



## Middle East Association Conference

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13 mins

### **CHECK AGAINST DELIVERY**

#### **Introduction**

1. Thank you, Michael for that introduction, and for the invitation to be here today at the Middle East Association's third City and Gulf conference.
2. It's a pleasure to have the chance to speak to representatives of so many GCC countries, and to see you here in London today – you've very welcome.
3. Today's Conference is about the relationship between the City and the GCC – and I think that we have a huge amount to offer each other, which is what I'd like to talk about today.

#### **The GCC in global capital markets**

4. The GCC, of course, has a huge importance in today's global capital markets.
5. Together, the GCC earned over \$380 billion from oil exports in 2007, and \$26 billion from gas. And there is huge growth in the region – 6 or 7% over the last few years, compared to an average of 3.6% in the 1990s.



6. Obviously, there are risks on the horizon – particularly with the average rate inflation in the GCC over 10%.

7. But every financial centre in the world, particularly those in Europe and in America facing difficult credit conditions, wants to attract the kind of capital flows that investment from the GCC can bring.

8. And of course London is no exception.

9. So I'd like to focus today on three reasons why the UK, and the City in particular, is such an important partner for the GCC: openness; skills; and our history of innovation in financial products.

### **Openness**

10. Let me start by talking about the openness, to both people and investment, on which London has built its position as one of the world's greatest cities, and as the world's leading financial centre.

11. Unlike New York, which can base its success on a huge domestic economy, the City relies on its position as a gateway to the world.

12. That is an increasingly important attribute, in a world in which our societies, and our economies, are increasingly interconnected.



13. And it's more important than ever at a time when we are all dealing with economic challenges.

14. We need to have the best brains in the world here in the City, helping our financial services sector to respond. And we need to continue to attract the cash that our financial institutions need to recapitalise.

15. So, London continues to welcome people from around the world – because we know how important London's skilled workforce is to its success.

16. And we continue to welcome investment from around the world too.

17. The figures will show you that London is Europe's leading destination for Foreign Direct Investment – and last year, the UK attracted \$1 trillion of FDI for the first time, second only to the United States.

18. And of course an important part of that investment comes from sovereign wealth funds – many of them from GCC countries.

### **Sovereign Wealth Funds**

19. As you'll all know, sovereign wealth funds have been attracting an increasing amount of attention recently. That's partly



because they've been growing so rapidly, and partly because their investment patterns have been shifting towards equities.

20. That's included long-term investments in some major financial institutions, totalling over \$59 billion worldwide – which as I've said, is providing capital that the global financial markets badly need.

21. Throughout this period of increased attention, though, we've heard lots of different suggestions about how the major economies should react, and about what the growth of these funds means.

22. But the UK Government has been absolutely consistent in saying that if they behave commercially, we welcome sovereign wealth funds here to London; and we welcome the role that they're playing in the global economy.

23. Of course, it's important that we build trust between the funds and recipient countries – and the UK is supporting the work that is underway in both the OECD, and the IMF, to look at developing best practices for sovereign wealth funds.

24. But we start from the principle that sovereign wealth funds acting commercially should be treated in the same way as any other investors – with a few exceptions around certain industries.

25. And as the Lord Mayor said earlier, I hope that sovereign wealth funds will continue to come here to London, and continue to



benefit from the City's huge expertise is managing assets, and its position as the ideal base from which to keep close to the world's financial markets.

## **Skills**

26. So, London is an open, welcoming City to investment from the GCC, as well as from elsewhere.

27. And the second thing that it has to offer is its excellence in skills.

28. I don't just mean the world-class pool of talent that is attracted here, and that creates probably the best workforce in the world – but also the UK's position as a leading exporter of education, training and qualifications.

29. In the relatively new field of Islamic Finance, for example, the UK has already demonstrated its leadership as a provider of benchmark qualifications, like those from the Securities and Investment Institute, and the Chartered Institute of Management Accountants.

30. And we are also world leaders in regulatory training – particularly with the development of the new International Centre for Financial Regulation, the ICFR, which will be launched at the end of the year.



31. The ICFR, which has secured financial backing from the Treasury, the City of London and nearly 20 leading City companies, will be an independent centre of excellence in regulatory research and training, benefiting financial jurisdictions in the City, in the GCC and beyond.

32. And so here, and in the qualifications that the UK can offer, there is a clear attraction for GCC countries with young, rapidly expanding populations, and with rapidly developing financial sectors. And I know that your governments recognise the importance of education in ensuring economic sustainability, as you can see from the 20 new universities under construction in Saudi Arabia, for example.

33. So the UK has a lot to offer the GCC here. And the third advantage that I believe we have is our history of innovation in financial products, and of being at the cutting edge of new developments.

### **Islamic Finance**

34. A particularly good example of that at the moment is Islamic Finance, which I believe is a market with huge potential – and which I think the Lord Mayor touched on earlier.

35. We've got two objectives in this area.



36. Firstly, making sure that London is at the forefront as this sector develops, and that it stays there.

37. And secondly, making sure that everyone, whatever their religion, can participate fully in the financial system, and has the chance to make the most of their money.

38. Those are two quite different objectives. But they both mean encouraging the development of Islamic Finance here in the UK, which is what we have been doing.

39. First, we're continuing our efforts to establish a level tax and regulatory playing field between conventional and Islamic finance.

40. We have delivered real progress here, most obviously with the removal of obstacles to Islamic mortgages and the introduction of a new tax framework to encourage sukuk issuance.

41. And you can see the effects: the Islamic mortgage market here in the UK is worth more than £500 million; the UK's sharia'a compliant banks have more than 40,000 customers; we have the only standalone Islamic financial institutions in the EU, and more banks providing Islamic financial services here in London than in the rest of Western Europe combined; and there are now more than 20 sukuk listed on the London Stock Exchange, worth an estimated £10 billion.



42. That is impressive – but there is more to be done, and we are keeping up the momentum. Over the coming months, for example, we'll be consulting with experts in the area about the application of Stamp Duty Land Tax to sukuk transactions, and the regulatory treatment of sukuk issuances.

43. Many of you will also know that we have also been looking closely at the potential of the Government itself issuing a sterling denominated sukuk, and we have been consulting on this widely, and working closely with our Islamic Finance Experts Group.

44. Of course, there are lots of issues with that to think about. But we are proceeding as fast as we can. And earlier this month I announced that if we can get over the last barriers, then we would intend to issue a rolling programme of up to about £2 billion of sukuk.

45. I also announced that by the end of the year, we'll be publishing a document that outlines the approach we intend to take to develop both retail and wholesale Islamic Finance here in the UK, and to build on the progress that we've already seen.

## **Conclusion**

46. The development of London's Islamic Finance sector creates some real opportunities for the GCC – and alongside our openness, and our skills, I hope that I've given you a sense of what the City has to offer the GCC.



47. As I said at the start, those of you who have come here from GCC countries are very welcome here in London for today's conference. But as I hope I've got across to you, it isn't just today that you're welcome.

48. London has a long tradition of links with many of the countries in the GCC. And now more than ever, those links can bring real benefits for us both. I hope we can work together to make the most of them. Thank you for listening.

[Ends.]