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CONTENTS

Introduction.....7

JÓZSEF Ö. KOVÁCS

The Struggle for Land: Social Practices of the Veiled Communist
Dictator-ship in Rural Hungary in 1945. 11

ISTVÁN GALAMBOS

Dreams Allotted: The Land Distribution of 1945 in Keszthely. 33

BARBARA BANK

Hungarians in the Soviet Labor Camps 59

ISTVÁN ÖTVÖS

Show Trials and Politics in Post-War Hungary79

RÉKA KISS

1956: Discourses and Reprisals 93

VIKTOR ATTILA SOÓS

An Agent's Story from Two Perspectives: The Portrait of Agent "Mátraí"
Based on His Confessions and the Documents of Hungarian State Security. . 123

BERNADETT WIRTHNÉ DIERA

The Situation of the Catholic Church and Youth Pastoral Care in Hungary:
A Presentation of Operation "Black Ravens" 163

| | |
|--|-----|
| BENCE CSATÁRI | |
| The Popular Music Policy of Hungarian Radio in the Kádár Era..... | 189 |
| | |
| ÁRON MÁTHÉ | |
| The Hungarian Legacy of Soviet “Anti-Fascism” and the Issue of the Criminalization of the Communist Dictator-ship: Can Communist Ideology Come in Red, White, and Green?..... | 205 |
| | |
| STEFANO BOTTONI | |
| “Mutually Beneficial” Business: Inter-Party Hungarian-Italian Economic Relations during the Cold War. | 245 |
| | |
| ZSUZSANNA BORVENDÉG | |
| Journalists in the Web of the Soviet Committee for State Security..... | 271 |
| | |
| ANITA M. MADARÁSZ | |
| Culture and Education in the Service of Politics: Methods of the United Kingdom for Gathering Intelligence on Communist Countries, According to the Hungarian Secret Services..... | 297 |
| | |
| Authors | 323 |

STEFANO BOTTONI

“MUTUALLY BENEFICIAL” BUSINESS: INTER-PARTY HUNGARIAN-ITALIAN ECONOMIC RELATIONS DURING THE COLD WAR

A “GRAY ZONE” OF EAST-WEST RELATIONS: METHODOLOGICAL REMARKS

The study of relations between Italy and the countries of the Soviet Bloc has so far devoted little attention to economic and financial contacts between them. This is due partially to a lack of accessibility to Italian historical sources, and partially to the reluctance of historians to deal with themes that are susceptible to politicization and easily made the subject of public discourse. Economic and political factors continue to play a secondary role in the immense body of literature regarding the history of the Italian Communist Party (*Partito Comunista Italiano*, PCI).¹ Recent research regarding relations between the PCI and the communist parties of Soviet Bloc countries have focused primarily on their political and institutional aspects.² One of the few exceptions is Valenti-

¹ Cervetti 1993; Gozzini–Martinelli 1998; Guerra 2005.

² For general information, see Garzia et al. 2011; for information regarding Romania, see Santoro 2007, 1119–1148; for an examination of the Italian Communist Party’s foreign activities, see Pons 2006, and for an analysis of the PCI’s contradictory relationship with opposition movements in Eastern Europe, see Lomellini 2010.

na Fava's pioneering research on the transfer of technology in the automobile industry. In 1966, Fiat President Vittorio Valletta and the representatives of the Soviet government signed an agreement, which led to construction of the giant automobile-manufacturing Volga Automobile Plant (*Volzhsky Avtomobilny Zavod*, VAZ). The Fiat-Soviet plant signaled the entry of the Soviet Union into the "Automotive Century", and resulted in the first massive East-West transfer of technology and know-how in the automobile sector. Fava's research underscores the reasons Fiat was interested in the Soviet market, highlighting how the deal had been coordinated with the Italian entrepreneurial elites with backing from the United States. The research also sheds light on the different and not always "legal" channels Fiat used to enter in the Soviet market, with a special focus on Fiat's agent in this area, Piero Savoretti.³

Journalists and analysts interested in the economic relations between the Italian Communist Party and its Soviet Bloc counterparts have published the results of their investigations in books that, although rich in data, nevertheless focus on the informal, semi-legal, or even illegal trade that Italian political and social organizations, primarily the PCI and the Italian General Confederation of Labor, conducted in Eastern Europe.⁴ Among the memoirs that have focused on the Eastern European economic activities of these organizations, two stand out, one of which is the exceptionally well-documented volume of Giuseppe Averardi, a former leftist political official from Italy,⁵ while the other is *Vodka Cola*, one of the most thorough investigations of the East-West commercial network that developed in the 1970's, by the enigmatic Charles Levinson, whom authoritative sources claim worked with the support of the Western secret services.⁶ Although historiography produced in Hungary quickly liberated itself from ideology and underwent significant methodological development in the post-communist period, it still tends to examine Cold War era East-West relations – particularly those concerning Italy,⁷ the policies of the Holy See toward the Soviet Bloc, and the religious policies of the Kádár regime in Hungary⁸ – from a political-diplo-

³ Fava 2013.

⁴ Riva 2002; Selvatici 2010.

⁵ Averardi 2000, primarily chapter IX.

⁶ Levinson 1978.

⁷ An incomplete list of relevant works: Somlai 1996, 95–103; Somlai 2007, 239–259; Pankovits 2005; Andreides 2008a; Andreides 2008b, 156–176; Misur 2010; Csorba 2013.

⁸ For more details, see Szabó 2005; Fejérdy 2010, 361–374, and Fejérdy 2011.

matic standpoint, with little attention to economic factors. Meanwhile, research taking place outside of Hungary reveals the importance of economic and scientific-technical cooperation between countries that belonged to the opposing Eastern and Western political and military blocs before 1989.⁹

The present work will attempt to answer three questions regarding Italian-Hungarian economic relations during the Cold War era. First, how was it possible to harmonize different ideologies for the sake of business? Secondly, how did the political crises of the Cold War era influence the intensity of East-West trade relations – that is, to what extent was the “protected trade” conducted through party-operated companies dependent on international political trends? Thirdly, what kind of illegal party-financing techniques enabled Hungarian-Italian trade to circumvent Cold War restrictions?

