

EXPORT GUARANTEES ADVISORY COUNCIL

MINUTES OF MEETING HELD ON 11 February 2013

Present: Mr Andrew Wiseman
Ms Gillian Arthur
Mr Alastair Clark
Mr Neil Holt
Mr John Newgas
Ms Alexandra Elson

Apologies: Ms Anna Soulsby
Mr Chris Fitzpatrick

In attendance: Mr David Havelock
Mr Steve Dodgson
Mr Miles Hitchcock
Mr Paul Croucher Item 5
Ms Victoria Martin Item 5
Ms Denise Rowley Item 5

Secretary: Mr Laurence Lily

1 PRE-MEETING

1.1 The Council met in closed session without UK Export Finance (UKEF) officials present. The discussion was not minuted.

2 APOLOGIES FOR ABSENCE

2.1 Apologies were received from Ms Soulsby and Mr Fitzpatrick.

3 MINUTES OF 3 DECEMBER 2012 MEETING AND MATTERS ARISING

3.1 The draft minutes were approved and would be published on the UKEF website.

4 CEO UPDATE

Business

- 4.1 Mr Havelock updated the Council on business supported since its last meeting. He forecast that by the end of the 2012-13 financial year, business levels would be the highest for over ten years. He said that UKEF's Annual Report and Accounts would provide details of the export transactions/projects that had been supported except where there were reasons, for example, commercial confidentiality, for not disclosing information. He expected the Annual Report and Accounts to be published in June.

Staff resources

- 4.2 Mr Havelock told the Council of plans to recruit three International Finance Advisors (IEFAs). Their role would be to promote the availability of export credits from the UK to project sponsors overseas that had significant investment programmes in order to help influence procurement towards UK suppliers. The IEFAs would operate alongside UKTI International Trade Advisors and be located in the Far East, Middle East and Latin America.
- 4.3 Mr Havelock informed the Council of plans to recruit staff to meet the increase in workloads caused by higher levels of demand for support, including the Short-Term products introduced in 2011, and new initiatives. Mr Dodgson said that the recruitment of new staff would also help address succession planning.

Business Bank

- 4.4 Mr Havelock told the Council that UKEF had been involved in discussions with the Department for Business, Innovation and Skills about the Government's plans to develop a business bank. He said the precise role and remit of the

proposed bank were still being developed. It was not presently envisaged that UKEF would be part of the bank at its inception.

Export Refinancing Facility and Direct Lending Scheme

- 4.5 Mr Havelock reported that discussions were ongoing with the banks and HM Treasury on the designs of these schemes.

Rolls-Royce plc

- 4.6 Mr Havelock told the Council that Rolls-Royce plc had made public that it had passed information to the Serious Fraud Office (SFO) relating to concerns about possible irregular payments involving intermediaries in overseas markets, including China and Indonesia. UKEF had been told by Rolls-Royce that it was awaiting a decision from the SFO as to its response to the disclosures but that, in the meantime, no investigations were being conducted by the SFO. Rolls-Royce had agreed to keep UKEF informed of developments. Following a discussion on the issue the Council thanked Mr Havelock for the update and asked to be kept updated with any further developments.

House of Lords Select Committee on Small and Medium Sized Enterprises

- 4.7 Mr Havelock reported on the House of Lords Committee review of support for SMEs. The Minister for Trade and Investment had provided evidence on UKEF activities at an oral hearing. Mr Havelock said that the Committee was expected to issue its report by Easter and be likely to include commentary about UKEF support for SMEs.

5 SHORT-TERM PRODUCTS

- 5.1 Mr Croucher and Ms Martin of UKEF's Short-Term Products Division, and Ms Rowley the Export Finance Adviser (EFA) for London, briefed the Council about the support being provided for exports under the Short-Term products.

