



ZSUZSANNA BORVENDÉG

The Ages of the Impexes



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THE AGES OF THE IMPEXES



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PREFACE

An efficient secret service quietly going about its business behind the scenes is a vital cog in the workings of any country seeking to increase its security and ability to enforce its interests. Since the dawn of human civilisation, every country has had its own secret service, but it is important to know whose interests the secret service represents and what purpose it serves. Hungary lost its independence on 19 March 1944 and could not be considered a sovereign Hungarian state again until 23 October 1989. In my opinion, it would be wrong to say the secret service protected the democratic Republic of Hungary until a democratic government was formed following the first free elections, as the secret service is always an instrument of politics. It does not make decisions, nor does it forge its own path – it executes political will and follows orders. The picture is further nuanced by the fact that, during the time of the government led by József Antall, and for a while thereafter, the occupying Soviet forces were still present in Hungary, and this army was at the very least a threat to Hungary's sovereignty. The Russian presence certainly influenced the operation of the secret service agencies as they represented the dominant ruling power. It would therefore be inappropriate to examine the workings of the secret service agencies in Hungary during the time of the Soviet occupation as if analysing the work of an apparatus established to protect the interests of the country. Instead, the secret services served foreign interests and followed the orders of a party installed in power thanks to foreign armed forces that established a totalitarian dictatorship and were therefore counter to Hungarian national interests and Hungarian society. This applies not only to civilian intelligence, but also to intelligence and counterintelligence, as their activity helped sustain the communist Bloc. Making this distinction is extremely important for this book, as the stories related below present some of the proven professional methods that secret service agencies from all countries employed, and still do,

without any constraints on time or location. However, we still cannot draw any general conclusions from this as the events here all happened during the Cold War and under the direction of the Soviets. Despite the tools used perhaps being similar or identical, the objectives were radically different, and this difference is not overridden by individual good faith or commitment. Under no circumstances does the author of this book wish to pass any moral judgement on the members of the secret service agencies, nor does she want to contest that those serving sincerely believed they were doing so for their country. That said, the system was not based on national but on international interests, which caused major moral and economic damage to Hungarian society.

The materials for this book were primarily found in the Historical Archives of Hungarian State Security [*Állambiztonsági Szolgálatok Történeti Levéltára, ÁBTL*]. The documents on counterintelligence, as well as intelligence, were particularly important in compiling the stories. I am convinced that evaluating and interpreting these resources requires a different approach to examining the materials of Division III/III of the Ministry of Interior. While we can only look at the stories in the civilian intelligence documents through the distorted eyes of a state political police always suspecting and looking for enemies, some of the materials left behind by the divisions conducting secret service tasks in the traditional sense have more reliable value as sources, since the survival of this system was subject to intelligence and counterintelligence providing the most accurate information possible to the senior leadership on the areas they monitored and the events they learned about. I draw attention in particular to the Daily Operative Information Reports [*Napi Operatív Információs Jelentések, NOIJ*], which are of outstanding value as sources among state security documents. These strictly confidential reports were prepared by state security from 1979, initially to provide daily information to senior officials at the Ministry of Interior, then for an increasingly broad range of leaders. This means that deliberate misreporting and falsification of information are much less likely here as the documents were prepared for use in-house by those controlling the system. These short and concise summaries focused on factual information and recorded a given matter from beginning to end during the 1980s, so we can

pull together the main thrust of stories where the operative files are perhaps still classified for reasons of national security. Some of the documents on the economic crimes committed under the cover of Mineralimpex are examples of this. Although they are not yet managed by the archive, a significant portion of the events can be reconstructed with the help of other sources.

The task of intelligence at that time was split between the State Security Division of the Minister of Interior and Military Intelligence Division 2 of the General Staff of the Hungarian People's Army, but the documents of this latter organisation are not available for research, so some of the events described here and the mapping of the links between them are, inevitably, somewhat one sided: we can only examine the events from the perspective of an institution that was frequently a rival. Antagonism between the civilian and military intelligence services marred the relations between the two bodies even prior to 1956, and this did not change during the Kádár era. Since counterintelligence was only practised within the Ministry of Interior, which for many years also handled the internal audit of military intelligence, conflicts of interest were unavoidable. What is more, the investigations into major economic corruption also fell under the purview of counterintelligence, so the investigating authority was far from impartial when revealing the illegal activities of a rival organisation. It is for this reason I endeavoured to interpret the documents of this type with a highly critical eye, and in the knowledge that future research will no doubt refine our understanding in this area.

In writing this book, I used sources from the Hungarian National Archives [*Magyar Nemzeti Levéltár Országos Levéltára, MNL OL*] with particular regard to the accounting documents of some state companies and sources created by the Hungarian Foreign Trade Bank. The company documents of Mineralimpex examined in the third chapter of the book are stored in the National Archive, but are not currently available for research, so I was unable to use them. I was only able to refer to documents held by the Historical Archives of Hungarian State Security in analysing the operations of the company and its subsidiary in Vienna.

The stories related in the book are just the partial results of ongoing research. The revealed links and examples provided to corroborate them

are by no means complete, but they outline a path of research which is worthwhile and – I believe – necessary to continue pursuing. The book attempts to reconstruct the role of Hungarian intelligence during the Kádár era in acquiring goods subject to the Eastern Bloc embargo, and in circumventing the COCOM list, as well as providing some insight into the magnitude of the economic crimes committed from time to time in that period. We will discover how Hungary participated in the games behind the scenes that played out between East and West during the years of the Cold War, to the mutual satisfaction of both sides. We learn about the essence of accumulating hard foreign currency, the concept of “constitutional cost”, and how the secret commission system worked through the involvement of various intermediaries, which were initially companies owned by western communist parties, before increasingly becoming Hungarian joint ventures too. I am able to illustrate this mechanism in tangible form by presenting the foreign currency accumulated by Mineralimpex over 15 years.

There is of course a historical background stretching right back to the end of 1944 that led to the intertwining of the communist secret services and party rule after 1956, as well as to the associated abuses of power. The first party companies were established in Hungary in December 1944 behind the front lines and were set up to finance the coalition parties. Back then, there was even competition among the political players to operate cinemas, which not only generated income from this activity but also provided a funnel for their propaganda.¹ Not long thereafter, fierce rivalry broke out between the Communist Party and the social democrats for control over the oil fields in Zala county,² but illegal economic activity can be identified in the early workings of the state political police too. In 1946, the Economic Policing Department [*Gazdaságrendészeti Osztály*] set up the National Trading Company [*Nemzeti Kereskedelmi Rt.*] as a joint-stock company, which supplemented the budgets of the state political police and the Communist Party mainly from profits derived

1 Tóth 1993.

2 Pál 2013.

from cigarette smuggling.³ These foreign trading joint-stock companies were terminated after the wave of nationalisations, but the now-ruling Communist Party still needed an illegal source of funds: smuggling remained part of the system until the very end, with the methods refined as time went on. Based on the latest research in the archive, this book presents various aspects of the links between those in power, the secret services and the black economy at the time of the Kádár regime.

3 For information on the abuses of the Economic Policing Department, see: Szabó–Horváth–Zinner–Solt–Zanathy 1994, pp. 333–340 pp. 345–701.; Molnár 2009, pp. 134–135.

THE RISE OF HUNGARIAN INTELLIGENCE

The first phase of the Cold War was marked by preparations for a third world war, but it quickly became clear with the advent of the nuclear era that the outbreak of direct conflict between the two superpowers would lead to such catastrophic destruction that no side would emerge victorious. For this reason, the animosity between the major powers was more focused on competing with each other for technical and scientific developments.⁴ This scientific and technological revolution became a major driving force in the second half of the twentieth century, and the struggle to possess the new technologies produced as a result posed the greatest challenge for the two rival world orders from the late 1950s and early 1960s onwards.⁵

The Soviet Union initially took up the gauntlet and its achievements in space research, for example, sent shockwaves through the United States of America – but its development had fallen hopelessly behind by the 1970s and 1980s. In the long run, the socio-economic structure of the communist empire was unable to withstand the pressure exerted by the versatile and motivated economic participants of the West – with its essentially market-based and competition-oriented approaches and freedom of entrepreneurship – on the heavily centralised socialist systems based on the planned economy, which by its nature was forced to be suspicious of the outside world. Ultimately, the considerable development gap in the rivalry for science and technology also contributed to the collapse of the Eastern Bloc and the Soviet Union. Yet, for a

4 For the periodisation of the Cold War confrontations and the easing that began after 1953, see: Békés 2014.

5 Melinda Kalmár wrote in detail in her monograph about the significance and global impact of the scientific and technical revolution. Kalmár 2014.

long time, the gap was not spectacular, with the socialist camp doing everything in its power to remain competitive: relying on the coordinated work of the secret services, the enterprises associated with Western European communist parties, and, with the help of joint ventures and financial institutions established in the capitalist countries, the Eastern Bloc was able to set up an efficient system that was able to sustain Soviet rule for decades. This is because, besides establishing the necessary economic infrastructure, it also purchased the licences and components needed to copy and develop the most advanced technologies.

Hungary played a role in this mechanism too: from the early 1960s, the significance of Hungarian intelligence grew in the work divided among the secret service agencies of the Bloc.⁶ This process was reinforced by the peculiar historical situation that played out in Hungary after the 1956 revolution. Naturally, it was not contrary to the will and intentions of the Soviet Union that János Kádár developed the apparatus commonly known as “goulash communism” or a “soft dictatorship”. Besides creating stability on the western border of the empire, the pragmatic thinking dictated by necessity and rationality provided an opportunity to implement many plans that the Soviets would have been incapable of carrying out themselves. This is because most democratic states boycotted the communist superpower, and while this did also extend to the other countries of the Bloc, the approach adopted with these states was nevertheless more flexible. Companies in the capitalist countries were much more wary of Soviet traders and technical specialists, and so these representatives had less opportunity to become closely acquainted with the managers and engineers at industrial facilities dealing with sensitive technologies. By contrast, the West generally welcomed the Hungarian intellectual class with open arms, which was duly exploited by Soviet intelligence. This was particularly true from the late 1970s and early 1980s, when it became clear even to the managers of large corporations in capitalist countries that the strong party control over the economic and political elites in Czechoslovakia, Romania and Poland – previously considered the primary partners from the socialist Bloc – along

6 For the cooperation with Soviet intelligence, see: Krahulcsán 2009; Baráth 2011; Okváth 2011; Palasik 2013; Tóth 2013.

with the solidarity in these societies was preventing international corporations from asserting their interests. By contrast, the assertion by Hungary of its own interests and the national identity of the controlling groups were much weaker.⁷

Paradoxically, the consequences of the 1956 revolution and freedom fight soon yielded favourable results for the oppressors. After reprisal years reminiscent to those seen in Stalinist times, Kádár broke free from the isolationist foreign policy that was previously considered non-negotiable as he recognised that Hungary's domestic political situation founded on rising living standards was doomed without the inflow of western capital. He sought relationships with Hungary's historical allies, primarily Austria and West Germany, with whom diplomatic ties had normalised by the early 1970s.⁸ In its international relations with the West, Hungary pursued a special "Hungarian approach", which remained loyal to the expectations of the Soviet Union but nevertheless rendered it a reformer state within the Eastern Bloc as far as the capitalist countries were concerned.⁹ This impression was reinforced in the West by the fact that the Hungarian nation had proven its love of liberty and its ability to act autonomously in the heroic days of the revolution, while the superficial view of Kádár's Hungary was not clouded by the fact that the very person credited with railing against the rigid communist ideology was the same individual brought to power after the Soviet forces suppressed the revolution. Kádár succeeded in making the capitalist countries believe he was pushing the boundaries more than was possible, making him one of the most popular politicians in the West. An entire network was engaged in spreading propaganda and the secret service agencies helped coordinate it – very professionally, too. From the time it rose to power, the Bolshevik party was fighting constantly to win over western societies, and its influencing policy via mass media and various "civil" organisations was extremely effective,¹⁰ so Kádár only had to

7 Öze 2012, p. 9.

8 For diplomatic ties between Hungary and West Germany, see: Schmidt-Schweizer-Dömötörfi 2014.

9 For the western perception of Kádár's Hungary, see: Garadnai 2011.

10 For the influencing of western societies, see: Andrew-Mitrohin 2000; Koch 2014; Kotek 2005; Schmidt 2005.

adopt a well formulated and proven method to reach his goal. Western public opinion was manipulated by misinformation spread deliberately by Hungarian journalists employed by the intelligence services,¹¹ so they not only reinforced Kádár's power but also became tools in a much more important game. In technical jargon, this secret service activity was referred to as subversion, or ideological diversion.

The Soviet Union quickly recognised that Kádár's popularity had opened up new opportunities for the intelligence services, which markedly enhanced the role of Hungarian intelligence in the course of the 1960s and 1970s compared to the previous period. On the one hand, Hungarian journalists were deployed in their policy to neutralise the West, but more importantly, the Soviets engaged Hungarian trading enterprises and technical specialists to procure embargoed technologies. Technical and scientific intelligence, namely the stealing of advanced technologies and technical specifications, was previously entrusted primarily to the Soviets and East Germans,¹² but Hungarian specialists took on an increasing role in this regard from the 1960s and 1970s.¹³ The various trade offices not only represented Hungary's economic interests, but, similarly to the offices of all other countries, also served as the basis for civilian and military intelligence. Beyond political and economic intelligence, the main task of the intelligence officers serving within industrialised countries – especially the Federal Republic of Germany (West Germany) – and the individuals belonging to the operative network of a secret service agency was to obtain certain embargoed components or devices as required by the manufacturing companies or scientific research institutions of the Eastern Bloc. West Germany was the target country of choice for acquiring various technical specifications, and not just because it was at the vanguard of using the most advanced technologies as Europe's leading industrialised nation, but because private companies were willing to hand over any embargoed items to the Hungarians – subject to varying

11 For the reliance of intelligence agencies on the press, see: Borvendég 2016.

12 For the role of the Stasi in technical and scientific intelligence, see: Macrakis 2008.

13 Kenedi 2015, 102.

degrees of haggling.¹⁴ This is demonstrated by a memo from the Ministry of Foreign Affairs at the time, which states that “since 1954, the West Germans have not been overly strict in adhering to the embargo restrictions.”¹⁵ It was the West German manufacturers that first realised the market opportunities that lay behind the Iron Curtain, and who were able to use this eastern market crying out for technical licences to sell products being phased out, as well as production lines destined for the scrap heap.¹⁶

Of course, getting the technical items on the COCOM list¹⁷ and past the Iron Curtain required significant plotting, and even more money. In addition to discovering a huge market in the socialist countries of Europe, western companies willing to circumvent the embargo could bank on significant commissions from their eastern clients, which were demurely referred to as “constitutional costs” by the Hungarian enterprises. The embargoed deliveries were accompanied by significant sums of illegal money, since the acquisition of banned technologies was closely linked to corruption and other black-market activities. In turn, the secret service agencies generated considerable sums from getting the acquired products to market, and sometimes from the company obtaining the licence as well.¹⁸ These illegal funds were added to the budgets of the secret service agencies, but were also used to accumulate hard currency. A few private accounts swelled too, as we will learn in subsequent chapters.

Accumulating foreign currency was a tried-and-tested practice of the Eastern Bloc countries because the “sister states” were always deprived of hard currency and endeavoured to gain access to convertible currencies in

14 ÁBTL 3.1.5. O-16586/1. p. 146. Bárd, Károly hearing, 2-26 April 1974 For trade relations between the Soviet Union and West Germany, see: Lippert 2009.

15 Lázár 2005.

16 Germuska 2007, pp. 233–246.

17 The COCOM list was the list of technologies subject to the trade embargo imposed on the countries of the Eastern Bloc, as compiled by the Coordinating Committee for Multilateral Export Controls established by international treaty in 1947. For more on this topic, see: Førland 2009; Libbey 2010.

18 In the 1980s, Hungarian civilian intelligence reportedly generated 30 million Hungarian forints per year, which state enterprises, as clients, paid for the acquired technologies. Soós 2014, 23.

any way possible. Of course, the system of offering backhanders worked in both directions, so it was frequently the western companies that corrupted the Hungarian foreign trading partners to conduct their import transactions through them. The companies were obliged to pay the currency acquired in this way to the National Bank of Hungary [*Magyar Nemzeti Bank, MNB*], where they received the equivalent in forints. Yet the foreign currency was not just used to improve the country's budget and the solvency of the national bank, the budgets of the secret service agencies were also supplemented with substantial sums. The particular significance of these funds was that covert operations of the secret service or the operations of a front company required money that could not be traced back to any agency, not even to the home country. The impossibility of tracing the money also gave rise to abuse, which, from the 1970s onwards, the relevant party bodies were increasingly alerted to by the counterintelligence division entrusted with identifying high-value economic violations, namely Counterintelligence Division III/II of the Ministry of Interior. They launched investigations during which they collected an enormous amount of data on financial transactions in various parts of the black economy, and they succeeded in identifying some of those responsible too, but were repeatedly unable to hold them to account. Sometimes, they turned a blind eye to the misuse of funds for operational reasons, because keeping a lid on secret service work was more important than anything else, but in many cases it is suspected that investigations were closed with no result in order to protect those behind the scenes (we will also learn about this practice in the Mineralimpex case). Yet counterintelligence endeavoured to carry out its duties, even if the result was not guaranteed in every instance: information was collected and provided on suspected economic crimes, and on the activity of the military intelligence services, but it mostly fulfilled its basic task: striving to identify possible channels for hostile intrusions. Thanks to all this, we can gain an extremely detailed picture of the workings of foreign-based joint ventures, of companies and their representatives assisting with the sourcing of embargoed items, and of the secret service work dependent on foreign trading activity.

SOCIALIST COMPANIES

Trusts and “impex” companies – the economic lobby

After World War Two, both the political and socio-economic order of Hungary with its thousand years of history were forced onto an inevitable path by the Communist Party, which rose to power with the support of foreign occupying forces. The state launched an immediate and extensive assault on Hungarian social, economic and cultural traditions, liquidating private property, centralising the economy, and artificially transforming society. By 1949, the powers that be had established a totalitarian political system based on intimidation.

The coercive restructuring of society and the economy also adversely affected the country's foreign trade. Trade links with companies and enterprises across Hungary's borders came under the purview of state monopolies, foreign trade enterprises specialising in this field were established, and production companies were prohibited from conducting business activities. This was all designed to manage foreign trade within a centralised, planned economic system, and to maintain control over relationships established and cultivated with foreign – especially capitalist – partners. The vast majority of these foreign trade monopolies, the so-called “*impexek*” (import-export companies), were established in 1948–1949. An administrative entity was created in 1949 to govern their operations, known as the Ministry of Foreign Trade.¹⁹ Each of the

¹⁹ Further research is required on the links to the secret service of the senior officials at the Ministry of Foreign Trade who had direct contact with the various ‘impex’ companies.

“impex” companies handled trade in products in a particular sector, but the system gave rise to some major conflicts of interest and was blighted by countless contradictions. Following their establishment, the industrial production companies were hermetically sealed off from the markets, so manufacturers had no interest in exports as the profits generated disappeared elsewhere.²⁰ What is more, they did not receive adequate information on market demands as there was no competition to encourage them to improve the quality of their products. As a result, masses of unsellable products were often manufactured in all sectors of industry.

Foreign trade was severely disrupted by the dismantling of the former elites, the undermining of the classes engaged in civil occupations and their replacement with cadres.²¹ Most of the senior officials at the Ministry of Foreign Trade, as well as the managers and representatives of the foreign trade companies, did not initially possess the necessary erudition or specialist qualifications. Generally speaking, they spoke no foreign languages either and were thus largely incapable of working to a high standard.

Hungary’s foreign trade ties also underwent radical changes, since the Iron Curtain, now almost entirely closed, separated the country from its most important partners. While Germany was the key trading partner in the interwar period, the volume of trading with the former ally took a back seat for a while after the second global cataclysm, to be replaced for a long time by the Soviet Union. The establishment in 1949 of the Council for Mutual Economic Assistance (Comecon) announced the Soviet Union’s dominance in the trading links of the countries of the Eastern Bloc. There was also a drastic change in the structure of foreign trade products. With Hungary essentially an agricultural country, agricultural products and foodstuffs formerly accounted for almost 60 percent of Hungary’s exports, but following mandatory industrialisation, exports of equipment and machinery rose to more than 30 percent by the 1960s, with agricultural produce barely exceeding 20 percent.²²

20 Honvári 2006, p. 273.

21 Ibid.

22 Romsics 1999, p. 436.

The partner countries in business were initially the Comecon member states, primarily the Soviet Union. The West's embargo and the Soviets' expectation that the satellite states should be as independent of capitalist countries as possible meant there could be no trade with companies beyond the Iron Curtain. Yet this all changed after the death of Stalin. From the mid-1950s, the relationship between the two major powers transitioned based on the theory of peaceful coexistence, with both sides compelled to work together and pay very close attention to maintaining this delicate balance. There were indeed some temporary setbacks and serious conflicts in this approach, but, as compared with the time under Stalin, a steady improvement was noted on the surface in the relationship between the Soviet Union and the United States.²³ From the mid 1950s, the communist superpower increasingly encouraged the satellite states to restore economic and diplomatic ties with the capitalist countries, particularly with West Germany and Austria. Although it was not officially time to restore the diplomatic relationships that had been broken off in 1945, the links between Hungary and its former allies became much tighter at the level of foreign trade. Trade links between West Germany and Hungary visibly improved by the mid 1950s,²⁴ and this process intensified once Kádár came to power – following the brief cooling of relations between Hungary and the West brought on by the shock of the quelled revolution. The inflow of capital from the West was vital for Kádár, as was the import of advanced technologies to boost the competitiveness of Hungarian manufacturing, because these two factors helped strengthen his power, which had initially lacked somewhat in legitimacy.

However, the appearance of capital and technology was not enough in and of itself to generate any meaningful results, industry had to be restructured too. Certain changes were initiated in 1954, but trials started again in 1957 to mildly reform the economic governance structure after János Kádár came

23 Békés 2007, p. 10.

24 In actual fact, the foreign trade links with Germany were quickly revived: in the course of 1946 and 1947, Hungary's trade with Germany, which was divided into occupied zones, was ranked in 25th place compared to the other partner countries, but by 1949 it had risen to third place in terms of exports, and fifth place as regards imports. Pető-Szakács 1985, p. 93.

to power. The most important element of these efforts was the loosening of a planned economy focused on production volumes and the introduction of a profit-sharing system focused on performance into the wage structure.²⁵ In the early 1960s, the state took steps to simplify the economic governance hierarchy, companies were brought under the direct supervision of the given ministry and the production capacities for each sector were amalgamated in parallel to this, which led to a substantial reduction in the number of production companies. While there were 1,427 industrial companies in Hungary in 1950, by 1965 there were only 839.²⁶ “Trusts” appeared, creating a management level at large corporations that exerted significant influence even on the upper echelons of the party and shaped both political and economic decisions.²⁷ The results of the amalgamations were debatable since they glossed over the difference between efficient and inefficient member firms, making it awkward and often impossible to conduct financial and banking inspections as there were little “ministries of finance” and “banks” operating inside these trusts and large corporations.²⁸ These changes gave rise to a new interest group in Hungarian political and economic life comprising the managers of these trusts, whose power did not fade even after the launch of the new economic regime, since one of the reform pillars was designed to increase corporate independence at the expense of centralisation, lending even more power to the directors of industrial companies within their own sector. Historians and economic experts focusing on this era all acknowledge the significance of this economic lobby, but less is said about the considerable influence that the managers of the foreign trade companies exerted, given that their scope of opportunity also became much broader. This was because the established trusts were unable to distribute their own products as this was carried out by a foreign trade company for each sector, and so a large share of the profit from production also stayed with these companies. Partly due to this situation and partly in the interests of promoting

25 Romsics 1999, p. 424.

26 Ibid.

27 Cseszka 2008a, p. 93.

28 Tímár 1989, p. 68.

market-oriented production, there were major debates on extending export rights when economic reforms were introduced in 1968, but these were met with protests from officials at the Ministry of Foreign Trade and the management of the foreign trade companies. As a result, only around 30 percent of all foreign trade was handled directly in the form of exports via industrial companies even after 1968.²⁹ Moreover, the foreign trade companies not only handled the sales of the finished products, they were also responsible for procuring the components and raw materials required for production. The management of the foreign trade companies made the decisions on selecting partner firms, but the production costs arose elsewhere, so they had no interest in selecting the most cost-effective solution. This meant that, instead of ensuring economically efficient production, the deciding factor in procurement and sales was the profit gained by the foreign trade company and the corruptibility of potential partners in many cases. Alongside the large corporate lobby, there was therefore a group with opposing interests in many respects. The management of the trusts did attempt to suppress them with the help of the competent ministries, largely in vain. Efforts were made to deprive the foreign trade companies of this profit with budgetary constraints and higher taxes, but these enterprises had a wealth of opportunities at their disposal to conceal this income.³⁰

Parallel to this, the visible accumulation of debt from the 1970s was partially attributable to the foreign trade deficit.³¹ To address this issue, the Hungarian leadership tried to restructure the country's foreign trade. From the late 1970s, they endeavoured to loosen ties with Comecon countries, and to

29 Tímár 1989, p. 63.

30 One good example of this is the Metalimpex Steel and Metal Foreign Trade Company. In the mid-1970s, the production companies represented by Metalimpex demanded that the Ministry of Foreign Trade should try to withdraw the profit from the foreign trade company and somehow return this to the companies carrying out the production, or at least to reinvest this money into the economy. To no avail, however, because the joint ventures established by Metalimpex and operated in Austria skimmed off a large proportion of the profit, and the Hungarian authorities were unable to lay their hands on it. What is more, their attempts to impose extra taxes on the trading company based on trading volumes were equally unsuccessful, as the foreign trade enterprise used these very joint ventures to evade the rules. Borvendég 2018, p. 63.

31 Germuska 2014, p. 141.

boost export revenue by increasing trade with the West – primarily with the European Economic Community (EEC). However, with the exception of a few years, this revenue fell short of spending on imports, thereby creating a foreign trade deficit.³² In the late 1970s and early 1980s, the decentralisation of the corporate system returned to the agenda after the collapse of the new economic regime caused a temporary increase in centralisation with regard to industry and trade. Some 400 new companies were established between 1980 and 1984 as a result of demergers and spin-offs.³³

The secret side of foreign trade

Rival secret agents

In the circumstances that prevailed during the Cold War, it was difficult to distinguish foreign trade from intelligence operations. The diplomatic missions of countries belonging to the opposing world order were kept under tight surveillance, tourist travel was limited, and, due to the embargo measures, strict rules were also applied to the professional cooperation between industrial enterprises in order to protect licences. Trading companies, however, were given somewhat more leeway on both sides of the Iron Curtain and were able to gather information on political issues. This allowed them to play a particularly important role in the acquisition of economic and technical/scientific intelligence. Of course, this does not mean that the foreign trade firms were above the suspicions of the hostile country's counterintelligence services, and they were frequently used to carry out covert operations, not just by the intelligence agencies of the Soviet Bloc, but also by the secret service organisations of western states, and so counterintelligence in all of the countries was clearly fully aware of their respective roles. However, economic

32 Ibid. p. 142.

33 Czeszka 2008b, p. 140.

interests were much more important than principles in the covert complicity of East-West coexistence. The socialist countries constituted a huge market for the industries of the capitalist states, and the Eastern Bloc countries would have been unable to keep themselves afloat without the inflow of western capital and technology. So mutual benefits compelled both sides to ensure that foreign trade activity was relatively smooth, despite all the security risks.

The foreign trade network – comprising the foreign trade companies, the trade offices abroad and the representatives of these institutions – was supervised by one or other intelligence agency in Hungary. At the time of the Kádár regime in the early 1960s, two entities were responsible for intelligence: Civilian Intelligence Division³⁴ III/I of the Ministry of Interior,³⁵ and Military Intelligence Division 2 of the General Staff of the Hungarian People's Army (MNVK-2).³⁶

MNVK-2 carried out the reconnaissance of military targets, and under the Warsaw Pact was entrusted with monitoring Danube Valley operations (mainly Austria and southern Germany), as well as military targets in northern Italy. The actual intelligence tasks were carried out by the Operative Service, which comprised work by several units.³⁷ This included the management of attaché offices in non-socialist foreign countries, illegal intelligence, which worked with foreign agents, domestic operative support, i.e. supplying the next generation of personnel, procurement of the military components and devices on the COCOM list, as well as the unit that prepared background reports. From the signature of the Warsaw Pact until the change in political regime, the division reported directly to the Chief of Staff, while the head of the division was the deputy intelligence officer of the Chief of Staff.³⁸ As the intelligence

34 Using today's terminology, we would say "civil intelligence", but for that era I do not think this is appropriate and so I use the term "civilian intelligence".

35 For the organisational history of civilian intelligence, see: Palasik 2013; Tóth 2013.

36 For the organisation and duties of MNVK-2, see: Magyar 2008; Okváth 2008.

37 My thanks to József Kis-Benedek, associate professor, former officer of MNVK-2 and the Military Intelligence Office, for helping me understand the organisational and operational frameworks for military intelligence in the Kádár era. He was the source of information on the structure and workings of unit 5. Kis-Benedek 2016.

38 For the period covered by this book, this position was occupied by Sándor Sárközi, and

agency for Warsaw Pact countries, MNVK-2 was under Soviet supervision. By means of a liaison from the Soviets' Second Department (for Intelligence) under the General Chief of Staff (GRU), it maintained regular contact with military intelligence, setting the directions of policy, while Hungarian military intelligence was obliged to hand over all information it acquired (without any reciprocity).³⁹ The intelligence mainly related to military data: the goal was to learn about the military strategies of NATO and its allies, collect information on the armed forces of the member states, as well as to gather technical and financial information on the military. This latter objective included obtaining embargoed products and technologies, for which the foreign trade companies managed by the intelligence service were also used.

The foreign trade companies were under the supervision of Unit A/5 of the Operative Service (domestic operative support unit), which was headed for many years by Colonel Pál Kapás. This small unit – with six to eight staff – primarily comprised political officers, whose links to the inner circles of the party were much more direct than those working in other departments of the intelligence service.⁴⁰ Their main tasks included recruitment searches⁴¹ in relation to both foreign and Hungarian citizens.

The network contacts of the MNVK-2 Division were only called “agents” if they were foreign citizens, the Hungarian citizens who collaborated were referred to as “won” (*in Hungarian: megnyert, English equivalent: committed*

then, from 1977, by Ferenc Szűcs. For the career of Ferenc Szűcs, please visit the Library section of the website of the Committee of National Remembrance [Nemzeti Emlékezet Bizottsága].

39 Kis-Benedek 2016.

40 According to Tibor Zinner, one of the expert reviewers of this book, the leaders in military intelligence nurtured much closer links to the innermost circles of the party than the officers working in similar positions in state security. This was partly due to the personal “hunting friendship” between Ferenc Szűcs – who headed up MNVK-2 – and János Kádár, and to the fact that Kádár, previously vilified, was less than trustful of the former state protection authority personnel, but it was also because Ferenc Szűcs was entitled – as the only Hungarian – to participate in the Communist Party’s meetings at the Warsaw Pact command centre in Mátyásföld.

41 Recruitment was one of the early networking phases of the secret service and involved targeted research on individuals willing to cooperate and capable of carrying out specific tasks.

source). These individuals were always recruited on a “patriotic” basis. Military intelligence – at least during the Kádár regime – did not use the undermining or compromising methods⁴² implemented by the Ministry of Interior. The “won” description stemmed from the way they were recruited, as the aim was to “win” or gain the identified individual for the purposes of the intelligence service. These purposes were defined as ensuring the protection and security of Hungary, but this actually meant supporting the imperial interests of the Soviet Union. Aside from references to party loyalty and fuelling feelings of “patriotism”, those who had the right qualities to perform the given task were also encouraged to cooperate by the promise of various favours. Since committed sources received no financial compensation from the intelligence service, these perks were what appealed to them. The most common and attractive of these was the promise of a placement abroad, or even just a short trip overseas, but the range of favours extended from ensuring acceptance to university to the issue of various permits.⁴³

Intelligence Division III/I of the Ministry of Interior was reorganised several times prior to the change in political regime, but its main duties stayed the same.⁴⁴ In effect, it was responsible for obtaining all information that did not fall under the authority of MNVK-2: the collection of data necessary to draft foreign policy and the economic and trade plans of the Hungarian government. It also acquired scientific/technical information and industrial secrets, and one of its key tasks was to spread propaganda and misinformation.⁴⁵ From the perspective of our topic, the most important area of course was technical and

42 The majority of the agents associated with the state political police used various forms of pressure to compel individuals to cooperate. Physical abuse took a back seat during the Kádár regime, but state security officers still frequently used blackmail and intimidation during their recruitment efforts.

43 Kis-Benedek 2016.

44 Many historians in numerous studies and monographs have already dealt with the organisational history of the General State Security Directorate of the Ministry of Interior and its predecessors, as well as the networking system of the state political police, so I do not cover these in detail here. As a non-exhaustive list: Tabajdi–Ungváry 2008; Cserényi-Zsitnyányi 2009; Cserényi-Zsitnyányi 2013; Cseh–Okváth 2013; Müller 2015.

45 Tóth 2013, 419.

scientific intelligence, which was the task of Department III/I-5 from 1967, and economic policy intelligence that covered foreign trade, which was the responsibility of Department III/I-14. These two departments were merged in 1981,⁴⁶ and this organisational merger also indicates the close connection between these two areas.

It is clear that the key tasks of both intelligence bodies included acquiring embargoed technologies, to which end they had to rely on the foreign trade companies. The “impex” companies established by the one-party state served as the basis for the intelligence. Military intelligence was primarily responsible for importing military equipment and devices, as well as learning about technical specifications, while the Ministry of Interior endeavoured to gain access to technical documentation of other areas. Their tasks were therefore quite defined, yet conflicts of interest still emerged between the two fellow agencies, partly in relation to the development of their operative networks and partly with regard to the exploitation of certain financial and economic opportunities. It was Counterintelligence Division III/II of the Ministry of Interior that investigated cases of significant economic corruption, and attempted to cut off the financial channels of military intelligence on several occasions during the 1970s.⁴⁷ The conflict of interest also stemmed from the activity of the two bodies, since an intelligence service maintains contact with individuals and conducts operations that are inevitably risky from the perspective of counterintelligence. What is more, there was no internal audit of military intelligence until the end of the

46 Tóth 2013, p. 434.

47 Counterintelligence conducted an investigation into two instances of economic corruption at roughly the same time in the mid 1970s, focusing on military intelligence and the people working in their networks. In one of the investigations, compelling evidence was collected against the firm Interpress Nyomda és Lapkiadó Vállalat, but the firm's owner was the International Organisation of Journalists, a front organisation for the KGB, so having evidence of numerous economic manipulations was to no avail and the investigation was closed with no consequences. Borvendég 2015, 77–116. Yet counterintelligence was able to complete an investigation into two managers of Metalimpex, István Dévai and Miklós Gergely, as they presumably had no Soviet interests to back them up. Metalimpex was the hub for military intelligence through which MNVK-2 accumulated its foreign currency; the Ministry of Interior endeavoured to frustrate the illegal funding sources of its fellow entity – but their success is also questionable in this case. Borvendég 2018.

1970s. This was also the task of counterintelligence, which generated a series of conflicts between the two agencies. For a long time, there was no regulation in place of any kind regarding the collaboration between internal affairs bodies and military intelligence, and, since they were unaware of each other's information and operative requirements, and both protected their networks of agents and committed sources from each other, it was not uncommon to see the exposure, duplication and accidental obstruction of the other's work as a result. While attempts were made to create a framework for their cooperation – for example, Colonel Lajos Karasz, head of counterintelligence, prepared a proposal on this in 1962⁴⁸ – no significant progress was made. In state security documents from the 1960s and 1970s, we regularly find that the two secret service agencies competed against each other to develop their operative networks, and it was often the military that came out on top, especially with regard to journalists and foreign traders.⁴⁹ The ability to assert their interests was probably attributable to the less formal method employed to “win over” committed sources by offering more appealing opportunities and certainly using less force, and probably also because – based on information discovered to date – they commanded good positions in the financial and economic sectors and were early adopters of capitalist business practices, which allowed them to provide opportunities to their committed sources that would have been considered exceptional under the previous conditions. As early as the 1960s, “post-box companies” – with nothing but an address and a stamp – were established with the purpose of providing extra financial resources to boost their budgets. Universal was a company that prepared fictitious studies based on bogus contracts for manufacturers and foreign trade companies involved in the production and export of military equipment, through which substantial sums were withdrawn from the profits of these companies,⁵⁰ but the misuse of constitutional costs and foreign trade commissions – more details on this later – was another way of topping up intelligence coffers.

48 ÁBTL 1.11.5. 62-7678/62. 2. Proposal on cooperation between MNVK-2 and Counterintelligence Division III/II of the Ministry of Interior, 29 December 1962.

49 Borvendég 2016.

50 Borvendég 2018, pp. 74–78.

Military opportunities

The economic interests of MNVK-2 were closely linked to the foreign trade companies and to their contacts, which is why they understandably tried to move into the business domain that was monopolised by the state. The most direct way of doing so was through the trade offices operating in western countries, which in certain cases not only handled diplomatic affairs between the two states but also served as centres of the intelligence “residences” [*rezidentúra*] in countries where Hungary had no official ties, i.e. where there was no Hungarian embassy in the country. Clearly, the offices in countries that were important for Hungarian trade played greater roles. For example, Hungary was unable to enter into any political dialogue with the Federal Republic of Germany for many years, yet – as mentioned in the introduction – the country quickly became one of Hungary’s most important trading partners once again with the easing of the global political situation. Furthermore, West German companies were also willing to circumvent the embargo, which gave the trade offices in Frankfurt am Main and Cologne great significance. The Hungarian Ministry of Foreign Affairs wanted to set up a consulate in Frankfurt back in 1947, but this proved to be too much too early. All they managed to do by the early 1950s was to set up an office responsible for handling trade between the two countries.⁵¹ Civilian intelligence was present in both cities, but the operative network of military intelligence had greater numbers because, at that time, the Hungarian People’s Republic was not permitted to delegate a military attaché to West Germany, but under the Warsaw Pact, Hungarian military intelligence was responsible for monitoring southern Germany. As a consequence, MNVK-2 used these offices as cover.

The work of the Frankfurt office collapsed after the 1956 revolution as most of the staff employed there emigrated. After restoring “order” by force, however, the Hungarian government sent a new delegation to Frankfurt am Main led by János Sebestyén,⁵² who was an excellent electrical engineer and knew the

51 Lázár 2005.

52 János Sebestyén (1911–2001), electrical engineer, was the deputy head of the Substation

development levels and problems of Hungarian heavy industry inside out as he had always worked in management positions in strategically important areas from 1945 onwards. That said, he had no experience in trade; he was clearly sent there to seek out and develop routes to circumvent the embargo with the help of companies through which licences needed for Hungarian industry could be obtained. He fostered some very important relations and played a role in bringing many technological specifications and embargoed products back to Hungary. In 1961, the National Committee for Technical Development [*Országos Műszaki Fejlesztési Bizottság, OMFB*] was established, and he worked as its vice president until he retired, also making good use of the relationships he had developed while in Frankfurt. Although we have no information about which intelligence agency Sebestyén was working with in the course of his duties – people in such high positions were not formally recruited by any agency, and were mostly noted as official contacts – we do know that most of the delegates in Frankfurt were associated with the military at that time, and counterintelligence did little more than keep an eye on work there, with varying degrees of success. Civilian intelligence also wished to launch an investigation of Sebestyén⁵³ as it had obtained damning information about the links between the OMFB and western companies, but the vice president was untouchable, and an investigation could only be launched against his employee Endre Simon – who worked directly under Sebestyén in Frankfurt and headed up the import department when the OMFB was established.⁵⁴

Department at the Budapest Electric Works from 1945, before heading up the Heavy Industry Centre in 1948. As government commissioner his task was to manage the construction works of the Danube Ironworks and Sztálinváros (today Dunaújváros) earmarked in the first five-year plan. After the industrial facility was handed over, from 1954 as deputy minister at the Ministry for Heavy Industry he worked on developing the country's electrical grid, then from 9 October 1954 he was employed at the Ministry for Chemical Industry and Power, headed up by Árpád Kiss. In 1957 he was seconded to Frankfurt, where he was in charge of the trade office. From 1961 until his retirement, he was the vice-president of the OMFB.

53 Sebestyén came to the attention of the State Protection Authority in connection with the Rajk trial. Zinner 2014, p. 100.

54 The documents of the investigation on Endre Simon ('Fábián') are kept by the Historical Archives of Hungarian State Security in five volumes. ÁBTI 3.1.5 O-15829/1–5.

Military intelligence also enjoyed similar superiority over civilian intelligence in Cologne and Italy as both areas came under the operations of the Hungarian People's Army. Compared to West Germany, Italy was a priority for the socialist country of Hungary for different reasons. First of all, the strongest communist party in Western Europe shaped Hungarian-Italian economic relations from the late 1940s, and – although the very heavy and often cumbersome Soviet pressure to support the Italian communists eased during the time of the Kádár regime – the comrades in Italy received significant financial assistance from the countries of the Eastern Bloc during the Cold War.⁵⁵ The most obvious manifestation of this support was favourable treatment of the enterprises of the Italian Communist Party, but Hungary also provided funding to them directly with the help of the Rome trade office, and the trade office set up in Milan in 1961, in addition to trading with the party's companies. The dominance of MNVK-2 could be felt in both offices. From 1958 to 1963, the work of the trade office in Rome was headed up by István Salusinszky, who nurtured excellent relations with Vittorio Savi, who in turn ran Soresco, a company of the Italian Communist Party. Salusinszky was well versed in foreign trade as he had been an adviser at the Moscow trade office between 1947 and 1950, before becoming a senior official at the Ministry of Foreign Trade and later being sent to Rome. He presumably worked there as a military intelligence committed source, at least on the strength of civilian intelligence documents still in existence. Géza Bíró was the first adviser to the Milan Trade Office and moved to the capital of Lombardy as a network contact of the Ministry of Interior. His reports reveal that the trade adviser in Rome, Salusinszky, made a decision that severely hindered Bíró in carrying out his intelligence tasks. Soresco provided Bíró with a cover job, but he was not employed exactly as the Ministry of Interior had planned. He had to sit in a separate office all day, which essentially made it impossible for him to make contact with anyone.⁵⁶ This was clearly the intention of the rival military intelligence – at least according to civilian intelligence: "It is evident that Comrade Salusinszky's behaviour reflects his prioritising of the interests of

55 Bottoni 2015, 102.

56 ÁBTL 3.2.3. Mt-8/1. 59. Report, 4 December 1961

the partner agency, thus putting us in a very awkward position regarding the employment of our own secret service employee.” Consultation with military intelligence was the means by which civilian intelligence believed the situation could be remedied: “the minimum we need to achieve in discussions with the head of the partner agency is that, even if Salusinszky does not agree with Nagy he should not make it impossible or difficult for him to carry out his work.”⁵⁷ Salusinszky became the Chief Executive Officer of the Hungarian Foreign Trade Bank (MKB) from 1964, and his close relationship with intelligence also stopped after his foreign posting came to an end. However, we do know that the MNVK-2 Domestic Operative Support Unit met with former committed sources from time to time, gaining information about their current opportunities – and the managing director of a bank had a wealth of opportunities at his disposal. The former trade adviser had in-depth knowledge of how the commission system in foreign trade worked, and how the agencies accumulated foreign currency, so he supported this as head of the bank. He took part in establishing the foreign-based joint ventures of military intelligence,⁵⁸ but we also find him in the background of many other relationships in which, according to state security, suspicious monetary transactions were at play – more on this later.

