

AC



Foreign and Commonwealth Office

London SW1A 2AH

4 March 1985

Dear Charles,

Visit of Hungarian Foreign Minister

I enclose a brief for the Prime Minister's meeting with Mr Peter Varkonyi at 0930 on Thursday 7 March. The Prime Minister met Mr Varkonyi in Budapest. He speaks English and will be accompanied by Mr Domokos, the Hungarian Ambassador, and Mr Unwin, HMA Budapest.

Yours ever,
Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street



CONFIDENTIAL

PRIME MINISTER'S MEETING WITH THE HUNGARIAN FOREIGN MINISTER:
0930-1000 ON THURSDAY 7 MARCH

Our Objectives

- a) to promote the active high-level dialogue between UK and Hungary;
- b) to give the Hungarians discreet encouragement to speak up in their own interests;
- c) to improve prospects for Anglo-Hungarian trade.

Arguments

- a) Convinced from own direct knowledge of Reagan's sincerity in seeking improved relations and arms control agreements with the Soviet Union;
- b) important for all of us to promote this process;
- c) on SDI, spell out Camp David four points, developing argument in support of US research;
- d) underline overall aim of enhanced deterrence at lower level of armaments;
- e) present level of trade does not properly reflect the economic potential of the two countries.

Tactical Arguments

- a) Interested to hear more about Hungary's contribution to East/West relations. Do they seek greater elbow room in dealings with Moscow? Do they speak up on arms control and human rights within Warsaw Pact?
- b) UK has made constructive contribution to Hungary's economic progress. We helped during their financial crisis in 1982. The UK made a significant contribution to special loans from Western central banks (which prompted renewed commercial bank lending) and supported Hungary's successful bids for membership of the IMF and the World

/Bank

CONFIDENTIAL



CONFIDENTIAL

Bank. Hungarians face long haul and UK will continue to play constructive rôle in IMF and World Bank. Hope this can be reflected in more active trading relationships and opportunities for British firms.

His Objectives

- a) To project Hungary as a significant and interesting country in her own right, while underlining that she is Communist and loyal to Warsaw Pact and CMEA;
- b) to probe for differences in Western alliance, eg on SDI;
- c) to stress significance of proposed Kadar visit.

Your Response

- a) Recognise Hungary's uniqueness but avoid giving impression of trying to create divisions in Warsaw Pact;
- b) underline NATO unity on essentials;
- c) welcome proposed visit by Kadar. Significant step. (If raised) Calls on HM The Queen strictly governed by Royal protocol. Heads of State and Commonwealth Prime Ministers only.

Press Line

1. Varkonyi visited Britain 5-7 March. Talks with Sir Geoffrey Howe and Mr Rifkind. Called on Prime Minister and Mr Tebbit.
2. Ministers stressed genuine desire of West to improve relations with East, and reach arms control agreements. Varkonyi shared Ministers' support for continued dialogue and contact.
3. Trade recognised as important area of bilateral cooperation. Both interested in developing.



Background

1. Prime Minister met Varkonyi in Budapest in February 1984. Personality note attached.
2. Varkonyi will have talks with Secretary of State and Mr Rifkind on 6 March. Will call on Mr Tebbit on 6 March.
3. Link in important chain. Visits to Hungary by Secretary of State and Prime Minister in 1983 and 1984. Kadar invited in October/November (yet to agree dates).
4. Significant time. Outward visits by Secretary of State to 5 Eastern European countries in February/March. US/Soviet arms control talks 12 March. Hungarian Party Congress 25 March.

DR PÉTER VÁRKONYI

Minister for Foreign Affairs since July 1983. Member of the HSWP Central Committee.

