



House of Commons
Trade and Industry Committee

The Work of the Export Credits Guarantee Department

Sixth Report of Session 2003–04

Volume I



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Report, together with formal minutes

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The Trade and Industry Committee

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Footnotes

In the footnotes of this Report, references to oral evidence are indicated by 'Q' followed by the question number. References to written evidence are indicated in the form 'APP' followed by the page number.

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Summary

The Export Credits Guarantee Department (ECGD) performs a valuable role to assist UK exporters through the provision of medium- and long-term financial guarantees, insurance and reinsurance.

It has been suggested that such services could be provided from commercial sources. We are not convinced that all of the functions of the ECGD could be performed by the private sector. Analysis of the case for continued ECGD support for exporters would be strengthened by a systematic examination of the costs and benefits derived by the UK economy from companies which are assisted in maintaining a manufacturing base in this country as a result of the Government's support for exports.

The ECGD's Mission and Status Review 1999–2000 committed the Department to improving its service to exporters while ensuring that its operations were consistent with the Government's objectives of promoting sustainable development, human rights, good governance and trade. It further recommended that ECGD move towards a capitalised funding system in the form of a government Trading Fund. The Review was published in July 2000. Progress on the implementation of its key recommendations, in particular on work towards Trading Fund status, has been slower than originally expected. The delay has generated uncertainty over ECGD's future role and the perception among exporters and their customers of a lack of commitment on the part of the Government. While the delay in the establishment of the Trading Fund is to be regretted, it is vital that a project of this type and value is founded on the correct basis. It is now essential, however, that Ministers complete their deliberations and publish their future plans for ECGD as quickly as possible.

It has not been possible, on the evidence available to us, to form a view of the appropriate level of capitalisation for the new Trading Fund. Whatever level is decided upon, however, it will be necessary for the new funding arrangements to have an in-built mechanism to review the capitalisation of the Fund and, if necessary, to increase it. Such a process should be subject to Parliamentary scrutiny.

Exporters felt that the performance of ECGD compared unfavourably with Export Credit Agencies in other countries. Our predecessor Committee received similar complaints during its inquiry of more than four years ago. It would seem that the financial constraints within which ECGD works and the administrative procedures introduced as a result of the Mission and Status Review have not improved the service which the Department provides to exporters. However exporters need to recognise that whilst ECGD remains underwritten by the Government there will inevitably be a need for a cautious approach to ensure that the taxpayer is not exposed to unnecessary risk.

It has been suggested to us that ECGD support should be confined to projects directly related to the Government's objectives for sustainable development. A clearer statement of ECGD's policy in support of sustainable development would draw further attention to the Department's willingness to support projects which contribute to the Government's objectives, and not those which do not, while at the same time offering clarity to companies

which are concerned about the Department's continued commitment to export facilitation in the light of its new responsibilities.

We acknowledge the progress which ECGD has made on the development of its procedures for assessing the environmental and other impacts of projects for which its support is requested. We believe that the further definition of the environmental standards to which ECGD and other ECAs should work would be useful. We welcome ECGD's improved procedures for combating bribery and corruption. As with the Department's standards for the protection of environmental standards and human rights, the effectiveness of these measures will depend on the rigour with which they are to be implemented.

During the course of this inquiry we have received several representations critical of the Department's involvement in the Baku-Tbilisi-Ceyhan (BTC) pipeline project. Such representations merit further investigation than we have been able to undertake thus far and, in order not to delay publication of our more general comments on ECGD's performance, we have decided that the BTC project will be the subject of separate consideration.

1 Introduction

1. The Export Credits Guarantee Department (ECGD) is the UK's official Export Credit Agency (ECA). It is a separate Government Department reporting to the Secretary of State for Trade and Industry and derives its powers from the 1991 Export and Investment Guarantees Act. Its 400 staff is based in London Docklands and in Cardiff. Its objective is to assist UK exporters of goods and services win business, and UK firms to invest overseas, by providing guarantees, insurance and reinsurance against loss, taking into account the Government's wider international policy agenda. It provides them with insurance and/or backing for finance to protect against non-payment and currently operates on a break-even basis, charging exporters premium at levels that match the Department's¹ view of the risks and costs in each case.

2. ECGD was established as the world's first export credit agency in 1919 as a means of helping British industry to recover their markets after the First World War. While the precise nature of the assistance and products offered by the Department has changed over the years, its key function has been to provide insurance cover or guarantees against the risk that exporters (or the financial institutions which support them) will not be paid by overseas banks or debtors. Now every industrialised nation has an ECA, although the status and method of working of each agency may differ.

3. Under the 'Next Steps' initiative, agencies such as ECGD were required to review their functions and status on a regular basis. The result of the last such exercise, the "ECGD Mission and Status Review 1999–2000", was published in July 2000.² As well as the normal departmental consultation process, the review was informed by two external reports: National Economic Research Associates were commissioned to assess the economic rationale for government funding of export credit insurance, while KPMG reviewed ECGD's systems for risk management. The review itself, however, was conducted by ECGD rather than the Department for Trade and Industry or an external analyst. In order to provide transparency and Parliamentary input to the review process, our predecessor Committee undertook an inquiry which paralleled the ECGD review and published a Report,³ while the International Development Committee undertook a brief inquiry into the developmental aspects of ECGD's work.⁴

4. The Mission and Status review confirmed the role of the Department in supporting UK exporters, and set out a new approach to its operations. Key elements of this included:

- Greater openness and transparency to ECGD's operations;
- A wider remit and membership for the Export Guarantees Advisory Council (EGAC);
- More focus on the needs of small and medium-sized exporters and investors;

¹ In this Report the term 'Department' refers to the ECGD unless otherwise specified.