I will seek answers to the questions above through the examination of commercial relations between Terimpex Foreign Trade Company (*Terimpex Külkereskedelmi Vállalat*), a company based in Budapest, and Soresco, an intermediary company based in Milan and directed by the Italian Communist Party. Terimpex played a key role in the Hungarian economy from its foundation in 1949 until 1989, as it held a monopoly on the foreign sale of meat, and controlled the country’s entire agricultural, food, and livestock breeding sectors. Due to the fact that traditional economic activities, such as food processing and animal husbandry, retained a prominent role in the production structures of socialist Hungary, Terimpex quickly became the leading domestic exporter to non-socialist countries, and by the 1970’s, it accounted for around fifteen percent of all Hungarian exports. During the years following the introduction of the New Economic Mechanism in Hungary in 1968, Terimpex operated with a significant degree of autonomy, attaining the unexaggerated informal title of the most important “hard currency factory” in the entire country.¹⁰ In 1969, Terimpex contributed two hundred million dollars to Hungary’s foreign currency reserves, while over the following decade, the company’s dollar-based exports continued to rise, reaching almost one billion dollars by the beginning of the 1980’s. Terimpex thus became a source of both pride and anxiety to the leaders of the Kádár regime, as the company generated a significant barter-based trade turnover with partners in Austria, West Germany, and especially Italy, which was Hungary’s largest

⁹ Eloranta and Olaja 2005; Germuska 2009.

¹⁰ *Szabad Föld*, October 27, 1968.

non-socialist commercial partner from the beginning of the 1960's until the end of the 1980's. As early as 1958, Terimpex carried out ninety percent of Hungary's several million dollar trades with Italy.¹¹ In 1971, the company conducted 110 million dollars' worth of commodities trade with Italian partners, thus accounting for one third of all Italian barter-based trade.¹² The latter proportions changed little over the following two decades.¹³

The present article is based on a wide range of historical sources and documented evidence. As a general rule, Italian archival sources are limited, due to the severe restrictions to the access to important collections, such as the archives of the Ministry of Foreign Affairs, or the operative files of the internal secret service during the Cold War period; however, sources from the Gramsci Institute (*Fondazione Istituto Gramsci*) in Rome concerning the Italian Communist Party's activities represent a valuable, albeit limited, exception to this rule. In contrast, Hungarian sources are abundant and accessible at the National Archives of Hungary (*Magyar Nemzeti Levéltár*), as well as several other public and private institutions. Among these sources, documents from the Central Committee of the Hungarian Workers' Party (*Magyar Dolgozók Pártja*, MDP) are particularly valuable. In the course of researching the latter, I discovered important documents regarding Hungarian-Italian inter-party economic relations in the records of the Hungarian Workers' Party Secretariat and Political Committee, in the confidential correspondence of MDP General Secretary Mátyás Rákosi from 1948 to 1956, in the records of the party's economic section, in coded messages between the Hungarian Ministry of Foreign Affairs and the embassy in Rome, and in reports from Hungarian trade representatives stationed in Rome and Milan. Documents regarding commerce between the Hungarian Ministry of Foreign Trade and enterprises in Italy, which are available until the year 1980, as well as the Terimpex fond at the National Archives of Hungary covering two regrettably brief periods – 1950 to 1956, and 1986 to 1991 – also represent important sources for this research. In addition, the press database at the Open Society Archives at the Central European University in Budapest, and the Terimpex files containing commodities trade analyses, held at the Hungarian Central Statistical Office

¹¹ Pankovits 2005, 80.

¹² *Esti Hírlap*, May 13, 1972.

¹³ See the Foreign Trade Yearbook of the Central Statistics Office for the years 1970 to 1989.

(*Központi Statisztikai Hivatal*), were also helpful sources of information.¹⁴ Finally, intelligence data from Hungarian functionaries involved in Hungarian-Italian barter-based commodities trade before 1989, available at the Historical Archives of the Hungarian State Security (*Állambiztonsági Szolgálatok Történeti Levéltára, ÁBTL*) in Budapest, as well as court documents regarding Hungarian diplomats, state employees, and trade agents, who fled to Italy following the Hungarian communist takeover in 1948 and after the 1956 Hungarian Revolution, also proved to be valuable.

The abundant documentation of economic relations outlined above confirms that from the beginning of the 1950's, Italy played a unique role in East-West relations, in which the PCI, the largest and most influential communist party in the West, served as an especially important intermediary. The activities of business enterprises specializing in East-West trade during the Cold War were not particularly invested in secrecy, as they constituted a parallel economic system, which political and state security officials were familiar with, and largely accepted. Behind the persistent political and diplomatic conflict between the countries of Western Europe and Eastern Europe, there existed a formal and, to an even greater degree, informal sphere of cooperation, and investigations of the transnational economic contacts that took place within these formal and informal spheres of cooperation produced surprising and valuable results. The examination of these connections reveals a complex structure of economic necessity, the clash of political strategies and ideology, state administrative and accounting practices, personal relations, corruption, and espionage activities, which prevailed during the Cold War period as an integral part of everyday life.

¹⁴ The Hungarian Open Society Archive (*Nyílt Társadalom Archivum*, henceforth: HU OSA), 300-40-1. Box 762. Terimpex Foreign Trade Company, 1954–1988.

THE INTRODUCTION OF THE SYSTEM OF COMMERCIAL CREDIT MEDIATION

The intense ideological and military competition between the Soviet Bloc and the Western coalition, and the latter's establishment of the Coordinating Committee for Multilateral Export Controls (CoCom) to oversee exports of strategic technology during the early years of the Cold War, resulted in a sharp decrease in barter-based trade between the two blocs. Soviet policies regarding war reparations and the restructuring of bilateral commercial relations also served to initiate the reduction of barter-based trade. However, the import and export of agricultural products, ranging from meat and grain to tropical fruits, represented one of the few unrestricted domains of inter-bloc trade during the early Cold War period. The Soviet Union and its satellite states utilized dollar-based commodities trade as a means of generating a certain amount of profit, and to provide support to communist parties in the West through legal commercial channels. Terimpex operated as a commercial intermediary company, conducting trade between Hungary, as well as enterprises in Italy, West Germany, France, Belgium, Austria, and Israel.

From December 1948, the presence in Italy of commercial intermediary companies engaged in Italian-Hungarian trade began to grow due to the conclusion of an agreement that promoted bilateral economic relations.¹⁵ Among these enterprises, the Italian company Simes, and the Hungarian company Agrimpex, conducted trade in tropical fruits and agricultural goods, while beginning in late 1950, Socofin, the predecessor of Soresco, functioned as the sole commercial partner of Terimpex. Meanwhile, Nordexpo, a company based in Turin, operated under the direction of Italian Communist Party functionary Augusto Doro, and the enigmatic "Co.Ce.Or.," also appears in source documents on several occasions.¹⁶

Until the middle of the 1950's, the PCI's trade relations with Soviet Bloc countries were supervised by Italian Communist Party Senator Eugenio Reale.