Salusinszky, who left to head up the Foreign Trade Bank, was replaced at the Rome office by György Obláth, and his ties with the intelligence agencies were slightly more nuanced than Salusinszky’s. This is because Obláth used to be a Ministry of Interior agent, but he was later also undoubtedly in contact with military intelligence and helped the work of MNVK-2 in Rome in the early 1970s at the very least.⁵⁹ Obláth was very experienced in foreign trade, and, with his cover name of “Petneházi”, worked for civilian intelligence from the mid-1950s at the latest, but his papers were destroyed during the revolution.⁶⁰ He was the general manager of Lignimpex when he was contacted

57 ÁBTL 3.2.3. Instruction Mt-8/1. 45. 62/8 D. “István Nagy” case, 7 May 1962

58 For example, he arranged the permit of the foreign exchange authority for Intereurop, a subsidiary of Metalimpex, and covered its financial transactions. Borvendég 2018, p. 64.

59 Borvendég 2018, p. 55.

60 ÁBTL 3.2.1. Bt-463. Materials request form, 1 August 1961. p. 19.

in 1959 by Lajos Rév⁶¹ from the Economic Policy Department of the Central Committee of the Hungarian Socialist Workers' Party (MSZMP), who told him he was to be sent to India as a trade adviser.⁶² Lajos Rév had previously served as a political officer at the Ministry of Defence, and we know that, while working in the department dealing with the party's financial affairs, he also took part in recruiting the general manager of Metalimpex,⁶³ so, despite moving into non-governmental circles, he was probably still in contact with military intelligence. Obláth was in New Delhi until the autumn of 1963, and regularly sent reports to the Ministry of Interior during his placement.⁶⁴ Upon returning home, he was excluded from the network on the grounds that his opportunities to obtain intelligence had come to an end, but his cooperation was still expected as a social contact.⁶⁵ Nonetheless, the appearance of Lajos Rév highlights the fact that Obláth had obligations not only to state security during his placement abroad, but also to military intelligence. Before he headed to Rome, they sought him out once more, which suggests he served the interests of the rival intelligence service in Italy.⁶⁶ This assumption is reinforced by our knowledge of an individual in the civilian intelligence network who was placed in the Rome office at the time of Obláth's work as an adviser. Lajos Fejes, aka "József Feleki" was stationed in Brussels before moving to the Italian capital, where – belying his previous achievements – he was unable to carry out his operative duties adequately. "For the entire time, Comrade Obláth used him as an interpreter for some reason, and so he was unable to carry out his official work as he would have liked – in line with his abilities. As a result, he

61 Lajos Rév (1920–2008) joined the Communist Party of Hungary in 1935, he was arrested for his activity in 1938. He was sent to the Soviet front as a forced labourer, where he deserted and became a prisoner of war. After returning home in 1948, he initially worked at various party organisations, before joining the Ministry of Defence in 1950 as a political officer. He worked in various places over the years, including the National Planning Office, and was President of the National Council of Industrial Cooperatives from 1968 to 1986. He was a member of the Central Committee of the MSZMP between 1970 and 1985.

62 ÁBTL 3.2.1. Bt-463. Report, 31 March 1959

63 Borvendég 2018, p. 35.

64 His remaining reports can be found in the following dossier: ÁBTL 3.2.3. Mt-719/1.

65 ÁBTL 3.2.1. Bt-463. p. 57. Proposal, 11 September 1963.

66 ÁBTL 3.1.9. V-160338/1. p. 161. Interrogation of suspect István Dévai, 8 August 1974

was, of course, not able to work for us either.”⁶⁷ This story is eerily similar to the frustration of the civilian intelligence network activity in Milan, and we can rightly assume here that military intelligence endeavoured to disrupt the activity of civilian intelligence and thereby gain sole access to the opportunities provided by the trade office: access to the constitutional costs and the right to distribute commissions.

The first person to head up the Milan Trade Office established in 1961 was part of the civilian intelligence apparatus, but it is clear that Salusinszky had no trouble hindering his work to ensure the military side was stronger even under the leadership of civilian intelligence. From 1966 it was Major Ferenc Budai, a military intelligence officer, who headed up the trade office.⁶⁸ He was apprehended and arrested by Italian intelligence, only to be released months later in exchange for an Italian cultural attaché.⁶⁹ After Budai’s downfall, he was replaced by Mátyás Csillag⁷⁰ in the top seat of the trade office, who equally created a minor political scandal during his time. Csillag had several decades of foreign trade experience behind him having worked at various foreign

67 ÁBTL 3.2.1. Bt-1065/3. 20. Getting to know the secret service source codenamed Feleki, 30 November 1978.

68 Ferenc Budai was an MNVK-2 officer and supported the illegal economic activity of the agency from his various cover jobs. In the mid-1970s, he worked as a top-secret (Hungarian abbreviation: SZT) officer at the National Tourism Office, helping open the doors of state companies to the business proposals of a trader called Ferenc Halász. Halász was part of the financial manipulations at Interpress, causing significant damage to the Hungarian economy. (Borvendég 2015, pp. 101–108.) In the late 1970s and early 1980s, Budai worked in Syria, where – as István Práczki recalls, though not backed up by other sources – he was suspected of embezzlement and other crimes. (Prácki 2014, pp. 303–349) Upon the change in political regime, he headed up the publisher Delta Szaklapkiadó és Műszaki Szolgáltató Leányvállalat.

69 Bottoni 2015, p. 90.

70 Mátyás Csillag was originally a locksmith before joining the Political Department of the Ministry of Interior in 1945. From 1948, he switched to foreign trade, initially at Nikex, then at Technoimpex Külkereskedelmi Vállalatok. He worked as an attaché at the Beijing trade office from 1952 to 1958, before he was sent abroad again after spending a few years at home working for Technoimpex and Mogürt. In 1967, he spent ten months in Kuwait, from where he transferred to Milan, heading up the office there until 27 September 1973. ÁBTL 3.1.9. V-159884. 24. Ministry of Foreign Trade transcript for the Ministry of Interior, 1 July 1974.

trade companies that procured items related to military technology. These companies were under the surveillance of MNVK-2, so Csillag had possibly come into contact with military intelligence previously. Complications arose with him in 1973 when he requested political asylum in Italy, citing growing anti-Semitism.⁷¹ Csillag likely had knowledge of important secrets, whether regarding military intelligence activity in Italy, the agents working in Italy for the Hungarian intelligence services, or the secret party financing of the Italian Communist Party, and so his defection will have caused major concern within the Hungarian secret services. The Ministry of Interior obviously launched an investigation into the emigration of Csillag, but there were also suspicions that MNVK-2 had deliberately “defected” its foreign trade specialist and planted him at an American company.⁷² This assumption is noteworthy because Mátyás Csillag stayed in Milan and indeed began working at a US-owned company, Philipp Brothers. This company later forged close links with Hungarian political and financial leaders – for example, the aforementioned István Salusinszky, CEO of the Hungarian Foreign Trade Bank (MKB) – as well as various foreign trade companies, and he became a key figure in some serious financial crimes that are detailed in the third part of this book.

Csillag’s successor in Milan was Lajos Máté, who, according to information from the Ministry of Interior, was also placed there as a military intelligence contact.⁷³ All personnel at trade offices in non-socialist countries should be subject to separate research, since general conclusions cannot otherwise be drawn. It is likely, however, that, in areas where the intelligence service of the Hungarian People’s Army conducted intelligence as part of the Warsaw Pact or where armed conflicts were frequent (i.e. in the Middle East), the presence of military intelligence was stronger than that of civilian intelligence, while cooperation between the two bodies was not without complication – at least until the end of the 1970s. Those in civilian intelligence believed that “anyone

71 ÁBTL 3.2.4. K-2971. p. 203. Report, 15 December 1980

72 ÁBTL 3.1.9. V-160338/7. p. 38. Report on dissident Mátyás Csillag, 13 June 1974.

73 ÁBTL 3.1.9. V-159884. p. 101. Report on Mátyás Csillag, 4 June 1974.

who fulfilled duties and worked for the military was untouchable,”⁷⁴ while the committed sources for intelligence did not hold the staff of the Ministry of Interior, and counterintelligence in particular, in high regard, since they believed “civilian intelligence has but one role, to examine who is doing what at the trade office, and who is doing something civilian intelligence can find fault with.”⁷⁵

Military intelligence played a more important role than state security not just at western posts, but also in the management of various Hungarian companies. This rings particularly true for the companies that procured and manufactured military technology, since MNVK-2 took advantage of all the companies that were able to obtain military information for its work. All of the foreign trade companies – and the strategic manufacturing companies that fostered links to the West – had ties to one intelligence agency or another; both civilian and military intelligence endeavoured to get their own people into the HR departments in the interests of vetting new recruits and making it easier to manage network contacts. All these individuals were top-secret officers at both agencies. Company managers were generally not sources or agents, nor were they network contacts, but were instead registered as official contacts by the agencies; they did not have to sign any statements either, and carried out their tasks obligingly (and informally) for the Ministry of Interior or MNVK-2. Conflicts between the two secret services were inevitable at the civilian intelligence bases, with counterintelligence in particular demanding greater insight into military affairs for reasons already described. In the chapter dealing with procurement channels under the embargo, I look in detail at the activity of Elektromodul vállalat (EMO) – or Magyar Elektrotechnikai Alkatrészkereskedelmi Vállalat [*Hungarian Electrotechnical Component Trading Company*] to give it its full name. The company is a good example of the reliance of the secret services on foreign trade companies and the rivalry between the two agencies that highlights the conflict that emerged within this firm in the mid-1970s, which also ended with the military on top.

74 ÁBTL 3.1.5. O-16586/2. p. 210. “Pomázi” report, 26 September 1974.

75 Ibid.

EMO regularly purchased embargoed products for communist countries.⁷⁶ The company was established in 1952 and became authorised for foreign trade in 1968. It was not explicitly military technology that it procured, instead it was authorised to stockpile, distribute in Hungary and import various electrotechnical components.⁷⁷ Despite not being a military technology firm, Elektromodul was entrusted with purchasing telecommunications devices and equipment for the Ministry of Interior and the Ministry of Defence, while the company also brought into the country the electronic and vacuum technology components needed for production at plants making military materials.⁷⁸ The majority of these products fell under the embargo, so procuring them required special procedures and the countries of the Eastern Bloc needed intermediary companies and trade offices to gain access to these products; more details on these solutions are provided later.

We have no information on the extent of the MNVK-2 network at the company, but military intelligence was certainly part of the company's operations from the very beginning as cooperating with the secret service of the Ministry of Defence was a must when acquiring military products. Károly Udvardi headed up Elektromodul in 1974, "using his working relationship with MNVK-2 to enlist their help in preventing"⁷⁹ state security from gaining a foothold in the company. Another example of the rivalry between civilian and military intelligence was the conflict that emerged over the implementation of a ministerial decree adopted at the end of 1973. The Ministry of Interior reached an agreement with the Ministry of Metallurgy and Machine Industry for the latter to create its own International Relations Division, while the ministry responsible for military technology would organise international relations departments at the companies it supervised, which would report directly to this new division. Of course, this organisation was designed as cover for top-secret state security officers. In June 1974, Counterintelligence Division III/

76 ÁBTL 3.2.5. O-8-444/1. p. 105. Memo, 11 March 1986

77 ÁBTL 3.1.5. O-19025. p. 139. Protocol, 13 July 1976

78 ÁBTL 3.1.5. O-19025. p. 30. Report, 7 August 1970

79 ÁBTL 3.1.5. O-19025. p. 57. Report, 11 November 1974

II of the Ministry of Interior contacted Elektromodul to discuss the details of implementing the decree within the company. The Ministry of Interior called upon the general manager to appoint top-secret Lieutenant Colonel D-165, aka József Kiss, who had been employed there since 1969, to lead the new international department.⁸⁰ Udvardi refused, and stated that the existing organisational structure in which the Inter-State Department coordinated relations with foreign partners was perfectly suitable to meet the company's interests. This resulted in many months of wrangling, and civilian intelligence was unable to push through its demands. This is all difficult to imagine without Udvardi having backers supporting him. One of them was Deputy Minister Ernő Kiss⁸¹ – who clearly had a good relationship with Udvardi – while the other was the secret service of the Ministry of Defence.

By the autumn, the Ministry of Interior abandoned its original plans and agreed with Udvardi that he would set up an organisational unit within the company that provided suitable professional cover for the civilian intelligence officer and created acceptable conditions for the performance of state security tasks. Udvardi agreed, but requested that the agreement be kept secret, even from the top-secret officer at the company. This was to ensure that the lieutenant colonel working undercover did not receive instructions on the agreement from his official superiors first, and potentially veto Udvardi's plan on account of this information. The reason for this was that the general manager separated the protocol department from the Inter-State Department, and assigned it to the state security employee to run. Not only did this fail to strengthen the position of civilian intelligence, it actually hampered counterintelligence in monitoring relationships and affairs at the company. The lieutenant colonel was responsible

80 Ibid. p. 54.

81 Ernő Kiss (1921–1987) graduated in Budapest with a degree in mechanical engineering and then economic engineering. Between 1943 and 1951, he worked at the Metalworks in Csepel, before becoming head of department at the Ordnance Ministry (military technology). He later occupied management positions at the Mechanical Laboratory and at the Tool and Appliances Factory. In 1962, he joined the Ministry of Metallurgy and Machine Industry, where he was deputy minister between 1970 and 1975. From 1975 until he retired in 1980, he was the general manager of Elektromodul.

for ensuring the comfort of the company's guests, arranging hotel and table reservations, for instance, but even these "rights" were severely limited for him. The agency was infuriated that the instructions did not include phrases such as "checks, coordinates, has the right to, refuses, does not authorise."⁸² Udvardi sent the text of the instruction to counterintelligence with his chauffeur, presenting them with a *fait accompli*.

Since the state security apparatus remained unable to exert sufficient pressure on the general manager to overrule the issued instruction, it resorted to the tried-and-tested method of collecting compromising information on him. The report reveals that the State Protection Authority arrested Udvardi in 1950 in connection with a "Zionist affair",⁸³ and the agency used this to explain the distrust they endured, as was constantly reported by the top-secret officer over the years. In actual fact, it is more likely that the manipulations clearly related to the accumulation of foreign currency by MNVK-2 had to be hidden from the prying eyes of the civilian intelligence officer. In October 1971, for example, an internal audit revealed that 32 diodes worth 848,000 Hungarian forints had disappeared.⁸⁴ The matter was eventually covered up by persuading the foreign supplier to issue a statement accepting responsibility, while, in exchange, the Hungarian company agreed to enter into business transactions in future that would more than compensate the partner for its financial loss. We can also read about the issuing of fake invoices, which János Fekete, Vice-President of the Magyar Nemzeti Bank – and a key figure in a story outlined in a later part of the book – helped the company management cover up. Here, Lieutenant Colonel János Szabó⁸⁵ shut down the related audit "in the interests

82 ÁBTL 3.1.5. O-19025. p. 84. Appraisal, 29 October 1974.

83 ÁBTL 3.1.5. O-19025. p. 57. Report, 11 November 1974.

84 Ibid. p. 58.

85 János Szabó was an officer in military intelligence unit A/5, and part of the department that directed the activities of the companies accumulating foreign currency, and which were therefore directly involved in financial manipulations and crimes. According to research by Imre Okvách, he was entrusted with liaising between the secret services of the Ministry of Interior and the Ministry of Defence, but he also directed media activity for military intelligence. He regularly travelled abroad under cover of being a journalist, before becoming the deputy director of one of the secret service's most important front

of the service.”⁸⁶ Even after collecting all this data, the Ministry of Interior was still unable to assert its will over Udvardi. When it was suggested that József Kiss be replaced by another top-secret officer to try and improve institutional cooperation, Udvardi blocked the idea with the following response: “I already know him, and there is no guarantee I won’t get someone even more stupid in his place.”⁸⁷ In this instance, it is clear the Ministry of Interior did not see eye to eye with its fellow institution, and the conflict was ended by having to withdraw even the top-secret officer from the company by the end of 1974 as there were fears that his personal safety could not be guaranteed.⁸⁸ Although Udvardi soon left his post at the head of the company to be replaced by his supporter and former deputy minister Ernő Kiss, it is not likely that this would have strengthened the position of civilian intelligence significantly within the company, though further research is required to verify this.

Civilian intelligence “strikes back”

Counterintelligence made an attempt to curtail the power of the military and even launched procedures based on the data collected. During “criminal procedures conducted in various cases, indications arose that MNVK-2 functioned in an illegal manner with regard to other areas and companies too. Namely, using their secret contacts at various foreign trade companies and via their front companies in the foreign trade sector, MNVK-2 deprived the people’s economy of substantial foreign currency amounts, and – based on fake contracts issued on various grounds – also of substantial forint sums from the same and other companies.”⁸⁹ To prevent these activities, Counterintelligence Division III/II drafted a proposal for the Minister of Interior and the Minister of Defence to set up a joint committee, which would review the companies and

companies, Pressinform, established in 1979. Borvendég 2016.

86 ÁBTL 3.1.5. O-19025. p. 60. Report, 11 November 1974

87 ÁBTL 3.1.5. O-19025. p. 58. Report, 11 November 1974

88 ÁBTL 3.1.5. O-19025. p. 136. Report, 10 February 1975

89 ÁBTL 3.1.9. V-160338/7. p. 224. Report, 15 November 1974

financial system behind military intelligence to eliminate the anomalies in its operations. This proposal read as follows:

1. “The competent party body and the committee established and engaged by Comrade Minister of Interior and Comrade Minister of Defence shall review:
 - the basic principles and illegal methods of MNVK-2’s activity
 - the reasons for the existence of the foreign trade front companies established by MNVK-2, the justification of their operations and the harmful effects of their activity on the people’s economy
 - the financial system of MNVK-2, compliance with relevant rules
 - the financial management of the companies and institutions that MNVK-2 is in contact with (and the substance of their relationships) which illegally transferred forints or foreign currency to MNVK-2
 - what the forints and foreign currency taken from the people’s economy on various grounds were used for
2. MNVK-2 should cease the approach by which it commits illegal acts jointly with Hungarian citizens, including those in management positions, via operative activity.
3. In future, MNVK-2 should adhere to its financial prescriptions. It should operate within the set budgetary boundaries, and not deprive the people’s economy of any money on any grounds.
4. It should discontinue the practice of providing unlawful benefits for its contacts with reference to operative interests, circumventing customs clearances, accepting gifts, and using these to reward its own operative officers and members of its network.”⁹⁰

We are not aware of any tangible result of the proposal, though it should be emphasised that this situation reflects the circumstances in the mid-1970s. Some time at the beginning of the decade, an internal audit department was set up at MNVK-2, presumably to prevent the abuses objected to by counterintelligence.

90 ÁBTL 3.1.9. V-160338/7. p. 225–226. Report, 15 November 1974

This eliminated counterintelligence's legitimacy in examining the affairs of military intelligence, which is why we do not find any documents on these matters from the 1980s onwards, even in the state security archive. According to the documents that were preserved and are still accessible, the acute conflicts between the two services reduced in intensity. That said, counterintelligence still launched investigations into serious economic crimes, and there are plenty of documents on such cases right up until the time of the change in political regime. On reading about these cases, we again encounter the individuals we met in this chapter, and once more see familiar techniques, which very much raise suspicions of support from the secret services. Of course, if the civilian intelligence documents do reflect the conflicts between two rival secret services – mostly from one perspective only – then we must ask to what extent they can be considered objective sources, and whether they credibly reveal the entire story. We cannot provide an answer to this question yet, but, by applying a bit of logic, we can certainly make an attempt at unravelling the threads connecting the events.

An even more exciting question is to what extent military intelligence can be held solely responsible for such economic crimes. It is also impossible to answer this at present because the documents on the economic activity of civilian intelligence are yet to be made public. Civilian intelligence certainly required front companies, as appropriate enterprises of this nature were also vital to its work. However, we do not have any information on the existence of these companies, and so we know nothing about their operations. By the mid-1980s, there were roughly 200 joint ventures operating in the West with Hungarian interests, but what we do not know is which of them acted as a front, in part or in full, for the economic activity of state security. As with all other infringements, investigations into economic abuse or crimes were handled by the Ministry of Interior, so if any illegal activity took place, there was little chance of evidence being collected to prove this, or, if there was no way to avoid launching an investigation due to a conflict of interest or information of a conspiracy coming to light, it was highly unlikely that ties would be revealed to the secret service. Currently, only one report has been found in the materials of the state security archive to indicate the existence of secret accounts of

Directorate III.⁹¹ In September 1988, counterintelligence reported to Minister of Interior István Horváth on the sums held in two foreign currency accounts under cover names. The document states that 1,450,737 US dollars were held as of 1 January 1986 in the account held at the Magyar Nemzeti Bank under the cover name of “Zoltán Vámos”, which, as a result of various payments listed in the document, rose to 2,280,026 US dollars by 1 September 1988. What is even more interesting is the civilian intelligence account held at the Hungarian Foreign Trade Bank (MKB), because it was labelled “Euroimpex Vaduz”. The cover name indicates an “impex” company registered in Liechtenstein, so this was presumably one of the Ministry of Interior’s offshore companies. The account balance on 1 January 1986 was 2,449,074 US dollars, increasing to 2,925,386 US dollars as of 1 September 1988. The growth was noticeably slower over the given period than the account at the MNB. This was partly because the MKB charged an account management fee from September 1986, and partly because a quarter of a million dollars was transferred in 1987 to Division III/V of the Ministry of Interior for the development of operational/technical equipment. The third item in the report clearly originated from operative activity (the accumulation of foreign currency?) because it stated “currency payments from operative activities” transferred by counterintelligence to the Foreign Affairs Department at the Ministry of Interior. The amounts are displayed in various currencies, and the figures are provided on an annual basis according to the daily forint exchange rate: The reported currency amounts obtained from operative activities were 1,197,676 forints in 1986, 1,629,943 forints in 1987 and 352,587 forints in 1988. Copy no. 2 of the document was placed in the Vaduz dossier, which was presumably the archive for the not-entirely-legal finances of the Ministry of Interior.

The document does not allow us to draw far-reaching conclusions on the finances of civilian intelligence, but it does show they were also required to keep an eye on the accumulation of foreign currencies by secret services and

91 ÁBTL 1.11.1. 6-a 978/88. p. 118. d. Counterintelligence Division III/II of the Ministry of Interior report to the Minister of Interior on the currencies placed in cover accounts, 6 September 1988. Thank you to Mihály Soós for drawing my attention to this document.

on the movement of money in cover accounts – it is difficult to imagine secret service activity without this occurring. To understand this, however, we need to look closer at the mechanism referred to in the Eastern Bloc countries as “accumulation of foreign currency”, how this process worked, and what its original purpose was.

Internationalist finances

“Constitutional” corruption

In theory, the purpose of the secret services accumulating foreign currency was to help a state budget struggling with a lack of hard currency, to finance various secret service operations, and to supplement the budgets of the secret service agencies. However, the socialist bloc was also able to support sister parties in the West using this mechanism. The intention with this book is primarily to show that such a system, as it would anywhere else, carried a risk of abuse, but the dependence on the Soviets and the circumstances surrounding the communist dictatorship caused damage to the Hungarian economy that could have gone on for decades. It is vital therefore to learn more about the activity lurking in the background of foreign trade that facilitated these abuses.

The party companies and joint ventures to be discussed here later were not primarily productive enterprises, they brokered trade, which meant they operated as agencies. The essence of the system was to place a company between the two partners, i.e. the exporter and the importer, and the business negotiations could only take place through the agent. In many cases, this could clearly be beneficial because the manufacturer, the contractor and the distributor are relieved of a plethora of tasks they possibly have no experience with, saving time and money, while a company specialised in this may have a better idea of prevailing market conditions. In this case, however, optimising the transaction could not be further from the goal. Instead, the aim was to fund the western communist parties, and to generate extra profit to the detriment of the foreign

trade monopolised by the state. If a capitalist company wished to enter into a trade relationship with a firm inside the Eastern Bloc, this request was mostly rejected, and they were pointed in the direction of a given agent – not just a company, it could also be a specific person – to negotiate with. For this activity, the third party received a commission of a few percent – frequently from both sides. The same mechanism worked if a state company in a communist country wanted to forge links with western markets. In foreign trade, this is called re-exporting, where a third-country party, the re-exporter, steps into the trade between the two countries, acting as the buyer on the import side and the seller on the export side. The re-exporter does not modify the sold product at all, it only deals with the paperwork; often the given delivery does not even enter the country, it is sent directly from the seller to the buyer. The profit for the intermediary either comes from a commission, or from a difference in the price paid to the importer and the price collected from the exporter. In the midst of the Cold War, it was extremely important to be able to conceal the country of origin with re-exporting transactions, because if the goods entered the country of the intermediary firm, i.e. the delivery was not made directly between the two parties to the business transaction, then the goods could be repackaged and the papers changed – or “neutralised”, as this procedure was referred to in foreign trade circles. This meant western companies were able to circumvent the strict embargo regulations as they were only in direct contact with the intermediary. Officially, they were not required to know anything about the actual buyer, while the Eastern Bloc countries were also able to circumvent the Soviets. The mechanism looks similar for transit deals too, though in contrast to re-exporting, the emphasis here is not on generating profit, but explicitly on evading the trade policy – which during the Cold War, primarily meant the embargo. A third-country representative took on the transit role again, and, just like the re-exporters, always received a commission for his or its work. The main difference between the two types of transaction is that the seller and customer theoretically do not have to know each other for a re-exporting transaction to take place, while for a transit deal, all of the participants know of the others, as outwitting the system together was the name of the game. The importance of re-exporting and transit transactions grew from the 1970s

with the arrival of joint ventures, which enabled foreign trade companies to maintain relationships that were even diametrically opposed to the strictest political guidance. For example, during the Yom Kippur War between the Arabs and the Israelis that broke out on 6 October 1973, the Soviet Union compelled the satellite states to adhere to a strict Israeli boycott, but trade links between Hungary and Israel remained open. As a result, all that happened was that the deals were switched to subsidiaries operating in Austria.⁹²

Of course, this kind of trade mechanism reduced the profitability of the actual trading partners and increased transaction costs, but this was not a sufficiently significant loss to render the system unfeasible. However, the system originally designed to help sister parties outgrew its initial framework, and it flourished into activity based on a network of corruption, causing considerable damage to the people's economy, especially after the appearance of the joint ventures. Specific examples of this are provided in later chapters.

In addition to the special foreign trade transactions briefly outlined thus far, we need to mention the concept of switches too, which played a significant role for Eastern European countries struggling with a lack of hard currencies, as it meant they gained access to convertible currency. A switch was based on international trade agreements in which the volume of trade in exchanging goods was determined in advance for one year. The emphasis here is on the word "exchange" as the transactions ensue without actual movements of currency. Instead, goods were paid for by other goods. For these shipments, the intrinsic value of the products is determined and recorded in a clearing currency; this is not an actual sum of money, it simply records the debts/receivables. The given country obtained access to the currency after the contractual deadline expired, but at a slight loss, because the purchasing value of the clearing currency was always lower than that of the convertible currency, so if the goods obtained through the exchange were sold on the convertible market, the country did gain access to convertible currency, or disposable currency, but this value fell short of the value of the goods delivered based on the clearing settlement.⁹³ Despite

92 ÁBTL 3.1.5. O-16586/2. p. 13. Report, 5 June 1974

93 The other side to this opportunity is when a country cannot settle another country's delivery

these losses, switch trading was an important opportunity to obtain foreign currency for the countries isolated behind the Iron Curtain, particularly in a special form of these trades, the currency switch or FX switch, in which no goods were moved and the 'commercial' transaction was explicitly based on financial manipulation.⁹⁴

"Replacement" (*lecserélés*) deals were conducted to obtain currency too, where Hungarian goods of acceptable quality were exported in return for convertible currency or foreign exchange, and cheaper, inferior products were imported for the Hungarian market instead.

Thus, commissions were natural constituents of foreign trade exchanges of goods during the time of the one-party state, and were paid not just to companies, but also to various individuals who positioned themselves between the seller and the buyer as intermediaries. One good example of this is Paul Swraj, who collected "donations" within the Socialist Bloc in the 1960s for the election campaign of the Indian National Congress party. India strove to remain neutral between the Cold War factions, but, for security policy reasons (its main enemy, Pakistan, was in the US camp), it was closer to the Soviet Union and signed a Treaty of Peace, Friendship and Cooperation with the communist superpower in 1971. This convergence was a major coup for the Soviet Union because India was a leader of the Non-Aligned Movement and amassing influence over the Third World was important for both major powers. Thus, supporting the latest electoral victory of the Congress Party that remained in power for almost the entire period of the Cold War and flirted with the Soviets can be highlighted as a common political interest for the Eastern Bloc. Swraj was a partner of Metalimpex, and every trade deal of the company towards India could only go

by supplying goods, and instead purchases the necessary quantity of goods on the convertible market and delivers it to the contractual partner along with a clearing settlement. Since the purchasing power of the clearing currency is lower, the party concerned can write off a larger sum from its debt than that spent from its disposable currency, so it ultimately gains from the deal. Nonetheless, the preferred option for the socialist countries was not this version, it was the type that entailed a loss, but which concluded with access to disposable currency.

94 For more details on special foreign trade transactions, see: Törzsök 2008.

through him. These were re-export transactions, and the involvement of trade agents meant that Swraj determined the price of western products supplied to India via Metalimpex; furthermore, while Metalimpex had to pay the price of the products for re-export in convertible currency, India, struggling with a lack of foreign currency, paid in rupees to the state-owned companies of Hungary, who were equally mired in a shortfall of foreign currency. But the manipulations did not stop here because there was absolutely no competition for the various deals, they were only permitted to contract with the entities that Swraj designated for Metalimpex, instead of the company being allowed to expand on the Indian markets with the help of the Hungarian trade office in India. According to Ministry of Interior calculations and based on deals worth several million dollars each year, Swraj pocketed several hundred thousand dollars, roughly ten percent of the trade volume. Yet when the Indian government pushed through a nationalisation plan and the lower profit generated as a result also reduced Swraj's income, Metalimpex simply compensated the intermediary and supplemented his income with hidden commissions.⁹⁵ Over 11 years, the Indian laid his hands on commissions worth 1.5 million dollars, all of which had to be covered from the budget of the foreign trade company.⁹⁶ This story is of course just one of many, as the various foreign trade companies had similar arrangements with numerous "businessmen" and firms.

Just how much this was common practice is demonstrated by the existence of a separate ministerial instruction governing the flows of bribes. Items deemed "constitutional costs" were transferred by the Magyar Nemzeti Bank to trade offices in the western world, and/or provided to the foreign trade companies; originally, they were designed to cover the commissions of intermediary companies, but their scope expanded quickly and the instruction on managing "classified, extraordinary expenses" also provided for the use and settlement of amounts used as backhanders:

"Classified, extraordinary expenses shall be construed to mean financial sacrifices related to concluding and executing contracts, acquiring and maintaining

95 Borvendég 2018, pp. 49–50

96 ÁBTL 3.1.5. O-16586/1. p. 67.

markets and quotas, as well as expanding trade, that are paid directly or indirectly to foreign beneficiaries, and which do not qualify as normal direct or indirect costs of trade (price discounts, commissions, propaganda, entertainment, etc.).”⁹⁷

When entering into deals, the commission agreement could only be approved by the director of the foreign trade company, or perhaps his deputy, the documents of the agreement had to be treated confidentially, and any related files were, where possible, written on neutral paper without any company signatures or stamps.⁹⁸ So “constitutional costs” were principally secret backhanders provided to ensure a deal went through, but they also covered secret service operations from these funds, as well as other covert tasks defined in central policy. We do not have any accurate information on the size of money transfers that were at stake here for constitutional costs. However, what we did find from the documents on the investigation against Metalimpex is that the company paid the Hungarian trade office in Rome a total of 40,695.59 US dollars on these grounds between 1970 and 1973. Since the rules on accounting for such amounts were less stringent, they could be treated somewhat more flexibly. What is more, the secret service bodies directing the trade offices had authority over the sums transferred to the trade offices, and they used these sums for the financial trickery they adopted to accumulate foreign currency. As mentioned previously, the practice of accumulating foreign currency played an important role not just in financing the covert operations of the secret service agencies, but also in meeting the dollar needs of the socialist countries. This was of course open to mismanagement.⁹⁹ The easiest way to tap into the funds for constitutional costs was to ask the corrupt intermediary to return a few

97 MNL OL XXIX-G-20-b p. 21. d. Instruction 11/1968 KKM of the Minister of Foreign Trade on the payment of classified, extraordinary expenses in non-socialist countries, 14 April 1968. Thank you to Pál Germuska for drawing my attention to the document.

98 Ibid.

99 The state-regulated concept of constitutional costs remained in place right up until the change in political regime. As Miklós Németh recalls, back in 1988 it was Gyula Horn’s intention that the “military security officers and intelligence officers at the trade offices abroad – along with the money earmarked for them of course – should no longer be associated with the Ministry of Defence but with the Ministry of Foreign Affairs. Namely, he wanted to get his hands on the constitutional cost funds.” Oplatka 2014, 193.

percent of the commissions paid using these funds. This form of compensation did not make it onto any statement at all: some of it was presumably used to increase the budget of the secret service, but most of it probably found its way onto private accounts.

The commission system diverged increasingly from its original purpose, and the political objectives were put on the back burner. Although supporting left-wing parties in the West stayed on the agenda until the change in political regime, corruption became an increasingly dominant factor in selecting trade partners, overriding ideological considerations. For example, looking at the capitalist countries, the relations fostered with the industrial companies of West Germany, Hungary's most important trade partner, were largely based on which company paid most to the managers of the entity making the decision. These commissions were paid to the traders securing the specific deal in addition to the normal discounts, and were mostly deposited in accounts opened at local banks in West Germany.¹⁰⁰ The commissions paid by western companies to representatives of Hungarian companies to gain access to the Hungarian market were also originally designed to alleviate the paucity of foreign currency in the country, as the official path for backhanders was for the foreign trade company to pay them to the MNB and receive the equivalent in forints. Although this did not generate a loss for the company, as the backhanders remained on their books, albeit in forints, the personal benefit for the intermediary was lost. It perhaps comes as no surprise that those involved preferred to transfer the backhanders to accounts held at western banks. The western companies realised it was in their best interest to retain the favour of these Eastern European traders as they opened the doors to significant markets; this is why they strove to create frameworks within their own organisations that were most suited to such cooperation. Since the United States exerted considerable pressure on its Western European allies to continue isolating the Eastern Bloc from western technologies, the companies here were mindful of handling the trade through intermediaries in order to conceal their actual activity. This meant re-export

100 ÁBTL 3.1.5. O-16586/1. p. 118. Report, 20 March 1974

and transit transactions were ideal for them. The large companies set up Eastern European units within their foreign trade departments, where they commonly hired émigrés who spoke one of the languages of the region well and knew the culture and lifestyles of the business partners.¹⁰¹

Secret party funding

For as long as it existed, the Soviet Union provided both moral and financial support to the communist parties and left-wing movements outside its empire, and it also compelled the countries under its influence to follow suit. From the 1940s onwards, Hungary took part in the international system of direct party financing, and while we do not have precise data on Hungary's contribution to the labour movement solidarity fund, we do know that the dollars flowed from Budapest to Moscow right until the late 1980s, and sister organisations were also helped directly. This direct support was generally on an ad-hoc basis, and was sent on request; only the Austrian Communist Party received regular support from Hungary.¹⁰²

In addition to the direct party financing, Hungary also participated in indirect party financing: with the help of the foreign trade commissions received by the party companies, the sister parties in the West were supported with sums many times greater than those paid into the solidarity fund. This is because despite the Iron Curtain (secured by minefields as it was) coming up on the western borders of the Bloc, trade flourished between the Soviet Union and its satellite states on the one side and the companies of Western European

101 A guide was published in 1967 for western trading companies on the countries of the Eastern Bloc, which summarised the main characteristics and customs, but also included a list of the main foreign trade companies in the socialist states, broken down by country, with accurate contact details and profiles of the companies. The author had surprisingly detailed information at his disposal and was certainly a frequent visitor behind the Iron Curtain. On reading the book, one might rightly ask whose secret service supported its release. Zentner 1967. Thank you to Béla István Szabó for drawing my attention to the book.

102 For details on direct party financing see: Szilágyi 2015.

communist parties on the other, even in the frostiest years of the Cold War. Since the Communist parties operating in Western Europe were able to enjoy the entrepreneurial freedom provided by these capitalist economies, it was easy for them to establish party companies, while supporting them was the primary task of the Eastern Bloc states.¹⁰³ There is information available from 1949 that the key partners of newly established Hungarian foreign trade companies included trade companies¹⁰⁴ owned by the Italian Communist Party,¹⁰⁵ but there were also companies owned by the local communist parties in France and Austria¹⁰⁶ through which the spread of Soviet internationalism in the western world was financed. All three countries were permanent trade partners of the Socialist Bloc for precisely this reason, but the Italian line was the dominant one: the support given to the Italian Communist Party was significant throughout the duration of this bipolar world.

The most important companies of the Western communist parties maintained constant links with Hungarian foreign trade entities. Considerable research has been conducted into the Italians in this respect,¹⁰⁷ but less attention has been paid to the support given to French and Austrian party companies. The French Communist Party (FCP) was one of the strongest advocates of Bolshevik ideology in Western Europe and then became a flagbearer for European communism when it controlled Interagra, the largest Communist Party company in the western world. Interagra's main task was to promote the spread of Soviet products on the markets of capitalist countries,¹⁰⁸ but it was always in contact with other socialist

103 Karel Bartošek writes in detail about the secret party financing of state foreign trade companies in Czechoslovakia, which mainly supported sister parties in Italy and France. Bartošek 2003.

104 Bottoni 2015, 112–113.

105 For relations between the Hungarian Socialist Workers' Party (MSZMP) and the Italian Communist Party (OKP), see: Simon 2016.

106 Cover letter from Antonín Gregor [Czechoslovak] foreign trade minister to Antonín Novotný regarding companies associated with the communist parties, 26 June 1952. Bartošek 2003, p. 291.

107 In Italy, the two main party companies that handled the distribution of most Hungarian products and the importing of Italian goods were Soresco and Italimpex. Bottoni 2015; Szilágyi 2015.

108 Práczki 2014, p. 172.

countries too. It commanded great influence on the markets of francophone states, and so could not be left out of the socialist economic policy adopted vis-à-vis the third world. The chairman of the company was a communist millionaire, Jean-Baptiste Doumeng. With regard to Hungary, he handled all of the exports of Terimpex to France, but most of the business of Monimpex went through him too, and so he principally represented Hungary in connection with agricultural products and the food industry. It is worth noting that Interagra was responsible for 60 to 70 percent of Hungary's trade with France, according to figures from the late 1960s.¹⁰⁹ Even in the 1980s, the company had a representative office in Hungary, which was able to liaise directly with Hungarian business leaders via the party and thereby secure the FCP's interests. From the mid-1960s, its director in Hungary was Albert Clavier.¹¹⁰

In cases when the party companies – and we are not just talking about Interagra – were unable to carry out their intermediary roles for some reason, or perhaps could not have generated much profit on the deals, the Hungarian companies generally still managed to provide the commission, or compensated for the difference (we have already seen this method with the Indian businessman Swraj). Terimpex was sometimes unable to deliver to Interagra because the French market was saturated, but the “commission was paid of course.”¹¹¹ The situation was the same for the Italian party company Italimpex too when, in 1966, it asked the Hungarian Foreign Trade Bank to help it get around Italian tax rules that imposed a tax of 40 percent on intermediary commissions. István Salusinszky came up with a solution: the right of representation was nominally transferred to Hungagent, which then passed on the commission it received to Italimpex.¹¹² These two simple examples highlight the authenticity of the statement at the start of the previous chapter: the purpose of involving intermediaries was not to optimise the transaction, but to maximise the profit of the state-run company.

109 ÁBTL 3.2.3. Mt-1285. 37. Main French party companies, undated. [autumn 1968]

110 Disclosed by Kinga Hanthy.

111 ÁBTL 3.2.3. Mt-1285. 37. Main French party companies, undated. [autumn 1968]

112 Szilágyi 2015, 57.

Besides Interagra, the French Communist Party had various other party companies. Comix distributed the products of Artex and Elektroimpex in France,¹¹³ but it also handled other less important products, such as Chemolimpex camping accessories and Konsumex toys.¹¹⁴ Sorice managed the propane gas sales of Mineralimpex, while Tanninpex supplied leather products.¹¹⁵ Cifal was in charge of organising larger projects and engineering work, while O.P.F. dealt with propaganda assignments and was mainly in contact with Hungexpo. The cooperation between Hungarian foreign trade and Cooperative Lafayette is interesting because this company – at least according to information from Hungarian state security – was run by Catholics and was not a party company, yet it regularly assisted with the exports of Hungarian companies at government level, since it was very proficient at lobbying in the various ministries.¹¹⁶ Hungary had but one person to thank for this, the company's trade director. Jean Ludovic Serre handled various switch transactions for the Hungarian Foreign Trade Bank, and regularly travelled to Hungary, so he was presumably the main man at the company and favoured Hungarian suppliers thanks to the commission system. Besides him, the Hungarian trade office in Paris had many other contacts who promoted Hungarian interests at large French companies – Renault for example.

Various Communist Party companies were established in Austria between 1945 and 1955 in areas controlled by the Soviets.¹¹⁷ Intraco was established not long after the Soviet occupation and was registered in Liechtenstein to avoid being subject to tax.¹¹⁸ They subsequently almost certainly launched other companies too, and the Austrian communists inherited the entities managed by the Soviets after 1955,¹¹⁹ through which they received ongoing support from

113 MNL OL M-KS 288. f. 24. cs. 1967/9. ő. e. 104–108. Note on party companies operating in non-socialist countries. Disclosed by: Bottoni 2015, 125–129.

114 ÁBTL 3.2.3. Mt-1285. 39. Main French party companies, undated [autumn 1968].

115 Ibid. 38.

116 Ibid.

117 For more on the economic exploitation of areas in Austria during the Soviet occupation, see: Stelzl-Marx 2012.

118 ÁBTL 3.2.1. Bt-1065/3. 29. Hearing of Dr. Lajos Fejes, 18 January 1979.

