

PERSONAL AND CONFIDENTIAL

13th February 1989

Prime Minister  
I think it would  
be a mistake to  
invite Mr. Brittan to  
talk about this  
on its own.

You might suggest that he  
comes in for a wider  
discussion in May/June. Agree?  
Yes Mr. CDD

I am enclosing a copy of an extract from the speech that I made to the Conservative Group for Europe last Friday, because it makes a particular point about current monetary developments in the Community, which I thought might be of interest.

16/2.

The general arguments for joining the Exchange Rate Mechanism of the EMS are not in any sense new.

But the new factor that has struck me increasingly in the last few weeks is that if Britain were to join the ERM, the consequence would, paradoxically, be to check the movement towards Economic and Monetary Union and impede the consideration of radical proposals such as the creation of a common currency or a Central Bank.

Why?

I have tried to show why I have come to this conclusion in the speech extract that I enclose, and that may be sufficient for the point to be taken into consideration.

But I would also of course be very happy to discuss further the reasons why I have come to this view, if you feel that that would be of any assistance.

Law,  
Law

The Rt.Hon. Margaret Thatcher, MP  
Prime Minister and First Lord  
of the Treasury.





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**Embargo**

**Friday 10 February, 2030 hours**

Brussels, 10 February 1989

**MONETARY PROGRESS IN THE EUROPEAN COMMUNITY**

**Case stronger than ever for UK participation in the  
Exchange Rate Mechanism**

**Extract from the speech by Sir Leon Brittan, Vice President of the European  
Commission, to the Conservative Group  
for Europe, Coventry, 10 February, 1989**

"As the 1992 programme gathers momentum, attention has increasingly focused on the separate question of the need for progress in the monetary sphere.

The UK already does more than half of its trade with other members of the Community. Anyone who has experience of the realities of exporting will know the advantages arising from exchange rate stability. This is particularly true for smaller businesses which do not have easy access to the financial techniques for hedging exchange rate risks that are available to big multinational companies.

In addition, events of the last years have again underlined the need for continual vigilance in the battle against inflation. Among our European Community partners, few would doubt the contribution made by the exchange rate mechanism of the European Monetary System to the control of inflation.

For both of these reasons I believe that Britain would be best served now by fully joining the EMS. That is indeed a view that I have held and expressed publicly since early 1986.

As to developments beyond the EMS, the increasing interdependence between the economies of the different member states is inevitably leading to greater coordination of member states' monetary and exchange rate policies.

That is why the Heads of Government last year set up the Delors Committee to report on how further progress towards monetary union might be achieved. We will all read that report with interest when it appears later this spring.



What is already clear to me, in my short time in Brussels, is the obvious importance attached by our partners to sterling joining the exchange rate mechanism of the EMS. They would warmly welcome such a step, not just as a gesture of unity, important though that would be for many of them, but because they know and appreciate that in economic and financial terms British full membership of the EMS would greatly strengthen the Community, quite apart from any benefits it might confer on Britain.

By the same token, because British membership is regarded as of such value and of such significance, I believe that it would be readily understood that the introduction of such an important and widely-traded currency as the pound into the Exchange Rate Mechanism would change the basis of the monetary discussion. There would be strong arguments, indeed, for a period of stocktaking until the full impact of the new situation - for Britain and for the Community as a whole - became clear, before taking further major steps in the monetary field.

Meanwhile, increased monetary cooperation in Europe is again on the agenda, and it is too important an issue for Britain's voice not to be heard. Only as full members of the EMS can we really hope to influence its future direction. That is why the case for entry now is stronger than ever."

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*From the Private Secretary*

17 February 1989

The Prime Minister was grateful for your letter of 13 February and has noted your views about our joining the ERM. She would like to have a talk, not just about that but covering other subjects as well. Her preference would be to hold it a bit later in the spring or early summer, perhaps in May or June. Would you like to ask your office to ring Amanda Ponsonby here to try to fix a time in either month when you are anyway going to be in the United Kingdom.

C. D. POWELL

The Right Honourable Sir Leon Brittan, Q.C.

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