



House of Commons
Liaison Committee

The Prime Minister

Oral Evidence

Tuesday 17 May 2011

Rt Hon David Cameron MP

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Members present:

Sir Alan Beith (Chair)

Mr James Arbuthnot
Mr Adrian Bailey
Dame Anne Begg
Malcolm Bruce
Sir Alan Haselhurst
Margaret Hodge
Andrew Miller

Richard Ottaway
Mr Laurence Robertson
Mr Graham Stuart
Mr Andrew Tyrie
Keith Vaz
Joan Walley

Examination of Witness

Witness: **Rt Hon David Cameron MP**, Prime Minister, gave evidence.

Chair: Welcome, Prime Minister, to your second session with the Liaison Committee in this Parliament. We also welcome your agreement to come three times a year. That means that there will be three sessions, of which this is first, before the end of this calendar year. We have agreed that we will have shorter and more frequent meetings to allow us to cover a limited number of subjects in greater depth. Today, we have chosen two subjects. The first is the prospects for growth in the economy, and the second is overseas intervention and the military capacity to support it. I am going to hand over to Andrew Tyrie for the first subject.

Q132 Mr Tyrie: Prime Minister, do you think that the Government can raise the trend rate of growth over the course of this Parliament? If so, roughly by how much?

Mr Cameron: I think that Governments can change the trend rate of growth by basically making supply-side reforms. I could not make an estimate for you as to what I hope that would be. I notice that the Office for Budget Responsibility has not changed its trend rate of growth, but it has said that it may be possible that the sorts of things that we have done could have an impact.

The way I see it is that, clearly, there is no room for a fiscal stimulus, because we effectively inherited a situation with a huge budget deficit. Clearly, the economy has already had a monetary stimulus, and interest rates are pretty much as low as they could be. Therefore, the tool that is left for Government is to do everything that you can to the supply side of the economy. That means ensuring that the planning system is working properly, ensuring that the labour market is working properly and helping individual sectors with changes that could help those industries to grow, which is what the growth review that the Chancellor and I have been running is all about. We took 117 separate commitments, including some that were about cutting regulation to the tune of £350 million. So that is the aim of the growth review, but, as I say, I cannot give you an estimate for how much it would raise the growth rate by.

Chair: Let us get into the detail then. Mr Bailey.

Q133 Mr Bailey: There is a consensus that bank lending to business is absolutely crucial if we are to

give companies the capacity to enable Britain to grow its way out of recession. The latest Bank of England figures, however, show that bank lending has actually fallen. When are the Government going to use their powers, particularly with banks of their own, to ensure that there is an increase in lending to business?

Mr Cameron: Obviously, the recent figures are disappointing, but they only go, as I understand it, up to March. Of course, the agreement that we reached with the banks—Project Merlin—which was all about increasing bank lending, really runs over the whole of this year, and we should judge this across the year, rather than in any one given month. That agreement was for £190 billion of new credit, which is up from £179 billion last year, and a 15% increase for SMEs, which are the critical piece of this, to £76 billion. That was an agreement with the banks, and their side of the agreement is to deliver that extra gross lending. Clearly, we need to ensure that that does happen.

Q134 Mr Bailey: Yes, it is clearly too early to come to a definitive judgment on how successful Project Merlin has been. However, there is certainly still a considerable body of anecdotal evidence coming in from SMEs that bank lending has not improved. What is the Government's position if the level of bank lending continues to drop, and what measures are the Government looking at to rectify that?

Mr Cameron: Clearly, there are two sides to that question. One is what would you do, as a Government, if the banks do not fulfil their side of Project Merlin, but, of course, the other side of that project was that we will not introduce further bank levies, taxes, bonus taxes and all the rest of it, as long as this lending is forthcoming. That is the point of Project Merlin, so if they do not fulfil their side of the deal, clearly the Government would not have to fulfil their side of the deal.

Aside from that, there are clearly other steps that we could take, and we have already taken some. Obviously, there is the enterprise growth fund, which is a classic sort of loan guarantee system to try and increase bank lending. There are other measures that you could look at on that side, but I have always believed that, with Project Merlin, which was very much my initiative, it was time to try and settle this argument with the banks. I do not think that it is constructive to have an endless series of new battles

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and fights and taxes on the banks at the same time as trying to get an economy to grow. I thought that it would be better to try and have more lending from the banks, lower bonus payments this year and last year, a good set of taxes that are already on the banks and guarantees about tax revenue from the banks. I think that it was a good deal, but we have to ensure that the banks stick to their side of the agreement.

Q135 Chair: But, Prime Minister, we own several of these banks. Does ownership play no part in this?

Mr Cameron: Of course it does. Sorry, I should have answered Mr Bailey's question maybe with a third side. As owners of the banks, we have an influence there as well. That is of course the case, but, as I say, the first step should be to try and make Project Merlin work in the way that it was intended. It is something that, after all, the banks entered into believing that they could lend that gross amount of money to large and small businesses, and they said that they wanted to do that. I think that we should judge it across 2011 for the progress that we make on that front.

Q136 Mr Bailey: I would just point out that what we are really looking for is a net increase in lending. It is possible to increase the gross lending without substantially affecting the amount of money flowing to business.

Mr Cameron: Just on that, if you target net lending, the problem is that your target can go very awry if more businesses just decide that actually it is a time they want to write down debts and repay money. I think that targeting gross lending is something that's more useful in terms of making sure the banks are prepared to make fresh commitments. Otherwise, they could meet net lending targets by just encouraging firms not to pay back money. So I think it is better to target gross rather than net.

Q137 Mr Bailey: It could also be met by companies deciding that there is no point in asking banks for loans anyway.

Mr Cameron: I am a constituency MP, just like you are, and I have lots of examples of small businesses coming to me and saying, "I have never breached my overdraft limits, I've never caused my bank any trouble, and yet I'm not able to get hold of loans." I totally recognise there is a problem. That is why I was instrumental in trying to get Project Merlin under way. As I said, I think this is the first step we take, combined with the loan guarantee schemes that we've increased. I am not expecting these things not to work, but I absolutely share your concern that bank lending is a key to helping to get the British economy moving in a consistent and sustainable way.

Q138 Mr Bailey: May I just finish with a question about exports and UKTI? If the Government's policy on rebalancing the economy is to succeed, given the state of domestic purchasing power, it is essential to boost exports. Why are the Government cutting the budget and staff of UKTI?

Mr Cameron: First, I totally agree with the thought underlying your question, which is that we have got to rebalance the economy. We need to see growth

coming from manufacturing, investment, exports, rather than believing we can just reflate the economy on the basis of property, Government spending and a consumer boom. The good news is that over the last year export volumes are up 16%, manufacturing is up 5%, business investment is up 11%. Clearly, UKTI, like many other parts of Government, has had to find efficiencies. We have had to make savings almost right across Government, in order to fill in the huge budget deficit and start to get to grips with that. But what we have managed to do is maintain the numbers in UKTI's overseas network, which I think is the most crucial part of it, so the total number of people employed in the overseas network—we have over 90 people in China, over 80 in India, over 40 in Japan—is being maintained, and a lot of the savings in UKTI are from reducing corporate spend and advertising.

This is an area I take a close personal interest in, because I believe the trade agenda is so important. There is a connection between banks and this, in that I got Stephen Green, who was a very respected chief executive of HSBC—a bank that didn't get into trouble in the boom—to come across to be our Trade Minister. He gave an excellent presentation recently to a number of Cabinet Ministers about what he is planning to do with UKTI and the Export Credit Guarantee Department, and I think they are going to be under really superb political oversight and leadership from him in the years ahead, which is good news.

Q139 Margaret Hodge: I want to come back to the bank lending. You said that it was your view that gross lending was the right target. Vince Cable said, and I'm quoting—admittedly from *The Mail*—"This is completely letting the banks off the hook. It's perfectly possible for banks to achieve a gross lending target while withdrawing capital from small to medium-sized businesses." Are you saying you disagree with him?

Mr Cameron: What I am saying is that I think you can target the gross or you can target the net. I think it is better, in Project Merlin terms, to get a commitment about the gross lending, because that is the amount, as it were, they are going to get out of the door in lending to large and small businesses. If you did the same on net lending, you might find that the figures were effectively being massaged by encouraging firms not to pay back loans even when they wanted to. Therefore, you wouldn't really—the problem is small business cannot get hold of money. That is the problem, so I think that targeting the exact amount of money going out of the banks into business, particularly small business, with that 15% increase, is the right way to do it.

Q140 Margaret Hodge: I understand from that that you disagree with Vince Cable, but I agree about the SME point. I think that that is hugely important. Yet in Project Merlin, the money does not go to the new start-ups. It is going only to those who want between £2 million and £10 million, so very small start-ups or new inspiration will not get access to finance, even under the Merlin agreement. Why not?

