

**EXPORT GUARANTEES ADVISORY COUNCIL
MINUTES OF MEETING HELD ON 17 September 2012**

Present: Mr Andrew Wiseman
Ms Gillian Arthur
Ms Alexandra Elson
Mr Chris Fitzpatrick

In attendance: Mr Steve Dodgson
Dr Helen Meekings
Ms Helen Russell

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 Mr Clark, Mr Holt, Mr Newgas and Ms Soulsby.

3 MINUTES OF 14 MAY 2012 MEETING AND MATTERS ARISING

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

4 MEETING WITH AMNESTY INTERNATIONAL

- 4.1 The Chairman reported that the Council had met Amnesty International prior to the meeting. The Council would consider issues raised by Amnesty and advise UKEF at the Council meeting scheduled for 3rd December.

5 CEO UPDATE

Short-Term products

- 5.1 Mr Dodgson updated the Council on the number of exporters and value of exports supported under the Short-Term products since they had been introduced in 2011. The Council observed that one of the recent export contracts supported under the Contract Bond Support Scheme was in the renewables sector. Mr Dodgson commented that the exports related to an off-shore wind farm in Germany.
- 5.2 Mr Dodgson reported that UKEF had appointed six of the twelve Export Finance Advisors (EFAs) to be based in each of the nine UKTI English regions and one in each of the Devolved Administrations. Mr Dodgson said it was expected that of the remaining six a further five EFAs would be appointed by the end of October but that an EFA for Wales was unlikely to be recruited before the end of the year.

Export Credit Financing

- 5.3 The Council noted that the Chancellor of the Exchequer had announced a £5 billion Export Refinancing Facility (ERF) to be operated by UKEF. Mr Dodgson said the announcement had been made in response to concerns about the ability of the banks to provide the long-term lending required to finance capital goods exports. Mr Dodgson explained that the principal purpose of the ERF was to ensure the supply of long-term funding to overseas buyers who purchased capital/semi-capital goods and services from British exporters supported under UKEF guarantees. Mr Dodgson said that work was in hand to design and develop the facility along with HM Treasury and the British Bankers

Association. Mr Dodgson added that it would be necessary to consult the EU Commission so it could be satisfied that the facility did not constitute State Aid. It was hoped the facility would be available from 2013.

All Party Parliamentary Group on International Corporate Responsibility

- 5.4 The Council noted that UKEF had given oral evidence to the All-Party Parliamentary Group (APPG) on International Corporate Responsibility. Mr Dodgson said that the Chief Executive had represented UKEF. The APPG had asked questions on a range of topics including environmental, social and human rights issues, the new Short-Term products, the efforts being made to raise awareness of UKEF's products and services among SMEs, and access to bank funding.
- 5.5 The Chairman reported that he had provided evidence to the APPG. The Chairman explained that he had participated in a roundtable discussion involving representatives of Airbus, Amnesty International and the Jubilee Debt Campaign. He said that there were a range of views on UKEF expressed by the participants.
- 5.6 Mr Dodgson told the Council that the APPG report was expected to be published sometime in October.

Chief Executive

- 5.7 The Council noted Patrick Crawford's resignation as Chief Executive. Mr Dodgson said that his last day of service would be 15 November. Mr Dodgson told the Council that David Havelock, UKEF's Director of the Credit Risk Group, would become interim Chief Executive until a successor was appointed following an open competition. The Council expressed its gratitude to Mr Crawford for his work with the Council during his time as Chief Executive.

Head of Environmental Assessment Unit retirement

- 5.8 Mr Dodgson informed the Council that David Allwood, the Head of the Environmental Assessment Unit (EAU), had retired. The Council noted that Mr Allwood had been instrumental in developing UKEF's environmental policies, in establishing UKEF's capability to undertake ESHR due diligence and in contributing to the development of rules and practices by the OECD to inform the way in which export credit agencies should take account of the environmental impacts of the projects they are asked to support. The Council expressed its gratitude to Mr Allwood for his work with the Council. The Council requested an update on the EAU's resourcing at its next meeting.