² The ECGD Mission and Status Review, Cm 4790, July 2000.

³ Trade and Industry Committee, Third Report of Session 1999–2000, *The Future of the Export Credits Guarantee Department*, HC 52

⁴ International Development Committee, First Report of Session 1999–2000, *The Export Credits Guarantee Department – Developmental Issues*, HC 73

- Ensuring ECGD's policies and activities were consistent with the Government's objectives of promoting sustainable development, human rights, good governance and trade; and
- The transfer of ECGD's funding to a capitalised funding system i.e. a Government Trading Fund.

5. ECGD subsequently published a statement of Business Principles in December 2000 which addressed these and other issues identified by the Mission and Status Review.

6. In order to assess the progress made by the Department since the publication of the Review we decided to undertake a further inquiry into its work, taking account of:

- The effect of the revision and implementation of ECGD's objectives and business principles;
- The relationship between ECGD, its customers and other Government organisations with responsibilities for business development and trade promotion;
- The Department's role in the promotion of sustainable development;
- ECGD's relationship with commercial banking and insurance companies, and the development of the private export credit and reinsurance sector; and
- ECGD's corporate governance.

7. We received written submissions from a number of companies, industry bodies, non governmental organisations (NGOs) and individuals. We heard oral evidence from the British Consultants and Construction Contractors Bureau (BCCB), the British Exporters' Association (BExA), the Society of British Aerospace Companies (SBAC) and the Confederation of British Industry (CBI) who gave their views as representatives of ECGD's customers. We also took oral evidence from Transparency International (UK), the Campaign Against the Arms Trade (CAAT), the British American Security Council (BASIC), the Corner House and Friends of the Earth (FoE) and senior officials from ECGD itself. We are grateful to these witnesses and to all those who submitted written evidence.

8. During the course of our inquiry we received a significant body of evidence, written and oral, from NGOs and individuals which raised questions about ECGD's support for the Baku-Tbilisi-Ceyhan pipeline project and the Department's compliance with its own business principles as they relate to the Government's objectives for sustainable development, environmental protection, the protection of human rights and the prevention of corruption. In their evidence to us ECGD officials disputed the claims made against the organisation. Several of the issues raised require detailed consideration and further consultation with a number of witnesses, and this process will take some time to complete.

9. It is our normal practice to complete our consideration of all of the evidence gathered during an inquiry before producing a report to the House. On this occasion, however, we were informed by ECGD that a decision was expected from Ministers, before the Summer Recess, on key issues associated with the future operation of the

Department, particularly on its establishment as a Trading Fund.⁵ We decided that, in order that our Report can inform the decision-making process within Government on the future status of ECGD and to avoid delay, we would separate consideration of the Department's involvement in the Baku-Tbilisi-Ceyhan (BTC) pipeline project from the other issues that we wished to address. The BTC project will therefore be the subject of a separate Report.

⁵ Q 436

2 ECGD Support to Exporters

10. ECGD provided guarantees to 70 exporters and investors worth £3.5 billion during 2002–03. The guarantees supported UK exports to 44 countries, with Saudi Arabia the largest market. ECGD business over the past five years has been concentrated in the defence and aerospace sectors. Defence exports accounted for 50% of the new business portfolio, aerospace a further 15%. The latter represented a significant decline over previous years. Total premium earned during 2002–03 was £77 million. Total ECGD exposure at the end of 2002–03 was £20.9 billion, down from £23.4 billion in the previous year. China and Nigeria were the top markets for exposure, at £1.85 billion each.⁶

Account and portfolio management

11. The international debt crisis of the 1980s forced ECGD to draw heavily on the Consolidated Fund to meet its obligations and to develop new financial systems to try to prevent such a catastrophic loss recurring. On the privatisation of its short-term business and the introduction of new regulations,⁷ ECGD ring-fenced its guarantees issued prior to 1991 into ‘Account 1’. A new ‘Account 2’ was established for guarantees issued for project business since April 1991 and for Overseas Investment Guarantees.⁸

12. As of April 2003, ECGD’s unrecovered claims under Account 1 stood at £5.4 billion and those under Account 2 at £831 million. In other words, 85% of the principal debt outstanding for recovery by ECGD was incurred prior to 1991 and largely as a result of the global debt crisis of the 1980s. The markets principally contributing to the unrecovered claims under Account 1 were Nigeria, Poland and Iraq. In addition to these sums, moratorium and delay interest of around £4 billion is also outstanding. This represents the interest charged by ECGD on outstanding debts where it is able to do so. Indeed, ECGD has received substantial sums in interest payments for many years as well as recovery of the original principal debt: for example, the Department earned around £158 million of interest on Account 1 in 2002/03. The Department expects to recover 37.5% of amounts outstanding in Account 1, which we were told is typical of the performance of the major ECAs, all of which were affected by the debt crisis.⁹

13. Under these arrangements, ECGD has been able to make a net contribution to the Exchequer since 1991 in all but one year (the exception occurring in 1997–98 as a result of paying significant claims in Indonesia, a majority of which ECGD expects to recover over time).¹⁰ Nevertheless, the debt crisis did leave ECGD with significant liabilities and these have been the focus of both Parliamentary and media interest in recent months.