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Mr Cameron: What you are referring to, in many cases, is going to be project finance, leasing and other such things. That is partly about encouraging banks. It is also about encouraging small firms to look at leasing arrangements for capital goods.

Q141 Margaret Hodge: But these are the firms that come to your surgery and mine, and will go to the Federation of Small Businesses and say, “We can’t access, in whatever vehicle, finance to grow.”

Mr Cameron: Yes, and what I am saying is that part of the answer to that is looking at leasing and other arrangements, as well as banks. But we also have, of course, the enterprise finance guarantees. We are lending up to £600 million in additional lending to around 6,000 SMEs through that programme. Over the next four years, that will be another £2 billion, so we are trying to look at all of those areas.

Another area is export credits. The big picture we should think about is, if we could move from where we are today, with one in five of our SMEs exporting, to one in four of our SMEs exporting, that would be £40 billion in extra exports. Again, a lot of that is about investment in capital goods, some of which would be about bank lending. Some of it might be about leasing and other financial products.

Q142 Margaret Hodge: With respect, that is all about the next stage. We are talking about the very small start-up that cannot access finance from the banks and where, under the Project Merlin agreement, you have no leverage.

Mr Cameron: But you are looking only at Project Merlin. I am saying that you always have to look at the other Government policies, such as loan guarantees. There is also what we did in the Budget. Anyone who has looked at what can be done for small and start-up firms has said that what we did in terms of investment allowances and capital formation credits and so on, was quite powerful, in trying to get money into very small businesses. We specifically went to all the venture capital organisations, entrepreneurs and start-ups, and asked what we could do in a Budget that would help. We compiled a set of measures that are quite powerful.

Q143 Margaret Hodge: Can I come back to you on the sanctions? In Project Merlin, it sounds as if your sanctions are that you might put up their tax, you might be tougher on their bonuses. That will not get them to lend. What are the sanctions that you think about, given that lending is down, admittedly in a quarter and we have to look over a longer trend? What are the sanctions that you have in mind that we can use?

Mr Cameron: Why did they sign up to Project Merlin in the first place and why did we suggest it? If you stand back and think about it, it is because the banks recognise that it is extremely unhealthy in a modern, competitive market economy to be in a permanent state of war with politicians on all sides of the House. They recognise that is an extremely unhealthy situation: an endless debate going on about what further bonuses taxes, bank taxes and levies we can introduce. So it was in their interest to reach an

agreement that said, “We pay a lot in tax; we are going to pay even more in tax. We’re paying your bank levy, which has also gone up. What we really want to do is get back to the proper practice of lending money and oiling the wheels of a market economy. So let’s have an agreement where we promise to increase gross lending and you say you are not going to introduce another set of taxes, levies and the rest of it.” That is quite a sanction. It was a deal, an agreement, and they have to meet their side of the agreement or we don’t have to meet ours.

You can, of course, argue for a different approach and say that the Government should manage the banks because they own them. I think that would be dangerous, because we are politicians not bankers. You could have even more on the loan guarantee schemes; that is another route. I think this route of Project Merlin is the right way but, clearly, it has to be judged across the year, in which they have made promises to make those loans.

Q144 Margaret Hodge: Can I ask a more general question about growth? Our growth now is not just below that of the French and the Germans; in the last quarter, our growth managed to get below the Greeks’ as well. What evidence do you have to show that your approach is working?

Mr Cameron: The first point that I would make on the statistics is that our growth in the first quarter of this year was ahead of the Americans’—that is an important point. It was also ahead of some of the other southern European countries.

Q145 Margaret Hodge: One: Turkey.

Mr Cameron: No, actually I think you will find that it was ahead of Spain’s and Portugal’s as well.

The point I am making is that we are going through an enormously difficult process of rebalancing an economy that did have the most over-indebted banks; the most over-leveraged households; the most over-borrowed Government; the most out-of-control immigration; and the fastest-increasing Government spending. Remember that three quarters of growth had been coming from Government spending, housing, finance and immigration. That is not a sustainable model for the economy. Frankly, whoever was sitting here as Prime Minister right now would be having to rebalance the economy to try to bring about a situation in which growth comes from manufacturing, exports, technology and investment, rather than just pumping up the bubble.

That is extremely difficult, because obviously with the employment picture we are seeing a reduction in public sector employment, so we need to generate an increase in private sector employment in order to give people the chance of a good job. The good news over the past year is that there are 400,000 more people in work than a year ago.

Chair: We are moving on.

Mr Cameron: I am sure that we will come on to that, but I am trying to make a general point, Alan, about the rebalancing of the economy. The fact is that the economy is now growing, and investment, manufacturing and exports are growing. Don’t take it from me; as the Governor of the Bank of England and

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the OECD have said, there are signs of rebalancing in the British economy. That is, I think, a healthy sign. What we have to do now is to try to secure and expand that growth. That is partly about bank lending, as we have been discussing, but it is also about the growth review. As I have said, there is no great fiscal measure that we can take, because we inherited a situation where the Government were hugely over-borrowed. There is no great monetary step that we can take, because interest rates are pretty much as low as they can be. We have got to look at what we can do to help the supply side of the economy. As I say, we have 117 commitments through the first phase of the growth review. Regulatory proposals have been dropped that were going to cost £350 million a year, there is a presumption in favour of sustainable development, we are introducing enterprise zones and there are 50,000 new apprenticeship places. The next stage of the growth review will look at infrastructure, mid-cap companies and the power of open data to create new businesses. It will also look specifically at the rural economy.

Q146 Margaret Hodge: This is my very final point. It feels to me like you have chosen certain points, but I could have talked about Moody's considering whether our triple A rating should be downgraded because of the abysmal growth performance, or about consumer spending forecasts looking abysmal. It feels to me a lot like we are not achieving growth. We have got massive inflation and it feels like an era of stagflation in which the people who are suffering are really the savers.

Mr Cameron: I do not accept that the economy is not growing; the last figures showed that it is growing. You make a point about Moody's and credit rating. When we look at what has happened over the past year to a key indicator in our country—effectively the interest rate; the bond yield—we see that it has fallen in the UK by 44 basis points. When we look at all the other European countries, particularly those with question marks over their debt sustainability—in Portugal it is up by 316 basis points; in Greece it is up by 544; and in Ireland it is up by 484—it is my view that if we had not taken steps to set out a credible path of deficit reduction, British interest rates would have gone up rather than down. The whole rebalancing picture of encouraging manufacturing, exports, investment and business growth would have been absolutely laid out flat. That is the key judgment that we had to make, and I am sure that it was the right judgment.

Chair: On investment in the labour market, Anne Begg is next.

Q147 Dame Anne Begg: Prime Minister, you are very well aware—you have just mentioned it—that jobs are important in delivering your welfare-to-work programme. We need the right jobs in the right place, so numbers are not necessarily an indicator here. Bearing in mind the huge number of current claimants, and those who are about to be included in the claimant count because of changes that you have made to the welfare system, those jobs have to be there. However, the OBR and CBI forecasts are now

predicting a much slower fall in unemployment over the next few years. Surely there is a mismatch between the number of people the Government are expecting to get into work and the work that is actually available.

Mr Cameron: Well, the OBR forecasts that employment will rise next year and every year after that. As I said, I think that the big picture is this: we are trying to have a rebalancing of the economy. Inevitably, whoever was sitting here now would be seeing a reduction in public sector employment and needing to generate growth in private sector employment. We have got 400,000 more people in work than a year ago, but I accept what you are saying: as we put in place this big welfare-to-work programme—the Work programme—which is the biggest seen since the great depression, we have got to ensure that businesses are still growing and taking people on. At the moment, that is happening, but I do not accept that it is all about what jobs are available as people come off welfare. Of course, what is different about the Work programme is that we are not just helping, if you like, the frictionally unemployed—people who have become unemployed but are well trained and need another job. We are trying to help people who have deep problems, in terms of literacy, skills, self-confidence and mental health, and people who have been on incapacity benefit. We are trying to help all those people. They have been left behind in the past, and with a welfare programme that really helps them, I think we will find that there are jobs for many of those people to do—if they get the tailored support that they need.

Q148 Dame Anne Begg: The problem, clearly, is that there are implications for individuals. Due to the choices that your Government have made, there will be people who are not able to find a job because the labour market in their area is not suitable for them or because there are simply no jobs. However, those people have the potential to lose all their benefit if they are on contributory ESA,¹ or they could be moved on to a benefit that gives them a lot less money. Surely that is not fair. What will the Government do for those individuals?

Mr Cameron: The first thing is that we are going to help them to get a job. At the moment, they've been left. We have always had, as it were—

Q149 Dame Anne Begg: Yes, you are going to help them to get a job, but there will not be jobs for the millions who are going to be moved off from one benefit to another. Their income will be reduced quite considerably as a result of the labour market's failure to grow in their area.

