

Speech: Annual Trade Association Conference

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1. Introduction

Ladies and Gentlemen,

I am delighted to be here today. The work that trade associations do for the businesses they represent is perhaps somewhat overlooked. But looking at the size of this conference it is clear that businesses recognise your effectiveness.

As an opposition party we too recognise and appreciate your knowledge and skills. In the 15 months that I have been shadowing the DTI brief I have had a number of successful meetings with trade associations represented here. And I know too that my researchers rely on your knowledge and experience when tackling new or complex issues.

In the past there has been a view that Conservatives have not wanted to have dealings with Trade Associations. I hope that recent experience is changing that view and I look forward to a positive dialogue with you in the future, hopefully with us in the role of Government and not Opposition.

But before I go on, I do want to mention one thing that I learnt in preparing for this conference. A couple of weeks ago I learnt that there were over 2,000 bodies in the UK calling themselves Trade Associations - I was genuinely surprised by that number. Now I know that of those there are, probably, only around 700 which might be sufficiently representative of a given sector to qualify for membership of the Trade Association Forum, but I do think that still that number may be too high. I suspect that over time there will have to be some consolidation within your industry - the reality is that there are over 700 of you and only one of me and in Government only a small number of Ministers.

For now though I am glad that there are many thriving trade associations to make up a flattering audience for me today.

As I speak to you today, David Cameron is in the West Midlands speaking to the CBI. He is visiting that key industrial region to reinforce the message that we recognise how successful businesses are essential for a strong economy and for making improvements to the public services. He is telling CBI members that Conservatives

have not abandoned business and we support simpler taxes, lighter regulation and investment in skills and transport infrastructure.

I want today to address a number of issues that you and the firms you represent face. I want to look at Britain's economic performance, and challenge the record of Gordon Brown. I want to look at international trade and Britain's place in the modern world. And I want to look a little at the Department that I shadow – the DTI – and what it actually does.

2. Labour is failing business / Declining economic outlook

Gordon Brown will soon take over in Number 10 – and it will be a good time for him to hand over the Chancellorship as the economic indicators show the UK is heading in the wrong direction.

The Chancellor's record is one of good rhetoric covering up poor delivery.

He likes to talk about growth, but he fails to say that our growth is behind 21 of the 25 members of the EU.

He likes to talk about productivity, but he never mentions that productivity growth has slowed under Labour.

He even likes to talk about 'sound public finances', but he declines to point out that his own borrowing forecast, means that Britain is set to have the largest structural deficit of any major European economy. Larger than France or Spain. Larger even than Italy.

We have had a wasted decade in which the proportion of the economy taken by the state has steadily grown.

The truth that Gordon Brown tries to hide is that the economic position is not as rosy as it should be.

Under Labour, Britain has dropped from fourth to tenth in the international competitiveness league, and leading accountancy firm Deloitte estimates that the UK will slip further.

A significant reason for this is the way that Gordon Brown has squeezed businesses. Under his Chancellorship the complexity of tax has doubled and the CBI estimates that British businesses have been hit by a massive £50 billion increase in tax.

Over regulation too has cut our competitiveness. Labour has introduced more than 30,000 regulations since 1997, almost ten a day, and the British Chambers of Commerce now estimate that the cost of new regulations on business under Labour has topped £55bn.

Against this background it is not surprising that business investment is falling, so too is research and development spending and 78 per cent of businesses think that since 1997 it has become harder for a small business to survive.¹

3. Look at two sides of the coin

That is the big picture; but today I want to look in a little more detail at two areas in which this Government has got us into a mess. On the global level I want to show how Labour's policies are responsible for the largest trade deficit on record. But first I want to consider the problems at the local level by focusing on the Regional Development Agencies.

4. The local side – RDAs

Concerns are increasing about widening variance in the national economy. The most recent figures show that the gap between rich and poor regions has widened by 25 per cent between 2004 and 2005.

Early on in this Government's tenure they set up the Regional Development Agencies to tackle this kind of regional inequality. In the Government's own words, the RDAs were designed to 'enable the regions to improve their relative competitiveness and reduce the imbalance that exists within and between regions'.

Clearly the RDAs are not doing very well – but I think it is important to ask why are they not succeeding?

In the nine years of their existence the RDAs have been used by the Government as a vehicle for achieving an ever increasing number of goals. But in doing so they overlap with existing Government bodies such as urban regeneration task forces or sector skills councils. This duplication is a waste of money and counter-productive.

The way they measure performance is questionable too. The RDAs are quick to point out some very positive statistics showing their effectiveness. However the data comes from self-selecting surveys and not from empirical research. The RDAs ask the companies they give money to if it was useful – we should not be at all surprised that the majority say 'yes'.

