

# Hungarian economy, policy and the Hungarian American Oil Co. (MAORT)

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## Abstract

The history of implementing commercial oil mining in Hungary is the story of long and thorny endeavours. The result for this small country of becoming an oil producer had been achieved by the steadfastness of purpose and the thorough grounding in the profession of its specialists. They succeeded in discovering the first major hydrocarbon field in 1937 after many failures in the country left without known raw material sources after the Trianon (Versailles) Treaty. The events starting in the following year, 1938 – when the first major Hungarian oil company, MAORT, was founded – have led to the foundation of the present national oil company, MOL Plc. The Hungarian-American Oil Co (MAORT) was founded on July 15, 1938 – with one hundred percent American share capital – for the exploitation of the petroleum and natural gas fields discovered by its predecessor, the European Gas and Electric Company, and the exploration of additional production sites. MAORT had developed into one of the most important companies of the country due to its organization, outstanding performance and ever increasing capital stock and profits by 1941. It was the only significant oil producing company of Hungary till 1949 – its nationalisation. The role played in the national economy was emphasized by the major share of hydrocarbons, primarily by crude oil, in

the Second World War as well as in the post-war restoration and damage compensation.

This publication provides – in addition to the numerous references – an overview about the state actions brought against MAORT in the years 1947-48, the MAORT lawsuit and the conviction of the MAORT management on the basis of malicious prosecution. It also describes the path leading to the settlement in 1978 of the MAORT case saddling the Hungarian-American relations.

## Összefoglalás

### *A magyar gazdaság, politika és a MAORT*

A magyarországi ipari méretű kőolajbányászat megteremtésének története hosszú és rögös út története. E kis ország számára az eredményt, hogy kőolajtermelő országgá válhatott, szakembereinek kitartása, felkészültsége hozta meg. A Trianon után ismert nyersanyaglelőhelyek nélkül maradt országban számos kudarc után, 1937-ben sikerült felfedezni az első jelentősebb szénhidrogénmezőt. A következő évtől, 1938-tól – amikor az első jelentős hazai olajtársaság, a MAORT létrejött – kezdődött események vezettek a jelenlegi nemzeti olajvállalat, a MOL Rt. megalakulásához.

A Magyar Amerikai Olajipari Részvénytársaság (MAORT) 1938. július 15-én alakult meg – száz százalékban amerikai tőkével – a jogelőd European Gas and Electric Company által felfedezett dunántúli kőolaj- és földgázmezők termeltetésére, továbbá újabb lelőhelyek felkutatására. A MAORT jól működő szervezetével, kiemelkedő teljesítményével,

**egyre növekvő alaptőkéjével és nyereségével 1941-re az ország egyik legjelentősebb vállalatává fejlődött. 1949-ig – államosításáig – Magyarország egyetlen jelentős kőolajtermelő vállalata volt. Az ország gazdaságában betöltött szerepét a szénhidrogéneknek, elsősorban a kőolajnak a második világháborúban, az újjáépítésben, és a háború utáni jóvátételben való nagymértékű részesedése emeli ki.**

**A közlemény nagyszámú hivatkozás mellett áttekintést ad az államosítást megelőző MAORT ellenes 1947-48. évi állami akciókról, a MAORT-perről és a MAORT vezetőinek hamis vádak alapján történt elítéléséről. Ismerteti a magyar-amerikai kapcsolatokat megterhelő MAORT-ügy 1978. évi rendezéséhez vezető utat.**

## Introduction

The exploitation of the results of the state-sponsored explorations and the initial concessions [1] were prevented by the events of the First World War and made absolutely impossible by the out-come of the war, tragic for Hungary. The Trianon Peace Treaty had not left any chance at all for rectifying the economic consequences of the war. The economic unity built up between the raw material sources located at the peripheral sections and the processing industries & consumers positioned at the more central areas of the old country had been disintegrated and ceased to exist. Our industrial and transportation systems had been left without raw materials and energy carriers, while the petroleum demand of the country had been increasing continuously.

The issue in the situation arising after the First World War was not only that the oil and gas fields discovered until then remained outside our frontiers and Hungary became again a country importing petroleum – having an essential importance in respect of economic potentials and military strategy – but also the fact that no areas were known at all in the remaining portion of Hungary where promising evidences of petroleum occurrence were found. The petroleum demand of Hungary in 1920 amounted to 70,000 metric tons, representing in our energy balance only 2%, but the share of petroleum and oil products kept on ever

increasing. It was 3.72% in 1928 and already 4.62% in 1939 [2]. The increase in the number of motor vehicles played a decisive role in the rise of petroleum demand. The number of motor vehicles in service increased more than seven-fold from 1923 till 1937 [3].

The ratio of engines operated with diesel fuel at our power generation plants amounted to 3.24% in 1935. Agriculture required also a significant amount: 35% of our petroleum demand was consumed here by the end of the 1930's. Usage for lighting purposes decreased at the same time, and the role of petroleum in the energy supply of our industrial plants strengthened only rather in the period of the Second World War in connection with the considerable alteration of the consumption areas [4].

Our petroleum and oil products import increased rapidly from the year 1920 70,000 metric tons: *it amounted to 136,229 metric tons in 1929 and already to 238,276 metric tons in 1936. This represented significant burdens to our foreign trade balance, not being positive anyways: 13.7 million Pengoes (the Hungarian currency before the war) in 1933 – amounting to 4.39% of our total import in the given year – 13.4 million in 1934, 10.5 million in 1935, 15.3 million in 1936 and 22.3 million Pengoes in 1937* [5].

