

EXPORT GUARANTEES ADVISORY COUNCIL

MINUTES OF MEETING HELD ON 23 May 2016

Present: Mr Andrew Wiseman (Chair)
Ms Gillian Arthur
Mr Alistair Clark
Ms Alexandra Elson
Mr John Newgas

Apologies: Mr Neil Holt
Ms Anna Soulsby

In attendance: Mr Louis Taylor
Mr Pat Cauthery
Mr Chris Basiurski
Dr Helen Meekings
Mr Robin Ogleby
Mr Gareth Waterhouse
Ms Samantha Bramley
Mr Elliot Brookes

Secretary: Ms Arabella Rothwell

1. APOLOGIES FOR ABSENCE

1.1. Apologies were received from Mr Neil Holt, Ms Anna Soulsby and Mr Gordon Welsh.

2. MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING

2.1. The draft minutes of the February meeting were approved with minor amendments and would be published on the UKEF website.

3. CHIEF EXECUTIVE'S UPDATE

3.1. Mr Taylor provided an update on the end of year results. The volume of business supported in 2015-16 was down on the previous year. This was due

in part to a high level of liquidity in commercial markets and a number of large transactions slipping into 2016-17 to reach financial close. Mr Taylor commented that despite this the number of exporters supported by UKEF had increased from 160 in 2014-15 to 179 in 2015-16. UKEF was predicting a stronger year in 2016-17. The Annual Report and Accounts would be published later this year.

- 3.2. Mr Taylor informed the Council about Lord Price's first few months as Minister for Trade. Lord Price had visited Mexico, Columbia and Argentina since commencing in the role. He also appeared before the Business, Innovation and Skills Select Committee's enquiry into Exports and the Role of UK Trade and Investment (UKTI), alongside Mr Taylor and the Chief Executive of UKTI, Dr Catherine Raines.
- 3.3. Mr Taylor reported on the progress of the bank delegation programme and the Concessional Export Credit Facility. A trial of the bank delegation programme has commenced with Santander and work was underway with another bank to become a second participant. Discussions were still ongoing with the Department for International Development (DfID) and HM Treasury regarding the next steps for the proposed Concessional Export Credit Facility. The Council commented that, to ensure consistency and reduce confusion for the private sector, it was important there were not too many discrete pots of government funding for aid projects.
- 3.4. Mr Taylor reported that a revised text of the *Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence* (OECD Common Approach) was adopted by the OECD Council in April 2016. UKEF also adopted the Equator Principles on the 31 March 2016. UKEF's Environmental Assessment Unit (EAU) held a number of awareness raising sessions across the department prior to and following adoption. In parallel to this UKEF had also published its policy and practice statement on environmental, social and human rights due diligence and monitoring, which the Council had previously reviewed.

- 3.5. Mr Taylor informed the Council that members of the EAU had attended, as an observer, the bi-annual working group meeting on environmental and social safeguards of the multilateral financial institutions held at the European Bank for Reconstruction and Development. Members of EAU had provided an update together with US Exim on the OECD Common Approaches and the *OECD Sector Understanding on Support to Coal-Fired Power Stations*. EAU members also attended the IAIA (International Association on Impact Assessment) Annual Conference in Nagoya, Japan and provided a presentation on 'an export credit agency's use of impact assessment'.
- 3.6. Mr Waterhouse updated the Council on the progress of the review of the *OECD Council Recommendation on Bribery and Officially Supported Export Credits*. At the last OECD meeting, a number of ECAs had presented their approach and processes under the current agreement. At the next OECD meeting in June, there would be a full day workshop and OECD members would discuss a survey on current practices. UKEF would provide the Council with an update on the OECD discussions at the next meeting.
- 3.7. The Council enquired about the progress of providing support to companies looking to export to Iran. Mr Taylor responded that UKEF was working with UK and other banks to investigate options to open up business flows.

Action: UKEF to provide an update on the review of OECD Council Recommendation on Bribery and Officially Supported Export Credits at the next meeting.

4. EGAC ANNUAL REPORT

- 4.1. The Council considered a draft annual report of its activities during 2015-16. The report would feature in the 2015-16 UKEF Annual Report and Accounts. The Chair asked Council Members to provide any comments to the Secretariat.

Action: Council members to submit comments to the Secretariat.

5. ENVIRONMENTAL, SOCIAL AND HUMAN RIGHTS INPUT TO UKEF ANNUAL REPORT AND ACCOUNTS

- 5.1. The Council considered UKEF's Environmental, Social and Humans Rights (ESHR) input to the 2015-16 UKEF Annual Report and Accounts.
- 5.2. The Council noted that the report highlighted the positive influence the EAU had on project developers in managing environmental and social risks, and the added value that it brought to projects both before and after providing support.