Mr Cameron: First, let me question that assumption. For instance, if you take Scotland over the last year, there are 47,000 more people in work there today than there were a year ago. Again, in the north-west, there are more people in work than there were a year ago. The idea that jobs growth has been confined to only one or two parts of the country is not the case. That is the first point I'd make.

¹ Employment and Support Allowance

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My second point is that if you can give someone the help and training that they need so that they are no longer incapacitated from work, they should be treated the same as someone who is seeking work. That is what the plans involve, but I am more confident than that: if we give people that help and training, I think, actually, that the jobs are there. There are 482,000 vacancies across the economy. The key thing is that this has not been tried before in terms of proper payment by results. The organisations that are doing the training work will get paid more for dealing with the hard cases. That has not been tried before, and I think that it can make a very big difference. However, in the end, if you can't find a job and you are genuinely available for work, you should receive benefits if you need them, of course.

Q150 Dame Anne Begg: But the point is that they will be receiving less in benefits as a result of the changes to the welfare system that your Government have made.

Mr Cameron: As I say, if someone is currently on incapacity benefit, or the equivalent of incapacity benefit—ESA—and they can be trained to an extent, or if, after investigation, it is found that they should not be on that level of benefit, they should be treated the same as someone who is actively seeking work, because they should be actively seeking work. Of course, the whole point of the changes is that people who are genuinely incapacitated and cannot work should be supported—and generously supported—throughout their lives. However, what we have found is that as you go through people on what was incapacity benefit, you can divide them into three lots. There are those who are genuinely incapacitated who, as a compassionate society, we should support for as long as they are incapacitated and ensure that we look after them properly. The second group of people is those who cannot work as it stands today but could, with proper help and support, and with real training and real help, get to a position where they work. The third group is people who should not have been on that benefit in the first place and who should be actively seeking work. It is a responsible thing for the Government to do, frankly, to go through all those people and work out who is in which category.

Chair: We must move on.

Q151 Mr Stuart: Prime Minister, the Government inherited a very high level of youth unemployment. What steps can they take to bring that down?

Mr Cameron: I think, as you say, that this is a very severe problem, and we want to understand the extent of it. There are just fewer than a million young people aged between 16 and 24 who are unemployed. If you exclude those who are in full-time education—of course, the unemployment numbers include people who are in full-time education—you are left with something around 700,000 young people who cannot find work.

The way I put it is that we have a schools problem, we have a welfare problem and we have an opportunity problem. As I have discovered, we also have a Government problem, which I will come on to. The schools problem is that there are too many people

aged 16 going into the labour market who do not have the necessary skills, qualifications and aptitude for work. We have to fix the problem of people leaving school without good qualifications, which is what Michael Gove's reforms are about.

The welfare problem is that, in some cases, people have been able to get on to welfare and then find themselves better off in welfare than they would be in work. That is what the Iain Duncan Smith reforms are about—to try to make sure that you are always better off in work.

The opportunity problem—this always happens, tragically, in a recession and after a recession—is that younger people are hit harder because the new jobs are not coming on stream. There, the Government have a role with business to expand massively apprenticeships and work placements, which is exactly what we are doing—we are putting our firepower into that area.

The Government problem is that we have not had a proper way of looking at 16 and 17-year-olds who are unemployed and need help—they have fallen between the cracks. One of the things that we are doing is making sure that jobcentres and the Department for Work and Pensions have the money and resources to focus on those people. In time, part of the way of dealing with this is raising the participation age for education and training from 16 to 18 and making sure we make that opportunity available to all our young people. I am sorry that that was a long answer, but I think that that is the way we have to deal with it.

Q152 Mr Stuart: In Holland, benefits to young people are paid by municipalities. If they spend less than the money they are allocated by the Government, they get to keep it, and if they spend more, they have to pay the price. Since that legislation was brought in, it has transformed the attitude and approach of municipalities, because rather than just processing young people—putting in the claim to the centre—they have focused much harder on making sure that people get work. In fact, up to the age of 27, you cannot get benefits unless you are in work or training. Are there changes that we can bring about to the incentives system in this country that can lead us to join the Dutch in having the lowest number of unemployed young people in the OECD?

Mr Cameron: I will certainly look at what the Dutch are doing. What our plans have in common with theirs is that the universal credit system—because it basically works right from the bottom of the income scale and the fewest number of hours worked, all the way up—means that however few hours you are working, working a little bit more will always mean you keep a bit more income. Because it basically interacts between the benefits system and what you are getting in work, I think it will be an enormous incentive.

Should we do more to try and localise some of this problem, as they have done in Holland? When we have given county councils—Kent, for instance—the chance to run more services, including some welfare services, they have found it in their interest really to get to grips with welfare bills and costs, because they know they will have to pick up all the costs further

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down the line. It is an interesting agenda, but I will certainly study what the Dutch do.

Q153 Mr Stuart: They also provide the opportunity for a vocational stream from the age of 12. Do you think that there is a case for us starting off vocational opportunities at an earlier age?

Mr Cameron: There is a case for having those options available, but we really ought to listen to the Wolf report. I thought it was a very powerful report, and in a nutshell it was saying that there have been too many poor-level qualifications that we have thrown at young people, and while those people have stacked them up, they don't really mean anything to the employer.

I think that Wolf is basically saying two things: first, let's make sure that standards of vocational qualifications are high, meaningful and worthwhile; and, secondly, that you really must not give up on young people having the core skills in English and maths, even if that means retakes, because there is almost no job in the world that does not involve you having those core skills. It was a very rigorous report and I think that we should follow it. Our plans to put money into university technical colleges, which will be very high-quality schools that will have a very high prestige level for people who want to take a more vocational path, are also a big part of this.

Q154 Andrew Miller: At the last meeting, Prime Minister, you acknowledged that you needed to spend more time with your scientific advisers. I want to pursue some issues—

Mr Cameron: I have. I have even had a big science dinner at No. 10; I have had meetings with him—

Q155 Andrew Miller: Excellent; here is your baccalaureate, then.

The Government have done some positive things, such as the creation of innovation centres following the advice from Hermann Hauser to the previous Government. What else are you going to do to help develop the competitiveness of British industry by applying science?

Mr Cameron: The first big-picture decision was not to cut the science budget in cash terms. When we were having to make cuts elsewhere to things that are more politically painful, such as the policing budget, for instance, this was a difficult decision, but I think that it was none the less the right one. I would add the rollout of superfast broadband, which is a science-based policy, and introducing the patent box of the 10% corporation tax rate for companies that develop intellectual property and then exploit it in this country. You mentioned the technology and innovation centres. We have also put some specific money into things like the diamond synchrotron and a number of capital investments that the Chancellor announced in the Budget.

Q156 Andrew Miller: It is those areas that are important, because particle physics will see a halving of its funding between 2004 and 2012. These are serious cuts. Particle physics is incredibly important to the base of our science in the future.

Mr Cameron: Obviously, Mr Miller, as you know, the Science and Technology Facilities Council makes the decisions about the individual level of grants. By complete chance I met a particle physicist last night—

Andrew Miller: Physicist.

Mr Cameron: Physicist. And I asked him about this, saying that I knew I was going to be questioned in respect of this report. He said that one of the challenges for highly specialised areas of science is that they have to make their applications and bids relevant. They cannot expect to get money just because what they propose is in an important area, they have to prove the worth of what they are doing. I think that is the case for all science funding.

Q157 Andrew Miller: I am a firm believer in the Haldane principle and I would not want us to choose the priorities, but one piece of evidence that was produced shows a very clear gap between the research councils and the Department for Education over projects such as the National Schools' Observatory—a project that demonstrates how to incentivise young people to study science and which, if we are not careful, will disappear. What are you going to do about things like that?

Mr Cameron: First, there are all the things we have to do about rigour in the education curriculum, which is very much on Michael Gove's agenda. I take your point about the importance of high-profile projects that can inspire people about science. One idea that we are looking at, which we have not announced yet, is to produce in Britain a Nobel-style prize for engineering—something that would happen every two years and have massive sponsorship and an endowment behind it. For these things to work, they have to have a real pedigree and a boost of money and status behind them. Obviously that is only one thing and relates only to engineering, but it is things like that which can help raise the status of the whole area of scientific endeavour.

Q158 Andrew Miller: This is my final question. Part of our strength is in the international collaborations we have taken a leading part in over a wide range of fields, particularly in the big science projects, but Britain is seen as a difficult partner, because of the lack of long-term commitment towards the subscriptions involved. Is there a strategy that is going to take us beyond 2015 to make sure that Britain and our leading scientists can stand up and be a key part of some of those big collaborative ventures?

