

**EXPORT GUARANTEES ADVISORY COUNCIL
MINUTES OF MEETING HELD ON 28 SEPTEMBER 2015**

Present: Mr Andrew Wiseman (Chair)
Ms Gillian Arthur
Ms Alexandra Elson
Mr Neil Holt
Mr John Newgas

Apologies: Mr Alastair Clark Ms
Anna Soulsby

In attendance: Mr Pat Cauthery
Mr David Craig
Mr Steve Dodgson
Mr Max Griffin
Dr Helen Meekings
Mr Paul Radford

Secretary: Mr David Underwood

1 APOLOGIES FOR ABSENCE

1.1 Apologies were received from Mr Alastair Clark and Ms Anna Soulsby.

2 MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING

2.1 The draft minutes of the May and June meetings were approved and would be published on the UKEF website.

3 CHIEF EXECUTIVE'S UPDATE

3.1 Mr Dodgson provided an update on business supported. He commented that business levels for the first quarter of 2015/16 were below forecast, but the pipeline of business remained strong, particularly demand for support through the Direct Lending Facility.

3.2 Mr Dodgson informed the Council that a recent study had examined issues facing SMEs in regard to accessing trade finance services. It sought to identify whether there was a market gap that UKEF might be able to fill. The study considered that the government should review its support for exports and launch focused initiatives in order to help meet its ambition to increase the number of exporters and amount of exports. The study found that UKEF should look to adapt its delivery model to make it easier for SMEs to access its products and speed-up response times and that UKEF should enhance its outreach to SMEs, including through digital channels. Mr Dodgson informed the Council that a number of options were being considered to digitise the customer application process and discussions with the British Bankers Association were taking place to examine the potential to improve ways of delivering products where UKEF risk-shared with the banks. Mr Dodgson commented that UKEF would be working with UKTI who would lead an initiative to develop a whole of government approach whereby SMEs could view and access government services through a single shop window. The Council asked to be kept informed of developments.

3.3 The Council asked about the status of US Eximbank, the American Export Credit Agency. Mr Dodgson said that the US Congress remained divided about renewing Eximbank's mandate that had expired which, in consequence, meant it had effectively closed down for new business. He said there was a possibility that reauthorisation could be attached to 'Must Pass' legislation later in the Autumn but this was not certain. The Council asked how US exporters were reacting. Mr Dodgson said that some companies, particularly multinationals with supply chains in other countries, were looking to source from other countries and access local ECA support. He commented that UKEF had recently signed an MOU with GE who had been impacted by the Eximbank shutdown and were relocating some of their businesses to other countries including the UK.

3.4 Mr Dodgson informed the Council of the outcome of the OECD Environmental Practitioners meeting hosted by UKEF in June. He said the meeting had been very well attended and included participants from some non-OECD countries.

The agenda had covered a number of areas and UKEF had particularly taken the opportunity to promote the need for ECAs to undertake post-issue monitoring to ensure projects they supported remained in alignment with relevant standards. There had also been an opportunity to discuss how ECAs should document ESHR conditions in loan agreements to help enforce project execution with standards. The OECD secretariat had complimented UKEF for driving the agenda which would mean the Practitioners had a programme of work going forward.

3.5 The Council noted that David Godfrey would be retiring as CEO in October and thanked him for his support of, and input to, the work of the Council. Mr Dodgson said Louis Taylor, the new CEO, would start on 19 October and was expected to attend the EGAC meeting in December.

4 BRIBERY AND CORRUPTION CONSULTATION UPDATE

4.1 Mr Cauthery reported that the government was considering its response to the Public Consultation on simplifying the anti-bribery and corruption declarations and undertakings provided by applicants when seeking UKEF support, and UKEF's future approach to holding public consultations with interested parties. Mr Cauthery said that it was expected the response would be published some time later in the Autumn.

4.2 The Council noted the proposals for the response. The Council noted the advice it had provided at its special meeting on 12 June which had taken into account submissions from industry and NGOs, had been put to Ministers. The Council commented that the Response should be clear the changes being made did not represent a dilution of the requirements but, rather, would make them clearer and more comprehensible so that applicants understood what was being asked of them.

4.3 The Council asked to be informed when the Government's response is published.

Action: Secretary to make Government Response available to the Council when published.

