



Middle East Association Conference

Merchant Taylor's Hall

19th June 2008

The Rt Hon The Lord Mayor of London
Alderman David Lewis

Minister, Ladies and Gentlemen

Delighted to see strong Gulf support for the third Middle East Association's City and Gulf conference supported by the City of London Corporation. At the start of the summer, as always, London is enriched by the many friends from the Gulf who come back to their second home and take their places as Londoners. Long may they continue to do so!

The conference today will address many of the opportunities for business between us and discuss where London may be able to deepen its partnership with Gulf Cooperation Council (GCC) countries.

First a word of explanation: as Lord Mayor of the City of London my principal role is Ambassador for all UK-based financial services. In this role I will spend about 100 days abroad this year visiting some 23 countries with high level business delegations.

I have already visited Saudi Arabia, Kuwait, Oman, Bahrain, and what I am about to say comes largely from my meetings there *and in London* where I have also met the Prime Minister of Qatar. In April the City of London Corporation, of which I am head, published a report on *The Competitive Position of the Gulf as a Global Financial Centre*.

The report examined the Implications of the phenomenal growth and the growing global reach of Gulf financial centres with one key question – competition or complementarity with London? In London we believe that competition is good for everyone, that ultimately it drives standards up and prices down. So we are happy to compete, but at the same time, we believe that we can work in partnership on some issues that I will talk about later.

We welcome the continued openness of London and UK economy to foreign investment, including by sovereign wealth funds. London has achieved its current position by sticking to the principle of market openness – even if at times that might be uncomfortable. And our friends in the GCC know this. The principle applies as much to SWFs as to private business. As you know, we have for many years welcomed the Kuwait Investment Office and the Abu Dhabi Investment Authority here. They are as welcome as any other investor to this city where ownership is international. For example about half the buildings in the City are foreign owned. We welcome the British government's and the OECD's support for the IMF's policy of openness towards SWFs. London is the most open market in the world.

But as Western economies open up to SWF investment (and their banking sectors open to them with open arms!) openness on one side needs to be met/ balanced by freer market access and reciprocity on the other. Improving market openness is a key element in the development of the Gulf's international financial centres.

What are the areas where London can add value and form sustainable partnerships -

Regulatory expertise:

Framework of UK Regulation: managed by FSA one overall body; based on assessment of risks and clear principles; proactive approach to dealing with problems; relies on precedence; independent of Government; meets key requirements of business (reliability, predictability, consistency); puts onus on companies to manage own risks.

Bank of England concentrates on economic stability and interest rate setting, independent of Gov since 1997.

FSA ultimate financial regulator for banking, insurance, securities, mortgages, commodities, derivatives trading, asset management, pensions, private equity etc. It authorises sub

regulators for some specialist areas (eg Law Soc, ICAEW in charge of professional services firms).

With Northern Rock, the FSA has admitted it made mistakes. Confident that the regulatory process will emerge after this year strengthened. It may not be perfect but still the best in the world.

Corporate governance,

Importance of transparency and effective corporate governance in managing investor confidence, particularly during volatile times.

UK corporate governance model: self regulation, managed by independent regulator, Financial Reporting Council (FRC), covering Combined Code for companies and directors; approval of accounting standards; oversight of accounting profession; review of corporate reporting. More effective and lower compliance costs (unlike SEC and Sarbanes-Oxley with over legalistic approach).

Principles: single corporate board collectively responsible; checks and balances (separate Chairman and CEO, balance of exec and non-exec directors; strong independent audit and remuneration c'tees, annual evaluation by the board of its performance); emphasis on objectivity of directors in interests of shareholders; transparency on appointments to be ratified by shareholders and on remuneration; effective rights for shareholders. Principle of "comply or explain" in Combined Code which enables the board to manage effectively while remaining accountable to shareholders [Cadbury, Greenbury, Turnbull, Higgs, Smith rationale].

We do not preach this as the only model for listed companies worldwide. National cultures and approaches must be recognised and respected. But in an increasingly globalised equity market, companies regardless of national origin seeking new capital and international shareholders need to offer common approaches to governance and transparency.

Project management

The physical shape of the GCC countries is changing fast as huge sums are committed to infrastructure renewal over the next two decades. Expanding populations - and modern diversified economies - will need new sources of power and water, waste plants and new transport links, especially in Saudi and Kuwait.

Since the mid 1990s much of the UK's crumbling infrastructure has been virtually rebuilt using PPP. Around 900 contracts have been signed worth some £60 bn in the UK under PPP/PFI since 1995, the largest programme in the world for delivering public services through public-private partnerships. Many of these projects are at a municipal level delivering desperately needed schools, hospitals and other public facilities. In 2001-7 alone we signed 501 deals in the UK, more than double the total PPP deals in Europe. We offer expertise – and PPP providers will acknowledge mistakes as well as successes!

Skills shortages

People, not oil and gas are the most important assets of GCC countries.

We continue to be told that the growth and globalisation of the Gulf economies provides massive opportunities for training and professional development, especially in finance and business services. In many Gulf countries UK qualifications are preferred. We encourage UK universities and professional organisations such as SII to set up partnerships in Gulf countries in order to deliver training schemes that will allow Gulf students and professionals to study at home as well as coming to the UK.

Sharia Compliant Finance

London is among the very best in Sharia Compliant finance and takaful insurance in the world and a particular expert in structuring new products. The sector has been growing in the UK for around 30 years, with a particularly fast pace since 2005. Providing mechanisms that enable the world's Muslims, including our 2 million Muslim fellow UK citizens, to engage with the global financial system in a way consistent with the Faith makes economic, practical, ethical and moral sense.

Opportunities for trilateral partnerships with Gulf

investors eg in North Africa (examples include PWC working on financial sector regulation with Gulf Finance House in Tunisia, and Sotheby's International working on real estate development with Qatari Diar in Morocco);

We look forward to the Gulf owned companies playing an even greater part in the global economy and - to accelerate the process, we look forward to sharing experience on issues of corporate governance, skills and regulation.