

**EXPORT GUARANTEES ADVISORY COUNCIL
MINUTES OF MEETING HELD ON 17 FEBRUARY 2013**

Present: Mr Andrew Wiseman (Chair)
Ms Gillian Arthur
Ms Alexandra Elson
Mr John Newgas
Ms Anna Soulsby

Apologies: Mr Alastair Clark
Mr Chris Fitzpatrick
Mr Neil Holt

In attendance: Mr David Godfrey
Mr Steve Dodgson
Dr Helen Meekings
Mr Max Griffin (Items 1-7)
Mr David Craig (Item 7)

Secretary: Mr Laurence Lily

1 APOLOGIES FOR ABSENCE

1.1 Apologies were received from Mr Clark, Mr Fitzpatrick and Mr Holt.

2 MINUTES OF 9 DECEMBER 2013 MEETING AND MATTERS ARISING

2.1 The draft minutes were approved with minor amendments and would be published on the UKEF website.

3 CHIEF EXECUTIVE'S UPDATE

Business

3.1 Mr Godfrey told the Council that that by the end of the financial year (March 2014), it was expected that around £3 billion of business would have been

supported. He reported there had been a significant increase in support for civil i.e. non-aerospace/defence, business. Mr Godfrey remarked that this had had a consequential increase in the number of cases where environmental, social and human rights (ESHR) due diligence had been carried out, as required by UKEF's adherence to the OECD Common Approaches on Environmental and Social Due Diligence.

- 3.2 Mr Godfrey told the Council that UKEF had launched a direct marketing campaign to raise awareness of its products and services which was being targeted to small and medium sized companies. The companies had been identified as those being most likely to benefit from UKEF support. He also commented that work was continuing to engender greater alignment with UKTI's marketing and communications and that UKEF had appointed an interim Marketing Director to support this and develop UKEF's marketing and communications capability and capacity. Mr Godfrey added that UKEF was in the process of increasing from 12 to 24 the number of Export Finance Advisers it employed and located across the UK.
- 3.3 Mr Godfrey told the Council that UKEF was still awaiting an opinion from the EU Commission that the proposed Export Refinancing Facility would not involve the provision of State aid. Mr Godfrey reported that an independent review of the Direct Lending Scheme, which had been launched as a pilot, was expected to be carried out in March.
- 3.4 Mr Godfrey briefed the Council on work being carried out to develop a new three-year Business Plan to run from 1 April 2014. Once approved by Ministers and published, the intention would be for UKEF to communicate to interested parties its ambitions to improve its products and services and increase the amount of exports supported, taking account of the Government's trade and investment strategy which seeks to increase the number of companies engaged in exporting and the total value of exports.
- 3.5 The Council asked if professional services companies involved in overseas contracts showed interest in UKEF's products and services. Mr Dodgson said

that UKEF did support such companies, for example, those providing engineering and design services. However, while the UK had a number of world class professional services companies, for example, architects, they did not routinely seek UKEF support. UKEF had links with the various trade bodies, including British Expertise, to promote its products and services but many companies either self-insured or obtained support from the private market.

- 3.6 The Chairman asked about the SFO investigation into Rolls-Royce. Mr Godfrey told the Council that UKEF had no more information about the SFO's inquiries than that which had been publicly reported but was monitoring developments. He said UKEF would continue to operate anti-bribery due diligence on any applications it received from Rolls-Royce in line with UKEF's obligations under the OECD Council Recommendation on Bribery And Officially Supported Export Credits. The Council asked to be kept informed of any developments UKEF become aware of.

