act assistance with a total of about $221 million from FY 1990 through FY 1995.

The Hungarian-American Enterprise Fund (HAEF) (fully capitalized at $70 million) is the largest activity in the U.S. assistance portfolio in Hungary, representing one-third of our SEED commitment. The HAEP offers loans, equity capital, and technical assistance to promote private sector development.

The U.S. has made a substantial commitment to support Hungary’s privatization efforts. In addition to HAEP, we have provided experts to assist in investment promotion, bank privatization and in privatization of state-owned enterprises, including employee stock ownership plans. Through long-term advisers and training, the U.S. Treasury Department, USAID, and the Securities and Exchange Commission are providing technical assistance to modernize Hungary’s banking, capital market, and financial services sector.

If the GOH follows through with accelerated implementation of privatization and bank reform, we will be prepared to tailor our assistance program in order to be supportive. We will be ready to respond, for example, if the government seeks our help in reducing the cost and improving the efficiency of its social sector support systems. In addition, as privatization advances we will work with other donors in an effort to assure post-privatization help (capital, technical assistance) is available to the newly private firms.
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HUNGARY: BILATERAL RELATIONS

U.S.- Hungarian relations are excellent. Foreign Minister Kovacs and Defense Minister Keleti have visited Washington in the past two months. Our cooperation is diverse and expanding.

On April 24, the International Law Enforcement Academy (ILEA) opened in Budapest. Unfortunately, due to the tragic events in Oklahoma City, Attorney General Reno and FBI Director Freeh were unable to travel as planned to the Academy’s dedication, which has yet to be rescheduled. The decision to locate the Academy in Budapest was announced last December 5, when the President was in Budapest to attend the CSCE Summit.

Intended to train law enforcement officers from Central Europe and the New Independent States as part of our joint efforts to address the threat posed by international organized crime in Central and Eastern Europe, the ILEA is supported by the United States, Hungary and member states of the European Union.

Hungary has supported us on a number of important security issues in multilateral fora. Perhaps most importantly, Hungary played an active and positive role in helping to secure the indefinite extension of the Non-Proliferation Treaty. Also, in a powerful symbol of our efforts to enhance European security in the post-Cold War era, on May 29, Hungary, with U.S. assistance, destroyed its remaining SCUD-related equipment, as agreed when it joined the Missile Technology Control Regime.

Restitution/compensation for Jewish property seized by fascist and communist regimes is a sensitive, outstanding point. We have tasked Ambassador to the European Union Stuart Eizenstat with engaging affected countries on this complex regional issue. While it may not be possible for states to make full restitution or to pay full compensation, we hope to help identify solutions expeditiously so that the generation that suffered may benefit. The issue’s complexity cannot justify inaction. Hungary, and the other countries involved, must cooperate to identify a solution that is domestically and internationally acceptable. Success will preclude the development of linkage between the issue and western integration, including into NATO.
Background Papers for the President’s meeting with Hungarian Prime Minister Horn

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PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]
b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]
TO: BRILL, K

FROM: SENS

KEYWORDS: HUNGARY

PERSONS: HORN, GYULA

SUBJECT: MEMCON OF PRES 6 JUN MTG W/ HUNGARIAN PM HORN

ACTION: DOHSE SGD MEMO

STAFF OFFICER: FRIED

FILES: WH NSCP:

DOCUMENT DISTRIBUTION

FOR ACTION FOR CONCURRENCE FOR INFO

EXECSEC FRIED

COMMENTS:

DISPATCHED BY DATE 6/8 BY HAND W/ATTCH

OPENED BY: NSVJD CLOSED BY: NSGP DOC 2 OF 2

CONFIDENTIAL

RECORD ID: 9504241 RECEIVED: 05 JUN 95 08

DOC DATE: 08 JUN 95 SOURCE REF:

KEYWORDS: HUNGARY MEMCON

STATUS: C

CODES:

DECLASSIFIED
F.O. 13526, Sec. 3.5 (b)
White House Guidelines, September 11, 2006
By KRM NARA, Date 5/11/2018
2015 - 0-779-1
## Action Data Summary Report

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002 | | X | 95060818 DOHSE SGD MEMO

## Dispatch Data Summary Report

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National Security Council
The White House

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cc: 

COMMENTS: DISPATCH W/ DISKETTE

Exec Sec Office has diskette
National Security Council
The White House

Log # 4241

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Situation Room
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Records Mgt.  3

A = Action  I = Information  D = Dispatch  R = Retain  N = No Further Action

Cc:

Comments: Dispatch w/ diskette

Exec Sec Office has diskette
MEMORANDUM FOR MR. KENNETH C. BRILL
Executive Secretary
Department of State

SUBJECT: Memorandum of Conversation of the President’s June 6 Meeting with Hungarian Prime Minister Horn

Attached for the information of the Secretary of State is the Memorandum of Conversation of the President’s June 6 meeting with Hungarian Prime Minister Horn. Please deliver “Eyes Only” to Secretary Christopher and transmit as a Confidential/NODIS message to our Embassy in Budapest.