- 5.2 Mr Croucher reminded the Council that since 1991, the provision of UKEF support for exporters had largely been confined to capital and semi-capital goods and related services. However, after the economic downturn in 2008, market gaps had emerged in the provision of trade finance and credit insurance. UKEF was seeking to fill the gaps by widening its remit to support all types of exports. In consequence, UKEF had introduced new products – the so-called Short-Term products - to meet the needs of those exporters who were not being served by the private market.
- 5.3 Mr Croucher said that UKEF's re-entry into the Short-Term market had presented challenges. He said it had been necessary to build an internal team to deal with transaction and grow the necessary knowledge, skill and experience. UKEF's absence for over 20 years meant it had to market itself to a community of exporters who were unfamiliar with UKEF. Mr Croucher explained that EFAs had been recruited to facilitate the promotion of UKEF services and its Short-Term products and to provide guidance to exporters seeking trade finance and risk solutions. Mr Croucher commented that because the exports supported under the new Short-Term products involved much shorter commercial deadlines than project exports, UKEF's systems and processes had to be adapted so that decision-taking met the required timelines demanded by exporters and their buyers. Mr Croucher said that the uptake of the products had grown slowly but that demand was increasing with a strong pipeline of potential business. Demand under the Contract Bonds Scheme was particularly strong.
- 5.4 Ms Martin illustrated to the Council through case studies how the Short-Term products had been used. Examples included the provision of export insurance for an engineering company's exports to Russia which had given the company the confidence to offer longer credit terms and a bank guarantee for a contract bond involving a theatrical design and production company which had released capital that would otherwise have been demanded by its bank as security for the bond.

5.5 Ms Rowley explained how the EFAs operated. Ms Rowley said that the EFAs were based across the UK. She said that they provided information to exporters on commercial sources of support and acted as a contact point between exporters and UKEF where private sector support was unavailable. Ms Rowley said that as well as working directly with exporters, EFAs also engaged with banks and trade bodies to help ensure they were aware of UKEF's products at a regional and local level. Mr Croucher said that consideration was to be given to recruiting more EFAs in those regions with a high concentration of demand. He also said that methods were being developed of measuring the impact of the assistance provided by the EFAs. The Council agreed the importance of UKEF being able to register the full benefits of its activities, not simply in terms of business actually supported.

5.6 The Council asked about UKEF's experience in raising awareness of the short term products. Mr Croucher said it had been challenging to promote the schemes within the banks. He said banks had also administered the products in different ways; some use a centralised approach and others processed cases regionally. The centralised approach appeared to be the most effective once a significant through-put of business had taken place as this had entrenched familiarity with the process among the central team in running the products. Ms Rowley commented on the importance of building relationships with the banks at a regional level. Mr Croucher informed the Council of steps being taken to improve exporter awareness of UKEF, including a pilot tele-marketing initiative.

5.7 The Council asked about the role of UK Trade & Investment. Mr Croucher explained how the Short-Term products were marketed alongside services offered by UK Trade & Investment, such as its Passport to Export scheme and its Overseas Market Introduction Service. Ms Rowley said that UKTI staff had played a useful role in introducing exporters to UKEF. She said that knowledge of the Short-Term products was growing among UKTI staff,

although gaps remained; communication and training with UKTI staff was ongoing.

5.8 The Council asked about the involvement of Chambers of Commerce. Ms Rowley said they were a useful network for raising awareness and that UKEF sought to engage with them and other trade bodies as a means to spread knowledge of UKEF.

5.9 The Council noted that business supported under the Short-Term products did not fall within the ambit of the OECD Common Approaches. The Council asked about the applicability of the OECD Bribery Recommendation. Mr Dodgson said that the Recommendation applied to all exports supported by Export Credit Agencies. The Council asked about the practices of other Export Credit Agencies. Mr Dodgson said that other ECAs had reported to the OECD that they followed the Recommendation in their support for short-term business but because the Recommendation gave some latitude in how it should be applied, for example, for exports supported under whole-turnover policies, there were differences in the practices of ECAs. Mr Dodgson said that as UKEF provided support for single transactions, presently it carried out anti-bribery due diligence on every application.

