



UK Export
Finance

UK Export Finance
1 Horse Guards Road
London
SW1A 2HQ

T 020 7271 8010
gov.uk/uk-export-finance

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

Department for International Trade
King Charles Street
London
SW1A 2AH

05 April 2019

Dear Secretary of State,

NATIONAL INTEREST IN INCREASING UK EXPORT FINANCE'S COVER FOR IRAQ

You have considered advice relating to the potential increase in UKEF's market capacity limit for Iraq from £1bn to £2bn, in order that additional exports could be supported to this country on UKEF's standard terms of underwriting. 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.

I have previously advised you that an increase in the available risk capacity for this market of £1bn would fall outside of UKEF's established risk framework, which includes limits on the amount of capacity which can be deployed in individual markets based on its risk rating and the size of its economy. For this reason it would be outside of my authority as Accounting Officer to approve such an increase.

While I am satisfied that the increased market capacity, once fully deployed, would not in itself cause UKEF to breach its financial objectives across the portfolio, it would have the potential to disproportionately consume our reserves and available risk appetite if we were to incorporate this support within those financial objectives. This could have the effect of crowding out support for exports in other markets that UKEF may otherwise wish to support.

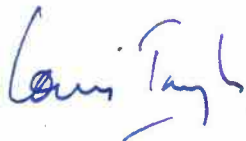
This is not to say that support for individual projects in Iraq would be unacceptably risky. On the contrary, UKEF has a £1bn limit for this market today, which is now effectively fully deployed. Furthermore, it is my understanding and expectation that UKEF's standard terms of underwriting, including its transaction-specific risk standards, would continue to apply to any and all further business which could be supported in this market as a result of any increase in the market limit.

Managing Public Money requires me to ensure that the terms of support provided by UKEF represent value for money to taxpayers, meet tests of regularity and propriety and are feasible. The key tests in this case are regularity in operating within UKEF's established risk framework, and value for money in terms of the heightened potential portfolio impacts in the event that the Iraqi government were to suffer debt distress. However, I recognise that you may wish to take a wider view of the benefits which UKEF's ability to support additional priority projects in this market may achieve, and which projects would promote UK national interests.

If you decide that UKEF should increase its market risk appetite for Iraq from £1bn to £2bn, with the additional £1bn to be utilised for sovereign transactions only and recyclable, subject to regular review of the country's risk profile, I will proceed accordingly. I will however require your written instruction to do so due to the issues noted above concerning regularity and value for money. I note that under the Export and Investment Guarantees Act 1991, UKEF's governing legislation, the consent of the Treasury is required for your instruction to be lawful. You have sought and received written confirmation from Treasury Ministers that they consent to such an increase. If you issue me with an instruction to proceed 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 would be required to alert the Comptroller and Auditor General, who would likely 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