Business

Rallying cry
Prodrive's chairman believes he has the formula for success
Pages 50, 51

Business bodies team up to attack tax plans

The business world has rallied round to mount a concerted attack on Government plans, announced in the Pre-Budget Report last week, to abolish taper relief on capital gains tax.

The CBI, the British Chambers of Commerce, the Institute of Directors (IoD) and the Federation of Small Businesses have written a joint letter to the Chancellor urging him to reverse the move. An e-petition has been set up on the No 10 website. One of the signatories, the internet entrepreneur Dan Wagner, said: "The Chancellor hinted that he may reconsider before enactment in April '08, so let's do what we do best and make a difference."

Writing exclusively for *The Times*, Sir George Cox, the former head of the IoD, sets out what he thinks the Chancellor should do instead. **Page 49**

Banks in bailout fund

Three Wall Street banks are expected this morning to unveil firm plans to create a $100 billion (£49.1 billion) bailout fund to avert worsening a credit crisis on Wall Street. It is the biggest bailout on Wall Street since 1998, when Alan Greenspan, former Chairman of the Federal Reserve, enlisted seven US investment banks to prevent the hedge fund Long Term Capital Management from collapsing. **Page 48**

Bid battle hots up

Standard Life and Swiss Re are poised to enter the £5 billion battle for control of Resolution, Clive Cowdery's closed life fund consolidator, by tabling a joint takeover bid, sources said yesterday. Friends Provident, Resolution's proposed merger partner, is thought to be sounding out investors about a £600 million fundraising. A Friends spokeswoman said it is committed to the Resolution deal. **Page 46**

Quote of the day

'The Government needs to differentiate between investment and speculation'

Sir George Cox

Rags but no riches

American clothing retailers are facing their worst season for five years, with shopping centres caught out by high temperatures in what should be the busiest shopping period of the year. Last month the North East Coast of the United States experienced temperatures substantially above normal. **Page 54**

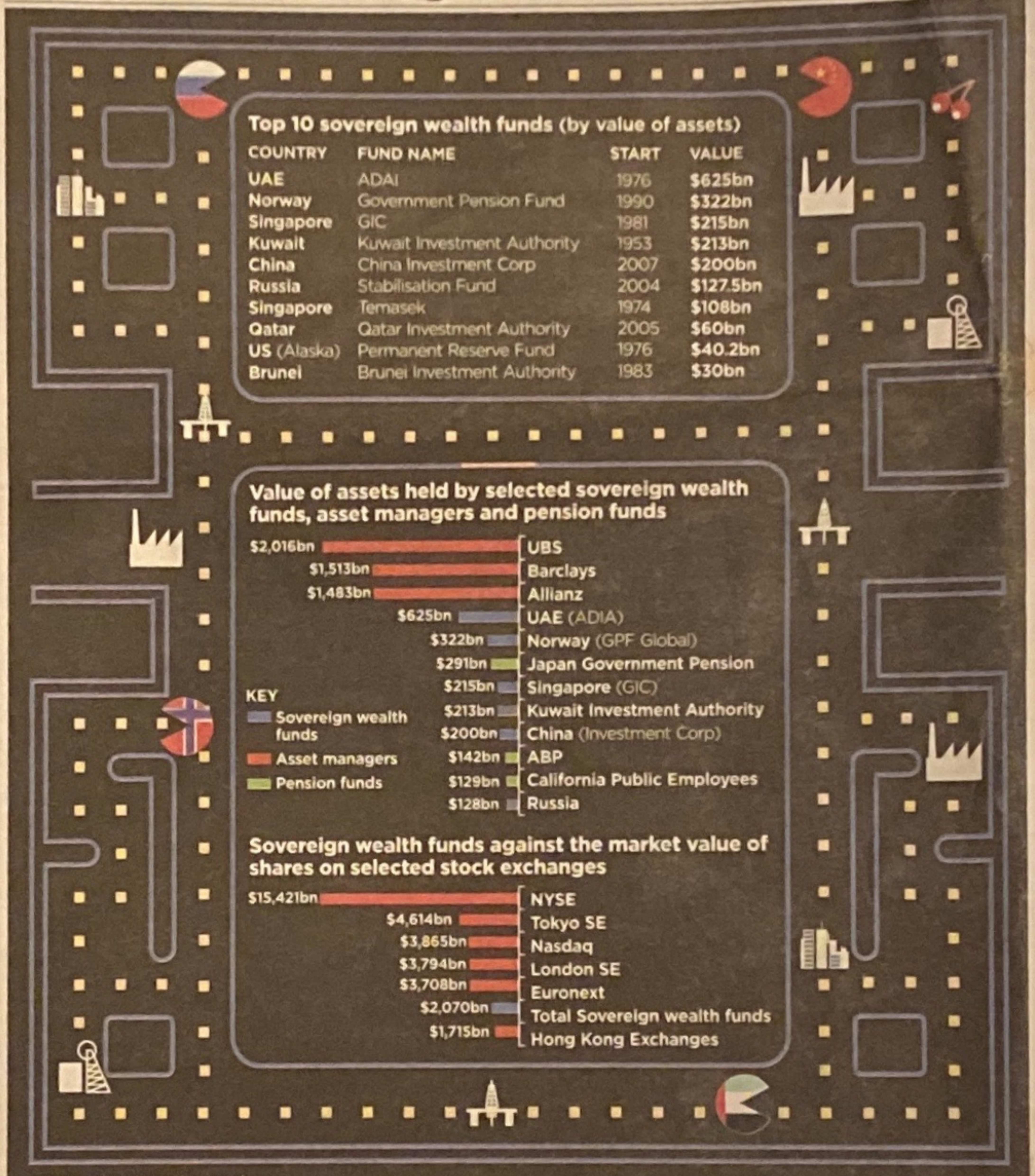
America to press for restrictions on potent sovereign wealth funds