In spite of the importing difficulties, the import of petroleum and oil products decreased temporarily only during the years of the economic crisis, but increased rapidly afterwards. In lack of domestic mineral oil production and because of the limited possibilities available for imports the capacity of our oil refineries remained unutilized, with frequent shutdowns. Only the exploration of domestic mineral oil sources could provide a solution for the problems – in spite of the promising results of the lignite hydrocracking process developed by professor Varga and implemented at Pétfürdő. The weakened status of the treasure after the First World War did not offer, however, opportunities for investing capital in the extremely expensive exploration activities to be conducted in the internal areas of the country. Although the continuation of explorations sponsored by the treasury was considered necessary, it was recognized that a solution could be provided primarily by assigning the exploration and mining rights to a foreign company dealing professionally with mineral oil mining on the basis of Act No. VI/1911 [6].

## Foundation of MAORT

The financial minister representing the Hungarian treasure and the EUROGASCO representative signed the concession treaty and contract for hydrocarbon exploration and mining, respectively, covering the entire Transdanubian area on June 8, 1933 [7]. The "Treaty" and "Contract" constituted a correct agreement between equal parties and took into consideration extensively the interests of the Hungarian state. In respect of economics it is sufficient to refer only to the fact that all the risks and costs of the expensive exploration were born by EUROGASCO and the Hungarian joint stock company to be formed, while the state received significant shares from the production (15% of oil yielded, 12% of natural and 15% of gas condensate) and, additionally, due attention was paid to considerations aimed at the support of the Hungarian industry and the mitigation of unemployment.

EUROGASCO started the exploration activities deliberately, with scientifically founded methods and modern equipment. Its initial trial borings [8] did not yield satisfactory results, but the wells sunk in the neighbourhood of Budafapuszta in Zala County had created the opportunity for mineral oil production at commercial rate in Hungary [9].

Production from the Budafapuszta No. 2 well started on November 21, 1937. This is the date from which the beginning of oil production at commercial rate in Hungary and the oil industry becoming a factor having a determining nature in the national economy may be reckoned [10].

While EUROGASCO got as far as the exploration of the Budafapuszta structure with trial bore-holes, American capital had become predominant in the initially English-American stock interest. By the end of 1937 90% of the shares was in the hands of Standard Oil Company of New Jersey [11].

EUROGASCO founded a joint stock company registered in Hungary under the Terms of the Collateral Contract signed on June 24, 1938,

for the exploitation of the Budafapuszta oil field and the discovery of additional oil fields. The founders' meeting of the Hungarian American Oil Company (MAORT) was held on July 15, 1938, and it was registered by the Budapest court of law in the list of Hungarian partnerships on July 18, 1938 [12].

## MAORT till the end of the world war

The first period of the activity of MAORT (from its foundation till December 20, 1941) had shown an almost undisturbed development in relation to the circumstances amongst the uproars in the domestic and international life. Production ever increased during this period and the organizational and process systems were largely established [13], and these went through only minor modifications until the end of the Second World War. But even MAORT could not withdraw itself from the effects of the international and domestic political situation, particularly because of producing the raw material – oil – without which mechanized warring was not possible.

While the production from the Budafapuszta oil field continued without interruption, works were also ongoing for the discovery of further oil fields. The mineral oil field at Lovászi was discovered in 1940 and then those at Lendvaújfalu & Pusztaszentlászló in 1941 [14]. The drilling and production data in years 1941 thru 1944 had evolved as shown in the following table [15]:

### Drilling data

Year	Number of boring equipment	Number of wells sunk	Borehole dimensions
1941	5	53	66 175
1942	9	59	86 683
1943	11	60	87 589
1944	12	44	64 720

### Mineral oil production data (in metric tons)

Year	Budafa	Lovászi	Hahót	Újfalu	Total
1941	282 980,258	137,988.580		691,582	421,660.420
1942	298 083,576	339,543,417	27,087.995	485,871	665,200.859
1943	262 979,845	496,642.690	77,398.827	689,355	837,710.717
1944	222 642,206	493,208.458	94,072.186	45,780	809,969.630

MAORT's mineral oil production supplied already in 1940 the total internal demand of the country and so much oil was produced already in 1940 which was sufficient for enabling the exporting one-third of the production in addition to meeting the requirements of the country inside its extended borders. This proportion increased to nearly 50% in 1944 [16].

The event of year 1941 were determined even more by the war-time situation. Several factors gave incentive for increasing the production. Production at higher rate was required by the German demands for petroleum supplies in addition to the increase in domestic oil demands [17].

Hungary declared war upon the United States on December 13, 1941, thus MAORT, as a company in American possession, was operating in a hostile area from this date. The minister of industry ordered the MAORT to be taken into treasury management on December 20, 1941, based on the resolution brought by the council of ministers [18].

The war-time conditions and the subordination of the Hungarian economy to the German war economy had an extremely unfavorable effect on the until then almost undisturbed operation of MAORT.

The main efforts of the managers and specialist of the joint stock company from the time of its units being taken into treasury management were aimed at preserving the results achieved until then for the post-war times and protecting the oil fields from ruination. Their purpose was to exploit the oil resources of the fields to the fullest possible extent and not its fastest production.

The highest production rate – 837,710 metric tons – was achieved in 1943. This production output, however, was the result – contrary to some later opinions – of not ruthless exploitation but of the exploration and putting into productions additional mineral oil fields. The Budafapuszta oil field exceeded its peak production rate already in 1944 and its – and thereby MAORT's production – started to drop in a natural way [19].