5.10 The Council thanked Mr Croucher, Ms Martin and Ms Rowley for their presentation.

6 ALL PARTY PARLIAMENTARY GROUP (APPG) ON INTERNATIONAL CORPORATE RESPONSIBILITY: REPORT ON UKEF

6.1 The Council considered the report on UKEF by the APPG on International Corporate Responsibility. The Council recalled that UKEF's Chief Executive and the Chairman of the Council had given oral evidence to the APPG. Mr Dodgson told the Council that the Minister for Trade and Investment planned to

respond to the APPG and in doing so take into account the views of the Council.

- 6.2 The Council remarked that the terms of reference for the review were ambitious taking account of the time and resources available to the APPG to cover such wide territory. The Council noted that the report contained a number of factual inaccuracies and lacked evidence and analysis to support some of the recommendations made.
- 6.3 The Council considered that the recommendation about extending the Council's terms of reference to include reviewing applications for support would fundamentally change the role of the Council because it was a review body that did not involve itself in decision-taking on transactions where UKEF support was being sought. The change would mean that the Council would become involved in executive decision-making, and thus affect its ability to give independent advice on the application of ECGD's ethical policies. The Council also considered such a change could result in confusion between its remit and UKEF's Management Board.
- 6.4 The Council noted the suggestion to appoint a Non-Executive Director to UKEF's Management Board with experience of human rights. The Council noted that human rights expertise and experience existed within UKEF and felt that the Management Board could draw upon it whenever required. However, the Council considered that it might benefit by having a member with human rights expertise and that this should be considered when new members were being recruited.
- 6.5 The Council noted the report appeared to suggest that UKEF should favour one class of exports e.g. the green sector, over others. The Council did not consider this would be feasible as UKEF could only respond to demand and did not direct its support to particular industrial sectors to the exclusion of others.

- 6.6 The Council observed that the report gave an impression that other Export Credit Agencies applied stricter environmental, social and human rights policies. However, the report offered no evidence to support this view. The Council considered there was confusion over the interpretation of the terms “screening”, “categorising”, “reviewing” and “standards” as set out in the OECD Common Approaches. The Council advised that UKEF could help make these terms better understood by publishing a note on the processes it followed under the OECD Common Approaches. Mr Dodgson said that this was in hand.
- 6.7 In regards to the recommendation that UKEF should extend the application of the OECD Common Approaches to all exports and forms of support, the Council recalled it had recently considered this and advised that the unilateral extension of the OECD Common Approaches would be impractical taking account of the types of exports supported under the Short-Term products which were not usually project-related and place a burden on exporters that their competitors did not face.
- 6.8 The Council noted the recommendation to establish a grievance mechanism. The Council considered that at the project level, there should be a grievance mechanism and it was the responsibility of project sponsors to address complaints. The Council also noted that a complaints procedure existed under the OECD Multinational Guidelines which had been engaged in regards to complaints relating to the BTC Pipeline project. The Council commented that UKEF was unusual among ECAs in being one of only two ECAs to have an advisory body and this provided a source of independent assurance on the application of UKEF’s ethical policies. Mr Dodgson remarked that as a public body grievances against UKEF could be pursued through the courts by way of judicial review.
- 6.9 The Council felt UKEF’s role had not been fully understood. The Council felt that the Department should do more to share its record of contributing to exports and the work it had done in development of international ESHR

standards. The Council suggested UKEF should follow UKTI's lead in pro-actively advertising its activities.

