

PRIME MINISTER

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MADRID EUROPEAN COUNCIL

We will work out some words for you to use at Cabinet on the points you discussed with the Foreign Secretary and Chancellor today. But I think we do need to know whether the formulation which I put to you (attached) is on the right lines or whether you want to modify it. The purpose is not to commit you now to using it: that must depend on whether you think that it will obtain a worthwhile quid pro quo. But we need to have a clear idea of what you would be prepared to say.

Are you content with this text?

Yes not

C D P

C. D. POWELL

20 June 1989

SLHBHA

E.R.

"Our position remains that we shall join when the time is right. When that will be depends on a number of factors. <sup>①</sup>We for our part must get the inflation rate down. <sup>②</sup>And we shall want to be convinced that the process of completing the Single Market and removing all barriers to trade and financial services is being genuinely implemented throughout the Community. In particular we shall want to see the abolition of all controls on free movement of capital and complete freedom of financial markets implemented and sustained for a reasonable period so that we are able to judge the effect of these steps on the ERM itself. <sup>③</sup>The final decision will remain the sole responsibility of the British Government. But the fulfilment of the conditions which I have set out would clearly have a positive effect both on the Community itself and our decision whether to bring sterling into the ERM."