¹⁵ National Archives of Hungary (*Magyar Nemzeti Levéltár Országos Levéltára*, henceforth: MNL OL), Ministry of Foreign Affairs (*Külgyminisztérium*, henceforth: KM) XIX-J-1-j. Italy, 1945-64. Boxes 32-33.

¹⁶ MNL OL, KM XIX-J-1-j. Box 4.

Although press and police sources estimated that the Italian Communist Party generated tens of billions of Italian lira in trade revenue with Soviet Bloc countries during this period, such commerce was conducted via direct payment through diplomatic channels, and therefore not recorded in official PCI communiqués or secret correspondence.¹⁷ On the Hungarian side, the trade office operating at the Hungarian embassy in Rome played an important role in bilateral commercial relations, as did the Italian section of the Ministry of Foreign Trade in Budapest, where high-ranking functionary Ida Tóth oversaw the covert trade for almost three decades under the supervision of a key figure of the Hungarian economic elite of the socialist period, the CEO of the Hungarian Foreign Trade Bank István Salusinszky.

Until 1956, the party-directed commodities exchange system between Hungary and Italy was controlled at the highest political levels. Senator Reale – who, along with PCI Chamber of Deputies member Carlo Farini, supervised the operations of the Italian-language radio program broadcast *Oggi in Italia* [‘Today in Italy’] from Prague –, traveled to Budapest several times a year to “conduct the party’s secret affairs”.¹⁸ Matteo Secchia, the younger brother of PCI Deputy General Secretary Pietro Secchia, and for some years, the personal secretary of party General Secretary Palmiro Togliatti, and PCI Central Committee member and Chamber of Deputies member Edoardo D’Onofrio, also dealt with the Italian Communist Party’s covert economic relations with Hungary. D’Onofrio was responsible for the Italian Communist Party’s internal security and information services, and personally directed the “political work” of the several hundred Italian resistance movement veterans, who fled to Eastern Europe following the defeat of the Popular Democratic Front at the Italian general election of 1948.¹⁹ Since Hungarian officials were unable to engage in direct commercial negotiations with the managers of foreign trade enterprises, communication regarding material support from communist parties in the West was a concern among even the highest echelons of the Hungarian Workers’ Party. During the first half of the 1950’s, Minister of Foreign Trade Gyula Háy, and influential Hungarian

¹⁷ Gozzini and Martinelli 1998, 154–156.

¹⁸ MNL OL, fond (henceforth: f.) 276, section 98. Central Committee, Ministry of Foreign Affairs, storage unit (henceforth: s. u.) 63, 41. 183, 241, 245–246, 269, 367. Reports of Farini’s 1951–53 Hungarian visits. See also APC MF 218. January 3, 1952. Farini’s report of his travels between December 21 to 27, 1951 to East Berlin, Budapest, Warsaw and Prague.

¹⁹ Sechi 2006, 433.

Workers' Party Central Committee member István Friss, composed secret memoranda and reports for the MDP Secretariat, and often had to draw the attention of high-ranking party leaders, ranging from National Planning Office President Zoltán Vas to General Secretary Mátyás Rákosi, to complex Italian-Hungarian financial interconnections.

Beginning in the late 1940's, the Italian Communist Party received "commissions" from its barter-based trade partners in Hungary in exchange for their support of companies operating under the PCI's control.²⁰ The Hungarians used various methods to avoid the strict surveillance of the Italian police in communications with the PCI regarding these "commission fees". In February 1950, while he was in Rome to meet PCI General Secretary Togliatti, MDP Central Committee member István Friss personally delivered a dossier that contained no precise figures regarding such fees to Matteo Secchia.²¹ On July 21, 1951, MDP Foreign Affairs Section official Anna Bebrics informed PCI members of parliament Reale and D'Onofrio that the commission had been paid through the Hungarian National Bank, and that the premium of 101,613 Swiss francs had been credited to an account that the party had opened at a bank in Switzerland.²² In October 1952, the PCI-controlled Socofin received a commission of three million lira – two percent of the total amount transferred to the Italian Foreign Exchange Office (*Ufficio Italiano Cambi*) – following the import of 600 million liras' worth of meat to Italy.²³

The intensive correspondence that took place between the Hungarian Workers' Party and the Italian Communist Party during the 1950's shows that structural flaws undermined both the efficiency and profitability of bilateral trade between the two parties. Both the PCI and affiliated organizations, ranging from trade unions to cooperatives, exploited the party's inside connections with Hungary and other countries in Eastern Europe in order to finance their own economic interests, and did so at a time when Italian authorities kept them under constant pressure. Despite the genuine international solidarity of

²⁰ There is a large amount of documentation regarding the early years, contained in archival files on the Terimpex company. MNL OL, XXIX-G-22-b. Animal and Produce Foreign Trade National Company – Terimpex. Boxes 1–4.

²¹ MNL OL, 276/65/140. Secretariat of Mátyás Rákosi. István Friss's Report for Rákosi, February 28, 1950.

²² MNL OL, 276/98/63, 1.

²³ MNL OL, XXIX-G-22-b, Terimpex. Box 36, item 82.

the Italian Communist Party with Soviet Bloc satellite states, party officials often treated their Eastern European partners in a conceited and selfish manner, while Hungarian trade representatives sometimes concluded percentage-based commercial agreements with companies that were not under the control of the PCI.²⁴ The Hungarian Ministry of Foreign Trade was therefore compelled to issue memos containing the names of Italian companies recommended as commercial partners, as well as those to be avoided. For instance, the Ministry included Simes among the recommended partners, then included individual introductions of the company's agents.²⁵ Although most of the Italian enterprises that conducted business with Hungarian companies were located in Northern Italy, Hungary was only authorized to open a trade office in Milan in 1961, many years after Czechoslovakia and Bulgaria had done so in the early 1950's.

