

RESTRICTED



*file KB
cc Mike Bone*

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 November 1986

PRIME MINISTER'S INTERVIEW WITH LE POINT

I enclose the text of the Prime Minister's answers to the written questions from Le Point, in the form in which they have been approved. Our Press Section will arrange for them to be passed to Le Point.

CHARLES POWELL

Colin Budd, Esq.,
Foreign and Commonwealth Office.

PRIME MINISTER'S INTERVIEW WITH 'LE POINT',
21 NOVEMBER: WRITTEN QUESTIONS AND ANSWERS

Q1. Terrorism

As the Syrian affair has highlighted, how can one achieve a united front among the Twelve, countries which have different interests and responses in the Middle East?

A. The Twelve have demonstrated that they can reach a wide measure of agreement over the specific action necessary to combat terrorism. We have done so in the case of both Libya and Syria. Taken together, the various statements and measures to which the Twelve have subscribed in the past year should leave no-one in doubt of their joint commitment to deal firmly with the threat presented by terrorism - nor their commitment to use their combined influence to work for wider peace in the Middle East. The important point is that these two goals are not incompatible.

Q2. EEC

European consolidation is by nature a slow process. With again so disparate interests, what should be the main impetus for speeding up this progress?

A. My test is that European countries should do together the things that can be done better and more effectively together than individually. For instance, problems like terrorism and drugs can be tackled more effectively if there is solidarity and co-operation between the member states of the European Community. The same principle applies to meeting the technological challenge from Japan and the United States, and to making it possible for our economies to compete more effectively by establishing a real common market in Europe. These are the stimuli which will lead us to work more closely together.

Q3. EEC

The building of the "internal market" for 1992 is a case in point. Everyone seems to agree, but we haven't got anywhere.

A. You are not quite right. We have made more progress in 1986 under the Dutch and United Kingdom Presidencies, which have given the internal market high priority, than in any previous year. We have reached important agreements in the last few months, notably one on standards for direct broadcasting by satellite. But it is true that progress in some areas has been laborious, with individual member states sometimes defending sectoral interests and not seeing that our overall interest lies in expanding enterprise in the Community as a whole. I hope that agreement will shortly be reached on cheaper air services in Europe. That would be of real and practical benefit to the people in all our countries.

Q4. EEC

By keeping the European budget limited, as Britain is insisting, aren't we limiting the chances of Europe's future development?

A. The Community's own resources have just been increased, last January, from one per cent to 1.4 per cent of VAT, precisely to allow room for the development of policies which require extra resources. And this at a time when, in both Britain and France, we are striving in our national budgets to cut taxes, rather than increase them. At the moment more than half the total Community budget is spent on the storage and disposal of agricultural surpluses. That does crowd out expenditure on other policies. We are all committed to supporting the farming community. But farm incomes have decreased while the budgetary costs increase, precisely because the CAP is not the most effective way of channelling aid to them. Much of the benefit goes to traders and those who operate cold storage facilities. This is a problem for the whole Community and no one now thinks that it can be solved by spending more money.

Q5. Channel Tunnel

The problems encountered in the City by the Euro-tunnel to raise the capital. Doesn't this demonstrate that there is still a resistance in this country to commit yourself wholly to Europe?

A. Not at all. Euro-tunnel have been attempting to raise a substantial amount of money on the international financial markets for one of the largest civil engineering projects ever undertaken and the return for investors will be long term rather than immediate. It is not surprising that the financial institutions - which are, after all, responsible for investing other people's money - wanted to be sure of their ground before backing the project. It is actually a considerable achievement for Euro-tunnel to have succeeded in raising the necessary capital. That they did so is evidence that the project is sound and the concept behind it is right, that the private sector has a vital role to play in European projects.

I see the Channel Tunnel as both a physical and a psychological symbol of Britain's commitment to Europe.