5 UKEF SUPPORT FOR SBM/PETROBRAS

5.1 The Council requested a briefing regarding UKEF support for the supply of a Floating Production Storage and Offloading (FPSO) unit to be leased to Petrobras by SBM. In particular, the Council asked about the anti-bribery due diligence carried out on SBM which had been convicted and fined for bribery offences.

5.2 Mr Craig explained that UKEF has been asked to provide reinsurance to Atradius, the Dutch Export Credit Agency, in respect of UK supplies for the construction of the FPSO which involved forty UK based exporters. He said that in line with UKEF policy, Atradius, as the lead ECA, was responsible for carrying out anti-bribery due diligence on SBM.

5.3 Mr Craig said that Atradius undertook anti-bribery due diligence in line with the *OECD Bribery Recommendation on Bribery and Officially Supported Export Credits*. He said the OECD Bribery Recommendation particularly addressed situations where an applicant had been convicted of bribery offences. It required ECAs to undertake 'enhanced due diligence' which although not defined was taken to mean more should be carried out than would otherwise be the case. In this regard, the Recommendation signposted issues that should be taken into account including whether there had been a change of senior management and personnel, new strengthened anti-bribery policies and practices introduced, audit reviews undertaken.

5.4 The Council asked how Atradius had conducted its due diligence. Mr Craig said it had met with senior management of SBM to understand what had happened and what the company had done to reform itself following its discovery, confession and subsequent conviction of bribery offences. He said that Atradius had also commissioned an independent audit in order to verify the changes the company had made. UKEF had been given access to the report

and discussed its findings with the authors. UKEF had also separately met with SBM. UKEF had also discussed the outcome of the due diligence with Atradius, and SACE and Nexi, the Italian and Japanese ECAs respectively.

5.5 The Council asked about the measures taken by SBM to reform the company to avoid a repeat of past behaviour. The Council noted the organisational changes that had been implemented, the clear-out of personnel associated with the past, the reduction in the use of agents, the adoption of new antibribery policies and the training of staff throughout the company. The Council commented that the changes could be viewed as a text book example of reforms that should be made in such situations but their robustness would be tested over time. The Council considered that the \$240m fine imposed by the Dutch authorities would in itself have a deterrent effect on future behaviour. The Council advised UKEF to continue to monitor the work being undertaken by SBM to fully embed the reforms in the company.

5.6 The Council asked what inquiries had been made about Petrobras in the light of the corruption scandal in Brazil. Mr Craig said that UKEF had met with Petrobras to understand what had happened. He commented that the scandal had exposed a failure of internal control in Petrobras albeit that it had been a victim, rather than a perpetrator, of corrupt activity by its suppliers. In this regard, its suppliers had inflated their contract prices and then paid the excess amounts to politicians and political parties and a number of senior Petrobras officials who awarded the contracts had received bribes.

5.7 Mr Craig said that the Brazilian authorities were not investigating Petrobras for corruption offences. He said that in the light of events, a number of major changes had been made including the removal of political appointees from the Board, the establishment of a special committee, chaired by a former Supreme Court Judge, to oversee reforms, the appointment of a new Compliance Director at Board level, changes to procurement arrangements and the introduction of new ethical policies. Mr Craig said that Petrobras had disclosed the events, their impact and the reforms being undertaken in its most recent Accounts.

5.8 The Council recalled that Rolls-Royce had been named as being involved in the scandal. Mr Dodgson said that no further information had come to light about this.

5.9 The Council thanked Mr Craig for his presentation and asked to be kept informed of developments.

Action: Secretary to arrange for the Council to be kept informed of developments with SBM/Petrobras.

6 CONCESSIONAL EXPORT CREDIT FACILITY PUBLIC CONSULTATION

6.1 Mr Radford briefed the Council on the Government's Public Consultation in respect of a proposal to launch a Concessional Export Credit Facility (CEFC). The Consultation invited interested parties to submit comments on the merits of introducing such facility. 6.2 Mr Radford explained that the *OECD Principles and Guidelines to Promote Sustainable Lending and the Provision of Official Credits to Low Income Countries* (OECD Lending Principles) set out the basis upon which export credit loans could be made to poorer, highly indebted, countries which required a concessional element of at least 35%. Mr Radford said that other countries, but not the UK, provided bilateral aid to projects where the procurement of goods and services were tied to the suppliers from the donor country. It meant that recipient countries did not always have projects of the highest standards.