Andrew D. Sens
Executive Secretary

Attachment
Tab A Memorandum of Conversation
THE WHITE HOUSE

MEMORANDUM OF CONVERSATION WASHINGTON

SUBJECT: Gyula Horn, Prime Minister of Hungary (U)

PARTICIPANTS: U.S.

The President
The Vice President
Warren Christopher, Secretary of State
Anthony Lake, Assistant to the President for National Security Affairs
Donald Blinken, U.S. Ambassador to Hungary
Lawrence Summers, Under Secretary of the Treasury
Richard Holbrooke, Assistant Secretary of State for European Affairs
Daniel Fried, Senior Director for Central and Eastern Europe, NSC Staff (notetaker)
Interpreter

Hungary

Prime Minister Gyula Horn
Lajos Bokros, Finance Minister
Gyorgy Suranyi, President, National Bank
Ferenc Somogyi, State Secretary for Foreign Affairs
Gyorgy Banlaki, Ambassador
Interpreter

DATE, TIME AND PLACE: June 6, 1995 at 9:50-10:27 a.m.
The Oval Office

The President: I'm glad to welcome you and your very distinguished delegation. I admire what you have been doing in Hungary and support it. (U)

Prime Minister Horn: Thank you. My government's financial leaders are in this delegation. This indicates what a central position economic issues have for us and how much Hungary hopes to develop its economic ties with the United States. Thank you for the invitation. I have an excellent program and am looking forward to my visit in the United States. To tell the truth, I have never spent nine days out of Hungary on any official trip before, but I have a concrete purpose in doing so this time. And things are off to a good start. No matter how small Hungary is, the interest in it here seems quite large. (U)
Prime Minister Horn: I conducted some tough negotiations with the IMF yesterday. In this connection, I greatly appreciate your position and creative approach to Hungary's relations with the IMF. I had always known that the IMF was not a charitable organization, and I was fully convinced of that yesterday. (At this point, the President and delegations on both sides responded with laughter, joined by Horn). Hungary is taking tough economic measures already, but nothing seems good enough for the IMF. We have undertaken to reduce real wages by 15 percent; we are engaging in strong steps to reduce the deficit, though we cannot reduce it by half in a single year, as the IMF is demanding. We will continue our negotiations with them, but it is not easy.

The President: We will urge the IMF to conclude a standby agreement with you. You have indeed taken a strong stance on the economy and should receive this sort of support. We must maintain the IMF's standards, but there are areas for discussion where progress can be made. I agree that you have taken a strong stance. It is hard to bring down deficits; although such steps are necessary, they are not easy.

Prime Minister Horn: Indeed it is not easy. We will try to conclude an agreement with the IMF on the basis of which we can reach a standby. Consultations with the U.S. Administration are important in this context. Hungary is indeed making progress in its reforms, and these are important throughout Central and Eastern Europe: no other country in the region has taken such radical steps recently, and we are in regular contact with interested Central European governments and with Russia.

The President: I'm sure the Russians are very interested in your program.

Prime Minister Horn: I would like to express thanks to you and to the Administration for your policy on the enlargement of NATO. Our discussions with the United States have made it clear that Hungary may become one of the first countries in the first circle of new NATO members. The fundamental conditions already exist for Hungarian membership in NATO, and membership meets the aspirations of Hungarians. Hungary will take necessary steps with its neighbors to ensure that NATO membership can proceed. Hungary is pursing a basic treaty with Romania, and we hope to have it ready in time for the EU summit in Cannes on June 27, to which Chirac has invited me. I hope that (Romanian President) Iliescu and I can sign the treaty at that time. This would be a good signal throughout the region.

The President: I agree. We hope you can succeed with Romania. I believe Hungary should be integrated over time with all
European political and security institutions. We have sought to establish a deliberate and open policy of NATO expansion. We are still pursuing it. It will take some time this year and next to clarify how NATO should expand and why it should expand. Then we will take up the question of which countries shall join NATO first and at what time.