Q6. The Economy

In Britain, there is a widening gap between rich and poor regions. That kind of situation surely proves that across-the-board liberal economic policies are not working.

A. I disagree. There have always been regional disparities, in the UK as in many other countries, and the pattern is much the same now as when we took office. Our economic policies are bringing benefits to all regions. Inflation is now down to 3 per cent, whereas it was in double figures and rising when we took office. A million new jobs have been created since 1983 and all regions have shared in that. And the recent signs on unemployment are more promising: it is now on a downward trend, and the North of England, with Wales, has done better than any other region in

the last year.

Q7. The Economy

Unlike Germany, Britain has benefited from North Sea oil revenues. So far the economic results are disappointing compared to West Germany, which without oil has a very healthy economy.

A. Since 1981 we have, on average, grown faster than West Germany, Italy and France, despite the coal strike, whereas over the previous decade the UK was the slowest growing economy in the EC.

North Sea revenues have been put to good use. We have taken advantage of the years of high government oil revenues to reduce public sector borrowing significantly - from 5½ per cent of GDP in 1978-79 to 1½ per cent in 1985-86 - while still being able to reduce the burden of income tax. Through lower borrowing we released resources for private investment. And as a nation we have, very wisely, saved a significant part of the revenue from the North Sea by building up our stock of net overseas assets, from £12 billion at the end of 1978 to £80 billion (22 per cent of GDP) - far more than any other European country - at the end of 1985. The earnings from these assets now amount to over £4 billion a year and they will continue in the future as oil production declines.

The importance of North Sea oil is often exaggerated. At its peak - in 1985 - it accounted for only about 5 per cent of Gross National Product and 8½ per cent of government tax and national insurance receipts. These proportions will be lower in 1986, because of the oil price collapse. But we have been able to take this shock in our stride. The prospects are for continued growth next year - the sixth successive year of steady growth at an average of close to 3 per cent.

Q8. The Economy

If the economy is as strong as the Chancellor is saying, why is the pound so low?

A. The sharp fall in the price of oil meant that an adjustment in sterling's exchange rate was both inevitable and necessary. The consequence is that UK firms are now well-placed competitively to take advantage of the opportunities which exist for exports and for import substitution.

Q9. The Big Bang

Does the Big Bang show that government is putting all its hopes in the financial services to the detriment of industry?

A. There is no conflict between a thriving financial sector and a thriving industrial economy - indeed, the two can and do reinforce each other. The Big Bang will help London to retain its position as one of the world's three great financial centres, with New York and Tokyo. But the improvements in financial markets will also help industry through increased market liquidity and lower costs for raising finance.

Q10. Social

How far can the dismantling of social welfare system be allowed to go? Can people take part of social security in their own hands (private pensions, medicine)?

A. The value of nearly all major social security benefits have been protected or increased since this government came to office in 1979. Recent reforms continue to give priority to helping those people in the greatest need. We aim to tackle poverty and unemployment traps, to help families with children, single parents and the disabled, and to ensure that pensions are soundly based. This is quite consistent with our belief that those people who are able to should make provision for their own financial support in the future.

We remain firmly committed to the National Health Service (NHS), and stand by the principle that adequate health care should be provided for all regardless of their ability to pay. Since we took office spending on the NHS has increased by more than 24 per cent beyond the amount needed to compensate for rising prices. At the same time, we believe it is a fundamental principle of a free society that people should have the right to spend their money on private medicine if they choose to.

Q11. International

Your government has always insisted on political co-operation progress in the EEC. Why has it not been achieved, (South Africa, terrorism ...) under this British Presidency of the Community?

Contrary to what you suggest, there have been some very important achievements in Political Co-operation under the British Presidency. Close cohesion among the Twelve played an important part in the successful outcome of the CDE in Stockholm. We are working well together in the CSCE follow-up meeting in Vienna. We have taken a firm collective stand on terrorism. We have a common position on South Africa based on our determination to encourage a process of fundamental but non-violent change.

