

**Blair Puts EMU Back on Agenda For Sterling**

*"Britain needs its voice strong in Europe and bluntly Europe needs a strong Britain, rock solid in our alliance with the USA, yet determined to play its full part in shaping Europe's destiny.*

*We should only be part of the single currency if the economic conditions are met. They are not window-dressing for a political decision. They are fundamental. But if they are met, we should join, and if met in this Parliament, we should have the courage of our argument, to ask the British people for their consent in this Parliament.*

*Europe is not a threat to Britain. Europe is an opportunity."*

Labour Party Conference, 2 October 2001

Following the events of the 11 September and the UK announcement that it was going to stand "shoulder to shoulder" with the US, the issue of sterling joining EMU was pushed to the background. However, the tone of the Prime Minister's comments at the Labour Party Conference suggest that membership is still very much on the agenda. While it could be argued that there was nothing new in Mr. Blair's comments, that fact that he mentioned EMU at all, means that the government is happy to have the debate back in the limelight. Even though the reference to EMU was only a tiny part of his 54-minute key note speech, many newspapers chose to make it their front page story.

Blair comments indicate that if the five economic tests are met, then a referendum will be held during the lifetime of this parliament. Senior ministers have been quoted as saying that the most likely date for a referendum is in the spring of 2003, although a decision on the timing won't be made until after the summer of 2002. The issue of winning a referendum brings us back to public opinion. Latest polls show that the vast majority (2:1) would vote against membership. However, deeper probing shows that, despite their anti-euro feelings, most expect the pound to be scrapped by 2005. This suggests that they can be persuaded. Hence the importance of the five economic tests. However, not forgetting the importance of the right political angle in selling the concept to the public, Blair seems to be going for the patriotic approach: "*bluntly Europe needs a strong Britain*".

Geraldine Concagh, 5<sup>th</sup> October 2001

| <u>The 5 Economic Tests</u>                                 | <u>Convergence Scenarios</u> |                          |                            |
|---|------------------------------|--------------------------|----------------------------|
| ... Are the business cycles in the UK & eurozone compatible | <u>GBP/EUR</u><br>Stg0.65    | <u>DEM/GBP</u><br>DM3.00 | <u>GBP/IEP</u><br>Stg0.825 |
| ... Whether there is sufficient flexibility                 | <b>Stg0.68</b>               | <b>DM2.87</b>            | <b>Stg0.86</b>             |
| ... Whether membership will be good for                     | Stg0.70                      | DM2.80                   | Stg0.89                    |
| •(A) jobs   |                              |                          |                            |
| •(B) long-term investment                                   |                              |                          |                            |
| •(C) financial services                                     |                              |                          |                            |