

**EXPORT GUARANTEES ADVISORY COUNCIL
MINUTES OF MEETING HELD ON 22 FEBRUARY 2016**

Present: Mr Andrew Wiseman (Chair)
Ms Gillian Arthur
Mr Alistair Clark
Ms Alexandra Elson
Mr John Newgas

Apologies: Mr Neil Holt
Ms Anna Soulsby

**In
attendance:** Ms Samantha Bramley
Mr Elliot Brookes
Mr Pat Cauthery
Mr Steve Dodgson
Mr Max Griffin
Dr Helen Meekings
Mr Richard Smith Morgan
Mr Louis Taylor

Secretary: Mr David Underwood

1 APOLOGIES FOR ABSENCE

1.1 Apologies were received from Mr Neil Holt and Ms Anna Soulsby.

2 MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING

2.1 The draft minutes of the December meeting were approved for publication on the UKEF website.

3 CHIEF EXECUTIVE'S UPDATE

- 3.1 Mr Taylor provided an update on business supported in the 2015/16 financial year to date. He commented that aggregate business volumes were now on target to meet the forecast for the financial year. He said that the number of exporters supported had increased compared to the previous financial year. Full details would be provided at the Council's meeting in May when the final outturn would be known.

Action: 2015/16 Business Outturn to be presented to the Council at its May meeting.

- 3.2 Mr Taylor informed the Council that UKEF had re-opened cover for exports to Iran. He said that UKEF had made an offer to support export credit financing for up to £50 million for the provision of professional advisory services to the Iranian government by British firms. Mr Taylor commented banks had concerns about doing business with Iran given that US sanctions and regulations were still in place, against a background that some had been prosecuted by the US authorities for dealing with Iran. He said that the Government was engaging with the banks to try to facilitate the transfers of monies across the exchanges so that trade could take place.
- 3.3 Mr Taylor said that the Department for International Development was continuing its consideration of the proposal to establish a Concessional Export Finance Facility. It had received advice from the Crown Agents who had been appointed by DfID to consider submissions by interested parties which would be taken into account by the Government in formulating its position on taking the proposal forward.
- 3.4 Mr Taylor reported that the Minister for Trade and Investment had agreed that UKEF should adopt the Equator Principles. He said that UKEF had started the process to join Equator Principles Financial Institutions to become effective from the beginning of April 2016.

- 3.5 Mr Taylor reported that Lord Maude had announced he would be stepping down as Minister for Trade and Investment in early March. His successor, effective from April 2016, would be Mark Price CVO, currently Managing Director of Waitrose and deputy Chairman of the John Lewis Partnership.
- 3.6 Mr Taylor outlined internal changes in the Business Group that were being implemented. Mr Taylor explained that there would no longer be divisional segmentation between, civil, defence, aerospace and direct lending transactions and a single underwriting team was being created. He commented that there would be more flexible deployment of staff resources in processing and underwriting transactions, especially staff at lower levels so they gained experience of working on a range of transactions including different sectors, products and financing arrangements. Mr Taylor said that the Business Group would in future be responsible for providing support under the EXIP (credit insurance policy) and support provided to exporters through banks for working capital loans and to raise contract bonds would be undertaken by the Credit Risk Group. In regards to the latter, he said that UKEF was exploring with the banks an alternative way of delivering these forms of support (see 5 below). As a consequence, the Trade Finance and Insurance Services team was being disbanded. In addition, responsibility for the Export Finance Advisors, based around the UK, was being joined-up with the overseas business development team in the Business Group so that advisory and promotional capability undertaken domestically and abroad would be under a single management command. The marketing function would also be joined with that team. Mr Taylor commented that the organisational changes would address the development of staff which in turn would assist the talent management and succession planning. They would also allow UKEF to be more responsive to customer needs including becoming involved in potential transactions earlier to help secure export wins for the UK. Mr Taylor said he would be considering changes to other areas of UKEF, involving establishing a middle/back office organisation and appointing a Chief Operating Officer.

- 3.7 Mr Taylor advised that Mr Dodgson would be retiring after more than 40 years in service with UKEF. The Council thanked Mr Dodgson for his input to the work of the Council. Mr Taylor said that the Head of the Business Group post would be filled through an open competition.