14. At present, 80% of ECGD’s exposure to risk is concentrated in 20 markets. In implementing the recommendations of the KPMG Risk Management Review,¹¹ ECGD is

⁶ ECGD Annual Report 2002–03

⁷ Export and Investment Guarantee Act 1991

⁸ ECGD Annual Report 2002–03

⁹ APP 10

¹⁰ *Ibid*

¹¹ *ECGD Risk Management Review*, Cm 4792, July 2000

developing a policy of Active Portfolio Management (APM) to achieve a more balanced portfolio in the future by reducing the concentration of existing risk and improving capital efficiency. Progress with the implementation of this policy has been delayed, first by the disruption to reinsurance markets caused by September 11, then by unexpected difficulties with ECGD's plans for capital market and reinsurance risk transfers. The Department is currently evaluating the results of a trial programme of Credit Default Swaps to begin the process of transferring the risk in some of its most concentrated markets to the private sector.¹² ECGD's customers are generally supportive of the introduction of APM. Rolls-Royce told us:

“Active portfolio management will play an essential part in recycling the limited capacity of ECGD's new capital base. The reinsurance of ECGD's risks is a role that the commercial markets should be encouraged to undertake and we believe that the reinsurance market would be receptive to this.”¹³

15. The development of an ECGD strategy of active portfolio management is to be welcomed because it should reduce the Department's exposure in markets where its risk is concentrated. In addition it will help to provide a commercial measure of the cost of the risks being accepted by ECGD.

ECGD's products

16. ECGD provides support to exporters by providing a range of insurance and finance products to supplement the support obtainable from the private sector.

17. The four main insurance services offered are:

- Insurance cover against contract termination or non-payment due for goods and services;
- Cover for exporters or banks against non-payment of credits or loans with repayment periods of 2–10 years;
- Fixed Rate Export Finance (FREF) to allow banks to offer overseas customers of UK capital goods fixed rates on finance by undertaking to pay the difference between the bank's costs (plus an agreed margin) and their actual costs, should these be higher than the loan rate. If the bank's costs (plus margin) fall below the loan rate, the difference is paid to ECGD. In effect, ECGD takes on interest rate risk in addition to the underlying credit risk.
- Political risks cover on overseas equity and loan investment, through the Overseas Investment Insurance scheme.

18. ECGD also provides guarantees to commercial lenders who operate at the interface between UK exporters and overseas borrowers:

¹² APP 10

¹³ APP1

- Buyer Credits provide a 100% guarantee that all sums lent to an overseas buyer or borrower will be repaid. Once the contract and loan are effective the exporter can draw down sums to pay for their goods once they have been exported, or services, once these have been delivered.
- Supplier Credit Financing allows UK companies to sell bills of exchange or promissory notes to their bank. The bank is able to provide the overseas buyer with credit in the knowledge that ECGD has underwritten the risk of default.
- Lines of Credit, based on Buyer Credit or Supplier Credit Finance, covering more than one contract; and
- A Project Financing Scheme for large projects where lenders place reliance on the revenues of the new project for repayment and use the assets and contracts of the project as security for the loan.

19. ECGD's customers were generally satisfied with the range and quality of the financial products and services offered by the Department, although some were critical of what they perceived to be the Department's lack of innovation.¹⁴ However, many were critical of the charges made by the Department for these products and the speed with which they were delivered.

Performance of ECGD compared with other ECAs

20. A common complaint from industry was that ECGD's premium rates were often above the OECD benchmark rates, whereas those charged by other ECAs tended to be at the OECD benchmark. They were concerned that this can have a significant impact on the ability of UK industry to secure contracts. For example, we were told that ECGD had requested higher than standard premium for cover required by Airbus on several occasions when Ex-Im Bank¹⁵ was prepared to offer cover at the OECD guideline of 3%. The result was that Airbus lost business to Boeing.¹⁶ Even when Airbus had been successful in securing business the stance taken by ECGD had driven up the cost of financing the aircraft. It was suggested that this would adversely affect the attitude of the Airbus customer when it came to future aircraft purchases.¹⁷

21. ECGD was also accused of taking longer to reach a decision on applications for cover than other ECAs. This was attributed by some witnesses to the fact that internal working practices had been altered so that ECGD's underwriting teams worked on sector specific lines and no longer had country- or region- specific expertise. This encouraged a more cautious approach than had been taken hitherto, which in turn led to delays in decision-making. The delay was further compounded by the need for prior approval of all underwriting decisions by the Department's Underwriting Committee which had been established since our predecessor Committee last reviewed the work of the Department.