The President: As you know, this has created some tension in relations with Russia. In Moscow last month, I made two points to President Yeltsin on this issue. First, I told him that NATO was a defensive, not an offensive, organization. The only operation NATO has ever taken outside the boundaries of its members has been in Bosnia, and it has done so in cooperation with Russia in order to try to stop the destruction of Sarajevo. Second, I pointed out that NATO was directed against the USSR, which no longer exists. Yeltsin says that this is a reason NATO is no longer needed. But I told him that NATO serves another purpose that is important not to overlook: NATO tied the United States to Europe in a security partnership for the first time; over the past fifty years, NATO kept the United States from moving away from Europe. The history of the 20th century shows that it is better for all for the United States to be in partnership with Europe than it is for us to withdraw. NATO is the vehicle for this partnership at this time. I don’t know whether I was completely successful in convincing Yeltsin, but we did get Russia to join the Partnership for Peace. So we are moving down the road.

Prime Minister Horn: I’m happy to hear this and was pleased to learn that Foreign Minister Kozyrev signed two Partnership for Peace documents. I greatly appreciated your letter outlining for me your discussions with President Yeltsin. For the first time in many, many years, we were given direct information about a U.S.-Russian dialogue that concerned us. This was a good indication of your intentions, and we appreciated being informed. Hungary began discussions with Russia about NATO last fall. I had a long talk with Yeltsin in Budapest last December, during the CSCE Summit, and in March I want to Moscow and met with Yeltsin, Prime Minister Chernomyrdin and Kozyrev.

Prime Minister Horn: Two things worry us about Russia. First, they are not even thinking in a new way about NATO. Yeltsin himself has made an internal Russian political issue out of NATO enlargement. This in turn has made possible a change of Russian political direction in December’s parliamentary elections. A different sort of coalition could come to power then and effect the Presidential elections next June. I was quite impressed by Chernomyrdin, however. He is pragmatic and a supporter both of order and of reforms. Second, the Russian military is gaining political influence. This was shown by Chechnya and more.
Yeltsin is becoming a hostage of this military factor. Positive changes are occurring in Russia as well, and these also will effect Russian politics but elements of concern are present. Others may come to power. Changes are taking place in relations between nations composing the CIS. Ukrainian-Russian and Kazakhstan-Russian relations are becoming tense, though it is not possible to restore a set of relations like those that existed during the years of Russian dominance. Given this, it is important not to close NATO’s door to Russia. Keeping it open could have a positive impact in Russia. Even with all the difficulties, progress can be made. Hungary, as OSCE Chairman-in-Office, is active on issues such as Chechnya, and we have succeeded in getting Russia to accept a OSCE mission there whereas earlier they would not hear of it.

The President: We also have high regard for Chernomyrdin. Vice President Gore works closely with him and together they cover a great number of issues.

The Vice President: We had tried and failed to persuade the Russians to allow the OSCE to play a role in Chechnya, so we appreciate Hungary’s role and success in this regard.

Prime Minister Horn: This would not have been possible without the influence and support of the United States.

The Vice President: I would also like to add my congratulations to you for the March 12 package of economic measures. I am pleased to meet your senior economic team. The March 12 package generated an upswing of optimism about Hungary and bilateral relations. We realize this was difficult but we are impressed with your political courage.

Prime Minister Horn: Thank you. It is gratifying to be appreciated by you. I look forward even more to the time when these economic measures will be appreciated by Hungarians. (Both delegations responded with laughter, again joined by PM Horn.)

President Clinton: It’s the same for us all. (U)

Prime Minister Horn: It is genuinely difficult for the public to understand the need for these tough measures. It is not possible to go on for years with austerity. Ironically, Hungary is doing well; the country is getting rich while the government gets poorer. (U)

Prime Minister Horn: I would like to turn to Yugoslavia. We are neighbors, and the situation worries us. I thank Secretary Christopher and Mr. Holbrooke for consulting with us on this
issue. It remains important to prevent Croatia from stepping up its expansionist efforts. This could be a danger in the region, and we have the position of the Hungary minority to consider. The situation could bring on disaster and waves of new refugees. I understand the effort being made from the air and Hungary stands ready to participate if a contribution is needed.

The President: Thank you for your support on AWACS flights. We have indeed worked very hard to prevent a spread of the conflict. Our goals are first, to prevent a spread of the war and; then, to reduce casualties to the lowest possible level, and then, to work toward a diplomatic solution to the conflict. We don’t see an alternative. Many in Congress want to force an end to UNPROFOR and lift the arms embargo. But we believe this would increase the killing and the likelihood that the war would spread. The press and public are understandably frustrated that such a thing could happen now, in the heart of Europe, but we must do what is possible. No one believed that the United States could impose a peace in the Middle East. But we could and did take steps to stop warfare there. We then were able to take advantage of chances for peace, as we are doing. My instinct is that Bosnia is much the same sort of problem: we cannot resolve the issue by an invasion or by snapping our fingers to make peace. We must contain the war and prevent its spread to Hungary and FYROM. I would welcome your thoughts on what can be done.