Generating funds for bank commissions and cash donations to the Italian Communist Party represented an extremely difficult task for officials from Hungary and other economically underdeveloped Eastern European countries. This difficulty even sparked occasional conflicts between the involved parties, which had to be resolved by political intermediaries.²⁶ The lack of reliable company directors and financial resources often compelled political officials to personally intervene in commercial transactions that had been intended to remain "secret", which meant that various law enforcement organizations were also able to obtain abundant documentation of these transactions. To this end, they conducted Italian court investigations between 1951 and 1953, and police searches of the headquarters of PCI-operated companies in the autumn of 1954.²⁷

The direct role that the Italian Communist Party played in bilateral trade between Italy and Hungary represented a significant security risk for all companies involved, some of which functioned under the strict supervision of the Italian authorities. Senator Reale, who was dissatisfied with the magnitude and methods of Hungarian-Italian barter-based commodities trade, submitted his

²⁴ MNL OL, XIX-J-1-j. Box 24, 005631. Rome, June 12, 1956: The trade connection of PCI companies with Hungary.

²⁵ MNL OL, XXIX-G-22-b. 1950–1957. Box 5, 02-097. Memoranda of the Ministry of Foreign Trade, Budapest, May and October, 1951.

²⁶ MNL OL, 276/98/63, 181–184. Béla Lastofka, Trade Representative of Diplomatic Representation in Rome. Notes for Comrade Hágy regarding the meeting with Reale and Muratori, October 8, 1951.

²⁷ MNL OL, XIX-J-1-j, box 4, 0028/2. Summarizing Economic Report of the Rome Trade Advisor for the Year 1954.

resignation to General Secretary Togliatti, who, for the second time since the spring of 1949, refused to accept it.²⁸ The subsequent decade of bilateral trade, conducted under party auspices, was marked by frequent scandals, internal party investigations, arrests, and the politically damaging defection of involved Hungarian officials, beginning with György Szekeres, the economic attaché at Hungary's embassy in Rome, who fled to France in 1951, and from there to West Germany. Soviet security officials abducted Szekeres in West Germany, then delivered him to the Hungarian authorities, who brought charges against him that resulted in a four-year prison sentence.²⁹ Information obtained from Szekeres at the time of his flight provided the basis for the subsequent arrest of some of the eighty functionaries involved in the Eastern European business activities of the Italian Communist Party. A telegram sent from Rome in June 1951 by MDP General Secretary Rákosi confirms that these arrests resulted in the suspension of "secret transactions" for a period of several months.³⁰

Communication difficulties and failures prompted the involved Hungarian and Italian parties to reorganize the system of commercial mediation, taking advantage of the fact that the United States supported the expansion of Italy's trade relations with countries in Eastern Europe as a means of promoting postwar reconstruction. At the same time, Italian authorities took steps to circumscribe trade conducted under the auspices of the Italian Communist Party, prohibiting PCI-controlled companies from engaging in the import and export of machinery and precision instruments. According to employees of the Italian Ministry of Foreign Trade, which maintained daily working relations with PCI Senator Reale, Hungary was forced to continue to base bilateral commodities trade with Italy on agricultural products, in order to prevent Italian enterprises from seeking new markets in Eastern Europe, notably Yugoslavia.³¹

In order to strengthen connections with Hungarian enterprises, the Italian Communist Party appointed new managers with only indirect ties to the PCI to lead party-affiliated trade companies. Notable among these new company directors was Vittorio Savi, who served as the CEO of Soresco for more than two

²⁸ MNL OL, 276/65/40, 2–3. Trade Advisor György Szekeres of the Hungarian Embassy in Rome. Report to Mátyás Rákosi Regarding the notes from the PCI, June 11, 1949.

²⁹ Historical Archives of the Hungarian State Security (*Állambiztonsági Szolgálatok Történeti Levéltára*, henceforth: ÁBTL), 3.1.9. V-88814. Investigation Dossier of György Szekeres.

³⁰ MNL OL, 276/65/140 6. Andor Berei to Rákosi, June 8, 1951.

³¹ MNL OL, XXIX-G-22.b. Box 24, item 49.

decades. The first reference to Savi in Hungarian documents is from October 27, 1952, when he arrived to Budapest as a representative of Socofin in order to conduct business with Terimpex. Hungarian officials, including Minister of Foreign Trade László Háý, were so impressed with the young and well-prepared Savi that they entrusted him with the livestock trade, the most valuable sector of bilateral commerce.³²

However, in the first half of the 1950's, a series of interrelated events served to obstruct the above mentioned Hungarian-Italian commercial initiatives. Following the suppression of the Hungarian Revolution of 1956, the West pursued a policy of diplomatic isolation against Hungary's new pro-Soviet regime led by János Kádár. The enormous number of refugees who left Hungary following the suppression of the Revolution served to undermine the domestic commercial sector, thus enhancing the impact of the trade boycott that the West had imposed on the country.³³ Moreover, the bilateral trade mediation system nearly collapsed following the expulsion of Senator Reale, the architect and primary administrator of the Italian Communist Party's covert financing operations, from the PCI in 1957.³⁴ An anonymous and very detailed January 7, 1957 report issued to Italian Communist Party General Secretary Togliatti, which served as the basis for the expulsion of the "treacherous" Reale from the PCI, offers a raw insight into the senator's fundamental role in a complex mechanism of corruption, a role that apparently remained unknown to Italian historiography and collective party memory to this day.³⁵

However, the Hungarian Revolution of 1956 and its aftermath did not have a long-term negative impact on bilateral trade between Hungary and Italy, in spite of the internal crisis that afflicted the Italian Communist Party following the Italian uprising. As early as 1958, Enrico Mattei, the powerful CEO of the Italian oil and gas company Eni, stopped in Budapest on his way home from Moscow in order to discuss business opportunities in Hungary. In the same year, Hungarian authorities provided the Italian Communist Party's daily newspaper *l'Unità* ['Unity'] with 500,000 convertible forints in annual financial support, to

³² MNL OL, XXIX-G-22-b. Box 36, item 82.

³³ MNL OL, 288/23/16: Department of State Economy of the Hungarian Socialist Workers' Party, 101–123.

³⁴ Averardi 2000, 215–218.