Action: Secretary

- 3.7 The Council noted that the US government had announced its intention to end public financing of new coal-fired power stations overseas. The Council asked whether this included US Ex-Im Bank limiting its support for dirty fossil fuel projects with high greenhouse gas emissions. Mr Dodgson said that the US had ECAs in mind when it published its initiative and Ex-Im Bank was expected to put proposals to the OECD to seek the agreement of member ECAs to put in place emission thresholds within the OECD Common Approaches that would have the effect of limiting support for such projects. Mr Dodgson reminded the Council that the Government had made a statement in 2012 concerning its policy of supporting dirty fossil fuel projects which was that unless such a project met the standards required by the OECD Common Approaches, normally the IFC performance standards, UKEF support would not be forthcoming. At the same time, the Government also gave a commitment to seek to strengthen the international standards, including limiting emissions of greenhouse gases, for such projects on a

multilateral basis so that if US Ex-Im Bank did put proposals to the OECD these should align with the Government's objectives. Dr Meekings reported that the US guidelines permitted for flexibility to support "best available technology" and to off-set emissions from any coal-fired projects supported.

4 OECD PRACTITIONERS MEETING

- 4.1 Dr Meekings reported on the topics discussed at a recent meeting of the OECD ECA Environmental Practitioners Group (EPG). This included responses by civil society organisations to a survey on environmental and social issues in relation to the provision of official export credits. This had revealed a number of misconceptions about the approach taken by the OECD ECAs with regard to ESHR due diligence.
- 4.2 Dr Meekings reported that the EPG discussed a possible response to the OECD Export Credit Working Group on greenhouse gas emissions and human rights standards to fulfil a mandate that had been established when the 2012 OECD Common Approaches were promulgated.
- 4.3 With regard to greenhouse gas emissions, Dr Meekings said the practitioners had discussed the potential development of guidance but further work still needed to be done to establish common ground. In terms of human rights, Dr Meekings reported that discussions had centred around the applicability of the UN Guiding Principles on Business and Human Rights and how to draw on the best practices employed by ECAs to address human rights issues connected with projects they are asked to support.
- 4.4 Dr Meekings said that the ECAs considered a number of case studies to share experience including projects rejected by ECAs on environmental, social and human rights grounds. Dr Meekings reported that one ECA had recently refused support for the export of surveillance technology because of concerns related to human rights in the importing country. This particular case had also shown the IFC Performance Standards did not cover protection of personal privacy. The Council asked if there were other gaps in the

Performance Standards and how UKEF would address these. Dr Meekings said that the IFC Performance Standards were comprehensive but UKEF had not come across a situation where a gap had been exposed although if UKEF was approached to support an export contract that raised human rights issues which did not appear to be fully covered by the Performance Standards it had the necessary knowledge and experience to identify and address them as appropriate.

- 4.5 The Council asked how UKEF compared to other ECAs in rejecting support for projects where ESHR standards could not be achieved. Dr Meekings said that nearly all ECAs including UKEF sought to engage with project sponsors until such time as the project met the required standards. The Council noted that while it considered that constructive engagement was a practical approach, it could lead to contrasting perceptions of UKEF: on the one hand, that UKEF never rejected applications on ESHR grounds and by implication was not strict in its application of standards while, on the other hand, that UKEF was difficult to do business with as it was uncompromising in its application of ESHR standards which led project sponsors to withdraw applications. Dr Meekings commented that UKEF had to be satisfied projects would achieve international standards in line with the OECD Common Approaches and not be swayed by external perceptions of its due diligence one way or another.

5 TRANSPARENCY INTERNATIONAL

- 5.1 The Council reported its discussion with Transparency International (TI) on 9 December 2013. The Council considered that TI was a useful source of advice and advocacy on anti-bribery and corruption matters. It recommended UKEF should engage with TI, as and when appropriate. Mr Dodgson commented that later in 2014 UKEF would be carrying out refresher anti-bribery training and would consider asking TI to participate so that staff could gain an outside perspective. The Council noted this would help raise awareness both of UKEFs policy on anti-bribery and corruption, but also the constraints to its ability to undertake extensive due diligence taking account of

its lack of investigative powers. The Council said that TI had not recently reviewed the practices of ECAs since it published a report in 2010 and had suggested that this might be revisited as it would provide an external benchmark of ECA practices.