▶ Asian powerhouses target British interests

▶ G7 nations aim to protect strategic assets

Leo Lewis, Gary Duncan

Hungry state funds on a global hunt for trophies



Top 10 sovereign wealth funds (by value of assets)

COUNTRY	FUND NAME	START	VALUE
UAE	ADAI	1976	$625bn
Norway	Government Pension Fund	1990	$322bn
Singapore	GIC	1981	$215bn
Kuwait	Kuwait Investment Authority	1953	$213bn
China	China Investment Corp	2007	$200bn
Russia	Stabilisation Fund	2004	$127.5bn
Singapore	Temasek	1974	$108bn
Qatar	Qatar Investment Authority	2005	$60bn
US (Alaska)	Permanent Reserve Fund	1976	$40.2bn
Brunei	Brunei Investment Authority	1983	$30bn

Source: Standard Chartered

The United States is to call for draconian rules to control sovereign wealth funds, the vast, opaque, state-backed financial powerhouses that hold assets worth about $2.5 trillion (£1.2 trillion).

The proposal will be made this week in Washington at the meeting of finance ministers and central bankers from the Group of Seven (G7) nations, *The Times* has learnt. Observers question whether such regulations will be able to rein in the funds.

There is increasing concern in Britain over the influence of sovereign funds. About half the shares in the London Stock Exchange are held by Qatar and Dubai, with the former close to acquiring J Sainsbury, the supermarket chain. Temasek, of Singapore, and the Chinese Development Bank both have stakes in Barclays.

The US is expected to call on G7 leaders and the International Monetary Fund to agree on a set of guidelines demanding better disclosure by the sovereign funds and giving governments greater ability to scrutinise their activities. It is expected to be the first time that the subject of the funds will appear in the closing statement of a G7 meeting and should generate a fierce backlash from the countries that manage the largest funds.

The calls come amid mounting fears that the aggressive funds — which are focusing increasingly on the stocks of listed companies and other mainstream investments — could destabilise financial markets and be used to mount stealth takeover bids for a range of strategic assets.

A report this morning will say that Western economies are on a collision course with the sovereign funds. "There is a serious likelihood of Western governments and sovereign wealth funds clashing over what they can buy and where," Gerard Lyons, the chief economist of Standard Chartered and the author of the report, said.

"We are likely to see Western governments seeking to protect national champions and strategic sectors, as is their right."

The rapid growth and broadening activity of the sovereign funds follow the long-term surge in crude oil prices and the amassing of huge foreign exchange reserves by Asian economies that manipulate their own currencies. One main proposal from Washington will be that the funds declare what proportion of their investments is held overseas.

The sovereign funds that have raised the most concern include those run by Singapore, Russia, the United Arab Emirates and, most recently, the $200 billion behemoth launched by China last month. Merrill Lynch analysts predict that capital managed by sovereign funds could hit nearly $8 trillion by 2011 and many believe that the funds soon will exceed the entire hedge fund industry in market influence.

The US position on sovereign funds was clarified over the summer in a largely unnoticed speech by Clay Lowery, the Under-Secretary for International Affairs at the US Treasury. Identifying a potential "impact on financial market stability", he said that because so little was known about the funds' investment policies, minor comments or rumours could spark volatility. "It is hard to dismiss entirely the possibility of unseen, imprudent risk management with broader consequences," he said in June.

Cabinet Office insiders in Japan told *The Times* that Tokyo had held informal discussions with Washington over the growing market influence of the sovereign funds and that it doubtless would back the US proposal. One source said: "The shared concern by Japan and the US is that the funds do not behave according to traditional market logic, and that is why we need greater transparency." A source close to the Bank of Japan said that Japan was "institutionally terrified" that its high-tech industrial base would become the target of emerging-economy governments via the funds.

The French Government has highlighted the rising influence of the sovereign funds and is understood to be producing a report on how to deal with the political threat posed by them to the country's "industrial jewels".

National interests

Recent big deals by sovereign funds

June 2007: Singapore fund buys property group that owns Merrill Lynch Financial Centre in London for $960 million

July: Singapore fund buys 50 per cent of WestQuay shopping centre in Southampton for $600 million

July: Singapore's Temasek fund invests $2 billion in Barclays, with prospect of $3 billion more

September: Dubai and Qatar buy almost 50 per cent of London Stock Exchange between them

October: Delta Two fund run by Qatar close to buying J Sainsbury