

EXPORT GUARANTEES ADVISORY COUNCIL

MINUTES OF MEETING HELD ON 3 December 2018

Present: Mr Andrew Wiseman (Chair)
Mr Alistair Clark
Ms Alexandra Elson
Mr Stephen Prior
Dr Roseline Wanjiru

Apologies: Mr Neil Holt
Mr John Newgas
Mr John Morrison
Ms Anna Soulsby

In attendance: Ms Carly Grainger
Mr Max Griffin
Ms Reinet Jankowitz
Mr Mark Linnane
Dr Helen Meekings
Mr Simon Phillips
Mr Mike Seymour
Mr Louis Taylor

Secretary: Mr David Underwood

1. MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING

1.1. The minutes of the October meeting were agreed as an accurate record, with one typographical correction. The secretary updated the Council on the status of the February minute.

2. CHIEF EXECUTIVE'S UPDATE

2.1. Mr Taylor provided a business update to the Council. The end of October figures for issued and effective business and premium were at £1,091m and £54m respectively. New business recorded for 2018/19 totals 380 issued and

effective facilities, consisting of 356 Short-Term facilities and 24 MLT facilities. This provided cover for 96 exporters, of which 70 are SMEs.

- 2.2. Mr Taylor advised that the Chancellor had announced in October's Autumn Budget, two one-off non-recyclable additions of £1 billion to UKEF's direct lending capacity for each of the financial years 2020/21 and 2021/22. This significant increase will enhance UKEF's ability to offer direct support to UK exports and UK companies who wish to make the most of the opportunities in fast-growing, emerging economies following the UK's departure from the EU. Following the publication of the Export Strategy this summer, this announcement highlights the continuing vital role that UKEF plays in ensuring businesses take full advantage of international opportunities.
- 2.3. Mr Taylor also gave the Council an update on €450 million in support for UK firms to build three new hospitals and upgrade two power stations, improving healthcare and power provision in Angola. This is the first time UKEF has supported projects in Angola.
- 2.4. The Council also discussed a recent letter writing campaign which had seen the minister receive letters in respect of UKEF support for fracking in Argentina. UKEF advised that it had not supported any such cases.
- 2.5. Dr Meekings advised the Council of an upcoming Parliamentary Select Committee inquiry into UKEF by the Environmental Audit Committee. The inquiry will investigate the impact of UKEF's financing of fossil fuels in low and middle-income countries, particularly in light of the UK's Clean Growth Strategy. UKEF will keep the Council fully updated on the inquiry.
- 2.6. UKEF gave an update to the Council on work underway to update legislation as it applies to UKEF following the UK's exit from the EU. The policy intention is for UKEF to provide export credit guarantees, insurance and loans, and consult with other national export credit agencies, in accordance with OECD Arrangement, to which the United Kingdom will apply to be a participant in its own right after leaving the EU. In the interim, the OECD Arrangement will be

followed by the United Kingdom as a matter of policy. The United Kingdom will continue to follow the terms of all other OECD recommendations, principles and guidelines regarding the provision of export credit support, In particular the OECD Recommendation on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence, the OECD Recommendation on Bribery and Officially Supported Export Credits and the OECD Principles and Guidelines to promote Sustainable Lending Practices in the Provision of Official Export Credits to Low Income Countries.

2.7. Mr Taylor updated the Council on developments in the home market practice for aircraft transactions. He also gave the Council an update on developments with Airbus and Petrofrac.

3. ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT REPORT AND DISCUSSION ON E&S ISSUES

3.1. Mr Griffin provided the Council with an oral update on Environmental and Social Risk Management. The Council noted that the E&S team were carrying out advanced due diligence on more projects than ever, mainly due to the increase in the number of Civil, Infrastructure and Energy cases. The E&S Consultancy panel selection process had been completed and had seen 13 bidders for the three roles. One previous panel member had been successful again.

3.2. The Council provided advice for UKEF's approach to the Equator Principles Association AGM, and agreed that UKEF should continue to press for policies to be developed to increase the scope of inclusion of projects and banks for example by pressing for lowering exemption thresholds in respect of application of the Equator Principles. The Council noted that this is an area where UKEF could provide leadership to the financing community.