Q12. International

Is it also because on so many recent issues, Westland, UNESCO, SDI, South Africa ...), Britain has always aligned itself with the United States?

A. Your question suggests that agreement with the United States prevents progress in EPC, which is absurd. I prefer to think in terms of Europe on both sides of the Atlantic. We have never taken the view that Europe has to prove itself by deliberately adopting different policies to those of the

United States. The security of the free world is only preserved when Europe and the United States work closely together.

Q13. South Africa

Does your hostility to sanctions stem from your disappointment at the development of the Rhodesian independence into a one party state in the Zimbabwe?

A. My opposition to general economic sanctions against South Africa stems from a belief that it does not make any practical or moral sense to deprive black people in South Africa - and indeed in neighbouring countries - of their jobs and livelihood. Because that is what the effect of comprehensive sanctions would be. Moreover, as we have already seen, punitive sanctions only make the South African government more stubborn and difficult. Change in South Africa will come in the end from within. I am confident it will come one day. Meanwhile, our job is to persuade the South African government, and black opposition groups, of the need to start a genuine dialogue while there is still time for change to come peacefully.

Q14. Defence

Is the present rapprochement with France over nuclear defence an attempt to undercut or discredit the Labour unilateralist stance which has considerable public support?

A. I am not aware that our relations on these matters are any different from before. As Europe's two nuclear powers, we have regular discussions on the full range of arms control and defence issues. British nuclear forces remain entirely independent. Final decisions on operational use rest with Her Majesty's Government alone. Our deterrent force is committed to NATO, except where supreme national interests otherwise require. Our policy of maintaining an independent British nuclear deterrent has very wide public support as the last election demonstrated - and I am sure the next one will.

E.R.

PRIME MINISTER

INTERVIEW WITH LE POINT

You agreed to answer some written questions for Le Point, as well as give them a very brief oral interview in Paris.

I attach some answers.

Content?

C.D.P.

Thanks on very much
As amended
mt

(C. D. POWELL)

19 November 1986

PRIME MINISTER'S INTERVIEW WITH 'LE POINT',
21 NOVEMBER: WRITTEN QUESTIONS AND ANSWERS

Q1. Terrorism

As the Syrian affair has highlighted, how can one achieve a united front among the Twelve, countries which have different interests and responses in the Middle East?

A. The Twelve have demonstrated that they can reach a wide measure of agreement over the specific action necessary to combat terrorism. We have done so in the case of both Libya and Syria. Taken together, the various statements and measures to which the Twelve have subscribed in the past year should leave no-one in doubt of their joint commitment to deal firmly with the threat presented by terrorism - nor their commitment to use their combined influence to work for wider peace in the Middle East. The important point is that these two goals are not incompatible.

Q2. EEC

European consolidation is by nature a slow process. With again so disparate interests, what should be the main impetus for speeding up this progress?

A. My test is that European countries should do together the things that can be done better and more effectively together than individually. For instance, problems like terrorism and drugs can be tackled more effectively if there is solidarity and co-operation between the member states of the European Community. The same principle applies to meeting the technological challenge from Japan and the United States, and to making it possible for our economies to compete more effectively by establishing a real common market in Europe. These are the stimuli which will lead us to work more closely together.

Q3. EEC

The building of the "internal market" for 1992 is a case in point. Everyone seems to agree, but we haven't got anywhere.

A. You are ~~wrong~~ ^{not quite right}. We have made more progress in 1986 under the Dutch and United Kingdom Presidencies, which have given the internal market high priority, than in any previous year. We have reached important agreements in the last few months, notably one on standards for direct broadcasting by satellite. But it is true that progress in some areas has been laborious, with individual member states sometimes defending sectoral interests and not seeing that our overall interest lies in expanding enterprise in the Community as a whole. I hope that agreement will shortly be reached on cheaper air services in Europe. That would be of real and practical benefit to the people in all our countries.