Action: Helen Meekings

6 EXPORTS SUPPORTED BY UKEF NOT SCREENED, CATEGORISED OR REVIEWED FOR THEIR ENVIRONMENTAL, SOCIAL OR HUMAN RIGHTS IMPACTS

- 6.1 The Council considered a report that detailed exports supported by UKEF during 2011-12 which were not screened, categorised or reviewed for their Environmental, Social and Human Rights (ESHR) impacts in line with the *OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence* (OECD Common Approaches). The Chairman reminded the Council that it had considered a similar report for the 2010-11 financial year at its meeting in September 2011 in fulfilment of a commitment made by the Government that the Council should do so in its response to a public consultation in 2010 on proposed revisions to UKEF's Business Principles. He explained this had come about because of concerns expressed by respondents, principally NGOs, that the adoption of a new policy, whereby UKEF would comply with international agreements that apply to export credit agencies and not separately operate and additionally create policies which go beyond those agreements, would result in certain exports not being vetted for their ESHR impacts. The NGOs were

particularly concerned that this change could lead to a heightened risk in the use of harmful child labour in business supported by UKEF.

- 6.2 The Chairman reminded the Council that it had concluded a change in the new policy was not warranted but had decided that it should consider the matter again at the end of the 2011-12 financial year because it was likely there would be an increase in export contracts supported but not subject to ESHR due diligence as a result of the introduction of the new Short-Term products.
- 6.3 The Council noted that all the cases supported in 2011-12 had been disclosed in UKEF's Annual Report and Accounts although in certain cases the names of the exporter and buyer had been withheld to protect commercial confidentiality.
- 6.4 The Council noted that there had been an increase in the number of issued Export Insurance Policies (EXIPs) compared to the previous year. Mr Dodgson explained that exports covered under the EXIP almost always fell outside of the ambit of the OECD Common Approaches because the credit terms involved less than 2 years credit.
- 6.5 The Council asked if the same application form was used whether or not the export contract was above or below the OECD Common Approaches thresholds. Mr Dodgson confirmed that each product had its own application form. In the case of the EXIP product, no questions were included about ESHR impacts. Mr Dodgson reminded the Council that, following the adoption of the new OECD Common Approaches, the Contract Bond Support and Export Working Capital schemes fell outside the OECD Common Approaches and therefore the application forms no longer included questions about ESHR impacts. Mr Dodgson also informed the Council that the application forms for the new Short-Term products were in the process of being reviewed to make them clearer.
- 6.6 The Council asked how UK Export Finance interpreted "screening" as set out in the OECD Common Approaches against a background where it appeared that ECAs had differing approaches. Mr Dodgson explained that all cases over 2 years credit, irrespective of value, were automatically referred to the EAU who had responsibility for screening and, where appropriate, categorising and

reviewing projects. Mr Dodgson reminded the Council that cases involving less than 2 years credit did not fall within the ambit of the OECD Common Approaches and those projects involving 2 years credit or more but under SDR10m (approximately £10m) and not near a sensitive site did not need to be categorised or reviewed for their ESHR impacts. Therefore the screening process included being satisfied that a project fell within the ambit of the OECD Common Approaches and, if it did, determining whether the project involved supply to existing operations, whether it was located at or near a sensitive site and whether it was above or below SDR10m in value. Mr Dodgson said that the confusion appeared to have arisen because “screening” had been muddled with “reviewing” by some ECAs when they responded to an OECD survey some years ago. He said that the new OECD Common Approaches had made the process clearer.

- 6.7 Mr Dodgson reminded the Council that the *OECD Recommendation on Bribery and Officially Supported Export Credits* (the OECD Bribery Recommendation) applied to all exports supported by member export credit agencies. In order to comply with the OECD Bribery Recommendation, UKEF routinely undertook anti-bribery due diligence including undertaking adverse history checks on the parties involved in the transaction, ascertaining whether the exporter had been disbarred from contract tenders by the International Financial Institutions, checking whether EU procurement rules had been breached, and determining whether there had been any adverse findings by OECD National Contact Points under the OECD Multi-National Guidelines. He added that UKEF also routinely consulted FCO Posts in the relevant export markets.
- 6.8 The Council asked whether issues that had a bearing on ESHR matters that came to light as a result of this anti-bribery due diligence would prompt UKEF to exercise discretion and consider such ESHR impacts on those cases which otherwise fell outside the OECD Common Approaches. Mr Dodgson said if UKEF became aware of ESHR issues related to an export transaction e.g. use of harmful child labour, it would not ignore these; Ministers were entitled to exercise discretion and, as necessary, attach conditions to address ESHR issues. The Council asked whether among the exports supported by UKEF in 2011-12 that had not been screened, categorised or reviewed for their ESHR

impacts there were any which should have been considered in more detail. Mr Dodgson said he did not believe there were.

