



DEPARTMENT OF
ECONOMIC DEVELOPMENT

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Minister
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cc Secretary
MC

To: PS/Minister of State (DED)

From: David McCune
Central Management Branch

CBI NORTHERN IRELAND ANNUAL DINNER, 8 APRIL 1998

1. The Minister is to attend the CBI (NI) Annual Dinner on Wednesday 8 April.
2. Lord Simon, Minister of State at DTI is the guest speaker at the event. I attach for the Minister's information a copy of Lord Simon's draft speech which is on the subject of "Competitiveness in Europe".

David McCune
DAVID McCUNE

ECONOMIC REFORM

Economic reform was one of the five main priority areas we identified for the Presidency. With over 10 million unemployed across the EU unemployment is the major social and political problem.

I applaud the excellent progress made in Northern Ireland. I note that long-term unemployment has fallen by 23.5% over the year to February 1998, but there is still, clearly, work to do.

Our European partners are beginning to agree that sustainable growth and employment will be best served by policies based on strong, open markets: open and adaptable markets for products and services, open and adaptable markets for labour and markets for capital.



DEPARTMENT OF ECONOMIC DEVELOPMENT
An Equal Opportunities Organisation

SPEECH

I am speaking to you at the half way mark in the UK Presidency. We are also less than a month away from historic decisions about the single currency. The Euro itself will be a reality in nine months time. Add to that the enlargement negotiations which started last week and you can see that this is a crucial time for the UK and the whole of the European Union.

What am I doing here. Last May, I was appointed Minister for Trade and Competitiveness in Europe, with a foot in both the DTI and the Treasury.

This was a novel appointment. Not just because the machinery didn't know how to cope with a Minister in two departments. But, more significantly, because never before had a Minister had the words "competitiveness" and "Europe" in his job title. That, I think, says it all about the Government's attitude to Europe.

ECONOMIC REFORM

Economic reform was one of the five main priority areas we identified for the Presidency. With over 18 million unemployed across the EU unemployment is the major social and political problem.

I applaud the excellent progress made in Northern Ireland - I note that long-term unemployment has fallen by 28.5% over the year to February 1998, but there is still, clearly, work to do.

Our European partners are beginning to agree that sustainable growth and employment will be best served by policies based on strong, open markets: open and adaptable markets for products and services, open and adaptable markets for labour and markets for capital.

All these markets are more open than they were - but there is much more to do. This will not happen overnight. But if the UK Presidency can [develop and progress this thinking/push this forward] we will have really achieved something.

Let me pop back into 'business-speak'. The EU has spent a lot of time since 1992 sorting out its balance sheet "of macro-economic indicators". The big picture looks much more encouraging than only a few years ago.

But if the balance sheet is nearly there, what about the P & L? What about the wide range of supply side micro-economic measures which together help make an economy competitive? For we know that it is companies that make an economy competitive - not governments alone. Certain not - they can help but they cannot alone.

Despite post-Maastricht focus on macro issues, the EU has had significant successes in dealing with the P & L, in particular, its work on the Single Market.

But there is a great deal more that needs to be done. Much of it involving a change of culture. The words "competitiveness" and "entrepreneurship" were thereby heard in Brussels corridors until very recently. Too often the solution to a problem was seen in terms of subsidies or market distortions rather than by working with the markets.

That's why you will have heard the Prime Minister and the Chancellor stressing the economic reform message recently. All member states must face up to internal barriers to greater competitiveness, enterprise and the generation of jobs.

SUPPLY SIDE FLEXIBILITY

Let me look a bit closer at the three elements of the supply side: products and services, labour and capital.

On the product market, we are striving to drive forward progress on the European Commission's excellent Single Market Action Plan.

The Action Plan focuses on the need for better enforcement. It also provides for a scoreboard against which the progress of each country in transposing directives into national law is logged. A good example of benchmarking, or perhaps I should call it "naming and shaming".

Whatever it is called, it has worked well so far. The number of single market measures not transposed into national law across the EU dropped from 26% to 21% in four months. Those countries at the bottom of the table have been particularly assiduous since it was published.

But 21% is still too high. And, even if a directive has been incorporated into law, it needs to be properly enforced. This is very much the nuts and bolts of EU policy, but it does provide the vital infrastructure for strong products and service markets across Europe.

A more open labour market is also vital, particularly if the scourge of high unemployment is to be tackled. In an increasingly uncertain world, where there are no longer jobs for life, adaptability and suppleness are vital. But this is not a philosophy of "hire and fire" or laissez-faire, as some would have us believe.