During the war period the role of MAORT in the Hungarian economy and industry became more and more significant – even beyond the strategic aspects. In addition to the fact that its activity had entered Hungary among the mineral oil

exporting countries by 1942, MAORT became the third largest mining company in Hungary during five years. In respect of the value of its production this amounted to 43.5% of the value of the total domestic coal production [20].

13 oil refineries existed in total in Hungary in 1943. The total share capital of the refineries having a great past did not amount to MAORT's capital represented by stocks. MAORT's profits amounted to more than five times that of the refineries' profits already in 1941 [21].

Beyond the direct economic data of production and sales, the indirect effect exercised on the economy and society of the country by the operation of MAORT had also a great importance. The mitigation of unemployment, the development of the settlements in Zala County, the construction of infrastructure systems, the purchase orders placed at the domestic industry, etc. provide unequivocal evidence of this [22].

### **MAORT immediately after the Second World War**

The half decade following the Second World War brought about radical changes both in the Hungarian economy and in the operation of MAORT, the sole oil producing company in the country worth mentioning.

The orders of the Soviet army headquarters played a decisive role in the evolution of production from April 1945 till the signature of the peace treaty. The supply of the Soviet forces imposed a difficult task on MAORT. Their demands for fuel supply were formulated as military (sometimes expressively armed) duress [23]. The production capacity of the oil fields, the professional convictions of the experts and the arguments of natural science could not receive any role in such circumstances.

The war damage compensation and the Soviet-Hungarian economic treaty, neglecting the load-bearing capacity of the country and reflecting the duress imposed by a great power, signed on August 27, 1945 [24] – and then also the other trading agreements created subsequently after the model of this treaty – contained supply obligations which resulted in 77.8% of our total mineral oil production being exported in the months of September through December, 1945 [25].



The spring of 1945 had meant for MAORT not solely that duress exerted by a foreign power was replaced by the also coercive expectation of another foreign power. It took scarcely half a year for a company built up before and during the war and operating excellently to be plunged into extreme peril, to the threshold of impossibility to perform. The investment projects fundamental for maintaining the production level, the replacement of worn-out assets and equipment could not be realized without the necessary financial funding [26]. Its financial problems became even more severe because – in spite of the oil price being kept artificially at low level – it did not receive a single penny for its products. The Soviet army did not pay for the fuel taken from MAORT or for the mineral oil shipments delivered for military purposes, but even the oil refineries failed to pay the price of the mineral oil deliveries because they themselves were mostly also insolvent [27].

From August 1945 the coercive economic – and in connection with this the political – status into which the Hungarian state was plunged because of the war damage compensation stipulations and the economic & trading agreements neglecting the load-bearing capacity of the Hungarian economy was evident to an ever increasing extent in the unrealistic demands set for mineral oil production. The

officials in charge of mineral oil production of the Hungarian state also represented the Soviet interest under the mask of national interest [28].

The yield of the mineral oil fields exploited by MAORT was already decreasing during the period of entering into the said treaties and agreements. The natural drop in yields was considerably enhanced by the enforced unhealthy production rate [29].

The situation of crude oil supply for the country also evolved similarly to the desperate state of MAORT. Although the decreasing production output of MAORT still exceeded the internal demands of the country, the first signs of deficiency appeared already in 1946. Although the amount of oil products allocated to war damage compensation was reduced in 1946, this still exceeded 15% of the production output, and 33.8% was allocated to exports and 11% to the supply of the Red Army at the same time, while the share of the domestic market from the production was 39.7%. The Hungarian state was subjected to about 342,309 metric tons of delivery obligations from mineral oil – i.e. more than two-thirds of the total output – for war damage compensation and export purposes in the 1946/47 budgetary year [30]. According to the calculations made by MAORT experts in 1947, mineral oil production could be expected to decrease drastically in the following three years if over-exploitation were maintained and rational production rates could not be retained [31].

Variation of *mineral oil production by fields* (in metric tons):

	Year 1946	Year 1947
Budafa	205,120.442	163,730.397
Lovászi	393,189.659	340,580.571
Újfalu	-	-
Hahót	76,229.443	65,036.566
Total	674,539.544	569,347.534

Gas production (in m<sup>3</sup>):

	Year 1946	Year 1947
Budafa	127,635,610	104,590,350
Lovászi	282,118,680	267,686,980
Újfalu	-	-
Hahót	2,463,224	1,793,750
Total	412,217,514	374,071,080

1948	Maximum production expectable in 406,000 metric tons
1949	Maximum production expectable in 250,000 metric tons
1950	Maximum production expectable in 150,000 metric tons
i.e. in total	806,000 metric tons

With a rational production rate the achievable output would have been 388,000 metric tons in 1948, 317,000 metric tons in 1949 and 250,000 metric tons in 1950, i.e. 955,000 metric tons in total, which would have exceeded the output achieved by non-rationalized exploitation by 149,000 metric tons.

Not even 20% of reserves of the oil fields could be exploited till 1948, but 50% of gas was yielded from the Budafa field and 61% from the Lovászi field. The daily volume of gas discharged without utilization to the atmosphere was 550-600 thousand m<sup>3</sup>, equivalent to the calorific value of 120 rail tank cars of good quality lignite. The risk of becoming non-exploitable for ever threatened such a quantity of mineral oil as the consequence of over-exploitation which could have supplied the demands of the country for a decade. Considering all these factors together, the total loss of Hungary accrued from the above was estimated at nearly two billion (new) Hungarian Florins, although the company's experts emphasized that this could be avoided with exploitation at rational rate and the renewal of the mechanical equipment [32].