Prime Minister Horn: I believe that Karadzic can be influenced only by really enforcing the embargo. What he and his people are doing is terrorism. We may not be able to avoid a greater international commitment to stop this, possibly including some role for ground forces. This is difficult and I don’t want this to come about, but it may not be avoidable in the end. Of course it would be preferable if Milosevic were able to make progress, using his ties to the Bosnian Serbs.

The President: Milosevic wants the sanctions lifted and he understands the conditions: he must recognize Bosnia and enforce the embargo against the Bosnian Serbs.

Prime Minister Horn: I hope I can count on your support for Hungary’s accession to the OECD. This is important. We are not seeking special favors, but want to be integrated into Europe. In 1996, Hungary will celebrate the 1100th anniversary of its statehood and we must have something to mark this occasion. I invite you and the First Lady to return to Hungary next year for this occasion.

The President: For more than six hours this time. I’d like to come, if I can.
Secretary Christopher: The United States would be glad to support Hungary's accession to the OECD, though meeting the conditions will of course take time. Let me add that the recent NATO Ministerial meeting was very favorable to Hungary and other countries of Central Europe. We made no concessions to Russia about NATO enlargement and there is no slowing down of the timetable. President Clinton convinced Yeltsin to cross the threshold and join the Partnership for Peace. NATO ministers welcomed that development. I look forward to discussing this and the possible Hungarian-Romanian treaty with you over lunch today.

Prime Minister Horn: I hope to do so as well. Let me note what a fine Ambassador the United States has in Budapest. The Americans last evening praised (Hungarian) Ambassador Banlaki so let me do the same for Ambassador Blinken. Sometimes our Ambassador represents American views and interests to us in Budapest, and I'm sure yours represents Hungarian views in Washington.

The President: Your Ambassador represents you very well (U)

Prime Minister Horn: Of course, he receives no great salary for this, but I'm glad to hear it. (U)

Prime Minister Horn: Let me say a few words about U.S. investment in Hungary. We welcome this for two reasons. First, it brings high technology directly to us. This is not the case with every Western country investing in Hungary, and we appreciate it. Second, it generates jobs which is very, very important for us.

The President: We have worked very hard to encourage U.S. firms to invest in Hungary. We held the Cleveland Conference last January. American investment in Hungary is now about $4 billion and growing. I believe the Overseas Private Investment Corporation has around $300 million in projects in Hungary, and we want to do even more. Your progress in economic stabilization will inspire greater investor confidence, and we will be supportive. Speaking of investment, I would like to thank you for Hungary's investment in Anniston, Alabama. We like it a lot; both the Vice President and I have a fond memory of busses from the 1992 campaign. (U)

Prime Minister Horn: So we, too, create jobs through investment and in the United States. (U)

The President: We like this a lot. (U)

-- End of Conversation --
June 7, 1995

ACTION

MEMORANDUM FOR ANDREW D. SENS

FROM: DANIEL FRIED

SUBJECT: POTUS Meeting with Hungarian Prime Minister Horn

Attached at Tab I is a Sens-Brill memorandum transmitting to State the Memorandum of Conversation of the June 6 meeting between the President and Hungarian Prime Minister Gyula Horn.

RECOMMENDATION

That you sign the transmittal memorandum to State.

And that the Memorandum of Conversation be filed for the record.

Approve _____  Disapprove _____

Attachments

Tab I  Sens-Brill Memorandum

Tab A  Memorandum of Conversation between POTUS and Hungarian Prime Minister Horn

CONFIDENTIAL

Declassify on: OADR
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FROM: BERGER

DATE: 02 MAY 98

SOURCE REF:

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CZECHOSLOVAKIA, HUNGARY

PERSONS: SOLANA, JAVIER, KWASNIEWSKI, ALEKSANDER

HAVEL, VACLAV, HORN, GYULA

SUBJECT: TELCALLS RE NATO EXPANSION

ACTION: NOTED BY PRESIDENT

DUE DATE: 07 MAY 98

STAFF OFFICER: BRADEN

FILES: WH

NSCP: DUE DATE: 07 MAY 98

STATUS: C

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OPENED BY: NSTSM CLOSED BY: NSSWD

DOC 2 OF 2
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002  PRESIDENT         Z  98050214  FOR  INFORMATION
002

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            WH  CHIEF  OF  STAFF

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The White House

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ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: SAMUEL BERGER

SUBJECT: Telephone Calls to NATO Secretary General Solana, Czech President Havel, Polish President Kwasniewski and Hungarian Prime Minister Horn

Purpose

To congratulate NATO Secretary General Solana, Presidents Havel and Kwasniewski and Prime Minister Horn on the April 30 NATO enlargement vote and thank them for their support.