4 MEETING WITH THE BRITISH EXPORTER'S ASSOCIATION (BExA)

- 4.1 The Council reported on its meeting with BExA in December. BExA had discussed its annual ECA Benchmarking report which had been published in the autumn. It showed that the range of products and services now being provided by UKEF compared favourably with other leading ECAs. BExA had commented that there were still a few areas where it felt that UKEF could improve its offering: for example, the provision of cover against foreign exchange movements and reintroduction of a fixed rate export finance scheme based on OECD Commercial Interest Reference Rates in respect of export credit loans funded by banks.
- 4.2 The Council commented that BExA had taken a positive view of the improvements UKEF had made since the onset of the financial crisis and the difference being made to help exporters, especially SMEs, who could not obtain support from the private market.
- 4.3 The Council said that BExA had particularly remarked about the creation of the export finance advisory capability across the UK which meant exporters had local access to UKEF personnel and could obtain assistance on the ground to identify finance and risk solutions for their export needs. It had received positive feedback about the work of the Export Finance Advisors. BExA commented on the need for UKEF to strengthen knowledge and awareness of its products in overseas countries, including staff in British Embassies and High Commissions. It considered that the relationship with UKTI to help the UK win high value projects/opportunities was an area where improvement could be made.

- 4.4 The Council said that BExA had raised concerns about staff resourcing and succession planning given the loss of key staff and staff turnover. Mr Taylor said that ensuring UKEF had staff at all levels with the capability and competence to deliver its services was being addressed through the reorganisation described earlier and that an agreement had been reached with the Cabinet Office and HM Treasury to address pay issues, which should assist recruitment and retention.

5 NEW DELIVERY MODEL FOR WORKING CAPITAL/BOND SUPPORT PRODUCTS

- 5.1 Mr Smith-Morgan informed the Council about discussions taking place with the banks on a potential new model to deliver support to exporters in respect of export working capital loans and raising contract bonds where UKEF provided such support through banks. He reminded the Council that UKEF provided support where the banks were unwilling to do so, on a risk-sharing basis.
- 5.2 Mr Smith-Morgan said the new model would entail UKEF moving away from considering export transactions on a case-by-case basis and passing responsibility to the banks who would be given authority to approve transactions within a set of defined financial criteria without reference to UKEF. The new model would, therefore, remove the duplication of due diligence currently being undertaken by both UKEF and the banks. This would speed up decision-taking which was especially important taking account of the shorter commercial deadlines for the class of exports involved, thus improving customer experience. An aim was also to increase accessibility so that more SME exporters could take advantage of the availability of support from UKEF. Mr Smith-Morgan explained that under UKEF's enabling legislation, the Secretary of State was empowered to make arrangements to achieve his statutory function of supporting exports through parties other than UKEF.

- 5.3 The Council asked about anti-bribery due diligence, taking account of UKEF's obligations under the *OECD Recommendation on bribery and Officially Supported Export Credits* and UKEF's anti-bribery policies and practices. Mr Smith-Morgan said that exporters would still be required to make binding anti-bribery declarations and undertakings. Subject to UKEF undertaking further discussions with the banks and obtaining advice, he said the expectation would be that the banks would undertake such due diligence within defined criteria which mirrored UKEF's existing practice, except it had already been decided that any transactions involving the use of agents would have to be referred to UKEF who would carry out anti-bribery due diligence.
- 5.4 The Council advised that the proposed model had merit given the existing arrangements meant UKEF and the banks duplicated due diligence which made them inefficient and time consuming. The Council asked about the resource implications if the new model were to be implemented. Mr Taylor advised that there would be a reduction of underwriting staff, but there would be a need to increase staff to deal with exposure management reporting and monitor bank performance.
- 5.5 The Council noted the proposals on handling anti-bribery due diligence. It agreed that UKEF should continue to carry this out where agents were involved given the risk of bribes being paid through third parties and the need to make judgments about the role of agents, the amounts of commissions paid being commensurate the work they performed, etc. The Council commented that where the banks identified red-flags through their due diligence on cases, these should also be referred to UKEF.
- 5.6 The Council asked about consultation. Mr Cauthery said that the Government had set out in a recent response to a public consultation its stance on consulting on UKEF's anti-bribery policies and practices. He said that if the proposed new model were to be implemented, any decision on consultation would be made in accordance with the Cabinet Office consultation guidelines.. The Council commented that if the due diligence carried out by the banks would be no less than that currently undertaken by UKEF, it would

seem less likely that a public consultation would be necessary. The Council suggested that consideration should be given to making public the criteria that the banks would apply and also include each year a commentary on the operation of the arrangements in UKEF's Annual Report and Accounts.