Q4. EEC

By keeping the European budget limited, as Britain is insisting, aren't we limiting the chances of Europe's future development?

A. The Community's own resources have just been increased, last January, from one per cent to 1.4 per cent of VAT, precisely to allow room for the development of policies which require extra resources. And this at a time when, in both Britain and France, we are striving in our national budgets to cut taxes, rather than increase them. At the moment more than half the total Community budget is spent on the storage and disposal of agricultural surpluses. That does crowd out expenditure on other policies. We are all committed to supporting the farming community. But farm incomes have decreased while the budgetary costs increase, precisely because the CAP is not the most effective way of channelling aid to them. Much of the benefit goes to traders and those who operate cold storage facilities. This is a problem for the whole Community and no one now thinks that it can be solved by spending more money.

Q5. Channel Tunnel

The problems encountered in the City by the Euro-tunnel to raise the capital. Doesn't this demonstrate that there is still a resistance in this country to commit yourself wholly to Europe?

A. Not at all. Euro-tunnel have been attempting to raise a substantial amount of money on the international financial markets for one of the largest civil engineering projects ever undertaken and the return for investors will be long term rather than immediate. It is not surprising that the financial institutions - which are, after all, responsible for investing other people's money - wanted to be sure of their ground before backing the project. It is actually a considerable achievement for Euro-tunnel to have succeeded in raising the necessary capital. That they did so is evidence that the project is sound and the concept behind it is right, that the private sector has a vital role to play in European projects.

I see the Channel Tunnel as both a physical and a psychological symbol of Britain's commitment to Europe.

Q6. The Economy

In Britain, there is a widening gap between rich and poor regions. That kind of situation surely proves that across-the-board liberal economic policies are not working.

A. *I disagree.* ~~Wrong~~ again. There have always been regional disparities, in the UK as in many other countries, and the pattern is much the same now as when we took office. Our economic policies are bringing benefits to all regions. Inflation is now down to 3 per cent, whereas it was in double figures and rising when we took office. A million new jobs have been created since 1983 and all regions have shared in that. And the recent signs on unemployment are more promising: it is now on a downward trend, and the North of England, with Wales, has done better than any other region in

the last year.

Q7. The Economy

Unlike Germany, Britain has benefited from North Sea oil revenues. So far the economic results are disappointing compared to West Germany, which without oil has a very healthy economy.

A. Since 1981 we have, on average, grown faster than West Germany, Italy and France, despite the coal strike, whereas over the previous decade the UK was the slowest growing economy in the EC.

North Sea revenues have been put to good use. We have taken advantage of the years of high government oil revenues to reduce public sector borrowing significantly - from 5½ per cent of GDP in 1978-79 to 1½ per cent in 1985-86 - while still being able to reduce the burden of income tax. Through lower borrowing we released resources for private investment. And as a nation we have, very wisely, saved a significant part of the revenue from the North Sea by building up our stock of net overseas assets, from £12 billion at the end of 1978 to £80 billion (22 per cent of GDP) - far more than any other European country - at the end of 1985. The earnings from these assets now amount to over £4 billion a year and they will continue in the future as oil production declines.

The importance of North Sea oil is often exaggerated. At its peak - in 1985 - it accounted for only about 5 per cent of Gross National Product and 8½ per cent of government tax and national insurance receipts. These proportions will be lower in 1986, because of the oil price collapse. But we have been able to take this shock in our stride. The prospects are for continued growth next year - the sixth successive year of steady growth at an average of close to 3 per cent.

Q8. The Economy

If the economy is as strong as the Chancellor is saying, why is the pound so low?

A. ~~It is a mistake to equate the relative value of a currency with the strength of the economy.~~ The sharp fall in the price of oil meant that an adjustment in sterling's exchange rate was both inevitable and necessary. The consequence is that UK firms are now well-placed competitively to take advantage of the opportunities which exist for exports and for import substitution.

