



The Rt Hon Dr Liam Fox MP  
Secretary of State for International Trade

Department for International Trade  
King Charles Street  
London  
SW1A 2AH

20 June 2018

*Dear Secretary of State,*

**UK EXPORT FINANCE FINANCING SUPPORT FOR EXPORT OF TYHPOON AIRCRAFT AND ASSOCIATED EQUIPMENT AND SERVICES TO QATAR**

You have considered advice relating to potential UKEF support for the sale of Typhoon Aircraft and associated equipment and services to Qatar. This note sets out my position as Accounting Officer and some of the issues we have discussed on the matter.

UKEF operates under a framework agreed with HM Treasury that is designed to allow UKEF to provide support where it is needed for UK exporters while managing potential risks to the Exchequer arising from both individual transactions and across the UKEF portfolio. This forms the basis of UKEF's normal underwriting criteria.

I have previously advised you that due to the size, time horizon and political nature of the risks involved in this specific transaction it cannot be considered to fit within our normal underwriting criteria.

While I am satisfied that the overall risk in relation to such a facility is low, and UKEF would receive adequate premium to compensate it for its estimation of that risk, the quantum of exposure that UKEF would be required to take is expected to take it outside of its Market Risk Appetite for Qatar. This would expose UKEF to the risk of a breach of the financial objectives set by HM Treasury as part of UKEF's Consent (under the Export and Investment Guarantees Act 1991 - EIGA) should problems arise in relation to the repayment of the financing.

Managing Public Money requires me to ensure that any transaction that UKEF supports represents value for money to taxpayers, meets tests of regularity and propriety and is feasible. The key tests in this case are regularity in complying with the terms of the Treasury consent and legislation that UKEF operates under, and value for money in terms of the potential portfolio impacts in the unlikely event that such a large transaction was to become distressed.

The scale of this transaction means it does not fit within UKEF's normal underwriting criteria, and is outside limits set through the Consent that are designed to retain a degree of balance in the UKEF portfolio. In addition, while I do not anticipate the terms for this transaction will be unreasonable and I do not have specific risk concerns, in a "worst-case" scenario the scale of this transaction

could cause UKEF to breach other limits under the Consent. However, I recognise that you may wish to take a broader view.

If that is your decision, I will proceed accordingly but require your written instruction to do so due to the issues noted above concerning regularity and value for money. I note that under the EIGA the consent of the Treasury is required for your instruction to be lawful. The Treasury has assessed this proposed transaction under the recently introduced contingent liability approval process. I understand that this transaction did not pass this process. However, Treasury Ministers have nonetheless agreed that should you wish to instruct me to proceed, the Treasury will provide consent. I will then ensure the necessary steps are taken to carry forward your instruction without delay.

I am grateful for the close attention you have given this issue. I am satisfied that your decision will be taken on the basis of all available information. In line with normal practice for directions, I am required to alert the Comptroller and Auditor General, who is likely to inform the Public Accounts Committee (which may choose to conduct an inquiry), and the Treasury Officer of Accounts.

In addition, it is normal practice for you to inform Parliament where you issue an instruction to UKEF. Our exchange of letters will also be published in line with normal practice for directions.



**Louis Taylor**  
Chief Executive  
UK Export Finance