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Record of Plenary Talks between the Prime Minister and the Hungarian Prime Minister held at the Parliament Building, Budapest, on 3 February at 1000 hours

Present:

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| The Prime Minister | H.E. Mr. Gyorgy Lazar |
| H.M. Ambassador | H.E. Mr. Jozsef Marjai |
| Sir Julian Bullard | H.E. Mr. Ferenc Esztergalyos |
| Mr. Coles | Mr. Lajos Nagy |
| Mr. Ingham | Mrs. Laszlo Abri |
| Mr. Turnbull | Mr. Gyorgy Banlaki |
| Mr. Reid | |

Following opening courtesies, Mr. Lazar said he appreciated the Prime Minister's decision to come to Budapest at this time. The fact that it was the first visit to Hungary by a British Prime Minister, and also the timing of the visit, gave it a special importance. Mr. Lazar then invited the Prime Minister to speak first on the basis of the previously agreed agenda.

The Prime Minister said she was happy to be in Budapest. Her visit followed earlier successful ones by Lord Carrington and Sir Geoffrey Howe; and a successful visit to the UK by Deputy Premier Marjai. It was evident that, although the UK and Hungary belonged to different systems, they faced the same problem: how to create the wealth which the people of each country needed. This economic problem united the UK and Hungary; both wanted to raise living standards. Sound economic management was needed; and both countries belonged to international financial institutions which helped in this. People had called her economic policies "Thatcherism"; but in fact they were now in use all over the world.

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Turning to wider international issues, the Prime Minister noted that her visit was taking place at a particularly important time. There was concern about the lack of efforts to promote relations between the alliances of which each were members; and at the suspension of arms negotiations. Britain and Hungary should use their influence within their respective alliances to improve the climate. The starting point was that each side was firmly attached to its own beliefs. But this should not prevent them developing a better understanding of each other's viewpoint, and hence a better understanding between the alliances.

It had been suggested that the United States and Western Europe did not genuinely want disarmament. This was not so. The West wanted to preserve its own security, but at a lower level of weaponry, particularly nuclear weaponry. The task was all the more urgent because weapons were becoming ever more sophisticated, and hence more costly: the creation of such new weapons would not only make the world a more dangerous place; it would also absorb the economic resources needed to raise living standards. Many leaders had expressed this thought, most recently President Reagan in his recent speech. The Prime Minister emphasised that President Reagan was both sincere and courageous in making the speech. The problem was compounded by the fact that arms negotiations had become too technical - a sort of nuclear accountancy, which ordinary people could not understand. What was needed was a general understanding, from which detailed agreements would then flow. The UK would exercise its influence within its alliance, both at a general level, and at each specific set of arms negotiations. It was good that the Vienna talks were due to continue in March. The UK would pursue discussions at Stockholm, where NATO had tabled specific proposals concerning exchange of military information, observation and verification. The Hungarian Foreign Minister had said that it was necessary

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to start with the simple things first and then go on to the more complex. NATO's proposals were in this spirit. They were not over-complicated and, if put into operation, would increase confidence and security. The UK also wanted the Geneva talks to continue. There was no point in arguing as to who was to blame for the breakdown. The important thing was that they should resume and be successful.

Bilateral relations were good. She wished to develop them further. The UK had tried to be helpful regarding Hungary's trade relations with the European Community. As an outward looking country, the UK endeavoured to keep the Community outward looking as well. Both Hungary and the UK would pursue all prospects for increasing bilateral trade. The Hungarian Days, to be held in the UK in April, would be a good opportunity for Hungarian companies to increase their exports to the UK. UK businessmen sought prospects in Hungary on the basis of good, competitive products.

Academic exchanges between Hungary and Britain were valuable. She had a high regard for them. However, she was disappointed that the facilities of the Embassy Cultural Section, which were sought after all over the world, were not used to their full extent. She hoped that they would be in future. Tourism was good and should be developed. The UK was pleased that Hungary was organising the Cultural Forum in 1985 within the framework of Helsinki. This was an important occasion and she hoped it would be a success.