- 5.2 The Council discussed the importance of UKEF continuing to engage with civil society organisations that took a constructive and informed approach to the issues confronting UKEF.

6 ENVIRONMENTAL ADVISORY UNIT ANNUAL REVIEW

- 6.1 Dr Meekings gave a presentation on the work of the Environmental Advisory Unit (EAU) during 2013. She summarised the work undertaken to conduct ESHR assessments in respect of new applications for support and to monitor compliance on projects where support had already been provided. Dr Meekings also briefed the Council on policy work carried out by the EAU during the year.
- 6.2 The Council asked about post-issue monitoring of cases. Dr Meekings said UKEF received the necessary information on timely basis for the majority of projects being monitored in the construction and operational phases. However, information had been lacking on a small number of cases. The Council noted that while none of these cases had been categorised 'A' i.e. high potential impacts, it encouraged the EAU to proactively pursue the project sponsors to provide appropriate monitoring reports in order to be satisfied the projects were on track in meeting the applicable standards.
- 6.3 The Council asked about UKEF's experience of working bilaterally with other ECAs when supporting a project. Dr Meekings said the experience had been mixed but it had been generally easier to co-operate with ECAs that applied the IFC Performance Standards rather than the World Bank Safeguard policies which were not as comprehensive.

6.4 The Council discussed how UKEF could better communicate to exporters and project sponsors its approach to addressing environmental, social and human rights standards, and how they could be persuaded to view it as an important part of risk management. Mr Godfrey remarked that developing countries were increasingly recognising that if they wanted to attract world class companies, it would be necessary to submit to international standards and therefore the need for comprehensive due diligence to be carried out.

7 CATEGORY A PROJECT: SADARA

7.1 The Council requested a presentation of UKEF's support for the Sadara project which involved the construction of a large integrated chemicals complex in Jubail Industrial City II, in Saudi Arabia. The Council said it was particularly interested to understand how UKEF had addressed social issues. The Council noted the project was being supported by six other ECAs.

7.2 Mr Craig said that the project was the world's largest petrochemical plant being built in one phase, costing US\$21bn, and being developed by Saudi Aramco and the Dow Chemical company in a joint-venture known as the Sadara project company. Mr Craig explained UKEF's underwriting approach and the due diligence undertaken to address business, credit risk, ESHR and legal aspects of the project. He said UKEF had taken the lead amongst the ECAs in addressing the ESHR impacts working alongside the Lender's independent environmental consultant (IEC).

7.3 Mr Griffin said the project was situated in a specially constructed industrial city which almost exclusively housed residents connected to the industrial plants operating there. He commented that at its peak 55,000 construction workers would be employed on the project. Mr Griffin outlined the applicable IFC Performance Standards. He described the extensive due diligence UKEF and the ECAs had conducted including labour and working conditions at the site, and explained the process by which they had been addressed taking into account the decision of the Sadara project company to construct and operate the project in line with the ethical policies of the Dow Chemical Company

which it had committed to apply. In addition the potentially significant issue of worker accommodation for the migrant labour force had been agreed to be constructed and operated to dedicated IFC & EBRD worker accommodation standards which supplemented the IFC performance Standards.

- 7.4 The Council discussed the approach required when applying the IFC Performance Standards, noting the need to take account of local law, custom and cultural norms as part of this process. Mr Griffin commented that special attention had been paid to construction labour, working conditions and welfare and the Labour Grievance Mechanism which had been developed specifically for the project to help bring the project into alignment with international standards.
- 7.5 The Council noted that an IEC had been appointed by the Project company to monitor on-going compliance with international standards. Mr Griffin said that a number of ECAs, including UKEF, would be accompanying the IEC on their second site visit scheduled for April 2014. The Council asked to receive an update on the monitoring work undertaken on the project, including on the work of the Independent Environmental Consultant, in approximately 18 months.
- 7.6 The Council observed that UKEF's involvement and support for the project had resulted in a significant amount of supply of goods and services from the UK.