### **Governmental actions against MAORT, the MAORT lawsuit and its socialization**

Some officials of the state organs dealing with crude oil management had sought, however, the solution for the situation [33] not in the husbanding of natural resources but had seen it in forcing MAORT to enhance its production rate [34]. A whole army of state inspectors was sent to MAORT from the spring of 1947 in order to investigate whether it fulfills its obligations [35]. The delegated inspectors were looking, naturally, for deficiencies and endeavored to prove the fact of intentional reduction of production rates. They tried to create reasons to support the necessity of acting more forcefully against MAORT by distorting the facts in several cases. In spite of this, the inspection conducted in 1947 was closed officially with the result that they did not manage to find any evidence indicating

sabotage or intentional output reduction [36].

While the skirmishing in connection with the production output and the oil price was going on, damning evidences were collected in the background against the managers of MAORT under the direction of the State Security Department ÁVO. The direction and objection of their data collection was determined by the presumption that the reduction of the production output was the consequence of intentional sabotage committed for political reasons. They stated that MAORT was nothing else than "the agent of American imperialism in Hungary, its managers and engineers are the mercenaries of American imperialist interests" and that MAORT was making itself financially insolvent intentionally [37].

The ÁVO arrested Dr. Simon PAPP, retired general director, university professor and academician on August 12, 1948. The arrests were continued in the following days. They arrested Bódog ÁBEL, the retired manager of the purchasing department, mining engineer Béla BINDER, the manager of the production department, senior geologist Kálmán BARNABÁS, attorney István PŐZEL and Mrs. Lajosné DERÉK, the secretary of Paul RUEDEMANN. Paul RUEDEMANN and Georg BANNANTINE American citizens were arrested on September 18. The arrest of Gábor TEMESVÁRY, head of the legal department, and mining engineer Gyula ABZINGER failed because of their escape abroad, while the arrest of mining engineer Ernő POKKER, manager of the Budafapuszta Unit, failed because of his suicide. After the interrogations Mrs. Lajosné DERÉK was set free and István PŐZEL interned. The American citizens were put over the Austrian border on October 1, 1948, after interrogating and forcing them to sign their confession. They recanted publicly their confession made under duress at the American embassy in Vienna [38].

The national and local daily papers dealt with the arrest of MAORT's managers and the charges brought against them on the front page, with bombastic phrases from September 1948. The charges were stated in detail for the first time in the so-called "Grey Book" – "Communiqué of the Hungarian Ministry of the Interior about the case of the MAORT sabotage" by its whole title – published in September 1948. This publication elicited the impression as if laying unquestionable facts before the world by alloying real facts and improvable, deceptive statements.

Its editors started from the preconception that the production and other operating data may be adequate for proving the fact of sabotage by putting into these into a suitable sequence and interpreting same as necessary for the purpose [39].

The bill of indictment of the MAORT lawsuit repeated the contents of the "Grey Book" almost word-to-word [40]. The bill of indictment was compiled from presumptions raised to the rank of facts, portions of inspection reports picked out from real relationships, so-called "confessions", untrue data and findings supplied by invited "so-called" experts. A significant part of its argumentation consisted of political arguments and contentions, respectively.

The hearing of the MAORT lawsuit at the people's court started on November 26, 1948 [41]. The sentences were announced on December 9. The sentences were severe: Simon PAPP was sentenced to death penalty, Bódog ÁBEL to 15 years penal servitude and Béla BINDER to 4 years imprisonment, while Kálmán BARNABÁS was acquitted. The case was tried at the second degree by the National Council of the People's Courts on January 20, 1949. At this time they repeated the politically highly slanted charges, but amended the sentences: the death penalty of Simon PAPP was reduced to life imprisonment and the penalty of Bódog ÁBEL to 10 years penal servitude, re-voked the terms regarding the confiscation of property and other prejudicial effects in the case of Béla BINDER, and the court agreed to the acquittal of Kálmán BARNABÁS [42].

Based on the realistic consideration of the facts, neither the reduction in the volume of produced mineral oil, nor the unsuccessfulness of explorations, nor the failure to install the gas pipeline at Budapest should have formed any foundation for the charges brought against MAORT. Forceful intervention by the state was motivated by political reasons beyond economic factors [43].

It is obvious from the entire proceedings that the objective was not to punish the culprits, since they were innocent, but to justify in front of the whole world the legitimacy of taking MAORT under state control and that Hungary was unable to meet its export obligations imposed by war damage compensation requirements and international economic treaties due to sabotage. The lawsuit served

at the same time the purposes of political propaganda. Its organizers emphasized the harmful intentions of American imperialism, the presence of internal enemies and the necessity of vigilance.

A series of profound changes had started in September 1948 in the life of the company and Hungarian mineral oil mining. MAORT was taken under state control on September 24, 1948, on the pretext of sabotage.

Operating under state control was terminated as of December 31, 1949, and MAORT was nationalized at the same time [44]. Its previously well-operating organization was disbanded and five national companies were created from it.

Thus, MAORT ceased to exist as of December 31, 1949, but it continued to exist in general consciousness. People working in the Transdanubian mineral oil mining units and the inhabitants of Zala County villages continued to refer to the units of the oil industry for years only as MAORT. EUROGASCO had brought into Hungary in 1933 modern technique & technology and advanced work organization methods, unknown here until then. MAORT, created by it, became one of the space-setters of Hungarian industry in slightly more than two years. Its existence boosted the economy of the entire country, but promoted much more in Zala County: created work opportunities, good roads, bridges, heating by natural gas, etc. – infused life in a county placed into a peripheral position after the Trianon Treaty. The first expert staff on Hungarian mineral oil mining grew up under the wings of MAORT. The discoverers of the Nagylengyel field and then of the first major hydrocarbon fields in the Great plains, professors of universities, the teachers of experts living today and recognized internationally had emerged from among them [45].