No, we want to equip people with the education and skills to respond positively to economic changes and changes in employment needs.

This approach was broadly accepted by all Member States last year at the Luxembourg Jobs Summit. They signed up to a set of Employment

Guidelines based on employability, adaptability and entrepreneurship and equal opportunities. Remarkable language of a European Council I'm sure you'll agree.

All Member States will be bringing Forward Action Plans showing how they have implemented these guidelines in time for the Cardiff Summit in June.

Europe must also have open, transparent and accessible capital markets. We compare badly, especially with the USA and we stifle our ability to create new small firms and develop innovative products.

As an example, the equity market capitalisation in France, Germany, Spain and Italy is barely a quarter of that of the USA, even taking account of the difference in the size of the economies. The availability of venture capital, business angels and other sources of finance is equally weak. I am encouraged that there has been increasing interest in Northern Ireland from leading venture capitalists, including the introduction of a completely new fund.

More generally, the UK Presidency is tackling this in a number of ways, and I hope that one of our legacies will be a more open and successful market in finance of all sorts.

In finance and labour markets, in particular, the UK has a generally good story to tell. But we must be careful before we think we can teach our partners how to run their economies. We are 12th out of 15 in the GDP per head league table. And, across the economy as a whole, our productivity is some 25-30% lower than either France or Germany.

A THIRD WAY

The Prime Minister touched on much of this in his recent speech to the Assemblée Nationale in Paris. He explained the Government's philosophy of a third way: neither laissez-faire nor excessive state intervention and regulation. Within that framework he saw four major tasks for Government.

- first, to maintain a strong and prudent discipline over financial and monetary policy;
- second, to equip people for economic change through education, skills, technology, high quality infrastructure and a welfare state which promotes work but makes it pay;
- third, to tackle social exclusion; and finally,
- to encourage and promote entrepreneurship.

As a businessman, I have waited a long time for these pragmatic but humane policies to emerge.

EMU AND SINGLE CURRENCY

Let me turn to EMU.

I am aware of calls from some quarters that the Government should be clearer about the timing of the UK's entry into a single currency. I cannot think of a clearer statement for any Government in the past than that delivered by the Chancellor last October. If EMU is a success, if it is in our national interest and if the electorate is persuaded, we will join.

The Commission has already given its views on which countries should join in the first wave. The final decisions will be taken by Heads of Government during the first weekend in May.

The Euro is the biggest single change to trading in Europe - and beyond - since the War.

I note that exports from Northern Ireland to the EU rose by almost 19% during 1995-96. The single currency will remove one of the most significant remaining barriers to cross-border trade. It will make pricing transparent between countries, forcing companies to compete on quality, value for money and innovation. This is good news for the customer and, if they seize the opportunity, for businesses across Europe.

It may be tempting for British business to think that the single currency is something which can safely be ignored - at least for the time being.

This is dangerous thinking. Nonetheless, there is an enormous amount of ignorance in the UK about the Euro and its effect on business.

Exporters and Importers should be more prepared than most. But many still manage to trade in sterling. That may be possible while there are a range of currencies in Europe. But once the Euro comes in, many of those companies will, for the first time, find it necessary - or at least commercially advantageous - to deal in Euros.

Companies in supply chains, ultimately supplying a multi-national customer will also be affected. Many of these will be small firms dealing exclusively within the UK. But the news from Rover Group and Siemens (UK) alone should warn them that, come next year, they may well need to trade in Euros.

Finally, there are those companies who compete in the UK with companies from within the Euro zone. Whilst they might not have to bid in Euros they are likely to feel the effect of the single currency on the competitiveness of their rivals.

All these companies need to prepare for 1 January 1999. For them the single currency will raise practical issues; on how to incorporate the Euro in their IT systems and the need to reprint their price lists. But, much more significantly, it will raise strategic issues, issues of marketing, pricing, sourcing and, perhaps even manufacturing.

I would not like you to go away with the idea that the single currency will bring only problems. It represents a great opportunity for those firms ready and able to seize it. For small firms, in particular, the ability to trade in a single currency in markets across most of Western Europe should be particularly attractive.

[MOBIL STORY]

Once the participating countries have been chosen, the Government will step-up its work on alerting British business to the single currency. Indeed, while I am here in Belfast, I shall be meeting a small number of businesses tomorrow morning to discuss the sort of help they would find most useful from the Government.

Let me leave you with two simple messages on EMU. One - It is going to happen and the clock is ticking. Two - we had all better be ready.

Word count: 1714