In order to measure the effectiveness of the RDAs more honestly we have commissioned an in depth review into not just the RDAs, but the entire system of business support. This is being carried out by our Small Business Task Force, which is led by Doug Richard. We are looking forward to their assessment and recommendations, which we hope to publish later this spring.

Each RDA has a budget of between £130 and £400 million a year, meaning that overall, they have spent £12.5 billion since their inception. Nationally 8.5 per cent of

¹ *London Business Leaders' Panel survey*, conducted by the London Chamber of Commerce and Industry, April 2006

that has been on internal administration; but within this figure there is significant variation. Some of the RDAs need to spend only 6 per cent on administration, however the South West of England Development Agency manages to spend 13 per cent. I can think of no good reason why there should be such a difference.

Another classic example of disparity is the cost of producing and publishing 'corporate plans'. Since 2002, Yorkshire Forward has produced its corporate plans in house and avoided extra publishing costs by using the internet. In contrast, the London Development Agency has spent more than £100,000 on publishing such reports.

Let me be clear, I would not object to local variation, if there were a good local reason for it. However in these cases I do not see what that reason is.

I believe there are circumstances in which diversity among RDAs is a good thing and may even be necessary. For the last eight months I have been my Party's 'minister for Tyneside' – I know that the needs of the North East are not the same as the needs of the South East. One of the great advantages of having policy determined and money spent at the local level is that it can reflect the strengths and the needs of each area. However this seems not to be in the mindset of our RDAs.

For example all but one of the RDAs say they want to prioritise biotechnology in their region, but it is unlikely that the UK can sustain eight major biotechnology hubs.

The solution of course is for RDAs to look at the regions they cover and to assess the unique resources and capabilities they have. These come in many kinds. Aberdeen has become the nation's energy hub on the back of the oil and gas resources in the North Sea. But for Reading it was human resources and that led to it becoming a key centre for IT skills.

This week a think tank called the New Local Government Network published a rather flattering report on RDAs. It suggested that the RDAs should be given more power and responsibility, and no doubt more money too. This conclusion was hardly surprising since the report was funded by the RDAs themselves. I have asked our policy groups to look at how we can put an end to this. The RDAs should be supporting businesses and helping ordinary people rather than trying to feather their own nests.

5. The global side – UKTI and international trade

One of the reasons that it is critical for local areas to focus on what they do best is the powerful force of globalisation. An increasingly open marketplace means that we will all have to work harder to remain competitive. The worst approach in these circumstances would be to begin to compete against ourselves.

Just as we should not have half a dozen cities competing against each other to become the UK's biotechnology hub, so we should not have those cities competing against one another for foreign investment. Yet that is exactly what the RDAs are doing by setting up rival offices in foreign capitals.

The South East England Development Agency has an office in Korea. Advantage West Midlands employs staff in Belgium. And over £1 million a year is spent by RDAs maintaining offices in the USA.²

This is all effort which conflicts with the work of UK Trade and Investment, the Government organisation that is supposed to be supporting both companies in the UK doing business internationally and overseas firms investing here.

Perhaps the reason the RDAs feel they need to have offices overseas is that UKTI is a failing body that has lost the confidence of British exporters.

One of my first priorities in Government would be to sort out UKTI and ban the RDAs from opening offices outside their own region.

Last year the Government announced a new forward strategy for UKTI, it was long overdue but insufficient. UKTI's structure has lacked any sense of strategic shape; its offices abroad seem to be opening at random; its priorities have been unclear; and Britain's 'brand image' abroad lacks clarity.

The strategy set out an increased focus on emerging markets and recognised the importance of the City of London. But the new strategy fails to focus trade promotion abroad through a distinctive and cohesive UK channel. Nor did it even begin to address the fragmentation and regionalisation of trade promotion caused by the RDAs.

Quite simply, there are too many UK government organisations fighting it out amongst themselves on foreign soil. UKTI alone should wave the banner for Britain's brand image abroad.

In May 1997, as we left office, the UK recorded a trade surplus. Nine years later the Government has turned this into largest trade deficit since records began in the seventeenth century.

If UK companies are to again play a significant role internationally they need, I believe, two things from Government. First a stable economy at home, with low taxes and light touch regulations. Those factors allow businesses to concentrate their efforts on overcoming the barriers to international trade. Second they need support – which may come in many different forms. It may be providing access to information and advice. It may be helping businesses to search out and find markets for their goods or services overseas. Or it may simply be introducing businesses to the social networks which underpin international trade.