Background

Solana played a key role in bolstering our drive for NATO enlargement. The Polish, Hungarian and Czech governments also worked hard to ensure a strong Senate vote by making a concerted effort to work together and meet NATO's criteria for membership.

RECOMMENDATION

That you use the talking points at Tab A for your congratulations calls.

Attachment
Tab A Points to be Made

c: Vice President
Chief of Staff
POINTS TO BE MADE FOR
TELEPHONE CONVERSATION
WITH HUNGARIAN PRIME MINISTER GYULA HORN
NATO ENLARGEMENT VOTE

• Want to tell you how pleased I am with Senate’s vote in favor of admitting Hungary to NATO and extend my personal congratulations.

• Your government’s seriousness of purpose in preparing Hungary for membership, including your active involvement in Partnership for Peace and support to NATO’s peacekeeping efforts in Bosnia, were key to this success.

• Senate agreed Hungarian people are ready to retake their rightful place in the family of democracies and be real contributors to trans-Atlantic security.

• Know number of other countries still need to ratify, but believe last night’s overwhelming vote of support should help to create positive momentum in other countries.

• Looking forward to NATO summit in Washington next year and formally welcoming Hungary onto Alliance. Want to do everything possible to make this event a great success.
POINTS TO BE MADE FOR
TELEPHONE CONVERSATION WITH
POLISH PRESIDENT ALEKSANDER KWASNIEWSKI
NATO ENLARGEMENT VOTE

• Want to tell you how pleased I am with Senate’s vote in favor of admitting Poland to NATO and extend my personal congratulations.

• Poland's steadfast commitment to reform and seriousness of purpose in preparing for membership, including your active involvement in Partnership for Peace, were key to this success.

• Senate agreed Polish people are ready to retake their rightful place in the family of democracies and be real contributors to trans-Atlantic security.

• Know number of other countries still need to ratify, but believe Senate’s overwhelming vote of support should help to create positive momentum in other countries.

• Looking forward to NATO summit in Washington next year and formally welcoming Poland into Alliance. Want to do everything possible to make this event a great success.
POINTS TO BE MADE FOR
TELEPHONE CONVERSATION WITH
NATO SECRETARY GENERAL JAVIER SOLANA
NATO ENLARGEMENT VOTE

- Deeply gratified by Senate consent to NATO enlargement. Grateful for your help in making this overwhelming success possible.

- Vote would not have happened without your leadership in Brussels, advocacy here in Washington.

- Know many other allies still need to ratify, but hope our action creates positive momentum for others.

- Looking forward to NATO summit in Washington next year. Want to do everything possible to make great success.
May 1, 1998

ACTION

MEMORANDUM FOR SAMUEL R. BERGER

THROUGH: STEPHEN J. FLANAGAN/DONALD K. BANDLER

FROM: SUSAN BRADEN

SUBJECT: Presidential Telephone calls to NATO Secretary General Solana, Czech President Havel, Polish President Kwasniewski and Hungarian Prime Minister Horn

Attached at Tab I is your memorandum to the President forwarding talking points for his telephone calls to Solana, Havel, Kwasniewski and Horn.

RECOMMENDATION

That you sign the memorandum to the President at Tab I.

Approve ☑ Disapprove _____

Attachment

Tab I Memo to the President
Tab A Points To Be Made
POINTS TO BE MADE FOR
TELEPHONE CONVERSATION WITH
CZECH PRESIDENT VACLAV HAVEL
NATO ENLARGEMENT VOTE

• Hope you are feeling better. Hillary and I keep you in our thoughts and prayers.

• Want to tell you how pleased I am with Senate’s vote in favor of admitting Czech Republic to NATO and extend my personal congratulations.

• Your long struggle for freedom and commitment to democratic principles upon which Alliance was founded were key to this success. The Senate agreed that Czech people are ready to take their rightful place in the West.

• Know number of other countries still need to ratify, but believe Senate’s overwhelming vote of support should help to create positive momentum in other countries.

• Looking forward to NATO summit in Washington next year and formally welcoming Czech Republic into Alliance. This will be a final vindication of your sacrifices and heroic struggle of Czech people for freedom.

• Wish you a speedy recovery:
May 1, 1998

ACTION

MEMORANDUM FOR SAMUEL R. BERGER

THROUGH: STEPHEN J. FLANAGAN/ DONALD K. BANDLER

FROM: SUSAN BRADEN

SUBJECT: Presidential Telephone calls to NATO Secretary General Solana, Czech President Havel, Polish President Kwasniewski and Hungarian President Goncz

Attached at Tab I is your memorandum to the President forwarding talking points for his telephone calls to Solana, Havel, Kwasniewski and Horn.

RECOMMENDATION

That you sign the memorandum to the President at Tab I.