6.3 Mr Radford explained the developmental benefits, incidental benefits, size and scope of the proposed CECF. He explained that the CECF would be untied taking account of the UK's International Development Act and its objective to ensure low income countries had access to the best products and international expertise at reasonable cost to ensure sustainable growth.

6.4 The Council discussed the proposed CECF. The Council agreed that it could help achieve a level playing field for UK exporters who were currently unable to win contracts where these were tied to aid being provided by other

governments and ECAs. The Council asked to be updated on the outcome of the Consultation.

Action: Secretary to arrange for the Council to be briefed on the outcome of the Consultation.

7 UKEF ENVIRONMENTAL POLICY STATEMENT

7.1 Mr Griffin sought the Council's views on a draft statement which set out UKEF's approach on environmental, social and human rights (ESHR). He explained that the OECD Common Approaches required ECAs to publish such a statement which, when approved, would be posted on the UKEF website. Mr Griffin said that while the UK explained its ESHR approach in its guidance of processes and factors taken into account in considering applications, this did not fully meet the requirements of the OECD Common Approaches.

7.2 The Council noted that UKEF's ESHR policies and processes were not being changed and considered that the publication of a policy statement would be a helpful for interested parties. The Council examined examples of other statements published by other ECAs. It advised that UKEF should consider making the text and style more accessible, which should positively promote the UKEF's work to scrutinise ESHR impacts before giving support and the monitoring carried out after support is provided.

7.3 The Council asked to see a copy of the Statement when it was published.

Action: Secretary to make Statement available to the Council.

8 CATEGORY A PROJECTS: YANSAB AND SADARA

8.1 At the Council's request, Mr Griffin gave a presentation on recent post-issue monitoring site visits to the Sadara and Yansab Petrochemical projects in Saudi Arabia supported in 2013 and 2006 respectively.

8.2 Mr Griffin said that the Sadara project was still in the construction phase. He said that a recent site visit had paid special attention to labour issues as nearly 40,000 workers, mainly from the Indian sub-continent, had been employed and were based in 44 labour camps on the site. The visit had found that a couple of the camps were sub-standard and the ECAs had required them to be upgraded. The Council noted that the ECAs had successfully obtained improvements with the project sponsor. The Council considered this demonstrated the need for robust post-issue monitoring to help ensure projects actually met international ESHR standards in construction (and operations) and showed the positive impact ECAs could have when performance went adrift of the Standards.

8.3 Mr Griffin said that the Yansab project had been constructed some time ago and was operating. However, a number of problems had arisen with substandard pipe work which had led to environmental damage on the ground. The ECAs had required remedial action to be taken by the project sponsor who was seeking to address the problems. Mr Griffin commented that the regulator was aware of the problems and the sponsor was seeking to be responsive to the requirements of the ECAs.

8.4 The Council observed that once loans had been fully drawn and project were in operations mode, the leverage of ECAs reduced which could make it difficult to get sponsors to respond to the need for remedial action to be taken to resolve environmental incidents. The Council noted that the ECAs were working together with the project sponsor and encouraged dialogue to continue. The Council remarked that it was clearly beneficial for ECAs to carry out the post-issue work to exert pressure to implement post pollution remedies.

9 EXPORT CREDIT SUPPORT FOR COAL

9.1 The Council requested an update on discussions at the OECD on ECA support for coal-fired power projects. Mr Cauthery reminded the Council that the UK and US had proposed to restrict ECA support for coal-fired power projects on

a multilateral basis through the OECD. Mr Cauthery said there continued to be resistance to the proposals and the EU (which had competence on OECD Arrangement matters) and OECD Secretariats were considering alternative proposals in order to secure agreement. Mr Cauthery said that the matter was likely to come to a head in the OECD in November ahead of the Climate Change Summit due to take place in Paris thereafter.

10 REQUESTS FOR INFORMATION

10.1 The Council noted UKEF's recent responses to requests for information.

11 EGAC SCORECARD

11.1 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.

12 BUSINESS SUPPORTED

12.1 The Council noted the business supported since its last meeting.

13 ANY OTHER BUSINESS

13.1 None

David Underwood
Secretary