Mr Cameron: After our last conversation I organised a big science dinner and seminar at No. 10 and gathered together the chief scientist, former Science Ministers, such as William Waldegrave, and scientists from the highly theoretical through to the very applied, through to David Attenborough. I wanted to look at where Britain's advantage is, and how we can build on it. I'm not as gloomy as you. We are second only to the US in terms of academic excellence. It seems to me that we have a joint challenge. People like studying in Britain and like our approach to science, because of our emphasis on basic science, but we have to maintain that while at the same time trying

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to recognise that it's easier to make the case for investing in science if you are seeing the results in terms of the application of science and the growth of R and D, spin-off companies, science parks and all of the rest of it. The strategy is not an either/or; you've got to try to do both. I think that we've probably been stronger at the first than at the second, so we should give quite a lot of attention to the second. But even as an arts graduate I am committed to trying to get this right.

Q159 Joan Walley: Prime Minister, I have been listening really intensively over the last three quarters of an hour, and I have been trying to listen out for the word "green", as in green growth. All that I've heard is a reference to Stephen Green.

Mr Cameron: I was waiting for you.

Q160 Joan Walley: Last but not least. Surely the point is that the whole means by which we will get growth is through green growth. In terms of the plan for growth that the Government issued, it seems that business and finance trump everything, and the environment does not really come into it except as an add-on extra. How can you demonstrate that green growth is at the heart of all of this and is embedded in it?

Mr Cameron: I do not accept that approach. To me, what we did was to set out right at the start that green growth was a very big part of the Government strategy. The growth review then came on top of that, where we were asking ourselves: what else we can do around the economy to make sure that planning, housing, employment law and regulation are not getting in the way of growth? We also looked at specific sectors of the economy, such as pharmaceuticals—and I've added the new ones that we will look at. But the green growth part of the piece is absolutely there.

In terms of the evidence for that, the green investment bank, with £3 billion of new money in it, is a massive commitment at a time when the Government are having to make spending reductions. The green deal, which could be a transformative programme in terms of greening houses, will have massive investment behind it. I don't think that people have focused enough on the renewable heat initiative and what it could mean for replacing boilers, the building of new homes, and renewable heat initiatives for business, residential and housing estates. There is about £860 million attached to that. Even as I speak, I think Chris Huhne is making a statement downstairs about the fourth carbon budget, where Britain is now leading the world in setting out how we will get to a 50% reduction in emissions over the period ahead. If you take those things together, Britain has a very attractive set of circumstances to encourage people to make those investments into green products and industries. We do not just leave it at that. I literally pick up the phone, and I've spoken to the head of Siemens, the head of Gamesa and others, and said, "Come and invest in Britain. Build offshore wind." We've got a ports grant to encourage the manufacturing premises so that that can all be made available. We're doing all

of those things, and I totally agree that the green part of the growth agenda is vital.

Q161 Joan Walley: It is interesting that you say you've picked up the phone to Siemens and said, "Come invest in Stoke-on-Trent"—so have I. But that aside, you've touched on three things that I wanted to mention. Given what you've just said about the green investment bank, would it not make sense for you to ask the Chancellor to revisit whether it should be in a position to borrow earlier in order to stimulate the green economy?

Mr Cameron: We had long discussions about this with the Chancellor and the Secretary of State for Energy and Climate Change.

Joan Walley: Why won't—

Mr Cameron: I'll tell you why. I think that we have clearly got to get on top of borrowing in Britain.

Joan Walley: But—

Mr Cameron: Hang on, Joan, I promise I'm going to answer your question. At the moment, the real missing piece in terms of green investment is much more equity, rather than debt. The green investment bank, with £3 billion of money that it can spend, is actually enormously valuable in terms of leveraging other borrowing by other financial institutions to make green investments. I think that it will be the catalyst for green investments that otherwise would not go ahead. It is that equity part that I think will have the real impact. But we do have an agreement that it will also have borrowing powers, I think from 2015. If I said to you, a year ago, that there would be a green investment bank with £3 billion in it, I think that you would have thought, "I'll go for that."

Q162 Joan Walley: But it is how much we need and how quickly we need it. My point is about the borrowing powers.

If I may, I will turn to the statement on the fourth carbon budget, which I see has not yet commenced in the Chamber. We are being told that if sustainable development is embedded across Government, it will be through a process between DEFRA and the Cabinet Office. But from press reports I understand that you have personally intervened, as I understand you did with the green investment bank, to get an agreement. I appreciate that the statement is being made to Parliament, but will you tell us what trade-offs there might have been? What did it take to reach an agreement?

Mr Cameron: The process for this, basically speaking, is that we have a series of quite large Cabinet Committees: one on economic affairs, one on home affairs and one on national security. I chair the national security one, the Chancellor chairs the economic one and the Deputy Prime Minister chairs the home affairs one. The climate change budget was agreed between the Chancellor, the Business Secretary and the Climate Change Secretary through the Economic Affairs Committee.

Q163 Joan Walley: With your involvement?

Mr Cameron: No. 10 is always involved. We like to keep up on things.

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Q164 Chair: One of the things we want to find out as a Committee is what that involvement was.

Mr Cameron: In this case my office was involved in trying to encourage a solution.

Q165 Joan Walley: What was the sticking point?

Mr Cameron: As to sticking points, obviously we want to meet the fourth carbon budget and meet the 50% target, and we are doing that. The Business Secretary and others had legitimate concerns about energy intensive industries and how we should try to put together a package to help those industries, because they are affected not only by the carbon budget, but by changes to the electricity market and other costs. It does not help climate change if you simply drive an energy intensive industry to locate itself in Poland rather than in Britain. That was one sticking point. We have a good agreement for dealing with that.

Another part, as will be described later, was to make sure that—although we believe Europe should follow our lead in going for a 30% reduction, it hasn't yet committed to that—the fourth carbon budget has a review clause for 2014 to ensure that if Europe is not on that pathway, we do not put ourselves on it, either. We are confident that we can persuade Europe that 30% is right.

I think you will see it as a very good and green announcement about our future intentions, but the Government, quite rightly, have to make sure that we address the concerns that people have.

Chair: We must move on to a couple of quick points, before I ask Mr Tyrie to wind up this section. One is from Laurence Robertson.

Q166 Mr Robertson: As you are well aware, the economic indicators in Northern Ireland—productivity, employment and economic activity—are historically low. There is also a very high dependency on the public sector. We are discussing things to try to change that, but one of the things that is worrying me is the growth in dissident republican activity. We saw an example yesterday, and such activity will do more to harm the economy of Northern Ireland than anything else, as, indeed, it has over the past 40 years. Is there anything else you can do to counter that?

Mr Cameron: First, I do not think the relationship between Britain and the Republic of Ireland has ever been stronger. Today of all days, when Her Majesty is there, is a demonstration of that. The relationship between the PSNI and the Garda is also extremely strong. Obviously, we have devolved policing and justice, which was the right thing to do, but we should still stand behind them and support them. There was a National Security Council discussion in which we granted an additional £200 million over the coming period.

We have to make sure we are doing everything to help on a security and co-operation basis, but we have to stand back and ask ourselves, "Why is it that young men are still committing themselves to this hideous level of violence when everyone else in Ireland, north and south, wants to make progress?" We have to make sure we do everything to keep communities together and to cut off those who go for extremism. We also

have to ensure that politicians in Northern Ireland are doing everything they can to pursue the agenda that we all call the shared future.

The great success of the peace process and devolution is that the elections in Northern Ireland were about health, education and housing, which is a great development. We need to encourage that and get the politicians in Northern Ireland to really think of their shared future and how they will build it, rather than politics still being about constitutional issues and the relationship with Westminster. It is partly security and partly normalisation of politics.

Mr Robertson: Thank you.

Q167 Dame Anne Begg: I am moving on to oil and gas. The Government's decision to increase the supplementary oil and gas levy by 12% without warning really damaged the industry's confidence in investing in the UK. They accept that the Government will not change their mind on the supplementary levy but they ask that you engage with them to try to rebuild that confidence because they were an industry that was growing. They also ask that you have a look again at the proposal to restrict decommissioning tax relief, because that seemed to be an extra sting in the tail in the budget proposals.

Mr Cameron: I accept that it is a very important British industry. It is a very successful British industry. What we have managed to discover in the North sea they have then been able to apply in other parts of the world. I have seen that with my own eyes. It is a fantastic success story for Britain. I think what we are proposing is fair, not least because when this levy was last changed the oil price was \$66 a barrel and it is more like \$113 now. According to Treasury estimates, profits from the oil and gas sector will still be a full 50% higher in the coming year than they were a couple of years ago. It is fair, but we definitely accept that we need to discuss with them the setting of the trigger price for the fair fuel stabiliser. We should also look at the field allowance issues to make sure that fields are being properly exploited. We understand that the tax relief for decommissioning costs is a very big issue. We understand the need to try to provide some certainty there. I know the Chancellor and his Ministers are engaging on that.