According to the "inventory" taken in the course of the nationalization processes conducted during year 1949, meaning the end of the role played by foreign (said "western" at that time) capital for more than four decades, the balance statement value of foreign properties to be socialized was HUF 900 million, of which 542 million (i.e. more than half) was owned by American, 139 million by English, 90 million by Swiss and 47 million by Austrian citizens. American capital was represented to a dominant extent by the sole oil producer of the country, the Hungarian American Oil Co.



(MAORT), the Standard Electrical Co. (with nearly 30% share in the industry) and the Vacuum Oil Co., having more than 25% share in the oil processing industry of Hungary [46].

The afterlife of the MAORT lawsuit  
The case of the nationalization of companies in American ownership and of the frame-up law-suits preconcerted in this connection was not – and could not be – closed by the fifties. A multitude of newspaper articles and propaganda materials saw daylight, each emphasizing that the sabotage was the hostile act of the American United States against the Hungarian Peoples' Republic. The so-called "White Book" – a document collection published in 1951 in Russian, English and French languages, edited by the Information Division of the Foreign Ministry – dealt even separately with the sabotage case. The Pannonia Press published in 1960 with propaganda purposes the book titled "Hungarian-American relations 1918-1960" in English language. The work dealing with Hungarian-American diplomatic relations included the MAORT case still with the original wording (the title of its respective chapter is: "Everything for Hitler, nothing for the Hungarian people").

All these included both economic and political reasons. The old motive was recurrent in the post-1956 – also preconcerted – lawsuits: "the American enemy is still here and active,

sabotages the same way as at the end of the 1940's". (This may be illustrated by the questions raised and the charges raised in connection with American relations and previous employment by MAORT in one of the proceedings initiated in the oil industry in 1958, the litigation made known as the Majerszky lawsuit [47].)

All these are reflected also in the Hungarian-American diplomatic relations. As the result of the nationalization procedures and the diplomatic complications originating in these, the United States had frozen in February 1950 the East-European, among them Hungarian possessions registered there and then, in August 1951, suspended the commercial favors of East-European countries (abrogating simultaneously the most-favored-nation-clause) [48].

After a long period of frigid relations, attempts were made for resolving the bilateral relations only from the early 1960's. The possibilities for normalizing the relations were reviewed though at the Foreign Ministry in the summer of 1956 as they discerned that a movement in favorable di-rection from the impasse had occurred with the reduction in international tensions. They established that the reinstatement of relations was encumbered by unsolved economic cases in addition to political issues. They considered that the settlement of debts will be an issue



given high priority to by the Americans in the course of negotiations. Although the issue of debts was not re-viewed seriously by anyone at this time, it could be established that the United States may have significant claims from Hungary, originating in the loans taken from the 1920's, the war damages and the nationalization actions. The settlement of the debt amounting to hundred millions even when calculated in US dollars was not found advantageous at that time and the positions was taken that its settlement should be drawn out as long as possible. (The position taken even in 1959 was: "Let us not take the initiative" [49].)

The representatives of the United States and Hungary started material negotiations with regard to the settlement of issues pertaining to the rights of property from 1964. The positions hardly ap-proached each other during these negotiations till the early 1970's, only the opposing demands and claims were clarified. The claim stated by the United States for war damage compensation and nationalization losses at the start of negotiations was USD 226 million, but this was reduced shortly to USD 58.2 million. The single largest item among the compensation demands related to nationalization losses was MAORT, representing a value of USD 28 million [50]. The United States announced in 1970 that it would reduce their total claim to USD 35.7 million but the Hungarian delegation declared even this sum to be unacceptable. The changes occurring in the international atmosphere and the east-west relations also played a role in that the negotia-tions of rights of property issues could move out from the impasse by 1972. The preliminary agreement allowing possibly its becoming effective after its approval by the respective governments could be achieved in the course of the negotiations held from October 2 to 12, 1972. Under its terms Hungary would pay a symbolic amount, USD 18.9 million, during 20 years in equal an-nual installment as the total and final settlement of all kinds of claims related to rights of property, nationalization and war damage compensation [51]. (The condition for the willingness to pay was, however, the renewed granting of the most-favored-nation-clause.)

The agreement intended to resolve the rights of property issue was signed on March 6, 1973, by Péter VÁLYI, the deputy chairman of the Council of Ministers, and William P. ROGERS [52].

The issue of war damage compensation was settled by December 1976: as announced by the US Treasure Department, Hungary had paid USD 4.3 million upon this ground [53]. Compensations for nationalized American properties – in lack of accessible sources – cannot be tracked this clearly [54]. There were serious differences in opinion with respect to which claim may be ac-cepted as legitimate. One of the most significant items covered precisely the claim of the owners of MAORT. Although, under the terms of the agreement signed in 1933, MAORT, could have enjoyed the rights of conducting hydrocarbon exploration and production activities in the concession area as well as the other licenses originating in this agreement for forty years from the year of its registration (1938), this status had been terminated three decades before the time of negotiations. The main subject of the disputes was the profits accruable from the hydrocarbon quantity producible during this period, but not realized [55]. It was not by chance, therefore, that the Hungarian state had to stick to the charges stated in the obviously preconcerted MAORT lawsuit, namely that MAORT had not fulfilled its obligations, committed sabotage and defaulted on the agreement in effect, because it was possible to justify only in this way that the established rights were restituted to the state legitimately. After numerous pitfalls and political procrastination, the Hungarian-American relations could become settled only by 1978 to a level where the Saint Crown,



treated as deposit in the United States, could be returned to Hungary as a sign of friendship and the most-favored-nation status granted to it again – although only temporarily at this time. The United States made the decision to enable Hungary to enjoy this status permanently only in October 1989 [56].