Approve ____ Disapprove ____

Attachment

Tab I Memo to the President
Tab A Points To Be Made
ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: \hspace{1em} SAMUEL BERGER

SUBJECT: Telephone Calls to NATO Secretary General Solana, Czech President Havel, Polish President Kwasniewski, and Hungarian President Goncz

Purpose

To congratulate NATO Secretary General Solana and Presidents Goncz, Havel and Kwasniewski on the April 30 NATO enlargement vote and thank them for their support.

Background

Solana played a key role in bolstering our drive for NATO enlargement. The Polish, Hungarian and Czech governments also worked hard to ensure a strong Senate vote by making a concerted effort to work together and meet NATO's criteria for membership.

RECOMMENDATION

That you use the talking points at Tab A for your congratulations calls.

Attachment

Tab A  Points to be Made

cc: Vice President
Chief of Staff
• Deeply gratified by Senate consent to NATO enlargement. Grateful for your help in making this overwhelming success possible.

• Vote would not have happened without your leadership in Brussels, advocacy here in Washington.

• Know many other allies still need to ratify, but hope our action creates positive momentum for others.

• Looking forward to NATO summit in Washington next year. Want to do everything possible to make great success.
POINTS TO BE MADE FOR
TELEPHONE CONVERSATION WITH
CZECH PRESIDENT VACLAV HAVEL
NATO ENLARGEMENT VOTE

• Hope you are feeling better. Hillary and I keep you in our thoughts and prayers.

• Want to tell you how pleased I am with Senate's vote in favor of admitting Czech Republic to NATO and extend my personal congratulations.

• Your long struggle for freedom and commitment to democratic principals upon which Alliance was founded were key to this success. The Senate agreed that Czech people are ready to take their rightful place in the West.

• Know number of other countries still need to ratify, but believe Senate's overwhelming vote of support should help to create positive momentum in other countries.

• Looking forward to NATO summit in Washington next year and formally welcoming Czech Republic into Alliance. This will be a final vindication of your sacrifices and heroic struggle of Czech people for freedom.

• Wish you a speedy recovery.
POINTS TO BE MADE FOR TELEPHONE CONVERSATION WITH HUNGARIAN PRESIDENT ARPAD GONCZ NATO ENLARGEMENT VOTE

- Want to tell you how pleased I am with Senate's vote in favor of admitting Hungary to NATO and extend my personal congratulations.

- Your personal sacrifices during Cold War and Hungary's subsequent commitment to reform and preparing for membership in the Alliance were key to this success.

- Know number of other countries still need to ratify, but believe Senate's overwhelming vote of support should help to create positive momentum in other countries.

- Looking forward to NATO summit in Washington next year and formally welcoming Hungary into Alliance. It will be a great vindication of your long struggle and heroic efforts of Hungarian people to regain their freedom.
• Want to tell you how pleased I am with Senate’s vote in favor of admitting Poland to NATO and extend my personal congratulations.

• Poland's steadfast commitment to reform and seriousness of purpose in preparing for membership, including your active involvement in Partnership for Peace, were key to this success.

• Know number of other countries still need to ratify, but believe Senate’s overwhelming vote of support should help to create positive momentum in other countries.

• Looking forward to NATO summit in Washington next year and formally welcoming Poland into Alliance. Want to do everything possible to make this event a great success.
May 1, 1998

ACTION

MEMORANDUM FOR SAMUEL R. BERGER

THROUGH: STEPHEN J. FLANAGAN/ DONALD K. BANDLER

FROM: SUSAN BRADEN

SUBJECT: Presidential Telephone Calls to NATO Secretary General Solana, Presidents Goncz, Havel and Kwasniewski and Prime Ministers Buzek and Horn

Attached at Tab I is your memorandum to the President forwarding talking points for his telephone calls to Solana, Goncz, Havel and Kwasniewski, Buzek and Horn.

RECOMMENDATION

That you sign the memorandum to the President at Tab I.

Attachments
Tab I Memo to the President
Tab A Points to be Made

last night
April 30
May 1, 1998

ACTION

MEMORANDUM FOR SAMUEL R. BERGER

THROUGH: STEPHEN J. FLANAGAN/DONALD K. BANDLER

FROM: SUSAN BRADEN

SUBJECT: Presidential Telephone calls to NATO Secretary General Solana, Czech President Havel, Polish President Kwasniewski and Hungarian Prime Minister Horn

Attached at Tab I is your memorandum to the President forwarding talking points for his telephone calls to Solana, Havel, Kwasniewski and Horn.

RECOMMENDATION

That you sign the memorandum to the President at Tab I.