¹⁴ APP 1, APP 5

¹⁵ Ex-Im Bank is the American ECA

¹⁶ APP 16

¹⁷ Q 210

We were told that such caution and delay was a particular hindrance to companies operating in new markets such as countries emerging from conflict, like the Balkan states.¹⁸

22. As an example of ECGD's lack of innovation, BExA and CBI pointed out that, unlike some other ECAs, ECGD did not offer a Bond Guarantee Scheme.¹⁹ Exporters were often required to provide bonds against advance payments made by their buyers under their contracts (Advance Payment Bonds) and to guarantee that their obligations under the contract will be satisfactorily performed (Performance Bonds). BExA alleged that a severe shortfall of capacity in the surety and bank market for contractual bonds created significant difficulty for exporters in raising the bonds required to meet their future contractual obligations. Whilst ECGD and the private insurance market offer coverage for the unfair calling of these bonds ("buyer risk"), no ECGD cover is available to assist the exporter in raising the bonds from their banks or the insurance market ("exporter risk"). BExA told us that several Export Credit Agencies provided exporter risk coverage on bonds in collaboration with the banks, while other ECAs were considering the introduction of such products. ECGD had told BExA and others that it did not consider that exporters had demonstrated a market failure, in that such products were available from the private sector, albeit at significant premium.²⁰

23. The ECGD's own assessment of its performance confirmed some of the perceptions of its customers. A survey conducted by the Department to compare its offering with those of other ECAs concluded that ECGD's main strength was the quality of its product range. The results also showed, however, that ECGD generally had less cover available and was generally more expensive than most other ECAs. The report attributed this disparity in performance to the fact that its competitor ECAs were not required to achieve such rigorous financial targets, and hence may be more heavily subsidised than ECGD.²¹ For ECGD, Mr Weiss²² told us:

"What we do is to charge prices which accurately reflect the risk we are being asked to underwrite, and this is something which in a sense we cannot compromise on if we are to meet the financial targets which Ministers have set for us. In a limited number of countries this can come through in premium rates for us which are higher than the OECD minimum benchmarks, but we have that number of countries down now to about 17."²³

24. ECGD told us that, because of this in-built subsidy, it was unlikely to close the gap between its offering on cover and pricing and that of its international competitors. The Government would instead press for the elimination of export credit subsidies in other countries to deliver a level playing field for UK exporters.²⁴

¹⁸ APP 2, Qq 2-5

¹⁹ APP 5, APP 8

²⁰ APP 5, APP 8

²¹ *Report on the Comparison of Export Credits Guarantee Agencies*, ECGD, February 2003

²² Mr Weiss is Acting Chief Executive, ECGD

²³ Q 448

²⁴ APP 10

25. The Department defended itself against allegations that it took longer than other ECAs to reach decisions on applications for support. It had streamlined its administration systems and introduced a customer charter which, among other things, required ECGD to turn initial requests for an indicative, in-principle, decision within four days of receipt of an inquiry. 70–80% of initial inquiries were now processed within the target and performance was improving.²⁵ ECGD acknowledged that decisions on major projects did take longer than for other ECAs, but again attributed this to the different constraints under which the Department worked.

26. Exporters' complaints about the level of premium charged by ECGD and the time it can take to obtain a decision from ECGD are not new. They were highlighted in the previous Committee's Report more than four years ago. The financial constraints within which ECGD works and the administrative procedures introduced as a result of the Mission and Status Review do not seem to have improved the service which the Department provides to exporters. However exporters need to recognise that whilst ECGD remains underwritten by the Government there will inevitably be a need for a cautious approach to ensure the taxpayer is not exposed to unnecessary risk.

Rationale for ECGD support

27. In 1999 National Economic Research Associates (NERA) was commissioned by the Government to analyse the economic rationale for the provision of export credit insurance by ECGD. NERA concluded that the arguments in favour of the hypothesis that it was economically efficient for ECGD to provide export credit insurance and guarantee were relatively strong; NERA felt that ECGD had the advantage of being a government institution with a good reputation in the field of export insurance, which gave it an advantage over any private sector alternative.²⁶

28. In March 2003, NERA published a second study, commissioned by ECGD and the Treasury, which attempted to quantify the costs and benefits of the public provision of export credits by ECGD. NERA's findings suggested a range of possible costs and benefits from ECGD's business over the last ten years of between £2 million and £47 million. In keeping with its earlier report, NERA said that it was not possible to judge whether ECGD was the most efficient provider of export credit insurance and guarantees until ECGD competed on equal terms with the private sector, and recommended that the subsidy be removed by increasing prices to reflect the full costs and benefits of the business supported.²⁷ However, to avoid placing UK companies at a competitive disadvantage the Government has instead committed itself to removing subsidy on a multilateral basis through international negotiations.²⁸

29. Industry witnesses justified the continued provision of ECGD support on the basis that Government assistance was needed in high-risk markets or for long-term projects for which the commercial sector was unwilling to provide cover, or would do so only at

²⁵ Q 448

²⁶ *The Economic Rationale for the Public Provision of Export Credit Insurance by ECGD*, NERA, July 2000

²⁷ *Estimating the Costs and Benefits of ECGD*, NERA Consulting, January 2003

²⁸ APP 10

uneconomic rates. In such cases, ECGD was acting as a lender, or insurer, of last resort.²⁹ On the other hand, BASIC was of the view that the “lender of last resort” argument held only for large-scale, long-term projects.³⁰ It argued that even then, as for other projects, the commercial credit derivatives market provided a long-term alternative to ECGD.³¹ In BASIC’s view, there was a case for ECGD’s activities to be privatised on economic grounds. However, it acknowledged that there might well be a case for maintaining ECGD support for other reasons.³²

30. Some industry witnesses contended that one such reason would be the indication of Government support for a project. Such indications can be politically important. For example, BCCB told us:

“When we come along to try to win projects which are directly commercial as opposed to World Bank covered and that sort of thing, this culture really comes into its own and almost the first question we are asked is: Does your government support this project? And if there is no ECGD cover, that is an immediate damper to this: ‘Clearly your country is not supporting you, therefore why is there any point in us looking at you to do this project?’ That is probably oversimplifying it, but that is the crux of it.”³³

31. Industry representatives also insisted that not enough weight was given to the economic benefits that ECGD’s activities brought to the UK in terms of the value derived from the maintenance of viable, ‘high-tech’ industries of strategic value to the country. For example, according to SBAC, the Treasury’s and NERA’s analyses of costs and benefits of ECGD activities did not take into account the creation and maintenance of jobs in the supply chain of major industries like aerospace.³⁴ Although SBAC was not able to quantify such benefits, it offered the example of Bombardier where, it was claimed, the prospect of ECGD export support for aircraft was a major contributory factor in the company’s decision to expand production in Northern Ireland.³⁵ The availability and price of ECGD cover could influence major decisions in companies’ decisions to manufacture in the UK. As Sue Walton from Rolls-Royce³⁶ told us:

“It is not a question of the business not being done full stop, it is just a question of the business not being done in the UK because we have the opportunity to manufacture outside of the UK. Certainly, Rolls-Royce has not yet made the decision as to where it manufactures the Trent 1000 for the 7e7. This may seem to be a small part of a decision-making process but we all have the ability to source outside of the UK.”³⁷

²⁹ APP 8, Q359

³⁰ Q 252

³¹ Q 266

³² Q 258

³³ Q 3

³⁴ APP 16. Qq 225, 226

³⁵ APP 16

³⁶ Ms Walton is General Manager, Rolls-Royce Capital

³⁷ Q 222

32. While we support the Government's attempts to reduce export subsidies on a multi-lateral basis, any unilateral action in this direction would put some UK exporters at a disadvantage.

33. Moreover, we are not convinced that all of the functions of the ECGD could be performed by the private sector. In our view, analysis of the case for continued ECGD support for exporters would be strengthened by a systematic examination of the costs and benefits derived by the UK economy from companies which are assisted in maintaining a manufacturing base in this country as a result of the Government's support for exports. We recommend that the Government undertakes such an examination.

3 Implementation of the Mission and Status Review

34. The Mission and Status Review 1999–2000 defined a new aim for ECGD which is:

“To benefit the UK economy by helping exporters of UK goods and services win business, and UK firms to invest overseas, by providing guarantees, insurance and reinsurance against loss, taking into account the Government’s international policies.”

35. One of the key conclusions of the Review, following an internal assessment of risk management systems, was that these systems should be strengthened by introducing a capitalised framework based on best commercial practice. This required major changes to ECGD’s systems, culture and processes and in particular the establishment of a Trading Fund.³⁸ A Trading Fund is a means of financing trading activities undertaken by the government with greater freedom to manage its financial affairs than is afforded to government departments. While still subject to the same centrally applied administrative rules and procedures as a government department, it can use its income to settle its liabilities and retain any cash balances at year-end.

36. At the same time as it was working towards Trading Fund status, ECGD was making progress on a number of the other issues identified in the Mission and Status Review. In March 2003 it announced a package of measures which included a new system for the provision of insurance cover for specific countries; improvements in procedures to speed up decisions on applications for support; the development of private sector links with banks with the aim of making larger deals easier to complete; and a restructuring of the system for the environmental and social screening of projects, with the intention of reducing the burden on industry, while maintaining the rigour of ECGD’s scrutiny.³⁹

The effects of change on ECGD’s customers

37. We found general agreement among witnesses representing the ECGD’s customers over the issues of ECGD’s past and present performance and the impact of the programme of reviews and proposed changes on the confidence of exporters and their customers. The general views of such witnesses are typified by the comments of the BCCB:

“Up until some 5 years ago it was considered the leading ECA and the envy of virtually all our international competitors. But more recently, and notwithstanding recent redefining of its role—in particular the potential establishment of a pilot Trading Fund—it would appear, as far as the private sector is concerned, to have lost the plot and a great deal of effectiveness in meeting its stated objective: the support of exporters. A constant series of reviews has created, among exporters, an atmosphere of frustration, uncertainty and a perceived lack of commitment. ECGD is no longer the pioneer or the role model among its peers either in the eyes of those it purports

³⁸ ECGD Departmental Expenditure Report, Cm 5917, May 2003

³⁹ APP 10

to serve our international collaborators and competitors. We should emphasize that our criticisms are not directed at the internal management and staff of ECGD. They have a very positive attitude to briefing and assisting our members. How they have managed to maintain any semblance of morale in the face of so much uncertainty is difficult to understand.”⁴⁰

38. Uncertainty over ECGD’s future role and the perception among exporters and their customers of a lack of commitment on the part of the Government were common to all of our witnesses from trade associations and individual companies. Several, such as the CBI⁴¹, Rolls-Royce⁴² and BExA⁴³, attributed at least part of the prevailing uncertainty to the number of reviews undertaken during the past few years as part or as a consequence of the Mission and Status Review. Considerable uncertainty exists over the move to Trading Fund status and its effect on the competitiveness of UK exporters. We examine the potential impact of these factors below.