Q168 Malcolm Bruce: I do hope you will engage, Prime Minister.

A major company in the North sea told me last week that it had three drilling operations going before the Budget. Two of them have now been transferred to Africa and a major project has been abandoned and another one is now seriously under review. That is not because the oil price is not high, but because they are trying to squeeze extra production out of very mature fields where the risks are also high. So will you engage with the industry to ensure that you understand? You said that you phoned Siemens to say, "Please invest in our offshore industry." These companies are investing but some of them are now reconsidering whether they should.

Mr Cameron: I am happy to talk to them and I know that the Chancellor is having these conversations. The point I am making is that even after the tax change,

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the post-tax profits per barrel are forecast to be higher in the next five years than they were in the last five years. I do not accept that we have created a situation where investment should not go ahead.

Q169 Malcolm Bruce: Not on the marginal fields that are paying 82%. That is where the problem arises.

Mr Cameron: I accept that, but if you look across the basin those are the correct figures. But, as you said, we have to recognise that this is a very important industry. I am very happy to discuss this with them, but the overall fairness, particularly at a time when we do need to try to keep household costs down—I think it was right to cut fuel duty in the Budget and to postpone the RPI increase to give households some relief; that money had to come from somewhere—and when the oil price is around \$113 and \$115 a barrel rather than where it was five years ago—

Q170 Malcolm Bruce: That is the peak oil price, not the contracted price. Most of the oil companies are not getting a price like that.

Mr Cameron: Sure, but of course if the oil price stays at that level, and I have in front of me the OBR forecasts for the oil price which still predict a plus-\$100 a barrel price in 2015, that will mean that those companies will still be highly profitable and so can afford to pay the charges set out in the Budget.

Q171 Mr Tyrie: Prime Minister, in response to the questions on growth in the first half of the questioning, you referred repeatedly to rebalancing the economy. Could you give us a little more detail on exactly what you mean? Perhaps we can take it area by area because rebalancing is all things to all men if we are not careful. First, on the public versus private balance, clearly you want to and you have taken decisions to get spending as a proportion of GDP down, what do you think the correct level for a balanced economy is?

Mr Cameron: I think we have had these conversations before. I have never believed that you should target a particular percentage of GDP. I think what you need to do is to make sure that your levels of deficit and debt are sustainable. I do not think they currently are sustainable, so it is important to restrain the growth of public expenditure and encourage economic growth so that we rebalance public and private, but I am not going to put a percentage on that.

Q172 Mr Tyrie: So you do not have a target on that. You have talked about getting indebtedness down, which means an improvement in the savings ratio. At the moment, the savings ratio is about 4.5%. What would be a long-run savings ratio in a balanced economy?

Mr Cameron: Again, these are not individual—

Mr Tyrie: The long-run average is about 6%.

Mr Cameron: These are not individual figures that we are forecasting, predicting or targeting. Our targets, which we have given the OBR, are about getting the structural budget back into balance. The situation that we inherited and the problem we had was a budget deficit of about 11%, a large part of which was structural, and if we continued with that, we were

clearly going to be in an unsustainable position. It seemed to us the right thing—

Q173 Mr Tyrie: I am talking about the private sector savings ratio.

Mr Cameron: Absolutely, but it seemed to me that the right thing to target was getting the structural budget deficit back into balance. We have not set out targets or ambitions for other figures. We are focused on that.

Q174 Mr Tyrie: You have talked today about rebalancing between manufacturing and services. At the moment, according to ONS figures, financial services contribute about 8% of GDP, and manufacturing about 13%. What, broadly speaking, would be the correct figures for a balanced economy?

Mr Cameron: The figure I have is 11% for manufacturing at the moment, which compares with 11% in France and 19% in Germany.

Mr Tyrie: I am taking the ONS figures from 2010.

Mr Cameron: What I want to see is a rebalancing of the economy so that we are less reliant on one part of the country and one industry: financial services—

Q175 Mr Tyrie: I am trying to get a feel for what that actually means. To say you want more manufacturing does not take us very far. What we really need to know is what balance between these two constitutes a rebalanced economy. You have used this language of balance repeatedly today and in many speeches; I am trying to get a feel for what it really means.

Mr Cameron: What it means is that the growth in the economy has got to come from the sources of growth from which it did not come in the past, as it were. Growth was very much driven by Government expenditure and consumption on the back of borrowing, rather than on the only other things that growth can be based on: investments and exports. There are only so many sources of growth in an economy and we have named them.

Q176 Mr Tyrie: So you want slower growth in the service sector and faster growth in the manufacturing sector.

Mr Cameron: I want faster growth in the manufacturing sector than what we have had up to now.

Q177 Mr Tyrie: In relation to services?

Mr Cameron: I do not think that it is necessarily a manufacturing versus services issue. It is actually that, as I say, demand comes from Government spending, consumption, investment and the balance between exports and imports.

Q178 Mr Tyrie: If you want a higher share of manufacturing, you are going to have to reduce the share of something else, are you not?

Mr Cameron: I am looking at it in a slightly different way from you. Given that you cannot get demand through Government expenditure, and given that we have had in the past very much consumer-led expenditure, where we need to see growth is in

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business investment and in exports. That is what I mean by rebalancing. That is the first sort of rebalancing. The second sort is that, on employment, we are clearly going to see a reduction in public sector employment, so we will need to see a growth in private sector employment, otherwise we will see rising unemployment. We need to generate that private sector employment. Where I do not want to go is where that Hungarian economist, whose name escapes me, went in the past, and to say that somehow services are bad and manufacturing is good.

Q179 Mr Tyrie: We have not got a target out of you on any of those, but let's try one more. You have also talked, although less so today, about regional imbalances. What measure will you be using to assess whether the regions become more balanced? For example, will you be looking at variations in income per capita between regions?

Mr Cameron: There are all sorts of things. You can look at gross value added and income per capita, but you have also got to look at unemployment and at ensuring that we do not have long-term unemployment blackspots in parts of our country. What we have seen in the past is income disparities growing between regions of the country, rather than shrinking. If you are trying to rebalance the economy between north and south, and between all the regions, you want to see those income disparities reduce rather than increase.

Q180 Mr Tyrie: Prime Minister, you have talked about the need for "a massive rebalancing of our economy" and you have said that local enterprise partnerships play an "absolutely key role" in bringing that about. When I have asked you on a whole raft of issues what that actually means, I cannot say, beyond friendly language about rebalancing the economy, that we have had much of substance. You are not saying, "Okay, I want to see income differentials narrowed between the regions," for example, or, "I want to see more jobs created in the north, even though I recognise that will mean fewer jobs in the south."

Mr Cameron: I did just say both those things. I said that I wanted to see income disparities reducing rather than increasing, and I said that we want to deal with unemployment blackspots in the north of England. I have made both those points.

Q181 Mr Tyrie: So a rebalanced economy between the regions would be one in which the income disparity between, say, the north-east and London is less than it is now. At the moment, income per capita in London is £34,000, and in the north-east it is £16,000.

Mr Cameron: Over the past decade, the disparity has been widening, and I would like to see that disparity narrow.

Chair: Thank you very much. Richard Ottaway is going to open the questioning on the other subject we have today: overseas intervention and the military capacity to support it.

Q182 Richard Ottaway: Good afternoon, Prime Minister. I have got a lot of questions here about

Libya and no-fly zones, but what everyone really wants to know is: what is the exit strategy?

Mr Cameron: The exit strategy is successfully to implement United Nations Security Council resolution 1973, which means that attacks on civilians are no longer taking place in Libya. Effectively, that will mean that the Libyan people will have the opportunity to choose their own future. We are responsible for delivering the first part of that, which is 1973 being put in place. The Libyan people must be responsible for the second part.

Q183 Richard Ottaway: Can you see us ending operations in Libya with Gaddafi still in power?

Mr Cameron: I think it is difficult to imagine a way in which UN resolution 1973 could be implemented with Gaddafi still around, because he is the person responsible for inflicting massive casualties and damage on his own people. The point I would make is that 1973 is not about regime change; 1973 is about protecting civilians, and that is what we are engaged in. Over and above that, it is my view—and it seems to be the view of every other Prime Minister and President in the sane and civilised world—that Libya has no future with Gaddafi in charge.

Q184 Richard Ottaway: But there is a gap, isn't there, between the military objective, which is the humanitarian implementation of 1973, and your stated political objective of removing Gaddafi from power? How are you going to bridge that gap?

Mr Cameron: That is a very fair question. You bridge the gap between what we all want to see—a Libya free to determine its own future—and what we currently have by turning up the pressure. If you look back over the past few weeks, you can see repeated moves to turn up the economic pressure, such as greater sanctions, greater blockades, and dealing with oil and oil products. You see greater political and diplomatic pressure, such as the coming together of the contact group, the firm support of Arab countries and the steady recognition by more and more people that the national transitional council is the right interlocutor for people to discuss the future of Libya with. And, yes, there is military pressure, and you have seen a ramping up of the pressure, within the rules of 1973, by NATO and allies in terms of targeting command and control, and with America coming back in with drones over Misrata and Tripoli.