³⁵ Archives of the Gramsci Institute (*Archivio Istituto Gramsci*), Moscow Fund, folder 253. Royal Folder. January 6, 1957, 8.

be rendered for a period of three years, for a total of around nine million Italian lira at the prevailing exchange rates.³⁶ The value of bilateral Hungarian-Italian trade doubled from around twenty billion dollars in 1955, to around forty billion dollars in 1960, the third highest total among all of Hungary's Western trade partners after the Federal Republic of Germany, and Austria. The Kádár regime, though it still devoted considerable resources to the repression of the "counter-revolution", had learned the main economic lesson to be derived from the Revolution of 1956. In January 1958, the Political Committee of the Hungarian Socialist Workers' Party (*Magyar Szocialista Munkáspárt, MSZMP*), the post-1956 successor to the Hungarian Workers' Party, adopted a resolution, which established the College for Foreign Trade in Budapest, thereby providing young economists with the opportunity to work at financial institutions in the West, thus contributing to the development of commercial relations with developed capitalist countries and creating the conditions necessary to significantly restructure this branch of Hungary's economy.³⁷ This measure laid down the foundations for the introduction of the New Economic Mechanism in Hungary a decade later, though it did not manage to transform the prevalent international notion that Hungary's economy was based primarily on agriculture and livestock breeding. At the same time, the scarcity of some types of food in Hungary as a result of its export to other countries, such as beef, gave rise to general dissatisfaction and criticism within the Hungarian Socialist Workers' Party.³⁸ After 1958, official MSZMP propaganda struck a more pragmatic tone with regard to the most profitable company in Hungary, as a result of which, in the 1960's, Terimpex became the most valuable foreign currency factory in the country.

³⁶ Pankovits 2005, 63.

³⁷ MNL OL, 288/23/14, 1958.

³⁸ MNL OL, 288/23/14, 1959.

PLAYING IN THE GRAY ZONE: THE RISE OF PROTECTED TRADE

In the early 1960's, the improvement of the international political environment led to a change in basic conditions surrounding Hungarian-Italian trade relations. Contrary to the early years of the Cold War, the flourishing import and export trade between Hungary and Italy conformed to the general trend of *détente* between the Western and Eastern blocs, increasing the sympathy of Italian consumers for a country that they viewed as "exotic" in spite of its geographic proximity.³⁹ In September 1962, after becoming the head of Hungary's diplomatic mission in Rome, József Száll transformed his residence into a meeting place for Italian political officials, businessmen, and artists, which presented Terimpex with special opportunities. Correspondence between this company and the Foreign Currency Management of the National Bank of Hungary from the year 1963 provides an excellent insight into the everyday functions of a system that operated based on "constitutional expenditures".⁴⁰ According to a report on these "constitutional expenditures" between November 1962 and April 1963, which was included in the correspondence, Terimpex exported 166 million Hungarian forints' worth of livestock and frozen meat to Italy during this period. In the spring of 1963, in exchange for "constitutional expenditures", the Hungarian National Bank authorized a transfer of fifteen million Italian lira to Terimpex, then another 11.8 million lira before company employees left for summer vacation.⁴¹

On April 14, 1964, the MSZMP Political Committee formulated a general strategy to be pursued vis-à-vis Italy, based on the perception that Italy was the weakest link in the European Economic Community (EEC). In other words, they believed it would be possible to exploit the country's internal instability in order to expand relations with Western political and military organizations.⁴² In 1961, party and government officials in Hungary devoted special attention to the opening of the country's consulate and trade office in Milan, and to the signing of four-year commercial agreements, which Italy first concluded with a

³⁹ Pankovits 2005, 95.

⁴⁰ MNL OL, MNB TÜK, XXIX-1-aa. Box 471, 0054/1963. Terimpex. I would like to thank Pál Germuska for drawing my attention to this important source.

⁴¹ Ibidem.

⁴² MNL OL, 288/5/332. Official April 14, 1964 Meeting of the Political Committee.

Warsaw Pact member state in 1969. The value of bilateral goods exchanges between Hungary and Italy increased from one hundred million dollars in 1964 to 230 million dollars in 1969, and 440 million dollars in 1973. By this time, the hard currency revenue Terimpex generated through the livestock breeding sector had transformed the company into a significant political factor. In July 1967, Minister of Foreign Trade József Bíró provided the Central Committee of the MSZMP with the following description of Hungary's trade relations with companies connected to the Italian Communist Party:

We work with only two party enterprises in Italy. The most important of these is the Milan-based Soresco company, through which Terimpex conducts the bulk of its trade with Italy (in 1966, trade with Soresco amounted to approximately fifty million dollars, or seventy-seven percent of the direct turnover of Terimpex). Therefore, it is essentially responsible for seventy to seventy-five percent of direct Hungarian exports, even during years with low turnover rates. The company performs its task well, therefore, based on mutual interests, there is no reason to make changes to this connection in the future. However, a non-company factor, Common Market agricultural regulation, could considerably influence turnover prospects.⁴³

The phrase “mutual interests” appears often in Hungarian documents from the 1970's and 1980's regarding foreign trade with companies associated with the Italian Communist Party, as it accurately captures the nature of the relation between the PCI and the MSZMP. Increasingly skilled competition prompted the Hungarian state to expand and diversify its trade activities. In 1969, the Eurocar joint venture was established with the cooperation of Hungarocamion to provide storage for goods transported from Hungary via Yugoslavia to Italy.⁴⁴ In March 1972, a new joint venture called Soresco, which maintained clear continuity with the Milan-based company, was founded in Rome under the equal ownership of Terimpex and the Italian Assobrokers concern, with a registered capital of just two million Italian lira.⁴⁵

⁴³ MNL OL, 288/24/9. July 3, 1967.

⁴⁴ Lányi 1983, 32–33.

⁴⁵ Riva 2002, 405.

However, as early as the late 1960's, Terimpex's privileged trade position in Italy was threatened by developments in the international sphere. First, the European Economic Community began to regulate the import of certain goods, thereby supporting barter-based commodities exchange throughout the EEC. The Italian government's temporary prohibition of meat imports in 1961 and 1962 was the first warning sign of a future of "protected" Hungarian-Italian trade.⁴⁶ In 1968, restrictive measures imposed within the framework of common agricultural policy signified an even greater peril, although Italy's support for Hungarian attempts to limit export losses served to mitigate these constraints. European Economic Community Regulation no. 1805 fixing the import levies on calves, adult bovine animals, beef, and veal, as a means of supporting farmers in EEC member states, particularly France and West Germany, exercised an unforeseen negative impact on the Hungarian-Italian goods trade.⁴⁷ As a result of this customs tariff, meat exports from Hungary to Italy underwent an eighty percent decline in the years 1974–1975, while the country's quota in the Italian meat market dropped from twenty percent in 1973 to five percent in 1975. The sharp decline in meat exports from Hungary to Italy harmed the financial interests of both Terimpex and the Italian Communist Party, which lost the significant revenue it generated through the intermediary company Soresco during a crucial juncture in Italian history.

