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10 DOWNING STREET

*From the Private Secretary*

7 March 1985

Dear Colin,

THE PRIME MINISTER'S MEETING WITH THE FOREIGN MINISTER  
OF HUNGARY ON THURSDAY 7 MARCH AT 0930 AT 10 DOWNING STREET

The Prime Minister received Mr. Varkonyi this morning. He was accompanied by the Hungarian Ambassador. Mr. Unwin, HM Ambassador Budapest, was also present.

Mr. Varkonyi conveyed greetings from Mr. Kadar and many leading members of the Hungarian Government and Party. He recalled the great impression made both on politicians and the public by the Prime Minister's visit to Hungary.

Mr. Kadar's Visit

The Prime Minister said she was delighted to hear that Mr. Kadar had accepted her invitation to visit the United Kingdom. She looked forward to a long talk with him. Mr. Varkonyi said that he had discussed dates at the end of October and the beginning of November with the Foreign Secretary and would confirm them after his return to Budapest.

Arms Control

The Prime Minister said that Mr. Kadar's visit would come at an opportune time and would enable her to assess with him the progress of the arms control negotiations in Geneva. It would be unrealistic to expect any early breakthrough in these. The issues were highly complex. As regards the Strategic Defence Initiative, there was a crucial distinction between research, which was permitted under the Anti-Ballistic Missile Treaty, and deployment which would have to be a matter for negotiation under that Treaty. The Prime Minister continued that she had discussed this aspect very carefully with President Reagan at Camp David in December and again during her recent visit to Washington. He had specifically accepted that deployment would have to be a matter for negotiation and had said as much in his own press conference in Washington on 20 February. It was natural, indeed essential, that the United States should carry on with its research into ballistic missile defence. The facts were that the Soviet

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Union already had an anti-satellite capability; that it had conducted prolonged and successful research on lasers and pulse beams; and had upgraded its ABM defence round Moscow.

Mr. Varkonyi said that he well understood the British Government's position. His only concern was that permitting research might be used as an excuse for avoiding negotiation of an agreement banning weapons in space. He feared this issue could be a complication in the Geneva talks. The Prime Minister said that this was the so-called "hostage" scenario under which agreements would be reached for significant reductions in strategic and theatre nuclear weapons which would be made hostage to an agreement banning weapons in space. Mr. Varkonyi said that he did not think such a scenario was likely (but gave no reason for his assessment). The Prime Minister continued that President Reagan had a vision of being able to rid the world of nuclear weapons. In her view this was not realistic. The deterrence provided by nuclear weapons had kept the peace for an unprecedentedly long period and would remain essential for the foreseeable future. She did not think it was technically feasible ever to achieve a leak-proof defence against nuclear-armed ballistic missiles. Moreover, even if nuclear weapons were abolished, there would be a rush to re-acquire them in any future conflict.

#### EC/Hungary

The Prime Minister said that she understood that Mr. Marjai was still demanding too much of the European Community and that negotiations were stalled. Mr. Varkonyi said that he had warned Mr. Marjai that the Prime Minister would say as much. Mr. Marjai's response had been that Hungary was only asking for its rights. Mr. Varkonyi acknowledged that negotiations were at present blocked but said that they would be followed up. Hungary greatly appreciated the support which it had received from the United Kingdom.

#### Hungarian Economy

The Prime Minister said that she understood there was to be a Party Congress in Hungary soon. Mr. Varkonyi confirmed this. The Conference will open on 25 March and last four days. The main report would be delivered by Mr. Kadar and would focus on the economy which was the main concern. Hungary's foreign policy and support for dialogue was clear and would not be an issue. The economic prospects were now brighter and 1985 offered Hungary the prospect of emerging from several years of stagnation. Most importantly, it should be possible to increase investment which would provide an impetus for the whole economy. It should also be possible to stop the decline in real wages. The main priority would be to achieve balance in Hungary's international payments. Within this there could be scope to increase imports. He had discussed the trade prospects with Mr. Tebbit and hoped that new ways could be found of increasing trade between Britain and Hungary.

The Prime Minister said that she was glad to hear that things were going well. Mr. Varkonyi said that he would not go so far as to say that. But the Hungarian Government hoped to take a further step forward with economic reform and to extend democratic institutions, particularly through decentralisation.

Soviet Economy

The Prime Minister said that, from her talks with Mr. Gorbachev, she had got the impression that the Soviet Union was groping for economic reform and was showing some interest in the Hungarian model. Mr. Gorbachev had been clearly dissatisfied with the operation of the Soviet system whose basic failing was its rigidity. How did Mr. Varkonyi see the prospects for change? Mr. Varkonyi confirmed that there was interest in the Soviet Union in Hungary's experience. The problem was that Hungary had introduced reforms gradually over a period of 20 years while the Soviet Union did not have that amount of time. For instance, prices needed to be raised by as much as 40% if the economy was to be put on a sound footing. The Soviet leadership felt secure in the belief that it could control everything from the centre but the Hungarian Party had realised that this was simply not practicable. The Soviet leadership feared that if they introduced change they would not be able to control its pace. The result was that they were very cautious. The Prime Minister commented that the Soviet Union had a strong incentive to reduce spending on arms so that it could devote more resources to improving living standards.

The Prime Minister observed that Mr. Chernenko had looked very ill on television. The effect of allowing him to appear had been the opposite of that presumably intended: it had raised questions about his ability to carry on. Mr. Varkonyi shook his head and said lugubriously that it was most unfortunate.

I am copying this letter to Rachel Lomax (HM Treasury), Callum McCarthy (Department of Trade and Industry), Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office).

*yes sir,*  
*Charles Powell*

CHARLES POWELL

C.R. Budd, Esq.,  
Foreign and Commonwealth Office.