Q185 Chair: Can I clarify a point about that? Is the command and control centre anywhere Gaddafi happens to be at the time, since he is in command?

Mr Cameron: I said when I made my statement and during the debate in the House that I wasn't going to give a running commentary on targeting policy. What I would say is that targeting must be consistent with UN resolution 1973. That is about taking all necessary measures to protect civilian life. Of course, that includes tanks, armoured artillery pieces, and command and control.

Q186 Chair: I was wondering what your definition of a control centre was.

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Mr Cameron: It is about the organisation and the people within it who are ordering the killing of civilians.

Q187 Chair: Gaddafi.

Mr Cameron: As I said, I am not going to give a running commentary on targeting policy, but it is within the rules of resolution 1973.

Q188 Richard Ottaway: Following on from the Chair's point, General Richards has said that he wants a change to the rules of engagement to include infrastructure projects. There is a slight hint there of mission creep. Instead of having mission creep, would he consider a negotiated settlement between the rebels and the regime? I used the word "regime" deliberately, rather than Gaddafi.

Mr Cameron: I don't think that is remotely where we are at the moment. There are two answers. One is that we are still turning up the pressure, and I think that that pressure is being quite effective. People like to talk about a stalemate, but you could see what happened last night in Misrata—remember that that is the third biggest city in Libya and that people thought it would be snuffed out by the regime completely. As we speak, although one cannot be certain about what will happen in future days, the port and the city centre is no longer being shelled by the regime because it has been beaten back by the rebels

My view, first of all, is keep turning up the pressure politically, diplomatically, economically and militarily. All that is having an effect. The second part of the answer is: listen to the national transitional council, which is made up of people who are representing not just one part of the country; they are trying to represent all of Libya. In my view, they are not secessionists or Benghazi-ites, and nor are they Islamists. They want a democratic future for Libya. They do not believe in holding discussions and talks with Gaddafi. They want to ensure that we put in place resolution 1973. As I have said, with Gaddafi doing what he is doing and where he is now, that is impossible.

Q189 Richard Ottaway: Thank you.

Widening this out slightly from Libya, at what point do you feel that repression has got so bad that it justifies intervention? I am thinking of Syria. Are you concerned that while the Arab League invited us to make an attack—to implement a no-fly zone on Libya—it has been rather silent about Syria and indeed a number of other countries?

Mr Cameron: Certainly, if you're looking for the difference between Libya and Syria, first of all let us be clear that what is happening in Syria is unacceptable. The number of people killed by the regime is appalling. If you believe the figures from Human Rights Watch—and there is no reason not to—there really has been an appalling level of regime intimidation and killing. We should condemn it in the strongest way, which we have. We should also take steps, which we have in terms of sanctions, asset freezes, arms embargos and all the rest of it. But there are differences between Libya and Syria. One of those differences is that, in the case of Libya, we were

invited to do what we are doing by the Arab League, and there was strong local and regional support. I don't think we can say that about Syria.

Q190 Richard Ottaway: One of the most useful weapons we have nowadays is soft power. The Foreign Office's structural reform priorities and the strategic defence review both emphasise the importance of soft power. One of the ways we deliver that in Britain is through the BBC World Service. Just at the time when north Africa is getting quite serious, don't you think it is a mistake for the World Service to be obliged to cut its Arabic service as a result of a reduction in funding?

Mr Cameron: The BBC World Service is not obliged by the Government to cut this service or that service.

Q191 Richard Ottaway: It has to cut its cloth.

Mr Cameron: Absolutely, and every organisation in Britain is having to cut its cloth. We secured a very fair funding settlement for the BBC and for the World Service that enables them to run a very good slate of services. They then have to make the reductions. I want them to make as many as possible in administration, back office and all the rest of it, but that has to be decided independently by them, not by Ministers.

Q192 Richard Ottaway: The World Service has a reputation throughout the world for independence. It is one of the most respected broadcasters of the lot. There are only two broadcasters to which anyone is listening in north Africa at the moment: al-Jazeera and the World Service. With great respect to al-Jazeera, I think that the BBC has a better reputation for independence. Yet, we are cutting it, and that is because it has not got the money to run it. If we want to achieve results—you are committing extra resources for the military organisation—and if soft power is an important priority of the Foreign Office and of the strategic defence review, do you not think you should provide the extra resources to fund a service? To be fair to you, it was cut before the Arab uprising—you have a way out there.

Mr Cameron: Of course, all the time you have to look at the decisions we have taken and the impact they are having. Having looked at the figures for the reduction in the World Service budget—and I don't have them absolutely to hand—it did not seem to me as if it was unmanageable to make those sorts of cuts and at the same time to broadcast good services. If I look at what other organisations in that sort of space have had to do, I think it is perfectly practical.

Q193 Mr Arbuthnot: Prime Minister, there are suggestions in the press—and I am moving on now to the capacity to deal with countries like Libya—that the Ministry of Defence has won a delay in finding £1 billion of savings. Is that true?

Mr Cameron: I have to say I don't recognise many of the defence-related figures I see in the press. The way I see it is this—

Q194 Chair: Do you recognise some of the letters?

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Mr Cameron: Yes, I recognise some of the letters I see in the press. Perhaps we will come on to that; there are quite a lot of them.

On the figures, what I recall is that we had a strategic defence and security review, and we settled the MOD budget. It is worth putting on record that that budget is £33 billion this year, then £34 billion, then £33 billion, then £33 billion; that is basically flat cash across the period, and it is the fourth largest defence budget in the world. When we fixed the SDSR and fixed the budget, those figures were in line. Of course, with a defence budget, there are all sorts of pressures and costs that come along, although those are not necessarily related to Libya or Afghanistan, because of course, they were paid for through the reserve. To be fair to the Ministry of Defence, it was probably the most traumatised budget and frankly, the most traumatised Department that I came across as Prime Minister, because it had this overhang of £38 billion of overspend—commitment to various projects that were not going to be possible. So the process of getting the Department back into a serious budget for the forthcoming years was extremely difficult.

No, I don't really recognise the figure that you give, but you get disparities, as in any Department, between what is happening, because of fuel costs, pressures, or changes with land prices, or whatever. Those changes create a disparity between your budget and the money you have available.

Q195 Mr Arbuthnot: Okay, let's abandon the figure of £1 billion. Is it true that the Ministry of Defence has won a delay in some savings that it was required to find by the SDSR—savings that it had not, oddly enough, identified by the time the SDSR was published?

Mr Cameron: Again, I don't want to, in any way, get this wrong, so perhaps I will have to write to you as well.² I get quite involved in this budget, because it is very important. The Treasury, the Ministry of Defence and No. 10 work very closely on trying to make sure that the process of getting the MOD budget back into shape is going properly. What I have seen is that, in some cases, they have managed to identify savings and changes that are helpful in terms of their budgetary situation, but in other cases, it has been more difficult. That is natural when you have a car crash of a budget that you have inherited, and you are trying to get it back into shape. That is not a terribly helpful answer, but it is a sort of ongoing process. However, I don't recognise the figure of £1 billion, and putting it all off to the future—I don't really recognise that either.

Q196 Mr Arbuthnot: Would you recognise the suggestion that after seven months, the SDSR has not really stood the test of time?

Mr Cameron: No, I don't accept that, because first of all, it needed to happen. We hadn't had a defence review for too long, and our commitments were completely out of whack with our resources. We had this £38 billion overspend and we had to deal with it. The criticism that, "You should have taken longer over it", I don't really accept either, because I don't think

that the decisions—for instance, about carrier strike or whether it should be Tornados or Harriers—get any easier. You just have to go through the arguments, listen to them, and make those decisions.

Obviously, when you are involved in two conflicts—Afghanistan and Libya—you and the military are learning all the time what works and what does not, and which weapons systems, or which planes. Of course, we will learn as we go along from Libya and Afghanistan, but so far, the things that we are learning reinforce the thrust behind the defence review, which was all about flexible armed forces, ease to deploy, the importance of transport and of ISTAR³ and drones. I suppose if there was one lesson, it is that the extra emphasis we put on ISTAR and drones will be even more necessary in future, and I would like us to go even faster on that. It would not lead me to question or challenge any of the fundamental assumptions under the SDSR.

Q197 Mr Arbuthnot: There was a headline today: "US alarmed by David Cameron's push for early Afghanistan withdrawal." What is going on?