Thus, the economic issues were settled – at least on paper – in the first half of the 1970's and a slow progress started with regard to settling the relations between the two nations. The internal politics had not changed, however, the politicians insisted on that there were sabotage acts and the internal enemy acted – with external assistance – for the purpose of impeding the peaceful socialist country-building work till the last minute before the change of the social system. They did not admit that sabotage litigations in 1948-49 and the following years were preconcerted lawsuits and the related documents were treated as strictly confidential material – not placed even in public archives.

## References

- [1.] Four million crowns were spent on state-sponsored explorations from 1893 to 1910 and 17.5 million crowns from 1910 till mid-1918. A natural gas field was discovered in 1908 at Kissármás in the course of exploration for potassium salt. An oil field was discovered in 1914 at the neighborhood of Egbell in County Nyitra. The small oil field at Egbell contributed to a large extent to supplying the oil demand during the First World War: oil produced here till the fall of 1918 was sufficient for the base oil produced from it to supply the lubricating oil demand of the railways. The treasury extended its exploration activity also to Croatia in the year following the success achieved at Egbell. The first borehole was sunk in 1918 at the Bujavica dome near Lipik. The drilling discovered strata containing oil and gas. The government established an Exploration Mining Institute at Kaposvár for the assistance and direction of the detailed exploration of this area. Further explorations were prevented, however, by the events of war. Sources: Ferenc BÖHM: "Mineral oil and natural gas mining in Hungary till 1935". Proceedings of Mining and Metallurgy, May 1, 1939. (Volume LXXII, No. 9), pp. 157-159.
- Simon PAPP: "Mineral oil and natural gas exploration in Hungary from 1780 till 1945", Part I. Proceedings of the Technical Sciences Department of the Hungarian Academy of Sciences, Volume 32, No. 1-4, pp. 454-455.
- [2.] János KLÁR: The importance of Hungarian energy management in the national economy. Printing House of the Révay Institute of Literature PLC, Budapest. 1946. pp. 43.
- [3.] Mineral Oil, 1938. pp. 11-12.
- [4.] János KLÁR: op. cit. pp. 40-42.
- [5.] Mineral Oil, 1937, No. 18-19, p. 121; Hungarian Statistical Review, 1934, No. 3, p. 182; 1940, No. 2, p. 163.
- [6.] Ferenc BÖHM: op. cit. pp. 156-157. "Act No. VI/1911 was the first in Europe (second in the world), which declared the mining of hydrocarbons a state monopoly". See also: Géza SZUROVY: "Amendments of concession agreements and the new Hungarian Mining Law", Part 2. Mineral Oil and Natural Gas, Vol. 27, No. 6., June, 1994, p. 186.
- [7.] Agreement between Hungarian Royal Minister of Economy and the European Gas and Electric Company (London & New York). Archive of the Hungarian Museum of Oil Industry (hereinafter: HMoOI Arch.), HMoOI Arch. Gyulay Documents 61/6; Agreement between Hungarian Royal Minister of Economy and the European Gas and Electric Company (London & New York).
- [8.] Exploration drilling operations were started at the edge of the plain in Northwestern Hungary near Mihályi village on November 21, 1934. Hydrocarbon reserves worth exploitation were found, however, neither here nor at the subsequent two drilling sites (at Görgeted & Inke).
- [9.] The first (No. B-1) well at Budafapuszta was sunk at the drilling point marked out by dr. Simon Papp between July 13 and December 2, 1936, to 1764 meters depth. Although technical reasons prevented the borehole to be fully investigated, it could be developed for production. The well provided significant amount of natural gas and 2.5 rail tank cars of good quality mineral oil per week initially. Production started on February 9, 1937. This was the first producing oil well in Hungary remaining after the Trianon Treaty. The gas produced from it was utilized as fuel

