

EXPORT GUARANTEES ADVISORY COUNCIL

MINUTES OF MEETING HELD ON 12 MAY 2014

Present: Mr Andrew Wiseman (Chair)
Ms Alexandra Elson
Mr Chris Fitzpatrick
Mr John Newgas
Ms Anna Soulsby

Apologies: Ms Gillian Arthur
Mr Alastair Clark
Mr Neil Holt

In attendance: Mr David Godfrey
Mr Steve Dodgson
Dr Helen Meekings
Mr Pat Cauthery (Item 5)
Mr Tahir Ahmed (Item 6)
Mr Max Griffin (Item 7)

Secretary: Mr Laurence Lily

1 APOLOGIES FOR ABSENCE

1.1 Apologies were received from Ms Arthur, Mr Clark, and Mr Holt.

2 MINUTES OF 17 FEBRUARY 2014 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 UKEF had issued £2.8 billion of support for exports in the year ending 31 March 2014. He commented that there had

been a significant increase in support for civil i.e. non-aerospace/defence, business. He explained there had been a reduction in demand for support for Airbus aircraft, as private sector capacity had recovered. He said support for exports sold on short repayment periods had remained stable in terms of the value supported, although the number of individual exporters supported had increased. Mr Godfrey reported that UKEF was continuing efforts to make it easier for smaller exporters to access support, including by increasing the number of Export Finance Advisers located around the country and streamlining product application processes.

- 3.2 The Council observed that the increase in transactions supported under the Short-Term Products meant that a higher proportion of applications were not reviewed for their environmental, social and human rights impacts, in line with the OECD Common Approaches. Mr Dodgson commented that a number of civil projects had been screened for the ESHR impacts and support had been provided for one project categorised as 'A' as defined by the OECD Common Approaches.

Rolls-Royce

- 3.3 Mr Godfrey told the Council that UKEF had not been made aware of any material developments in relation to the SFO investigation into Rolls-Royce since the Council's last meeting. He said that UKEF continued to consider applications in line with obligations under the *OECD Council Recommendation on Bribery and Officially Supported Export Credits*.

OECD

- 3.4 Mr Godfrey told the Council that UKEF was supporting a US initiative within the OECD Export Credit Group to restrict official ECA support for power generation projects that generated high levels of greenhouse gas emissions. Mr Godfrey said that it may not be easy to reach a consensus, but considered that pursuing multilateral action within the OECD was important to obtain the widest possible support for change and thereby maximise the effectiveness of

any prohibition. The Council asked about UKEF's position regarding support for carbon capture and storage (CCS) technology. Mr Dodgson said that slow progress on the development of CCS technology had meant initiatives had so far not been forthcoming.

Russia and Ukraine

- 3.5 Mr Godfrey told the Council that UKEF remained on cover to support exports to Russia and Ukraine, although the imposition of economic and financial sanctions meant that business with some entities and areas e.g. Crimea, had been banned. He said UKEF was monitoring the potential for any ratcheting-up of sanctions.

4 BUSINESS PLAN

- 4.1 Mr Godfrey introduced UKEF's Business Plan for 2014 to 2017. He told the Council it was predicated on the need for the UK to have an export credit agency that could respond rapidly to changes in risk conditions throughout the economic cycle. He remarked that other export credit agencies had been able to adjust more easily to the economic downturn beginning in 2007, e.g. by switching private-sector credit insurance cover to a State account. In contrast, UKEF had to develop capability from scratch, including new products, to support exports sold on short terms of credit and provide products to help secure medium/long term financing. He said the Business Plan sought to make UKEF more responsive to the needs of UK exporters and be proactive in maintaining a range of support which would enable UK exporters to compete on an equal footing when compared to support provided by other export credit agencies. He said the Business Plan would be launched following completion of consultation with Ministers and other Departments, alongside a six-page publicity brochure.
- 4.2 Mr Godfrey told the Council that UKEF faced a challenge to recruit the necessary expertise that would be required to carry out the Business Plan,

especially when seeking to compete for people with skills and experience of a kind also sought after in the financial services sector at higher rates of remuneration.

- 4.3 The Council noted that through the interventions of Export Finance Advisers UKEF helped to nurture private sector support for exporters. The Council considered that it was important this activity was acknowledged, as it would not be reflected in headline figures of exports supported. Mr Godfrey told the Council that UKEF was developing a customer relationship management database that would enable the systematic capture of customer interventions. Mr Godfrey said this would form part of a range of improvements to the way UKEF maintains its understanding of its customers' needs.