3.3. Mr Griffin advised the Council that the recent recruitment campaigns had been successfully completed, and the E&S team were now fully staffed with 8 full time staff.

3.4. The Council also spent time speaking with Mike Seymour, who had joined the UKEF E&S team after previously working in the HSE function for Shell. Mike gave a summary of his initial findings on joining UKEF, which were largely positive, and highlighted some areas where he thought there was work to be done. The Council welcomed UKEF's recruitment of experienced professionals and noted that Mike's initial assessment largely accorded with their own views, i.e that UKEF is well respected and an ECA leader in the field of E&S impact assessment, but could do more monitoring in some cases and be smarter at knowledge transfer and documentation. The Council also noted that the UK government's policy is defined by UKEF's obligations under international agreements.

4. MODERN SLAVERY ACT

4.1. At the Council's request, UKEF provided an update on the application of the Modern Slavery Act 2015. UKEF provided information on the background the Act and the requirements under it. UKEF advised that requirements under the Act are not specifically referenced in its documentation. The Council advised that it would be difficult to reference specific Acts in documentation, and the current approach of using representations and undertakings was a sufficient approach in respect of compliance with all UK law.

4.2. The Council considered that UKEF is not an investigatory body and examined the process that would be used if UKEF became aware of issues in this area. UKEF advised the Council that it would report any issues it identified to the authorities and would carry out enhanced due diligence if it became aware of any potential issues. The Council examined how much leverage UKEF would have over companies in supply chains below tier one level. The Council advised that the most appropriate approach for UKEF would be to consider the risks of sectors and countries and apply due diligence proportionally. The Council took comfort that UKEF was considering these issues.

5. REPORT ON THE IMPLEMENTATION OF ANTI-BRIBERY POLICIES AND PRACTICES 2017-18

5.1. Ms Grainger presented the annual report on the operation of anti-bribery policies and practices for the period July 2017 – June 2018. In accordance with usual practice, this report will be made public on UKEF's website.

5.2. The number of applications received was 219 compared to 392 in 2016-17 with those from SMEs accounting for 74% of the total (87% in 2016-17). This continues to reflect the expansion of UKEF's business domain in 2011 to support raw material, consumer durable, light manufacture exports sold on short terms of credit, and the introduction of Short-Term Products. There were 136 applications in respect of the Export Insurance Policy (106 in 2016/17), 42 applications in respect of the Bond Support scheme (200 in 2016/17) 17 in respect of the Export Working Capital scheme (111 in 2016/17). The lower level of applications in respect of the Bond Support and Export Working Capital Schemes was largely attributable to the introduction of Bank Delegation in October 2017. This enabled the five banks that had signed up to the scheme, not to have to submit an application, provided certain criteria had been met. Where though, for example an agent was involved an application was required and UKEF carried out its usual due diligence procedures.

5.3. Of the 219 new applications received, 46 involved the use of agents, of which 30 were in respect of the Bond Support Scheme and 13 in respect of the Export Insurance Policy;

5.4. No applicant refused to provide UKEF with any additional information required to carry out the necessary due diligence. All applicants signed UKEF's audit and recourse provisions.

5.5. UKEF advised the Council that in March 2018 provided support for the first Airbus aircraft since we were notified by the company in January 2016 of errors in disclosures regarding the use of overseas agents in some of its previous applications for support. This support, for two A330 with Rolls-Royce engines

aircraft delivered to Rwandair, followed work with Airbus and the French and German export credit agencies to develop an extended due diligence framework under which we will assess applications for export credit support from Airbus. The ECAs remain open for further applications for support from Airbus subject to extended due diligence being carried out allowing a thorough assessment to be made on each contract to provide assurance in relation to compliance matters.

5.6. A number of other aerospace transactions involving Rolls-Royce as a subcontractor have been supported under the enhanced due diligence process that was implemented following the DPA with the SFO and DoJ in 2017. UKEF continues to meet regularly with Rolls-Royce to obtain updates on how their compliance system and processes are evolving over time.