- for the steam boilers used for drilling wells No. 2 & 3. HMoOI Arch. Gyulay Documents 18/4 and dr. Simon PAPP: "Mineral oil and natural gas explorations of the Hungarian-American Oil Company in the Transdanubian region". Proceedings of Mining & Metallurgy (hereinafter: Simon PAPP:PoM&M) 1939, No. 9, pp. 219-222.
- [10.] Based on the promising results of the first drilling at Budafapuszta, sinking well No. 2 at Budafapuszta was started on April 14 and completed on September 29, 1937. At the start of production (on November 21) the output of the well was 10,300 m<sup>3</sup> gas and 62-65 m<sup>3</sup> good quality, naphtha-rich oil per day through a 10 mm diameter nozzle. Simon PAPP: "Mineral oil and natural gas explorations of the Hungarian American Oil Company in the Transdanubian region". Proceedings of Mining & Metallurgy, 1939, No. 9, pp. 219-222.
- [11.] Simon PAPP: History of Hungarian mineral oil and natural gas exploration during the past 60 years. Manuscript, 1965, p. 87. HMoOI Arch., Documents of Simon PAPP 1/1.
- [12.] HMoOI Arch., Documents of Simon PAPP 37/2; Gyulay Documents 61/7, Hungarian National Archive (hereinafter: HNA) Z 356, MAORT Secretariat 1, file 1.
- [13.] The protocol drawn up at the time when MAORT was taken into treasury management (on December 20, 1941) recorded the following items as the subject of taking into use: Units: 1<sup>st</sup> – the Bázakerettye Unit including the entire geological structure at Budafapuszta as well as the gas condensate plant and the LPG filling station; 2<sup>nd</sup> – the Lovászi Unit, including the entire geological structure at Lovászi; 3<sup>rd</sup> – the Lendvaujfalu field; 4<sup>th</sup> – the Hahót No. 5 exploration well in the neighborhood of Pusztaszentlászló; 5<sup>th</sup> – the oil pipeline running along the Lovászi-Kerettye-Budapest routing, complete with loading stations at Újudvar, Kápolnásnyék & Soroksár and all accessories; 6<sup>th</sup> – the Mihályi No. 1 deep-sunk well with the dry-ice production facility operated there; 7<sup>th</sup> – the Inke No. 1 deep-sunk well; 8<sup>th</sup> – all the geological and geophysical explorations conducted in the concession area. Personnel: 266 permanent officials, 29 temporary officials, 1650 permanent workers and 716 temporary workers.
- [14.] The sinking of the first exploration well through the Lovászi dome at the drilling point marked out by dr. Simon PAPP was started on June 6, 1940. The well produced gas and oil after penetrating the sections between 1468-1452 meters and then between 1442 and 1452 meters. Its regular exploitation started on December 1, 1940. 22 additional wells were sunk at Lovászi during the following year and all could be made productive. The opinion was formed already after the sinking of the first wells that the 20 km<sup>2</sup> size field is suitable for further development and its yield may exceed that of the Budafapuszta field. In the course of further explorations, in 1940-41, two smaller oil fields were discovered: the first not far from the Lovászi one at Lendvaujfalu and the second in the Hahót Structure in the neighborhood of Pusztaszentlászló. The production conditions of the Lovászi field (compilation of János DINDA). HMoOI Arch. Gyulay Documents 56/3. More details about the history of the Lovászi field and unit in Lajos SRÁGLI: "50 years of the Lovászi field – 1940-1950". Publications of the Hungarian Museum of Oil Industry 4, Zalaegerszeg, 1990, p. 50. Simon PAPP: Manuscript, p. 89; Tibor LAKLIA: "The third: The Pusztaszentlászló Unit of MAORT 1941-1951". Publications of the Hungarian Museum of Oil Industry 30, Zalaegerszeg, 2006, p. 24.
- [15.] Lajos SRÁGLI: The MAORT. Útmutató Kiadó (Publishing House), Budapest, 1998, pp. 56-57.
- [16.] Zoltán GYULAY: "MAORT in the Hungarian economy today" (1942). Presentation given at the committee meeting of the Hungarian National Association of Mining and Metallurgy on December 12, 1942. HMoOI Arch. Gyulay Documents 53/4, furthermore: MAORT weekly reports 1941-1944.
- [17.] T. Iván BEREND - Miklós SZUHAY: "The history of capitalist economy in Hungary". Kossuth Könyvkiadó (Publishing House) - Közgazdasági és Jogi Kiadó (Economic & Legal Publisher), Budapest, 1973, p. 262.
- [18.] HMoOI Arch. Documents of Simon PAPP 47/4. OL Z 356. 1.cs. 4., 1.cs. 3.; HMoOI Arch. Documents of Simon PAPP 47/4. The decision to take the unit of MAORT and Vacuum Oil Co. into treasury management was made at the cabinet meeting held on December 19, 1941. According to some opinions (Adámy-Németh: op. cit. p. 143) this was interconnected with the negotiations of Prime Minister Bárdossy conducted in