119 MNL OL M-KS 288. f. 24. cs. 1967/9. ő. e. 104–108. Note on party companies operating in non-socialist countries. Disclosed by: Bottoni 2015, 126.

the countries of the Eastern Bloc. Some 40 to 60 percent of Hungary's Austrian exports went through party companies, and all agricultural exports served to support the sister parties. Based on data from 1966, transactions worth 23 million US dollars were conducted with Austria via party companies, and the profit cleared by the Austrian communists was roughly half a million US dollars.¹²⁰

Intraco – according to information from Hungarian state security – was renamed in 1957 and opened an office in Budapest under the new name of River. On 1 October 1978, Dr Lajos Fejes was appointed director of the representative office in Budapest. Fejes worked in foreign trade for decades; as a contact of civilian intelligence he was sent to Brussels in 1966, then to Rome in 1973, where he worked under György Obláth and was tasked with carrying out the operative tasks entrusted to him.¹²¹ He was the person who hindered Obláth in carrying out his secret service activity, presumably in the interests of military intelligence. Since he was unable to produce any results of note in Rome, in contrast to his previously successful intelligence work, he was summoned home, and then, after two years off, was once again contacted by Intelligence Division III/I when he was appointed to the position of director at River. This was because he had become an expert on the European Economic Community during his time in Brussels, and the division hoped that his new position would provide an opportunity for him to supply valuable information again. By this time, Fejes was past his best both physically and mentally. At his new workplace, he was always imagining enemies, and his distrust reached such a level that he reported to his former case officer about irregularities seen in the River office. His allegations were quite vague, however. He mentioned various illegal money movements and that, despite his firm protests, they replaced his immaculate 250 Mercedes with a brand-new 300 diesel Mercedes when he visited the head office in Vienna.¹²² Fejes was unable to report on any more severe issues, but his report had an interesting outcome. He even wrote

120 Ibid.

121 ÁBTL 3.2.1. Bt-1065/3. p. 54. Report, 13 March 1980

122 ÁBTL 3.2.1. Bt-1065/3. p. 30. Hearing of Lajos Fejes, 18 January 1979

a letter of complaint directly to János Kádár about his impending retirement, which he found to be extremely unfair, so the news of his reservations regarding River reached the top party leadership.¹²³ This put state security in an awkward position. They tried in vain to make Fejes understand that it was not in their authority to investigate irregularities committed by a company of the Austrian Communist Party, the only body that could do so was the Economic Policy Department of the Central Committee of the Hungarian Socialist Workers' Party (MSZMP CC).¹²⁴ Fejes remained determined though, and so intelligence officially contacted Counterintelligence Division III/II of the Ministry of Interior, but they kept their distance from the affair as well, on the grounds that there was no way for them to conduct an investigation into a company run by the Austrian Communist Party. In an attempt to avoid responsibility, the Ministry of Interior sent a signalisation¹²⁵ report to Sándor Rácz,¹²⁶ who headed up the Public Administration and Administrative Department (KAO) of the MSZMP CC.¹²⁷ This concluded the matter. The dossier contains a few cards

123 ÁBTL 3.2.1. Bt-1065/3. p. 72. Report on the situation of the secret colleague codename 'Feleki' [Lajos Fejes], 9 June 1980

124 ÁBTL 3.2.1. Bt-1065/3. p. 37. Note, no date indicated.

125 Signalisation is a concept used in criminal law. Its primarily role is crime prevention, when, during an investigation, an authority informs the competent state or local government body of the circumstances or facts that facilitated the crime in order that the given institution can take preventive action and hinder further crimes from being committed. During the era of the one-party state, the recipients of the information were primarily party leaders, this was for the purposes of differentiated accountability, enabling them to remove the "untouchables" from the proceedings, and determine whom to hold to account and what degree of punishment to apply. We find the following definition among the list of state security terms: "Signalisation: method of prevention and differentiated accountability outside of criminal proceedings. Signalling of anti-social activity to competent party, state, social and economic bodies (organisations)." ÁBTL 4.1 A-3036. p. 177. Explanatory dictionary of state security terms.

126 Sándor Rácz (1925) was an apparatchik. After the revolution was crushed, he moved to the Political Investigation Division of the Ministry of Interior, heading up agricultural intelligence. He climbed the ladder quickly, and occupied the positions of departmental head, deputy minister for state security and state secretary for internal affairs. He headed up the MSZMP CC KAO between 1974 and 1983, before becoming deputy minister at the Ministry of Defence. For his career, please visit the Library section of the website of the Committee of National Remembrance [Nemzeti Emlékezet Bizottsága].

127 ÁBTL 3.2.1. Bt-1065/3. p. 36. Information for Sándor Rácz, February 1979

with hand-written notes sent between Deputy Minister Lajos Karasz,¹²⁸ head of division III, and his staff. These papers contain sentences like: “We deliberately took no action of any kind in this matter.”¹²⁹ The uncertainty in the mentality of the body was palpable though. To be safe, Lajos Karasz issued an instruction for the company’s six employees to be investigated in the state security records, but no efforts were made to identify any financial abuse.

The existence of the party companies and their support was extremely important for the purposes of promoting Soviet internationalism: they enabled the western Communist parties to survive. Yet the system of support provided to them also became the basis and model for the development of a mechanism which opened the door to significant financial fraud in the 1970s and 1980s. Albeit on a small scale, the problems surrounding River and the fact they were left unresolved serve to illustrate the failure of justice, the untouchable nature of the one-party state, and the uncertainty of the competent law enforcement authority, i.e. Counterintelligence Division III/II of the Ministry of Interior, due to conflicts between the execution of its task and prevailing political expectations. It is thanks to this uncertainty that we nevertheless have some kind of picture of the economic crimes in this era, because counterintelligence collected the information it needed to carry out its tasks, it was just that the consequences that sometimes failed to materialise.

Ties to party companies loosened during the 1970s, which is explained by Gábor Szilágyi as “greater corporate independence emerging as a result of the new economic mechanism.”¹³⁰ In my view, this is still too little to justify the change. The reason for me lies with the establishment of joint ventures, because the number of companies registered abroad and owned partly or fully by Hungarians began to mushroom after 1972, and they increasingly endeavoured to become beneficiaries of the system designed to support the party companies, thereby squeezing out the communist capitalists in the western countries.

128 For his career, see: ÁBTL Archontology.

129 ÁBTL 3.2.1. Bt-1065/3. p. 91.

130 Szilágyi 2015, p. 55.

One foot in capitalism – the joint ventures

On 3 October 1972, the Ministry of Finance issued Decree 28/1972 on economic associations with foreign participation, thereby creating the law that paved the way for the establishment of joint ventures.

Working with foreign companies – primarily in the western world – was largely based on cooperation agreements in the first half of the 1960s. Collaborating with capitalists was a preamble to the spread of joint ventures.¹³¹ Their main role was to adopt patents and know-how to increase the standard of production in Hungary and increase efficiency, but these cooperation agreements were narrow in scope: production companies were only able to hand over their licences and technologies subject to strict controls. What is more, there was a growing need to further foreign trade relations, but this required greater presence not of the production companies but of trade intermediaries on the other side of the Iron Curtain. We have information on the establishment of companies abroad even before the new economic mechanism was announced: prior to 1968, there were precisely 14 joint ventures operating in the western world with Hungarian involvement.¹³² These companies were presumably founded based on individual authorisation as there were no general regulations in place. They had no supervisory authorities, and there were no systems put in place for the management and control of their financial activities. However, upon the launch of the economic reform – from 1 January 1968 – the main tasks associated with the establishment and operation of Hungarian interests abroad were transferred to the Hungarian Foreign Trade Bank (MKB). The MKB also took on the role of currency authority for joint ventures from the Magyar Nemzeti Bank¹³³ – thereby deepening the conflicts of competence between the two financial institutions.¹³⁴

131 Vajna 1987, p. 43.

132 MNL OL XIX-G-3-p 3. d. 2-004/9/1970. 30. Report on the 1969 activity of Magyar Külkereskedelmi Bank Rt., 31 March 1970. Thank you to Pál Germuska for providing me with the documentation of the MKB annual reports.

133 Ibid. 3.

134 Kóvér [2001], pp. 24–25.

It would be amiss to underestimate the importance of joint ventures when examining Hungary's economic and technological development during the Kádár regime. The countries of the free world often protected their own markets – mainly against imports coming from beyond their system of allies – by resorting to protectionist measures, but a joint venture circumvented the damage caused by this discriminatory approach, making it easier to enter the market.¹³⁵ Alongside the goal of increasing the volume and economic efficiency of exports, we cannot ignore the other purpose of bringing in foreign capital, which was to spread the risk between the Hungarian and the capitalist ownership,¹³⁶ while it became possible for the Hungarian foreign trade companies to essentially rub shoulders with other entities on the targeted markets.¹³⁷ Namely, they were able to gain information directly that was previously unthinkable, and it also became easier to maintain contact with market participants. It was not just the trading companies but also the existence of the joint ventures providing the services that was beneficial to the economy, because they exported Hungarian intellectual property, “not to mention the fact that where Hungarian professionals prepare the plans they can take into account the Hungarian export of the necessary machinery and accessories,”¹³⁸ meaning they can design their plants to use machinery that requires the integration of Hungarian products. Facilitating the transfer of technology was probably more important than the benefits of economic efficiency, as companies with partly capitalist interests found it easier to access products under the embargo, and could bring them into the Eastern Bloc as re-imports¹³⁹ or within the scope of transit deals. This embargo approach worked particularly well at companies that were not completely new, where a Hungarian owner joined an existing

135 Vajna 1987, p. 2.

136 MNL OL XIX-G-3-p 3. d. 2-004/9/1970. p. 30. Report on the 1969 activity of Magyar Külkereskedelmi Bank Rt., 31 March 1970.

137 MNL OL XIX-G-3-p 15. d. 2-006/4/1971. p. 29. Report on the 1970 activity of Magyar Külkereskedelmi Bank Rt., 31 March 1971.

138 Ibid.

139 Re-import transactions are essentially the same as re-exports, except that they are seen from the customer's perspective, meaning the goods arrive in the target state via a third country.

company and thereby inherited the contacts and business partners of the legal predecessor.

Despite all the advantages, the number of new companies still did not rise as had been expected. From early 1968, when the new economic mechanism was announced and the MKB's powers were broadened to make it easier to start joint ventures, eight to ten joint ventures were registered a year. Together with the 14 companies established in previous years, there were a total of 40 companies in operation in the western world with Hungarian stakeholders by 31 December 1970.¹⁴⁰ According to the management of the Hungarian Foreign Trade Bank, the number of new companies fell short of expectations because the legislation in force prevented joint ventures from operating smoothly. The costs incurred in establishing the companies were charged to their development funds, while joint ventures had to submit their financial, profit and inventory plans in advance to the supervisory authority, i.e. to the MKB, despite the fact that Hungarian companies – thanks to their new-found independence – only prepared calculations for themselves at this time. This created a very complex and costly procedure, with dubious results, since the balance sheets and profit and loss statements prepared by the companies “do not reflect the actual situation because the data contained in them is manipulated in view of local taxation rules.”¹⁴¹ In other words, the joint ventures tried to circumvent the tax laws in the countries where they operated.

The regulations governing the operation of joint ventures therefore had to be simplified, and the laws on establishing these companies laid down. Legislative Decree 19 of 1970 on business associations entered into force on 7 August 1970 and provided detailed guidelines for establishing and operating joint ventures, but only in the closing provisions was there any mention of foreign interests, where all we learn is that “foreign legal entities and/or foreign companies may only participate in economic associations with the approval of and under the

140 MNL OL XIX-G-3-p 15. d. 2-006/4/1971. p. 28. Report on the 1970 activity of Magyar Külkereskedelmi Bank Rt., 31 March 1971.

141 Ibid. 30.

conditions set by the Minister of Finance.”¹⁴² So, despite the MKB indicating that the conditions governing the establishment and operation of joint ventures had to be regulated, this only resulted in a paragraph resembling a framework law, which could not be expanded with other provisions until 1972. This meant that individual authorisation was still required to set up a joint venture, making the process more difficult and bureaucratic.

For now, I do not have any accurate information on the 14 joint ventures established prior to 1968, but what we can ascertain is that, given the individual approval required to establish the companies, they would primarily be those that served state, party or secret service interests directly. What is more, their owners would chiefly be financial institutions and travel agencies, since this type of entity would have been unable to operate had it complied with the strict political line of self-imposed isolation between the East and West. IBUSZ, for example, operated several offices at this time. It is worth noting that the first companies founded were primarily in Austria.

After World War Two, Austria was occupied by four different powers before officially becoming neutral from 1955 and playing a central role in international politics by acting as a bridge between the two hostile world orders. It is no coincidence that most of the first joint ventures registered their headquarters in Austria, and then used this as a base to move further west. Due to its neutrality, Austria found it easier to get around the embargo rules dictated by the USA, so one of the main tasks of the Hungarian-owned companies established there was to exploit this. The procurement of products on the COCOM list were divided between the intelligence agencies of the states in the Eastern Bloc, while most of the purchased products and licences ended up in the Soviet Union. It is thanks to the joint ventures in particular that Hungary’s role in scientific/technology intelligence became so significant, since, of all the Comecon countries, it was Hungary that cultivated the most active trade links with its neighbour to the west. In the early 1970s, Hungary had a hand in almost two-thirds of cooperation agreements between the Soviet satellite states and

142 Section 31 of Legislative Decree 19 of 1970.

Austria,¹⁴³ but what is even more informative is that Hungary had a stake in 33 of the 55 joint ventures operating in Austria with links to Comecon countries.¹⁴⁴ These were primarily intermediary companies involved in foreign trade, and the Hungarian authorities had very little scope to control their operations in any way. According to data from counterintelligence, profitable transactions were often outsourced to subsidiaries – more details on this later – and the stakeholders did everything they could to keep this profit abroad. As a result, profit earned on the trade deals handled in this way did not make it back to the parent companies in Hungary, causing immeasurable damage to the country's trade balance. The outsourcing of deals, the support for the joint ventures and the financing of the Communist Party companies most certainly contributed to the foreign trade deficit, but for now we cannot even estimate to what extent. Support from the party was needed to sustain this system, as manipulations on this scale – which, moreover, were not unknown to the law enforcement authority – could not have been committed otherwise. This system was part of the Hungarian economy right up until the change in political regime, as it gave the beneficiaries an unethical advantage in the course of the privatisations: “The main driving force behind establishing companies was initially to optimise taxes since the state rewarded the external capital invested into the companies with huge tax incentives. There was probably more given away in tax incentives than the amount of dollars received. It was enough just to repatriate some of the money secretly taken abroad to the West, it was enough to present foreign subsidiaries in Hungary as capital investors,”¹⁴⁵ recalled István Tömpe, the government commissioner responsible for the privatisations in 1989.

Support from banks was also needed to conduct the financial activity of companies operating abroad. Both the Soviet Union and its satellite states set up financial institutions in Western Europe, which played various roles. Their tasks included financing trade through the Iron Curtain, obtaining hard currency, gathering economic intelligence, lending money (with the intention

143 Pogány 2009, p. 149.

144 Ibid. p. 151.

145 Tömpe 2015, p. 333.

of re-lending) and selling Soviet gold. These banks were also monitored by the US secret service. The CIA prepared a study in 1975 on the socialist banks established in Western Europe and the Middle East by the countries of the Eastern Bloc entitled *Soviet and East European-Owned Banks in the West*. This study shows that the huge volume of banking activity conducted by the Soviets in the West almost dwarfed the corresponding activity of the satellite states. Alongside Poland, Hungary was the second country that wanted to expand the banking network it maintained in the West.¹⁴⁶ At the same time, Annex A of the study reveals, somewhat contradictorily, that Romania had a banking network in the West at the time that was at least as large as the two countries previously mentioned.¹⁴⁷

Returning to the objective of the accumulation of currency and the establishment of joint ventures by groups amalgamated from various agencies of the Hungarian People's Republic, as well as the creation of a banking network, Central Wechsel- und Creditbank (CW Bank), the oldest foreign-based but Hungarian-owned company, also mentioned in the CIA report, was best suited to this task. The Central Wechsel AG Vienna Branch was established in 1918 as a subsidiary of the Budapest-based Central Wechselstuben AG bank.¹⁴⁸ This made it the foreign bank with the longest history in the Austrian capital during the time of the Cold War.¹⁴⁹ Following the nationalisation of its parent entity, CW Bank was transferred to the Pesti Magyar Kereskedelmi Bank [*Pest Hungarian Trade Bank*] in 1947, and after the Hungarian Foreign Trade Bank was established in 1950, the MKB became its supervisory authority. From 1968, it belonged directly to the Magyar Nemzeti Bank. One of its tasks during the time of the one-party state was to finance the western deals of state-run foreign trade companies, but it continued operating after the democratic restructuring,

146 "Among the East Europeans, only Poland and Hungary have expressed an intention to extend their respective banking networks."

147 Central Intelligence Agency, Freedom of Information Act (CIA, FOIA) Soviet and East European-Owned Banks in the West, December 1975. https://www.cia.gov/library/readingroom/docs/DOC_0000233296.pdf, 7 August 2017

148 Pogány 2009, p. 154.

149 Vajna 1987, p. 115.

and left behind a loss of at least 70 billion forints when it was liquidated in 1999. In the 1970s and 1980s, CW Bank played an extremely important role in the lives of the joint ventures; it was responsible not just for financial management – it held the bank accounts of the companies operating abroad, enabling them to make transfers with capitalist countries – it also took ownership stakes when they were founded. The MKB's first foreign-based company, Centropa Wien, was defined as the “extended arm of CW”¹⁵⁰ given that the bank supervised its activity.¹⁵¹ The company was set up in 1962 to manage transit transactions under the name of Centropa Handelsgesellschaft GmbH Vienna. This was the Viennese subsidiary of Centropa AG Bern Holding, owned by the Central Corporation of Banking Companies [*Pénzüntézet*i Központ, PK].¹⁵²

From 1957, the Central Corporation of Banking Companies kept a record of Hungarian interests abroad and exercised the control and management rights over them too from 1964. This all meant that every contract and document related to the establishment and assets of a foreign interest had to be submitted to PK, which also provided the companies with start-up capital. The financial control over foreign interests and all measures related to them were officially handled by the General Banking and Trust Co. Ltd [*Általános Értékforgalmi Bank, AÉB*]. This is because PK was entrusted with liquidating the various companies at the time of the nationalisations, which resulted in many foreign owners losing their assets in Hungary without any compensation, and so PK had a very bad reputation in the West. To defend against this, AÉB was established in 1952 following some complex restructuring and additional layers of ownership, and was directly supervised by PK.¹⁵³ The control shared at least formally between the two institutions until 1970 was discontinued following a general meeting on 30 December 1969, when the general manager of PK also took on the top job at AÉB. The intertwined activity of the two institutions is highlighted by the following sentence in one of the bank's operating reports:

150 Kövér [2001], p. 20.

151 ÁBTL 3.2.5. O-8-182. p. 34. 1968-1972 working plan for economic intelligence against West Germany in the banking field, 27 December 1967.

152 Kálniczky Katz 2011, p. 275.

153 Nyári 1997, 72–73.; pp. 81–82.

“Some of the operative tasks of the Central Corporation of Banking Companies were implemented by Általános Értékforgalmi Bank Rt.”¹⁵⁴

During the “company foundation fever” that began after 1972, it was often the case that the owners of the new entities did not register their company with PK because they tried to keep their company’s profits secret from the Hungarian authorities and channel them into secret accounts. We find numerous notes on this in the investigative materials of the Ministry of Interior. In connection with István Salusinszky, for example, we can read the following agent report (counterintelligence verified the credibility of this during the investigation): “Comrade Salusinszky, General Manager of the Foreign Trade Bank, fears that, following Dévai’s arrest, the Ministry of Interior will explore the background of Metalimpex’s joint venture located in Vienna and registered in Vaduz. According to the source, Salusinszky noted that this will cause major problems. The source noted that this joint venture is a non-existent company because it is not registered in the Central Corporation of Banking Companies. Consequently, it is not subject to Hungarian financial control, it pays in no profit, its financial transactions cannot be monitored, and they account for as much of the money received as they see fit.”¹⁵⁵ Officially though, PK could not be omitted from the operation of joint ventures. In some cases, PK was an owner: Centropa was not its only foreign interest, but it was probably the most significant. We do not yet know much about the circumstances surrounding its establishment, but we find an interesting story in the state security dossier kept on a Swiss trader Fernand J. E. Mueller.

The man in contact with Hungarian civilian intelligence under the codename of “Merész” (*Bold*) made the most of the situation during the Cold War as a real adventurer. During the war, he escaped from a Swiss custody centre and joined a group of partisans in France, where he was in contact with several Soviet agents.¹⁵⁶ He later joined the French army and took part in the occupation of Germany. After 1945, as an employee of a trading company in Nuremberg, he worked for the CIC (Counter Intelligence Corps), i.e. US

154 Botos 1992, p. 47.

155 ÁBTL 3.1.5. O-16586/2. p. 84. Report, 23 July 1974

156 ÁBTL 3.1.2 M-19133. p. 131. Summary Report, 8 November 1958

military counterintelligence, and also for the Soviet secret services, regularly delivering embargoed materials to companies in the Eastern Bloc. In 1958, he contacted Hungarian civilian intelligence to inform them he was willing to buy forints from the Magyar Nemzeti Bank at HUF 40 for USD 1 – at that time the official HUF-USD exchange rate was HUF 11.74 for USD 1, but the actual exchange rate was roughly 60 forints. They obviously could not respond to the offer, but they did use the inquiry from “Merész” as an opportunity to obtain information from him about the Hungarian emigrés he was in contact with. They were particularly interested in Centropa, a company associated with Miklós Bittera. “Merész” was able to provide very little information on this company in Switzerland, and only knew that it was established by Hungarians who had emigrated, began operating in the summer of 1958, and was registered in West Germany.¹⁵⁷ He soon handed over the information available in the company register to Hungarian intelligence.¹⁵⁸ Based on this information, the company was registered on 10 September 1958 with founding capital of 100,000 deutschmarks and its head office in Karlsruhe. According to its articles of association, Centropa was established on 26 June 1957 as a trade intermediary, to which end it wished to have offices in several countries. Setting up the offices meant maintaining contact with Hungarian emigrés and, according to the agent, people willing to represent Centropa were found in many countries on all five continents. General representation was set up in Switzerland and headed up by Bittera. The beneficial owner and founder of Centropa was an emigré called Gyula Gergely, who left for Western Europe following the revolution in 1956. Gergely was a member of the Arrow Cross Party in Hungary during World War Two. It was its leader, Ferenc Szálasi, who appointed him to head up the National Economic Office in 1944. For his actions, he was sentenced to forced labour for life in 1946, only regaining his freedom in Vác during the days of the revolution.¹⁵⁹ According to reports from one of his fellow inmates,

157 ÁBTL 3.1.2 M-19133. pp. 155–156. Report on Centropa Kft., 17 November 1958

158 ÁBTL 3.1.2 M-19133/1. p. 24. Report on Centropa Kft., 15 December 1958

159 ÁBTL 3.2.4. K-873/51. pp. 17–18. Report on the case of candidate, codename “Jasper”, 26 July 1965

Gergely put together his ideas to build up a transportation company spanning the entire world during his years in prison.¹⁶⁰ Gergely planned the company as a key player in trade between East and West, and he even gave it a name behind bars: Centropa. After his release, the first thing he did was to realise his cherished dream. He found a few business-minded people who were willing to support his idea financially among the Hungarian emigrés.¹⁶¹

In 1963 – just a few months after the amnesty decree that appeared in March – Gergely arrived in Hungary with the intention of requesting help from state security to secure approval for his return.¹⁶² The former leader of the Arrow Cross Party himself explained the interesting part of his return: “By virtue of the fact that as a war criminal – who did not serve out his sentence – he still travelled back into Hungary almost illegally, and without a trace, he wants to prove that we can trust him, and this in itself is proof of his sincere and good intentions,”¹⁶³ said the officer questioning him. However, it quickly transpired how Gergely managed to travel into the country “without a trace”. On 3 July 1963, he contacted the Hungarian trade office in Vienna and offered to sell them manufacturing specifications as well as patents relating to military technologies, on the condition that they enable him to enter Hungary.¹⁶⁴ The MNVK-2 resident officer in Vienna put the founder of Centropa on a plane that very day, and handed him over to military intelligence officer Lieutenant Colonel Csapó at Ferihegyi Airport. After questioning, military intelligence passed Gergely onto civilian intelligence, where he was monitored for years. This is because Gergely returned with the intention of repatriating his company, thereby bringing into Hungary its assets, all its inventories, contacts and capital, in return for the opportunity to settle in Hungary.¹⁶⁵ He strove to make a good impression with his intelligence interrogators, which unsettled them slightly because he was enthusiastic in his praise for the system, emphasising that he

160 ÁBTL 3.1.2 M-29007. p. 189. Report by agent, codename “Bácskai”, 3 February 1964

161 ÁBTL 3.1.2 M-29007. p. 344. Report by agent, codename “Bácskai”, 22 June 1965

162 ÁBTL 3.2.4. K-873/51. p. 20. Report on candidate, codename “Jasper”, 26 July 1965

163 ÁBTL 3.2.4. K-873/51. p. 63. Note, 9 July 1963

164 Ibid. p. 59.

165 Ibid. p. 54.

too was a socialist, albeit a slightly more nationalistic one, and that he loved to see that “today Hungary is realising all of the social achievements that we wanted too.”¹⁶⁶ We now know that, despite appearances, Gergely did have a place in Hungary at the early stage of the Kádár regime. It is no wonder he visited and regularly held business negotiations with the largest foreign trade companies, such as Terimpex, Konzumex and Artex, for years. Although we cannot find any materials in the archive that give us detailed information about why and for what purposes Gergely was supported, the story is nevertheless too remarkable and extraordinary for us to consider it a coincidence that the Centropa established by PK and the Centropa founded by Gyula Gergely bear the same name. The Hungarian authorities were presumably looking for an existing company which could give them access to the West, by joining the company under the radar – presumably by collusion – or possibly by acquiring the general representation in Switzerland. Using an existing Swiss company, there were no issues with setting up a wholly Hungarian-owned company in Vienna without attracting too much attention from the western, and primarily US, secret services.¹⁶⁷ However, Gergely endeavoured to leverage even more benefit from his Hungarian ownership role, and his travels to Hungary must have caused ructions in the system. What is more, he became embroiled in a bill of exchange counterfeiting scheme, for which he was convicted in West Germany, and so he increasingly became a burden for the Hungarian authorities. In 1967, he was put on the blacklist and was refused entry.¹⁶⁸ We have no further information on the fate of Gergely’s Centropa.

Centropa in Vienna was owned by MKB and definitely operated until the late 1980s. It was initially involved mainly in transit and re-export deals, but later on played an important role in securing embargo channels too. Its

166 Ibid. p. 53.

167 Despite this, the western secret service agencies also probably recognised the significance of Centropa. An analysis appeared in 1972 on the joint ventures created to facilitate trade between East and West and their role in technology transfer. In this analysis, the author focused separately on the activity of the Hungarian-owned Centropa based in Vienna. Levinson 1972, p. 165.

168 ÁBTL 3.2.4. K-873/51. p. 345. Resolution, 7 January 1967.

turnover was huge and exhibited a sharp increase over the years: compared to the 24 million Austrian schillings in 1968 and 18 million schillings in 1969,¹⁶⁹ its turnover in 1973 was 112 million Austrian schillings, with tax-free profit of 5 million.¹⁷⁰ The Swiss-registered Hungarian holding company Centropa was an owner in several western joint ventures, for example, it established Intradex based in Austria in 1974 jointly with Transelektro.¹⁷¹ The company's working capital was provided by CW Bank.¹⁷²

The MKB was also the owner of Hungagent, which was established in parallel to Centropa. It was initially one of the bank's departments, before becoming a separate entity from 1968,¹⁷³ and this was the company that helped circumvent Italian tax laws for the benefit of the Italian Communist Party's company Italimpex – as mentioned in the previous chapter.

After 1972, there was no longer any need for individual and special approvals to establish a joint venture, so most foreign trade companies began to set up their own foreign representative offices. As of 31 December 1974, there were a total of 71 entities with Hungarian interests operating in the West,¹⁷⁴ but this number rose to around 200 by the mid-1980s.¹⁷⁵ The joint ventures wishing to operate with a head office in Hungary were only authorised from 1977; the 1972 law only allowed them to be established on a contractual basis, so the foreign party was not allowed to acquire ownership rights in Hungary at that time. From 1977, however, companies operating in Hungary were also established, and by the mid-1980s there were around 80 joint ventures registered with head offices in Hungary.¹⁷⁶

169 MNL OL XIX-G-3-p 3. d. 2-004/9/1970. p. 32. Report on the 1969 activity of Magyar Külkereskedelmi Bank Rt., 31 March 1970

170 MNL OL XIX-G-3-p 63. d. 2-006/7/1975. p. 34. Report on the 1974 activity of Magyar Külkereskedelmi Bank Rt., 11 April 1975

171 Vajna 1987, p. 101.

172 MNL OL XIX-G-3-p 63. d. 2-006/7/1975. Appendix 14, 2nd Report on the 1974 activity of Magyar Külkereskedelmi Bank Rt., 11 April 1975.

173 Kövér [2001], p. 20.

174 MNL OL XIX-G-3-p 63. d. 2-006/7/1975. p. 20. Report on the 1974 activity of Magyar Külkereskedelmi Bank Rt., 11 April 1975.

175 Vajna 1987, p. 3.

176 Ibid.

Joint ventures registered in Hungary also played a key role in technology transfer and setting up companies, and they brought in working capital to the country from the capitalist states. Siemens Computer Centre and Coordination Office (Sicontact), which was owned by MKB and based in Budapest, was established prior to 1977 as part of a collaboration with Siemens AG. It was crucially important in acquiring products on the COCOM list and supplied products to both civilian and military intelligence – as we will see in the following chapters. Its Hungarian director in 1980 was Ottó Haár,¹⁷⁷ who was recruited in 1954 by the intelligence department of the Ministry of Interior when he was sent to Yugoslavia for trade talks as an employee of NIKEX.¹⁷⁸ In subsequent years, he also worked at various trade offices too, while also being used alternately by the Ministry of Interior and MNVK-2. In 1958, military intelligence requested he be transferred from the Ministry of Interior,¹⁷⁹ then, in 1962 and before his placement in India, he officially returned to the Ministry of Interior because intelligence and counterintelligence both wanted to use him at the trade office.¹⁸⁰ In 1969, he was sent to Kenya, but according to civilian intelligence there he did not carry out his secret service tasks with enough enthusiasm, and he deliberately failed to disclose his contacts, so he was excluded from the network in 1971.¹⁸¹ We have no knowledge of his activity related to the military.

In the mid-1980s, a trader named Mihály Farkas headed up Sicontact.¹⁸² He was the top man at the trade office in Paris in the 1960s. István Práczki, an MNVK-2 intelligence officer who served in Paris at the same time, refers to Farkas in his memoirs as his boss, so we can assume that Farkas belonged to military intelligence.¹⁸³ Before he joined the Siemens cooperation office,

177 ÁBTL 3.2.5. O-8-475. p. 13. Report on the Siemens AG case, 28 February 1980.

178 ÁBTL 3.2.1. Bt-2331. p. 36. Recruitment proposal, 9 July 1954.

179 ÁBTL 3.2.1. Bt-2331. p. 81. Materials request form, 2 May 1958.

180 ÁBTL 3.2.1. Bt-2331. pp. 86–87. Training plan, 14 August 1962.

181 ÁBTL 3.2.1. Bt-2331. p. 121. Recommendation, 6 May 1971.

182 ÁBTL 2.7.1. Daily Operational Information Reports (NOIJ) 1984-BRFK-140, 2 October 1984

183 Práczki 2014, p. 173.

his name appears in civilian intelligence reports as the general manager of Transelektro.¹⁸⁴

Sicontact was established with capital of 8.5 million Hungarian forints; 44 people worked in the office, of which three were West German citizens.¹⁸⁵ Initially (and officially), it focused on preparing and implementing partnerships between Siemens and various Hungarian companies, whilst also carrying out servicing, organising training, and helping with planning and developments. Accomplishing the cooperation with Siemens was important not just because this was the best way to ensure the most modern technology developed by the German company made it into the country (when conducting simple trading deals, there was a better chance of phased-out products being given to the Hungarians), but also because it meant that Hungarian engineers, local specialists trained by the manufacturer, carried out the servicing of Siemens computers used by institutions in areas that state security considered sensitive. While the MKB lists Sicontact as a company it founded itself,¹⁸⁶ the bank is not officially included as an owner on the Hungarian side. For the West German partner, it would presumably have been less inspiring of confidence to have a socialist state-run bank as a co-owner, and so a company limited by shares was designated as the main player in the cooperation.

Intercooperation Kereskedelemfejlesztési Rt. was established by the Ministry of Foreign Trade, the National Committee for Technical Development [*OMFB*] and various foreign trade and industrial companies, mainly to set up cooperation frameworks, joint ventures, and to conclude contracts on licences and the exchange of knowledge.¹⁸⁷ Apart from electronics firms, it also covered heavy industry and the chemical industry. From its founding in 1968, the company limited by shares played an active role in procuring sensitive technologies for the Eastern Bloc, and it was used during the establishment of various joint ventures to lessen the impact of the state's role, and make it

184 ÁBTL 3.1.2 M-41115/6. p. 10. Report, 24 March 1980

185 ÁBTL 3.2.5. O-8-475. p. 14. Report on the Siemens AG case, 28 February 1980

186 Kövér [2001], p. 29.

187 ÁBTL 3.2.4. K-3000. p. 180. Note, 22 January 1979

easier to win the trust of the western partners. Since the company was crucially important for intelligence and counterintelligence purposes, all of the agencies naturally made sure they had their own people embedded into the organisation. For many years, the man heading up Intercooperation was the former trade advisor from Rome, György Obláth. According to American intelligence, Obláth carried out secret purchases in Switzerland in the late 1940s: he purchased military grade automotive equipment and radio equipment for the Soviet Bloc.¹⁸⁸ Later, he continued his trade career as an agent of state security, and he was clearly working for military intelligence in Italy; after he returned from Rome – around 1973/74 – he took the position at the head of the company limited by shares. Obláth was well aware of the secret commission system deployed at the trade offices along with the even more secret backhanders, and presumably continued with this habit in Hungary; moreover, as the boss of Intercooperation, he had an extraordinary number of opportunities in this regard since the company was engaged in cooperations and representation contracts with foreign firms, as well as setting up joint ventures and having a major say in the choice of partners. This is also what counterintelligence suspected when unknown perpetrators broke into the company's offices in 1984 and stole Obláth's safe. Staff were enraged when they found that some of the loot had been scattered in the corridor when the burglars made their escape: it turned out that Obláth's safe had been full of jewellery, high-value savings books and cash.¹⁸⁹

From 1978, top-secret officer K-150 of state security Géza Kertész also worked for Intercooperation Rt.¹⁹⁰ Kertész joined the cooperation office from the Ministry of Foreign Trade with the rank of major, where his cover role was that of personnel officer. Yet this position did not give him the "suitable legal background for further operative cooperation,"¹⁹¹ since he had to maintain

188 CIA, FOIA, Hungarian Economic Activities in Western Europe, 17 November 1949
<https://www.cia.gov/library/readingroom/docs/CIA-RDP82-00457R003600470003-2.pdf>
 (Downloaded on: 16 August 2019)

189 ÁBTL 2.7.1. NOIJ 1984-BRFK-128-177/5, 10 September 1984

190 ÁBTL 3.2.4. K-3000. p. 173. Summary report, 13 December 1978

191 Ibid.

contact with the general manager of the Vienna subsidiary of ITT (International Telephone & Telegraph) on behalf of civilian intelligence. He worked for four years to gain the loyalty of the general manager, but as a personnel officer he could not make further progress, so his bosses came up with a new position for him: he became a head of division at the Ministry of Foreign Trade's company, thereby enabling him officially to be a negotiating partner of Otto Bachl, the general manager of ITT Vienna, from whom it was hoped they would obtain important economic and trade policy information. Kertész began approaching Otto Bachl from 1974, and was successful in gaining his trust. The German trader who went by the codename of "Sirmann" was then marketing director of ITT in Vienna, and his appointment as general manager was thanks to a covert operation by Hungarian state security. Purposeful provocation on the part of Hungarian intelligence brought about the downfall of Scherman, the former head of ITT Vienna, as it transpired he had accepted bribes from a firm called Weltexport to allow transactions with countries of the Eastern Bloc to pass through the company. The ITT head office in Brussels called upon Scherman to terminate the contract with Weltexport, but Scherman endeavoured to slow this process down by wasting time and through manipulation. During an official visit, Kertész noticed a damning document on the general manager's desk. He surreptitiously included it in his own sheaf of papers and brought it back home to Hungary. Importtrade, the company representing ITT in Hungary, sent the document back officially to ITT by post, making reference to an unfortunate misunderstanding. This revealed what Scherman had been up to, so he was retired by the head office in Brussels. Kertész, representing the eastern trade partners, was recommended by Otto Bachl as his successor. This was accepted by the ITT head office because it was important for them to nurture good relations with the socialist markets. Of course, they did not forget to remind "Sirmann" whom he had to thank for his promotion in the hope that they could bank on his cooperation in future.¹⁹² The new general manager was grateful for the assistance and leaked various pieces of economic

192 ÁBTL 3.2.4. K-3000. 172–173. Summary report, 13 December 1978

information to Hungarian state security through Kertész. In 1976, for example, he notified civilian intelligence that Swiss banks had collectively developed a scheme where the “black money” they held – i.e. the funds that various mafia organisations placed with them to keep them hidden from tax and other state authorities – could be disbursed in the form of special (and confidential) loans via a Dutch company to socialist countries. These funds could not be used in normal banking transactions, but they were certainly significant enough for the banks to risk devaluing them, and so they offered them to the countries of the Eastern Bloc as long-term business loans with interest of 5 percent and a guarantee of the competent state bank.¹⁹³

With the spread of joint ventures, the issue of handling the finances of non-resident individuals and business entities had to be solved as well, to which end a company was established for the first time with a Hungarian place of business that was in majority capitalist ownership (with MNB as the main shareholder): Central European International Bank Co. [*Közép-európai Nemzetközi Bank Rt.*], commonly known as CIB Bank. The new bank constituted the embryo of the two-tier banking system. The Magyar Nemzeti Bank held a 34 percent ownership share, with the remainder split between six different banks (Italian, Japanese, German, Austrian and French), each holding 11 percent.¹⁹⁴ The creation of CIB relieved the foreign companies operating on the Hungarian market from the strict and unfavourable FX laws, since CIB operated as an offshore entity. This meant it was not subject to Hungarian rules on foreign exchange.¹⁹⁵ CIB was unique in the sense that it was Comecon’s only offshore bank in majority capitalist ownership in the Eastern Bloc, right up until the late 1980s.¹⁹⁶ CIB was involved in setting up companies too. One of these was Sphero-Evig GmbH, which was associated with Intercooperation and

193 ÁBTL 1.11.4. AX-XI/1976. 8–9. Information report on the plan of Swiss banks to lend “black money”, 30 September 1976

194 The banks with ownership stakes: Creditanstalt – Vienna, Bayerische Vereinsbank – Munich, Banca Commerciale Italiana – Milan, Société Générale – Paris, Long-Term Credit Bank – Tokyo, Taiyo-Kobe Bank – Tokyo. Benda 1999, p. 280.

195 Kálniczky Kátz 2011, p. 274.

196 Vajna 1987, p. 124.

established in 1981 with the help of the United Electrical Machinery Factory [*Egyesült Villamosgépgyár, Evig*] to sell spherical pumps outside Hungary. Within a year, the company was close to bankruptcy after the western partner delivered machinery to the Evig site in Hungary that later turned out to be partly used products with design flaws, and partly East German machinery that could be bought cheaply in West Germany and was therefore useless to the Hungarian factory.¹⁹⁷ On top of that, the Hungarian manufacturer was left holding the large number of the pumps produced as the partner did not meet its contractual obligations by failing to sell the products on the western markets.¹⁹⁸ The interesting thing about the company's brief history is that its director György Maros was employed by Intercooperation. In the 1970s, he had worked at the Milan trade office and kept in close contact with adviser Mátyás Csillag, who, in turn, became an employee of Philipp Brothers, one of the main players in the oil deal that we read about in the third part of the book, after he emigrated. Maros was given the codename "Fény" and was watched by counterintelligence because they were suspicious of various irregularities in connection with the loss-making firm. According to their information, the company's operations generated losses of 500-600,000 forints per day,¹⁹⁹ and so the Ministry of Finance ordered an investigation; however, "fearing that a thorough inquiry would reveal the significant irregularities, the company management published an article containing false information and eulogising the company's results, which was released as an announcement from the Hungarian News Agency [*Magyar Távirati Iroda, MTI*]."²⁰⁰ The investigation produced no major results. György Maros was rewarded for his work with a long-term placement to West Germany at Intercooperation, all while counterintelligence believed that his activity had deprived the people's economy of almost 200 million forints.²⁰¹

In the 1970s, therefore, a network of joint ventures with Hungarian interests was created in the West that increasingly squeezed the party companies out of

197 ÁBTL 2.7.1. NOIJ 1982-BRFK-125, 7 October 1982

198 ÁBTL 2.7.1. NOIJ 1982-BRFK-49, 20 April 1982

199 ÁBTL 2.7.1. NOIJ 1982-BRFK-125, 7 October 1982

200 ÁBTL 2.7.1. NOIJ 1983-BRFK-74, 26 May 1983

201 ÁBTL 2.7.1. NOIJ 1983-III/II-110, 6 June 1983

the “market” of entities acting as intermediaries in East-West trade. There are also examples though of a party company continuing to enjoy the comradely help of sister parties in the east in the form of a joint venture. In 1972 the Hungarian company Terimpex joined the previously mentioned Soresco, a company of the Italian Communist Party, and the Milan firm continued with a 50-50 percent ownership set-up.²⁰² It retained its character as a party company and the change was in fact primarily designed to encourage even closer cooperation between the Hungarian Socialist Workers’ Party (MSZMP) and the Italian Communist Party. This also created a problem when one of the Hungarian employees decided to emigrate in 1983, because “documents containing important state secrets are prepared at the Soresco Hungarian-Italian joint venture based in Milan and record the secret cooperation between the MSZMP and the Italian party.”²⁰³ This meant the Hungarian party authorities could not know what information the lady seeking asylum from the Italian authorities had in her possession. They feared that sensitive data on the cooperation between Comecon countries and third-world markets would be leaked. To avert any diplomatic complications, Terimpex’s finance director Péter Kunits was sent to Milan to assess the situation, while a new Hungarian director was appointed in the heart of Lombardy in the form of Terimpex’s former party secretary Imre Spányik. The Hungarian delegation immediately began to destroy documents, “burning all files in which any reference was made to the company’s role in connection with the party. At present, there are no documents in Milan indicating any party company links.”²⁰⁴

The joint ventures operating in capitalist countries were of course important from a secret service perspective, not just to get around the embargo and for the purposes of technology transfer, but as a basis for political, economic and military intelligence. We have seen that the majority of the people working at these companies were linked in some shape or form to Hungarian state security or military intelligence – during the time of the Cold War this was naturally

202 Szilágyi 2015, p. 58.

203 ÁBTL 2.7.1. NOIJ 1983-III/II-112, 8 July 1983

204 ÁBTL 2.7.1. NOIJ 1983-III/II-164, 19 August 1983

a tried-and-tested practice for both sides – but the intelligence agencies themselves established their own companies as cover too, although we only have specific information on such companies with regard to MNVK-2. This may mean that the Ministry of Interior was unable to resort to this option as much as its staff were not as well-versed in capitalist business practices, but it may also simply mean that they did not collect facts and data on economic irregularities that would incriminate themselves, so the investigative materials contained no information on the ministry's own companies.