Mr Cameron: I would encourage you not to worry too much about newspaper headlines and I would look at the reality. The reality in Afghanistan is that we are the second biggest contributor after the United States. We are in the toughest part of the country. Our troops are performing magnificently. They are appreciated hugely by the Americans in terms of what they are doing. Obviously, this year there will be some troops coming home. This is not a new announcement in any way. Our enduring force level remains at 9,500, but as you know, our force level has been above that if you include special forces and some of the extra operations we've undertaken.

If you look at what is happening with the troops that went in to guard the airport at Kandahar, and also some people involved in the air bridge, and some people involved in the rapid reaction force, there will be around 400, perhaps slightly more, troops coming out of Afghanistan in the coming year, up to February 2012, but the enduring force level remains at 9,500. I am sure that the Americans completely understand that. It is rather less than the reductions they are planning, and, as I say, we remain in the toughest part of the country, doing one of the most difficult jobs. When you go there, one of the first things the Americans say to you is how much they appreciate the incredible work our troops are doing.

Q198 Mr Arbuthnot: Okay. One final question. Can I help you by giving you the answer to it?

Mr Cameron: That will be a joy.

Mr Arbuthnot: Last week, we asked the chiefs of staff whether they would still describe our national ambition as being a full spectrum capability, and the answers were as follows. Chief of the Air Staff: No. First Sea Lord: No. Chief of the General Staff: No. Would your answer be the same?

Mr Cameron: I would answer yes.

² See Ev 43

³ Intelligence, surveillance, target acquisition, and reconnaissance

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Q199 Chair: Just like all Prime Ministers, you get in there, and all of a sudden we have the importance of intervention, with all the implications that that has for our defence capability.

Mr Cameron: The question being, are you a full spectrum defence power, I would answer that literally by saying yes, because I think if you look at the—

Q200 Mr Arbuthnot: Are you not a little worried that your chiefs of staff don't share that?

Mr Cameron: I will give a proper answer—I really will, I promise. If you look across the piece, you take a Navy that has got hunter-killer submarines, that has a nuclear deterrent that we are renewing, that has two of the most modern and up-to-date aircraft carriers coming down the track; if you look at our Air Force, that has got the Typhoon, one of the most capable and successful aircraft that anyone has anywhere in the world—

Chair: Prime Minister, Mr Arbuthnot knows what we've got.

Mr Cameron: All right—and through we go and through we go. And we are spending £900 million on cyber and we have superb special forces, probably among the best in the world. To me, that definitely describes the fourth largest defence budget in the world; the sixth biggest economy. That describes to me a pretty full spectrum capability. Of course, the defence chiefs—quite rightly, because they are standing up for their services—will always want more. I think the relationship between a Prime Minister and the defence chiefs should be quite a robust one, and I like the fact that the Chief of the Defence Staff, David Richards, and I are able to have good, proper arguments and discussions. That's how it should be.

In the end, the politician is responsible. I am responsible for the fact we are still in Afghanistan. I am responsible for the fact that I am putting people's lives at risk in Libya. That is my responsibility. Our armed services do a fantastic job in delivering the intent of the Prime Minister and the Cabinet, but in the end it has got to be a relationship where the politicians and the military are able to have a frank and clear discussion. And we won't always say precisely the same thing in public, which is why I am not frightened of giving a different answer publicly to what they said, because I think, when you look at our £33 billion defence budget—as I say, the fourth largest in the world—you see a pretty full spectrum capability.

Of course, there are additional things you'd like to have. There is always more that you would like to have. If you were running the Navy, the Army or the Air Force, and you said, "No, I've got everything I want," you would have half your people up in arms, saying, "Hold on, what about this bit of kit or that bit of kit?" I would say that we still have a very strong set of military capabilities, the like of which only one or two other countries in the world have.

Q201 Malcolm Bruce: Prime Minister, the Department for International Development has been rightly commended for its rapid response to the humanitarian situation in north Africa, and it has

contributed £14.75 million towards that relief as well as \$17.5 million to the UN OCHA⁴ flash appeal. However, many people, as you pointed out, are aware of the fact that this intervention was at not only the behest of the international community, but also the encouragement of the Arab League. If you look at the UN OCHA flash appeal, apart from \$1 million from Kuwait, there was not a single contribution from any Arab League country. In terms of the reconstruction of north Africa—when things enable that—should the poor people of sub-Saharan Africa be contributing to that, or should the people of north Africa and their neighbours be contributing? What assurances do you have that the Arab League, having invited us to take action, will actually take a lead in ensuring the reconstruction?

Mr Cameron: I think you make an extremely good point. I have seen the figures, too, and, on the face of it, you could argue that Turkey contributing \$9.8 million is making a pretty reasonable contribution if you think that we are giving, as you say, £14 million. When you look at the figures for some of the other countries, however, they do look low. I want to investigate these further, because if you take, for instance, the country that you mentioned, Kuwait, they have actually put a huge amount of money into the transitional finance facility. So we have to ask whether everyone is pulling their weight, not necessarily in the same way, but whether they are pulling their weight in different ways. When you look at what the Qataris, the Emiratis and the Jordanians are actually doing in terms of the contact group, the military commitment and the political leadership that they are giving, I would say that they have played a very positive role, and I certainly would not want to criticise them. I would like to go and investigate these figures a little further and see whether they are not making up in other ways for the donation figures that you give.

Q202 Malcolm Bruce: You would accept, if I put it succinctly, that the responsibility to protect, which arose out of Rwanda, should not lead to a situation where the poor people of Rwanda are paying for the reconstruction of north Africa.

Mr Cameron: For sure, absolutely, and I think that, when it comes to the reconstruction, Britain wants to play a leading role, and we have a stabilisation team ready to do that. However, we will want to work with the Gulf Co-operation Council countries, many of which have huge resources in terms of money that they can bring to bear, and we will certainly want to do that.

Q203 Malcolm Bruce: Can I take this opportunity to ask you one final question on the commitment to 0.7%? This has featured in the media today. If I can just quote this sentence from the Secretary of State for Defence's letter, which refers to the Bill to enshrine in law our commitment to 0.7%, to which the Government have committed: "The Bill could limit HMG's—Her Majesty's Government's—"ability to change its mind about the pace at which it reaches the

⁴ United Nations Office for the Coordination of Humanitarian Affairs

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target in order to direct more resources toward other activities or programmes rather than aid.” Can I have, first of all, your assurance that that is not the Government’s position? Also, when do you think we can have in front of Parliament a Bill to enshrine that commitment in law? Are you still committed to it?

Mr Cameron: Yes, we are. To be clear, first of all, the Government are committed to the 0.7%. We are going to achieve that in the time frame that we set out. We will be bringing forward legislation in this Parliament. Obviously, there are parliamentary timetable issues, because, as we know, it is a pretty packed schedule, but it will be brought forward. To be fair to Liam Fox, in his letter he is actually saying that he is in favour of the legislative target—

Q204 Malcolm Bruce: The target, but not the legislation.

Mr Cameron: No, I think he is in favour of the legislation and the target if you read the letter carefully. None the less, it is the Government’s policy, and it will happen. Even more important than the legislation is actually finding the money for what is a difficult commitment to make at a time when we are making reductions elsewhere. I profoundly think that it is the right thing to do, because we have a duty to the poorest in our world, even at times of hardship at home. Also, if we take a view of our national self-interest, trying to rebuild some of these broken countries will stop problems being visited back on us at home. I would also say, as Prime Minister—I know that the Foreign Secretary and Chancellor would agree about this—that the fact that Britain has kept its word over the 0.7% is worth a huge amount of influence in the Commonwealth, in the United Nations, in the European Union, in the G8 and in the G20. In terms of full spectrum capability and all the rest of it, does Britain count? Does Britain matter? Does Britain punch above its weight? It is a key part of that.

Q205 Malcolm Bruce: But the suggestion that the Government might change their mind reinforces the case for legislation, does it not?

Mr Cameron: Indeed, and there will be legislation.

Q206 Keith Vaz: May I welcome the announcement made yesterday by the International Development Secretary on humanitarian aid to Yemen? As we are holding this session, there is a mass demonstration planned in Sana’a. Today, there are tanks on the streets of Aden and Ta’izz. What do you think is the best way of trying to resolve this crisis?

Mr Cameron: Clearly, we need transition in Yemen. As we have discussed before, it is a fantastically important country from Britain’s interest, in terms of the terrorist threat that is still located in Yemen. Perhaps the end of Osama bin Laden brings into even sharper focus the fact that this is a part of the world where al-Qaeda is still relatively strong. What is in our interests is to try to encourage a political process where you have greater democratic participation, where there is a regime that has the support of its people, and where President Saleh, who has agreed to the Gulf Co-operation Council process, actually signs up to that and delivers what everyone is promised. As

you know, Yemen is a hugely difficult and complicated country, with all sorts of problems and pressures, but a transition to a new Government and fresh elections, with greater participation and greater public confidence in the Government, is in their interest and in our interest.