5.7. The Council asked for further information in respect of its ability to ensure that local agents pay all taxes that are due in country. **Action: Secretary to liaise with Underwriting Policy and Products Branch, and the Legal Division.**

5.8. The Council also requested that UKEF report back to EGAC as the various projects and initiatives outlined in the paper reach notable milestones.

6. ENVIRONMENTAL AND SOCIAL TEAM QUARTERLY MONITORING REPORTS – JANUARY and BUSINESS SUPPORTED LIST

6.1. The Council reviewed the latest Environmental and Social Team (E&S) monitoring reports. Mr Griffin gave some short updates on significant cases where UKEF had provided support. The Council also noted the recent business supported list.

7. FREEDOM OF INFORMATION UPDATE

7.1. The Council considered information requests which had been answered since the last Council meeting. The Council noted the continuing good performance

against statutory deadlines for processing requests under the Freedom of Information Act and the Environmental Information Regulations.

8. EGAC SCORECARD

8.1. 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.

9. ANY OTHER BUSINESS

9.1. The EGAC Chair advised that he had attended the UKEF Board to update them on EGAC's activity for 2017/18. There had been positive engagement from the Board members, and they will be invited to attend future EGAC meetings. **Action: Secretary to liaise with UKEF Board Members.**

David Underwood

CXO Secretariat

EXPERIENCE OF UK EXPORT FINANCE IN OPERATING ITS ANTI-BRIBERY & CORRUPTION PROCEDURES UNDER ITS REVISED APPLICATION FORMS IN PLACE SINCE 1 JULY 2006

**ANNUAL BRIEFING FOR EXPORT GUARANTEES ADVISORY COUNCIL
FOR PERIOD: 1 JULY 2017 TO 30 June 2018**

A. APPLICATIONS RECEIVED AND CASES SUPPORTED

1. APPLICATIONS

A. Total number of Applications received	B. Number of Applications disclosing the existence of an Agent	C. Number of Applications disclosing the existence of Joint Venture/ Consortium Partners	D. Number of Applications involving SMEs ¹	E. Number of Loan Contracts not governed by English law
219	46	0	162	1²
F. Number of occasions where UK Export Finance as reinsurer relied on due diligence by the lead ECA on the head contract under reinsurance arrangements	G. Number of occasions where anti-bribery procedures were not applied by UK Export Finance due to the low value of a sub-contract under reinsurance arrangements			
3³	0			

¹ An SME is defined as an enterprise with fewer than 250 staff and turnover of less than €50m and does not have a parent that falls outside of these criteria.

² German law. This relates to a Supplier Credit Financing Facility under which UK Export Finance does not take the documentation risk.

³ SACE – Italy, EKF – Denmark and Credendo - Belgium

2. JOINT VENTURES/CONSORTIUM PARTNERS (JVs)

A. What proportion of Applicants, who were party to a JV, disclosed all the parties to that JV?	N/A ⁴
B. What proportion of Applicants, who were party to a JV, refused to disclose any of its JV partners?	N/A
C. What proportion of Applicants, who were party to a JV, disclosed the names of all agents acting on their JV's behalf?	N/A

3. DUE DILIGENCE (conducted on all processed Applications)

A. What was the proportion of Applications on which all relevant names were checked by UK Export Finance against the publicly available debarment lists of the International Financial Institutions specified in the OECD Recommendation?	100%
B. What proportion of UK Export Finance checks against the above lists identified any potential problems/issues?	0%
C. What proportion of Applicants disclosed the existence of a corporate Code of Ethical Conduct or the equivalent?	70%
D. What proportion of those Applicants with a Code of Conduct provided a copy of that Code of Conduct to UK Export Finance (where not previously provided)?	100%

