



SPEECH BY THE CHANCELLOR OF THE EXCHEQUER, RT HON ALISTAIR DARLING MP AT THE CBI ANNUAL DINNER

20 May 2008

check against delivery

1. Ladies and gentlemen, it is a tremendous privilege for me to be invited to address the CBI's annual dinner.
2. The success of British businesses is the foundation on which this country's economic prosperity is built. Your energy, your creativity and your commitment to wealth creation are the engine that drives the British economy.
3. I also want to thank the CBI for the crucial role it plays in promoting the interests of British businesses at home and abroad.
4. Over the past ten years – at Trade and Industry, Transport and now at the Treasury - I have been a great advocate of British businesses. The continued success of the British economy will rest on how government and business can work together, which is why the importance of the relationship between the Treasury and the CBI cannot be overstated.
5. I want you to know that I am listening to you, and even though there will be times when we do not agree, it does not mean that I have not heard what you have to say.
6. And you can be sure that on one issue, we will always find common ground – that the competitiveness of the British economy and British businesses should be at the heart of our economic agenda. We will do nothing to jeopardise that.



7. Our work with the CBI and TUC to get agreement on the Agency Workers' Directive is a good example of how we can work together – protecting vulnerable workers - while at the same time ensuring support for business. John Hutton and I want to acknowledge the huge effort put in by the CBI in resolving this difficult issue.
8. On the Working Time Directive, we shall continue to argue for the opt out, so that we can balance fairness at work with the ability to remain competitive at all times.
9. For the last decade the foundation of our success as a country, and your success as businesses, has been a strong and stable economy.
10. While other countries have suffered recessions, the British economy has been growing continuously for over a decade – the longest period of sustained growth in our history.
11. And especially at this time, it is essential that we do everything in our power to maintain stability and to support business and the wider economy.
12. But it is equally important that we should not be diverted from our long-term aim - to equip our country for the competitive challenge of the next decade and beyond.
13. The world is experiencing the biggest economic upheaval it has seen in recent times. And every country is affected.
14. Continued uncertainty in the global financial markets, tighter credit conditions and rising world commodity prices – with the price of oil



doubling over the past year – all this affects you and the way in which you do business.

15. Families are facing rising food and energy bills, companies too are facing increased costs.

16. Inflation, while at low levels compared to the peaks we have seen in the past, remains a threat to economic stability.

17. But while the global outlook remains uncertain, I remain optimistic about the underlying strength and resilience of the British economy – and confident that we will get through this difficult time.

18. Every major economy expects to see slower growth this year.

19. But despite this slowdown, the world economy will continue to grow by around four per cent this year. In China, by over eight per cent, India by over 7 per cent. The Euro-area, and sixty per cent of our exports go to Europe, by one and three quarters per cent.

20. And the British economy will also continue to grow, underpinned, as it is, by record levels of employment.

21. Let us not talk about what might go wrong and while the financial sector has experienced a particularly difficult time, industrial and commercial Britain as a whole is in sound financial shape.

22. As many of you know, many British businesses are doing well, with healthy order books here and abroad.



23. But we cannot be complacent. Here in the UK – and in every country across the world – there is a determination to do everything possible to support growth and maintain stability.
24. At the macroeconomic level, the Government fully supports the Monetary Policy Committee of the Bank of England in the difficult decisions it faces. As it balances the upside risk to inflation in the short term from global price shocks, against the longer term downside risk to growth and inflation, as a result of the global credit squeeze.
25. Debt is lower than in the past and low by international standards. Our fiscal policy is designed to support monetary policy to maintain stability in these uncertain economic times.
26. But we need to do more. That is why I agreed to the Bank of England's special liquidity scheme launched last month.
27. It has helped stabilise the financial markets and it will contribute to greater confidence which will over time support lending in the economy – to businesses and especially in the housing market.
28. And I have asked Sir James Crosby to report to me shortly on what more can be done to support the wholesale and securitisation markets and increase the amount of money available for mortgage finance.
29. And tomorrow the Chief Secretary and the Housing Minister will meet with industry and consumer and debt advice groups to consider what they can do to support borrowers in difficulty.
30. Small and medium sized firms are facing pressures from the credit squeeze. That is why I took the decision to extend the Small Loans Guarantee Fund.