Diplomatic files show that Hungarian-Italian trade became a significant political issue in Italy during the 1970's. In April 1976, the Italian Communist Party organized an agricultural conference, at which PCI General Secretary Enrico Berlinguer, Agricultural Affairs Director Emanuele Macaluso, and Senator Nicolò Cipolla, who served as an EEC agricultural specialist, assured Hungarian representatives that they could count on the support of the leftwing faction of the Christian Democracy (*Democrazia Cristiana*), including the support of Minister of Agriculture and Forestry Giovanni Marcora, and Prime Minister Aldo Moro.⁴⁸ In the summer of 1977, the European Economic Community lifted the estab-

⁴⁶ MNL OL, XIX-J-1-j. Box 24, 1963.

⁴⁷ European Economic Community Regulation no. 1805 was published in the EEC's official bulletin on July 12, 1974. N. L. 177/27. Source: <http://eur-lex.europa.eu/LexUriServ.do?uri=OJ:L:1974:188:0027:0029:IT:PDF> (Date of access: May 8, 2016.)

⁴⁸ MNL OL, XIX-J-1-j. Box 108, 002969.

lished quotas, partially as the result of Italian diplomatic pressure from the PCI.⁴⁹ The Hungarian Ministry of Foreign Affairs concluded that the country had lost its competitiveness as a result of the fact that the total amount of customs tariffs and various four-percent “commissions” exceeded prices utilized throughout the European Economic Community by nearly twenty-five percent.⁵⁰

As mentioned previously, the key person operating within the “gray zone” surrounding Hungarian-Italian trade operations was Vittorio Savi, who long served as the CEO of Soresco and the Italian representative of Terimpex. The CEO, who was appointed by the Italian Communist Party, oversaw the operations of Soresco with increasing independence as the head of a small company structure that included only three other employees. Savi’s dynamic personality and talkativeness made him a prominent figure within Italian intelligence services, which monitored trade relations between Italy and countries of the Soviet Bloc.⁵¹ Hungarian intelligence services also took an interest in Savi, so in November 1961, they sent secret agent Géza Bíró to Milan under the alias “István Nagy” to serve as an advisor at Hungary’s newly opened trade office, with the specific task of following the movements of Soresco’s CEO and his colleagues. Reports from “István Nagy” and his successor operating under code name “Kapás” offer a unique insight into the informal conditions under which Hungarian-Italian joint ventures functioned at the time, revealing, for example, that Savi and his subordinates prohibited officials at the Milan trade office from dealing with the buying and selling of meat, on the grounds that this activity belonged to the exclusive authority of Soresco and the Rome trade office.⁵²

According to a Hungarian intelligence informant stationed in Italy, Savi did not neglect his direct superiors at the Italian Communist Party. In 1961, he invited Italian Communist Party CD member Giulio Turchi to spend an all expenses paid week in Hungary, as a means of cultivating a friendship with the PCI parliamentary representative for business purposes.⁵³ Savi also maintained contacts with Italian police officials, notably two functionaries from the department of the Milan police dealing with foreign nationals, whom he furnished with infor-

⁴⁹ MNL OL, XIX-J-1-j. Box 103. Report of Ida Tóth, Italian Rapporteur of the Ministry of Foreign Trade.

⁵⁰ MNL OL, XIX-J-1-j, box 108, 002969/1.

⁵¹ Riva 2002, 404–405.

⁵² ÁBTL, 3.2.1. Bt-143 82.

⁵³ ÁBTL, 3.2.1. Mt-8/1, 68–74. István Nagy.

mation regarding Hungarian citizens residing in Italy in exchange for the preferential appraisal of designated visa requests from Hungary. Even before a Milan court ordered police to search the homes of Soresco employees in connection to a spy case surrounding Hungarian undercover military-officer Ferenc Budai in late 1966, Soresco correctly suspected that the Hungarian trade office in the city was, in fact, a military-intelligence headquarters operating under the auspices of the Unified Command of the Warsaw Pact to conduct surveillance on NATO military bases in northern Italy.⁵⁴

Savi was also aware that Hungarian state security and intelligence organizations desperately needed his services, therefore, he was able to exercise coercive influence over his Hungarian partners in Italy. Savi did serve as the CEO of Soresco until 1974, despite his strained relations with Hungarian intelligence services, and the tension and mistrust that tainted relations between the “Italians” employed at the company and the “Hungarians” who operated as spies and informants at the Hungarian trade office in Milan. Savi responded to Hungarian attempts to undermine his position with the indisputable argument that the exposure of the “mutually beneficial” nature of covert relations between a Hungarian state-owned company and the Italian Communist Party would cause inestimable damage to both.

According to a March 28, 1974 report from György Misur, the *chargé d'affaires* at the Hungarian embassy in Rome to Director of the MSZMP Foreign Affairs Department and future ambassador András Gyenes, Hungarian officials were advised to do everything in their power to preserve the position Hungary had obtained on the Italian market, noting that Terimpex had generated a revenue of 170 million dollars via Soresco the previous year and that ninety percent of the Hungarian beef exports to capitalist countries was conducted through the Italian company. Misur stated in the report that “people’s economy-level interests” were dependent on the business operations of Soresco, and that the company provided the Italian Communist Party with a steady source of revenue. For instance, in 1973 alone, it generated a revenue of 200 million to 250 million Italian lira. Misur remarked in his report that the PCI thus generated more revenue

⁵⁴ ÁBTL, O-8-157. Hungarian Trade Office of Milan, 1962–1973.

from Hungarian-Italian bilateral trade via Soresco than the party did through its commercial relations with Soviet concerns.⁵⁵