After the law mentioned previously was adopted in 1972, military intelligence began to construct its company network almost immediately. The trading firm Eurocom was founded by MNVK-2, with the explicit goal of securing financial resources for its operations.²⁰⁵ The company was registered in Hungary on 17 August 1972²⁰⁶ and founded by the general managers of three or four large companies; organising this was entrusted to the MNVK-2 intelligence agent István Práczki.²⁰⁷ The HUF 3 million in capital needed for the foundation of the company was provided by military intelligence, with the purpose of placing the agency's operations on a business footing. The founding foreign trade enterprises – which were presumably all associated with military intelligence – were the following: Metalimpex, Agrimpex, Monimpex and Terimpex.²⁰⁸ Using a similar system, Eurocom carved out its own share of the country's foreign trade, just like the previously mentioned party or joint ventures: it entered Hungary's foreign trade business as an effective intermediary. The company became the exclusive Hungarian distributor for several world-famous Western-European companies – such as the BP oil group from the UK, Linde in Germany, Oerlikon in Switzerland and Addo from Sweden²⁰⁹ – but it also engaged in the trade of products that had been on the Hungarian market for many years, so its appearance raised the purchase prices. Eurocom quickly developed into a

205 József Kis-Benedek confirmed that military intelligence had many companies it had set up itself.

206 Company information.

207 Práczki 2014, pp. 185–210.

208 Borvendég 2018, pp. 58–59

209 Práczki 2014, p. 194.

profitable business, and relatively soon began to spread westwards, since this was its main goal. In early 1973, Intereurop Vienna and Intereurop Vaduz were established as subsidiaries of Metalimpex. The foundation of the two companies with the same name is very reminiscent of the establishment of the two Centropa companies; in both cases the founders chose this option presumably for tax reasons. Switzerland and Liechtenstein were tax havens, and it was common practice even for Western European companies to establish enterprises in this microstate or in the neutral alpine state, regardless of where they operated. This is confirmed by the note from the parent company on the foundation of the companies: "For tax reasons, Intereurop Vaduz will receive payment for the services provided by Intereurop Vienna."²¹⁰ In the submission to the Ministry of Foreign Trade for authorisation, the need to set up Intereurop was justified by the fact that the trade directives determined by the Foreign Trade Ministry strictly governed the volume of exports to the various countries, which in turn were defined by quotas in international agreements. In Metalimpex's view, however, the given areas potentially had larger markets. Metalimpex was no longer able to exploit these opportunities, so it had to involve an intermediary company: "Our company needs to stay hidden in some cases. Involving a suitable Austrian company, Intereurop Export GmbH, serves this purpose."²¹¹ It transpires from the report sent to MNVK-2 by István Dévai, deputy general manager of Metalimpex – who, as a committed source of military intelligence, paved the way for the foundation of the companies – that János Fekete, the deputy governor of Magyar Nemzeti Bank, gave his verbal consent to keep the liquid assets of the Viennese company outside of Hungary. Namely, he agreed that Metalimpex's share of Intereurop's profit should not be transferred back to Hungary.²¹² The trade consultant in Vienna also provided constant support to the Intereurop cause, and it was him that the company's employees were able to turn to with any problems.²¹³

210 MNL OL XXIX-G-12-a 1. d. Note, 30 August 1973

211 MNL OL XXIX-G-12-a 1. d. Request of deputy general manager István Dévai to Béla Szalai, deputy minister for foreign trade, 23 February 1973

212 ÁBTL 3.1.9. V-160338/2. p. 278. Note, 19 February 1974

213 ÁBTL 3.1.9. V-160338/1. p. 161. Questioning of suspect István Dévai, 8 August 1974

The division of tasks and work between the two companies with identical names was of course not included in the articles of association or in the administrative policy. In fact, it was not even mentioned that there were two enterprises: “Where possible, avoid the confidential details that should not be aired in administrative instructions.”²¹⁴ Jenő Markóczy was the one to comment on the administrative policy submitted to the Central Corporation of Banking Companies (i.e. officially to Általános Értékforgalmi Bank Rt.).²¹⁵ His first question was how they planned to get the income derived from the office’s operation out of Austria. The Metalimpex representatives were unable to respond since the primary goal of setting up the office was to keep these funds out of Hungary. However, as previously mentioned, the administrative policy included nothing about the division of tasks and funds between the two Intereurop entities, and so the supervisory bank could not have knowledge of all the details. The bank’s officer incidentally added how a company could have been set up abroad more carefully without the Hungarian interest appearing anywhere. He claimed there are certain Swiss holding companies who, for a minimal fee, will appear as owners when setting up a company, keeping the real owner completely concealed. Was he perhaps thinking of the Swiss Centropa holding established by his employer? He probably was, but this at any rate encouraged the managers of the Hungarian foreign trading company to delve into traditional offshoring in the mid-1970s.

By using Eurocom and Intereurop, many companies were subsequently established in Austria, West Germany and Italy as subsidiaries of Metalimpex, but MNVK-2 also expanded in other ways in the capitalist world. Thanks to its significant press network, military intelligence cultivated good links with the International Organisation of Journalists (NÚSZ), a front organisation of the KGB. It also became involved in its economic affairs too, so Hungarian military intelligence became the founder of the Belgian–Hungarian joint venture, Vue Touristique Idegenforgalmi Propaganda és Kiadó Vállalatnak (IPV). Based in Budapest, the company was officially owned by one of the international

214 MNL OL XXIX-G-12-a 1. d. Note for István Dévai, 8 November 1973

215 MNL OL XXIX-G-12-a 1. d. Memorandum, 18 October 1973

organisations of journalists, FIJET (World Federation of Travel Journalists and Writers), an entity supported by the National Federation of Hungarian Journalists (MŰOSZ) and NŰSZ.²¹⁶ IPV, an intelligence base disguised as a travel agency and established in Milan in the mid-1970s, also operated in the form of a joint venture. I do not currently have any information on how many joint ventures were established by military intelligence with the help of IPV, in addition to the one in Milan, but there are reports from 1985 of a Dutch–Hungarian company that would have been founded with IPV as the Hungarian partner, but it transpired that the company was by then “blacklisted in the USA” as it was considered a centre for espionage.²¹⁷ The Dutch partner company was certainly associated with MNVK-2, because László Bánhegyi, a major in military intelligence, was named as its representative.²¹⁸ A former Hungarian national basketball player, he finished his sports career in 1960 and ended up employed by MNVK-2. He worked under cover from the very beginning, entrusted with managing various Malév offices abroad, while also serving in Beirut and then London.

216 Borvendég 2015.; Borvendég 2016

217 ÁBTL 2.7.1. NOIJ 1986-III/II-11, 17 January 1986

218 ÁBTL 3.1.9. V-161381/2. 103. Summary reference of Major László Bánhegyi, no date.

EMBARGO CHANNELS VIA HUNGARY

Waltham–Videoton cooperation

Videoton and the United States

The Székesfehérvár-based company that once produced shotgun cartridges began specialising in household communications equipment from the 1950s. By the early 1970s, it had become a stronghold in the sectors of military communications and Hungarian computer development and production after its manufacture and civilian export of radio and television equipment generated continuous losses.²¹⁹ By the late 1960s, it had become clear to the countries of the Eastern Bloc that they needed to develop cooperation frameworks for computer developments since the equipment in use was not compatible and there was no system in place to service or supply spare parts either.²²⁰ In 1969, they established the Intergovernmental Computer Technology Committee to supervise the joint computer programme. The smallest product in the computer range to be developed in the interests of creating the Unified Computer System had to be manufactured by the Hungarian party. This later brought significant benefits to Videoton, who carried out the development, as it paved the way for them to progress towards the world of mini and micro computers.²²¹

The rapid developments in electronics and computer technology made it vital for the companies in the Eastern Bloc to incorporate western technologies

219 Germuska 2014, pp. 425–426.

220 Baráth–Kázmér–Ujváry 2013, p. 123.

221 Ibid.

into their own products as the majority of the equipment developed and produced was vital to the defence industry, and keeping military technologies competitive was a top priority for the Soviet Union throughout the Cold War – this is because most of the end-users of Videoton equipment were within the Soviet empire. From the very beginning, the Hungarian company was only willing to use advanced western technology in its work and shied away from any initiative that meant the forced adoption of research results conducted by socialist countries.²²² It is thanks to this that Videoton became one of the largest buyers of embargoed products in the Eastern Bloc in the 1970s and 1980s. To facilitate these purchases, Videoton was issued with a foreign trade licence in the spring of 1969, when Videoton Ipari Külkereskedelmi Rt. was established.²²³ Sometimes the parent company was the contact for the large computer corporations around the world, while at others they used subsidiaries and agents to get around the COCOM list.

In the 1960s and 1970s, Control Data Corporation (CDC) in the USA was at the vanguard of the industry in close competition with the likes of IBM, who later became the industry leader. There were times when CDC had the fastest computers in the world. In the second half of the 1970s – after the company's most famous development engineer left CDC – the US firm began to turn towards countries in the east, presumably because its rivals had carved out a noticeable advantage in the USA and other capitalist countries. From the last years of this decade, Videoton began to foster close links with CDC, and the multinational brought embargoed products into socialist countries via its office in Vienna, integrating them into the equipment made by Videoton, or transporting them on directly to the Soviet Union.

The United States was vigilant in ensuring compliance with the COCOM agreement, which essentially functioned as an iron curtain between the two world orders in the 1970s and 1980s, in parallel to the global political détente. CDC's approach to the companies of the Eastern Bloc presumably did not go unnoticed by the American secret services, and they certainly infiltrated the

222 Ibid. pp. 124–125.

223 Ibid. p. 143.

company, or at least used their sales agents to gain information on the level of technological development in the hostile bloc, and their representatives were able to gather trade and economic information during negotiations. In 1980, for example, Control Data prepared an analytical report on the economic situation of the socialist countries – primarily the Soviet Union; they analysed the opportunities and benefits of mutual trade, and summarised the characteristics of the market outlets,²²⁴ but the company was also used to carry out operations. In 1979, CDC organised an electronics exhibition in the United States, to which it also invited Videoton. The organisers purchased several pieces of equipment from those exhibited, clearly to gauge the development level of the socialist industry. The devices were dismantled into their constituent parts. In one of the Videoton products, they found an Intel 8080 microprocessor, one of the products subject to the strictest embargo. The USA threatened the most severe response, creating a separate Senate investigation committee to resolve the case,²²⁵ and Videoton was blacklisted, which meant all US firms were banned from supplying the Hungarian company.²²⁶ The boycott was a severe danger to the Hungarian electronics industry, and thereby indirectly to the Soviet Union too. At its own risk – without consulting with the Soviets first – Videoton handed over a Soviet-made microprocessor to CDC for investigation, “to prove that there was no point in the US authorities restricting imports in this manner because the socialist countries already had the technology.”²²⁷ Of course, this failed to convince the Americans. Videoton’s other main US supplier, Dataproducts Corporation, which made computer peripherals, immediately stopped fulfilling contracts that were already active.²²⁸ Videoton management then sat down for talks with diplomats at the US Embassy, who demanded that the Hungarians reveal in detail how the processor had been procured.²²⁹ They wanted to know exactly how many items had been delivered to the Bloc, in which countries

224 ÁBTL 2.7.1. NOIJ 1981-BRFK-22, 4 February 1981

225 Baráth–Kázmér–Ujváry 2013, p. 132.

226 ÁBTL 2.7.1. NOIJ 1980-III/II-154, 9 August 1980

227 ÁBTL 2.7.1. NOIJ 1980-III/II-237, 5 December 1980

228 ÁBTL 2.7.1. NOIJ 1980-III/II-145-174/6, 29 July 1980

229 ÁBTL 2.7.1. NOIJ 1980-III/II-149, 2 August 1980

they ended up being used, and whether they had succeeded in replicating the product and making similar ones. On 28 April 1981, the US Department of Trade handed over a questionnaire to the factory's management, saying that Videoton's blacklisting was subject to them completing it.²³⁰ If Videoton had completed the questionnaire honestly, it would have compromised itself so much that a boycott would have been a foregone conclusion. Months of talks then began, during which the Hungarians endeavoured to give evasive answers. In the meantime, civilian intelligence learned that the US government department responsible for military affairs had obtained information that the parts received by Videoton were being integrated into military equipment in the Soviet Union.²³¹ The national security agencies launched investigations, putting Videoton into an increasingly awkward situation because it became apparent that if the – obviously true – allegations were corroborated, the boycott would be comprehensive. The sensitive diplomatic situation that emerged around the Intel processor was further nuanced by the fact that Videoton was not actually involved in this affair. Purchasing microelectronic components was not part of its remit, this was the responsibility of Elektromodul, which was the company behind the acquisition of the Intel 8080.²³² Based on the recommendation of the Ministry of Foreign Affairs, Videoton agreed to own up in order to cover for the actual supplier, whose activity was unknown to the US authorities at that time.²³³

While CDC and Dataproducts were compelled to work with the US authorities, their economic interests were still given priority over political expectations. Under strict confidence, their representatives handed the Videoton management a document which contained practical information on US export controls, which gave them an opportunity to find a back door and circumvent the authorities.²³⁴ “Our US partners, D.P. and CDC, have given

230 ÁBTL 3.1.9. V-164158. 56/a. Videoton Rt. Report to Minister Péter Veress, 18 February 1983

231 ÁBTL 2.7.1. NOIJ 1981-III/I-39-42/12, 24 February 1981

232 ÁBTL 3.1.9. V-164158. 56/a-2. Videoton Rt. Report to Minister Péter Veress, 18 February 1983

233 Ibid.

234 Ibid.

and continue to give us maximum support,” states the Videoton report. Thanks to this document, the Hungarians were impressively able to demonstrate to the US authorities that the procurement route was completely legal and that they had not circumvented the US rules; on the contrary, it was thanks to shortcomings in the US procedures that embargoed products found their way to locations that in the Americans’ opinion were unauthorised. This is because Videoton had placed an order for the given processor via a third company, but marking itself as the end user; the export permit was promptly received and the goods arrived in Hungary. The company management then presented the documentation of the trial order to the US trade attaché, who was forced to acknowledge its authenticity.²³⁵ This averted the immediate threat of retaliation, and Videoton was not blacklisted. Control Data still wanted to keep working with the Hungarian company, and the plans were to cooperate with Videoton over five years to the tune of 40 million US dollars each.²³⁶

The relationship between the USA and the Soviet Union in the early 1980s was reminiscent of the frostiest Cold War years: the military opposition was heightened by NATO installing rocket systems in Europe, which Moscow protested vehemently against, but Washington argued that the presence of Soviet forces in Eastern Europe was so significant that they were forced to act. The strategy of peaceful cohabitation was put even more on the back burner when Ronald Reagan came to power, as the new US president had a final victory in his sights.²³⁷ Yet it was by no means possible for the isolation to be as comprehensive as it was in the 1950s. The “golden age” of the Iron Curtain could only have been created by strictly applying the COCOM agreement, but the companies in the capitalist countries – bearing their own economic interests in mind – resisted this pressure. According to a civilian intelligence report: “In the current economic climate, neither the USA nor the Western European countries can bear the economic consequences of this policy.”²³⁸

235 Ibid. 56/a-3.

236 Ibid.

237 Borhi 2015, p. 371.

238 ÁBTL 2.7.1. NOIJ 1981-III/I-31, 13 February 1981

Hungarian intelligence was presumably correct in this observation, the majority of the western companies reassured their partners that they would surreptitiously keep supplies going and keep transferring licences and know-how. In fact, they tried to make the most of the situation by offering their products at higher prices. In reality, they had one condition: they expected the Hungarian government not to intervene in Polish domestic politics on the side of Wojciech Jaruzelski, since this would have made it impossible to ignore the boycott introduced by the western powers. The government departments of the United States fought to impose the political line, and attempted to reveal the embargo trading routes, to varying degrees of success – we will also look at the Hungarian implications of this in various specific cases – but they were unable to stop the transfer of technology. A survey, which was prepared by the US Department of Trade according to Hungarian counterintelligence, revealed that half of the computers arriving in Western Europe from America between 1976 and 1981 ended up in the Eastern Bloc.²³⁹ A large part of this presumably came through the Iron Curtain with Hungary's help, and the US Administration was aware of this. In 1986, during a visit to the USA, Secretary of State for Foreign Affairs Gyula Horn was reproached for "Budapest passing too much technology onto the Soviet Union."²⁴⁰ Videoton was deemed to be the main supplier, and the company's activity influenced the economic relations between the two countries: "In recent times, the US administration's perception of the Hungarian People's Republic trade policy has worsened significantly. The reasons for this include the fact that integrated circuits purchased by Videoton in the United States have been found in Bulgarian-made weapons confiscated in Nicaragua and Afghanistan."²⁴¹ Moreover, the two places mentioned were the most sensitive regions of the armed struggles between the two major powers, and this deprived Hungary of the relationship it had developed with the United States, which at the time, was the best of all the Eastern Bloc states.

239 ÁBTL 2.7.1. NOIJ 1982-III/II-18, 26 January 1982

240 Borhi 2015, p. 392.

241 ÁBTL 2.7.3. 6. d. 6-7/600/85. Ministry of Interior note to the government, 8 August 1985

The US Secret Service obtained detailed information on the embargo-related activity of Videoton following an escape attempt that was awkward both for Videoton and for the Soviet and Hungarian governments.

Csaba Balogh requested political asylum from the West German authorities on 26 March 1982.²⁴² His departure was so damaging to the Hungarian authorities, and indirectly to the Soviet authorities, because he had knowledge of major secrets as a computer expert with decades of experience at Videoton: he had thorough knowledge of the company's embargo purchases, the volume of banned technologies making their way to the Soviet Union, and of how developed the Eastern Bloc was with regard to computers. From 1974 to 1976, Balogh was a software specialist at the customer service department of the Videoton Computer Technology Factory working on system analysis, before going on a long-term secondment to Moscow.²⁴³ The Moscow centre of the company's foreign trade entity was set up in 1972, originally with five people, but the workforce soon rose to 300 workers.²⁴⁴ They were quickly accommodated in a specially designed three-storey building, where he helped install the supplied products with the help of many Soviet citizens. Csaba Balogh was employed by the Moscow Technical Trade Centre of Videoton Rt. from 15 November 1976 to 15 November 1981, and so he commanded detailed knowledge of the centre's warehouse stocks, which supplied the Soviet electronics and computer technology industry with the necessary parts; he regularly visited the users, and so had knowledge of the interiors of many Soviet buildings of interest to the intelligence bodies, as well as on their organisational structures, their activity, their manufacturing specifications and so on. On top of all this, his wife was Russian and her family included many high-ranking party and military leaders, as well as persons engaged in scientific work.²⁴⁵ Several Hungarian foreign trade companies used Videoton's

242 ÁBTL 3.1.9. V-164158/2. 85. Realisation plan in the Csaba Balogh case, 12 November 1982

243 ÁBTL 3.1.9. V-164158/1. 53. Note of the Videoton Rt. board of directors to the Ministry of Interior, 13 December 1982

244 Baráth-Kázmér-Ujváry 2013, 132.; p. 146.

245 ÁBTL 2.7.1. NOIJ 1982-Fejér-26, 20 July 1982

Moscow warehouse for their “special” tasks,²⁴⁶ which presumably meant the supply of military equipment. The counterintelligence agencies in the Bloc were therefore rightly alarmed.

Csaba Balogh unexpectedly changed his mind – by his own admission, he was tormented by homesickness – and returned home on 10 July 1982. In early August, he asked an engineer friend of his at the Taszár military base to find him work in the vicinity of Kaposvár,²⁴⁷ but this did not happen. The intelligence officer at the air corps reported his appearance, and so he soon found himself captured by civilian intelligence forces. In the investigation, it transpired that Csaba Balogh had been questioned by the CIA almost 30 times during the period of slightly more than three months, and the former Videoton employee was happy to respond to the questions asked. He provided detailed information on the products made by the factory, the supplies to the Soviet Union, the technical standards in the Eastern Bloc, and on everything the Americans wanted to know about.²⁴⁸ Following his arrest, and in addition to the interrogations, all other opportunities were seized to obtain detailed information on Balogh’s actions abroad. They made him sign confessions, deployed a detention intelligence agent and bugged his cell, since they had to extract important information from him for both counterintelligence and intelligence purposes. The Hungarian and Soviet agencies had to know just how compromised the embargo channels were, and what data the Hungarian specialist had given to the US authorities that was severely detrimental to the Bloc, while also hoping they would learn more about the CIA’s methods, information requirements and covert assets. Finally, Csaba Balogh was found guilty of the charge of espionage and sentenced to imprisonment for four and a half years at the hearing that closed on 27 April 1983.²⁴⁹ His sentence was upheld by the Supreme Court.²⁵⁰

246 ÁBTL 3.1.9. V-164158/1. 55. Note of Videoton Rt. board of directors to the Ministry of Interior, 13 December 1982

247 ÁBTL 2.7.1. NOIJ 1982-III/II-151, 17 August 1982

248 ÁBTL 3.1.9. V-164158/2. p. 24. Investigation-implementation plan in the Csaba Balogh case, 19 November 1982

249 ÁBTL 3.1.9. V-164158/2. p. 124. Supreme Court judgement, 27 April 1983

250 ÁBTL 3.1.9. V-164158/2. p. 134. Supreme Court judgement, 28 June 1983

Waltham Electronic GmbH

During the Csaba Balogh case, the investigative authorities raised various leads that then had to be stripped from the original case so that the court materials did not contain anything that could harm party or political interests. It transpires from the documents now available that he contacted his colleague and friend György Hargitai Balogh in Munich, and with his knowledge requested asylum from the West German authorities. Using this information, counterintelligence sought to find out just who this mysterious friend in Munich was. But they botched the investigation. Hargitai was a much more important person than someone who could be sacrificed due to a spying affair.

György Hargitai was a Videoton employee in Munich, but he had carried out major assignments for the secret services much earlier while working for the company. Between 1972 and 1978, he worked as the head of the Videoton office in Moscow, so he was Csaba Balogh's colleague and boss in the Russian capital for a period.²⁵¹ After his time in Moscow, he was sent to West Germany, to the Videoton operation there, and headed up Waltham Electronic GmbH from 1 January 1979.²⁵² Of course, counterintelligence soon found damning evidence against this new player too and wanted to launch proceedings against him for customs crimes and trafficking in stolen goods. This is because, when investigating the relationship between Hargitai and Balogh, they discovered that Hargitai had asked Csaba Balogh to bring him home some jewellery when his time in Moscow came to an end. At the time of the one-party state, it was common for people returning from long-term placements abroad to be permitted to bring back various goods and valuables purchased abroad without paying customs duties. This was essentially part of the remuneration for their work. Hargitai wished to take advantage of this when he visited Csaba Balogh in Moscow in early 1981, and he gave him some jewellery, asking him to bring it back to Hungary, stamp a hallmark in it at the mint, then help him to sell via

251 ÁBTL 3.1.9. V-164158/2. p. 100. Note, 26 January 1983

252 ÁBTL 3.1.9. V-164158/2. p. 98. Report, 20 January 1983

the BAV auction house.²⁵³ Csaba Balogh accepted the request from his former boss, and thereby paved the way for the investigative authorities to charge Hargitai too.

However, Videoton's general manager István Papp expressed concerns about the investigation into and accusations against Hargitai, since this would have been at significant commercial cost to the company.²⁵⁴ Counterintelligence still did not want to give up on its proposal, saying that it was not authorised to do so: "Separating the mentioned case and refraining from taking action is only possible with the approval of the General Prosecutor's Office exercising supervision over the legality of the investigation, or perhaps based on a decision from the general prosecutor."²⁵⁵

The approval was soon given because, thanks to a "senior leadership decision", Hargitai's case was separated from Csaba Balogh's espionage case and no proceedings were launched against him.²⁵⁶ There is no doubt that extracting Hargitai from the case was designed to protect the secrets of the links between Waltham and Videoton, because the Munich-based company was the most important purchaser of embargoed products for the Hungarian electronics firm, and this naturally went hand-in-hand with movements of illegal money too, causing huge damage to the Hungarian economy.

Szabolcs Fazakas, a former minister in the Horn government, provided reports to the Ministry of Interior in the 1970s as an officer of the Ministry of Foreign Trade and with the codename "Stefán",²⁵⁷ and these provide us with information on the first scandal involving Waltham too. On 10 June 1970, Videoton entered into a general supply agreement with the West German company Waltham Electronic to sell televisions.²⁵⁸ This business was initially a cooperation. Waltham only had representation rights, but Videoton must have been able to secure an ownership stake in the German company before

253 Ibid. p. 97.

254 Ibid. p. 98.

255 Ibid.

256 ÁBTL 3.1.9. V-164158/2. p. 103. Report on the Csaba Balogh case, 7 February 1983

257 His reports are contained in the archive in the following dossier: ÁBTL 3.1.2 M-38209.

258 ÁBTL 3.1.2 M-38209. p. 23. Report of the Ministry of Finance audit, 8 November 1978

long as documents from the early 1980s mention the firm as Videoton's foreign trade office. According to the original contract, Videoton paid Waltham a sales rebate, or rather a commission, of 5 percent, but the conclusion of the agreement itself was not legal either because the document did not contain an official signature on behalf of Videoton. The Hungarians were represented only by deputy director György Berkes when the agreement was made, but he had no written authorisation to do so. During the investigation, however, Videoton's then director Sándor Léderer tried to provide as little information as possible about the cooperation, and he covered for György Berkes too, making the unrealistic observation in connection with the invalid contract that "he possibly gave verbal authorisation" to secure the agreement.²⁵⁹ The contractual provision regarding the rebate was not reported to the foreign exchange authority (MNB) either, despite the fact that they were obliged to do so under the given legislation. This is why it went unnoticed for years by all the supervisory bodies that Videoton was paying a commission on business to a company when the goods were actually delivered on credit. During 1974 and 1975, the Income Directorate of the Ministry of Finance conducted a financial audit at the giant Hungarian corporation in which the authority noted the financial irregularities between Videoton and Waltham, but apart from a few general observations there were no serious consequences to the audit, until eventually the Ministry of Foreign Trade also began dealing with the matter in 1978.²⁶⁰ Against this background, it is probably not all that surprising that there were no consequences this time either, but a report was drafted in which we learn about the financial transactions between the two companies in the first few years and the telling results of this business.

Videoton's bookkeeping revealed no significant receivables and there was no record of Waltham's debts from 1973, even though they had reached astronomical levels by 1978. At the time of the audit, the subsidiary had unpaid debts amounting to 98.6 million forints, of which the overdue amount totalled

259 Ibid. p. 24.

260 Ibid. p. 23.

94 million forints.²⁶¹ Waltham constantly received the goods from Videoton intended for transit on credit, but since the rebate on the business was due on the products supplied by Videoton, not on the profit or on the sold products, the company received money alongside the electronic devices received free of charge. The audit found that, in addition to all this, the Munich intermediary received some significant allowances, but then often sold the equipment on with a substantial mark-up to the Far East, chiefly China.²⁶² Despite these facts, Waltham was teetering on the brink of bankruptcy. It informed Videoton, with which it had an overdue debt of 60 million forints in 1976, that it was insolvent.²⁶³ The parent company managed to get the MNB to provide a loan of 5.4 million forints via a West German bank to this company apparently struggling with financial difficulties,²⁶⁴ and the MNB agreed to be the guarantor.²⁶⁵ Meanwhile, the company's debt to Videoton rose to 110 million forints by 1977. Despite this, the due commission of 10.2 million forints was paid by Videoton, instead of offsetting this amount against part of the debt.²⁶⁶ However, the Ministry of Foreign Trade could not have intervened in the renewed financial trickery as it had no insight into this because Waltham still only had a representation agreement with Videoton at the time, and so the rules governing the operation of joint ventures did not apply to it.²⁶⁷ Experts eventually arrived at Videoton from the Ministry of Foreign Trade by the autumn of 1978 to probe the maladministration; and they found those responsible: Deputy director György Berkes, managing director András Gede and chief accountant Károly Győri.²⁶⁸ Yet the report was not followed up with anyone being held to account,²⁶⁹ and, according to Fazakas, there was only a single conclusion to the case: "Videoton wants to send out a person named Hargitai, saying that only he can secure the

261 Ibid. p. 27.

262 Ibid. pp. 28–29.

263 ÁBTL 2.7.1. NOIJ 1979-III/II-38-43/15.

264 Ibid.

265 ÁBTL 3.1.2 M-38209. 21. Report on meeting with secret agent "Stefán", 20 October 1978

266 ÁBTL 3.1.2 M-38209. 26. Report of the Ministry of Finance audit, 8 November 1978

267 ÁBTL 3.1.2 M-38209. 21. Report on meeting with secret agent "Stefán", 20 October 1978

268 ÁBTL 3.1.2 M-38209. 29–30. Report of the Ministry of Finance audit, 8 November 1978

269 ÁBTL 2.7.1. NOIJ 1979-III/II-38-43/15.

return of the above amount. Hargitai returned from a long-term placement in Moscow a year ago; he does not speak German; he does not understand entertainment electronics, and therefore we [the Ministry of Foreign Trade] do not consider it advisable to send him, but this will happen in the near future anyway.”²⁷⁰

So Waltham received various electronic goods – mainly televisions – from Videoton, on commission and with significant discounts, which it then exported to the Far East at a substantial mark-up, but it did not pay Videoton for the purchased products, not even in arrears. However, as I emphasised above, the usual trade commission was paid on the products delivered by Videoton to Waltham, but not on the goods sold by Waltham, so the company was also given money by Videoton in addition to receiving televisions free of charge. So where did Waltham’s money go? There is no information on this in the documents currently available for research. At any rate, it is not a coincidence that those in charge wanted to put someone recently returned home from Moscow at the head of the company to prevent the eruption of any further scandals. Hargitai’s deputy was János Schalkhammer, a secret colleague of Department III/II-2/c of the Ministry of Interior.²⁷¹ Since no individual was sent on a long-term posting abroad – especially to Western Europe – who was not part of the network of one secret service or another, we can rightly ask who Hargitai was reporting to, and who he received his instructions from? We do not find the answer among the civilian intelligence and counterintelligence materials available for research, but we can be certain that only a completely reliable person would be nominated to handle the affairs of such an important company. Waltham was clearly entrusted with accumulating foreign currency, but for what purpose and on whose instruction, that we do not know, we can only assume; we do know that the anonymous “senior leaders” who removed Hargitai from the investigation against Csaba Balogh were behind this. Waltham became one of the Bloc’s largest buyers of embargoed products, and some of the illegal money was presumably used to cover these supplies, but there is no documentation of

270 ÁBTL 3.1.2 M-38209. 21. Report on meeting with secret agent “Stefán”, 20 October 1978

271 His Dossier 6 is archived by the ÁBTL.

this. There will never be a reassuring and reliable statement on the Hungarian state funds that disappeared from the company.

The suspicious financial manipulations did not decrease during Hargitai's time at the helm, but no new investigation was launched, and the new boss lived up to the expectations. Thankfully, counterintelligence did its job and provided regular reports to party management on the suspicious incidents they became aware of, thereby providing historians with some insight into the further activity of Waltham. In August 1979, for example, the Ministry of Interior informed the party leadership that the head of Videoton's Finance and Accounting Division had appeared in the Secret Document Management (*TÜK*) office of the Ministry of Metallurgy and Machine Industry wishing to classify various official documents, including a few bills of exchange and securities related to Waltham, but the staff there realised he was trying to make inappropriate documents disappear and prevented him from doing so.²⁷²

At the time, it was not Waltham's economic problems that state security was chiefly preoccupied with, it wanted to track the difficulties associated with the company's embargo purchases. Videoton, as one of the Soviet Union's most important suppliers, was primarily supplied by Waltham and its traders with products on the COCOM list, and the company's activity also caught the eye of West German counterintelligence. One of Waltham's most important business partners, Ulrik Range, was presumably rumbled in 1981 by the US or West German secret service, and the German customs agencies launched an investigation into his company.²⁷³ Range mainly obtained US-made computer parts and microprocessors for Waltham. He was well aware of their final destination, too; the products made it to the Soviet Union with Range's knowledge.²⁷⁴ Once the investigation began, Range immediately stopped the deliveries of the embargoed products, failing to fulfil even the contracts already in progress.²⁷⁵ Range being off the grid created a problem for Waltham, which

272 ÁBTL 2.7.1. NOIJ 1979-III/II-163, 17 August 1979

273 ÁBTL 2.7.1. NOIJ 1983-III/II-147, 27 July 1983

274 ÁBTL 2.7.1. NOIJ 1981-III/II-149, 4 August 1981

275 Ibid.

had to work on alternatives. This is how it came into contact with a US company called Telxon, whose Swiss subsidiary was headed up by a Hungarian emigré. They reached an agreement that for goods under the embargo “they would use labels that safely got the products past foreign customs agencies”, indicating Far Eastern end-users as the recipients.²⁷⁶

But Waltham was not able to elude the investigation against Range unscathed either. By the summer of 1983, the threads of the investigation led to Videoton’s subsidiary:²⁷⁷ on 11 July, the West German police conducted a search of the Waltham office, Hargitai’s apartment in Munich, and the home of the company’s German deputy director Günter Hummelt. They confiscated Hargitai’s personal documents and withdrew his passport, although the travel document was returned to him the following day.²⁷⁸ They were looking for evidence of the unauthorised export of goods on the COCOM list, and confiscated many documents. The Hungarian and Soviet agencies rightly feared that the hostile counterintelligence agency had found incriminating information on supplies to the Eastern Bloc, primarily to the Soviet Union, and so Department III/II-6 of the Ministry of Interior ordered Hargitai home to submit a report through his employer Videoton Rt., and informed Soviet state security of the developments.²⁷⁹ However, the interest of the West German customs agency did not come as a surprise to Hargitai. Clearly, the investigation against Range had put him on his toes, and so he destroyed all documents containing damning evidence of the activity of Videoton’s representative by the time of the search. Together with Schalkhammer, they had developed a system of bookkeeping that only the two of them could understand and could never be unravelled by the authorities.²⁸⁰ Since they found no evidence, the German authorities did not restrict Waltham’s business activity, but they did indicate that the investigation would continue.²⁸¹

276 ÁBTL 2.7.1. NOIJ 1982-III/II-44, 4 March 1982

277 ÁBTL 2.7.1. NOIJ 1983-III/II-147, 27 July 1983

278 ÁBTL 2.7.1. NOIJ 1983-III/II-139, 15 July 1983

279 Ibid.

280 ÁBTL 2.7.1. NOIJ 1983-III/II-140, 17 July 1983

281 ÁBTL 2.7.1. NOIJ 1983-III/II-147, 27 July 1983

So, for a time at least, the storm clouds over Waltham dispersed, but German – and most certainly US – counterintelligence kept watch over the company, while the Hungarian secret services tried to thwart every attack. On 4 October 1983, Hargitai received an anonymous telephone call warning him to leave West Germany because the authorities were coming for him again. Parallel to this, MNVK-2 informed the Ministry of Interior's operative units that Germany wanted to arrest the director of the Munich office, and so civilian intelligence ordered Hargitai home again for a briefing, and they prepared him for how he should behave in the event of another interrogation or if he were arrested.²⁸² The Western secret services still found nothing on Waltham, and so they tried to provoke him – at least that is how the Hungarian operative units and the Waltham personnel evaluated the events. In September 1984, Range sent an open payment reminder to Waltham, in which he demanded payment of 8,000 West German deutschmarks for embargoed parts for the UNIVAC equipment he believed had been delivered at the start of the year. However, Range had by then been out of touch with the Videoton office for three years, and so Hargitai and company viewed his payment demand as a potential trap. They anticipated another search, during which the payment reminder could be seized as proof that Waltham was indeed organising illegal supplies to the Eastern Bloc, and so they immediately sent a protest letter to Range in which they stated that no goods had been received from him for three years, and they were in any case not involved in the trade of computer equipment and related spare parts.²⁸³ They probably managed to thwart the operation by the German authorities with this response as, at least according to civilian intelligence reports, there is no reference to investigators visiting Waltham again. In the spring of 1985, the investigation into Range was completed with a recommendation of charges, and the investigative dossier into the Hungarian company was put before the prosecutor in Munich.²⁸⁴ Looking for more evidence, the prosecutor conducted searches at the office on several occasions: they reviewed the bookkeeping and

282 ÁBTL 2.7.1. NOIJ 1983-III/II-201, 13 October 1983

283 ÁBTL 2.7.1. NOIJ 1984-III/II-182, 17 September 1984

284 ÁBTL 2.7.1. NOIJ 1985-III/II-103, 30 May 1985

checked incoming invoices, as well as the documentation of supplies to the Eastern Bloc.²⁸⁵ In early September, personnel at the prosecutor followed new leads, probably chancing upon one of Waltham's secret routes: they confiscated the documentation of deliveries that Videoton's Munich office had made to a third country via Switzerland. Hargitai and company were ready for another potential inspection, however, and only kept the invoices for electronic equipment that was not subject to the embargo restrictions.²⁸⁶ Once again, the investigators were unable to find any evidence, even though they had quite specific information to start this new path of investigation. Neutral Switzerland played a key role for the countries in the east with regard to circumventing the COCOM list, and the Americans wanted to cut off these channels. They conducted random checks and even unloaded cargo from the holds of airplanes and returned it to the sender. Customs checks were intensified not just at the Swiss borders; one of the managers at the Microelectronic Company learned from an Austrian sales agent that the western security services had been asked by the USA to map out the paths that embargoed products were taking to get into Hungary. As a result, western customs authorities could be expected to be paying closer attention, but the investigations would include banking transactions too.²⁸⁷ One of Waltham's lorries loaded with electronic equipment also fell victim to such an operation in Switzerland on its way to the Soviet Union. The lorry was stopped and sent back with the cargo to its point of departure.²⁸⁸

The West German customs bodies figured out which intermediary Waltham was using to send its supplies through Switzerland. In 1983, the Munich company set up SCS GmbH (Strafa Control System) in Switzerland – likely registered in Liechtenstein and with the help of Urs Hansel, Waltham's representative in Liechtenstein²⁸⁹ – which was tasked with “obtaining embargoed products

285 ÁBTL 2.7.1. NOIJ 1985-III/II-156, 17 August 1985

286 ÁBTL 2.7.1. NOIJ 1985-III/II-172, 11 September 1985

287 ÁBTL 2.7.1. NOIJ 1984-BRFK-161, 6 November 1984

288 ÁBTL 2.7.1. NOIJ 1985-III/II-175, 16 September 1985

289 Hungary's partners supplying embargoed products included an Italian company called SCS, which had supplied integrated circuits to Elektromodul for use in computers years

and technologies needed to implement the microelectronics programme of the time, and forwarding them to Budapest.”²⁹⁰ A firm called Setron was also owned by Waltham and operated in Switzerland. It too was run by Urs Hansel. The West German authorities requested the data of the Swiss bank accounts of the two companies: they were interested in a statement containing bank transactions from 1983 to 1986. Hungarian state security was concerned that the information collected could reveal the role of these companies in the Hungarian electronics programme, and possibly pave the way for some kind of administrative reaction.²⁹¹ Their fears proved unfounded though: based on a court decision, the confiscated documents had to be returned to the account holders without being opened.²⁹² In other words, political interests were unable to override the right to banking secrecy that is paramount in Switzerland. Incidentally, just as with most other foreign companies established by joint ventures, SCS was used not just for embargo deliveries, but also to extract capital from Hungarian state companies. A short civilian intelligence report reveals that SCS, Elektromodul and Hírszöv [*Telecommunications Cooperative*] together founded a manufacturing firm in Hungary, Modultechnika Kft. The factory’s products were purchased by the co-owner SCS, then it offered them to Elektromodul for sale as the foreign partner. So the products manufactured by Modultechnika in Hungary were ultimately used in Hungary, but the superfluous intermediary export transaction meant that SCS sold the products back to Elektromodul with a five- or tenfold mark-up.²⁹³

Defending compromising information or making it disappear did not always end up in Waltham’s favour, as we saw with the Swiss company. The suppliers of the embargoed products were at great risk too, since they essentially ran counter to the political expectations of the time by breaching international

previously. We can assume that the identical name means this Italian enterprise had ownership links with the joint venture established in Switzerland in 1983. ÁBTL 2.7.1 NOIJ 1980-III/II-68, 1 April 1980

290 ÁBTL 2.7.1. NOIJ-1988-III/II-17, 26 January 1988

291 Ibid.

292 ÁBTL 2.7.1. NOIJ-1988-III/II-100, 23 May 1988

293 ÁBTL 2.7.1. NOIJ-1988-III/II-132, 6 July 1988

conventions, while the illegal money transfers related to the transactions violating trade rules constituted huge amounts of capital invisible to the customs and tax authorities. The western players would have faced criminal proceedings had these black market supplies come to light, so both parties were essentially blackmailing each other. The owner of an Austrian company tried to turn this situation to his advantage when he managed, by means of a small trick, to be able to prove Waltham's embargo activity if necessary, thereby keeping the Hungarian company in check. He supplied large amounts of blacklisted products to Videoton's subsidiary and received the value of the goods in cash from the MNB to avoid the deal leaving a paper trace. He then initiated a transfer from Munich to his own account using a fake Waltham stamp, enabling him "to prove, if caught, that he had delivered the goods to Waltham."²⁹⁴

The Waltham story pieced together based on state security documents is most certainly just the tip of the iceberg. Although this book does later shed light on several other cases, but the illegal money flows made to cover the supply of embargoed products are sure to remain shrouded in confusion; at the very least, the documents from state security are unable to provide a reassuring answer to the questions that arise, all the more so because the Waltham story did not end with the collapse of the one-party state, nor the 1992 privatisation of Videoton. György Hargitai bought the company he managed and set up numerous offices around the world under the aegis of the company, which continued to trade. The press at the time blamed Hargitai for the majority of the scandalous losses suffered by CW Bank in Vienna, which previously financed the secret trading transactions. He reportedly borrowed 800 million schillings from the bank, which he never repaid.²⁹⁵

²⁹⁴ ÁBTL 2.7.1. NOIJ 1985-III/II-125, 4 July 1985

²⁹⁵ Huth 2000.; Torkos 1999.; Torkos 2003.

Videoton in the “Sahara”

In the early 1980s, Videoton became the coordinator for a development and manufacturing order based on a large-scale cooperation framework when the Libyan government ordered radio surveillance and interference equipment worth several hundred million US dollars. The Hungarian military's radio surveillance was extremely effective within the military cooperation of the Warsaw Pact, and MNVK-2 monitored the military communications of the NATO countries and Austria, and also listened in on the communications of the US fleet circulating in the Mediterranean Sea.²⁹⁶ Most of the equipment they used was developed in Hungary because the Hungarian telecommunications industry specialised in manufacturing military short-wave and ultra short-wave transmitters and receivers within Comecon from the 1960s. The Hungarian electronics industry typically supplied the Arab world with military radio equipment,²⁹⁷ and it was common knowledge among Videoton staff in the mid-1980s – at the time of the Iran-Iraq war – that Videoton was supplying radiolocation systems to Iraq, while also installing interference stations for the same equipment in the neighbouring hostile state.²⁹⁸

In 1979, Libya contacted the Technical Foreign Trade Company [*Technika Külkereskedelmi Vállalat*] specialising in military equipment with a request that far outstripped its previous arms orders, and asked for a proposal for a complete telecommunications system, including complex military services and the construction of the associated facilities.²⁹⁹ The political and military leadership exerted significant pressure on the Hungarian electronics industry to take on the massive order, which at the time exceeded the capacity and development of the country's industry. This made it necessary to adopt a previously unknown industrial integration framework to be able to carry out the vital developments and then manufacture everything by the agreed

296 Germuska 2008, p. 96.

297 For details on Hungarian military technology exports to the Middle East see: Germuska 2003.

298 ÁBTL 2.7.1. NOIJ 1984-III/II-171, 31 August 1984

299 Germuska 2008, p. 99.

deadline.³⁰⁰ Political and military pressure was inescapable according to the former Videoton management because millions of dollars were paid into secret bank accounts for the orders. This was coupled with the *baksheesh* system common throughout the Arab world, so if the delivery was not made because the contract could not be fulfilled, this in itself would have caused significant harm to the people's economy (and obviously to individuals).³⁰¹ Videoton was given the role of general contractor to coordinate the integration, and the programme was given the cover name of "Sahara".³⁰² Other Arab states, as well as India, also subsequently put in orders for the same telecommunications equipment.

The Hungarian electronics companies had to face various theoretical and practical problems in fulfilling the contract: development often had to be carried out parallel to the manufacturing and the Libyan partner kept making new technical requirements, while the Soviet Union demanded that the latest developments should not be delivered to third-world countries. Despite this, the Hungarians were continuously forced to integrate new features into the products in accordance with the local requirements.³⁰³

Yet the main barrier to completing the programme was that the development and production had to be carried out as the embargo checks were being tightened. A framework agreement was reached between Videoton and the Swedish subsidiary ITT SRT (ITT Standard Radio and Telephone) of the US firm ITT for a licence transfer relating to the production in Hungary of 1-kW radio transmitters.³⁰⁴ A microprocessor on the COCOM list was needed for the transmitter antenna unit, which ITT would have provided for 6 million dollars.³⁰⁵ However, the Swedish subsidiary pulled out of supplying the embargoed product at the last minute, and escalated the agreement to the

300 Baráth-Kázmér-Ujváry 2013, 116–117. The referenced book does not name the political and military leaders exerting the pressure.