- 5.7 The Council commented that consideration might need to be given as to whether the banks would be carrying out a public function on behalf of UKEF and, therefore, whether the Freedom of Information Act would be applicable to information held by them as part of these activities.
- 5.8 Mr Taylor said that in terms of taking matters forward, an option would be to test a prototype of a model through conducting a pilot with a bank which would help the full development of a model that could then be rolled-out more widely.
- 5.9 The Council asked to be kept informed of developments.

Action: Secretary to arrange further briefing as appropriate.

6 APPLICATION OF THE REVISED OECD COMMON APPROACHES

- 6.1 At the Council's request, following a meeting in 2015 with Professor Ruggie, author of the UN Guiding Principles (UNGPs) on Human Rights and Business, Mr Brookes presented findings from research into the practices of ECAs that apply and go beyond the *OECD Recommendation on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence* (the OECD Common Approaches) in respect of the human rights due diligence
- 6.2 Mr Brookes said that information had been obtained from 19 OECD member countries. This found that all ECAs applied the OECD Common Approaches for projects that fell within its scope. However, the research showed that 15 ECAs undertook human rights screening when asked to support transactions which fell outside its scope, seven ECAs undertook human right due diligence if required, either on a case-by-case basis, or, routinely for all transactions.

Mr Brookes said that decisions to undertake human rights due diligence for cases outside of the scope of the OECD Common Approaches appeared to be informed by factors such as the country, project location, industry sector, other risks identified during the screening stage and potential reputational risk to the ECA.

- 6.3 The Council noted the findings. It commented on the importance of ECAs having a shared understanding of what constitutes human rights issues. The Council said that many of the projects UKEF had supported involved significant levels of labour and their working arrangements and conditions therefore raised human rights issues. Dr Meekings described the work that the OECD Environmental and Social Practitioners' Group had done to better understand and to encourage a level playing field in respect of project-related human rights issues. The outputs of Practitioners' Group work had fed into the revision to the 2012 OECD Common Approaches.
- 6.4 The Council recalled that the Government had taken a policy position that UKEF should not operate beyond the requirements of the OECD Common Approaches.. Dr Meekings explained that the Environmental Advisory Unit (EAU) was responsible for implementing the OECD Common Approaches and considered human rights issues at all stages of its due diligence, including screening, classification, review and monitoring.
- 6.5 The Council thanked Mr Brookes for his presentation and noted that the revised OECD Common Approaches would be published soon. It asked for a copy to be made available to Council members.

Action: Council to be provided with revised version of the 2012 OECD Common Approaches when published.

7 GUIDELINES ON THE USE OF ENVIRONMENTAL CONSULTANTS

- 7.1 Mr Griffin informed the Council on work being led by UKEF in the OECD Environmental and Social Practitioners' Group to develop guidance on the

use of environmental and social consultants. He said that UKEF had taken the lead in drafting guidelines and practitioners from eleven other ECAs had made contributions on the production of a draft guidance note for internal use by ECAs. The aim was to help create a uniform approach in the use of environmental consultants by and on behalf of ECAs.

- 7.2 The Council agreed that the guidance would help project sponsors, banks and consultants be more aware of ECA requirements, encourage best practice by ECAs and help achieve a common and consistent approach. The Council considered that the initiative was a good example of UKEF leading and influencing the ECA community and helping to raise standards.
- 7.3 The Council asked if the guidelines would change the way UKEF used consultants. Mr Griffin said that UKEF already applied the practice set out in the guidance. The Council asked if the guidance would be published; Mr Griffin confirmed that it was currently being discussed within the Environmental and Social Practitioners' Group whether a version would be made publicly available, and that when a decision was made whether EGAC would be informed of this.