Although there is no evidence indicating that the Central Committee of the Hungarian Socialist Workers' Party dealt in depth with the issue of Hungarian and Italian economic relations, emergency consultations with Italian Communist Party representatives soon produced results. The position of Savi's confidant, Dr. Stagni, became increasingly untenable, until the PCI was compelled to replace him with the Enzo Gemma, the former CEO of RestItal, one of the party's most important foreign trade companies founded in 1966.⁵⁶ Finally, in April 1976, Italian Communist Party CD member Guido Cappelloni informed officials at the Hungarian embassy in Rome of the PCI's intention to make further changes to the personnel working at Soresco. The party initially tested Gemma's new position in the company through a pensioner serving as a front man, while the two Bologna-based members operated as auditors.⁵⁷ At the same time, the ownership and management rights of Alturist, a company specializing in Eastern European tourist trips, were transferred to the Cooperative League (*Lega delle Cooperative*), under the control of the Italian Communist Party.⁵⁸ The PCI had previously pursued a more diverse strategy regarding party-controlled commercial activity. On November 18, 1975, Armando Cossutta, a high-ranking functionary of the Italian Communist Party, who was familiar with the mechanisms the PCI used to finance its protected Eastern European commerce, notified the Central Committee of the MSZMP that the party had acquired the ownership of the company Italimpex following an agreement with the Italian General Confederation of Labor. In his announcement to the Central Committee, Cossutta remarked that Italimpex had been operating for Hungary for years "to the mutual satisfaction of all of us". At the same time, Cossutta used the opportunity to draw the committee's attention to "the companies operating in Hungary, in which we maintain an interest, in addition to Soresco, RestItal, Esteuropa and Italimpex, of course".⁵⁹

⁵⁵ MNL OL, 288/32/5. Department of Foreign Affairs of the Central Committee of the MSZMP, 98-101. Rome, March 28, 1974.

⁵⁶ Riva 2002, 397-401.

⁵⁷ MNL OL, XIX-J-1-j. Box 108, 002932/1. Personnel changes at Soresco.

⁵⁸ MNL OL, XIX-J-1-j. Box 110, 002528.

⁵⁹ Archives of the Italian Communist Party (*Archivio del Partito Comunista Italiano*), Foreign Section, 084. Hungary, 1974.

In May 1974, a party-finance law went into effect in Italy, which weakened the consolidated mechanism of transferring commissions to open Swiss bank accounts. According to a July 1975 report from the Hungarian embassy in Rome, on January 1, 1975, Italian Communist Party officials requested that Terimpex cease transferring commissions proceeding from the operations of the Soresco joint venture to the previously stipulated Swiss bank account, because the imposition of stricter currency regulations in Italy prevented the PCI from channeling these funds into the country. The relevant department of the Central Committee of the MSZMP thus instructed Terimpex to send part of the PCI's commission to the Hungarian embassy in Rome via the courier service of the Ministry of Foreign Affairs.⁶⁰

The Hungarian National Bank played a risky intermediary role in the new evasive procedures between the MSZMP and the PCI, overseeing the transfer of funds received from Terimpex at roughly six-month intervals to the company's Italian commercial partners in the form of diplomatic parcels. However, most of the invoices kept at the Ministry of Foreign Trade and the Hungarian National Bank were destroyed, leaving little information regarding the amount of money involved in these transfers. Documents of the Hungarian Ministry of Foreign Affairs from the period reveal only the following payments: 365,843 Deutsche Marks in July 1975, and one hundred million Italian lira in December 1975;⁶¹ two payments totaling 300 million lira in 1977;⁶² and two payments totaling 369 million lira in 1979.⁶³ The final transfer in this documentation was the payment of a one hundred million lira monthly installment in December 1983.⁶⁴ However, even this fragmentary documentation clearly refutes the claim that the Italian Communist Party was no longer dependent on financial support from the Sovi-

⁶⁰ MNL OL, XIX-J-1-j. Box 110, 00425/2. Budapest, July 4, 1975. The Terimpex Parcel.

⁶¹ MNL OL, XIX-J-1-j. Box 110, 00425/2. Terimpex transfer. Budapest, December 11, 1975. This source contained the following remark: "Comrade Cappelloni made inquiries to Comrade Kóczyán regarding this matter. He referred to the fact that, according to a message from Budapest, they should have received one hundred million lira at the end of September or the beginning of October. They inquired as to when they could expect this sum. They also scheduled a meeting for the middle of next week with Comrade Kóczyán. I ask for your reply via telegraph as soon as possible. P"

⁶² MNL OL, XIX-J-1-j. Box 103. Terimpex's consignment to Rome by courier until 001822/3.

⁶³ MNL OL, XIX-J-1-j. Box 105. The forwarding of Terimpex consignment/Terimpex-PCI joint enterprise until 004572/8.

⁶⁴ MNL OL, XIX-J-1-j. Box 102, 005945.

et Bloc following the PCI's split with the Communist Party of the Soviet Union in 1981 under the guidance of General Secretary Enrico Berlinguer.⁶⁵

TOWARDS THE FINAL CRISIS: INTER-PARTY ECONOMIC RELATIONS IN THE LATE COLD WAR PERIOD

By the 1980's, the unique business model upon which the "mutually beneficial" relations between Terimpex and Soresco were founded was clearly becoming obsolete. Commissions to the Italian Communist Party in cash or, occasionally, in the form of spa or hunting vacations in Hungary became part of the broad "gray zone" that Italian authorities tolerated, though relegated to the periphery of economic commodities exchange and technical cooperation. However, during the 1970's and 1980's, the PCI continued to use trade in Hungarian meat via Terimpex as a means of covert financing that, according to party functionaries, was more valuable than that derived in similar fashion from Soviet sources.⁶⁶ In fact, the profit from such trades was not reinvested, but transferred to the true corporate ownership, which was the apparatus of the Italian Communist Party.

Until the collapse of the Soviet Bloc, political and ideological imperatives were considered more important than economic rationality. Documents from the foreign affairs and economic department of the Hungarian Socialist Workers' Party and Hungarian state security organs reveal the contradictory circumstances that surrounded foreign trade in relatively open Eastern European economies, such as that of Hungary. Since foreign trade functionaries conducted secret and frequently illegal transactions that involved large sums of money, they were required to possess the highest degree of political reliability. Unsurprisingly, many of these functionaries were covert state security agents or qualified informants. At the same time, the widespread corruption and frequent defections among those involved in Hungarian-Italian commodities exchange made the apparatus

⁶⁵ Cervetti 1993 is the most frequently quoted source regarding this issue.