Q9. The Big Bang

Does the Big Bang show that government is putting all its hopes in the financial services to the detriment of industry?

A. There is no conflict between a thriving financial sector and a thriving industrial economy - indeed, the two can and do reinforce each other. The Big Bang will help London to retain its position as one of the world's three great financial centres, with New York and Tokyo. But the improvements in financial markets will also help industry through increased market liquidity and lower costs for raising finance.

Q10. Social

How far can the dismantling of social welfare system be allowed to go? Can people take part of social security in their own hands (private pensions, medicine)?

A. The value of nearly all major social security benefits have been protected or increased since this government came to office in 1979. Recent reforms continue to give priority to helping those people in the greatest need. We aim to tackle poverty and unemployment traps, to help families with children, single parents and the disabled, and to ensure that pensions are soundly based. This is quite consistent with our belief that those people who are able to should make

provision for their own financial support in the future.

We remain firmly committed to the National Health Service (NHS), and stand by the principle that adequate health care should be provided for all regardless of their ability to pay. Since we took office spending on the NHS has increased by more than 24 per cent beyond the amount needed to compensate for rising prices. At the same time, we believe it is a fundamental principle of a free society that people should have the right to spend their money on private medicine if they choose to.

Q11. International

Your government has always insisted on political co-operation progress in the EEC. Why has it not been achieved, (South Africa, terrorism ...) under this British Presidency of the Community?

A. I certainly attach importance to the progress of European Political Co-operation (EPC). We are usually stronger when we speak with one voice. Do not forget that the Treaty Provisions on Political Co-operation in the Single European Act result from a British initiative.

The Twelve must ensure that they are credible when they speak and act together. If we want to pull our weight in international relations, then we must have a serious message to put across on the topics we choose to tackle together. It is no good simply putting out statements on every topic of the day.

Contrary to what you suggest, there have been some very important achievements in Political Co-operation under the British Presidency. Close cohesion among the Twelve played an important part in the successful outcome of the CDE in Stockholm. We are working well together in the CSCE follow-up meeting in Vienna. We have taken a firm collective stand on terrorism. We have a common position on South Africa

based on our determination to encourage a process of fundamental but non-violent change.

Q12. International

Is it also because on so many recent issues, Westland, UNESCO, SDI, South Africa ...), Britain has always aligned itself with the United States?

A. Your question suggests that agreement with the United States prevents progress in EPC, which is absurd. I prefer to think in terms of Europe on both sides of the Atlantic. We have never taken the view that Europe has to prove itself by deliberately adopting different policies to those of the United States. The security of the free world is only preserved when Europe and the United States work closely together.

Q13. South Africa

Does your hostility to sanctions stem from your disappointment at the development of the Rhodesian independence into a one party state in the Zimbabwe?

A. My opposition to general economic sanctions against South Africa stems from a belief that it does not make any practical or moral sense to deprive black people in South Africa - and indeed in neighbouring countries - of their jobs and livelihood. Because that is what the effect of comprehensive sanctions would be. Moreover, as we have already seen, punitive sanctions only make the South African government more stubborn and difficult. Change in South Africa will come in the end from within. I am confident it will come one day. Meanwhile, our job is to persuade the South African government, and black opposition groups, of the need to start a genuine dialogue while there is still time for change to come peacefully.

Q14. Defence

Is the present rapprochement with France over nuclear defence an attempt to undercut or discredit the Labour unilateralist stance which has considerable public support?

A. I am not aware that our relations on these matters are any different from before. As Europe's two nuclear powers, we have regular discussions on the full range of arms control and defence issues. British nuclear forces remain entirely independent. Final decisions on operational use rest with Her Majesty's Government alone. Our deterrent force is committed to NATO, except where supreme national interests otherwise require. Our policy of maintaining an independent British nuclear deterrent has very wide public support as the last election demonstrated - and I am sure the next one will.