301 Ibid. p. 115.

302 For details on the programme codenamed "Sahara" see: Orbán-Schwarzkopf 2017.

303 Germuska 2008, pp. 99–101.

304 ÁBTL 2.7.1. NOIJ 1982-III/II-55, 22 March 1982

305 ÁBTL 2.7.1. NOIJ 1982-III/II-45, 5 March 1982

head office in the United States, where consent to provide the manufacturing technology was also denied.³⁰⁶ As we recall from previous stories, embargo restrictions did not prevent the transfer of banned technologies to the Eastern Bloc, they only made them more expensive. In this case, too, the refusal to transfer the licence was not final: in 1982, civilian counterintelligence was notified that the ITT head office had authorised its subsidiary to hand over the radio transmitter licence for the Sahara programme, but on the proviso that the microprocessor to be integrated was substituted with another component.³⁰⁷ This did not resolve the problems with the ITT deliveries, however. By late 1983, one of the key players in the purchase of embargoed goods, Richard Müller, who will be presented in more detail in the following chapter, was caught, and this also threatened ITT's Swedish subsidiary. Since this West German trader was a frequent business partner of the Swedish company, inspections were initiated in the Scandinavian country regarding trade in the products under the embargo, and it was likely the deliveries would be stopped.³⁰⁸ What is more, Elektromodul, who arranged the purchase of the licence, did not initiate the transfer of the payment for delivery of the components in time, so there was a real chance it would not be possible to procure the necessary equipment from ITT because any trade involving the equipment affected by the embargo would be shut down by the time the purchase price arrived.³⁰⁹ The fears of the Videoton management became reality: in August 1984, Elektromodul revealed that it could not meet its obligations. The programme was associated with significant political and economic interests, so the Videoton management decided "that the components under the embargo had to be procured immediately by Videoton Rt.'s Foreign Trade Company – at any price."³¹⁰ This meant several thousand dollars in increased costs, but failure to meet the deadlines would have caused even greater economic damage. With ITT and Elektromodul out of the picture,

306 ÁBTL 2.7.1. NOIJ 1982-III/II-55, 22 March 1982

307 ÁBTL 2.7.1. NOIJ 1982-III/II-103, 4 June 1982

308 ÁBTL 2.7.1. NOIJ 1984.III/II-29, 10 February 1984

309 Ibid.

310 ÁBTL 2.7.1. NOIJ 1984-III/II-171, 31 August 1984

MNVK-2 and civilian intelligence – already involved in the developments – activated their channels for the purchase of embargoed goods.³¹¹

The difficulties meant that the Hungarian companies could anticipate delays in delivery of around three to six months. This was caused not just by the problems with the procurements, but also by the constant dissatisfaction of the Libyans.³¹² In 1982, the Hungarian intelligence service noted that Gaddafi was unhappy with the military equipment delivered by socialist countries: referring to the large-scale Syrian losses suffered in the previous Arab-Israeli wars, he declared that the Warsaw Pact armaments were inadequate.³¹³ His rancour was obviously partly triggered by Moscow blocking the most advanced technologies from being delivered to the third world, but this presumably came as no comfort, and brought no compensation, to Videoton in coordinating the Sahara programme. The representatives of the northern African country came forward with increasing demands for higher quality standards, and much more time was needed to fulfil these requirements.³¹⁴ Yet all of the developments were in vain: the Libyan partner did not want to accept the manufactured products, and – even more problematically – was of course unwilling to pay for them. Finally, they agreed to take possession of the equipment manufactured as part of the Sahara programme if the Hungarians delivered 87 Rába heavy goods vehicles to Libya free of charge for the systems. According to civilian intelligence, the political decision was made and they agreed to hand over the vehicles free of charge in the first quarter of 1986.³¹⁵ Even after this concession, the Libyans were still not willing to accept the equipment manufactured by the general contractor Videoton, and refused delivery on the grounds of quality complaints. To top it all, the general manager of Videoton was so incensed that he offended the visiting Libyan representatives in the factory to such an extent that they returned home, making it even harder to push the deal

311 ÁBTL 2.7.1. NOIJ 1984-III/II-189, 26 September 1984

312 ÁBTL 2.7.1. NOIJ 1985-III/II-54, 19 March 1985

313 ÁBTL 2.7.1. NOIJ 1982-III/II-148, 12 August 1982

314 ÁBTL 2.7.1. NOIJ 1985-III/II-54, 19 March 1985

315 ÁBTL 2.7.1. NOIJ 1985-III/II-198, 17 October 1985

through.³¹⁶ Efforts were made at governmental level to remedy the situation. The Ministry of Industry, the Ministry of Foreign Trade and the Ministry of Defence elaborated a joint proposal for the government, recommending that a delegation led by József Marjai, Deputy Chairman of the Council of Ministers, should be sent immediately to Tripoli to resolve the diplomatic wrangles. In parallel to this, the Hungarians agreed to ignore the Libyans' refusal and secretly commence delivery of the equipment, essentially forcing the customer's hand.³¹⁷ By the time this proposal was adopted, technical equipment sufficient for two battalions and worth a total of 3.2 billion Hungarian forints was ready to be handed over.³¹⁸ The government supported the idea, and the consignment was dispatched in December 1985 with the help of a Soviet ship.³¹⁹ Yet upon reaching Libyan shores, the local authority expelled the container ship from its territorial waters. It eventually dropped anchor at a Yugoslav port on 2 January 1986.³²⁰ A sudden change a few days later resolved Hungary's problems: Gaddafi's deputy demanded to see the Soviet Union's ambassador serving in Tripoli and, citing the growing American threat, asked for the delivery of communication intelligence equipment from the communist superpower. The Soviet diplomat said they were unable to provide such things, but indicated that the Libyans had just expelled an entire ship full of such Hungarian equipment from the shores of Libya, and accepting this would meet the demands of the Arab leaders.³²¹ This meant the ship, still fully loaded, was able to set sail for Africa again and this time managed to deliver its cargo to Libya. A delegation of Hungarian specialists also headed for northern Africa tasked with setting up the system and putting it into operation. A surviving Sahara programme report from the Ministry of Interior dated March 1986 expressed concern to the senior leadership that the Libyan army had set the Hungarian equipment up in the open air, making it easily visible with the naked eye even from a civilian

316 ÁBTL 2.7.1. NOIJ 1985-III/II-218, 15 November 1985

317 ÁBTL 2.7.1. NOIJ 1985-III/II-219, 18 November 1985

318 Ibid.

319 ÁBTL 2.7.1. NOIJ 1985-II/II-230, 2 December 1985

320 ÁBTL 2.7.1. NOIJ 1986-III/II-6, 10 January 1986

321 Ibid.

aircraft. This put the Hungarian technicians working on commissioning the equipment at risk from a US attack.³²²

The legend goes that the Hungarian countersurveillance equipment saved Gaddafi's life on one occasion as the Hungarian engineers on the equipment managed to detect and decode a radio message about a US attack, informing the Libyan dictator in good time.³²³ While the story in this form is not true, what is certain is that the Libyan army used the Hungarian-made equipment for many years. Yet the programme ultimately proved not to be worth the effort. The huge expenditure was not recouped according to the former Videoton technicians, and the effectiveness of the developments was questionable even from the outset as such innovations were becoming outdated with the spread of digital communication and satellites.³²⁴

Elektromodul and its contacts

When I mentioned the reliance of the secret services on foreign trade companies, I touched upon the example of Magyar Elektrotechnikai Alkatrészkereskedelmi Vállalat, Elektromodul (EMO), which had links to MNVK-2. As its name suggests, the company supplied components to the Hungarian electronics industry, and procuring microprocessors on the COCOM list was part of its main activity. It was a significant supplier of embargoed products for civilian and military intelligence, but its activity attracted less attention of the authorities checking compliance with the embargo than that of Videoton. What is more, as we saw previously, the company from Székesfehérvár successfully covered for EMO – at least for a while – after it was almost exposed by the Intel 8080 purchases. Despite the company's name not being as well known to the American authorities, it played a key role in the electrotechnical developments

322 ÁBTL 2.7.1. NOIJ 1986-III/II-60, 28 March 1986

323 Germuska 2008, p. 95

324 Baráth–Kázmér–Ujváry 2013, 117

of the Eastern Bloc: alongside Videoton, it was one of the largest buyers of embargoed products in Hungary, and also excelled in supplying military technologies.

György Fekete, who headed up the Import Division at Elektromodul in the early 1980s, was one of the key figures in establishing these embargo channels.³²⁵ Fekete was not only active in component trading, part of the company's profile, he also imported weapons to the Bloc under the cover of the company. In 1980, a price quote for military equipment worth 300 million deutschmarks accidentally landed in the wrong hands, and the exposure almost created political complications too: the document related to the supply of 250 armoured amphibian vehicles and 50 anti-aircraft tanks.³²⁶ It was obvious that "György Fekete, a close contact of MNVK-2", tried to procure these military vehicles directly on behalf of military intelligence,³²⁷ but the ultimate destination was certainly not Hungary, it was the Soviet Union pulling the strings of the Warsaw Pact, or a third-world country.

Fekete was posted to Munich in 1981 to head EMO's "special division". "K-Division was the cover department handling special military requirements",³²⁸ but Fekete not only fulfilled the requests of MNVK-2, he also supplied embargoed products to the Ministry of Interior.³²⁹ His activity attracted the attention of German and Austrian counterintelligence too – civilian intelligence suspected that EMO's sales agent was being subjected to in-depth scrutiny from foreign agencies.³³⁰ Counterintelligence believed that deliberate provocation from hostile intelligence agencies was the reason György Fekete was contacted by a Siemens employee just before he travelled home in August 1984. He was given an envelope with the request that he forward it to Sicontact. However, Fekete was subject to a thorough customs inspection at the border, and the envelope containing prohibited electronic equipment was

325 ÁBTL 2.7.1. NOIJ 1980-III/II-137, 16 July 1980

326 Ibid.

327 ÁBTL 2.7.1. NOIJ 1982-III/I-141, 23 July 1982

328 ÁBTL 2.7.1. NOIJ 1981-III/I-74, 15 April 1981

329 ÁBTL 2.7.1. NOIJ 1980-III/II-239, 8 December 1980

330 ÁBTL 2.7.1. NOIJ 1983-III/II-59, 24 March 1983

confiscated.³³¹ Fekete was released, but there was now proof EMO was involved in the supply of embargoed products.

The exposure of Fekete was bad, but EMO's supply activity was affected even further when the activity of one of its foreign partners, Richard Müller, was revealed: "According to Austrian press reports, suspicions have arisen in the West that the latest in US electronic equipment is making its way to the "Eastern Bloc" via Sweden. The trade in these materials that can be used for strategic purposes is handled by two companies that exist only on paper: Integrated Time AG and Smitronic AG. Both were headed up by the German Richard³³² Müller, who Swedish security services believe is a KGB agent. Müller is reportedly on the run."³³³

Bringing Richard Müller down was certainly one of the most significant operations carried out by the US agencies seeking to close off the channels for embargoed products. On 17 January 1989, the West German TV station ZDF broadcast a one-hour documentary in which they spoke to an imprisoned German citizen in the USA who was involved in the supply of embargoed equipment. In the programme, the channel demonstrated that there was a network of agents in West Germany working on behalf of Hungary to supply Soviet interests with equipment on the COCOM list. They believed Richard Müller had led this network until 1984.³³⁴ The products he procured and delivered included microwave receivers that could listen in on spy satellites.³³⁵

The Americans apparently had Müller under surveillance from 1974, but they were unable to catch him in the act;³³⁶ eventually, the West German authorities seized one of his 3.8 million US dollar consignments in December 1983.³³⁷ The ship was heading for the Soviet Union carrying 64 cases of computer parts, which, according to US experts, could only have served

331 ÁBTL 2.7.1. NOIJ 1984-III/II-161, 16 August 1984

332 The original text mistakenly mentions his first name as Robert.

333 ÁBTL 2.7.1. NOIJ 1983-III/I-242, 9 December 1983

334 ÁBTL 2.7.1. NOIJ 1989-III/I-16-16/15, 23 January 1989

335 ÁBTL 2.7.1. NOIJ 1989-III/I-122, 7 July 1989

336 ÁBTL 2.7.1. NOIJ 1984-III/I-3, 4 January 1984

337 ÁBTL 2.7.1. NOIJ 1983-III/II-243, 13 December 1983

military purposes.³³⁸ The ship's captain was instructed on the radio to dock immediately in Hamburg for the cargo to be checked. The customs authorities were waiting in port and the valuable goods were seized. The investigation revealed various supply channels through which Müller handled his business. One of the intermediaries was Swedish company Asea-Atom, and the US authorities – according to the Ministry of Interior – immediately imposed sanctions and “blacklisted” the company.³³⁹ According to French news reports, two of the confiscated computers were originally ordered by Müller from the USA with the help of a South-African admiral, and he wanted to deliver them to the Soviet Union via various transit routes. But the Western press also revealed that he purchased computers from Digital Equipment in 1982 under the cover of an electronic organ factory, and transported them through East Germany in five Hungarian lorries to the Soviet Union – as stationery, according to the consignment notes.³⁴⁰

When the ship's cargo was seized, Müller was apparently in Budapest, and he did not return home for fear of being arrested.³⁴¹ The Hungarian agencies were also concerned that his downfall would bring the networks of contacts down like a house of cards. They had good reason: Müller had connections to most of the network. The involvement of Mahart and Hungarocamion was discovered right at the beginning of the investigation,³⁴² and the local customs authority even made an appearance at the Hamburg office of Hungarocamion, with its investigators demanding to conduct a search. The German secret service passed on the number plates of two lorries they knew were used to deliver banned equipment to the Eastern Bloc, and the waybills of Hungarocamion were attached to the consignment notes. The office manager said that two vehicles had not checked in to the office and he had no information on their cargo. He earned himself some time by saying he would ask the Budapest head office for

338 ÁBTL 2.7.1. NOIJ 1984-III/II-245, 14 December 1984

339 Ibid.

340 ÁBTL 2.7.1. NOIJ 1984-III/I-3, 4 January 1984

341 ÁBTL 2.7.1. NOIJ 1983-III/II-243, 13 December 1983

342 ÁBTL 2.7.1. NOIJ 1984-III/II-9, 13 January 1984

information.³⁴³ The worry was that the roles of other Hungarian companies in embargo dealings would also be exposed. Videoton's attempts a few years previously to protect EMO in connection with the Intel processor were futile, as Richard Müller's network contained not only EMO but its subsidiaries too. These included Emotronik, which appeared on the consignment notes as the customer for various deliveries.³⁴⁴ Both intelligence agencies had an interest in Emotronik, which was headed by the general manager of Elektromodul at the time.³⁴⁵

This posed a threat to major programmes like the aforementioned military development plan referred to as "Sahara", because ITT's Swedish subsidiary – fearing that the Müller investigation would be expanded – halted its supplies to Hungary.³⁴⁶ Their fears were not completely unfounded since the evidence from the investigation soon led to the Scandinavian country. ITT immediately withdrew its "implied consent" to the embargoed devices and components, and asked EMO to pay its bill as quickly as possible and remove the products it had already ordered.³⁴⁷

Videoton was involved in the affair not just because of "Sahara". The large quantity of computer equipment and components seized in the port of Hamburg was financed by Waltham. Hungarian counterintelligence and intelligence paid close attention to the developments of the investigation and were relieved to hear that it had not yet reached the Munich office of Videoton.³⁴⁸ The bigger problem, however, was that the value of the 3.8 million US dollar consignment had essentially vanished for Waltham, rendering the company insolvent.³⁴⁹

The exposure of Richard Müller set a huge avalanche in motion that posed a serious threat to the embargo routes of the Bloc, but no one fell out of favour. After the West German investigating authorities issued a warrant

343 ÁBTL 2.7.1. NOIJ 1984-III/II-68, 6 April 1984

344 Ibid.

345 ÁBTL 3.2.5. O-8-433/5. II/99. Encoded document, 31 May 1984

346 ÁBTL 2.7.1. NOIJ 1983-III/II-254, 30 December 1983

347 Ibid.

348 ÁBTL 2.7.1. NOIJ 1984-III/II-120, 21 June 1984

349 ÁBTL 2.7.1. NOIJ 1985-III/II-8, 14 January 1985

for his arrest, the Soviet and East German secret services evacuated him to East Germany, where he continued his work via the companies that the hostile agencies had not identified.³⁵⁰ According to civilian intelligence, Müller set up a 1,000m² warehouse and assembly plant in Berlin, where he was able to continue supplying the Soviet Union with the 500 million US dollars in embargoed products earmarked for the following planning period.³⁵¹ In the meantime, he reportedly settled his debts with the help of the Soviets, so Waltham recovered its money too.³⁵²

Richard Müller supplied the Bloc with embargoed products right until the very end, but he appeared in West Germany and gave himself up when the system was on the brink of collapse. Charges were brought against him, and he was released on bail of 1.5 million deutschmarks. In the end, for multiple violations of the Foreign Trade Act he was sentenced on 10 July 1989 to pay a fine to charity matching his bail, and received a suspended prison sentence of 18 months.³⁵³

Peter Schuster, owner of Leser Analysis Optics in Vienna, was also an important business partner of EMO. He primarily brought electronic components into Hungary that could be used in missile technology until his arrest in New York in May 1983.³⁵⁴ Schuster was apprehended at the airport. He was apparently attempting to smuggle out computer components worth 700,000 Austrian schillings, which could also have been used to direct man-portable missile systems. He did not have an export licence and his passport also only contained visas for the United States of America and Hungary. The US authorities requested bail of 250,000 US dollars and a penalty of 221,000 US dollars for his release, which his company could not pay.³⁵⁵ Despite this, he was still released in August, with civilian intelligence reports referring to a

350 ÁBTL 2.7.1. NOIJ 1984-BRFK-169, 22 November 1984

351 ÁBTL 2.7.1. NOIJ 1985-III/II-175, 16 September 1985

352 Ibid.

353 ÁBTL 2.7.1. NOIJ 1989-III/II-136, 14 July 1989

354 ÁBTL 2.7.1. NOIJ 1983-III/II-102, 25 May 1983

355 ÁBTL 2.7.1. NOIJ 1983-III/I-103, 26 May 1983; ÁBTL 2.7.1. NOIJ 1983-III/II-104, 27 May 1983; ÁBTL 2.7.1. NOIJ 1983-III/II-109, 3 June 1983

US trader of Hungarian origin who paid his bail.³⁵⁶ Schuster appeared almost immediately at the Hungarian foreign trade company Metrimpex to assure his partner that the majority of the products ordered based on a previous contract were already on their way, and Schuster would bring the remainder to Budapest personally.³⁵⁷ Of course, the re-appearance of the Austrian trader set alarm bells ringing for the Hungarian secret services because the US agencies had arrested him with evidence in his bags, kept him in custody for months, and then suddenly released him in exchange for an amount well below the set bail, after which Schuster immediately appeared at his former eastern partners.³⁵⁸ Hungarian counterintelligence escalated its report on the Hungarian trader to ministerial level.³⁵⁹ They considered this justified because Schuster was a regular visitor to the Central Research Institute for Physics (KFKI) of the Hungarian Academy of Sciences, and regularly delivered various components to the institute, possessed knowledge of the research underway there, and so could potentially have passed on classified information to unauthorised individuals.³⁶⁰ In October 1983, Schuster requested a meeting with the KFKI Director, where he said he had been rehabilitated by both the Austrian and US governments and could continue trading with Hungary without any restrictions. To demonstrate this, “he made an extremely generous offer to sell the mini-lasers developed by the institute in Western Europe.”³⁶¹ The Hungarian experts believed Schuster wanted to sell the military-grade lasers on to the Middle East. In return, he offered to bring a similar type of equipment used by NATO into Hungary.³⁶² The equipment in question was in mass production at the Hungarian Optical Works [*MOM*],³⁶³ and Schuster contacted them. I have no information on the outcome of these business negotiations, but we can be certain that Peter

356 ÁBTL 2.7.1. NOIJ 1983-III/II-162, 17 August 1983

357 ÁBTL 2.7.1. NOIJ 1983-III/II-171, 30 August 1983

358 ÁBTL 2.7.1. NOIJ 1983-III/II-248, 20 December 1983

359 ÁBTL 2.7.1. NOIJ 1983-III/II-197, 7 October 1983

360 ÁBTL 2.7.1. NOIJ 1983-III/II-205, 19 October 1983

361 ÁBTL 2.7.1. NOIJ 1983-III/II-214, 1 November 1983

362 ÁBTL 2.7.1. NOIJ 1984-III/II-49, 9 March 1984

363 For the laser research conducted at MOM, see: Lupkovics 2015

Schuster was in contact with the MOM management in spring 1986, despite all the suspicions.³⁶⁴

EMO of course owned various subsidiaries that were used in the supply of embargoed equipment. The names of Modultechnika and Emotronik have cropped up before, and they established Mikromodul together with Mikroelektronikai Vállalat – presumably in the course of 1984. A government decision was the trigger for the establishment in 1980 of Mikroelektronikai Vállalat: the company's task was to implement the microelectronics programme worth two billion Hungarian forints.³⁶⁵ Extremely complex and expensive technology was required to manufacture the microchips, so the plan was to buy cheap but obsolete Soviet equipment to get production started, and then replace it with modern western equipment in two or three years.³⁶⁶ Yet such equipment fell under the embargo, and a separate process of collusion was needed to acquire advanced technology. This led to the “plan to invest in a financially weak company via Switzerland, who would keep in strict confidence that the products and the implementation work originated in Hungary.”³⁶⁷ Finally, Mikromodul was established together with EMO to supply the necessary equipment, but the documents shed no further light on the exact constellation of this new company. The delivery of the first, substantial consignment to Hungary was planned for early January 1985. The cargo, i.e. the measurement devices needed to make the microchips, was concealed by fake consignment notes in a lorry bearing western plates, but “despite having the right legal travel documents” the lorry was stopped at the Belgian-French border and the cargo was subjected to a detailed inspection.³⁶⁸ So the first delivery by Mikromodul failed, and the equipment was confiscated. I have no further information on the continued operation of the joint venture, and its liquidation only began around the time of the change in political regime.

364 ÁBTL 2.7.1. NOIJ 1986-III/II-53, 18 March 1986

365 ÁBTL 2.7.1. NOIJ 1983-BRFK-140, 5 October 1983

366 ÁBTL 2.7.1. NOIJ 1983-III/II-12, 18 January 1983

367 Ibid.

368 ÁBTL 2.7.1. NOIJ 1985-BRFK-10, 28 January 1985

The Hungarian microelectronics programme suffered an even bigger setback: on 16 May 1986, the special unit at Mikroelektronikai Vállalat worth billions of forints that manufactured semiconductors and chips was destroyed in a rapid and devastating fire. The initial news was extremely contradictory. The reason for the outbreak of fire was a fault in the ventilation system for the so-called cleanrooms, but the assumption was that the ventilation system had deliberately been turned off to keep any radioactive substances out following the Chernobyl disaster,³⁶⁹ and it was purported that “high-level foreign interests played a role in the destructive fire breaking out at that particular time and place.”³⁷⁰ For now, according to the findings of the official investigation, the reason for the failure of the multi-billion forint programme was most probably human negligence. Based on the documents currently available, we are unable to judge how “accidental” these failings were. Major construction deficiencies caused by corruption and tight deadlines also possibly played a role in the estimated 1.4 billion forints worth of damage wreaked by the outbreak and devastation of the fire.³⁷¹ The destruction of the special unit of Mikroelektronikai Vállalat was ruinous for the Hungarian microelectronics programme, and it was never rebuilt.

The individuals buying embargoed equipment for Elektromodul included an Austrian trader called Jacob Guttman, who moved these products to Hungary by means of his company IPPO, which was registered in Liechtenstein. He mainly supplied EMO with integrated circuits for anti-missile systems,³⁷² but the Viennese businessman was also one of Videoton’s partners. Guttman represented Eastern Europe for Control Data Corporation from 1978, so he was the main man for Videoton in arranging its trade deals with CDC.³⁷³ Guttman was under surveillance by counterintelligence, and the Budapest Police Headquarters also collected information on his activity as it was suspected

369 ÁBTL 2.7.1. NOIJ 1986-BRFK-70-104/16, 29 May 1986

370 ÁBTL 2.7.1. NOIJ 1986-Heves-13-104/17, 29 May 1986

371 ÁBTL 3.1.5. O-19234. pp. 44–48. Summary Report, 13 August 1986

372 ÁBTL 3.1.2 M-40999. p. 63. Report on secret collaborator codenamed “Péter Kékesi” (Gábor Rényi), 4 October 1979

373 ÁBTL 2.7.1. NOIJ 1979-BRFK-27, 10 February 1979

that corruption was the reason he was embedded at some of the foreign trade companies in Hungary. This assumption was reinforced by a “Christmas gift” of ten thousand schillings given to one of the Ministry of Interior’s top-secret officers, which Guttman thought would curry favour with the civilian intelligence officer to facilitate business. The officer reported this matter to his superiors, and the money entered the coffers of counterintelligence.³⁷⁴ Guttman’s ability to move freely in Hungary is interesting, and poses questions that are extremely difficult to answer using the documents available. He was known to the directors of many large Hungarian companies, and while he brought COCOM-listed products into the Bloc, the rumour among foreign trade businessmen was that he worked for the Ministry of Interior.³⁷⁵ I found no documents to corroborate this, but it is striking that the agency constantly kept tabs on his activity and documented any damage caused, yet still did nothing to prevent the crimes committed by the businessman. In 1979, for example, Videoton purchased 50 CDC drives, but while the price on the global market was around 1,000 US dollars for the same equipment, the Hungarian company paid IPPO the sum of 6,000 dollars per drive.³⁷⁶ In February 1982, Elektromodul sent an order to a company in West Germany, which agreed to make the delivery, but the Hungarian company did not take the necessary steps for the payment (it did not open a letter of credit at the given bank), and so the contract fell through. A few months later, however, EMO ordered the same amount of the same product from the same company via IPPO, and this time the consignment did make it to Hungary, but the Hungarian company paid 20-25 percent more than it would have had to under the original agreement.³⁷⁷ The Austrian businessman traded with Hungarian companies right until the end of the 1980s: in 1987, for instance, he offered EMO the opportunity to buy warehouse stock that had been idle for years, stock that Hungary did not even need. According to counterintelligence information, this transaction alone

374 ÁBTL 2.7.1. NOIJ 1979-III/II-6, 11 January 1979

375 ÁBTL 3.1.2 M-40999. 63. Report on secret collaborator codenamed “Péter Kékesi” (Gábor Rényi), 4 October 1979

376 ÁBTL 2.7.1. NOIJ 1979-BRFK-27, 10 February 1979

377 ÁBTL 2.7.1. NOIJ 1982-III/II-194, 25 October 1982

caused damage to the Hungarian people's economy of 20 million Hungarian forints.³⁷⁸ Was Guttman's help in circumventing the embargo sufficient grounds for state security to turn a blind eye to all this corruption? If the answer is yes, then he must have delivered huge amounts of COCOM-listed equipment to Hungary, but based on the documents available, this quantity is dwarfed when compared to Waltham or even Richard Müller. The other reason for Guttman to be allowed to move freely in the country was possibly the corruption of decision-makers at the right level. Various company directors were presumably paid off, but in and of itself this seems insufficient, especially given that the Ministry of Interior's counterintelligence began to suspect that Guttman moved in Zionist circles in Vienna.³⁷⁹ Hungary had broken off diplomatic relations with Israel in 1967, and did not restore them until 1989, so the Jewish state and all related organisations were considered hostile according to the official policy line, and counterintelligence had to monitor all persons in contact with Zionist organisations to prevent harm to any Hungarian interests. Guttman's cooperation with the Israeli intelligence agencies arose as a possibility too, so he was monitored until 1979,³⁸⁰ but neither then nor thereafter was his business activity restricted. Counterintelligence did not know everything about him, since, as they noted, someone had sealed Guttman's files.³⁸¹ This meant they were not able to take any material action even when they were notified by a top-secret officer that the Austrian trader wanted to link the Israeli firm Koor Trading to EMO with the promise of handling further supplies of embargoed products via the Group's subsidiary in Vienna.³⁸² Koor Trading had been a fixture in Hungarian foreign trade circles for years, and all the signs were that it could indeed be a safe conduit for purchasing products on the banned list because the Israeli firm known as a partner of Egyesült Izzó Rt. was not on the "blacklist" that the US authorities compiled on western

378 ÁBTL 2.7.1. NOIJ 1987-III/II-238, 8 December 1987

379 ÁBTL 2.7.1. NOIJ 1986-III/II-213, 10 November 1986

380 ÁBTL 2.7.1. NOIJ 1986-III/II-108, 6 June 1986

381 Ibid.

382 ÁBTL 2.7.1. NOIJ 1985-III/II-176, 17 September 1985

companies supplying embargoed equipment.³⁸³ The Hungarian agencies shared the information on Koor Trading with the local resident officer of Soviet state security, I.S. Rozanov too,³⁸⁴ since Israel was declared one of the chief enemies of the Bloc countries. The Soviets did not look favourably on the company gaining ground in Hungary, and had every reason.

Koor Industries Ltd. was one of the largest corporations in Israel in the 1980s, and had representative offices in many countries around the world – according to the Ministry of Interior, the company had subsidiaries or offices in 50 to 60 states.³⁸⁵ Róbert Gerendás, director of the Vienna office of Koor Trading, which was part of the group, contacted Hungarian government bodies in 1983 to request permission to open an office in Budapest in the interests of maintaining control over the company's growing trading business in Hungary.³⁸⁶ The Soviet secret service informed its Hungarian counterparts that Koor Trading was a cover entity for Israeli intelligence, and so counterintelligence began to map out Gerendás's contacts in Hungary.³⁸⁷ The Group did indeed have links to Israel's secret service. The Koor Group became involved in Israeli arms trading from the late 1960s, and it is not surprising that this date coincided with the arrival of a new company director in 1968: Meir Amit, Mossad director from 1963 to 1968, took over the running of the company.³⁸⁸ The former intelligence officer was replaced in the top job by another general, but the management positions at other companies within the group were also filled with former secret service people during the Cold War years.³⁸⁹ Nevertheless, and despite the warnings sent by the Soviets to Hungarian intelligence and counterintelligence, Koor Trading was allowed into the country. Gerendás was initially rejected in 1984 by the Ministry of Foreign Trade.³⁹⁰ In April 1985, however, a permit was eventually

383 ÁBTL 2.7.1. NOIJ 1982-III/II-31, 12 February 1982

384 Lieutenant General Ivan Sergeyevich Rozanov was the head of the KGB office working alongside the Ministry of Interior from 1979 to 1982. Baráth 2017, p. 205.

385 ÁBTL 2.7.1. NOIJ 1983-III/I-218, 4 November 1983

386 Ibid.

387 ÁBTL 2.7.1. NOIJ 1984-III/II-216, 2 November 1984

388 Nitzan–Bichler 1999, p. 107

389 Ibid.

390 ÁBTL 2.7.1. NOIJ 1984-III/II-216, 2 November 1984

issued to Koor Trading to open an office in Budapest on the condition that the office could not use the Israeli flag or any other company plate making reference to Israel, and it could not use the media for any propaganda activity.³⁹¹ So it took less than half a year for the Ministry of Foreign Trade to change its mind, but we do not know which lobbying forces were at play. It is clear that the pressure from America to close the channels of embargoed products did indeed cause problems with transferring technology. By the mid-1980s – as we saw before – these efforts were exposed on several counts, so the Hungarian state presumably did have an interest in identifying new ways of circumventing the COCOM list. What is more, an Israeli company was even able to enjoy the support of the US agencies, which made it safer for it to organise illegal supplies – especially if the American secret service had an interest in the company setting up operations in Hungary. Yet it was this secret service background in particular that meant the company's presence in Budapest was a major risk for Hungarian, and primarily Soviet, interests, and it is not likely that a few supplies of embargoed equipment could have compensated for this risk. Consequently, it must have been economic interests that opened the doors to Koor Trading; trade links with Israel played an important role during the time of the Kádár regime, and the intensity of goods trading did not drop significantly even after diplomatic links were broken off. Interestingly, the Hungarian foreign trade companies seemed to do all this contrary to the will of the Soviets, since Moscow endeavoured to thwart all ties with the Jewish state in keeping with the central political line. In 1971, for example, KGB agents arrived in Hungary as part of Operation HALADÁS to “assess the level of Jewish influence” and gather important data on trade and economic links with Israel.³⁹²

Thanks to transit deals, Hungary managed to maintain trading between the two countries in spite of Soviet pressure. In the mid-1980s, a Hungarian-Israeli joint venture known as Plantronik was even established in Austria. The joint stock company's official owners were Hungarian and Austrian, but it transpires from a state security file that the Austrian company in fact had ties to Israel.

391 ÁBTL 2.7.1. NOIJ 1985-III/II-75, 19 April 1985

392 Andrew-Mitrohin 2000, p. 290

The company's main profile was trading in microelectronic products, but it then dipped its toe into the trade of military equipment too.³⁹³ According to state security information, a West German trader got in touch with Plantronik to make an offer to supply high-value military technology devices: more specifically, the list included military navigation and detection systems, as well as the red mercury needed to develop nuclear warheads.³⁹⁴ The reference to the procurement of red mercury is interesting because Russia announced that it had managed to produce a much smaller yet even more effective nuclear warhead in the early 1990s by using this mysterious substance.³⁹⁵ The West had its doubts about the announcement, but experiments were indeed probably carried out in the Soviet Union with red mercury, and it seems Hungarian foreign trade companies played their part in procuring it.

Semiconductors from the East

During the analysis of the embargoed equipment supplied by both Videoton and Elektromodul, we saw that the US authorities endeavoured to impose very stringent restrictions on the foreign trade of its allies at the start of the 1980s to prevent countries in the Eastern Bloc from gaining access to banned technologies. However, US political expectations were constantly overridden by economic interests, and western companies always found ways around the embargo. In fact, in holding out hope of lucrative deals, they were also willing to inform socialist companies about the latest actions and plans of the US authorities by passing on information they received in relation to the boycott. One source of such information was Semcotec in Vienna, which was mainly involved in the trade of electronic components, but, with a healthy dose of discretion, it was also willing to sell military-grade equipment to any country in the world.

393 ÁBTL 2.7.1. NOIJ 1986-III/II-62, 2 April 1986

394 ÁBTL 2.7.1. NOIJ 1986-III/II-69, 11 April 1986

395 Kaposi 1994, p. 7

With one exception: it did not sell directly to the Soviet Union.³⁹⁶ Thanks to the company's owners, Hungarian counterintelligence received up-to-date information on how the superpower across the Atlantic wanted to impede the transfer of technologies. All the firms involved had to inform the trade advisers at all US embassies of supplies of electronic products to socialist countries, and they were obliged to report the data obtained from their customers with regard to the use of the supplied products. By aggregating this information, the United States was able to paint a picture of the electronics industry in the socialist countries.³⁹⁷ They also strove to discourage western companies from illegal trading with the east, and created separate state institutions for this. A division with 43 people was created within the Department of Trade in the USA with the main task of surveying the black market for embargoed products.³⁹⁸ According to representatives from Semcotec, a willing informant, a bill was prepared that provided for two years' imprisonment for those breaching the rules on the embargo, but the prospect of punishment was also held out for those who simply had knowledge of such illegal supplies.³⁹⁹ The US secret service gave special training to around 150-200 experts in microelectronics to bring the illegal export of electronic products even more under its control.⁴⁰⁰ However, the scope of products considered to be sensitive technology was growing. What is more, there was no way of knowing in advance what equipment designed for civil use could be transformed for military purposes by Soviet engineers. Western intelligence agencies managed to draw up a survey on the military use of a few products imported by the Soviet Union, from which it transpired, for example, that 160 grinders purchased in 1978 were used for special rifling for missiles, engines purchased from Rolls-Royce were fitted to MiG-25 fighter planes, while production lines delivered to the ZIL car factory were used to make armoured vehicles, and the IBM computers obtained via illegal channels

396 ÁBTL 2.7.1. NOIJ 1980-III/II-212, 31 October 1980

397 ÁBTL 2.7.1. NOIJ 1981-III/II-70, 9 April 1981

398 ÁBTL 2.7.1. NOIJ 1981-III/II-119, 23 June 1981

399 ÁBTL 2.7.1. NOIJ 1981-III/II-155, 13 August 1981

400 ÁBTL 2.7.1. NOIJ 1982-III/II-193, 22 October 1982

were used in anti-missile systems.⁴⁰¹ This is all reminiscent of the popular joke in Budapest in the 1950s, where the punchline goes: it doesn't matter how you assemble the parts stolen from the "baby buggy factory", you'll always end up with a tank.

To close these "loopholes", the US Administration needed a precise idea of what technology the Soviet Union was interested in, and so the main goal of American intelligence was to sound out the enemy's intelligence needs for the purpose of putting together an effective COCOM list. They involved the FBI in this work too, and gave the agency free rein to intercept and keep watch on any traders under suspicion.⁴⁰² It was not only American companies that felt this pressure because the US was fully aware of the close involvement of West German and Austrian companies too. This is why they called upon the governments of the two countries to immediately desist from supplying strategic technologies to the Soviet Bloc and minimise their trade with socialist countries.⁴⁰³ Since Austria was officially a neutral country, it was not part of the NATO network. At the time, it was not even a member of the EEC, so the American administration maintained the threat of even more severe sanctions: if Austria failed to meet the USA's requirements, the country would be penalised with an embargo similar to that of the Eastern Bloc, and the US would force companies in West Germany to withdraw their capital from Austria.⁴⁰⁴ Given Austria was in principle a sovereign country, this latter aspect gives rise to some rather gripping questions.

Parallel to these threats, work proceeded at pace to identify the channels used to move embargoed products, and as we saw earlier, investigative authorities in the West succeeded in preventing certain supplies from reaching their destination on several occasions. Overall, however, their success was debatable because there were always new opportunities arising to circumvent the rules. Due to the stricter monitoring of Western European companies, greater

401 ÁBTL 2.7.1. NOIJ 1982-III/II-81, 4 May 1982

402 ÁBTL 2.7.1. NOIJ 1982-III/II-216, 25 November 1982

403 ÁBTL 2.7.1. NOIJ 1983-III/II-9, 13 January 1983

404 Ibid.

attention was paid from the early 1980s to partners in the east with regard to obtaining embargoed equipment. As Asia's most industrialised country, Japan was the obvious choice as a supplier of embargoed goods for the countries of the Eastern Bloc. While Japan was part of the USA's system of allies, and the United States involved Japan in preparing the stricter list of embargoed goods to prevent electronic products and licences flowing into Eastern Europe,⁴⁰⁵ Japan still did not extricate itself fully from the anti-embargo efforts.

The Japanese firm Kurimoto was active in trade with Hungary from the late 1970s and early 1980s as a business partner of Intercooperation Rt. supplying semiconductors to Hungarian companies produced by US subsidiaries operating on Japanese soil.⁴⁰⁶ It also played a key role in the Videoton scandal that erupted in the early 1980s, when it was the transit link in the deals between Control Data Corporation and the Székesfehérvár company.⁴⁰⁷ It was not long before the activity of the Japanese firm was noticed by the US authorities monitoring shipments of embargoed equipment. In July 1985, news channels in Japan reported that Kurimoto had supplied products on the COCOM list through the Iron Curtain via an embassy of a socialist country.⁴⁰⁸ The scandal erupted because of a shipment in 1983, when Intercooperation bought equipment from Kurimoto needed to manufacture microchips. The equipment was first delivered to a fake user in Tokyo, before being sent by diplomatic mail via the Hungarian embassy to Budapest in an embassy container. The end-user was Mikroelektronikai Vállalat.⁴⁰⁹

The representatives of Intercooperation were subsequently banned from entering Japan by the Japanese authorities, but not even they took the sanction seriously: in spring of the following year, the company's general manager himself was issued an entry visa. The justification for the visa was that the company's general manager was not travelling to Japan to acquire technologies under

405 ÁBTL 2.7.1. NOIJ 1981-III/II-200, 21 October 1981

406 ÁBTL 3.1.2. M-41115/6 17. Report from agent codenamed "Győri", 27 April 1980

407 ÁBTL 3.1.2 M-41115/6 27. Report from agent codenamed "Győri", 23 June 1980

408 ÁBTL 2.7.1. NOIJ 1985-III/II-149, 8 August 1985

409 Ibid.

the embargo, but instead to hold talks about opening a Japanese restaurant.⁴¹⁰ The state security report did not say whether the Japanese restaurant actually opened its doors in Hungary, but it transpires from a snippet of information that Kurimoto had an office in Budapest in 1988, which was established in association with Intercooperation.⁴¹¹

A network was created in the second half of the 1980s in the region around the Pacific Ocean that helped the Soviet Bloc acquire banned technologies, and Hungarian companies as well as Hungarian foreign trade entrepreneurs played key roles in this network. Kurimoto was part of this system of contacts, which aimed to bring embargoed products into socialist countries undetected, primarily through Australia and Singapore. The Australian government came under great pressure from producers of advanced technologies in the Far East to allow their products to be delivered to the Soviet Union and its satellite states.⁴¹² While Australia did not sign the COCOM agreement, it did not officially bend to these calls, nor did it oppose the USA's demands. Nonetheless, a "procurement team" did work on illegal shipments in Australia, and this team was led by Hungarians.⁴¹³ Through re-exporting, a communist party company in France delivered special products to Hungary through Austria with the help of a Swiss company called Ewetco – the deal involving complicated strands was organised by the same Hungarian who previously coordinated the Kurimoto shipments.⁴¹⁴ According to a state security report, Ewetco celebrated the opening of its Budapest office on 28 May 1987. According to its somewhat vague wording, the representative office was engaged in "all kinds of trading activity", but the Swiss embassy in Budapest knew nothing of the company, nor of its founding.⁴¹⁵

The US embassy informed ASIO, the Australian secret service, of the activity of the Hungarian procurement team operating in the southern

410 ÁBTL 2.7.1. NOIJ 1986-III/I-105, 30 May 1986

411 ÁBTL 2.7.1. NOIJ 1988-III/II-132, 6 July 1988

412 ÁBTL 2.7.1. NOIJ 1988-III/I-177, 9 September 1988

413 ÁBTL 2.7.1. NOIJ 1987-III/II-211, 30 October 1987

414 Ibid.

415 ÁBTL 2.7.1. NOIJ 1987-III/II-100, 25 May 1987

hemisphere, as, although the host country was not party to the multilateral COCOM agreement, the embassy, like every US embassy, had a task force responsible for supervising the trade of embargoed products.⁴¹⁶ After this warning, Australian counterintelligence conducted a strict customs inspection of one of the suspects, Gábor Kiska. Kiska was the son of the Hungarian trade attaché in Sydney, Dr. Ferenc Kiska. During the inspection, he was found to be in possession of blacklisted computer components, so the authorities expelled him from the country.⁴¹⁷ The western media reported heavily on the news after it was disclosed by the AP news agency in a press release on 19 October 1987.⁴¹⁸ The Australian secret service started following Gábor Kiska's trail because of his frequent trips to Singapore. Using a local trader there, he forwarded the goods onto Europe with the help of a fictitious shipping company.⁴¹⁹ When arrested, he was preparing to return to Singapore with 99,000 US dollars worth of computer equipment in his luggage.⁴²⁰ The Australian authorities blamed trade advisor Ferenc Kiska for the events and expected the Hungarian government to recall its diplomat to "preserve bilateral relations."⁴²¹

416 ÁBTL 2.7.1. NOIJ 1988-III/I-65, 1 April 1988

417 ÁBTL 2.7.1. NOIJ 1987-III/II-201, 16 October 1987

418 East bloc export scheme alleged. AP, 19 October 1987, http://www.joc.com/maritime-news/east-bloc-export-scheme-alleged_19871019.html

419 ÁBTL 2.7.1. NOIJ 1987-III/3-116, 2 December 1987

420 ÁBTL 2.7.1. NOIJ 1987-III/I-230, 24 November 1987

421 Ibid.

ON THE TRAIL OF MILLIONS OF DOLLARS

Origins of hard currency accumulation at Mineralimpex

The scandal erupts

One of Hungary's most successful joint ventures was Mineralkontor, which was established in the first half of the 1970s in Vienna to distribute fire-resistant materials and mining products. Mineralimpex was registered as owning 49 percent of the company, and its success was remarkable. By the mid-1980s, it was considered one of the 30 largest companies in Austria. In 1983, its turnover totalled 2 billion Austrian schillings, rising in 1985 to 6.7 billion schillings,⁴²² so the volume and value of business outsourced by the parent company to the subsidiary must have been significant. Until he retired in 1984, Mineralimpex general manager István Russay was entrusted with managing the company, and a huge scandal began to emerge in 1989 – after his death – with regard to his huge private fortune. Yet, at the dawn of the change in political regime, the public's attention shifted to the collapse of the dictatorship, and to transforming the political scene. This meant seeking a satisfactory answer to this question was put on the back burner, and only the media occupied itself with Russay's 17 million US dollar estate.⁴²³ Accumulating such wealth under the conditions at the time was almost inconceivable, and certainly stemmed from commissions on trade, or rather from backhanders paid

422 Vajna 1987, p. 92

423 Zoltán Dézsy, investigative report, Új Reflektor Magazin, 7 June 1989

by partners in the West. The possibility was also raised that Russay did not collect the millions of dollars on Swiss and Austrian bank accounts for himself, but that he was used by someone else as their straw man.