⁶⁶ See the following previously cited source: MNL OL, 288/32/5, 98-101.

fragile and susceptible to extortion. A very small number of intermediaries operated this trade mechanism, which, in the long term, was harmful to Hungarian interests. In the end, Terimpex was obliged to transfer the profit the company earned via Soresco back to Hungary, even though it teetered on the brink of default in May 1982. During the 1980's, it needed loans from the International Monetary Fund and the World Bank to remain solvent, in order to ensure that the country maintained an adequate reserve of hard currency.⁶⁷

As economists have pointed out in studies of external trade with the West, Hungarian foreign trade officials devoted remarkably little attention to technological research, market studies, and logistics development, which would have made it possible for Hungary to better defend its position on Western European markets.⁶⁸ The fall in global oil prices in 1985, orchestrated by the United States, undermined the profitability of the agricultural and animal husbandry sectors, thus sinking Terimpex into a deep financial crisis. By that time, not even the appointment of proto-capitalist László Ránky as CEO could improve Terimpex's standing.⁶⁹

It is important to note that Terimpex's decline took place within the context of the general collapse of the socialist economic model, while capitalism took root within a pre-planned environment in "competitive" sectors, ranging from animal husbandry to the sale of weaponry in the Middle East. As a result of the unclear distinction between legal and illegal economic activity, capitalist and entrepreneurial culture emerged in Hungary under unregulated conditions, and subsisted on widely accepted, though illicit practices. Eastern Europeans sent to work in capitalist countries, at joint ventures founded in cooperation with Western communist parties, gained experience in both company management as well as "gray" activities, such as corporate espionage, which Soviet Bloc countries conducted largely as a result of the introduction of CoCom. This applied, among other things, to the free-market sale of military technology, primarily to Arab and Southeast Asian countries. The foundation of joint ventures and semi-private commercial banks, in which revenue derived from illegal transactions could be deposited with the help of Soviet Bloc secret services, were of similar or even greater importance. This sector came to occupy a key position

⁶⁷ For details, see Mong 2012, 171–274.

⁶⁸ Lányi 1986; Kunits 1989, 189–200.

⁶⁹ HU OSA, box 762. Terimpex. Radio Free Europe, Hungarian monitoring. February 11, 1986.

within the framework of the Warsaw Pact as a result of Hungary's geographical location, and the political conditions that had emerged as a result of the Kádári-an period of consolidation.⁷⁰

During the 1980's, Soresco was forced to confront a new challenge, which quickly signaled the end of the company's monopoly over the valuable meat sector of Hungarian-Italian bilateral trade. This challenge was interestingly not related to the general political crisis that had emerged within the Soviet Bloc, which, in fact, provided Western companies and credit institutions interested in the "Eastern opening" with previously unimaginable opportunities. From 1983, the challenge was linked primarily to the rising star in Italian politics, socialist Prime Minister Bettino Craxi, who promoted new interest groups and entrepreneurial circles to positions of power on the Eastern European market, which were unwilling to accept communist-controlled trade mediation. Secret reports sent from the Hungarian embassy in Rome to the Ministry of Foreign Affairs in Budapest show that, at this time, Italy's dynamically developing small- and medium-sized industry, particularly that located in the northeastern part of the country, showed particular interest in establishing operations in the Adriatic-Danube region. The various governments of Italy had long impeded the expansion of Italian commercial activity in this region due to their affiliation with the North Atlantic Treaty Organization, and restrictions imposed by the CoCoM. However, some members of the Craxi government supported the efforts of new economic interests to acquire positions on Eastern European markets. The protectionist policies associated with Italian Minister of Finance Rino Formica prevented Hungarian enterprises from importing semi-finished products from Italy, thus forcing them to continue to focus on the agricultural and livestock sectors of bilateral trade, the value of which rose from 500 million dollars in 1985 to 750 million dollars in 1988. Meanwhile, private Italian companies and financial institutions affiliated with various non-communist political forces, such as Fiat, the Italian Commercial Bank (*Banca Commerciale Italiana*), the Sicilian Bank (*Banco di Sicilia*), General Insurance (*Assicurazioni Generali*), the ASSO companies, and Mescia, as well as state-owned companies such as Eni, IRI-Italstrade, and Monte-

⁷⁰ For a general survey, see Kenedi 2007–2008. The Hungarian National Bank, particularly its Vienna-based subsidiary, the Central Wechsel- und Kreditbank, played a key role in the transfer and recycling of money of dubious origin, much of it from East Germany. See Heti Világgazdaság, 2000 (22): 125–128; and Heti Világgazdaság, 2004 (8): 113–115.

dison, signed cooperation contracts and founded joint ventures with Hungarian concerns. These initiatives, unlike their predecessors, operated using company credit for imports from Hungary.⁷¹

The crisis that afflicted the Italian Communist Party in the second half of the 1980's made an unavoidable impact on economic interests traditionally connected to the PCI, as well as the many party-controlled intermediary companies that had relinquished their role in Hungarian-Italian trade to enterprises that entered the Hungarian market directly with the support of the Italian government. Meanwhile, the political changes that had begun in Hungary transformed the legal circumstances surrounding previous bilateral trade. On May 10, 1988, the Central Committee of the Hungarian Socialist Workers' Party approved changes to corporate law in Hungary, which served to accelerate the flow of Western capital into the country's economy.⁷² Meanwhile, the restructuring of Terimpex on December 5, 1989, with a registered capital of 700 million Hungarian forints, resulted in the co-option of the Soresco joint venture. Italy thus remained Hungary's second largest trade partner with an annual export turnover of one hundred million dollars, which constituted around one sixth of the total amount of money moved via the Terimpex group. Soresco and the Trieste-based Eurocar both joined the new semi-private organization. The "new" Terimpex, which continued to operate under the direction of CEO László Ránky, recorded an outstanding profit of 600 million forints in 1990. As Ránky noted at the year-end board meeting, the reacquisition of thirty million forints that had previously been retained in the Soresco company also contributed to this profit.⁷³ The CEO's comment seems to suggest that the "mutually beneficial" and illegal economic links that had connected the communist parties in Hungary and Italy had come to a quiet and smooth end with the change in political regime in Eastern Europe.

⁷¹ MNL OL, XIX-J-1-j. Box 117, 1986 001868/3. Data regarding commodities trade turnover can be found in a memorandum sent from the Foreign Trade Ministry to Council of Ministers Chairman György Lázár in preparation for his October 15, 1986 trip to Italy.

⁷² Ripp 2006, 134.

⁷³ MNL OL, XXIX-G-22. Terimpex. Box 3. Minutes of Board Meetings, 1989–1991. Ordinary Meeting of the Board of Directors of the Terimpex Public Limited Liability Company, December 19, 1990.

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