- 6.9 The Council asked about two export contracts under SDR 10m that had been supported involving the supply of equipment to two coal mines in Russia. Mr Dodgson explained that the UK supplies were for the replacement of obsolete mining equipment being used in two existing mines. Ms Meekings said that the projects had not been reviewed for their ESHR impacts because the amounts involved were below SDR 10m and not near a sensitive site but, as a result of other due diligence, UKEF had become aware of a report by the Health and Safety Executive (HSE) into equipment manufactured by the UK supplier and had taken this into account. The problems identified by HSE were related to a failure of maintenance, rather than of manufacture.
- 6.10 The Council noted that where an exporter sought credit insurance from UKEF against the risk of the buyer not paying, the buyer would be unaware the exporter had done so because the provision of cover by UKEF was confidential. This made it difficult for the exporter to seek ESHR information from the buyer, as the exporter would not normally be expected to have knowledge of potential ESHR impacts. Moreover, the export contracts often involved a straightforward supply of goods and the exporter would not necessarily know their end use, whereas the OECD Common Approaches was focussed on projects in fixed locations.
- 6.11 The Council noted that the policy change meant applications could be processed more quickly thus achieving the shorter commercial deadlines to enable the exports to proceed. This also applied where UKEF support was provided under the Contract Bond and Export Working Capital schemes which now always fell outside of the ambit of the new OECD Common Approaches.
- 6.12 In the light of experience in 2011-12, the Council felt that a review of the policy did not appear to be justified, bearing in mind the Government's intentions related to UK competitiveness and a level playing field for UK exports when the policy change was made. However the Chairman said that following the Council's discussion with Amnesty International, which had touched on some of the issues, it would wish to consider further some of the matters that had been

discussed. Meanwhile the Council requested that the report should be published with the minutes of the meeting.

Action: Secretary

7 COALITION COMMITMENT ON SUPPORT FOR GREEN EXPORTS

- 7.1 The Council noted the Written Ministerial Statement to Parliament by the Secretary of State of July 2012 regarding UKTI and UKEF support for green technology exports. Mr Dodgson reminded the Council that it had been briefed on UKEF's work to engage with exporters in the green sector at its meeting in December 2011. He said that UKEF was continuing its efforts to make its products and services known to trade bodies and exporters in the sector.
- 7.2 The Council noted the definition of "dirty" fossil-fuel energy production projects, i.e. "dirty" should be taken as referring to projects which produce pollution in excess of international environmental standards. Ms Meekings said that the standards which UKEF applied were those set out in the OECD Common Approaches, normally those of the World Bank Group. Ms Meekings said that presently the standards did not include absolute limits on greenhouse gas emissions.
- 7.3 Ms Meekings explained that UKEF would now be seeking to strengthen the relevant standards to include limits on emissions of greenhouse gases. She reported that UKEF had already engaged with the Department for International Development (DFID), which represents the UK at the World Bank Group, in order to take this initiative forward. Ms Meekings commented that the work would involve securing multilateral agreement and that this was likely to take time due to the disparate views among member countries of the World Bank Group on its energy policies.
- 7.4 The Council asked if the Government had considered whether there should be a ban on support for dirty fossil fuel projects. Mr Dodgson explained that Ministers had been advised that under UKEF's statute it would be unlawful to ban classes of exports solely on environmental grounds. The Government did

not consider it should seek new legislation to exclude exports from receiving UKEF support.

8 SOVEREIGN DEBT

- 8.1 Mr Dodgson informed the Council that UKEF had been undertaking an exercise to establish what further information could be published about the make-up of sovereign debts owed to UKEF. This had been conducted in response to interest from Members of Parliament and other parties, including the Jubilee Debt Campaign (JDC). The debts related to export contracts largely underwritten by UKEF over thirty and forty years ago, which had been rescheduled during the widespread sovereign debt crises among developing countries in the 1980s. Mr Dodgson said that UKEF was aiming to publish information about the complexion of the debts by country and trade sector by the end of October.
- 8.2 Mr Dodgson commented that the exercise had been very resource intensive because of the volume of debts involved. The problem had been exacerbated because of the age of the debts; the files were old and in some cases did not contain full records and information held on old IT legacy systems could not be easily retrieved.
- 8.3 The Council recalled the interest of JDC which had campaigned for an audit of debts to be carried out. Mr Dodgson reminded the Council that the Secretary of State had declined to conduct an audit.
- 8.4 The Council noted the outcome of the exercise. Mr Dodgson told the Council that the information would be placed in the library of the House of Commons and published on UKEF's website.

