

Alan Duncan - Speech to CBI Middlesbrough – Thursday 14 June 2006

Introduction

Ladies and Gentlemen,

I am delighted to be here in Middlesbrough tonight.

Middlesbrough was at the heart of the Victorian industrial revolution and I believe was once described by Gladstone as 'an infant Hercules' in 'England's enterprise.'

I am glad to see that Middlesbrough and the rest of the North East is still a very exciting area in the UK economy, with economic growth rates topping those found in London and the South East.

Wages are catching up with the national average and the growth of science and technology in the region is putting it on a good footing to compete in the future.

Labour is failing business

But whether in the North East, or nationally, the economic outlook is not as rosy as it should be.

The big picture contains some worrying trends.

We have fallen from 4th to 13th in the World Economic Forum's competitiveness league. The rate of productivity growth has slowed since Labour came to power. Our share of world exports is shrinking and our trade deficit is increasing to record levels.

Many businesses are beginning to express growing concerns about the Government's economic policy.

A survey last month for the London Chamber of Commerce showed that 78 per cent of company directors said it was harder now for a small business to survive than in 1997, and 62 per cent said that starting up a new business was more difficult than nine years ago.

Businesses are choosing to set up in other European countries, rather than here. Google, Apple and Oracle all chose Ireland over the UK for their EU operations. And more recently Peugeot and HP sauce have chosen to move their manufacturing operations out of the UK.

Manufacturing

I believe that manufacturing is critically important to the British economy. This is especially true in the North East where a higher proportion of economic activity is in manufacturing than the national average.

First, manufacturing is important for our ability to export to emerging economies. At their stage of economic development they are more likely to need goods than services.

Second, it has a vital role to play in the continuing economic vitality of many areas of our country including the North East.

And third, it is important for maintaining diversity in the British economy; a broad based economy may be better able to weather an economic storm.

Labour used to claim to be the champions of manufacturing, but in their hands it is crumbling. Over 1 million jobs have been lost on their watch and research and development spending is down. Manufacturing isn't even mentioned until page 167 of the recent Budget Report.

I looked back recently at the historical data on manufacturing output – Labour's spin has been so effective on this that even I was surprised by the facts – under the last Conservative Government output rose by over 12 per cent, but under this Government it has fallen.

There are a number of factors that are squeezing manufacturers. One is regulation, and I want to talk about that later. Another is high energy prices.

Last year business customers saw unprecedented rises in gas and electricity prices. For medium size business users, electricity prices rose by 40 per cent and gas prices rose by over 50 per cent¹.

There are many reasons for this, not least the high price of oil, which is a global phenomenon. But there are worrying signs that are specific to the UK.

¹ *Quarterly Energy Prices*, Section 3.1.2, DTI, March 2006

Whereas medium sized electricity using companies in the UK paid 22.5 per cent less for their electricity than those in France in July 2004; by October 2005 they were paying 12.5 per cent more.²

This has a significant impact on the competitiveness of British businesses - and falls especially hard on exporters.

The lack of liberalisation in European energy markets is a major cause of the high prices we are experiencing. It needs urgent attention and reform. I therefore welcome the moves made recently by the EU Commission, especially their recent raid on the offices of a number of European utility companies.

The British Government should have done more to promote liberalisation when it had the rotating presidency of the EU last year. And now the Government faces further challenges to secure energy supplies. The development of LNG terminals and extra gas pipelines provide greater import capacity that rightly coincides with the decline in production from fields in the North Sea. But ensuring that these operate at full capacity, especially during a cold snap, when the gas market is tight, is a greater challenge and one that we hope the Government will address in their Energy Review.

Added to that, the fact that over 30 per cent of our electricity generating plant is due to be decommissioned over the next 20 years, it is hardly surprising that energy has been propelled to the top of the political agenda.

That is why, back in January, I said that in the Conservative Party we would conduct our own Energy Review alongside the Government's.

² Figures include tax, *Quarterly energy prices*, Table 5.4.2, DTI, December 2005 - Medium defined as consuming 24GWh per annum with a maximum demand of 4MW.

This is an open-minded study of the various challenges facing the shape of the UK's energy supplies. Over the last few months I have met with pretty well everyone in the energy sector and from those meetings, our ideas are beginning to crystallise.

The necessary conditions for any serious energy policy have to be liberal markets and a regime to reduce carbon emissions.

The Government's review is essentially a review of electricity generation – and there are essentially three parts to our generating mix. Nuclear, fossils and renewables.