Approve _____ Disapprove _____

Attachment
Tab I Memo to the President
Tab A Points To Be Made
THE WHITE HOUSE
WASHINGTON

PHONE CALL WITH
NATO SYG SOLANA, PRESIDENTS GONCZ, HAVEL AND Kwasniewski AND
PRIME MINISTERS BuzeK AND HORN

DATE: MAY 1 or 2, 1998
LOCATION: TBD
TIME: TBD (Time difference EDT+6 hours)

FROM: SAMUEL BERGER

I. PURPOSE
To congratulate these six leaders on last night's NATO enlargement vote and thank them for their support.

II. BACKGROUND
Solana played a key role in bolstering our drive for NATO enlargement. The Polish, Hungarian and Czech governments also worked hard to ensure a strong Senate vote by making a concerted effort to work together and meet NATO's criteria for membership.

III. PARTICIPANTS
President should call Solana first and can then call the leaders of the three Central European countries. Recommend Havel first, followed by Goncz and Horn, then Kwasniewski and Buzek.

Attachment
Tab A Points to be Made

Recommend
That you use the talking points at Tab A for your congratulatory calls.
Points to be Made for Telephone Conversation with Czech President Vaclav Havel

Nato Enlargement Vote

• Hope you are feeling better. Hillary and I keep you in our thoughts and prayers.

• Want to tell you how pleased I am with Senate's vote in favor of admitting Czech Republic to NATO and extend my personal congratulations.

• Your long struggle for freedom and commitment to democratic principals upon which Alliance was founded were key to this success. The Senate agreed that Czech people are ready to take their rightful place in the West.

• Know number of other countries still need to ratify, but believe last night's overwhelming vote of support should help to create positive momentum in other countries.

• Looking forward to NATO summit in Washington next year and formally welcoming Czech Republic into Alliance. This will be a final vindication of your sacrifices and heroic struggle of Czech people for freedom.

• Wish you a speedy recovery.
POINTS TO BE MADE FOR
TELEPHONE CONVERSATION
WITH HUNGARIAN PRESIDENT ARPAD GONCZ
NATO ENLARGEMENT VOTE

• Want to tell you how pleased I am with Senate's vote in favor of admitting Hungary to NATO and extend my personal congratulations.

• Your personal sacrifices during Cold War and Hungary's subsequent commitment to reform and preparing for membership in the Alliance were key to this success.

• Know number of other countries still need to ratify, but believe last night's overwhelming vote of support should help to create positive momentum in other countries.

• Looking forward to NATO summit in Washington next year and formally welcoming Hungary into Alliance. It will be a great vindication of your long struggle and heroic efforts of Hungarian people to regain their freedom.
POINTS TO BE MADE FOR
TELEPHONE CONVERSATION WITH
WITH POLISH PRESIDENT ALEKSANDER KWASNIEWSKI
NATO ENLARGEMENT VOTE

- Want to tell you how pleased I am with Senate's vote in favor of admitting Poland into NATO and extend my personal congratulations.  
- Poland's steadfast commitment to reform and seriousness of purpose in preparing for membership, including your active involvement in Partnership for Peace, were key to this success. 
- Know number of other countries still need to ratify, but believe last night's overwhelming vote of support should help to create positive momentum in other countries. 
- Looking forward to NATO summit in Washington next year and formally welcoming Poland into Alliance. Want to do everything possible to make this event a great success.
POINTS TO BE MADE FOR
TELEPHONE CONVERSATION WITH
WITH POLISH PRIME MINISTER JERZY BUZEK
NATO ENLARGEMENT VOTE

• Want to tell you how pleased I am with Senate’s vote in favor of admitting Poland NATO and extend my personal congratulations.

• Poland's steadfast commitment to reform and seriousness of purpose in preparing for membership, including your active involvement in the Partnership for Peace, were key to this success.

• Know number of other countries still need to ratify, but believe last night's overwhelming vote of support should help to create positive momentum in other countries.

• Looking forward to NATO summit in Washington next year and formally welcoming Poland into Alliance. This will be a final vindication of heroic struggle for freedom waged by Polish people and Solidarity movement over last two decades.
POINTS TO BE MADE FOR TELEPHONE CONVERSATION WITH HUNGARIAN PRIME MINISTER GYULA HORN NATO ENLARGEMENT VOTE

- Want to tell you how pleased I am with Senate's vote in favor of admitting Hungary to NATO and extend my personal congratulations.

- Your government's seriousness of purpose in preparing Hungary for membership, including your active involvement in Partnership for Peace and support to NATO's peacekeeping efforts in Bosnia, were key to this success.

- Know number of other countries still need to ratify, but believe last night's overwhelming vote of support should help to create positive momentum in other countries.