⁴ There were no applicants who were party to a JV

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<p>E. What proportion of Applicants refused to provide to UK Export Finance any additional information, when requested, relating to a bribery and corruption issue?</p>	<p>0%</p>
<p>F. The number of Applicants that disclosed to UK Export Finance that they, or anyone acting on their behalf, were under charge or, within the last five years, had been convicted of bribery or corruption in a UK court</p>	<p>0</p>
<p>G. What proportion of Applicants disclosed that they, or anyone acting on their behalf, had been subject within the last five years to any administrative sanction or measure in the UK for bribery or corruption?</p>	<p>0%</p>
<p>H. What was the proportion of Applicants that were the subject of allegations made to UK Export Finance relating to bribery or corruption in respect of the contract for which UK Export Finance support was requested?</p>	<p>0%</p>
<p>I. The number of Applications rejected by UK Export Finance because of bribery or corruption-related issues?</p>	<p>0</p>
<p>J. What proportion of Applications, in which the existence of an agent was disclosed, were subject to inquiry by UK Export Finance with the relevant UK overseas diplomatic mission on the standing of that agent?</p>	<p>100%</p>

4. CASES SUPPORTED BY UK EXPORT FINANCE

A. Number of cases supported by UK Export Finance ⁵	B. Number of supported cases on which the existence of an Agent was disclosed to UK Export Finance	C. Number of supported cases on which the existence of a JV was disclosed to UK Export Finance	D. Number of supported cases on which the Loan Contract was not governed by English law
591	61	0	1

⁵ Not all applications result in a supported case and those that are supported are not necessarily in respect of applications received during the period of this report.

B. INTERNATIONAL AND OTHER DEVELOPMENTS

1. OECD/INTERNATIONAL

Brief outline of significant international developments concerning UK Export Finance's anti-bribery and corruption procedures that took place within the OECD or elsewhere

A. Number of OECD anti-bribery and corruption meetings attended by UK Export Finance.	3
B. Number of bilateral meetings with non-OECD official export credit agencies (ECAs) at which UK Export Finance raised the general topic of anti-bribery and corruption	0

November 2017 – in September the OECD Secretariat circulated a Chairman’s proposal for a compromise text. This was shared at the annual consultation with stakeholders on 14 November and discussed by Adherents on 15 November. As a result a Rev 2 version of the text was released. The US made a counter proposal which did not include reference to private sector bribery which was unacceptable to the majority of Adherents. The Chairman concluded there was no consensus and that negotiations should be put on hold to allow for reflection before the next meeting.

March 2018 – the Secretariat introduced a Rev 3 Chairman’s proposal for a replacement Recommendation, and Adherents were invited to provide their comments, including any red-lines. The US repeated its concerns about the inclusion in the proposal of references to bribery in the private sector. The Chairman concluded the discussions by noting that a further proposal for a replacement Recommendation, taking into account the comments provided, would be issued for Adherents to agree by written procedure by 16 April 2018. The US broke the silence procedure and the issue was carried forward to the next meeting.

June 2018 – with the US still unable to accept any reference to private sector bribery and pressing the group to drop the text, UKEF wrote to the group in support of the Chairman’s proposal, with support from allies. With no change to the Consensus minus one position, the Chairman concluded she would send the text to the political level for decision. Following further overnight discussion the US announced that it would appreciate more time to obtain a decision within government as to whether it could join the consensus for the Rev 5 version. Adherents agreed with a deadline for replies set for 12 October 2018.

2. ALLEGATIONS

UK Export Finance refers all specific allegations of bribery and corruption and money laundering of which it becomes aware to the appropriate authorities

A. Number of specific allegations of corruption received by UK Export Finance	In the range of 1-10
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B. Number of specific allegations of corruption referred by UK Export Finance to the appropriate UK authorities	In the range of 1-10
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3. RECOURSE

UK Export Finance has a right under its Recourse Agreement with an exporter on a transaction which benefits from financing provided under an UK Export Finance guarantee to a funding bank or a Direct Loan to take financial recourse to that exporter in the event of loss caused by a corrupt act

A. Number of cases in which UK Export Finance sought to enforce its right of recourse against an exporter because of corrupt activity

Nil

4. OTHER DEVELOPMENTS

Brief timeline of other significant developments during the period of this briefing concerning UK Export Finance and the issue of anti-bribery and corruption

UKEF has undertaken a range of activities throughout the period in relation to the issue of anti-bribery and corruption. This has included reviewing anti-bribery and corruption policies, making improvements to anti-bribery and corruption processes, updating and aligning documentation and engaging in cross-Whitehall initiatives and programmes in support of the issue.

UK Export Finance

December 2018