

European Policy
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Mr. Shaw (hus) (hus)
Mr. Wicks.
Syl
1978

NOTE OF A TELEPHONE CONVERSATION BETWEEN THE PRIME MINISTER AND
THE CHANCELLOR OF THE EXCHEQUER ON 18 SEPTEMBER 1978 AT 08.15.

EMS

The Prime Minister asked the Chancellor about the likely effects on sterling and on the dollar of the news of a breakthrough at Camp David. Mr. Healey said that he did not think that the news should damage sterling: the dollar would probably improve against all other currencies but not against sterling more than the others. The Prime Minister commented that this might make the meeting of the Finance Council (which Mr. Healey was just leaving to attend in Brussels) more difficult. Mr. Healey agreed and said that it would already be difficult enough; he did not as yet know what President Giscard and Chancellor Schmidt had agreed at Aachen. His own approach would be to avoid agreeing to anything but to state the UK's preferences as between one option and another.

The Prime Minister agreed and said that he thought that the Chancellor should take an enquiring line. It should be made clear that anything agreed at Aachen should not supplant what had been agreed between the Nine Heads of Government at Bremen. The next step must be for Schmidt and Giscard to tell the other Heads of Government the position they had reached. There was no need for the Chancellor to be rough in Brussels but he should stress that, at Head of Government level, we so far knew nothing about the Aachen meeting.

The Prime Minister went on to say that he was cooling off on the whole business of EMS. He saw nothing tangible for the UK in the possibility of resource transfers. He was now wondering whether there was anything worthwhile for the UK in the whole scheme. He was becoming more and more doubtful about it. Mr. Healey said that the real issue was what weight should be given in any scheme to inflation. He agreed that it was now clear that there would be no prospect of real resource transfers by the time the scheme came into operation. The Prime Minister said that the important question was not simply what weighting to give inflation but whether we in the UK could hold it down. The Prime Minister said that the French seemed to be behaving badly on everything. He saw no reason to go along with an EMS unless it was

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clearly and absolutely in the UK's interest. There was also the problem of consequential legislation, to which the Chancellor had drawn attention in his recent minute. Mr. Healey commented that the anti-Europeans in the Labour Party might combine with the monetarists in the Opposition to defeat the Government. The Prime Minister repeated that any scheme must be patently in the UK's interests. He noted that, because of the Chancellor's absence, there would be no chance of having a formal meeting of Ministers to discuss the question in advance of the Party Conference. The Prime Minister reminded the Chancellor that he might be having bilateral talks with Chancellor Schmidt during the week beginning 16 October. It would therefore be necessary to have some kind of Ministerial meeting during the week immediately following the Party Conference.

Bingham

Mr. Healey said that he was sending the Prime Minister a note on the Bingham Report. His view was that we should avoid an enquiry if at all possible. If some kind of enquiry seemed essential, the Prime Minister's preferred option would certainly be the best. It must be borne in mind that the former Ministers who had known most about what was going on were now all out of Government and might behave differently before an enquiry to those who were still in office. The Prime Minister agreed.

The Prime Minister asked Mr. Healey to send a telephoned report during the course of the day on how the Finance Council meeting was going. Mr. Healey agreed to do so. *BHM.*

18 September 1978