Action: Secretary to arrange

8 UKEF SUPPORT FOR MABEY GROUP

- 8.1 The Council noted that UKEF had recently supported an export contract involving Mabey Bridge. The Council recalled that Mabey & Johnson, part of the Mabey group of companies to which Mabey Bridge belonged, had been convicted of bribery and corruption offences in 2008 and asked about the anti-bribery due diligence that had been undertaken.

- 8.2 Mr Dodgson explained that in accordance with UKEF's policies and its obligations under the OECD Recommendation on Bribery and Officially Supported Export Credits, UKEF had carried out anti-bribery due diligence. Mr Dodgson reminded the Council that UKEF's role in playing its part to deter bribery was to make reasonable inquiries and take reasonable precautions to avoid financial loss by becoming involved in a transaction that could have been tainted by bribery or corruption.
- 8.3 Mr Dodgson said that the OECD Bribery Recommendation specifically addressed situations where ECAs were asked to support applications involving companies that had been convicted of bribery. This required ECAs to verify whether appropriate internal corrective and preventative measures had been taken, maintained and documented. Mr Dodgson said that the conviction and imprisonment of personnel at Mabey and Johnson had resulted in a radical change of approach and culture. This had been demonstrated by a change of senior personnel, the adoption of new, strengthened, anti-bribery policies which met the new British Standard (BS10500) on Anti-Bribery Management Systems, and implementation of robust compliance mechanisms.
- 8.4 Mr Dodgson said that Mabey's had been the subject of independent monitoring (Neil Stansbury, appointed by the SFO) and his reports which had been made available to UKEF demonstrated the turnaround. Clear evidence had been presented to UKEF that Mabey's was putting into practice its anti-bribery systems which were taken seriously throughout the organisation and been subject to independent audit.
- 8.5 Mr Dodgson said that in reaching its decision to provide support to Mabey Bridge UKEF had taken into account that Mabey's had self-reported the existence of improper payments to the Serious Fraud office and then immediately informed UKEF; had refrained from seeking UKEF support for new export contracts until it had turned itself around; had been open and co-operative with UKEF throughout the period of prosecution and external monitoring; and had co-operated fully with the External Monitor. UKEF had

been satisfied that Mabey's had reformed itself and therefore could benefit from UKEF support for an export transaction in Sri Lanka. Mr Dodgson said UKEF had also closely scrutinised the particular contract Mabey Bridge had asked it to support, including the role of the agent.

- 8.6 The Council noted the enhanced due diligence which had been undertaken. It observed that the significant fines paid by the company and the imprisonment of personnel would of itself act as a significant deterrent in repeating past behaviour. The Council noted that UKEF had undertaken a recent site visit to examine compliance with ESHR standards during the construction of the bridges. The Council requested a report at its next meeting.

Action: Secretary to arrange

- 8.7 Mr Godfrey told the Council that he had met the Chairman and Managing Director of Mabey Holdings. They confirmed that Neill Stansbury, of the Global Infrastructure Anti-Corruption Centre, was continuing his work with Mabey's on an advisory basis.

9 REQUESTS FOR INFORMATION

- 9.1 The Council noted the update on information released by UKEF under the Freedom of Information Act 2000 and the Environmental Information Regulations since its last meeting.

10 EGAC SCORECARD

- 10.1 The Council reviewed the advice it had provided and decisions it had taken, and noted that all actions arising from these were either complete or in hand.

11 BUSINESS SUPPORTED

- 11.1 The Council noted the business supported since its last meeting. The Council noted that UKEF had supported two cases involving exports to Ghana and

requested a review of how UKEF had applied its sustainable lending policy on these cases.

Action: Secretary to arrange

12 ANY OTHER BUSINESS

12.1 There was none.

Larry Lily

Secretary