5 CHANGES TO EXPORT AND INVESTMENT GUARANTEES ACT

- 5.1 Mr Cauthery briefed the Council on proposed changes to the Export and Investment Guarantees Act (EIGA) that were intended to maximise UK Export Finance support for exports and exporters. Mr Cauthery explained that the changes would provide UKEF with:

- (i) a more general ability to assist and support businesses in the UK that are, or wish to become, involved in exporting or exporting supply chains, for example, by providing guarantees of general working capital facilities or by providing information or advice;
- (ii) the ability to support exports of intellectual property rights and other intangibles;
- (iii) more flexibility when supporting UK exports, in particular where there are complex contracting chains and financing arrangements or where exports are made via overseas subsidiaries or joint venture companies; and

- (iv) more scope to support projects and business ventures overseas to which goods or services sourced from UK exporters are directly or indirectly supplied.
- 5.2 Mr Cauthery explained that UKEF had invited comments on the changes from interested parties through a public consultation. He said that among the 43 responses received there was a high degree of support for the proposals. Mr Cauthery said the responses included a number of recommendations from NGOs, including that the government should be empowered to ban support for certain classes and types of exports i.e. be able to establish a “prohibition list”, and operate a requirement for all applications for support to be assessed for their environmental, social and human rights impacts.
- 5.3 Mr Cauthery said one consultee had proposed that the statutory duty for the Secretary of State to consult the Council in matters of reinsurance should be removed, taking account of the outcome of the recent Triennial Review of the Council. The Council commented that it had no particular views on this statutory duty, which was a legacy of the part-privatisation of ECGD in 1991, although it no longer had a member with reinsurance expertise.
- 5.4 Mr Cauthery said that UKEF was analysing the responses and the Government was expected to publish a response to the Consultation by the time of the Queen’s Speech in June. Mr Cauthery said that should the Government decide to go ahead with the proposals, the Bill was likely to face a challenging timetable in order to be completed before the end of the Parliament, taking into account that it would be part of a Bill that would include a wide range and large number of measures to support businesses.
- 5.5 The Council asked to be kept updated of progress.

Action: Secretary to arrange updates as required

6 SUSTAINABLE LENDING

- 6.1 At the request of the Council Mr Ahmed provided a case study of how UKEF applied the OECD Sustainable Lending Principles. He explained that the Principles applied to applications for credit guarantees on public or publically guaranteed buyers of UK exports where the buyer was in a low-income country as defined by the OECD. He told the Council that UKEF had no standing authority to underwrite this business, but required case-by-case approval from HM Treasury (HMT). He explained that HMT took advice from DfID in reaching its decisions on these cases.
- 6.2 Mr Ahmed explained the process which had been followed in respect of a hospital project in Ghana, which UKEF had supported in 2013-14. This had involved the presentation of evidence that the project had been approved centrally within the Ghanaian government for budgetary purposes, that the hospital sites had been properly selected e.g. located in areas of greatest need, that the project met the conditions of Ghana's public borrowing guidelines, that the project represented value for money, and that the financing for the project could be met within Ghana's annual non-concessional borrowing limit.
- 6.3 The Council noted that evidence had been obtained from Crown Agents, who had been appointed to undertake a value-for-money analysis. The Council also noted that the process was conducted in parallel with the normal environmental, social and human rights due diligence as required by the OECD Common Approaches. The Council asked whether DFID routinely engaged its staff based in the country in question on such cases. Mr Ahmed confirmed they did so. The Council discussed the wider challenge to debt sustainability frameworks posed by the lending of non-OECD governments, noting that countries outside the OECD framework were not committed to observing the checks and balances in place under the OECD Sustainable Lending Principles.

7 SRI LANKA BRIDGES PROJECT - CATEGORY B

- 7.1 At the request of the Council Mr Griffin presented a review of the environmental, social and human rights due diligence process undertaken on two bridge building projects in Sri Lanka, which had both been classified as 'Category B' as defined in the OECD Common Approaches. Mr Griffin provided background on the projects and explained that the construction of bridges were part of a programme being carried out by the government of Sri Lanka to improve transportation links throughout the country. He added that UKEF had recently conducted a first post-issue monitoring site visit.
- 7.2 Mr Griffin outlined the approach taken, including some of the challenges of undertaking ESHR assessments across multiple and geographically diverse locations. He explained that because the construction sites of all the bridges was not known at the outset of the project, a system had been agreed whereby UKEF would approve each site prior to the commencement of work in line with a template ESHR approach which had been developed for this purpose. He added that UKEF had been active in supporting the creation of new environmental and social management systems and had reviewed their implementation by local construction teams.
- 7.3 Mr Griffin explained how UKEF had satisfied itself the IFC Performance Standards would be met. He confirmed that UKEF received project reports from an independent environmental contractor, who is a specialist ecologist responsible for examining sites deemed to be in a sensitive ecological area.
- 7.4 The Council noted that UKEF had undertaken and approved ESHR assessments for approximately ten percent of the total number of construction sites (from a selection of known site locations) prior to providing approval. The Council asked how judgements had been made on what constituted an ecologically sensitive area. Mr Griffin said that none of the sites had been in national parks, so use of biodiversity maps generated by the Sri Lankan government were employed to assess the local ecology and level of existing local infrastructure.

8 EGAC ANNUAL REPORT

8.1 The Council considered the draft annual report of the Council's business for the year ending 31 March 2014. The Chairman asked Council members to provide final comments on the draft report to the Secretary by the end of the week. He told the Council that the report would be published in June alongside the UKEF Annual Report and Accounts.

9 FOI ANNUAL REVIEW

9.1 The Council noted UKEF's performance in responding to requests for information in the year ending 31 March 2014, and welcomed the improvement in the proportion of requests answered within statutory deadlines.

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.

12 ANY OTHER BUSINESS

12.1 There was none.

Larry Lily

Secretary