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NOTE FOR THE RECORD

cc: Mr. Alexander

The Chancellor of the Exchequer called on the Prime Minister at 0845 hours today. The following are the main points which came up in discussion.

(a) The Chancellor referred to President Carter's emissaries who were visiting Britain today to discuss the Iranian situation. They were intending to put pressure upon the Government to freeze the Iranian deposits which were in US banks in London. Although the President had ordered US banks to refuse the withdrawal of these deposits, under British law US banks resident in London could not be obliged to comply. Already one court decision had gone in favour of an Iranian plaintiff. In theory, the 1964 Emergency Powers Act could be used to oblige the American banks to comply. The US authorities were beginning to threaten that if we did not cooperate they would tell the US banks to pull out of London. He regarded these developments with great misgiving. It was not clear what the US Government was hoping to achieve by their attempt to freeze Iranian assets around the world. It seemed doubtful whether it would have any effect on their handling of the hostages. And if they were trying to take action on Iranian debt defaults it would have been far better to have called a conference of central bankers. The action which the US had taken already was damaging enough in terms of the dollar's future credibility; if it were now to be stepped up, the damage would be all the greater. Furthermore, although the Emergency Powers Act could be invoked, it would appear that we would be using it against Iran with whom we had no direct quarrel - and this might be hard to defend.

(b) The Prime Minister said that she was still concerned about the Bank's handling of monetary policy during October. She hoped that they were now moving quickly in developing specific proposals for Monetary Base Control (MBC). The Chancellor replied that he

/ had indeed



had indeed impressed upon them the need for speed with the MBC proposals. He had also asked them for a rapid appraisal of the methods of selling gilts, and a review of personal credit mechanisms.

(c) The Chancellor asked the Prime Minister whether she had discussed the question of appointments at the Bank with the Governor. The Prime Minister replied that she had seen the Governor privately and had agreed very reluctantly to the appointment of Mr. McMahon as Deputy Governor, and to his other proposals. But she had told him that he must not assume that McMahon would succeed him as Governor: she herself would strongly oppose this. The Chancellor commented that Mr. McMahon was highly respected abroad and could well make a strong candidate for the eventual succession.

(d) The Chancellor said that he was a little worried about the FCO's public posture on EMS. In particular, Lord Carrington's recent speech in Brussels had indicated that we were rather more positive about EMS than he would have liked. It was certainly a more bullish line than the draft which the Treasury had prepared for the Prime Minister's Luxembourg speech (and which in the event had not been used). The Prime Minister said that she did not think the FCO were quite as far out of line as the Chancellor suggested, but she agreed that they should be pulled back a little. The line should be that we hope to be in a position to join EMS sooner or later, but the time is not ripe yet. (The Chancellor asked whether he could have this recorded in writing for the benefit of the FCO: the Prime Minister said she did not think this was necessary. However, I will mention the point to the FCO orally).

(e) EEC Budget: The Chancellor asked whether the Treasury or the FCO should take the lead on the paper on the possibilities of withholding our contribution. The Prime Minister said that it should be the Treasury; she hoped the review could be completed by Christmas. The basic strategy was now to get a £350 million

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reduction in contributions (as offered at Dublin), a £400 million or so improvement in receipts, and a change in the structure of the Budget to bring benefits in two or three years time. If this could not be achieved, then we should withhold our contribution.

R.

cc: Minister Sect  
Domestic Monetary  
EMS  
Community Budget  
Miss Porter

6 December 1979