After the death of Mineralimpex's general manager, civilian intelligence moved to repatriate the money and, according to reports at the time, succeeded in having the majority transferred to the Magyar Nemzeti Bank. According to press reports, 20 million US dollars or 1 billion forints (in today's money, roughly 40 million US dollars or over 11 billion Hungarian forints) was returned to Hungary in this way, and the Hungarian state had to relinquish just a few million dollars because this amount had already been "laundered", and the "clean" dollars were already "put to work" at Austrian companies with the help of various intermediaries.⁴²⁴ István Russay's widow eventually waived her inheritance and evaded the clutches of civilian intelligence and its investigations.

The story behind István Russay's millions has still not been explained, but, thanks to archive sources, we can reconstruct part of this accumulation of wealth reasonably accurately; what is more, we can state that the sums hidden abroad were much higher than the numbers estimated in the press, and the roughly one billion forints ultimately repatriated was just a fraction of the dollar amount squirrelled away and laundered. The accumulation of foreign currency through Mineralimpex and its joint ventures gives some insight into the practicalities of the system touched upon in earlier chapters of the book, and we can probably get some idea of the magnitude of the outflowing capital, and of the lobbying capabilities of some groups working in the background.

István Russay, Ministry of Interior agent

István Russay was born in Szombathely in 1918 to a middle-class family: his father was a mechanical engineer. According to his state security profiles, the family adopted the name Russay between the two world wars, they used to

424 Ibid.

be known as the Szabó family in the town in western Hungary,⁴²⁵ and only in 1940 did Russay obtain the title of baron. István Russay was an intern at the Foreign Trade Office from 1938⁴²⁶ and obtained his PhD in law in 1940; in the summer of that year he was posted to the office in Belgrade to deal with the trade relationship between the two countries. Given his position, he knew both the ambassador and the military attaché, but he firmly rejected the fact that he had had anything to do with the secret services in his later CVs.⁴²⁷ This is significant because, according to information from the Ministry of Interior, his father was a military intelligence officer,⁴²⁸ but he too worked for the “2nd VKF”, the military intelligence division of that period, during World War Two.⁴²⁹

After the war, he resumed working at the office, before he was appointed manager of the timber division at the new Foreign Trade Directorate in the summer of 1945. In 1946, he was in charge of the timber trade and directed preparations for the nationalisations as a ministerial commissioner.⁴³⁰ Russay’s career after the war progressed surprisingly quickly at a time when most of those in similar positions to him were subject to proceedings at the People’s Court. This is interesting because we find nothing to suggest that he had taken part in any underground movement during the war, or supported the illegal Communist Party or organisations of the workers’ movement, in his CV and profiles written years later. In fact, he actually rubbed shoulders with aristocrats: he maintained a good relationship with the Tószeghy-Freund family and worked at their company early in his career in trade, but Russay was left unharmed when the family was subsequently vilified, despite the huge espionage trial in 1954 concerning the family and their acquaintances after the confiscation of their assets and their resettlement, during which several death sentences were passed down.⁴³¹

425 ÁBTL 3.1.1. B-95947. p. 5. Profile of István Russay, 18 November 1954

426 ÁBTL 3.1.2 M-35425. p. 28. Report, 12 January 1962

427 ÁBTL 3.1.2. M-35425. p. 29. Report, 12 January 1962

428 ÁBTL 2.7.3. Szakelosztó 6-7/170/88. Report, 7 April 1988

429 ÁBTL 2.7.1. ÁBTL 1980-III/II-160, 18 August 1980

430 ÁBTL 3.1.2 M-35425. p. 31. Report, 12 January 1962

431 Borvendég 2013.

Until 1948, Russay frequently travelled to Austria for various trade negotiations and made extensive contacts in the Austrian business world, which he later successfully capitalised on. From the autumn of 1954, he began travelling to Vienna again, which was when he was recruited by the State Protection Authority.⁴³² During his work as an agent, he was entrusted by his case officer to build relationships with people whom he subsequently relied on decades later to handle his corrupt business practices: company owner Heinrich Korzil, who had strong US contacts,⁴³³ and Ladislaus Wagner, trade attaché in Budapest, were two of the individuals he was assigned to target.⁴³⁴ In addition to all this, he played an active role in the trade activity supporting the Austrian Communist Party,⁴³⁵ meaning he knew the party funding system that relied on secret commissions inside-out. His reports reveal that it was primarily Austrian party companies that became involved in the energy trade (wood, coal and oil) from the mid-1950s, with the help of the Hungarian Foreign Trade Bank; they were expected to “support these companies, but had to favour them when the terms were equal.”⁴³⁶

In 1961, his relationship with state security changed abruptly: he was expelled from the network. The fact he was expelled is not the interesting part in view of subsequent events. Instead, it is the reason civilian intelligence wanted to break off its cooperation. Information from several sources suggested that Russay accepted benefits from various western partners. In other words, they – chiefly Austrian companies – were corrupting him.⁴³⁷ To be specific, he received 15-20,000 Austrian schillings a year from a timber and paper company to feed them information on the business plans of Hungarian companies.⁴³⁸

432 Ibid. p. 40

433 ÁBTL 3.1.2 M-23641. p. 26. Report, 16 August 1957

434 ÁBTL 3.1.2 M-23641. p. 76. Report, 14 May 1958

435 ÁBTL 3.1.2 M-23641. p. 11. Report, 12 September 1957

436 ÁBTL 3.1.2 M-35425. p. 90. Report, 22 January 1962

437 ÁBTL 3.1.1. B-95947. p. 50. Recommendation for detainment on grounds of public safety, 10 October 1961

438 ÁBTL 3.1.1. B-95947. p. 120. Report to Major General Lajos Karasz on István Russay, 27 July 1967

Tibor Philipp,⁴³⁹ head of a counterintelligence unit at state security, stated that even US intelligence had expressed an interest in the Hungarian foreign trader; according to some reports, Russay was an “upstanding man” to the enemy agency, and the US secret service was concerned he would possibly be prevented from working. In other words, they were afraid that his corruption background would be his downfall, which would in turn cut off their channel of information to foreign trade in Hungary.⁴⁴⁰ They had good reason to be concerned too as the Ministry of Foreign Trade did not look favourably on their official’s business dealings that smacked of corruption, and so indicated he would be dismissed, while civilian intelligence recommended that, given the extraordinary circumstances, Russay should be detained for reasons of public safety owing to his suspected cooperation with the enemy.⁴⁴¹ Their decisions were soon overridden though: Russay had too many valuable contacts for state security to sacrifice him. Moreover, they hoped they could turn the tables and use him against US intelligence.⁴⁴² This latter plan failed because the Americans allegedly became suspicious and from then on believed Hungarian intelligence was using him as bait.⁴⁴³

So Russay continued to work as an agent, and significant figures in Hungarian foreign trade appeared one after another in his reports, through he still focused mainly on Hungarian and Austrian relations: the key targets of his work remained Heinrich Korzil and Ladislaus Wagner. In 1967, Russay’s name was put forward as a candidate for one of the head of division posts at the Ministry of Foreign Trade, but neither the decision-makers at the ministry nor the party supported his appointment.⁴⁴⁴ In spite of this, he moved up to a much higher position when he took the top job at Mineralimpex in 1969. In 1971,

439 For his career see: Library section of the website of the Committee of National Remembrance [Nemzeti Emlékezet Bizottsága].

440 ÁBTL 3.1.1. B-95947. p. 49. Information report, 11 July 1961

441 ÁBTL 3.1.1. B-95947. p. 50. Recommendation for detainment on grounds of public safety, 10 October 1961

442 ÁBTL 3.1.2 M-35425. p. 40. Report, 12 January 1962

443 ÁBTL 3.1.1. B-95947. p. 76. Information report, 8 January 1964

444 ÁBTL 3.1.1. B-95947. p. 121. Report to Major General Lajos Karasz on István Russay, 27 July 1967

state security removed him from the operative network because his position meant they could only rely on his help as an official contact.⁴⁴⁵

Two small request forms in the materials contained in Russay's state security recruitment dossier bear witness to the fact his general manager position was also of interest to the partner agency. On 12 December 1969⁴⁴⁶ and 24 November 1970,⁴⁴⁷ MNVK-2 asked counterintelligence for Russay's network identification. This indicates that military intelligence had started processing the general manager of the oil trading company for the purpose of recruiting him. We have no information on whether the general manager of Mineralimpex subsequently became a committed source or official contact of MNVK-2, but we will see that he (also) had an influential person at his back, who debuted in our story at the start of his career working for military intelligence: István Salusinszky.

Heinrich Korzil's secret ties to the Red Army

In the summer of 1969, the Counterintelligence Department of the Southern Group of Forces (*Déli Hadsegcsoport, DHCS*) of the Soviet Army, temporarily stationed in Hungary, requested that Hungarian civilian intelligence monitor the trips of an Austrian trader named Heinrich Korzil, and look into his Hungarian contacts and deals.⁴⁴⁸ The only information they gave their Hungarian counterparts was that, until the signature of the Austrian State Treaty in 1955, Heinrich Korzil worked as an agent for US intelligence in the occupied capital: using the codenames of "Karl" and "Heinc", he collected military, political and economic data for the allies. S. Brazgunov, Soviet adviser, was appointed as the liaison between the two agencies for the operative work:

445 ÁBTL 3.1.1. B-95947. p. 161. Recommendation to expel informant codenamed "Vadász" (Hunter), 28 June 1973

446 ÁBTL 3.1.1. B-95947. p. 151. Request form, 12 December 1969

447 ÁBTL 3.1.1. B-95947. p. 152. Request form, 24 November 1970

448 ÁBTL 3.1.5. O-15485. p. 5. Recommendation to open personnel dossier, codename "Director", 22 December 1970

“I request [Comrade István Kukk]⁴⁴⁹ to instruct the relevant department to discuss Korzil’s processing with me, also with the inclusion of the Soviet military counterintelligence division.”⁴⁵⁰

Korzil came onto the Ministry of Interior’s radar years previously, and – as we have seen – Russay was entrusted with scrutinising him at depth in the 1950s. It was established in 1957 that he reportedly served as an SS officer during the war,⁴⁵¹ before being captured as an American POW. In various camps he made a wide range of acquaintances, thanks to which he had very good links to various US companies, especially those exporting coal.⁴⁵² According to Russay, he was the general partner of a Viennese coal trading firm at the time and represented several large American coal mines in Austria; moreover, he also financed the coal imports of Austria’s state-run companies.⁴⁵³ According to the case officer’s evaluation of the Hungarian foreign trader: “Thanks to his contacts, Korzil can be used by intelligence. [...] I entrust [Russay] with further deepening and exploring his ties with Korzil.”⁴⁵⁴ Russay followed orders, but he did not use his closer relationship for intelligence purposes.

Unfortunately, the details surrounding the involvement of Soviet counterintelligence in this matter many years later are rather vague because they did not provide Hungary with all the information, so the Ministry of Interior could not know why Heinrich Korzil became so important to them in 1969, precisely when Russay took over as general manager of the oil trading company. Yet from then on, every step the Viennese coal trader took was monitored as soon as he crossed the western border. It transpires from the reports that Korzil was a regular visitor to Hungarian foreign trade companies, especially Ferunion, from 1960 (or from 1965 according to other reports).⁴⁵⁵ In

449 Colonel István Kukk was then the first deputy-head of Civilian Intelligence Division III/II. For his career, please visit the Library section of the website of the Committee of National Remembrance [Nemzeti Emlékezet Bizottsága].

450 ÁBTL 3.1.5. O-15485. p. 9. Note of S. Brazgunov to István Kukk, 8 December 1969

451 ÁBTL 2.7.3. Szakelosztó 6-7/170/88, 7 April 1988

452 ÁBTL 3.1.2 M-23641. p. 19. Report, 19 September 1957

453 ÁBTL 3.1.2 M-23641. p. 26. Report, 16 August 1957

454 Ibid.

455 ÁBTL 3.1.5. O-15485. p. 36. Report, 5 September 1970

light of the historical background, it is no wonder that the Hungarian border guards let the allegedly former US agent into the country, because Hungarian state security presumably knew nothing of Korzil's past association with US intelligence until the information arrived from the Soviets, and they hoped that they could use him for their own purposes via Russay.

State security sought reliable sources at Ferunion among Korzil's negotiating partners, through whom they may have gained information on Korzil. They found two active network personnel: Sándor Torontáli and István Povinyecz. Torontáli was a head of division at Ferunion from 1958, but before that – between 1948 and 1952 – he was a permanent officer at the State Protection Authority.⁴⁵⁶ The Ministry of Interior recruited Torontáli in 1960, but his unquestionable loyalty to the agency was of no consequence as everyone knew his former colleagues at the State Protection Authority and at civilian intelligence regularly visited him at his workplace, so keeping him under cover was impossible. News of Torontáli's dubious past soon made it to his foreign partners too, which meant he was unable to carry out his most important task, purchasing for operative/technical division III/V.⁴⁵⁷

The work of agent Povinyecz, codename “Pénzes” [*Affluent*], proved to be more effective since he had not previously been on the permanent staff and so there was not the same risk he could be exposed. Despite this, he was experienced in secret service work because he was employed at the Israeli-Hungarian trade office from 1958 to 1960, not to mention the multiple trips he made to the West on secret missions.⁴⁵⁸

“Pénzes” was a genuinely useful source and quickly reported the most important information to counterintelligence. Heinrich Korzil was the majority owner of Baustoffimportkontor, registered in 1962, and Richard Monghy was his immediate business associate and partner.⁴⁵⁹ Korzil contributed 60,000 schillings of the company's share capital totalling 100,000 schillings.⁴⁶⁰ The company

456 ÁBTL 3.1.5. O-15485. p. 20. Report, 16 January 1970

457 ÁBTL 3.1.5. O-15485. pp. 25–26. Report, 29 January 1970

458 ÁBTL 3.1.5. O-15485. p. 23. Report, 16 January 1970

459 ÁBTL 3.1.5. O-15485. p. 34. Report to Comrade S. Brazgunov, adviser, 21 July 1969

460 Ibid.

purchased construction materials from its business partners in the east, acquiring products mainly from Poland and Hungary.⁴⁶¹ Korzil and company initially bought construction products via Ferunion amounting to 100-200,000 dollars per year, but the deals diminished markedly by the early 1970s.⁴⁶² According to “Pénzes”, the Austrian trader’s trips to Hungary were not proportional to the value of the contracts concluded. He visited Hungary three or four times a year, but mostly just held discussions and conversations with the managers of various companies; it was as if he was just collecting information and conducting less and less business.⁴⁶³ As the volume of business fell, the Soviet secret service joined the story. From 1 January 1970 to February 1973, and bucking the previous trend, Heinrich Korzil only purchased a sample collection from Ferunion worth just 1,000 dollars, in spite of coming to Hungary more often.⁴⁶⁴ Mineralimpex became the focus of his visits from early 1971, but no concrete business was concluded, despite the frequent negotiations. At the request of Soviet counterintelligence, the Hungarian secret service extended its surveillance of Korzil and always deployed the “3/e and 3/r” rule in his hotel rooms, which meant installing listening devices and hidden cameras.⁴⁶⁵ However, the suspicions of a link with hostile intelligence services proved unfounded. This rightly poses the question of whether this assumption really was what prompted the Soviets to monitor Heinrich Korzil. These doubts are also fuelled by the fact the Ministry of Interior planned to collect further data at the request of the head of the Soviet operative department, but this secret search of the Austrian’s hotel room could not be carried out because the Soviets stood their partner agency down at the last minute; they did not trust the Hungarians to conduct the work discretely, and feared they would be exposed.⁴⁶⁶ By this point, Korzil had been under constant surveillance for two years, and Hungarian counterintelligence had never slipped up, nor had they been detected when wiring rooms or performing outdoor surveillance. Why were the Soviets

461 Ibid.

462 ÁBTL 3.1.5. O-15485. p. 36. Report, 5 September 1970

463 Ibid. 37.

464 ÁBTL 3.1.5. O-15485. p. 82. Report, 14 February 1973

465 ÁBTL 3.1.5. O-15485. p. 81. Report, 2 December 1972

466 ÁBTL 3.1.5. O-15485. p. 66. Summary report, 15 February 1972

now anxious that the Hungarians would not take the necessary precautions? Or was it perhaps that they would find something that was not of their concern? Is this why the Soviets carried the work out themselves? At any rate, in March 1972 – roughly two weeks after the search was called off – the Soviets got involved directly in the operative work: one of their intelligence officers was introduced to Korzil's circle of acquaintances as a representative of the Soviet trade office.⁴⁶⁷

Knowing the outcome, it seems very plausible to assume that the mysterious interest from the Soviets and the start of negotiations with Mineralimpex are somehow related. The relationship over many years between Russay and Korzil really deepened at the time when the Hungarian trader took over the reins of an independent company. Officially, they talked about normal foreign trade matters when Korzil paid him a visit, such as the re-export of Cypriot chromium ore and Greek bauxite, or various switch transactions,⁴⁶⁸ but no report mentioned that the two of them might have discussed setting up a joint company. In the meantime – unbeknownst to state security – a joint venture of Mineralimpex and Baustoffimportkontor was established in Vienna as Mineralkontor. Before Russay's appointment to the head of the firm, Mineralimpex had contemplated perhaps establishing a joint venture in Austria, through which it could handle its western deliveries, but then it was not Heinrich Korzil's company that was put forward as the potential partner. Instead, one of the firm's old business partners was mentioned as the possible co-owner.⁴⁶⁹ Korzil's name is not even found in the reports of Mineralimpex's Vienna representative between 1969 and 1970, but the negotiations took a different direction when Russay was appointed, and Mineralkontor was established in 1973 (according to some sources the company actually only began operating in 1975), and the Soviet interest in Korzil suddenly faded. On 17 June 1974, Hungarian counterintelligence closed its dossier code-named "Direktor" containing the surveillance files on Heinrich Korzil on the grounds that "the results of agent, technical and other measures

467 ÁBTL 3.1.5. O-15485. p. 70. Report, 2 March 1972

468 ÁBTL 3.1.5. O-15485. p. 80. Report on the negotiations between Heinrich Korzil and Mineralimpex, 1 December 1972

469 ÁBTL 3.2.3. Mt-362. p. 66. Report, 30 May 1969

did not corroborate the suspicious circumstances surrounding the individual, and Soviet state security made no further requests of us regarding “Direktor”, so the dossier was archived and the operative work on him ended.⁴⁷⁰

The Soviets’ interest in Heinrich Korzil appears crucial when it comes to continuing to understand the threads of the story. Why did they allow him to travel around Hungary for years without any consequences if the real reason for then asking for surveillance on him was because he used to work for US intelligence? The start of Korzil’s surveillance coincided with Russay’s appointment as general manager, which in itself was an unexpected turn because, as we learned previously, he had been overlooked by his superiors even for posts as a division head just two years earlier. It was during this time – thanks among other things to lobbying by Salusinszky – that the economic rules were created in Hungary which enabled the establishment of foreign joint ventures, and, as we saw, many companies indeed took advantage of this opportunity. We also recall that military intelligence immediately set about constructing its own network of companies, and we can strongly assume that it would have been tricky for any company to pass through the Iron Curtain in the early 1970s without the help of the secret services. Yet, just as in the case of Metalimpex, counterintelligence did not fully comprehend the activity of Mineralimpex. On one of Salusinszky’s state security files, we read a note from the early 1980s that he was Russay’s backer.⁴⁷¹ Salusinszky was previously a committed source, and MNVK-2 did not break ties fully with its former sources even after their assignments ended, while the job at the head of the MKB was such a significant position that it was obligatory to cooperate officially with the state security agencies.⁴⁷² It is clear that the Soviets were not indifferent to the development of a business relationship between Russay and Korzil either,

470 ÁBTL 3.1.5. O-15485. p. 90. Recommendation, 17 June 1974

471 ÁBTL 2.7.1. NOIJ file, István Salusinszky.

472 This is indicated by a state security report as well: “The bank’s director is Comrade Dr István Salusinszky, and the head of the accounting department is Comrade Mihály Hermann. Both are reliable, honest and highly trained professionals. The partner agency is officially in contact with them both. Using them is advisable from our perspective.” ÁBTL 3.2.5 O-8-182. 61. Report, 9 March 1968

and it speaks volumes that they stood the Ministry of Interior officers down from monitoring the businessman after Mineralkontor had been successfully launched in Austria. This does not provide irrefutable proof that either MNVK-2 or the Soviet secret service were involved in the operation of Mineralkontor, but the suspicion seems fairly well-founded, and the subsequent activity of the Viennese subsidiary and the failure of the investigation into its misdealings only reinforce the assumption that underlying Soviet interests were also at play.

Oil affairs in socialism

“Traitors” in the oil business

In July 1980, counterintelligence again once again focused on Russay and Korzil – not based on a Soviet request this time, but on its own initiative – due to suspicions of foreign exchange crimes and bribery on a particularly large scale.⁴⁷³ An operative investigation codenamed “Traitors” was launched against the two businessmen. The codename for the investigation presumably stemmed from the fact that there was not even a mention of economic crimes in the initial reports, the collection of data in secret was triggered by suspicions of espionage because the investigators had received information that Russay (codename “Máté”) had discussed how to prevent Hungarian–Soviet trade talks from being successful in a manner that was “legally sound” with a head of department at the Ministry of Foreign Trade.⁴⁷⁴ Unfortunately, there is no information available on which trade talks Russay wanted to thwart in particular, but they presumably concerned oil imports because Mineralimpex’s main profile was the distribution of oil products.

It is now common knowledge that Moscow’s oil played an important role in the country’s accumulation of foreign currency as it supplied much more to

473 ÁBTL 2.7.3. Szakelosztó 6-7/170/88, 7 April 1988

474 ÁBTL 2.7.1. NOIJ 1980-III/II-158, 15 August 1980

Hungary than was actually needed.⁴⁷⁵ The remaining quantity was sent to the West, either as crude oil or re-exported once processed, and all this officially took place behind the Soviets' back – they did in fact know about it but they turned a blind eye to these deals as they were fully aware that dealing in “black gold” was necessary to maintain the country's economic stability, and they probably had an interest in such manipulations too. According to Miklós Pulai, these oil deals injected 300 million US dollars into the country every year.⁴⁷⁶ Meanwhile, the Soviet Union itself was struggling with major economic difficulties in the early 1980s, which were only exacerbated upon the start of the Afghan war and were crowned with the forced participation in the space race triggered by the USA. As a result of all this, Brezhnev informed Kádár in 1981 that the USSR would be sending 1.5 million tonnes less oil to Hungary each year, which was more than 10 percent of the supply up until that point and therefore made a major dent in the revenues normally generated by oil.⁴⁷⁷

Mineralimpex was responsible for foreign trade in oil products, and most of the products earmarked for the West were delivered to customers via Mineralkontor: Counterintelligence found that “The export of motor fuel received from the Soviet Union to the West and the needless involvement of Mineralkontor is causing major damage to the people's economy.”⁴⁷⁸ We know that Mineralkontor was a very profitable enterprise in the 1980s.⁴⁷⁹ According to the articles of association of the joint venture, which were amended several times, the company had the exclusive right to distribute petroleum and mining products in Austria, Switzerland and West Germany until 1990, which essentially meant 35 percent of all Hungarian–Austrian foreign trade at that time.⁴⁸⁰ Moreover, from 1 January 1984 until 1990, the joint venture received from Mineralimpex an “unconditional exclusive right of sale, which also

475 Mong 2012, pp. 179–182

476 Mong 2012, p. 180

477 Mong 2012, p. 179

478 ÁBTL 2.7.1. NOIJ 1981-III/II-61-67/12, 27 March 1981

479 Sources recall that they rented an entire floor of the Hilton in Vienna for offices. Disclosed personally by Zoltán Dézsy.

480 ÁBTL 2.7.3. Szakelosztó 6-7/170/88, 7 April 1988

included the handling of imports.”⁴⁸¹ Richard Monghy, one of the senior staff at Mineralkontor, who, as Korzil’s right-hand man, took part in the Austrian’s businessman’s Hungarian dealings in the 1960s, supplied information – presumably unintentionally – to the Ministry of Interior’s man about the workings of the Viennese joint venture. To his knowledge and after the company was established, Russay and Korzil entered into a secret agreement in 1973 to deposit a proportion of the company’s profits into a Swiss bank account. Mineralkontor officially generated no profit,⁴⁸² but, via the “1999” account at the MKB, the apparently “non-existent” profit made its way from Hungary to Cantrade Bank in Zurich, which the two businessmen shared in equal parts.⁴⁸³ The involvement of the MKB in the moving of illegal revenues suggests that this was definitely not a company director going rogue. István Salusinszky headed up the MKB when Mineralkontor was established and was one of the driving forces behind the decree enabling the creation of joint ventures. As I mentioned previously, he was also Russay’s mentor. Not only could the bank boss see Mineralkontor’s finances, he had an impact on its business deals too because the MKB’s own firm, Centropa, became involved in the activity of Mineralimpex’s Vienna subsidiary. In 1983, counterintelligence learned that the director of Centropa in Vienna, Anton Haim, had worked as an agent for ten years on behalf of Mineralkontor: he received a 3 percent commission from the company on sales of paraffin.⁴⁸⁴ Counterintelligence found that this contradicted the trade policy of the Ministry of Foreign Trade, but the contact could not be disrupted because the MKB’s previous general manager – i.e. Salusinszky – “personally asked that [...] the agent continue to be used.”⁴⁸⁵ Salusinszky’s successor in 1980 was Sándor Demcsák, who headed up the MKB in the “heyday” of Mineralkontor’s hard currency accumulation efforts.

Counterintelligence endeavoured to verify the information concerning the MKB and found that the 1999 bank account did indeed exist. The account

481 ÁBTL 2.7.1. NOIJ 1984-III/II-169, 29 August 1984

482 ÁBTL 2.7.1. NOIJ 1986-III/II-130-133/6, 9 July 1986

483 ÁBTL 2.7.1. NOIJ 1984-III/II-82, 27 April 1984

484 ÁBTL 2.7.1. NOIJ 1983-III/II-29, 10 February 1983

485 Ibid.

was “highly classified” and contained four payments each of 22–25 million US dollars at the time of the investigation – so close to 100 million US dollars in total.⁴⁸⁶ The money on the account was regularly transferred to a company called André.⁴⁸⁷ The Lausanne-based company started appearing in documents as a privileged partner at least from the early 1960s. János Fekete suspected it was highly likely that this economic cooperation was founded on corruption.⁴⁸⁸ Although we know little about the owners of André for now, it seems fairly certain that they had close ties to the management of the Hungarian Foreign Trade Bank: the head of the company, Friedrich Schenk, conducted negotiations in the MKB building when he visited Hungary. André’s privileged position is of interest not only in relation to Hungary, but also in the Western world: “André, a leading company across the world, has been working unobstructed with socialist countries and may also make transit deals following accession to the Common Market. The high prestige the company enjoys allows unhindered travel here at a time when Swiss authorities are registering businessmen travelling to Hungary and persons using Hungarian aircraft.”

The investigation revealed further accounts involved in the corruption also held at the Hungarian Foreign Trade Bank. Part of Mineralkontor’s untaxed revenue was transferred to account No. 1954, half of which went to Switzerland – and was shared equally by Russay and Korzil – while the remainder allegedly helped improve Mineralimpex’s profitability.⁴⁸⁹ According to subsequent information, however, the Ministry of Interior concluded that Mineralkontor used its legal income to raise share capital, so the parent company and the People’s Republic of Hungary saw nothing of it.⁴⁹⁰ Over ten years, they raised the company’s share capital from 400,000 schillings to 30 million schillings. According to MKB statements, a total of 75 million schillings was paid into this account between 1977 and 1983, with 24 million schillings following in

486 At 1984 rates, 100 million US dollars amounted to 4.8 billion Hungarian forints, which would be worth almost 125 billion forints today.

487 ÁBTL 2.7.1. NOIJ 1984-III/II-87, 7 May 1984

488 ÁBTL 3.1.2. M-14967. p. 235. Report, 3 March 1960

489 ÁBTL 2.7.1. NOIJ 1985-III/II-82, 30 April 1985

490 ÁBTL 2.7.1. NOIJ 1986-III/II-130, 8 July 1986

1984.⁴⁹¹ There is no data in the reports for 1985, but another profit transfer of 12.5 million schillings arrived at the bank in the first half of 1986.⁴⁹² According to investigation data from April 1988, roughly 160 million schillings passed through the account in question between 1977 and 1988.⁴⁹³ Account 35010 was opened in 1980 – also at the Hungarian Foreign Trade Bank – and was used to cover Mineralkontor's losses and to fund constitutional costs. Between 1980 and 1984, a total of 70 million schillings was transferred here.⁴⁹⁴ The funds for constitutional costs were normally financed from the parent company's budget, and the owner was also responsible for compensating for any losses, so besides the embezzled money, the funds used to replace it also deprived Mineralimpex of many millions of schillings.

Russay's office was tapped by state security, enabling the organisation to learn about other manipulated deals. For example, they listened in on a conversation between the company manager and the chief accountant, in which they discussed how to account for 10-12 million schillings on an account that meant it could be transferred to Austria without paying tax. The solution, in their view, was to keep the amount in Hungary but not account for it. In the event of an inspection, they would say the money in question was in the Mineralkontor account, while testifying to the opposite in Vienna.⁴⁹⁵ A few days later, there was an argument between Korzil and Russay on how to transfer five million schillings to Austria without paying tax. They concluded that Mineralimpex would transfer ten million schillings to Mineralkontor to improve its creditworthiness, but the transfer would go via London at Heinrich Korzil's request as this would allow the Austrians to be marked on the transfer as the owners of half the money.⁴⁹⁶ It also transpired from a discussion between the two owners of Mineralkontor that they were seeking a reliable individual for the company in Vienna who understood computer systems and could keep

491 ÁBTL 2.7.1. NOIJ 1985-III/II-82, 30 April 1985

492 ÁBTL 2.7.1. NOIJ 1986-III/II-130, 8 July 1986

493 ÁBTL 2.7.3. Szakelosztó 6-7/170/88, 7 April 1988

494 ÁBTL 2.7.1. NOIJ 1985-III/II-82, 30 April 1985

495 ÁBTL 2.7.1. NOIJ 1983-III/II-167, 24 August 1983

496 ÁBTL 2.7.1. NOIJ 1983-III/II-174, 2 September 1983

the company's 8-9 billion (!) turnover under constant control. Although the currency was never revealed during the discussion, it clearly had to be schillings for a company operating in Austria – and with such a level of turnover, the finding made earlier that this Hungarian joint venture was one of Austria's 30 largest companies at the time is by no means an exaggeration.

So the financial manipulations were well oiled, and the owners of Mineralkontor set up a new company, this time in Munich.⁴⁹⁷ “János”, the head of the West German Mineralkontor – which presumably began operating in 1983 – became an operative contact of Department III/II-7.⁴⁹⁸ The two companies operating under the same name obviously made it difficult to track and investigate their activity, and the two firms are not even distinguished in the counterintelligence reports. This, we can assume, was exactly what the founders intended. We do not know much about the Munich company. “János” did not dare return to Hungary, fearing retaliation. He recalls that he managed the company in name only and could not make independent decisions on business deals. Based on what the owners wanted, he just had to play a role in handling detrimental business transactions, and this is what prompted him to leave the company after a while.⁴⁹⁹

Mineralkontor in Vienna participated in setting up other joint ventures as an owner too. Berma-Wien was also set up in 1983: 51 percent was held by Mineralkontor and 49 percent by Technoimpex.⁵⁰⁰ The company's main profile covered various assembly operations, and it became involved in the work carried out by the Austrian firm Voest-Alpin in the Soviet Union, in the course of which it was entrusted with assembling an entire metallurgical plant.⁵⁰¹ One of the prerequisites for fulfilling the contract was for Berma to send roughly 100-150 people to the Soviet Union, and counterintelligence

497 ÁBTL 2.7.1. NOIJ 1981-III/II-134, 14 July 1981

498 ÁBTL 2.7.1. NOIJ 1984-III/II-4, 6 January 1984 “János” cannot yet be identified based on the archive resources seen so far.

499 Disclosed personally by Zoltán Dézsy.

500 Vajna 1987, p. 98.

501 ÁBTL 2.7.1. NOIJ 1983-III/II-233, 29 November 1983

noted that this essentially gave Korzil a complete overview of the investment.⁵⁰² It begs the question of whether a person considered to be an American spy by the Southern Group of Forces counterintelligence would have been allowed into the Soviet Union to carry out an industrial investment. The chances of this are slim, unless this was some kind of special gambit. Berma is also one of the joint ventures that facilitated the accumulation of foreign currency. According to official data, Berma had turnover of 158 million schillings in 1986, while it assumed from Technoimpex the exclusive right to sell tools in Austria in 1987.⁵⁰³ Yet the impressive figures are misleading: according to a state security report from 1985, Berma made losses for years, and the owners endeavoured to keep it afloat by “Technoimpex using it for its Hungarian imports to avoid further losses, for which it pays Berma a commission of 10 percent, making the procurement more expensive for the People’s Republic of Hungary.”⁵⁰⁴ So the turnover figures comprise the business outsourced from Technoimpex, which generated significant losses for the country due to the commissions.

On the strength of the figures currently known, the context behind the oil deals was much more complicated than counterintelligence had imagined. State security conducted investigations into Russay and Korzil for economic crimes, yet we know that some of these transactions were most certainly ordered by the state as they were part of the currency accumulation efforts for the budget – it is enough to simply remember the comment by Miklós Pulai. If we add to this the conditions surrounding the establishment of Mineralkontor, we conclude that not only did the Soviet leaders turn a blind eye to the Hungarian “oil business”, in certain circles they were supportive of it, and possibly had an interest in it. Yet the value of the oil delivered to the West was not just security for the country’s efforts to obtain hard currency, and it was not just the Soviet secret services behind the scenes: some of the currency received in this way ended up in private bank accounts – which was what gave rise to the suspicion of economic crimes and prompted the launch of the investigation. Yet as the oil

502 Ibid.

503 Vajna 1987, p. 98.

504 ÁBTL 2.7.1. NOIJ 1985-III/II-153, 14 August 1985

supplies from the Soviets declined, this put at risk a mechanism that had been working effectively for years, so it became important to secure this commodity from other sources.

American “brothers”

Thanks to the bugs placed in the telephones of the Mineralimpex management – which, incidentally, they discovered quite quickly⁵⁰⁵ – it transpired that, in the autumn of 1980, Basil Scarlis, First Secretary at the US Embassy in Budapest, inquired of Russay’s deputy József Tóth (codename of target “Márk”), the second-in-command at Mineralimpex, how much the Iran-Iraq war was influencing Hungary’s oil imports.⁵⁰⁶ Counterintelligence was particularly concerned about this telephone conversation because the answer to the question could have contained classified information on the country’s economic position and plans, and affected the interests of Hungary’s largest oil supplier, the Soviet Union. József Tóth naturally dodged the question, but he agreed to meet the US diplomat in person, which was a cause for concern for the state security officers. The notes on this meeting have not yet been found in the archived documents, though counterintelligence in all likelihood endeavoured to gain information on this as well, since both company managers were under strict control and surveillance, and the question of oil supplies was one of the most important state interests.

One of the direct consequences of the Tehran hostage drama that began in November 1979 was the suspension of US diplomatic ties with Iran and the introduction of various economic sanctions. As a result, Iranian oil vanished from the US market. At the same time, Hungary became the most important economic partner of the United States on the other side of the Iron Curtain in the late 1970s – with the two countries signing a trade agreement in 1978.⁵⁰⁷ So

505 ÁBTL 2.7.1. NOIJ 1980-III/II-187, 25 September 1980

506 ÁBTL 2.7.1. NOIJ 1980-III/II-198, 11 October 1980

507 Borhi 2015, p. 384

it is not surprising that the USA wanted to use Hungary to get around its own embargo, and it wanted to know which side Hungary was on in the Iraq-Iran war that had broken out in the meantime. In the earlier chapter on Videoton, we learned that while the countries of the Eastern Bloc – and the western allies too incidentally – supported Iraq, they actually supplied both countries with arms to a certain extent. The “peace camp”, as the Bloc countries were known internally, did not suspend ties with either of the warring parties, so they may even have secured supplies of Iranian oil. What is more, Iran was in a dilemma of its own because its bank accounts in the United States had been frozen, which was causing the country severe financial difficulties. This is where economic interests dovetailed: Iranian ‘black gold’ offered a great opportunity to replace the lost supplies of Russian oil, which could be transported as re-exports or through transit transactions to companies with American interests. All of this with the Soviets – presumably with their own interests in mind – still turning a blind eye to Hungary’s trading business.

According to state security: “From the mid-1970s, Dr Russay personally oversaw substantial transactions that generated foreign currency and involved re-exports. With permission, he organised the company that immediately transferred oil worth 700 million US dollars purchased from Iran at the time of the US–Iran conflict to the Swiss company belonging to the US firm Philipp Brothers.”⁵⁰⁸ Regardless of who provided the authorisation, Russay’s main partner in generating foreign currency was Philipp Brothers (Phibro), the firm mentioned in the quote above. The company was founded in 1901 in Hamburg, but grew extremely rapidly to establish subsidiaries in London in 1909 and New York in 1915. Essentially a trading company, it primarily distributed mineral materials and chemicals. During World War Two, however, it became responsible for securing the US’s strategic metal reserves on behalf of the American government. In the following decades it also achieved considerable success in the trading and processing of oil. By 1988, Phibro had one of the largest privately owned refineries in the United States.⁵⁰⁹ In 1981, at the time

508 ÁBTL 2.7.3. Szakelosztó 6-7/170/88, 7 April 1988

509 <http://www.phibro.com/history/>

when Phibro became involved in the Hungarian oil re-exporting business, this global company merged with another global enterprise, Salomon Brothers.

The name of Phibro has already appeared in this book. Following his emigration in 1973, Mátyás Csillag, the former trade adviser in Milan, ended up working in one of the European offices of Philipp Brothers. When looking into his defection, the state security investigators pondered the possibility that MNVK-2 had deliberately defected Csillag as part of a collusion and planted him at the US company. Yet state security was unable to prove this assumption. What is certain though is that, from at least 1973 when Mátyás Csillag emigrated, Phibro had links with Hungary, and the trade adviser commanded some extremely valuable knowledge as a former committed source.

In 1981, Philipp Brothers became the company through which Iranian oil made its way to America. The (Hungarian) state security materials we have available do not go into the reasons for choosing the company, but what they do reveal is that Phibro was willing to pay Russay substantial bribes in exchange for the business: according to the investigative materials, at least half of the private wealth accumulated by the Mineralimpex boss stemmed from Phibro commissions.⁵¹⁰ Meanwhile, according to MKB and MNB data, Hungary lost at least ten cents on every dollar during the commercial relationship that lasted many years because of the extremely poor contractual conditions, so every delivery generated losses of at least 10 percent, which was credited to the account of Mineralimpex.⁵¹¹ The difference stemmed from the fact Iran supplied Hungary at OPEC prices, but Mineralimpex sold the oil to the US company at the global market price, which was lower. Yet the commission paid in return for this beneficial business for the Americans went to Mineralkontor and the management at the Vienna company. In the first two or three years (between 1981 and 1983), one positive outcome of the business relationship despite the currency losses was that Iran purchased iron and steel from Hungary in return, while Phibro paid for the cargo of the container ships in advance, thereby helping

510 ÁBTL 2.7.1. NOIJ 1984-III/II-189, 26 September 1984

511 ÁBTL 2.7.3. Szakelosztó 6-7/170/88, 7 April 1988

the MNB stave off insolvency on several occasions.⁵¹² Iran ceased making the purchases in 1983, but the oil re-export business mechanism remained in place. Between 1981 and 1985, Mineralimpex supplied Iranian oil to Phibro worth 600-700 million US dollars.⁵¹³ There were no reciprocal purchases from Iran from 1983 onwards, and although we know that the country frequently struggled with liquidity problems in the 1980s, this in itself does not explain why they should keep a loss-making business going until the end of 1989 on account of advance payments. This is especially true when we consider there would have been other buyers for the Iranian oil, and under improved terms according to the Ministry of Interior. In early 1985, an American businessman named Mark Rich contacted the International Economic Relations Secretariat (NGKT) of the Council of Ministers with a proposal to lend Hungary 200-300 million dollars in return for access to the Hungarian oil market.⁵¹⁴ The secretariat was led at that time by Ferenc Bartha, who later became governor of the MNB and was known as a confidant of József Marjai, Deputy Chairman of the Council of Ministers. In the early 1980s, István Tömpe also worked at the Secretariat and recalled that the secretariat had a very hands-on approach: “Marjai constantly made his presence felt.”⁵¹⁵ “The NGKT was a power centre that both smoothed and undermined affairs,”⁵¹⁶ and also obstructed Mark Rich’s involvement in the Iranian oil deals. The secretariat rejected the proposal of the US businessman on the grounds that “for political reasons we are continuing our business activity with another US company, Philipp Brothers, because it has served Hungary very well.”⁵¹⁷ So the institution supervised by Marjai protected Phibro’s interest in the Iranian oil deals despite the significant losses, even though they knew the details: “Based on information in its possession, the Ministry of Interior first gave verbal notification to Comrade Deputy-Chairman József Marjai in October 1981. The competent party and government bodies

512 ÁBTL 2.7.1. NOIJ 1985-III/II-106, 4 June 1985

513 Ibid.

514 ÁBTL 2.7.1. NOIJ 1985-III/II-46, 7 March 1985

515 Tömpe 2015, p. 289.

516 Ibid. p. 295.

517 ÁBTL 2.7.1. NOIJ 1985-III/II-46, 7 March 1985

were notified on several occasions between 1982 and 1985, then with most of the data on the economic crimes in its possession, it wished to launch criminal proceedings against Dr. Russay in 1985.”⁵¹⁸ Despite all this, neither Marjai nor anyone else in the party leadership did anything to prevent the increasingly significant damage: “In the case codenamed “Áruló” (*Traitors*), the operative department submitted a summary report in November 1987, from which an information report was prepared for the government and party leadership on the instruction of the Comrade Minister of Interior. In this report, we indicated the loss-making business was continuing, and recommended the necessary action be taken at state level to halt it. No such action has yet been taken in this context, and so the losses continue to accumulate.”⁵¹⁹

So the upper echelons of the party leadership and government knew of massive damage to the country that Russay’s foreign currency accumulation was causing, yet they did nothing about it. The sources in the archive include three “signalisation” reports, which the Ministry of Interior submitted between April and November 1988 to senior state officials: Károly Grósz, Prime Minister, Miklós Németh, Secretary for Economic Policy on the Central Committee, and György Fejtő, head of the Public Administration and Administrative Department of the Central Committee.⁵²⁰ So, besides Marjai, all three of them must have known of Russay’s economic crimes, but they did nothing to stop them. What is more, Miklós Németh was appointed Prime Minister in late November 1988. When he took office, he knew of the misdealings at Mineralimpex and Mineralkontor thanks to the signalisation reports, but still did nothing. The loss-making supplies of oil to Phibro definitely continued until the end of 1989. Phibro’s expansion in Hungary was backed by an economic lobby in which János Fekete was one of the key players.