Mr. Lazar said that the Prime Minister had spoken of many important bilateral and international issues. Hungary was committed to its own social system and alliance, but it was also open and sensitive to world affairs. Hungary did more than just merely acknowledge the fact that coexistence was necessary; this coexistence should be not just tolerable, but also mutually advantageous. Hence Hungary was in favour of dialogue, which it considered indispensable. Hungarian policy was adaptable and took account of given
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historical circumstances, but was not determined by opportunistic considerations. Hungary presented the same face to its friends, to its debating partners, and to its own people. Speculation that there were hidden motives in Hungarian actions were unfounded. He had felt prompted to say this not just by the very clear account of British policies which the Prime Minister had given; but also so that the Prime Minister knew exactly to whom she was talking, and would therefore not feel disappointed later. The Prime Minister replied that she hoped very much that she had made no such miscalculation. People who made miscalculations did not last very long in politics! The Hungarians had their firm, deep-rooted beliefs; the UK had its own.

Mr. Lazar agreed that bilateral relations were settled and that there were no unsolved problems. There were prospects of further development. Hungary too considered the past visits important; such visits would be important in the future too. They should involve not just Ministers and politicians, but also scientific and cultural contacts. Hungary was open on these questions. It was right that Hungary and the UK should not search for, and argue over, the points that separated them; but rather talk about what united them. This would facilitate co-operation.

Hungary recognised and appreciated the help which the UK had given on questions such as membership of the IMF and negotiations with the European Community. But there was one aspect of relations which needed to be dealt with more critically: economic relations. These had expanded in the seventies, but stagnated in recent years, not through any Hungarian intention. As a result, the UK had fallen from 4th/5th place amongst Hungary's western trading partners to 7th/8th. This could be changed with the necessary encouragement to businessmen, industrialists and banking circles. He realised that there were no political or

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ideological reasons for this stagnation. Individual economies were inevitably affected by changes in the world economy. There were times when new approaches were needed to give new impetus to trade relations. Now was such a time. He did not wish to go into details, but merely point to the existence of this phenomenon. In response to a question from the Prime Minister, Mr. Lazar explained that he was referring to obstacles to Hungarian products selling on the UK market, i.e. restrictive quotas, restrictions on agricultural imports (the CAP) and tariff disadvantages. These should be eased or removed. Structural changes, bilateral schemes and co-operation in trade markets offered new opportunities. Existing co-operation could be expanded, particularly in chemicals, electronics, computers and mining. He was aware that markets had to be won. Hungary was not asking for special treatment, merely equal treatment. Hungary had a strong interest in developing its external economic relations. Fifty per cent of its trade was outside the CMEA. Western Europe was particularly important, taking one third of Hungary's total foreign trade; and 60 per cent of this was with the European Community.

Mr. Lazar said he had noted the Prime Minister's words about the Embassy's cultural facilities. He could assure her that the point would not be forgotten. Human relations, including tourism, were also important. Hungary had made due preparation to host the Cultural Forum to which it too attached importance.

On international questions, Mr. Lazar said that, while the two sides disagreed on the reasons for the present situation, they agreed on their analysis of it. We were fast approaching the stage where the position would become intolerable, with a paralysing effect not only on co-operation between different social systems, but on the potential and scope which individual countries had for co-operation with one another. Both sides agreed that change was needed. Security at a lower level of armaments was the goal. This

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was the only possible way forward.

While he respected the Prime Minister's remarks concerning Mr. Reagan's speech, he could give other examples of statements of similar sincerity and courage, for example Mr. Andropov's undertaking not to use nuclear weapons first. He could refer to other proposals too. The condition for progress was a substantive exchange of views at the negotiating table on these issues. The Prime Minister had referred to views which called into doubt the United States' desire for genuine disarmament. He could not conceal the fact that the Hungarians too had had similar doubts. It would be good if such impressions could be dispelled. It would be a bold step if the United States were prepared to restore the position which had obtained before the siting of new intermediate nuclear weapons. This would remove the obstacles to dialogue. Hungary too believed that the Soviet/US relationship had a determining effect. But other countries could and should contribute to the dialogue, e.g. in Stockholm.

Responding to Mr. Lazar's remarks about bilateral trade, the Prime Minister noted that, although 1982 had been a bad year, things had got better in 1983. Hungarian exports to the UK had increased by 28 per cent. On East/West relations, the Prime Minister pointed out that NATO had undertaken not to use its weapons first, but only in response to attack. The point was often lost - though people in Budapest would well know - that it was not just nuclear war which had to be prevented, but also conventional war. Both sides seemed to agree on the need to unblock the obstacles to East/West bilateral relations. Mr. Lazar agreed.

The meeting ended at 1120.

A. J. C.

3 February, 1984

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