Born 1931. A Party member since 1948. Originally a career diplomat. Having graduated at the Foreign Affairs Academy, he served in Washington (briefly - he was declared persona non grata in retaliation for Hungarian expulsion of an American diplomat), London and Cairo from 1951 to 1958 before becoming Head of the MFA Press Department. From 1961 to 1965 he worked at the Government Secretariat; from 1965 to 1969 in the Foreign Affairs Department of the Party, first as Kádár's private secretary, latterly as Deputy Head of Department. Promoted to Head of the Government Information Office in 1969. Editor-in-Chief of the Party daily Népszabadság from March 1980. Central Committee Secretary for Foreign Affairs from 1982 till his appointment as Foreign Minister in July 1983. Since then he has visited the USA, the FRG, Austria and Spain. He was host to Sir Geoffrey Howe when the latter visited Budapest in September 1983, and also met Mrs Thatcher during her visit in February 1984.

Várkonyi's rise to the top seems to have been due to Kádár's patronage. His move in 1983 from Party Secretary for Foreign Affairs to Foreign Minister was presented at the time as a move sideways, to a job which Várkonyi wanted. It now looks more like a demotion. Várkonyi has rather disappointed as Foreign Minister. Whilst his successor as Party Secretary for Foreign Affairs, Mátyás Szűrös, has shown himself innovative on foreign policy, Várkonyi has apparently confined himself to an executive role.

He is a cool, perhaps cold customer behind an affable exterior. He speaks excellent English, as does his wife, who is a jolly extrovert. He has a brother who is currently Hungarian Ambassador in Zimbabwe, and at least one son.

VISIT OF THE HUNGARIAN FOREIGN MINISTER, MR VARKONYI, TO BRITAIN :
5-7 MARCH 1985

EC/HUNGARY (Defensive)

POINTS TO MAKE

1. Share your disappointment at lack of progress towards trade agreement with EC.
 - UK's approach consistently constructive: will play its part as and when Commission/Hungary contacts are renewed.
 - But Hungarians must recognise real problems will take time and effort on both sides to solve.

2. Recognise importance Hungary attaches to elimination of all quantitative restrictions (QRs).
 - But inflexibility on this makes it difficult for EC to be forthcoming in other areas.
 - Important to make pragmatic progress, as Prime Minister has stressed, and not get stuck in sterile philosophical argument on e.g. precise definition of state trader.

3. General feeling in EC that any agreement should contain a broad balance of economic advantage for both sides.
 - Understand Hungary feels it has not received benefits due from accession to GATT.
 - So does EC: some Hungarian practices still prevent EC getting full benefits from Hungary's accession.

4. (If Hungarians claim all other GATT partners have ended discrimination against them) Very few UK QRs for Hungary: could consider their elimination in the context of EC/Hungary agreement.
 - Cannot speak for partners, but have always encouraged them to be helpful towards Hungary.

5. (If Hungarians ask whether UK could not abandon QRs unilaterally) Modifications to import regime must be for the EC as a whole.

ESSENTIAL FACTS

1. Hungarian interest in a trade agreement with EC first raised in 1983.
 - UK has earned credit from Hungary for constructive approach within EC.

2. As well as concessions on tariffs and agriculture, Hungary claims elimination as of right of all quantitative restrictions (QRs), as a result of her accession to GATT.
 - Unacceptable to EC: Member States have already agreed considerable degree of liberalisation, but Hungary not a fully open trading market (CMEA preference, etc) and EC considers some QRs economically justified.

3. Marked hardening in Hungarian position at beginning of 1984: demanded to know full extent of concessions before starting negotiations, and repeated refusal to offer quid pro quo for liberalisation of QRs.
 - In letter to Prime Minister in April 1984, Deputy Prime Minister Marjai reiterated maximalist demands. In her reply Prime Minister stressed pragmatic and flexible approach.

4. Little progress in subsequent talks: partners (for some of whom - e.g. Italy - QRs of much greater significance than for UK) disinclined to make more forthcoming offers until Hungarians show flexibility.
 - Official contacts have lapsed.
 - Recent signs that Hungarians retain interest in an agreement, and may propose resumption of negotiations on more realistic basis: but as yet no formal overtures.

European Community Department (External)
27 February 1985