518 ÁBTL 2.7.3. Szakelosztó 6-7/170/88, 7 April 1988

519 ÁBTL 2.7.1. NOIJ 1988-III/II-9, 14 January 1988

520 ÁBTL 2.7.3. Szakelosztó 6-7/170/88, 7 April 1988; 6-7/733/88, 19 October 1988; 6-7/784/88, 9 November 1988

Giants in the background

The arrival of international investors

The Phibro management and Moshe Sambar⁵²¹ – an Israeli bank director originally from Kecskemét⁵²² – came to Budapest on 20 October 1985 on the invitation of János Fekete to discuss loans and setting up joint ventures at the Magyar Nemzeti Bank.⁵²³ The person who organised the visit of these financial professionals and was responsible for the Hungarian contacts of the foreign partners was Bentzur Zéew.⁵²⁴ “The former Israeli bank governor Moshe Sambar asked Bentzur Zéew, an Austrian citizen of Jewish origin, for help in starting loan negotiations between Philipp Brothers, the USA’s fifth largest banking group, and the relevant officials in Hungary. He named Comrades János Fekete and József Marjai as potential negotiating partners. Jewish plutocrats from Munich, similarly to Austria, are interested in becoming involved in developments in Hungary, primarily with capital,”⁵²⁵ the state security report summarised.

Bentzur Zéew left Hungary in 1948, where he was born with the name Vilmos Blaustein.⁵²⁶ He lived in Israel for 12 years before settling in Vienna, and it was there that he became engaged in the involvement of Hungarian Jewish émigrés in public affairs. He soon became one of the founders and key figures of the Jewish Public Life Committee [*Zsidó Közéleti Bizottság*], whose primary goal was to research and preserve the memories and intellectual heritage of Hungarian Jews. The Public Life Committee was organised within the Vienna section of the World Federation of Hungarian Jews (MZSVSZ), but it was in constant

521 In other documents: Zambar

522 ÁBTL 3.2.5. O-8-532/1. II. p. 258. Report on the Association Promoting Israeli–Hungarian Cultural Relationships, 27 September 1983

523 ÁBTL 2.7.1. NOIJ 1985-III/I-204, 18 October 1985

524 In other documents: Benczur

525 ÁBTL 2.7.1. NOIJ 1985-III/II-126, 5 July 1985

526 ÁBTL 3.2.5. O-8-532/1. II. p. 45. Report, 29 June 1981

conflict with the parent organisation in the USA. MZSVSZ was established in the 1950s to help Hungarian Jews emigrate to Israel, and to collect donations for the young country created on the territory of Palestine.⁵²⁷ After migration from Hungary to Israel essentially ground to a halt, the organisation's operation became more formal, and – at least according to Bentzur – it was envious of the activity of the Public Life Committee. However, the other party explained the conflict – and why they were not willing to welcome the representatives of the Public Life Committee to New York in May 1983 – by saying the Vienna group had “mismanaged” 7 million dollars in funding collected for cultural purposes.⁵²⁸

Together with Ottó Rappaport, chief editor of *Új Kelet* [*New East*], the Hungarian newspaper published in Israel, Bentzur organised the planned remembrance for the 40th anniversary of the deportations, to which end they travelled to Hungary several times. Rappaport was blacklisted because his paper had published an article critical of the People's Republic of Hungary, so he was refused entry to the country. Yet, with Bentzur's intervention, he did eventually obtain a single-entry visa that allowed them to also start organising the anniversary remembrance in Budapest. After crossing the border, counterintelligence automatically put Rappaport under surveillance since he was still on the blacklist even despite the issued visa, and state security had an obligation to monitor the individuals registered as enemies. To the immense surprise of the operative officers conducting the surveillance, one of the first destinations for Rappaport and Bentzur after their arrival was the headquarters of the Central Committee of the Hungarian Socialist Workers' Party, where they were welcomed personally by Károly Grósz.⁵²⁹ Shortly thereafter, the Israeli journalist was removed from the blacklist too. “The leaders of the Public Life Committee emphasised that if the competent Hungarian bodies meet their wishes, this will be to the significant commercial and economic benefit

527 ÁBTL 3.2.5. O-8-532/1. II. pp. 281–282. Report on the discussion with Zéew Benczur, 3 October 1983

528 ÁBTL 2.7.1. NOIJ 1983-III/II-100, 28 May 1983

529 Bálint 2013, p. 303.

of the Hungarian state,”⁵³⁰ according to the report of the ambassador at that time. According to state security information, the assumption was that Israeli intelligence was lurking in the shadows of the Public Life Committee’s activity, which provided support to allow Israel to arrange for the two countries to also establish official diplomatic ties.⁵³¹ While this assumption was just a possible option put forward by intelligence, it seemed more self-evident that the intention was to build economic relations. Bentzur had attempted to set up a business in Budapest in the late 1970s and had contemplated opening a kosher restaurant with the help of István Salusinszky, President of the MKB. What is more, the Hungarian banker had even won the backing of the chief rabbi in New York, who promised to support the establishment of the restaurant to the tune of 3 million dollars.⁵³² From the early 1980s, Bentzur conducted negotiations with several Hungarian companies on setting up a kosher meat processing plant in Hungary, from where they could supply Jews around the world with canned products,⁵³³ while he asked Terimpex to supply 36,000 tonnes of beef, and was willing to pay above the going price for it.⁵³⁴ The business fell through despite Gyula Páles, Deputy Governor of the MNB, promising that the bank’s management would lend “moral” support to the negotiations.⁵³⁵ Bentzur’s other business proposal was to set up a travel agency through which he wanted to organise group travel for Israeli citizens visiting Hungary.⁵³⁶ This company was established in 1983 under the name of OTP Penta Tours. OTP owned 60 percent of the joint venture operating in Budapest, with 40 percent held by Bentzur’s Austrian travel agency, Penta Tours Reisen Wien.⁵³⁷ The company

530 ÁBTL 3.2.5. O-8-532/1. II. p. 270. (Appendix) Report of Ambassador Dr. Jenő Randé on the activity and plans of the Public Life Committee in Austria, 21 January 1983

531 ÁBTL 3.2.5. O-8-532/1. II. p. 147. Report, 3 February 1983

532 ÁBTL 2.7.1. NOIJ 1979-III/II-202, 11 October 1979

533 ÁBTL 3.2.5. O-8-532/1. II. p. 84. Report, 13 November 1981

534 ÁBTL 2.7.3. Szakelosztó 6-7/121/84. Activity of Ottó Rappaport and Zéew Bentzur, 5 March 1984

535 ÁBTL 2.7.3. Szakelosztó 6-7/152/84. Activity of Ottó Rappaport and Zéew Bentzur, 15 March 1984

536 ÁBTL 3.2.5. O-8-532/1. II. p. 97. Notification on new information about Bentzur, 15 December 1981

537 ÁBTL 3.2.5. O-8-532/1. II. p. 261. Draft articles of association, October 1983

was established with capital of five million forints and became an extremely successful enterprise with turnover of 1.4 million US dollars in 1985 and 2 million dollars in 1986.⁵³⁸

So Zéew Bentzur had the support of various state and financial leaders in Hungary (presumably roughly the same individuals who helped Russay accumulate foreign currency), but the reason for this is not Bentzur's exceptional entrepreneurial and diplomatic skills, it was the financial circles who backed him. The main sponsor of the Viennese businessman was Simon Moskovics, the owner of Winter Bank.⁵³⁹ Winter Bank was the largest privately owned Austrian bank, which gained a reputation and wealth from the early 1950s for specialising in handling and financing trading transactions between East and West. Simon Moskovics moved from Budapest to Vienna in 1949. In 1959, he joined Winter Bank, established at the end of the 19th century. Using his roots from the region of Ungvár (today Uzhorod, Ukraine) and his knowledge of Hungarian, he established business relationships with the national banks of Hungary and the other countries of the Eastern Bloc, as well as with foreign trade companies of the socialist states. In 1963, Winter Bank was the only bank to receive a licence to import gold into Austria, and – based on an agreement signed with the Austrian Mint – it was permitted to produce and sell gold coins. According to information from civilian intelligence, Moskovics was one of the Austrian finance minister's confidants and advisers in the early 1980s, so he had governmental influence.⁵⁴⁰ During the Cold War, Winter Bank primarily dealt in currency and gold from socialist countries according to civilian intelligence, and "the other Austrian banks also pay monies originating from socialist countries in here. They trade in extremely large amounts of foreign currency smuggled out."⁵⁴¹ The Viennese bank that also helped Metalimpex Külkereskedelmi Vállalat accumulate foreign currency for the secret services⁵⁴²

538 Vajna 1987, p. 120.

539 ÁBTL 3.2.5. O-8-532/1. I. p. 99. Report, 16 June 1981

540 ÁBTL 3.2.5. O-8-532/1. II. p. 81. Report on banks used by Jews in Vienna, 1981.

541 ÁBTL 3.2.5. O-8-532/1. II. p. 287. Report on Kurt Roth case, employee at Winter Bank, 19 September 1983

542 Borvendég 2018, pp. 70–71.

maintained close links with the Hungarian party and business elite according to state security information: “Hungarian traders and intermediaries place their money with Winter Bank in Vienna”⁵⁴³ and the institution manages their “illegal bank deposits.”⁵⁴⁴ Yet the Viennese private bank not only sought the grace of those in power in the socialist regime, they were well aware of the dilapidated state of the system and prepared for its inevitable downfall, namely by granting financial support to a defined group of the growing domestic opposition from the mid-1980s: “Dr György Bergerstein (or Bergstein), a lawyer employed by Winter Bank in Vienna, told the source that they wanted to transfer a large sum to László Rajk, Róbert Kertész and a certain Iván. He then inquired about “reliable Jewish boys” who could be used as liaisons to maintain contact with the domestic opposition. The names of various Hungarian citizens were raised for whom he wished to receive character references.”⁵⁴⁵

Moskovics was a confidant of János Fekete, the first deputy governor of the MNB: “Moskovics has a noticeably good relationship with the former first deputy-governor of the MNB, János Fekete. Moskovics handles his money (or part of it) in the West.”⁵⁴⁶ So the Viennese banker certainly helped with some of János Fekete’s financial manipulations. Awarded the Hungarian Order of Merit in 2006, Fekete had a “letterbox” company in the Bahamas in 1981, where he presumably laundered his tax-free income from illegal sources, according to state security.⁵⁴⁷ Further evidence of János Fekete’s close ties to Moskovics and the Public Life Committee is provided by the fact that the banker regularly visited Bentzur in his apartment when in Vienna,⁵⁴⁸ and Fekete’s wife was a member of the 5-person implementation committee set up in Hungary in autumn 1985 by the Public Life Committee.⁵⁴⁹

543 ÁBTL 2.7.1. NOIJ 1980-III/II-63, 25 March 1980

544 ÁBTL 2.7.1. NOIJ Névmutató karton (Index), 6099. Winter Bank.

545 ÁBTL 2.7.1. NOIJ 1986-III/I-108-108/1. 4 June 1986

546 ÁBTL 2.7.1. NOIJ 1988-III/II-253, 28 December 1988

547 ÁBTL 2.7.1. NOIJ 1981-III/II-200, 21 October 1981 Yet János Fekete denied that he had ever had a foreign bank account: “If I am in charge of foreign currency, I keep to my own laws.” Benda 1999, 451

548 ÁBTL 2.7.1. NOIJ 1984-III/II-3, 5 January 1984

549 ÁBTL 2.7.1. NOIJ 1985-III/I-204, 18 October 1985

Emigration as trump card

János Fekete's commitment to the Zionist efforts was not always clear cut, and his activities were shaped much rather by what would benefit his career. It was actually a game played with Israel that helped János Kádár gain the unconditional trust of the new government when he came to power. As deputy director of the MNB's FX Directorate, Fekete was an agent for state security with the codename "Lektor" [*Reader*] at that time.⁵⁵⁰

It was crucially important for Israel to enable Jews in Europe to emigrate to the Holy Land and settle the territory of this new state. The leaders of the Jewish state were well aware they had a better chance of enticing Jews to Israel from the eastern side of an Iron Curtain that was slowly closing, and so they began negotiating with the countries of the Eastern Bloc. An agreement was reached in the early 1950s between Israel and Hungary that enabled a few thousand Jews to leave the country – in return for substantial compensation – but the Jewry in Hungary exhibited nowhere near the interest in this opportunity that Israel had expected.⁵⁵¹ The Jews living in Hungary were focused much more on assimilating than those living in other countries in the region, and not even the horrors of the holocaust were able to override the Hungarian-Jewish assimilation model. When fears of restoration and reprisals prompted tens of thousands of people to head west after the 1956 revolution, Israel endeavoured to take advantage of the temporarily open borders, and understandably tried to convince the Hungarian Jewry wanting to emigrate to come to the eastern basin of the Mediterranean Sea instead of travelling across the Atlantic. They helped them with their decision by taking possession of the refugees' property at the embassy in Budapest and taking it out of the country under diplomatic protection: gold, silver, precious stones, jewellery and currency all headed to Tel Aviv in this way.

550 János Fekete's links to state security began during the war, when, by his own admission, he was contacted by the NKVD, the People's Commissariat for Internal Affairs in the Soviet Union. Benda 1999, 61, 111

551 Erdei 2004

There was no Hungarian intelligence base in the Middle Eastern country at this time, but the employees of the trade office handled the tasks of the secret service. Before the revolution broke out, the Ministry of Foreign Trade entrusted László Szendrő with heading up the trade office, and he took up his position on 30 September 1956.⁵⁵² From 1949, Szendrő was an agent of the State Protection Authority under the codename “Vegyész” [*Chemist*], and he arrived in Tel Aviv under the employ of civilian intelligence. He was not in this position for long as he became embroiled in a corruption scandal and was recalled, but he triggered an avalanche of events that created a diplomatic conflict between the two countries during his short time.

“In April 1957, Szendrő managed to obtain concrete evidence of organised smuggling and the stealing of Hungarian valuables (gold, precious stones, forints, etc.) at the Israeli embassy in Budapest via émigrés.”⁵⁵³ There was no smuggling or stealing of valuables from Hungary of course since the Israeli government agreed to transport the valuables and private property of the emigrating families, but according to the socialist practice and rules of that time, the property that was left behind by those choosing to emigrate came under state ownership. This led to diplomatic negotiations, which had to be held in secrecy as the countries were in hostile camps and thus could not openly admit to the discussions. The foreign trade attaché delegated to Tel Aviv, the same Szendrő who uncovered the scandal, was the first to relay the compensation claim of the Hungarian government, which Israel was not willing to acknowledge.

Kádár and his government were fully aware they had an advantage over Israel because the emigration of the Jewry from Eastern Europe was at a low point since 1948, with just a few thousand people leaving the region since then. (Only in 1958 did large numbers of people begin exiting, or rather being resettled from, Romania again.) The agreement with Hungary was theoretically in force in the early 1950s, and with the help of the Israeli embassy in Budapest, Hungarian citizens arrived in the state of Israel until spring 1957, albeit in small numbers. Stopping this emigration was the trump

552 ÁBTL 3.2.1. Bt-614. p. 54. Report, 3 September 1957

553 Ibid. p. 55.

card for the Kádár regime, which they used to try and blackmail Israel. On 4 June 1957, the Ministry of Foreign Affairs handed over a note verbale to the Israeli Ambassador, announcing that Israel had violated Hungarian and international law, and had abused the emigration agreement and the framework of diplomatic immunity between the two countries. Consequently, it expelled the Israeli trade attaché Paul Korem from the country within 72 hours, and called upon the government of Israel to compensate Hungary as soon as possible for its claim of 3.5 million dollars.⁵⁵⁴ The diplomatic message also included an insistence that in retaliation all emigration from Hungary would be stopped until the claim was met. Israel was not willing to continue the negotiations through diplomacy and recommended the conflict be managed through banking channels. The Hungarians agreed because the first Kádár government was not seeking a moral victory, it needed hard currency. This is when one of the key figures of the subsequent lending policy in the Kádár regime arrived on the scene: János Fekete.⁵⁵⁵

The Israeli diplomat Joshua Dan was authorised to contact Fekete in February 1958 when he was visiting West Germany to seek an economic compromise in lieu of some of the compensation, without officially recognising the claims of the Hungarian government of course.⁵⁵⁶ Fekete brought László Szendrő into the negotiations too. At government level, he had already tried, in vain, to manage the conflict created by the Kádár regime. Israel found itself in a dilemma at this time because emigration from Romania had been impeded for many years too, and the fledgling nation feared that the flow of émigrés from the Bloc would shudder to a complete halt if the Hungarian government played hardball. Israel initially tried to appease the Hungarian party leadership by offering goods, but Fekete let it be known that Hungary was only willing to accept hard currency.⁵⁵⁷ The negotiations lasted for months and were held at the office of the MNB's CW Bank in Vienna. Fekete stayed true to the original concept and was not willing to

554 MNL OL M-KS 288. f. 8. cs. 146. ő. e. 3. Note verbale, 4 June 1957

555 MNL OL M-KS 288. f. 8. cs. 146. ő. e. 1. Submission of Finance Minister István Antos to the Political Committee, 10 September 1958

556 ÁBTL 3.1.2. M-14967. p. 81. Report, 26 June 1958

557 Ibid. 82.

get dragged into bargaining, even though the Israelis did everything they could to ensure the Hungarian state would guarantee its consent to the emigrations once more after the money had been paid. But Fekete knew he held the high ground, and he exploited this to the full. He confidently held the upper hand with the Israeli delegation and was only willing to talk about the compensation; they touched upon consent to emigration as an aside, which was a completely separate issue. The reports sent to state security resemble a professional poker game, since the banker was fully aware throughout the negotiations that Israel would only be willing to pay if it could recruit more people to emigrate. What is more, the Hungarian government, which devoted all its efforts to restoring the communist system, was dancing on thin ice because leaked news of this financial agreement could have damaged the friendly relations nurtured with Arab countries, not to mention earning the disapproval of the Soviet Union, while they were understandably trying to convince the Hungarian Jews looking to emigrate.⁵⁵⁸ Yet Hungary still managed to control the situation by feigning indifference as to the resolution of the situation as if it was wasn't hanging on every dollar paid to the MNB.

The positions were clarified by the middle of August 1958, and a compromise was reached. Israel agreed to provide the Hungarian Foreign Trade Bank with a loan of 3.5 million dollars, at no interest and no fees, via a bank in Switzerland, which could be paid back in the fourth and fifth years after disbursement with supplies of Hungarian goods. The first instalment of the loan, a sum of 500,000 US dollars, would be transferred when the contract was signed, the second half a million six months later, and the remainder paid in equal instalments over 18 months.⁵⁵⁹ The Hungarians would clear a profit of 1 million dollars from this. Throughout the negotiations – which they wanted to hold in strict secrecy – János Fekete remained cool, calm and collected, giving the impression that the matter was not particularly important for the Hungarian government. The bluff worked, the agreement did not include a clause on ensuring emigration and the Israelis were only given a verbal promise.

558 ÁBTL 3.1.2 M-14967. p. 92. Report, 9 August 1958

559 ÁBTL 3.1.2. M-14967. p. 112. Report, 29 August 1958

An agreement was reached at the Ministry of Foreign Affairs on 30 October 1958,⁵⁶⁰ under which the first instalment equivalent to half a million dollars was received in Swiss francs on 3 November at the Foreign Trade Bank.⁵⁶¹ Károly Szarka, Deputy Minister of Foreign Affairs, apparently took immediate action for the Minister of Interior to lift the emigration restrictions, while civilian intelligence concurrently made preparations to suitably assert its interests when selecting those receiving a permit to emigrate.⁵⁶²

Yet Israel's hopes were not met by events in the following months. As early as February 1959, the Israelis voiced their dissatisfaction that "there had not even been sporadic emigration to Israel in the last 4 months."⁵⁶³ János Fekete just shrugged his shoulders and reiterated that Hungary had submitted a compensation claim which Israel ultimately acknowledged, and the emigration issue was not an integral part of this. He had previously intimated that the opportunity would not be overly popular among Jews in Hungary. Despite this, the loan instalments were still paid by Israel until the beginning of the summer, but then they froze the transfers. Israel reproached the Hungarian government for only supporting the emigration of a small number of the sick and elderly, which clearly did not serve the interests of the Jewish state. Fekete still played as if he had a strong hand. Twisting on 19, he accused Israel of a breach of contract for stopping the compensation payments.⁵⁶⁴ While Israel would still have been willing to adhere to the agreement and even pay the remaining instalments more quickly if the emigration were to actually begin (the Aliyah), this never happened. The fate of the sums still to be transferred by Israel is unknown.

János Fekete's diplomatic and financial games with Israel suggest that the bank manager's active role in the activity of the Public Life Committee was by no means driven by strong principles. It is not likely that the famous composer Leonard Bernstein would have referred to the Hungarian banker between 1957 and 1958 as he did in the 1980s: "Fekete is held as a prominent figure

560 ÁBTL 3.1.2 M-14967. p. 134. Report, 31 October 1958

561 ÁBTL 3.1.2 M-14967. p. 138. Report, 7 November 1958

562 Ibid. p. 139.

563 ÁBTL 3.1.2 M-14967. p. 164. Report, 10 February 1959

564 ÁBTL 3.1.2 M-14967. pp. 201–202. Report, 19 June 1959

by the Jewish people.”⁵⁶⁵ If we want to understand Fekete’s steps as outlined in the state security reports, we have to think much more along the lines of economic interests, which tied Fekete to the financial circles behind the Public Life Committee, namely to Winter Bank and Phibro. According to information from his contemporaries, these financial games contributed greatly to Hungary’s indebtedness, but they clearly laid the foundations for Fekete’s network of global capital contacts. Struggling with a lack of capital, the Hungarian economy was increasingly in need of investments from Israel, which was itself looking for a market, and so the same János Fekete who had played games with Israel in the 1950s considered the Jewish state to be his most important economic partner by the 1980s. During the negotiations with Moshe Sambar, for example, he discussed other business issues with the Israeli finance expert alongside the oil supplies to Phibro. In 1985, the talks focused on Hungary supplying Israel with semi-finished industrial goods, which after final assembly would be sold on western markets as Israeli products, while Israeli semi-finished products would be brought to Hungary for final assembly and then sold as Hungarian products to other socialist countries.⁵⁶⁶

While economic relations between Israel and Hungary steadily improved, Hungary’s dual policy with countries in the Middle East also put Iranian oil supplies at risk. In 1983, Iran learned that Hungary was re-selling Iranian oil, but it was not the supplies to the USA they contested, it was the information they received that two tanker ships had been sent to ports in South Africa.⁵⁶⁷ This was offensive and unacceptable to the Islamic Republic of Iran for a number of reasons. First of all, suspicions had arisen in the mid-1970s that the Republic of South Africa was conducting a nuclear programme with the help of Israel.⁵⁶⁸ Furthermore, South Africa was the perfect scapegoat for the “non-aligned” amongst the international community, and managed to embody everything

565 ÁBTL 2.7.1. NOIJ 1984-III/II-3, 5 January 1984

566 ÁBTL 2.7.1. NOIJ 1985-III/II-208, 31 October 1985

567 ÁBTL 2.7.1. NOIJ 1983-III/I-123, 23 June 1983

568 In 2010, the respected British left-leaning newspaper *The Guardian*, which tends to favour the Arabs in any Arab-Israeli conflict, published some declassified documents from South Africa. When making the statements above, it cited historians investigating the documents,

that the various “revolutionaries” – even the Islamic revolutionaries! – were theoretically fighting against. The Iranian administration objected to the supply of Iranian oil to South Africa, and made an official request to the Hungarian Deputy Minister of Foreign Trade that this practice should come to an end.⁵⁶⁹ We have no information that Mineralimpex did in fact supply South Africa with Iranian oil, but there may have been illegal business links between the MNB leadership and this state under the stigma of apartheid, since state security investigators came to the conclusion that the explosion triggered in front of a CW branch in autumn 1985 was possibly related to the fact the Viennese subsidiary bank dealt in South African gold coins.⁵⁷⁰ So the matter of oil supplies to the southern hemisphere created diplomatic complications, in the same way that closer links between Hungary and Israel jeopardised Hungarian military supplies to Syria.⁵⁷¹

The kidnapper’s loan

Of course, János Fekete’s role transcended the misdealings at Mineralimpex and the racketeering with Iranian oil. He also involved the MNB in stock exchange speculation that generated continuous losses for the Hungarian central bank and therefore also the budget: “The arbitrage activity of the Magyar Nemzeti Bank⁵⁷² has been loss-making for years. The exchange-rate loss in 1978

thereby reviving the rumours that circulated at the time. It emerged from the documents that Israel wished to sell nuclear weapons to South Africa, or rather the materials needed to make them. According to the official Israeli response and certain historians, the documents were purposefully selected to discredit them and were not therefore suitable as evidence. See: <https://www.theguardian.com/world/2010/may/23/israel-south-africa-nuclear-weapons>, and: <http://www.independent.co.uk/voices/commentators/avner-cohen-yitzhak-rabin-would-have-opposed-sale-of-nuclear-weapons-1981962.html>

569 ÁBTL 2.7.1. NOIJ 1983-III/II-138, 14 July 1983

570 ÁBTL 2.7.1. NOIJ 1985-III/II-209, 1 November 1985

571 ÁBTL 2.7.1. NOIJ 1989-III/I-56, 29 March 1989

572 Arbitrage is a stock exchange speculation activity where dealers strive to exploit the price differences between markets. For example, a share is purchased on a stock exchange where it happens to be cheaper, and sold where it is listed more expensively, essentially enabling the trader to generate a small profit without risk.

totalled more than 4 billion forints, a loss of 120 million US dollars. The bank's management regularly misinformed the Central Committee of the Hungarian Socialist Workers' Party, marking this activity as profitable. The arbitrage activity was directed by János Fekete directly, the MNB's deputy governor, who gave instructions that this loss was not to appear anywhere."⁵⁷³

The trend towards indebtedness continued: according to information from the MNB, Hungary's financial account⁵⁷⁴ was 900 million US dollars in the red in the first half of 1986⁵⁷⁵ – data revised one month later testifies to a deficit of 1.15 billion dollars for the same period.⁵⁷⁶ At this point, Hungary's public debt totalled 14 billion dollars and, according to state security, any sudden event could have pushed the country into national bankruptcy.⁵⁷⁷ Information taken from the daily state security reports reveals that the Hungarian economy was in a deep crisis, with the blame placed squarely at the door of János Fekete. It is obvious that the country's indebtedness was the result of deeper and more complex economic factors, but the implications of the deputy governor's dubious business decisions was a talking point among the bank's employees. When he retired in 1988, he was clearly considered to be the driving force behind the accumulation of debt. They talked in fear about the economic stakeholders behind Fekete: "We see a certain anti-Semitism emerging, implicitly for the time being, behind the changes in personnel and the growing accusations recently that the Magyar Nemzeti Bank bears significant responsibility for the rising debt."⁵⁷⁸

573 ÁBTL 2.7.1. NOIJ 1979-III/II-75-86/10, 12 April 1979

574 In referring to the use of this term, I need to point out that the report was not compiled by economists but by state security officers, so there is no guarantee that the term "financial account" did indeed refer to the financial account. The financial account is one part of a country's balance of payments, and mainly comprises data on investments and reserves, so it is more likely that the deficit referred to the balance of payments, which includes the current account, the capital account and the financial account, so all the economic and financial transactions of a country's economic actors, both domestic and foreign. If a country's balance of payments is in deficit, in simple terms this means that more currency flowed out of the country in the given period than came in the opposite direction.

575 ÁBTL 2.7.1. NOIJ 1986-III/II-138, 23 July 1986

576 ÁBTL 2.7.1. NOIJ 1986-III/II-151, 11 August 1986

577 ÁBTL 2.7.1. NOIJ 1986-III/II-138, 23 July 1986

578 ÁBTL 2.7.1. NOIJ 1988-III/I-248, 27 December 1988

János Fekete's responsibility for the country's debt was not limited to making bad financial decisions at the MNB. Alongside the economic crimes committed for years with the help of Mineralkontor – and essentially parallel to these – he was also involved in the financial manipulations of László Gerő, the head of Interag, which ended up causing significant damage to the Hungarian Foreign Trade Bank: on just one deal, the MKB virtually suffered a loss greater than its entire share capital: "The deputy general manager of Magyar Külkereskedelmi Bank Rt. conducted lending activity that he was not authorised for. He failed to perform the due diligence expected of a banker when financing Gelaco AG-Vaduz, which was owned by L.G., a Hungarian citizen with a foreign work permit. He acted in a similar fashion with Powering Company Holdings Ltd.-Gibraltár, which was owned by Oscar J. Schmidt. We estimate the loss at 186.8 million US dollars, an amount that exceeds the MKB's share capital."⁵⁷⁹

László Gerő had strong Soviet ties. Together with his parents, he spent five years in Stalin's empire in the interwar period, and he did not presumably break off ties with the Soviets after returning home either, because he likely served alongside Soviet officers in Hungary in 1945 as part of the state political police organised by Gábor Péter:⁵⁸⁰ "After the liberation, I briefly worked at the PRO until the Soviet advisers left."⁵⁸¹ He later worked for the Allied Control Commission, and for various Soviet economic interests and military bodies.

In 1950, he was sentenced to a year in prison for running someone over (the rumours were that he was exposed during a secret service liquidation operation, and had to be brought in front of the court to protect operative interests). On his release, he worked for various companies, as a civilian he alleged, but remained in the central building of the Ministry of Interior for the duration of the revolution, and was even injured while defending the building.⁵⁸² This all suggests that his relationship with state protection did indeed continue after his sentencing. The new ruling party was grateful for his

579 ÁBTL 2.7.1. NOIJ 1987-III/II-243, 15 December 1987

580 MNL OL XIX-B-1-r-214. List of names of those working for the Budapest state political police, 3 July 1945 Disclosed by: Krahulcsán-Müller 2009, p. 359

581 ÁBTL 2.8.2.2. p. 141. 12. CV, no date indicated.

582 ÁBTL 2.8.2.2. p. 141. 10/b. Recruitment proposal, 7 September 1967

commitment, and his career began to take off in 1957. He was transferred to foreign trade and set up a company involved in trade intermediation, which really started to enjoy success when it became the exclusive representative in Hungary for the oil company Royal Dutch Shell in the 1960s.⁵⁸³ As a reward for the company's triumphs, Gerő – spinning off the department he ran – became the director of the new corporation in 1966: this created Interag, one of the largest foreign trade companies in Kádár's Hungary. "Working in 1966 with 50 staff and around 20 million in fixed assets, the agency firm led by Comrade Gerő developed over the course of 10 years into a corporation with a thousand staff and turnover in 1975 of 2 billion forints."⁵⁸⁴

In 1967, László Gerő was made a top-secret officer and became a permanent officer of the state political police again under the codename D-144 and as captain No. 10.⁵⁸⁵ "Comrade Gerő is extremely consistent in implementing his thoughts. To realise his plans, he avoids desks if necessary. To achieve otherwise correct objectives, he has been known to apply methods that some economic functionaries objected to."⁵⁸⁶ His comment on these somewhat less than legal and ethical business steps was: "On Interag's facade, there was a mantra in invisible letters: I steal, I cheat and I lie in order to serve the interests of the people's economy with honour."⁵⁸⁷ Gerő determined the interests of the people's economy rather subjectively, and not all economic policymakers agreed with this, since he was promptly removed from the top position at Interag on 16 August 1978 due to significant damage caused to the people's economy.⁵⁸⁸

583 After the nationalisations of 1949, Shell appeared in Hungary again in 1960, and opened its first petrol station in 1966. <http://www.shell.hu/about-us/who-we-are.html>, 20 September 2017

584 László Gerő's status at the Ministry of Foreign Trade, 1 June 1976, Sándor Udvardi, deputy minister. Quoted by: Ilkei 2010

585 ÁBTL 2.8.2.2. p. 141. 10–11. Recruitment proposal, 7 September 1967

586 ÁBTL 2.8.2.2. p. 141. 2/b. Rating sheet, 23 December 1970

587 László Gerő made this statement in Vienna in 1989 to Zoltán Dézsy and Csaba Ilkei. Ilkei 2010.

588 Resignation decision of the first deputy of the Minister of Foreign Trade, Dr Béla Szalai, 16 August 1978 Disclosed by: Ilkei 2010.

The documents still available reveal that Interag had a company in Liechtenstein, a telecommunications company called Fabriken 3 F Horsens, which was unlawfully financed by Interag – under Gerő's instructions⁵⁸⁹ – and so a few months after its protector left, the company went bankrupt.⁵⁹⁰ The firm was the brainchild of the boss at Tungsram Electricitaets A.S. Copenhagen,⁵⁹¹ who did not receive the necessary capital from the Budapest parent company to set up the firm, and so he turned to Gerő for help. In 1977, Interag contributed 4 million US dollars to establishing 3 F in the tax haven, but even this sum was not enough to fund the company's operations, so it needed to take out loans.⁵⁹² The company was unable to find a market for the products it distributed, and the stockpiling of goods generated additional costs. The head of the Tungsram company in Denmark channelled part of the accumulated losses to a joint venture he managed, meaning he tried to finance the operations of the offshore company with the issuance of company guarantees, while sending false reports and balance sheets to Interag. These false documents were flagged up by the local Interag representative to Gerő, but he ignored them.⁵⁹³ In early 1979, only a significant loan (6 million Danish crowns) prevented the company from going bankrupt, which was presumably also given by the subsidiary in Copenhagen, but this was not sufficient to consolidate its position, and the MNB had to step in too with a loan of 1.2 million US dollars. Despite all this, the new management at Interag found it impossible to prevent 3 F from going bankrupt, its insolvency could only be delayed at best at the expense of new investments and losses.⁵⁹⁴ An investigation was launched by the Ministry of Foreign Trade. The Ministry of Foreign Trade and the Central Corporation of Banking Companies [*Pénzüntézeti Központ, PK*] acting as the supervisory authority collected evidence on-site between 10 July and 21 August 1979, as well as checking Interag's accounting and financial documents. They found

589 ÁBTL 2.7.1. NOIJ 1980-III/II-17, 24 January 1980

590 ÁBTL 2.7.1. NOIJ 1979-III/II-110, 31 May 1979

591 The company was fully owned by Tungsram Rt. Budapest. Bikki 2004. p. 141

592 ÁBTL 2.7.1. NOIJ 1979-III/II-110, 31 May 1979

593 Ibid.

594 Ibid.

that the unlawful activity and negligence of Egyesült Izzó Rt. (and its Danish subsidiary), as well as Interag, had deprived the people's economy of 6.7 million US dollars, and named those among the Interag management responsible – including László Gerő, of course.⁵⁹⁵ The party and state leadership was informed of the results of the investigation: specifically, Mihály Korom, Administrative Secretary of the MSZMP CC, Gyula Szekér, Deputy Chairman of the Council of Ministers, Sándor Borbély CC Secretary, István Soltész, Minister of Metallurgy and Machine Industry, and Péter Veress, Minister of Foreign Trade, but “nobody has yet been called to account, and we have no information as to why.”⁵⁹⁶ State security felt the reasons for the lack of any consequences were to be found in the mysterious connections of László Gerő: “At the time of these misdealings, Gerő did not allow any deputy or chief accountant to be appointed beside him. The report on Gerő's party disciplinary hearing stated that Gerő's aggressive approach and constant references to his contacts played a major role in officials at the Ministry of Foreign Trade looking the other way.”⁵⁹⁷ What connections could Gerő possibly have had? We already know he had Soviet contacts, and his misdealings were not prevented by Big Brother's secret services – as with Korzil and Russay – and the Hungarian party leadership did not intervene either.⁵⁹⁸

The removal of Gerő from the top job at Interag had no effect as he continued his economic misdealings unperturbed. The loans that severely harmed the

595 ÁBTL 2.7.1. NOIJ 1980-III/II-17, 24 January 1980

596 Ibid.

597 ÁBTL 3.1.5. O-18396. p. 119. Report, 9 April 1980

598 In the 1960s, Gerő took part in extremely classified and significant secret service operations, so he was considered a reliable insider. He organised and carried out Aurél Ábrányi's kidnapping to bring him home. Journalist Aurél Ábrányi was recruited in 1948 by the Military Political Department following an unsuccessful “defection” attempt, and sent to Vienna. In the free world, Ábrányi immediately got in touch with the western secret services, and from then on worked for French and US intelligence, while organising a network of spies among friends and acquaintances still in Hungary. Officially, Ábrányi was the Vienna reporter for Radio Free Europe. After state security got wind of Ábrányi's “disloyalty”, they dismantled his network in Hungary and brought the members to court in the summer of 1956. Ábrányi became the number one enemy from this point onwards, and on 12 October 1961 – with the help of László Gerő – he was kidnapped and brought back to Hungary in a car boot, wrapped up in a carpet. He was sentenced to 15 years in prison but vanished without a trace after his release. Makra 1986, p. 3.

MKB, and therefore the Hungarian economy, were requested with the help of an Austrian businessman called Oscar J. Schmidt. Their relationship dated back to the 1970s, when Schmidt requested a foreign bank loan of 2 million dollars with Gerő making sure at the Ministry of Foreign Trade that Interag guaranteed the loan. The Austrian businessman went bankrupt the following year, and it transpired there was no way to recover the debt. What is more, Interag also agreed to pay the interest, so the liability was now almost 3 million dollars.⁵⁹⁹ Eventually, the Hungarian trading company had to pay 2.5 million dollars instead of the borrower, so counterintelligence moved to have the Ministry of Foreign Trade ban all trade ties with Oscar Schmidt and blacklist the Austrian.⁶⁰⁰ Instead of this, the joint company of the two businessmen, Gelaco-Vaduz, received unsecured loans from the MKB from 1984 that totalled 150 million dollars by the start of 1988.⁶⁰¹ Béla Markovits, the deputy general manager of MKB who authorised these dubious loans, was still the head of CW Bank in the early 1980s and helped finance Waltham (in the accumulation of hard currency); he moved from here to the deputy general manager position of the MKB in 1985. So again we find ourselves in the same well-known financial circles; moreover, Gelaco also ran up a significant debt to Waltham, which was managed by György Hargitai,⁶⁰² so this is what made up the 186.6 million dollars⁶⁰³ mentioned in the state security report. The loans were used to buy an unused oil refinery in California, Powerine Oil Company, which cost just 40 million dollars, but the remainder, they claimed, was intended to make the refinery operational again.⁶⁰⁴ Yet this deal did not come to fruition and so a salvage loan amounting to another 10 million dollars was needed before the refinery could be reopened.⁶⁰⁵ In a 1989 interview, Gerő maintained that he

599 ÁBTL 2.7.1. NOIJ-1979-III/II-60, 19 March 1979

600 ÁBTL 2.7.1. NOIJ 1984-III/II-224, 15 November 1984

601 ÁBTL 2.7.1. NOIJ 1988-III/II-65, 1 April 1988

602 ÁBTL 2.7.1. NOIJ 1988-III/II-78, 21 April 1988

603 At the time, this was roughly 11.1 billion forints, in today's money around 275 billion forints.

604 Tőke 1989, p, 14

605 László Gerő's response to the Magyar Hírlap article. Disclosed by: Magyar Hírlap, 8 November 1989

contacted Miklós Németh, then Secretary of the MSZMP CC, who called János Fekete to see whether he supported Gerő's latest financial request. The banker assured the future prime minister that he did, and Gerő was sent to Attila Madarasi, Secretary of State at the Ministry of Finance. Madarasi was responsible for the finances of military technology companies and regularly attended meetings of the Defence Committee. He was in contact with military intelligence, since it was with his help that they managed to conceal the financial misdealings of one of MNVK-2's letterbox companies, Universal Piackutató Iroda [*Universal Market Research Office*],⁶⁰⁶ in the mid-1970s, so the state secretary was a key player in the illegal accumulation of hard currency within the state administration. With the help of deputy minister András Patkó, Madarasi – “who was very familiar with the whole affair because I reported to him every day”⁶⁰⁷ – handled the issue of the new loan, which Gerő took with him in cash in a plastic bag.⁶⁰⁸

Changes of personnel and continuity

Succession battles

After analysing the network of the economic and political groups manoeuvring behind the scenes of the hard currency accumulation and Mineralimpex's illegal oil dealings, let's return to the main thread of events. During the investigations into Mineralimpex, and aside from wire taps and surveillance, state security quickly resorted to also conducting searches in order to prove Russay's economic crimes. In summer 1982, they opened his “secret” safe rented at OTP Bank, in which they found 24 OTP savings books and large quantities of gold. They estimated these valuables to be worth around 2 million forints, and

606 Borvendég 2018, p. 77

607 Ilkei 2010

608 Interview by Zoltán Dézsy and Ilkei Csaba with László Gerő.

noted that Russay very rarely opened his safe; the renovation of his apartment was financed from an OTP loan.⁶⁰⁹ In the safe, they also found Russay's will, which revealed his heir to be his wife Olga Szőnyi, an opera singer. Russay endeavoured not just to settle his private affairs, he also wanted to nominate a successor for the general manager's position at Mineralimpex, with whose help he could ensure the accumulation of hard currency through Mineralkontor and reassure the partners benefiting from this – such as Phibro – that his departure would not impede any further cooperation. For the general manager's chair, he selected his deputy, József Tóth.⁶¹⁰

Russay retired on 1 July 1984, and one of his most important objectives in the months prior to that was to obtain an Austrian work permit and position himself as a consultant for one of his previous business partners.⁶¹¹ “Their plan was to conclude two parallel employment contracts: one compliant with Hungarian law, and the other in line with the demands of “Máté”, which the Hungarian authorities would of course know nothing about.”⁶¹² The general manager of the Creditanstalt Bankverein provided assistance in drawing up the employment contract in line with Russay's requirements,⁶¹³ because the Hungarian foreign trade company director wanted to work as an expert for one of the bank's joint ventures during his retirement years.⁶¹⁴ Heinrich Korzil brought the first contract draft to Mineralimpex in spring 1984, but it did not quite cover all that Russay wanted: the director was not satisfied with the remuneration terms.⁶¹⁵ Counterintelligence was always listening in on Russay's office, which is how they learned about the first draft of the Austrian employment contract, and so they conducted a secret search of his Budapest office on 17 April 1984.⁶¹⁶ The outcome of this covert operation was that 100

609 ÁBTL 2.7.1. NOIJ 1982-III/II-119, 29 June 1982

610 ÁBTL 2.7.1. NOIJ 1984-III/II-30, 13 February 1984

611 ÁBTL 2.7.1. NOIJ 1984-III/II-4, 6 January 1984

612 ÁBTL 2.7.1. NOIJ 1984-III/II-21, 31 January 1984

613 ÁBTL 2.7.1. NOIJ 1984-III/II-28, 9 February 1984

614 ÁBTL 2.7.1. NOIJ 1984-III/II-53, 15 March 1984

615 Ibid.

616 ÁBTL 2.7.1. NOIJ 1984-III/II-78, 20 April 1984

Swiss francs, 400 West German deutschmarks and 34,000 Hungarian forints were found in Russay's hunting boots, along with – a relatively insignificant amount of – other currency; but the contract was nowhere to be found. In the meantime, the Ministry of Foreign Trade issued Russay's foreign work permit, which was for a role at an Austrian firm as a financial/investment adviser and market researcher.⁶¹⁷

In connection with Russay's retirement, Hungarian state security noticed that the Austrian trade attaché serving in Budapest was taking a keen interest in and actively monitoring events. Ladislaus Wagner was an old acquaintance of Russay's: when Russay worked for civilian intelligence, the Austrian trader was marked as a target for him by his secret service superiors, along with Heinrich Korzil. It transpired that Wagner – who was managing director of Mineralkontor at that time⁶¹⁸ – regularly brought cash to Russay from Vienna, the equivalent of roughly half a million forints to Budapest every year.⁶¹⁹ Also concerned about the change in management was Gábor Győri, the boss at Monimpex, whose role in this matter is not yet clear based on state security documents, but, thanks to the listening devices, we do know that Russay promised Győri "he would obtain the new general manager's support in his case."⁶²⁰

József Tóth took over the position of general manager from Russay "knowing of his predecessor's criminal activity, [...] but, after his appointment, he took no action to liquidate the business structures in place that were harmful to the people's economy, and concealed the information in his possession from the supervisory and other competent bodies. During his official relations with us, he never mentioned the information he was party to,"⁶²¹ reveals the state security report. So the members of the network behind the oil dealings had

617 ÁBTL 2.7.1. NOIJ 1969-III/II-169, 29 August 1984

618 ÁBTL 2.7.1. NOIJ 1985-III/II-78, 24 April 1985

619 ÁBTL 2.7.1. NOIJ 1984-III/II-145, 25 July 1984

620 ÁBTL 2.7.1. NOIJ 1984-III/II-81, 26 April 1984 Zoltán Dézsy accepted an invitation from Gábor Győri when preparing his investigation report. Győri essentially tried to bribe him not to continue writing it and preparing the programme. Zoltán Dézsy never managed to figure out exactly what the link was between the directors of Mineralimpex and Monimpex with regard to the crimes.