Uncertainty over the future

39. Several witnesses were convinced that the uncertainty among exporters and their customers about ECGD’s future had put them at a competitive disadvantage in export markets or hindered negotiations with prospective clients.⁴⁴ While some could only report their perception of the difficulties, Sue Walton of SBAC gave us a practical example:

“One very clear piece of evidence from a Rolls-Royce perspective that this uncertainty is damaging is that during the very recent campaign we entered into with the 7e7 at Boeing, where Rolls-Royce was competing with two US manufacturers of engines, Pratt & Whitney and GE, a major consideration in that campaign from Boeing’s perspective was whether or not export credit support would be available from our export credit agency for that aircraft. We had a lot of very difficult negotiations with Boeing on that issue, to the point where Boeing was asking for a backstop for that. That probably is a very good illustration of the concerns that we have seen.”⁴⁵

The Trading Fund

40. ECGD originally planned to achieve Trading Fund status by April 2002. In July 2002, however, the Secretary of State for Trade and Industry announced that further work was required to bring ECGD’s information and risk management systems up to the standards necessary for a Trading Fund. Several witnesses were critical of the delay and of the fact that an announcement had not yet been made about the timing of the establishment of the Fund.⁴⁶ In explaining the reasons for the delay, Mr Weiss of ECGD told us:

⁴⁰ APP 2

⁴¹ APP 8

⁴² APP 15

⁴³ APP 5

⁴⁴ For example, APP 5, Q217

⁴⁵ Q 205

⁴⁶ APP 5, APP 8, Q 203

“Undoubtedly the project has proved more challenging than we originally thought...the problem has been mainly in the area of setting up our risk management systems in a way which would be fit for the moment when, as intended, we become a Trading Fund. To explain that a little, ECGD as a Trading Fund will be the biggest Government Trading Fund in capital terms of all, indeed it will be five times larger than the rest put together. That does not mean we are the biggest business in terms of income, but in terms of capital that is what we are, and that is a very, very challenging and complex job, and we are very keen we should get it right and the framework is right.”⁴⁷

41. We were told that the results of this activity were under active consideration by Ministers, and that it was hoped that an announcement about the Trading Fund would be made before the Summer Recess.⁴⁸ We understand that it is intended that the move to a Trading Fund will be preceded by a public consultation and a pilot period to allow for testing and refinement of the financial framework that will underpin the capitalised Fund.⁴⁹

42. The delay in the establishment of the Trading Fund is to be regretted, and it is concerning that ECGD management so obviously under-estimated the task ahead of them when they first considered the timetable. It is vital that a project of this type and value is founded on the correct basis, but this does not absolve the Government from all blame for failing to make more rapid progress. Now that the completion of the necessary preparations is approaching, it is essential that Ministers publish their conclusions and future plans for ECGD as quickly as possible.

43. The principle behind the move towards Trading Fund status received a general welcome from exporters. CBI and BExA were of the view that the structure or status of ECGD was of secondary importance compared to its ability to provide effective support to UK business, but they accepted the Trading Fund concept. Others were a little more enthusiastic about the prospect. For example, SBAC were very supportive, believing it to be a means of reducing the influence of the Treasury on ECGD’s operations.⁵⁰

Capitalisation of the Fund

44. The same witnesses were also concerned over the level of capitalisation Ministers would agree to provide, and the lack of clarity in the way in which this would be decided. Several complained that they were being forced to work on the basis of rumour and informal briefings from officials, but all said that they understood the figure under discussion within Government was of the order of £1.7 billion. Rolls-Royce and Airbus noted that the original estimate was £4 billion.⁵¹ However, ECGD assured us that the original estimate included pre-1991 business in the capitalisation. ECGD was currently considering a figure of £1.8 billion, which was intended to capitalise the Department’s Account 2 business.⁵²

⁴⁷ Q 436

⁴⁸ *Ibid.*

⁴⁹ Qq 442-444, APP 10

⁵⁰ APP 16

⁵¹ APP 1, APP 15

⁵² Q 439

45. BExA was concerned that, although this level of capitalisation may be adequate to support current levels of ECGD business, this might become insufficient when there was an upturn in the global economy.⁵³ Rolls-Royce pointed out that this was especially true of the aerospace sector, which went through regular and pronounced peaks and troughs of economic activity.⁵⁴ SBAC was also concerned that ECGD should not in future pursue a policy which limited the amount of capital allocated to a single transaction. This would call into question the Department's ability to support large-scale defence and aerospace projects.⁵⁵ CBI was less concerned at the precise level of capitalisation of the Trading Fund and more concerned that it was sufficient to cover industry's entire requirement and that there was a mechanism in place to increase the capital base of the Fund should it prove necessary.⁵⁶ ECGD indicated that the capitalisation of the Trading Fund was intended to be a "once-and-for-all event", implying that there would be no such mechanism under the new arrangements. However, it was anticipated that the statutory Trading Fund would be preceded by a pilot Fund, to cover all of ECGD's Account 2 operations for a trial period, the length of which and the level of capitalisation would be decided by Ministers.⁵⁷

46. On the basis of the evidence before us it is not possible to come to a conclusion on the appropriate level of capitalisation for the Trading Fund. The widely-anticipated pilot project should provide invaluable information on this question. In view of the cyclical nature of the global economy and of the pronounced effects that this can have on demand in certain industrial sectors, it is necessary to ensure that the new funding arrangement has an in-built mechanism to review the capitalisation of the Fund and, if necessary, to increase it. In such exceptional cases when it would be necessary to increase the capitalisation of the Trading Fund, Parliament would need to be consulted before such action could be authorised.