- Germany, i.e. it was made according to German expectations. The memoranda of Simon PAPP and other MAORT prove, however, that taking into treasury management was decided just for the opposite purpose: to prevent the assertion of the German intentions – the total submission of MAORT. This made it possible to avoid having it expropriated, confiscated as the property of the citizens of a hostile country.
- [19.] HMoOI Arch. MAORT weekly reports, 1944.
- [20.] HMoOI Arch. Gyulay Documents, 53/4.
- [21.] Ernő HAUER: "The position of MAORT in the Hungarian oil industry and commerce". HMoOI Arch. Gyulay Documents, 42/2.
- [22.] Lajos SRÁGLI: "Through the pitfalls of politics. The history of MAORT from 1938 to 1949". Hungarian Museum of Oil Industry, Zalaegerszeg, 2008, 43-73, pp. 105-139.
- [23.] HMoOI Arch. Weekly reports, 1945. Documents of Simon PAPP, 47/6.
- [24.] Péter SIPOS - István VIDA: "The Soviet-Hungarian economic treaty concluded on August 27, 1945, and the western diplomacy". Külpolitika (Foreign Policy), 1985/4, pp. 102-123. The issue was raised that the Soviet-Hungarian treaty was ensuring a kind of exclusiveness for the Soviet Union. This was not so in principle, but in reality obligations exceeding upper limits of the productive capacity of the Hungarian economy – as the items set forth in the treaty moved at this range – did not allow Hungary to enter into similar treaties with other countries.
- [25.] OL Z 357. 3. cs.
- [26.] HMoOI Arch. Documents of Simon PAPP, 19/2, Gyulay Documents, 44/6.
- [27.] HMoOI Arch. Documents of Simon PAPP 38/10., 42/9. 42/2., HNA Z 356. 10.cs.
- [28.] OL XIX-F-1-oo 1.d.2.; HMoOI Arch. Documents of Simon PAPP 49/13; Lajos SRÁGLI: "Through the pitfalls of politics. The history of MAORT from 1938 to 1949". Hungarian Museum of Oil Industry, Zalaegerszeg, 2008, pp. 104-115.
- [29.] Dr. Simon PAPP tried to call attention to the losses caused by over-exploitation in the October 1946 issue of the journal Magyar Technika (Hungarian Technics): "According to the calculations of MAORT the over-exploitation from April 1, 1945, till July 31, 1946, amounted to 170,454 metric tons and entailed the following losses: 1. About 296,800,000 m<sup>3</sup> gas was discharged to air without utilization. This is equivalent to 534,000 metric tons of Tata coal in heating value. 2. 17,963 metric tons of light naphtha and LPG was also discharged to air with this quantity. 3. About unproducibile 401,000 metric tons of crude oil remained in the strata because the lifting gas energy was lost."
- [30.] HNA XIX-F-1-oo 1.d. 2., XIX-F-1-I 9. d.
- [31.] Lajos SRÁGLI: The MAORT 87.
- [32.] HMoOI Arch. Gyulay Documents, 45/3., 46/4.; HNA XIX-F-1-I 11.d.
- [33.] Especially Zoltán GOMBOSI, the Ministerial Commissioner of Minery Oil Management, who – in addition to his own private interests – had also the task to fill up the social demotratic party fund from the sums "skimmed off" from MAORT.
- [34.] OL XIX-F-1-oo 3.d. 9.
- [35.] OL XIX-f-1-oo 2.d. 3., HNA Z 356. 10.cs. 83.
- [36.] OL XIX-F-1-I 9.d. 27.; HMoOI Arch. Documents of Simon PAPP 49/4.
- [37.] OL XIX-F-1-oo 2.d.3.; HMoOI Arch. MAORT weekly reports, 1948; HMoOI Arch. Gyulay Documents 49/9.
- [38.] HMoOI Arch. Gyulay Documents, 53/1; Documents of Simon PAPP 27/2; Simon PAPP: "My life", 2<sup>nd</sup> edition, pp. 193-205. US ambassador Chapin protested immediately against the arrest of American citizens. The US State Department instructed the ambassador to negotiate with Mátyás RÁKOSI, the Premier of the Hungarian Communist Party and Prime Minister, and inform him that failing to set free the two American citizens would result in severe sanctions by the United States in economic and other areas. Sándor BALOGH: "The foreign policy of Hugary 1945-1950". Kossuth Könyvkiadó (Publishing House), Budapest 1988, p. 305.
- [39.] HMoOI Arch. Gyulay Documents, 53/1, 49/9.
- [40.] The bill of indictment was completed by November. Its editors were captain György VÁRADI from ÁVH, the State Security Authorities, people's prosecutor Márton BODONYI from the Budapest office of the people's prosecurs and Pál SZÉKELY supplied the bulk of the data for its preparation. His assistors, the experts of the indicment were Géza SZUROVY and László FORGÁCS.

- [41.] HNA Z 356. 10.cs.100.; The proceedings of the lawsuit are described in detail and authentically in: Simon PAPP: "My life". Second, extended edition. (Edited by: Lajos SRÁGLI & János TÓTH). Hungarian Museum of Oil Industry, Zalaegerszeg, 2000. pp. 226-228.
- [42.] HMOI Arch. Gyulay Documents, 53/1.
- [43.] HNA XIX-F-1-oo 1.d.2., HNA Z 356. 1.cs.4.; HNA XIX-F-1-b 60.d.81., XIX-F-1-oo 1.d.2.; HNA XIX-F-1-oo 2.d.3., 4.d.14.
- [44.] The socialization was contrary to the armistice agreement (ratified in Act No. V/1945) and the year 1947 peace-treaty, in which Hungary obligated itself that "It will reinstate the status existing before the war with regard to all the legitimate rights and interests of the United Nation and its citizens and will return their properties in fully intact condition."
- [45.] Detailed by: Lajos SRÁGLI: "Through the pitfalls of politics. The history of MAORT from 1938 to 1949". Hungarian Museum of Oil Industry, Zalaegerszeg, 2008.
- [46.] György RÁNKI: "The economy of Hungary in the first 3-years plan period (1947-1949). Közgazdasági és Jogi Kiadó (Economic & Legal Publisher), Budapest 1963, pp. 201-202. 86 foreign companies operated in Hungary before the socialization process in year 1949, employing 22,000 workers in total.
- [47.] Lajos SRÁGLI –János TÓTH: "The Majerszky lawsuit and its circumstances". Zala Collection No. 34. (Zalaegerszeg, 1993), pp. 271-287.
- [48.] László BORHI: "The United States and the Soviet zone 1945-1990". MTA Történettudományi Intézet (Hungarian Academy of Sciences, Institute of Historical Science), Budapest 1994, pp. 30-33.
- [49.] HNA XIX-J-1-j USA 5.d.
- [50.] HNA XIX-J-1-j USA 17.d.
- [51.] Ibid, In respect of the settlement of law of property issues see also: Péter MIHÁLYI: "Old foreign debts and compensation in Eastern-Europe after 1945. Valóság (Reality), 1987, No. 4, as well as: Péter MIHÁLYI: "Was compensation paid by Hungary for the socialization of MAORT?". Magyar Nemzet (newspaper Hungarian Nation), October 27, 1988; Lajos SRÁGLI: "The American capital and its fate in the Hungarian oil industry. Külügyi Szemle (Foreign Affairs Review), 2005/3-4, pp. 203-229.
- [52.] HNA XIX-J-1-j USA 19.d.
- [53.] László BORHI: op. cit. p. 131.
- [54.] The sources deposited in the archive may be researched up to year 1989 for the time being, but all materials related to this subject have not even been supplied to the archive.
- [55.] The sum claimed under this title was only USD 17 million, but the Hungarian party did not deem it acceptable under Hungarian law. HNA XIX-J-1-j USA 19.d.
- [56.] László BORHI: op. cit. p. 138.