- Looking forward to seeing NATO summit in Washington next year and formally welcoming Hungary onto Alliance. Want to do everything possible to make this event a great success.
HUNGARY: ASSISTANCE PRIORITIES

Hungary's transition to a prosperous, democratic and secure country depends in large part on continuing economic and political reforms and on seriously addressing its unsustainable budget and current account deficits. The stabilization package announced March 12, is only a first step; additional painful and politically-unpopular structural adjustment measures are called for in order to gain the necessary support from the IMF and the international capital markets. USG assistance has made significant contributions in the transition so far, and we are ready to help in the design and implementation of stabilization measures. Even with the Deputy Secretary's intervention, Hungary has not yet concluded a bilateral assistance agreement which would provide certain tax and duty exemption for our programs, although prospects seem promising for resolution of remaining differences.

USG assistance has played an important role in supporting privatization and financial sector reform, two of our principle objectives in Hungary. GOH delays, however, have caused some of our programs to be underutilized in recent months.

Since 1989, the U.S. has committed over $800 million (including OPIC and Eximbank programs) to Hungary's economic and political transition. Hungary ranks second to (but still considerably below) Poland in terms of the Support for East European Democracy (SEED) Act assistance with a total of about $221 million from FY 1990 through FY 1995.

The Hungarian-American Enterprise Fund (HAEF) (fully capitalized at $70 million) is the largest activity in the U.S. assistance portfolio in Hungary, representing one-third of our SEED commitment. The HAEF offers loans, equity capital, and technical assistance to promote private sector development.

The U.S. has made a substantial commitment to support Hungary's privatization efforts. In addition to HAEF, we have provided experts to assist in investment promotion, bank privatization and in privatization of state-owned enterprises, including employee stock ownership plans. Through long-term advisers and training, the U.S. Treasury Department, USAID, and the Securities and Exchange Commission are providing technical assistance to modernize Hungary's banking, capital market, and financial services sector.

If the GOH follows through with accelerated implementation of privatization and bank reform, we will be prepared to tailor our assistance program in order to be supportive. We will be ready to respond, for example, if the government seeks our help in reducing the cost and improving the efficiency of its social sector support systems. In addition, as privatization advances we will work with other donors in an effort to assure post-privatization help (capital, technical assistance) is available to the newly private firms.
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HUNGARY: ECONOMIC ISSUES

U.S. Support at the IMF: Hungary seeks our support at the IMF to obtain a loan agreement. Prime Minister Horn has stated that such an agreement is "quintessential" to prevent the international financial community from sharply restricting credits to Hungary. Those credits are needed to help finance the country's huge current account and budget deficits. President Clinton laid down our position in a letter to Prime Minister Horn; he wrote that we will not seek to weaken IMF conditionality, though we do urge IMF staff to enter into negotiations without delay and in earnest. Talks with the IMF now focus on what stabilization measures, beyond those unveiled on March 12, the Horn Government should take and when.

U.S. Support at the OECD: In early 1994, President Clinton announced our backing for early membership in the OECD by Hungary and its CEFTA neighbors. Hungary has made significant progress in preparing itself for OECD membership and intends to establish soon full current account convertibility in accord with Article VIII of the IMF. Senior personnel changes within the Hungarian Government delayed the ambitious review schedule originally established by the OECD. A first review by the key investment and capital movements committees is now set for June.

Renewal of GSP: Hungary has benefitted greatly from the GSP program. In 1994, the majority of its exports to the U.S. entered duty-free under that program. The Horn Government wants Congress to renew the GSP program, which will expire on July 31. Once several trade complaints with certain countries are addressed, we hope to allow the use of cumulative rules of origin with GSP for the members of CEFTA, including Hungary.

Defense Industry Trade Initiative: The USG may send a Defense Industry Trade Mission to Central Europe this Fall. An exploratory conference this Summer is intended to explain our arms transfer policies to Hungary and its neighbors and also to identify areas of common interest -- in the form of opportunities for direct sales, licensing arrangements, joint R&D, co-development and co-production -- to pursue afterward.

Trade and Investment: The U.S. leads all other countries with almost $4.0 billion invested in Hungary, but we account for only three percent of Hungary's trade turnover ($309 million of exports to and $470 million of imports from Hungary in 1994). The phase-in of a free trade agreement with the EU and simple geography depress U.S. export opportunities in Hungary.

OPIC and EXIMBANK Programs: Since 1990, OPIC has committed more than $560 million dollars in insurance and financing support to U.S. investors in Hungary. OPIC also supports three equity funds that plan to raise privately more than $300 million to invest in Central Europe. EXIMBANK has financed nearly $140 million of transactions in Hungary since 1988; sales of Boeing airplanes account for over 90 percent of this amount. EXIMBANK intends to sign an agreement with
its Hungarian counterpart to facilitate joint exports to third country markets.

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