621 ÁBTL 2.7.3. Szakelosztó 6-7/784/88 Case of Dr. József Tóth, 9 November 1988

nothing to fear. In fact, not only did he continue and support the illegal dealings started by Russay, he tried to set up even stronger positions to run the system. Russay and Tóth “agreed that “Márk” (József Tóth) would also chair the Austria-Hungary Relations Committee at the Hungarian Chamber of Commerce. This was advisable, according to “Máté” (István Russay), so that nobody else would intervene, it was better for them to keep control of things.”⁶²² József Tóth’s career at the chamber did not come to an end, a report in 1988 revealed he would likely take on the role of chairman.⁶²³

The subsequent fortunes of István Russay did not go quite as smoothly. With the help of Ladislaus Wagner, he did manage to obtain the documents needed for an Austrian work permit, and he also had a job in Austria on paper: according to a contract, he earned 60,000 Austrian schillings per month for an advisory role.⁶²⁴ Yet according to Korzil he had no specific job or work in Vienna, and so the retired director was particularly bored in the Austrian capital.⁶²⁵ Moreover, the promised job in the contract existed only on paper, and, according to state security information, he had no actual income, and so under the rules back then for foreign work permits he had to transfer home 20 percent of his alleged salary from his own pocket.⁶²⁶ Ladislaus Wagner tried to help him settle in Switzerland instead of Austria, but the Swiss embassy not only refused this request, they did not even issue him with a tourist visa, citing the suspicions of western secret services that he was a spy.⁶²⁷ Unfortunately, the civilian intelligence materials do not say why Russay was considered in Switzerland to be an eastern spy; perhaps at that time their records showed that the Ministry of Interior had tried to turn him – as a Ministry of Foreign Trade official – and use him as a double agent against US intelligence. Whatever information the Swiss authorities had, the fact Russay was prevented from entering the country meant he was at risk of not being able to access his safes.

622 ÁBTL 2.7.1. NOIJ 1984-III/II-81, 26 April 1984

623 ÁBTL 2.7.3. Szakelosztó 6-7/784/88 Case of Dr. József Tóth, 9 November 1988

624 ÁBTL 2.7.1. NOIJ 1984-III/II-217, 5 November 1984

625 ÁBTL 2.7.1. NOIJ 1985-III/II-42, 1 March 1985

626 ÁBTL 2.7.1. NOIJ 1985-III/II-43, 4 March 1985

627 ÁBTL 2.7.1. NOIJ 1985-III/II-28, 11 February 1985

Wagner recommended that Korzil should transfer one million schillings in Russay's name and on his behalf "to support the main Austrian government parties." This would enable him to receive Austrian citizenship and thus open the barrier at the Swiss border too.⁶²⁸ The archived materials do not reveal whether the two businessmen accepted the good advice, but Russay became an Austrian citizen in spring 1986 with the backing of the Austrian Ministry of Foreign Affairs and the chamber of commerce in Vienna.⁶²⁹ Yet obtaining citizenship made it no easier to gain access to his bank deposits, since he was unable to give reassuring answers to the tax authorities about the origins of the savings on his various Austrian, Swiss and allegedly American accounts, so they would have deducted a substantial proportion of any withdrawals as income tax.⁶³⁰

Civilian intelligence reports reveal that a new situation began to take shape by spring 1985: the retired and ailing Russay increasingly became a burden to the network, and he was probably less inclined to cooperate too, so the concern was that he would try to hide the contents of the accounts and safes in his name from his employers, and use the illegal assets for himself and his loved ones. This was also indicated by his firm demands. Back in 1975, Korzil and Russay reached an agreement that the Hungarian would be due half of the commissions paid to Korzil for the deals with Radex and Veitscher-Magnezitwerke. Thanks to the owners of Mineralkontor, the two Austrian companies (which merged in 1993) obtained the exclusive right to supply the fire-resistant materials needed for metallurgical production in Hungary, while they were also key partners in various bauxite and aluminium contracts. The owners of Mineralkontor received a commission of 4 percent on the business, which was transferred to the account of a Liechtenstein company, Merta, registered in Korzil's name.⁶³¹ Hungarian metallurgy needed 250–300 million schillings worth of fire-resistant lining every year, so 10–12 million schillings were transferred

628 ÁBTL 2.7.1. NOIJ 1985-III/II-43, 4 March 1985

629 ÁBTL 2.7.1. NOIJ 1986-III/II-53, 18 March 1986

630 ÁBTL 2.7.1. NOIJ 1985-III/II-43, 4 March 1985

631 ÁBTL 2.7.3. Szakelosztó 6-7/170/88, 7 April 1988

to Merta's account from this contract alone.⁶³² Russay thought it was time for half of the assets on the Merta account to be transferred to his own company (presumably the Vaduz company in his name, Mintrans Establishment⁶³³), and tried to persuade Korzil to sign a notarised contract to that effect, which the Austrian businessman firmly rejected.⁶³⁴ They were unable to resolve the issue to everyone's satisfaction because Heinrich complained months later that Russay was constantly badgering him and it was becoming a burden.⁶³⁵

István Russay, with whose help the system of contacts was established from the early 1970s that enabled millions of dollars to be smuggled out of the country, had become superfluous. By the summer of 1986, the people behind the economic crimes no longer had to fear Russay harming them: the former director was taken to hospital following a sudden deterioration in his health, and his illness was swift, and terminal.⁶³⁶ That same summer, alongside his constant stream of hospital treatments, Russay focused on securing his wife's inheritance. He authorised Olga Szőnyi to dispose over his assets abroad – his bank deposits, securities and companies.⁶³⁷ István Russay passed away on 11 September 1986. Many people had their eyes on his inheritance, but nobody presumably expected the state security apparatus to grind into action.

Collection time for the state

The Ministry of Interior received no real support from party and state leaders to continue the investigation. There was practically no feedback on the signalisation reports either, yet the ministry obligingly conducted its work. On the other hand, however, they did not want to hush the matters up directly, and nobody wanted to explicitly call civilian intelligence off the investigation

⁶³² Ibid.

⁶³³ Ibid.

⁶³⁴ ÁBTL 2.7.1. NOIJ 1985-III/II-102, 29 May 1985

⁶³⁵ ÁBTL 2.7.1. NOIJ 1985-NOIJ-153-160/9, 15 August 1985

⁶³⁶ ÁBTL 2.7.1. NOIJ 1986-III/II-115, 17 June 1986

⁶³⁷ ÁBTL 2.7.1. NOIJ 1986-III/II-130, 8 July 1986

either. Before he died, Russay did not actively intervene in the events, but a huge amount of data and evidence was collected over the years. Alongside the wiretaps, they had material evidence too, since they conducted various searches during which they took photos of meeting minutes and contracts. For example, they had roughly 300 photos of the secret search conducted during the 1985 visit of the Phibro delegation. These were mainly of documents on the company's business activity that they laid their hands on then,⁶³⁸ but during Korzil's stay in Hungary, photos were taken of various bank statements and documents on business activities in Poland, Czechoslovakia, East and West Germany.⁶³⁹ Based on this, counterintelligence found that Korzil ran similarly structured companies in various socialist countries, but only in Poland did this lead to criminal law proceedings. Similarly to Mineralkontor, there was a Polish-Austrian joint venture in Heinrich Korzil's company network called Interminex, which was headed up by Tyrański Kazimierz, who was sentenced in the early 1980s by the Polish authorities for corruption and other economic crimes. It was not only Korzil who was implicated in this, but also Ladislaus Wagner, and the Polish authorities had damning evidence against them, so for two years they did not dare enter the country.⁶⁴⁰ Tyrański, who was director of the Polish company Minex, was handed a sentence of 15 years' imprisonment in December 1980. The Hungarian investigative authorities contacted Polish state security and requested information related to Hungary that had come to light during the investigation. This was handed over by the Poles, and the Hungarians learned where Korzil stores the documents on his dealings, for example.⁶⁴¹

Most of the documents on the hard currency accumulated by Mineralkontor and Mineralimpex, i.e. on the assets collected by Russay, were in the possession of Olga Szőnyi by this point, while the wiretaps revealed that Korzil was to arrive in the country on 25 September 1986 for a meeting with the widow, and

638 ÁBTL 2.7.1. NOIJ 1985-III/II-74, 18 April 1985

639 ÁBTL 2.7.1. NOIJ 1985-III/II-78, 24 April 1985

640 ÁBTL 2.7.1. NOIJ 1985-III/II-61, 28 March 1985

641 ÁBTL 2.7.1. NOIJ 1985-III/II-156, 17 August 1985

he would be bringing the documents in his possession on Russay's assets.⁶⁴² The intelligence service planned an operation to gain copies of the documents, which they duly did during searches of the widow's apartment and Korzil's hotel room.⁶⁴³ The meeting between the two was recorded, and it transpired that Russay had current accounts and safes with at least two banks each in Austria and Switzerland, while part of the money was invested in stocks. Olga Szőnyi asked Korzil to bring two music scores from their apartment in Vienna, which contained the password to open the safe at one of the banks in Switzerland.⁶⁴⁴ Counterintelligence organised another operation to acquire the scores, and a covert search was performed in Olga Szőnyi's home, during which they found that the documents on the foreign assets "were still in their original place", so the accounts and safes had likely not been touched, and they made copies of the score to Richard Strauss's opera *Salome*, which contained the password to open the safe.⁶⁴⁵ A special operative team worked on decoding the password hidden in the music score.

In the meantime, they opened Russay's safe at OTP Bank in the presence of a representative from PK that was the supervisory authority for joint ventures. The safe revealed "data indicating the existence of illegal foreign assets", but Olga Szőnyi was not willing to make a statement, and denied any knowledge whatsoever of foreign bank accounts.⁶⁴⁶ During the wiretaps, it transpired that the widow blamed her lawyer for the disclosure from the safe of the letter about the foreign interests and the detailed statement about the illegal assets.⁶⁴⁷ With such evidence, there was clearly no longer any point in maintaining a full denial: Heinrich Korzil intimated his willingness to cooperate, and promised the Hungarian authorities he would help to get Russay's assets in Austria back to Hungary.⁶⁴⁸ In a meeting at the border, he handed over a briefcase

642 ÁBTL 2.7.1. NOIJ 1986-III/II-182, 24 September 1986

643 ÁBTL 2.7.1. NOIJ 1986-III/II-185, 30 September 1986

644 ÁBTL 2.7.1. NOIJ 1986-III/II-187, 2 October 1986

645 ÁBTL 2.7.1. NOIJ 1986-III/II-234, 9 December 1986

646 ÁBTL 2.7.1. NOIJ 1987-III/II-14, 21 January 1987

647 ÁBTL 2.7.1. NOIJ 1987-III/II-16, 23 January 1987

648 ÁBTL 2.7.1. NOIJ 1987-III/II-41, 27 February 1987

containing two safe keys, jewellery and documents in German to state security officers.⁶⁴⁹ A few days later, he handed over more information to the people at Hungarian counterintelligence on accounts, savings books and safes at five different banks in Vienna.⁶⁵⁰ Olga Szőnyi was still not willing to cooperate, and still denied the existence of any assets abroad, but counterintelligence kept the pressure on as they had increasingly specific information on Russay's assets. At the time, they also had Wagner under surveillance and wiretapped his conversations, which gave them quite concrete information on where Russay's illegal income had come from. According to preliminary information from state security, the assets that counterintelligence needed to shed light on⁶⁵¹ comprised a certain percentage of the amounts transferred to Korzil from the secret Mineralkontor account, the commission from the business deals with Radex and Magnezitwerke – roughly 160-200 million schillings – and the 1-2 percent backhander on the business with Phibro worth 600-700 million dollars.⁶⁵² (We will see that this was ultimately but a fraction of the actual amounts.) According to Korzil, most of the millions of dollars from Phibro had ended up at Russay's company registered in Vaduz, through which he invested, or rather laundered.⁶⁵³

Olga Szőnyi could not cope with the pressure for long. After civilian intelligence began repatriating her husband's assets, she became worried about being held accountable, and she assisted the state security investigators from the summer of 1987.⁶⁵⁴ By this point, the civilian intelligence officers had been visiting banks in Vienna for weeks, trying to collect what was left of Russay's

649 ÁBTL 2.7.1. NOIJ 1987-III/II-49, 11 March 1987

650 ÁBTL 2.7.1. NOIJ 1987-III/II-54, 18 March 1987

651 ÁBTL 2.7.1. NOIJ 1987-III/II-51, 13 March 1987

652 For easier comparison, the approximate value today can be calculated as follows: at 1987 rates, 700 million US dollars was worth 30.7 billion Hungarian forints, 2 percent of which was more than 614 million forints, or around 16.7 billion forints in today's currency. We add to this the 200 million schilling commission, which in 1987 was worth 651 million forints, and is not the equivalent of 17.7 billion forints. This makes a total of 34.4 billion forints in today's money.

653 ÁBTL 2.7.1. NOIJ 1987-III/II-147, 29 July 1987

654 ÁBTL 2.7.1. NOIJ 1987-III/II-106, 2 June 1987

valuables. It is difficult to put together a full statement of all the identified assets, but presenting the operations carried out can demonstrate the working methods of the Ministry of Interior, as well as Russay and those lobbying behind him, in their attempts to hide the stolen amounts broken down into smaller sums, as well as how, but more importantly where, these were collected by Hungarian counterintelligence. We do not know who gave the order to bring Russay's assets home. It transpires from the civilian intelligence reports that the reports to the senior leadership were sent in vain, nobody reacted, so it is unlikely that the instruction came from the party or state leadership. The preamble to a daily report states that the special operative team of counterintelligence was conducting its work based on an action plan approved by the deputy minister,⁶⁵⁵ and this all suggests that Szilveszter Harangozó, head of the Ministry of Interior's Directorate III and ranked at deputy minister level, managed this sensitive operation. Unfortunately, we cannot ascertain what cooperation there was between the Hungarian and Austrian authorities, but they definitely had to consult on the matter because they were taking action on the sovereign territory of Austria regarding the estate of a person who had received Austrian citizenship before his death.

So counterintelligence launched a "combined operation" by setting up a separate team, whose task it was to identify and bring home the money stolen via Mineralimpex. Initially, they managed to get their hands on 1,328,028 schillings and open two safes in Vienna.⁶⁵⁶ These safes were emptied on 25 and 27 March 1987: on the first occasion, they removed gold coins worth 121,000 US dollars, savings books of 1.3 million Austrian schillings, along with 12,000 Swiss francs, 1,800 US dollars, 1,200 French francs, 2,100 West German deutschmarks, and the key to another safe;⁶⁵⁷ the second safe contained half a kilo of gold jewellery encrusted with diamonds and precious stones, 17,350 Swiss francs, 7,450 West German deutschmarks, 840 schillings, and two other savings books with a total value of 89,700 schillings. Alongside the seized

655 ÁBTL 2.7.1. NOIJ 1987-III/II-223, 17 November 1987

656 ÁBTL 2.7.1. NOIJ 1987-III/II-56, 20 March 1987

657 ÁBTL 2.7.1. NOIJ 1987-III/II-61, 27 March 1987

assets, Korzil also gave the Ministry of Interior's people 1,328,000 schillings along with the related paperwork, which he had collected from Russay's current accounts.⁶⁵⁸ The following month, they managed to transfer the 160-170,000 schillings held by Russay in Switzerland to an Austrian bank account they had access to.⁶⁵⁹

By May 1987, the intelligence service knew of 23 savings books containing 1,345,000 Austrian schillings in total, which jumped to 2,763,000 schillings after the addition of interest, of which only 250,000 schillings were returned to Hungary.⁶⁶⁰

In early summer, they began to look into the assets hidden away in Switzerland too. Olga Szőnyi revealed that some of the safes and bank accounts there could be accessed via a lawyer called Lustenberger,⁶⁶¹ while they found a note written by Russay regarding safe 619 at Schweizerische Kreditanstalt Bank among the documents previously handed over by Korzil.⁶⁶² According to his widow, this is the safe where Russay and Korzil stored the documents regarding their illegal business activity, while the former director kept the capital he invested in gold in the safe of another Swiss bank, Schweizerische Bankverein.⁶⁶³ Olga Szőnyi also admitted that fear drove her to place the keys found in his desk in various different locations after her husband died.

To repatriate the assets identified to date – which intelligence estimated at roughly 5-10 million US dollars at that time – counterintelligence developed an action plan together with Division III/I of the Ministry of Interior, i.e. civilian intelligence, for September.⁶⁶⁴ On 11 September 1987, the Ministry of Interior reported another 236,000 Austrian schillings had been returned to Hungary,⁶⁶⁵ a fraction of the amount identified and accounted for to date.

658 ÁBTL 2.7.1. NOIJ 1987-III/II-63, 31 March 1987

659 ÁBTL 2.7.1. NOIJ 1987-III/II-82, 28 April 1987

660 ÁBTL 2.7.1. NOIJ 1987-III/II-99, 22 May 1987

661 ÁBTL 2.7.1. NOIJ 1987-III/II-106, 2 June 1987

662 ÁBTL 2.7.1. NOIJ 1987-III/II-148, 30 July 1987

663 ÁBTL 2.7.1. NOIJ 1987-III/II-159, 14 August 1987

664 ÁBTL 2.7.1. NOIJ 1987-III/II-171, 3 September 1987

665 ÁBTL 2.7.1. NOIJ 1987-III/II-177, 11 September 1987

For November 1987, we find that they sold 60 kg of gold, clarified the circumstances behind an unnamed holding company and foundation owned by Russay, and repatriated 50,000 Swiss francs to the Central Corporation of Banking Companies (PK).⁶⁶⁶ The report does not say exactly where the amount derived from the sale of the 60 kg of gold was transferred.⁶⁶⁷ In December 1987, another 200,000 Swiss francs, roughly 6 million forints, was returned to Hungary.⁶⁶⁸ In January 1988, currency worth 10 million forints came back to Hungary, and the operative group made preparations for an operation that planned to bring back a further 2.1 million Swiss francs in March.⁶⁶⁹ Yet, by March, the situation had changed, instead of 2.1 million, the transfer was for 12.5 million Swiss francs – estimated by intelligence to be around 600 million Hungarian forints – but this did not arrive in Hungary, it was transferred to an account opened in Hungary by PK, with a note stating that, according to PK, this money could be sent to Hungary at any time. Only a savings book of 50,000 Swiss francs returned to Hungary.⁶⁷⁰ The next large amount was received in August 1988, when some of Russay's shares were sold. This totalled 9 million Swiss francs, but the "transfer of the amount to the bank account previously opened in Austria encountered some difficulties. "PK will take the necessary action to solve the problem,"⁶⁷¹ stated the report, but this short text provides no information as to the nature of the problems, nor on whether the difficulties were overcome and where the money eventually ended up. What is more, further problems arose within a few days. Based on authorisation from Olga Szőnyi (the heir), the bank managing Russay's bonds sold some of them for around 11.5 million Swiss francs, but it wanted a written statement from the widow that the money paid to her would not end up in Hungary,⁶⁷² since Russay instructed the bank that not even a penny of his assets could be

666 ÁBTL 2.7.1. NOIJ 1987-III/II-223, 17 November 1987

667 ÁBTL 2.7.1. NOIJ 1987-III/II-223-225/12, 17 November 1987

668 ÁBTL 2.7.1. NOIJ 1987-III/II-247, 21 December 1987

669 ÁBTL 2.7.1. NOIJ 1988-III/II-21, 1 February 1988

670 ÁBTL 2.7.1. NOIJ 1988-III/II-64, 31 March 1988

671 ÁBTL 2.7.1. NOIJ 1988-III/II-151, 2 August 1988

672 ÁBTL 2.7.1. NOIJ 1988-III/II-156, 9 August 1988

transferred to Hungary or to any other socialist country before he died.⁶⁷³ Yet without her legal counsel, Olga Szőnyi was not willing to sign any statement; after her lawyer arrived, all the bank officials disclosed was that they would transfer the amount to the given account number. The account is not named in the report, but the context of the wording suggests that this money was probably also transferred to Austria.

On 24 August 1988, another 210 million forints worth of currency arrived in Hungary, this time in cash.⁶⁷⁴ Then, on 15 September, counterintelligence brought another 100,000 dollars across the border, which PK handed over to be used in the people's economy.⁶⁷⁵ The 614,000 schillings put aside for Russay's bogus Austrian employment was returned to Hungary in February 1989,⁶⁷⁶ then, in April, another 565,000 Swiss francs was transferred to the account opened in Austria,⁶⁷⁷ the "value" of which, 4,497,700 forints, was "withdrawn by one of the operative officers and brought to Hungary in original banknotes."⁶⁷⁸ In April 1989, one Swiss franc was worth 37.7 forints, thus 565,000 francs was in fact 21.3 million forints, so only a fraction of the total was returned to Hungary.

These listed amounts show the content of the accounts and the safes that were identified by the state security investigators. This does not include the operating capital of Russay's companies or the precious metals (106 kg of gold, 10 kg of platinum and 169 kg of silver),⁶⁷⁹ nor does it contain the value of assets invested in securities, shares and bonds. We do not know whether Russay stored money in any other places apart from the identified bank deposits, but it is clear he split the Mineralkontor profit evenly with Korzil, so only 50 percent of the profit from the misdealings and corruption was in the name of the deceased general manager.

673 ÁBTL 2.7.3. Szakelosztó 6-7/170/88, 7 April 1988

674 ÁBTL 2.7.1. NOIJ 1988-III/II-168, 25 August 1988

675 ÁBTL 2.7.1. NOIJ 1988-III/II-184, 16 September 1988

676 ÁBTL 2.7.1. NOIJ 1989-III/II-40, 24 February 1989

677 ÁBTL 2.7.1. NOIJ 1989-III/II-73, 17 April 1989

678 ÁBTL 2.7.1. NOIJ 1989-III/II-77, 21 April 1989

679 ÁBTL 2.7.3. Szakelosztó 6-7/170/88, 7 April 1988

Counterintelligence worked for more than two years to bring the stolen assets back to Hungary. According to data from April 1988, 1 billion forints in assets were identified, of which 70 million forints had returned to Hungary by this date.⁶⁸⁰ If we base our assumptions on the information collected by state security, namely that the stakeholders exploited the Phibro business for a commission of 10 percent, and Russay received just 1-2 percent of this, then the remaining 8-9 percent ended up elsewhere, and the Hungarian state never had access to it. It is difficult to even estimate just how much Hungary was damaged by the Iranian oil re-exports alone.

All quiet on the eastern front

While state security organised a series of operations to bring back the assets taken abroad by Russay, it was unable to prevent the accumulation of hard currency continuing: according to counterintelligence, the ruinous business structures remained in place under the management of József Tóth – more money probably disappeared during the investigation than was brought back in the meantime by the operatives. In December 1987, state security ordered a covert investigation into the general manager of Mineralimpex on suspicion of corruption causing damage to the people's economy,⁶⁸¹ since their efforts to repatriate to Hungary the money stolen under the auspices of the businesses with Phibro, Radex and Magnezitwerke were in vain, another 20 million schillings were lost in 1987⁶⁸² in trading deals between Mineralimpex and the three companies mentioned. State security found that commissions continued to make their way to Korzil's Swiss bank account.⁶⁸³ In fact, Mineralkontor's secret account was switched to Switzerland to completely frustrate state control over Mineralimpex's subsidiary operations. Despite civilian intelligence

680 Ibid.

681 ÁBTL 2.7.1. NOIJ 1987-III/II-245, 17 December 1987

682 Back then this equated to around 65 million Hungarian forints, roughly 1.7 billion forints in today's money.

683 ÁBTL 2.7.1. NOIJ 1988-III/II-9, 14 January 1988

learning of these cases, it was unable to exert any influence: “In the classified “Árulók” (traitors) investigation, the op. department documented that “Máté” (István Russay) acquired roughly 700 million dollars worth of oil from Iran between 1980 and 1984, and transferred this immediately to the Swiss company of the US firm Philipp Brothers. Hungary lost 10 cents for every dollar on this business (“Máté” received a significant commission from the US company).

In the classified investigation codenamed “Márk”, the op. department examined this business structure and found that it was continuing with the personal and active collaboration of the successor to “Máté”: “Márk” (József Tóth). According to the official documents obtained, he conducted six transactions between October 1985 and February 1988 (worth 238 million US dollars), resulting in losses to the people’s economy of 30.8 million US dollars.”^{684,685} During 1988, he was the intermediary for the supply of further Iranian oil to Phibro worth 100 million US dollars, and the loss factored in exceeded 10 percent.⁶⁸⁶

In addition to their existing corrupt businesses, state security information indicates that József Tóth and Heinrich Korzil lobbied for further deals. They wanted to ensure that all the cement needed for the Danube dam project in Nagymaros was purchased through them. The damage suffered by the Hungarian economy would have stemmed from the fact they were to purchase the material from Dunai Cement és Mészüz [Danube Cement and Limestone Works], and then sell it on to the contractor at a higher price, at a loss to Hungary of 1-2 dollars per tonne (we are talking about roughly 800,000 tonnes of cement here), with the cement going straight from the manufacturer to the place of use, so still within the country, making the intercession of a company in Austria completely pointless.⁶⁸⁷

684 At 1988 prices, this is roughly 1.6 billion Hungarian forints, which would be worth almost 40 billion forints today.

685 ÁBTL 2.7.1. NOIJ 1988-III/II-25, 5 February 1988

686 ÁBTL 2.7.1. NOIJ 1988-III/II-174, 2 September 1988 The loss at the time was around 600 million forints, or 14.9 billion forints in today’s money.

687 ÁBTL 2.7.1. NOIJ 1986-III/II-12, 20 January 1986

There were major differences of opinion between József Tóth and the management of Dunai Kőolajfinomító Vállalat [*Danube Crude Oil Refinery*] as the refinery planned to build a unit that would have been capable of producing lead-free petrol. An Italian company agreed to finance and implement the project, with the refinery paying with its own products in return. Yet the head of Mineralimpex that distributed oil products rejected out of hand what was clearly a favourable offer for the People's Republic of Hungary because the foreign trade company, and those benefiting from the business conducted through it, would have missed out on considerable commissions.⁶⁸⁸ So on the cusp of the political transition, the breaches and violations continued despite all state security investigations: "Talks were held at the Ministry of Foreign Trade between the management of the National Oil and Gas Trust [OKGT] and Mineralimpex KV, moderated by the supervising deputy minister. At this meeting, "Márk" (József Tóth) and the general manager of the OKGT (Z.) had a dispute. It got to the stage that Z, in the presence of the deputy minister, said: the monies are still being siphoned off via Mineralkontor and into the pockets of "Márk" just as happened previously with "Máté" (István Russay). "Márk" did not deny the accusations, and only gave a contrived smile, which those in attendance concluded to mean the accusations could be true."⁶⁸⁹

It is worth pulling together a summary of the sums revealed in this chapter, making the important point that these amounts only cover the money that was in Russay's name and was found by state security. From these sums, we can only include those that ended up in the daily operational summary reports. We can be sure that the state funds squirreled away through Mineralkontor were actually much higher than this, but a quick calculation and comparison provides a sense of the magnitude of the corruption.

The amounts brought and transferred home by state security totalled almost 260 million Hungarian forints at the time, yet the sums reportedly transferred to Austrian bank accounts that did not make it to Hungary totalled

688 ÁBTL 2.7.1. NOIJ 1988-III/II-48, 9 March 1988

689 ÁBTL 2.7.1. NOIJ 1989-III/II-56, 21 March 1989

950 million forints at contemporary exchange rates.⁶⁹⁰ What is most astonishing is that – according to the reports cited above and parallel to the state security investigation – the people's economy was deprived of 2.5 billion forints, indicating that much more money was channelled away during the operation than the operatives managed to uncover. As an interesting comparison, it is worth placing the 3.7 billion forints in total damage identified by state security by the end of 1988 alongside the budget deficit at that time, which in 1989 was HUF 19.5 billion.⁶⁹¹ Thus a fraction of the damage caused by using one foreign trade company (as we primarily only know about the part of the missing assets that ended up on Russay's accounts) accounted for 19 percent of the deficit in 1989!

We obtain a more tangible comparison if we calculate these amounts at their values today in 2017.⁶⁹² The repatriated money totals the equivalent of 6.5 billion forints today, the currency in foreign bank accounts would be 24.6 billion forints in today's money, and the funds that vanished during the investigation are worth 70.8 billion forints today. This is almost 102 billion Hungarian forints!

Epilogue

“MOL Rt. and Baustoffimportkontor GmbH set up a joint venture under the name of MOL Austria GmbH. The documents of the company established as the legal successor to Mineralkontor were signed in the Austrian capital on Friday. According to the press release from the oil company, the formal

690 I used the following calculator for the exchange rates at the time and to convert the amounts: <http://fxtop.com/en/currency-converter-past.php?A=&C1=USD&C2=HUF&DD=01&M-M=09&YYYY=1988&B=1&P=&I=1&btnOK=Go%21>

691 <http://www.arcanum.hu/hu/online-kiadvanyok/TenyekKonyve-tenyek-konyve-1/1990-7B2E/magyarorszag-A343/allami-koltsegvetes-A5D0/az-1989-evi-allami-koltsegvetes-m-ft-A5D3/>

692 I calculated the amounts adjusted for inflation using official pension valuation indices. Appendix 2 to Government Decree 168/1997 (X.6) https://net.jogtar.hu/jr/gen/hjegy_doc.cgi?docid=99700168.KOR#lbj289id96da

signature of the contract was attended by László Pál, chairman of MOL Rt., Zoltán Mándoki, managing director, Béla Cseh, deputy general manager, and, on behalf of the Austrians, Heinrich Korzil, trade adviser and owner of Baustoffimportkontor, Richard Monghy, managing director of Mineralkontor, and György Radnóti, manager of Mineralkontor, among others. Austria was MOL Rt.'s most important export market for many years, and the destination for 60 percent of the company's foreign sales last year. In the past 17 years, the Austrian exports were handled by Mineralkontor GmbH. Forty-nine percent of this company was owned by the trading firm Moltrade-Mineralimpex Rt., and 51 percent by Baustoffimportkontor GmbH. Under the contract signed on Friday, MOL Rt. acquired a 75 percent majority shareholding in the legal successor – still with share capital of 38 million Austrian schillings – by purchasing ownership interests from former founders. This means that the joint stock company takes over the entire 49 percent stake of Moltrade-Mineralimpex Rt. and the 26 percent share of Baustoffimportkontor GmbH. For MOL, this joint venture provides direct market access, through which it can sell its products, fuel, heating oil, diesel and solvents, under better conditions. MOL Austria's business plan this year includes sales revenue of 3 billion Austrian schillings and 0.8-1 million tonnes in product sales,"⁶⁹³ revealed an MTI article from 1997. So Mineralkontor was ultimately bought by MOL Rt., but this did not put an end to Heinrich Korzil's business contacts in Hungary. As an investor, he brought his operating capital back to Hungary – a large part of which originated from money rescued/stolen from Hungary in the 1970s and 1980s – and he appeared in the news as the majority owner of DBK GmbH and Baustoffimportkontor GmbH in the early 2000s as the saviour of the Dorog coal basin: he acquired the briquette factory in Tokodaltáró, and wanted to relaunch production.⁶⁹⁴

József Tóth was the general manager of Mineralimpex until 1996, then he was the deputy general manager of Moltrade-Mineralimpex Rt. until 1999. Between 2000 and 2002, he was the managing director of MOL, and the chief

⁶⁹³ Hungarian News Agency (MTI), 28 March 1997

⁶⁹⁴ Szegő 2000

adviser to MOL's chief executive officer from 2002 to 2010. In recent years, he has filled various key positions, chairman of the Board at Olajterv, chairman of the Hungarian Petroleum Association and the World Petroleum Council and honorary professor. At the time of writing, he was the honorary consul general of Hungary to Singapore. In the summer of 2019 – two years after this book was first published – he was made an honorary citizen of Tihany.⁶⁹⁵

695 Mező 2019

CONCLUSION

In this book and based on the state security materials uncovered thus far, I have endeavoured to shed some light on the economic and political background lobbying that took place during the time of the one-party state. This lobbying began no later than the 1960s according to the rhetoric, but certainly not in the spirit, of communist ideology, and instead followed the interests of capitalist money that was deemed exploitative. Those involved were presumably motivated by the fact it had become obvious to them that the Soviet model glorified as the zenith of social and economic development was not viable. Exploiting their positions, and despite the narrow room for manoeuvre provided by the occupying power, they attempted to make the most of, or rather abuse, their privileges. Their responsibility lies in the fact that they acted not in the interests of cementing the stability of the Hungarian economy, but for their own benefit, thereby trapping broad swathes of society in the mediocre conditions of an unviable system and forcing upon them an economic model they themselves did not believe in.

We learned just how close the ties were between this system and certain secret service activities, which naturally depended on foreign and domestic politics. The growth in the role of Hungarian intelligence within the Bloc was an important part of – or antecedent to, if you will – these economic crimes, which led to the establishment of contacts in the west and an understanding of the operation of the capitalist world. It is also clear that the indirect financing system set up to support communist parties in the west served as a template for the insiders to create a network for accumulating hard currency based on a similar framework, which provided an opportunity to divert some of the profits of state foreign trade to offshore companies. It remains to be answered just how much the outsourcing of profitable foreign trade business to western joint ventures influenced the country's economic performance, and whether

the trade balance would have closed with a surplus more often in this period if these deals had remained in the hands of Hungarian state-run companies.

It is impossible to unravel the network of “customers” – those pulling the strings as it were. During the communist era, it would have been impossible to commit such severe crimes unnoticed for so many years without the knowledge of senior leadership, so it is difficult to cast doubt on the involvement of the senior party leaders. Fortunately, we find evidence in the materials available publicly for many years now in the archive of the manipulations to accumulate hard currency by Mineralimpex, showing that the opposing civilian investigation authority sent reports to the highest levels of the government and party on the crimes for years, but the decision-makers did not want or were perhaps unable to take action to prevent the crimes they were aware of. Thanks to the reports, however, it became possible to identify some of the party leaders responsible. One may rightly ask whether István Russay was not just a straw man in the hands of the lobby behind him. The pursuit of his estate allows us to conclude that such a possibility cannot be ruled out. In this case, however, certain groups must have deliberately prepared for the collapse of the system and for the transfer of state assets. Moreover, the story raises the issue of conflicts between various interest groups among senior party leaders. Some of Russay’s backers can be named based on the documents that remain, but the efforts to bring the assets back to Hungary allow us to conclude that there was a group with opposing interests which tried to undermine the network behind Russay, yet in a way that avoided anyone being called to account, ensured there were no criminal proceedings, and kept everything out of the public eye.

The role of the occupying Soviets cannot be ignored when examining the situation either. By tracking the careers of the key figures, we learned of their Soviet ties, and that almost all of them had some links to the Soviet Union. One of the main lobbyists, István Salusinszky, began his career as a trade adviser in Moscow, but György Hargitai, who later managed the Waltham affairs, spent a lot of time in Moscow too. There is no doubting the connection between László Gerő and the Soviet secret services. It was also no coincidence that Heinrich Korzil ended up at the heart of such a profitable business, while János Fekete had ties to Soviet state security from the 1940s. There can therefore be no doubt

that the operation of the network was facilitated by Soviet stakeholders.

The economic crimes revealed in the book influenced Hungary's fortunes for many years. Alongside the poor choice of exchange rate policy – the significance of which was highlighted by Gergely Szabó upon examining the national debt⁶⁹⁶ – the foreign trade deficit propelled the country's level of debt to astronomical proportions. Yet the assets stolen from the country did not disappear without a trace, some of the money certainly returned around the late 1980s and early 1990s as operating capital, subject to substantial tax breaks. The democratic powers in the country at the time of the political transition presumably had little knowledge of this, with the public knowing even less. While there were public figures that did try to draw attention to certain connections at the time, they were branded as conspiracy theorists for lack of any evidence. In the meantime, there was a vital need for capital to come into the country, and the absence of information meant it was impossible to filter out the companies that had been founded in morally highly dubious circumstances – as outlined in this book – in the 10-15 years before the transition took place. Consequently, they enjoyed the same benefits as all other investors. The change in political regime did dismantle the dictatorial framework and a political break was made in 1990, but, partly for the reasons outlined in this book, the line drawn in the economic sand was less distinct. The most important conclusion to be drawn from the stories in this book is that, in contrast to the generally held belief, the maintenance of an acceptable quality of life was nowhere near the sole reason for the indebtedness of Kádár's Hungary.

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APPENDIX

Abbreviations

áb.	state security
ÁBTL	Historical Archives of Hungarian State Security
ÁÉB	Általános Értékforgalmi Bank (<i>General Banking and Trust</i>)
AG	Aktiengesellschaft
AP	Associated Press
AS	Anpartsselskab
ASIO	Australian Security Intelligence Organisation
ATS	Austrian schilling
ÁVH	State Protection Authority
BÁV	BAV Auction House
BM	Ministry of Interior
BRFK	Budapest Police Headquarters
BP	British Petroleum
CDC	Control Data Corporation
CHF	Swiss franc
CIA	Central Intelligence Agency
CIB	Central European International Bank
CIC	Counter Intelligence Corps
COCOM	Coordinating Committee for Multilateral Export Controls
CW Bank	Central Wechsel- und Creditbank
DHCS	Southern Group of Forces of the Soviet Army
DM	West German deutschmark
D.P.	Dataproducts Corporation

EGK	European Economic Community, EEC
EMO	Elektromodul (<i>Hungarian Electrotechnical Component Trading Company</i>)
EVIG	Egyesült Villamosgépgyár (<i>United Electrical Machinery Factory</i>)
FBI	Federal Bureau of Investigation
FIJET	Fédération Internationale des Journalistes et Écrivains du Tourisme
FCP	French Communist Party
fn.	<i>fedőnevű</i> , codenamed
Ft	Hungarian forint
GmbH	Gesellschaft mit beschränkter Haftung
GRU	Glavnoje Razvedivatyelnoje Upravlenyije (<i>Soviets' Second Department for Intelligence</i>)
Hírszöv	Telecommunication Cooperative
HM	Ministry of Defence
HUF	Hungarian forint
IBM	International Business Machines
IPV	Tourism Propaganda and Publishing Company
ITT	International Telephone & Telegraph
ITT SRT	ITT Standard Radio and Telephone
KAO	Public Administration and Administrative Department
CC	Central Committee
KFKI	Central Research Institute for Physics
KGB	Komitet Goszudarsztvennoj Bezopasznosztyi (<i>Committee for State Security, Soviet Union</i>)
KGST	Council for Mutual Economic Assistance, Comecon
KKM	Ministry of Foreign Trade
Ltd.	limited liability company
Mahart	Hungarian Shipping Company
MKB	Hungarian Foreign Trade Bank
MNB	Magyar Nemzeti Bank

MNK	People's Republic of Hungary
MNL OL	Hungarian National Archives
MNVK-2	Military Intelligence Division 2 of the General Staff of the Hungarian People's Army
MOM	Hungarian Optical Works
MÚOSZ	National Federation of Hungarian Journalists
MSZMP	Hungarian Socialist Workers' Party
MTI	Hungarian News Agency
MZSVSZ	World Federation of Hungarian Jews
NATO	North Atlantic Treaty Organisation
GDR	German Democratic Republic
NEB	Committee of National Remembrance
NGKT	International Economic Relations Secretariat
NKVD	Narodnij Kommiszarjat Vnutrennih Gyel (<i>People's Commissariat for Internal Affairs, Soviet Union</i>)
NOIJ	Daily Operational Information Report
FRG	Federal Republic of Germany
NÚSZ	International Organisation of Journalists
ICP	Italian Communist Party
OMFB	National Committee for Technical Development
OPEC	Organisation of the Petroleum Exporting Countries
OTP	National Savings Bank, Hungary
PK	Central Corporation of Banking Companies
PRO	Political Police Department
rt.	joint stock company
SCS	Strafa Control System
no.	number
SZT tiszt	top-secret officer
tmb.	secret collaborator
TTF	scientific and technical revolution
tük.	management of classified documents
Ibid.	in the same place

USA	United States of America
USD	US dollar
VKF	chiefs of staff
ZDF	Zweites Deutsches Fernsehen
ZIL	Zavod imenyi Lihacsova (<i>luxury Russian car</i>)

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The Ages of the Impexes

By the beginning of the 1970s, an economic interest group strengthened in Hungary which had an increasing influence on the operation of the one-party state. With the support of the secret service and the help of financial experts, the heads of the state foreign trade companies, the 'Impexes' were given the unique opportunity in the Eastern Bloc to freely establish businesses in the capitalist West by connecting to a western financial network. By boosting intermediary trade and establishing a network of offshore-type companies they switched on their money pump to systematically plunder and indebt Hungary. The Kádárián secret service – especially the military intelligence – transferred black money into secret bank accounts via an uncontrollable system of secret commissions and 'constitutional costs' to be able to partly finance the acquisition of forbidden COCOM-listed items for Moscow.

The way how Hungarian companies deceived the alert American intelligence when they smuggled state-of-the-art technologies to the eastern side of the Iron Curtain is reminiscent of an episode of a spy film. The activity of the network was tainted with economic abuses and financial frauds. The network also invaded the energy sector and embezzled hundreds of millions of dollars from the country with the help of the 'oil mafia' of the time. As the change of political system was drawing closer, the network paid more and more attention to nurturing a new political elite loyal to them.