Q207 Keith Vaz: When did you last speak to President Saleh?

Mr Cameron: I have not spoken to him in the past month or so. In my National Security Council team, I have one extremely talented official who knows Yemen very well, whom I talk to a great deal about this issue. We discuss it at the National Security Council regularly and I get regular updates on it. At the moment, it is extremely frustrating. It cannot go on like this, but it has not yet reached the tipping point.

Q208 Keith Vaz: As you know, Qatar has now withdrawn from the GCC initiative, so there is therefore a vacuum. Is there a role for the international community, because we have left it very much up to the GCC to lead this? Surely the UN or the EU should be moving in to try to bring the sides together. It is a mediation problem, is it not? You have a President who is willing to stand down and you have the Opposition asking him to stand down, but somebody has to go in there and broker the deal. At the moment, the GCC is incapable of doing that.

Mr Cameron: I think that that is a very good point. You would think that the GCC would be the best organisation—the neighbours and the friends. I would also count us as a friend of Yemen—we are in that group—but you would think that that would be the right way to deliver it. Perhaps that is something that I can go away and reflect on. There is obviously the role that Cathy Ashton could play at an EU-level, which might be worth thinking about. The idea of the GCC trying to bring parties together and the agreement that they reached were positive.

Q209 Keith Vaz: The problem for us, as you have identified—of course, you chair the National Security Council, so you will know this—is al-Qaeda in the Arabian Peninsula and the identification of Anwar al-Awlaki as the potential successor to Osama bin Laden. Would you accept or support a US move to try to remove him from Yemen, in the same way as they went into Abbottabad and removed Osama bin Laden? Clearly, here is someone who will pose a danger to Yemen and also our national security. The fact that it leads back to our country is the interest in Yemen, is it not?

Mr Cameron: I will try to answer that in two ways. First, our relationship with Yemen has to go beyond counter-terrorism, because there are many facets to Yemen’s problems and we should be dealing with all of them. Clearly, it is a big part of our interest and we have worked with them. It brings this point that it is often a difficult thing to do, because you may not be happy with everything else that is happening in the country and yet the counter-terrorism co-operation needs to go ahead—and it should do. Let us hope that whatever political transition takes place, it will be possible to go on having that co-operation.

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Secondly, in respect of Anwar al-Awlaki, I am in no doubt that he is an extremely dangerous individual who was behind some of the more recent plots that we have seen. Clearly, it would be in our interests if al-Qaeda in the Arabian Peninsula was properly attacked and wound up, but we should be acting in line with international law. We are a Government under the law, and that is the way in which we should approach things.

Q210 Keith Vaz: A final question about the widow of Osama bin Laden who is of Yemeni origin. There are demands that she be returned to Yemen. You presumably favour her remaining in Pakistan and being properly interviewed, and the Americans having the opportunity to interview the widows of Osama bin Laden, because they might have helpful information.

Mr Cameron: I would certainly favour the Americans being able to do that. This is an absolutely vital time for American-Pakistani relations. I spoke to Prime Minister Gilani at the weekend, and we have to understand each other's difficulties and pressures.

Q211 Keith Vaz: Do you think the Pakistanis knew he was there?

Mr Cameron: I do not think that the Prime Minister and the President of Pakistan knew. As I said to the House, bin Laden clearly had a support chain that went some way into Pakistan, because he was happily ensconced in Abbottabad, but I do not believe that the President and the Prime Minister knew.

The key thing is for us to understand our respective situations in each other's countries. As I said in my statement to the House, it is absolutely in our interest to back the democratic politicians of Pakistan in their fight against terrorism. To do that, we need to understand the pressure they are under and all the questions they are being asked in their country, but they need to understand the pressure we are under with everyone asking, "How could they not have known?" and all the rest of it.

It is an important moment for Americans and Pakistanis, and Britons and Pakistanis, to deepen our relationship just as people are asking, "How can you trust these people?" We should be going in the opposite direction and saying, "We have got to work with these people."

The democratic politicians in Pakistan are trying to do the right thing, and we should redouble our efforts to work with them and build that relationship. I hope that the Americans take the same approach, because it is the only answer to this. Walking away and throwing up your hands in despair would be disastrous for Pakistan, and of course it would be disastrous for us as well.

Q212 Sir Alan Haselhurst: As unrest is spreading through the middle east and north Africa, is it not getting more difficult at one and the same time to justify intervention in one country but not in another, and to have the resource to do so in any case? Does not that fuel the concern that, with stability in the region at risk of ebbing away, the one country coming out of it with advantage is—we haven't mentioned this country yet—Iran?

Mr Cameron: I look at it in a slightly different way. It seems to me that the Arab spring and what is happening across north Africa is a huge opportunity. Of course it is full of dangers, and things might go backwards before they go forwards, but if we look at the great span of history, the fact that these countries are attempting to throw off autocratic leaders and trying, instead of going down some Islamist path, to move towards some form of democracy and participation is a good thing for the world. It is a good thing for us, and it could lead to greater economic prosperity, greater peace and all sorts of things.

We should be positive and optimistic about what it could offer—not naive, but positive and optimistic. That is why it is important that Europe gets its act together and offers the countries of north Africa a better deal. It is important that we persevere with what we are doing in Libya, because if you let Gaddafi win, it is a great victory for tyrants the world over, particularly in that area. We have to accept that of course we can't do everything everywhere—you have to focus your effort.

I am not entirely sure that what you say about Iran is right because, of course, the Iranian regime is one of the most dictatorial and repressive of all. If the Iranian people start to see that there is actually a future for a democratic Egypt and a democratic Tunisia, and that the Libyan people are struggling to throw off their hideous leader, they might think—they have attempted this before—"Well, actually, we don't have to go down this autocratic path." I think sometimes, as I have said before, that we can over-demonise Iran as a country run by genius politicians who are strategic masters. In many ways, it is an absolute basket case of a country. It cannot even refine enough of its own oil; it is brutal in its use of the death penalty. We should be describing the regime as much more backward and ineffective, rather than bigging it up. Sorry, I am rambling on.

Q213 Sir Alan Haselhurst: Do you think there is any risk to our credibility as a nation that upholds peace and democracy by following the course of action on which the Government have embarked, given that people can point to the fact that we may have sold weapons and done deals with countries that are perhaps rather less than perfect democracies?

Mr Cameron: I think we have to go through the things that we have done in the past and the decisions we have made and ask, "Did we get that right or not?" The idea that it is somehow illegitimate to have a defence relationship with the Kuwaitis, which I was criticised for, is nonsense. Kuwait is a country that, while not a model democracy, has taken steps towards democracy—it has elections and a Parliament, and it has a right to defend itself. It seems to me that if you believe in a country's right to defend itself, it is perfectly acceptable to have a regulated trade in arms to enable that country to buy what it needs to defend itself. I believe that that is fair. Obviously, we have to learn the lessons and recognise that we haven't always got these things right in the past, but I don't think it is right then to jump to a position of "all these activities are illegitimate".

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Chair: Prime Minister, this may not be your favourite social occasion of the week, but we think it is important that holders of your office are questioned in more detail than is possible on a Wednesday. We hope that this format makes it more possible. We look forward to seeing you in September—a different team will probably be asking you questions—and we are grateful for your attendance today. Thank you very much.

Mr Cameron: I think that it works doing two subjects rather than 10, so I am happy that we are doing this three times a year. Thank you very much.

Letter from the Prime Minister to the Chair of the Committee, dated 17 June 2011

Dear Sir Alan,

During my appearance at the Liaison Committee on 17 May James Arbuthnot asked me about the defence budget (question 195).

The last Spending Review, published the day after the SDSR, set a budget for the next four years that the Ministry of Defence is required to live within. This includes ambitious, but achievable targets for delivering non-frontline and efficiency savings. The Defence Secretary is committed to achieving these savings.

The Ministry of Defence remains committed to implementing all the force structure changes set out in the SDSR. The only significant adjustments have been as a result of operations in Libya: withdrawal from service of a number of Type 22 frigates and the Nimrod R1 aircraft were temporarily delayed.

We have always been clear that while the SDSR made substantial in-roads into the £38 billion funding gap that we inherited, dealing with such a deficit would take time.

The Ministry of Defence already has several initiatives in hand, including a review of military basing, the Reserves Review and the Defence Reform Unit's review.

The Ministry of Defence has also recently initiated an exercise to balance the defence equipment programme over the medium to long-term. This is part of the work to ensure the Department matches its assumptions to its spending settlement.

This will inform the next planning round and help to build a sustainable Defence programme.

Yours,
David

Rt Hon David Cameron MP
Prime Minister

17 June 2011

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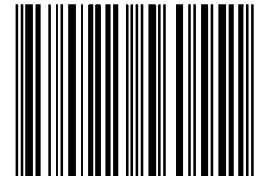
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