Return on Capital Employed

47. While other ECAs aim to break even on their business, as required by the OECD Arrangement, ECGD produces a return on investment for the Exchequer. ECGD has reported trading surpluses for all but one of the last 13 years.⁵⁸ The Mission and Status Review envisaged that the Trading Fund would be required to continue this practice and to produce a return on the capital it employed (ROCE) in future. A target ROCE will be set by the Government at the time that the Fund is established.

48. The actual level of ROCE will depend on the premium rates charged by the Department. We found uncertainty and confusion among exporters as to what the ROCE would be and the consequent effects on the premium to be charged by ECGD in future. BExA estimated that, at current premium rates, ECGD would be able to make a ROCE of 4.5% in real terms.⁵⁹ CBI told us that this level would be reasonable.⁶⁰ The level of ROCE

⁵³ APP 5

⁵⁴ APP 15

⁵⁵ APP 16

⁵⁶ Q 343

⁵⁷ Qq 439-444

⁵⁸ APP 10

⁵⁹ APP 5

quoted in the Department's consultation on the establishment of the Trading Fund was 6%.⁶¹ The NERA review of the costs and benefits of ECGD support had assumed a ROCE of 8% for the purposes of its analysis.⁶² SBAC and BCCB had originally anticipated that the ROCE would be set between 6% and 8%.⁶³ Exporters were all very concerned that negotiations within government seemed to have anticipated that the ROCE would be set at 18% which, they believed, would render ECGD's services uncompetitive compared to those provided by other ECAs. The BExA said that:

"If that rate of return were met by ECGD's premium rates having to be increased then it would be devastating for British industry."⁶⁴

49. ECGD acknowledged that the delay to the announcement of the terms on which the Trading Fund was to be established had created uncertainty and concern among its customers.⁶⁵ Those terms would be the subject of public consultation once the correct methodology for determining the appropriate commercial rate of return had been established.⁶⁶ However, Ministers had emphasised to those customers that whatever figure for ROCE was eventually selected, ECGD's policies on risk assessment, pricing and portfolio management would not be affected. Any shortfall between the rate actually achieved by the Department and the target rate set by the Government would be met by means of a notional voted resource into ECGD to fill the gap.⁶⁷

50. Exporters were not satisfied with such assurances. There was general concern that an annual voted payment, which would be necessary only because the target ROCE had been set at an unachievable level, would be seen as a subsidy to UK industry. The CBI claimed that the annual scrutiny would lead to yet more uncertainty about government commitment to export support.⁶⁸ SBAC identified what it perceived to be a paradox between the Government's intention to reduce the Treasury's role in the oversight of ECGD's operations while requiring those to be the subject of annual voted payments and Treasury spending targets.⁶⁹ In addition, concern was expressed by several witnesses that the transfer of budgetary responsibility for the Trading Fund could impinge on other DTI business support activities.⁷⁰

51. Discussions within government on the methodology for determining the appropriate ROCE to be required of the Trading Fund are continuing, and we do not have the information necessary to enable us to comment on what the appropriate level might be. We understand the concern expressed by industry that reliance on an annual

⁶⁰ Q 343

⁶¹ APP 15

⁶² *Estimating the Economic Costs and Benefits of ECGD*, NERA Consulting, January 2003

⁶³ Qq 348 and 105

⁶⁴ Q 80

⁶⁵ Q 446

⁶⁶ Q 445

⁶⁷ *Ibid*

⁶⁸ Q 343

⁶⁹ APP 16

⁷⁰ APP 1, APP 3, APP 5

vote of funds could lead to further uncertainty over the availability of ECGD support in the future. On the basis of the evidence presented to us, it would seem that establishing a target based on past experience and realistic expectations of business development would provide a more transparent system than setting a high initial target and relying on annual appropriations to top up ECGD funds when the Department cannot meet that target. Any proposal to alter the target ROCE or add to the capitalisation of the Trading Fund would necessarily need to be placed before Parliament for its consideration.

4 ECGD's Business Principles

52. One of the key recommendations of ECGD's Mission and Status Review was that the Department should produce a statement of Business Principles and policies and plans for achieving them. This was published in December 2000.⁷¹ The Business Principles included the promotion of a responsible approach to business, taking account of the Government's international policies, including those on sustainable development, environment, human rights, good governance and trade; and openness and honesty in all business transactions.

53. Most of our witnesses generally welcomed the Department's new aims and business principles. However, criticism of the methods used by ECGD to achieve them divided along fairly predictable lines.