31. And why we are also asking the European Investment Bank to do more to provide funds for these firms here in Britain – to increase the support it provides by expanding the range of finance on offer to small and medium enterprise from traditional loans to, for example, equity finance.
32. In addition, I want to ensure that this finance is available to a broader range of businesses, so I will also be asking the EIB to take a larger share of the lending they back by banks to small business.
33. Many of you here have already seized the opportunities that come from operating in a truly global market.
34. London has grown to become the world's leading financial centre. That success has been built on, our commitment to free trade, our openness to overseas investment and the flexibility of our product and labour markets.
35. But globalisation brings challenges too. A problem in America's housing market last summer affected the whole world in just a few weeks.
36. We need to learn the lessons from that and will reform the banking laws to ensure we can deal more effectively with the risk of bank failure. But we will avoid a heavy-handed response which would be counter-productive and endanger London as the best financial centre to do business.
37. So we will maintain our risk-based and proportionate approach to regulation.



38. These are international problems which demand international action.
39. That is why we are working through the IMF and the Financial Stability Forum to get better early warning of mounting problems and to strengthen co-operation between supervisors and regulators.
40. But here again, we will defend our approach to regulation in Europe and internationally, for example, by resisting the calls for direct regulation of executive pay. It is the role of Boards and their shareholders, not governments or regulators, to set the level of executive remuneration.
41. And we should adopt the same approach – one based on openness, free trade and flexible markets - in addressing the two big problems facing developed and developing countries alike – rising oil and food prices.
42. Now is not the time for putting up barriers to trade or increasing tariffs. Quite the opposite. Now is the time for all of us – governments and business - to make the case for more open and fair trade. It is time to reject calls for increased protectionism, wherever they come from.
43. A fair world trade deal is increasingly urgent. Not just for food, but for other goods and services. We need a successful conclusion to the Doha trade round.
44. The new World Trade Organisation papers move us significantly forward. There is now a deal to be done. But we are in danger of running out of time. Negotiators should return to Geneva and work full time until a deal is done.



45. And at this time perhaps more than any other, it is right to look again at the Common Agricultural Policy. It is unacceptable that at a time of significant food price inflation, the European Union continues to apply very high tariffs to many agricultural imports.
46. The European Union has a clear responsibility to play a full role in the international community's efforts to address the consequences of spiralling food prices, but it also has a responsibility to its own citizens to ensure that its policies do not unnecessarily inflate the cost of food.
47. And it is time too for international action in the face of remorselessly rising oil prices. I shall be raising this issue at the G8 in Japan next month, and shall be proposing that we discuss with oil producers how we reduce these costs.
48. And while we need to act to try to ease constraints to supply, high oil and energy prices reinforce the need for us all to become more energy efficient, to keep down costs and support security of supply.
49. So there are significant challenges in the world economy.
50. Challenges that require government and business to work together to resist protectionism, bring down barriers to trade and continue to push the case for open markets.
51. But let us also remember the strengths and successes in the British economy.
52. Knowledge based businesses now account for over half our job growth in the last 20 years.



53. The biotechnology sector leads Europe in terms of capitalisation revenues and product development.
54. The pharmaceutical industry accounts for nearly a quarter of business R&D expenditure.
55. Companies invest over £3 billion in medical research. We have supported them with R&D tax credits, as well as measures designed to tackle animal rights extremism.
56. Public investment in science will rise to over £6 billion. Invention and innovation is transferring from universities to the market place across every sector of the economy.
57. In aerospace we are shaping the design and manufacture of the next generation, supporting over 270,000 jobs across the economy.
58. And British design and manufacturing is winning orders here and across the world.
59. Here is living proof of business success underpinned in many cases by public investment and support.
60. And the Treasury's core purpose must be to maintain a strong macroeconomic framework and to promote growth.
61. But the Treasury must also be at the heart of making changes both in society and in the economy.
62. Working with you, we have a central role in increasing our longer-term competitiveness. And if we are to ensure economic growth we need to have a clear understanding of where the economy is strong and where



its strengths will lie in the future. And to use that understanding to drive competitiveness in areas of that strength.

63. Thirty years ago there was much debate about whether governments could pick winners. There still is such debate in some countries today.

64. Now I do not believe that governments can pick out individual companies or industries, nor should they. But what we do can make a difference; supporting industries which are thriving and encouraging those that are developing and have the potential to succeed. We need a new approach.