The Prime Minister tells us that nuclear power is back on the agenda. Less bulky waste and having modern reactor designs available off the shelf mean that nuclear could have a role to play in producing cheap and carbon free electricity. What Tony Blair hasn't told us yet is how he is going to get people to invest in the new build he says he wants.

Second, fossil fuels. These currently provide the bulk of our energy needs, but they also produce the bulk of our carbon emissions. The development of carbon capture and sequestration is another exciting area– and if it can be made to work commercially, then it may mean that fossil fuels can continue to play a role.

Renewable technologies too have come a long way and are now able to provide more than just a cranky contribution to our energy mix. We have to look in detail at how we encourage the development of these technologies

We, like the Government, will announce the findings of our Review next month. This will be one of the most significant policy announcements the Party has made since the last election. And I am sure that it will be widely welcomed by businesses like yours that have been suffering high prices and insecure supplies.

UKTI

As I said high energy prices hurt exporters and at present the UK is running a record trade deficit. Yet no one in Government seems concerned.

Britain should be an outward-looking nation; we should be cultivating trading partners around the world. And the Government has a role to play in achieving that.

But UKTI is a failing organisation. It has no clear strategy or direction. Combine this with Gordon Brown and Britain ends up with a collapsing brand image abroad.

UKTI's latest efforts are directed almost exclusively towards inward investment. It is neglecting its role in promoting exports. I believe that inward investment is important, but that building Britain's brand image and helping British firms to reach foreign markets is important too.

Our exports don't stand a chance unless UKTI is reformed. How on earth is Britain to have a good brand image abroad when UKTI has no coherent strategy and the Chancellor is destroying our reputation for inward investment?

The internal review now going on in UKTI must confront the utterly haphazard strategy and overlapping office structure, whose main export is Britain's own regional policy competing against itself abroad. It must address this fragmented approach to promoting our exports and improve the effectiveness of our global brand.

The global market is an exciting place and there is no reason why Britain cannot compete in it. But to do that a number of things have to happen together.

We need to develop our skills base, to reduce compliance costs, to have a Government that gives clear policy direction so that companies can invest with confidence. But we also need the Government agency that promotes the UK abroad to have a clear view of how UK businesses fit into that marketplace.

What business can expect from a Conservative Government

What is different about Conservatives, is that we understand what businesses need to thrive. We have been there, we have worked in the private sector, we have run businesses and employed people. We understand risk and what business needs and what government should and should not do.

I tried to highlight this in a speech recently by mentioning that the Government's DTI team didn't have any business experience. I contrasted that with the experience that our front bench team has.

The Daily Mirror leapt on it. It described me as a contemptible Tory born with a silver spoon in my mouth and called for me to be sacked.

The attacks of the Daily Mirror I wear as a badge of honour. But it is a serious point – they need to understand how businesses work and what businesses need.

The burden of regulation is growing. The British Chamber of Commerce estimate that new regulations brought in since 1998 have cost British business over £50bn.

When Labour ministers introduce these regulations they think about their effect on big, multinational firms. They forget 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.

Labour talk about cutting regulation. They introduced a new law that allowed them to remove out-dated rules and un-necessary regulations with a fast-track procedure. Now given that they have introduced more than 3,000 new regulations each year, how many do you think they got rid off with the fast-track procedure? Just 27.

The Conservative prescription is different.

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.

Businesses also want a level of certainty in Government. They want to know, with as much certainty as possible, what is coming – so they can plan and to invest. Gordon Brown doesn't work like that. He is forever tinkering with the tax system. Every year the Finance Bill gets fatter, there are more regulations to digest, more schemes set up and more guidance issued. The result is greater burdens on businesses and a lack of clarity that deters investment. No wonder business investment is at an all time low.

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 has rightly identified Research and Development as a key driver of productivity growth. What they do not understand is that whilst a tax credit against R&D spending is a start, it's not enough. First it's bureaucratic and more importantly it does nothing to tackle the underlying problem, that businesses do not have the certainty about the future direction of Government policy that encourages investment. So again it should come as no surprise that total UK R&D spending has fallen as a percentage of our GDP under this Government.

We are clear that stability must come first. That stability, clarity and responsibility in managing the economy are our top priorities. The new Conservative agenda uses economic liberalism to encourage business growth, create prosperity and tackle poverty. We know that we have allowed ourselves to be branded as rampant capitalists in the past, but that has never been the case. We recognise that some level of regulation is necessary and useful, but we also know that too much is harmful.

My message is that you can now trust us again on the economy.