9 FREEDOM OF INFORMATION REQUESTS

9.1 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.

9.2 The Council noted that information released included the report produced by UKEF on the ESHR impacts in relation to its support for a line of credit for Petrobras. The Council asked for a briefing on this project at its next meeting.

Action: Secretary

9.3 The Council noted that an information request had been received in relation to new reporting by ECAs (of European Union countries) to the EU Commission on how they addressed ESHR issues. The Commission was responsible for collating the response and making a report to the European Parliament. The Council requested a briefing at its next meeting about this reporting requirement.

Action: Secretary

10 BUSINESS SUPPORTED

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

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.

Larry Lily

Secretary

REPORT TO THE EXPORT GUARANTEES ADVISORY COUNCIL

EXPORTS SUPPORTED BY ECGD IN 2011-12 NOT SCREENED, CATEGORISED OR REVIEWED FOR THEIR ENVIRONMENTAL, SOCIAL OR HUMAN RIGHTS IMPACTS

1 At its meeting on 12 September 2011, the Advisory Council requested ECGD to report on the export contracts that it had supported in 2011-12 which were not screened, categorised or reviewed for their environmental, social and human rights impacts (ESHR) taking account of the OECD Council Recommendation on Common Approaches on Officially Supported Export Credits and Environmental and Social Due Diligence (OECD Common Approaches). The OECD Common Approaches provides that export contracts do not need to be screened, categorised or reviewed for their ESHR impacts as follows:

(a) Export contracts that do not need to be screened

where the repayment period is less than 2 years.

(b) Export contracts that should be screened but do not need to be categorised or reviewed

where the repayment period exceeds 2 years and where the value is less than SDR10m (about £10m) and the related project is not located at or near a sensitive site.

These are referred to as the 'OECD Thresholds'.

2 At Appendix A are details of export contracts supported in 2011-12 which involve repayments of less than 2 years. At Appendix B are details of export contracts supported involving repayment of more than 2 years but less than £10m where the related projects (if any) were not identified as being located near a sensitive site¹.

¹ ECGD's Environmental Advisory Unit is responsible for determining if a project is located at or near a sensitive site.

- 3 During 2011-12, 24 export contracts were supported with repayments of less than 2 years and 8 export contracts were supported involving repayments of more than 2 years but less than £10m where the related project was not located at or near a sensitive site. The outturn for 2010-11 was 6 and 3 respectively.
- 4 The increase in the number of export contracts supported that were not screened, categorised or reviewed for their ESHR impacts in 2011-12 compared with 2010-11 is largely the result of the introduction of the new Short-Term Products.² Of the export contracts supported in 2011-12, 9 related to the new Bond Support product and 15 involved the provision of credit insurance under the new revamped EXIP product. The 8 export contracts that were supported involving a repayment period of more than 2 years but under £10m not located at or near a sensitive site were all supported under ECGD's finance products – the Buyer Credit Guarantee and the Supplier Credit Guarantee.
- 5 Since the adoption by the OECD Council of the new OECD Common Approaches in June 2012, export contracts involving military equipment and agricultural supplies now fall outside of the scope of the OECD Common Approaches. Similarly, products where the risk is on the exporter e.g. bond support and working capital, do not fall within the scope of the OECD Common Approaches.

ECGD
September 2012

² In 2011, ECGD expanded its business domain to include support for exports of non-capital/semi capital goods and services and introduced a revamped Export Insurance Policy and a Bond Support Scheme and Exporters Working Capital Scheme to provide support for exporters, particularly SMEs, who could not obtain support from the private market.

Appendix A

FY 2011-12

Cases involving less than 2 years credit (see note 1)