65. We are not talking of subsidies or protectionism. Rather we want, sector by sector, to look at how government action impacts on, and can promote, business success. In some areas, it might be a case of getting out of the way. But I believe that it is important that we are ready to reinforce what we are good at.

66. And I am working across Government to ensure the impacts of what we do on specific industries are taken into account.

67. There are opportunities too for business as we meet the challenges ahead.

68. Climate change, and the need to reduce our dependence on carbon fuels provides new opportunities.

69. We need more renewables and have given the go ahead for replacing nuclear power stations. That is work here in Britain. Let us seize the opportunity, so that British industry can benefit. Not just from construction, but from research and development too.



70. Supporting science. Spending more on universities and skills. It comes at a cost, but it is essential.
71. So too is investment in transport. Crossrail was vital for London and the UK and we need to spend more on rail. More will also need to be spent on road transport, and the need to provide more airport capacity remains essential.
72. And whether it is transport or energy, we will not do what we need to do without reform to the planning system, which is why it is so important to get that legislation through.
73. As I have said before, we also need effective public services that support a competitive economy by providing the services individuals and businesses need.
74. Governments do have to be more efficient. And public services need to be reformed to provide value and better services.
75. Many businesses play a major role in delivering public services and I want to see more of that.
76. To get best value for money, we will continue to ensure that there is fair access for businesses trying to enter public markets. The public service providers of the future must be those who can offer the best quality to users at the best price for taxpayers.
77. We will ensure that there is fair access and competition between businesses that want to deliver public services.
78. And we will continue too, building on Peter Gershon's review, to get more efficiency from public service.



79. We are cutting the administrative burdens faced by UK companies by 25 per cent.

80. And this morning's Cabinet discussed John Hutton's plans to consult on new proposals to impose a limit on the amount of regulation that can be imposed by Whitehall departments.

81. Businesses are acutely aware of the costs they face and, in particular, the taxes they pay. So are we all.

82. We now have two rates of personal income tax – the starting rate of twenty pence, the lowest rate for 75 years.

83. And corporation tax has been cut to 28 per cent from this April, the lowest in the G7.

84. A few years ago, one of our airlines used to say 'we never forget you have a choice.' Today, governments should remember that. Business does have a choice. Business is increasingly mobile.

85. Tax rates have to be globally competitive.

86. I am determined that British business will not be the fiscal fall guy. Business is the lynchpin of the British economy.

87. Business creates jobs, wealth and generates growth.

88. And government must ensure the right framework within which business can prosper. And tax is an essential part of that framework.



89. Getting business tax right is not easy. We recognise that the need to fund public services – like universities and transport - from which you benefit, must be weighed against the need to maintain competitiveness. We need to get the balance right.
90. I also have to ensure that tax rates encourage investment by providing incentives to innovate and encourage growth.
91. We listen carefully to what you have to say, and we will consult on significant changes which will affect your future competitiveness.
92. But we need the right corporate tax structure in order to be able to compete in the next 10 or 20 years. That is why I set up a group of business experts to examine what we need to do to ensure that Britain remains a good place to do business.
93. I intend to use that forum to discuss current and future pressures on globalisation; to put tax issues for business in the context of wider business decision-making; and, to ensure that the tax system is forward looking to future challenges.
94. We want to work with the forum to see how we can, in the longer term, deliver our aim of bringing the corporation tax rate down.
95. The forum can also contribute to the debate on the taxation of foreign profits, which we began last year in response to business concerns.
96. We have been clear that we want to deliver a revenue neutral package that would enhance the competitiveness of our tax system, while protecting existing UK tax revenues.



97. In recent months, pharmaceutical, and other intellectual property-rich companies, have raised concerns about the potential impact of changes to the rules.

98. Any changes to the rules will be taken forward in close consultation with businesses and the final proposals should take into account the impact on individual sectors, including those that deal with intellectual property.

99. We need to ensure that the tax system is competitive and predictable, as well as ensuring that the business environment is attractive to increasingly mobile businesses.

100. Everyone here is well aware of the pressures this country – and others right across the world – face today. Government and industry both have difficult decisions to make.

101. We have a lot going for us. Britain is a good place to do business and we can do better still.

102. We have world-class companies, an excellent research base – some of the world's leading universities – an ability to innovate that is recognised the world over.

103. I believe we can face the future with confidence.

104. Confident about our country. Confident about our business. Confident in ourselves.

105. [ENDS]