7 ENVIRONMENTAL ADVISORY UNIT ANNUAL REVIEW

- 7.1 Mr Hitchcock gave a presentation on the work of the Environmental Advisory Unit (EAU) during 2012. He 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. Mr Hitchcock also briefed the Council on policy work carried out by the EAU in 2012.
- 7.2 Mr Hitchcock told the Council that demand for ECA support for projects had grown which meant that the EAU had considered a high volume of cases in 2012. He told the Council that on some occasions support for a project was being sought from more than one ECA, which meant that the ECAs had to work in tandem on ESHR due diligence which helped to ensure there was a consistent approach on the application of the OECD Common Approaches. Mr Hitchcock said UKEF usually sought to take the lead in coordinating the work of ECAs with project sponsors.
- 7.3 The Council asked about UKEF's experience with exporters. Mr Hitchcock commented that there were differences in the attitude and approach of exporters to addressing ESHR requirements. Some showed an awareness of the requirements and had engaged positively with UKEF. However, there had been occasions where it had been necessary for UKEF to assist exporters to understand the requirements to be able to engage with buyers and project sponsors to provide documentation to evidence compliance with international standards. Mr Hitchcock added that experience with project sponsors had similarly been mixed.

7.4 The Council asked about the policy work that the EAU was undertaking. Mr Hitchcock said that in the early part of the year there had been a concentration of activity to complete the revisions to the new OECD Common Approaches. Following its promulgation in July 2012, policy work would be focussed on taking forward the commitment contained in the new Recommendation on human rights. Also, policy work would continue to address improvements to World Bank Group standards on greenhouse gas emissions following the completion of policy work to implement the Government's commitment on support for green exports.

7.5 The Council asked about the sufficiency of staff resources, noting that the EAU had relied on external consultants to carry out work. Mr Hitchcock told the Council that additional experienced staff would be recruited in 2013 to replace staff that had left. The EAU was also considering the most efficient and effective way of conducting the required monitoring of projects already supported. Mr Hitchcock said that access to specialist advice from external environmental consultancies under call-off contracts had operated effectively.

7.6 The Council thanked Mr Hitchcock for the review.

8 OECD ENVIRONMENTAL PRACTITIONERS GROUP: HUMAN RIGHTS

8.1 Ms Russell provided the Council with an update on the work of the OECD Environmental Practitioners Group which was considering how ECAs should address human rights issues. Ms Russell reminded the Council that this initiative had been taken following the adoption of the revised OECD Common Approaches in 2012, which had included a commitment to a future programme of work to consider human rights issues taking account of the UN Guiding Principles (the "Ruggie" principles) on business and human rights, which recommended governments adopted strategies for implementing the principles.

- 8.2 Ms Russell explained that the OECD Export Credit Group had issued a mandate for practitioners focused on examining how the IFC Performance Standards could be used as a tool for social and human rights due diligence, identifying other relevant standards and tools, developing methods to ensure a level playing field on human rights and developing a body of experience on managing social and human rights issues.
- 8.3 Ms Russell said that the OECD Environmental Practitioners Group had formed a core team to take forward the mandate. In the first instance, it had decided to gather information on ECAs experience of human rights issues. Ms Russell said the next steps were to present the results of work so far to the full Environmental Practitioners' Group and to widen the information sharing exercises.
- 8.4 The Council thanked Ms Russell for the update. The Council asked be kept informed of developments. The Council asked what was being done by the Government to promote the Ruggie principles. Ms Russell said that a UK Business and Human Rights Strategy was expected to be published by the Government in 2013 and that UKEF had been contributing to its development.

Action: Secretary

9 EUROPEAN PARLIAMENT REPORTING: NGO VIEWS

- 9.1 The Council noted that a coalition of European NGOs (under the umbrella for 'ECA Watch Europe') had published a working paper which critiqued the reporting by ECAs of their application of ESHR practices to the European Commission for onward submission to the EU Parliament. The Council asked to be briefed on the report by the Commission to the European Parliament.

Action: Secretary

10 SOVEREIGN DEBT INFORMATION UPDATE

10.1 The Council asked for an update at its next meeting.

Action: Secretary

11 FREEDOM OF INFORMATION REQUESTS

11.1 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.

12 BUSINESS SUPPORTED

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

13 EGAC SCORECARD

13.1 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.

14 FUTURE BUSINESS

14.1 The Council noted that its meetings with individual NGOs had been beneficial in the past to help obtain a fuller understanding of their particular areas of interest in UKEF. The Council expressed a desire to meet with Transparency International in 2013

Larry Lily
Secretary