6. AIRBUS

- 6.1. Mr Taylor informed the Council that UKEF had received information from Airbus relating to its historical use of overseas agents. UKEF had referred this information to the Serious Fraud Office (SFO). Mr Taylor noted that it would be for the SFO to decide whether any further action was necessary.
- 6.2. Mr Taylor reported that UKEF was seeking assurances around Airbus's current practice with regard to overseas agents. It was hoped that this process could be quickly concluded.
- 6.3. The Council enquired about the response from other ECAs. Mr Taylor informed the Council that the French and German ministries and their respective ECAs were fully engaged in the current process and had agreed that until there was better clarity no further export credit would be offered to Airbus by all ECAs.
 - **Action: The Council asked to be kept up to date of progress of the issue.**

7. SRI LANKA RURAL BRIDGES POST-ISSUE MONITORING

- 7.1. The EAU gave a presentation on a recent post-issue monitoring visit to a project supported by UKEF in Sri Lanka, involving the construction of over 500 bridges in rural areas. The project commenced in 2011 and UKEF previously conducted a post-issue monitoring visit for the project in 2014. The project had required UKEF's initial close involvement to build the capacity of the exporter in their role

as lead contractor in managing the project's environmental and social risks and impacts. UKEF's role had changed as capacity had grown and now was more a monitoring than a capacity building role.

- 7.2. The EAU reported that last year's election in Sri Lanka had resulted in a change in the ministry responsible for implementing the project. UKEF had worked hard to establish relationships in the new ministry. UKEF had worked with the ministry to appoint a new Environmental Monitoring Consultant (EMC), following the departure of the previous consultant and to update the monitoring framework. The new EMC accompanied the EAU during the site visit, which provided the opportunity for UKEF to discuss monitoring requirements for the project.
- 7.3. The EAU discussed some examples of good environmental and social practice they observed during their site visit. However they noted there were inconsistencies between sites, particularly in regards to health and safety practices. The EAU would continue to work with the exporter and the EMC to ensure continued improvement.
- 7.4. The Council enquired whether there was a process in place to monitor the risks of floods and climate change on the bridges. The EAU reported that the bridges were constructed to take account of climate change induced flooding. The exporter had also employed many local staff on construction sites some of whom were able to provide local knowledge on flooding risks.
- 7.5. The Council thanked the EAU members for their presentation.

8. ESHR CONDITIONS IN UKEF LOANS

- 8.1. Dr Meekings and Mr Basiurski provided the Council with an overview of work UKEF was undertaking reviewing Environmental and Social (E&S) clauses in loan agreements. UKEF was examining the consistency and clarity of clauses and related definitions. It had also examined how issues related to project

classification and the magnitude of E&S risks are dealt within loan documentation.

- 8.2. E&S conditions are always negotiated on a case-by-case basis. This review aims to improve consistency in how E&S conditions are negotiated and align these with general best practice guidance, such as that provided by the Equator Principles.
 - 8.3. The Council enquired whether there had been any feedback on UKEF's work. Mr Ogleby reported that the work had been undertaken in consultation with UKEF underwriters and had generally been well received by those transaction counterparties who had seen it. Dr Meekings advised the Council that UKEF had also held discussions with the OECD Export Credit Group's E&S practitioners to learn from other ECAs' experience.
 - 8.4. The Council welcomed this initiative to make E&S clauses clearer and more concise. The Council suggested UKEF consider how best to monitor the management of E&S requirements post guarantee issue.
- **Action: The Council asked to be kept up to date of progress of the issue.**

9. SUSTAINABLE LENDING

- 9.1. Mr Waterhouse provided the Council with an update on the current discussions in the OECD on the *Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low-Income Countries* (the Principles). The International Monetary Fund's (IMF) new debt policy came into effect in June 2015, and this had resulted in the Principles becoming out of date.
- 9.2. Mr Waterhouse discussed with the Council how countries are classified under the new IMF Debt Policy and the proposed changes to the Principles being discussed by the OECD. Mr Waterhouse asked the Council to consider a number of issues including what the interaction between the World Bank/IMF

and the Principles should be and in what circumstances ECAs should seek assurances from the borrowers. The Council noted that both the IMF and World Bank debt limits should be taken into account under the Principles.

9.3. The Council enquired about the impact of these proposed changes on UKEF. Mr Waterhouse responded that the impact was likely to be negligible and UKEF would continue to work with DfID and Treasury in order to avoid providing support for unsustainable debt.

9.4. The Principles would be discussed at the OECD meeting in June 2016, UKEF would provide an update on the status of the negotiation at the next EGAC meeting.

- **Action: The Council asked to be provided with an update on the OECD discussion of the Principles at the next meeting.**

10. FOI UPDATE

10.1. The Council noted the information requests made under the information legislation during 2015-16 and UKEF's performance in responding to them. The Council noted the number of FOI requests had increased on the previous year and the department had maintained the percentage of requests completed within the statutory time limit at 92%. The Council also noted UKEF's recent responses to requests for information.

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.

12. BUSINESS SUPPORTED

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

13. ANY OTHER BUSINESS

- 13.1. Mr Taylor informed the Council that Mr Gordon Welsh had been appointed as the new Head of Business Group. The process was underway to appoint a new Head of Civil, Infrastructure and Energy and Head of Aerospace and Defence.
- 13.2. Mr Waterhouse discussed with the Council the new tailored review process that had replaced the Triennial Review for non-departmental public bodies. Mr Waterhouse also discussed the government's new classification of public bodies. UKEF would discuss with the Council the review process at the next meeting.

Arabella Rothwell

Secretary