8 CATEGORY A PROJECT – POST-ISSUE MONITORING

- 8.1 At the Council's request, Mr Griffin gave a presentation on a recent post-issue monitoring visit to a project supported by UKEF in India involving the construction of a petrochemical facility and expansion of an oil refinery. Mr Griffin said it was the second post-issue site visit which had been carried out and, on this occasion, undertook the visit alongside COFACE, the French ECA.
- 8.2 Mr Griffin reminded the Council that the project had been supported on a corporate risk basis. Many ECAs were involved in the provision of financing facilities and before providing support had separately carried out ESHR due diligence. However, there had been little opportunity for co-ordination between the ECAs each of whom had become involved at different times.

- 8.3 Mr Griffin reported that in the 12 months that had elapsed since the previous site visit, the construction of the facility had made significant progress. There had been a substantial increase in the size of the labour force which had peaked at over 140,000 workers on site. The monitoring had, therefore, particularly focused on labour and working conditions. In this regard, Mr Griffin told the Council that there had been some worker unrest at the site and this had led to a disturbance within the worker accommodation provided by the site. It was unclear what had caused the unrest but it appeared to be connected to the mobilisation of a medical team during a religious holiday. Mr Griffin said that it had been difficult to obtain information from the authorities.
- 8.4 The Council asked about monitoring undertaken by other ECAs. Mr Griffin said that apart from Coface, he was aware that US Eximbank had undertaken a brief site visit; however as far as he was aware no other ECAs were monitoring the project. The Council noted that the ECAs' had individually supported loan facilities which meant they had each negotiated terms and conditions including ESHR covenants. The Council advised that it was important that ECAs should seek to cooperate where possible on ESHR due diligence and monitoring on projects financed on a corporate risk basis in order to be able to collectively influence, and thereby have greater effective leverage, with the project developer.
- 8.5 The Council asked to be updated following the next site visit and requested updates to the Council whenever it became aware of a significant incident.

9 EAU ANNUAL REPORT

- 9.1 Dr Meekings presented the annual report of the activities of the EAU in 2015. She explained that changes had been made to the format of the report as compared to previous reports in order to draw out more clearly the influence UKEF (and other ECAs) has had on projects during the pre and post issue due diligence stages, with other ECAs to help shape the ESHR agenda and more generally raise awareness of ESHR issues in other fora.

- 9.2 Dr Meekings commented that the number of transactions being dealt with by the EAU had nearly doubled since 2013. This was partly the result of an increase in the number of cases that required post-issue monitoring, as well as a higher demand for support for new projects, particularly high risk Category A projects. Dr Meekings illustrated the work of the EAU on a number of projects where its input had made a difference to ESHR outcomes.
- 9.3 Dr Meekings said that UKEF had hosted a meeting of the OECD Environmental and Social Practitioners which had been a substantial undertaking but had enabled it to help shape the future agenda of the group and take a lead on various issues. For example, UKEF had initiated and was leading work on two environmental and social subgroups.
- 9.4 The Council asked about the sufficiency of staff resources. Dr Meekings said that staff resourcing had been challenging with the loss of staff through resignation and maternity leave. She reported on the recruitment of a new senior social issues adviser and assistant environmental adviser. A Senior Adviser to cover a maternity leave period would also be starting the EAU imminently. She said all staff were professionally qualified and experienced in the ESHR sector. Dr Meekings reminded the Council that UKEF had call-off contracts with external environmental consultants that were used during the year to meet resourcing needs and carry out specialist due diligence.
- 9.5 The Council commented that the format and content of the report demonstrated the seriousness with which UKEF took its obligations under the OECD Common Approaches and the quality and added value that it, and other ECAs, brought to projects both before and after providing support. The Council noted the activity UKEF was undertaking with the OECD Environmental and Social Practitioners' Group and in other fora and encouraged the EAU in its endeavours to lead efforts to raise and improve ESHR risk management. The Council remarked that there would be further opportunity to do so when UKEF became a member of the Equator Principles Association.

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 The secretary advised that a system to circulate documents electronically had been developed and that this would be introduced in the next financial year.

David Underwood

Secretary