Now that all sounds very simple, but for small companies just beginning to make their way, trading internationally is exceedingly complex. And remember that over 90 per cent of exporters are small or medium sized companies. Trading rules and tariffs run to thousands of pages and small businessmen do not necessarily know where to look for the rules they will need to follow.

² *Hansard*, 11 January 2007, Col. 734WA

Stability at home is crucial if we are to be successful exporters. So it is right that our Shadow Chancellor, George Osborne, has promised stability before tax cuts. Yet a sustainable, low-tax economy is our aim, and so as the economy grows, we will share the proceeds of that growth between increased spending on vital public services and lower taxes or reduced borrowing. Our aim is clear, we want taxes that are flatter and simpler, and greener too.

But making Britain the best place in the world to do business is not just about tax and dry economics; there are other things that we need to do to maximise our potential in the global marketplace. For example we need to develop our skills base so companies can employ people with the skills to do business abroad. We need to reduce compliance costs so that companies are not put off investing here. We need a transport infrastructure that is not, in the words of Rod Eddington, 'stretched beyond capacity'. And we need a Government that sets a clear policy direction, so that companies can have greater confidence in their investments over the long term. Conservatives recognise the importance of these things and in Government I would work tirelessly to make them reality.

6. Also need strong voice for business

This, however, is not all that the DTI is, or should be, about. It should also be the voice for business in Whitehall and around the cabinet table. I said in my Conference speech five months ago that:

'In essence the DTI is the only department that makes the money, or at least is the guardian of those who make the money, which other departments then spend. We must have profitable businesses if we are to eliminate poverty and support the first class public services we believe in. I want to be a voice for business in Whitehall and a voice for Britain in the world.'

Now there has been much talk recently about Gordon Brown wanting to scrap the DTI. My hunch is that he will not, although the name might change, the reasons for that are, perhaps, another speech for another day.

What I do want to set out is why I believe you should all support there being a strong voice for business in Government – whether that is the DTI or some new department created by Gordon Brown to give the impression that he is breaking with Tony Blair.

One of the jobs of trade associations is to talk to Government, to pass on the hopes and fears of the businesses that you represent. The DTI should be the first point of contact for you.

I spoke recently to representatives of companies in the automotive sector and they explained to me the value they place on the DTI's automotive unit. They said that when they had concerns about aspects of Government policy they took them to the automotive unit, who in turn spoke to colleagues across Whitehall. I do not have quite such an optimistic outlook as to believe that all of you find the DTI so easy to

work with – but you should. There should be a department there for you to take your concerns to, knowing that they would be fed into policy discussions across Whitehall.

There has been much criticism of the DTI as it performs a complex dual role – on the one hand it should be the champion of business and entrepreneurship in government, yet on the other hand it is one of the most significant regulators of business.

It is quite true to say that the DTI is responsible for costs to business of over £5 billion a year – mostly linked to employment law, consumer law and company law. However abolition of the DTI would not mean abolition of these burdens. Instead it means these burdens would be transferred to departments which are not at all business focussed.

Surely it is better to have a pro-business department determining the balance between competitiveness and regulation? The present DTI does not perform this role as well as it could, but reforming both the institution and the culture within it to achieve these aims is one of my key priorities for the DTI.

7. Conclusion – Our prescription

Having Labour Ministers running the DTI was always going to lead to problems – their instinct is to regulate and when they do they think about the effect on big, multinational firms. They ignore that more than 90 per cent of businesses employ fewer than 5 people. They don't understand that such firms do not have the resources to find out about all the regulations and guidance that apply to their company, let alone fill in all the forms they need to comply.

We need a new direction.

I want to change the culture in Whitehall that says that success can be measured by the number of pages of directives and guidance brought in. Performance in Government needs to be about delivering results, not simply being seen to be doing something.

Sometimes regulations are necessary and sometimes practices do have to change. But I want you to know that I recognise that the costs of change can be high. That often the costs of making changes are higher than the ongoing costs of compliance.

I believe that businesses want a level of certainty in Government. I believe they want a party that can deliver results on its promises, and one that can give them certainty about future direction. One that does not endlessly resort to the kind of tinkering that makes investment decisions more risky and makes the cost of raising capital higher.

This lack of clarity and certainty has the most effect on the kinds of investment that take the longest to come to fruition. The Government is right to identify Research and Development as a key driver of productivity growth, but because businesses do not have the certainty about the future direction of Government policy that encourages investment it should come as no surprise that total UK R&D spending has fallen as a percentage of our GDP under this Government.

I have been in business myself. I understand the challenges you face. I can not solve them all and I do not pretend that I can. But I believe that Government does have a role to play in creating the climate in which businesses can thrive. Without successful businesses there can not be high employment or strong public services. I want to create that climate.