Exporter	Goods/services - description of project	Contract Value	Buyer	Location of project	Issued date	ECGD product
(see note 2)	Training services	£26k	(see note 2)	Abu Dhabi	09/09/2011	EXIP
(see note 2)	Water treatment plant	£5.9m	(see note 2)	Bahrain	17/11/2011	EXIP / BIP
Clyde Union Holdings	Pumps and spares	£40m	Chinese Nuclear Energy Industry Corp	China	27/05/2011	BS
Clyde Union Holdings	Pumps and spares	£305k	Jiangsu Jintung Surfactant Corp	China	05/07/2011	BS
(see note 2)	Air traffic control equipment	£1.7m	(see note 2)	Dubai	30/12/2011	EXIP
(see note 2)	Provision of end of arm tooling and assembly workstations	£167k	(see note 2)	Germany	22/12/2011	EXIP
Clyde Union Holdings	Spare parts for pumps	£318k	Saipem Energy Services SpA	Italy	13/07/2011	BS
(see note 2)	Telecommunications - hardware and software	£554k	(see note 2)	Korea, Republic of	28/09/2011	EXIP
Caley Ocean Systems Ltd	Research vessel equipment	£2.8m	Hyundai Heavy Industries Co Ltd	Korea, Republic of	13/02/2012	BS
(see note 2)	Wallpaper and decorative accessories	£920k	(see note 2)	Libya	15/12/2011	EXIP
Contained Air Solutions Limited	Clean air containment units	£142k	Mutiara Gemilang Engineering SDN.BHD.	Malaysia	11/11/2011	EXIP
WRG Creative Communication Ltd	Social events ceremony	£12.4m	Qatar Petroleum	Qatar	12/08/2011	BS
WRG Creative Communication Ltd	Overlay structures for the Arab Games	£3m	Qatar Olympic Committee	Qatar	18/08/2011	BS
(see note 2)	Automotive ignition cables and components	£1.2m	(see note 2)	Russian Federation	07/03/2012	EXIP
(see note 2)	Supply of luxury packaging for vodka	£1.9m	(see note 2)	Russian Federation	21/02/2012	EXIP
(see note 2)	Supply of wallpaper	£876k	(see note 2)	Russian Federation	21/07/2011	EXIP
(see note 2)	Supply of wallpaper	£1.8m	(see note 2)	Russian Federation	29/07/2011	EXIP
(see note 2)	Automotive spare parts	£43k	(see note 2)	Saudi Arabia	22/12/2011	EXIP
Stage Technologies Ltd	Stage engineering for major cultural centre	£5.2m	First Gulf Company for Suppliers and Contracting Ltd	Saudi Arabia	02/02/2012	BS
Clyde Union Holdings	Water pumps	£297k	Moncofa	Spain	24/06/2011	BS
(see note 2)	Telecommunications - hardware and software	£1.6m	(see note 2)	Taiwan	30/09/2011	EXIP
Clyde Union Holdings	Pumps and spares	£1.1m	Enpro	Turkey	15/07/2011	BS
(see note 2)	Military vehicles	£680k	(see note 2)	Turkey	07/09/2011	EXIP
(see note 2)	Weather stations	£49k	(see note 2)	Zambia	08/03/2012	EXIP

Contract Value Total: £82.9m

1. Excluding aerospace exports.
2. Details not publicly disclosed for reasons of commercial confidentiality.

Appendix B

FY 2011-12

Cases involving more than 2 years credit with a contract value of less than SDR 10 million (see note 1)

Exporter	Goods/services - description of project	Contract Value	Buyer	Location of Project	Issued Date	ECGD product
Johnson Matthey plc	Supply of catalysts for a methanol plant	£5.9m	Azerbaijan Methanol Company	Azerbaijan	09/02/2012	SCF
Tetronics Limited	Supply of thermal plasma furnace for waste treatment and associated engineering services	£2.6m	TSL Engenharia Manutencao E Preservacao Ambiental Ltda	Brazil	06/05/2011	SCF
Apollo Sheeters Ltd	Paper cutting equipment and delivery system	£325k	Plega Envases de Occidente SA de CV	Mexico	01/12/2011	SCF
Gentec Energy plc	Supply, installation and commissioning of a Compressed Natural Gas delivery system	£6.0m	Green Fuels Ltd	Nigeria	08/04/2011	SCF
Joy Mining Machinery	Supply of underground mining equipment for Kirov III project	£4.8m	Siberian Coal & Energy Company	Russian Federation	08/08/2011	SCF
Joy Mining Machinery	Underground mining equipment for Sibirginskaya and Olzeraskaya Mines	£8.7m	Southern Kuzbass Coal Company OAO	Russian Federation	13/09/2011	SCF
Perry Slingsby Systems Limited	Remotely operated vehicles for a diving support vessel	£4.5m	DOF Subsea Pte Ltd	Singapore	02/09/2011	BC
Asmag UK Limited	Copper pipe manufacturing facility	£965k	Wieland Copper Products LLC	United States of America	17/10/2011	SCF

Contract Value Total: £33.8m

1. Excluding aerospace exports.