Sustainable development

54. Exporters voiced concerns that the expansion of ECGD's mission to take account of the Government's wider international objectives had detracted from what they considered to be the Department's primary role of providing competitive support for UK exporters. BExA was concerned that, as a result, insufficient attention was being paid to ECGD's primary duty under the Export and Investment Guarantees Act 1991, namely the facilitation of exports.⁷² Rolls-Royce felt that the shift in emphasis of its objectives might lead to ECGD's role becoming one of aid provider rather than export facilitator. It had difficulty in seeing how ECGD could play a role in the promotion of sustainable development, as was now required of the Department.⁷³

55. On the other hand, FoE and the Corner House advocated that ECGD should be proactive in seeking out such projects for support.⁷⁴ It was suggested that this could be done by ECGD deciding on a definitive list of the types of projects that it would support in future,⁷⁵ and developing clear guidance on the Department's policy on sustainable development. WWF-UK and FoE suggested that projects such as power plant construction⁷⁶ or those involving the hydrocarbon extraction industries⁷⁷ should not be eligible for ECGD support on the grounds that these were environmentally unsustainable activities. WWF believed that the Export and Investment Guarantees Act 1991 limited the ability of ECGD to adopt an exclusion list of unsustainable projects and called for a review of the Act.⁷⁸

56. Under the present legislation, ECGD is required to consider all applications for support on a case-by-case basis. A clearer statement of ECGD's policy in support of

⁷¹ ECGD's Business Principles, December 2000

⁷² APP 5

⁷³ APP 15

⁷⁴ APP 9, APP 14

⁷⁵ Qq 303-305

⁷⁶ APP 19

⁷⁷ APP 14

⁷⁸ APP 19

sustainable development would draw further attention to the Department's willingness to support projects which contribute to the Government's objectives, and not those which do not, while at the same time offering clarity to those who are concerned about the dilution of the Department's focus on export facilitation. It would also be helpful if ECGD's Annual Report were to provide information on applications for support which had been rejected on grounds of non-compliance with the Government's objectives for sustainability.

Environmental Impact Assessments

57. Since January 2001, ECGD has required applicants for support to provide an impact analysis of the environmental, social and human rights aspects of their projects.⁷⁹ ECGD seeks to ensure that the projects it supports meet the standards used by multinational financial institutions such as the World Bank.⁸⁰ The impact analysis covers both exported goods and the use to which they are put by their purchaser.

58. Exporters supported the intention behind the adoption of such procedures, but were concerned about the extra administrative requirements that they imposed on industry. The CBI was concerned that extra procedures would add further delay to the process.⁸¹ BExA felt that ECGD tended to "gold-plate" the assessment procedure.⁸²

59. NGOs welcomed the introduction of the impact analysis, but were, in general, critical of the quality of the assessment process. WWF-UK felt that ECGD fell short of best international practice, citing a lack of clear environmental standards.⁸³ FoE was also concerned that ECGD's business principles were "aspirational statements" rather than mandatory standards backed up with a compliance and monitoring system.⁸⁴ Several NGOs criticised ECGD's impact analysis on the basis that it depended on the applicant's own assessment of the impact of a project and that the Department relied too heavily on what the Corner House referred to as "paper compliance" rather than active monitoring and inspection.⁸⁵ They recommended that ECGD undertook impact assessments and inspection itself, using independent consultants where necessary, rather than rely on reports from the customer's own employees or consultants.

60. For ECGD Mr Ormerod⁸⁶ assured us that ECGD's impact analysis process met the standards set by the World Bank. Under that process, the project sponsors commissioned the environmental impact assessment, which was then reviewed by the department's own experts. ECGD staff did carry out their own site inspections and monitored compliance, where necessary with the aid of the Department's own independent consultants. For large scale projects, ECGD could call upon expertise from within other ECAs involved in those

⁷⁹ APP 10

⁸⁰ *Ibid.*

⁸¹ Q 340

⁸² Qq 90-91

⁸³ APP 19

⁸⁴ Q 393

⁸⁵ Q 313, APP 9, APP 14

⁸⁶ Mr Ormerod is Director of Strategy and Communications, ECGD

projects. He told us that significant progress had been made since 2000 in the development of procedures for the assessment of environmental impact, social and human rights impacts, and other factors.⁸⁷

61. We acknowledge the progress which ECGD has made on the development of its procedures for assessing the environmental and other impacts of projects for which its support is requested. We note that some organisations do not feel that the Department has adequately defined the standards to which project sponsors should work in order to qualify for assistance. We believe that the further definition of such standards would be useful, but should be done in the context of the possible development of standards within the OECD Group.

Transparency

62. ECGD's Mission and Status Review concluded that the Department should be as open as possible in all of its dealings, having due regard to the need to respect legitimate commercial and individual confidentiality. We were told that the Department had taken steps to improve the transparency of its operations and considered that it matched best practice amongst ECAs. Among the improvements cited by the Department were the listing in its Annual Report of all guarantees issued by ECGD; the publication on its website of all "high impact" applications before an underwriting decision is made; and environmental impact assessments relating to such cases being made available before the underwriting decision was made.⁸⁸

63. In general, NGOs accepted that commercially sensitive information should remain confidential, but felt that the project sponsor should be required to demonstrate the need for confidentiality.⁸⁹ According to WWF-UK, that was already the policy of the World Bank and the European Bank for Recovery and Development. WWF-UK proposed that ECGD produce a clear definition of what constituted 'commercially sensitive' information, and that disclosure should be a requirement of the guarantee agreement, and not be conditional on the permission of the sponsor.⁹⁰

64. While acknowledging improvements in the degree of transparency in ECGD's own operations WWF-UK called for more openness about the impact assessment process and suggested that such information should be made public as a matter of course, rather than requiring specific requests to be made. WWF-UK and FoE informed us that, contrary to ECGD's assertion, information on potential impacts was not provided for public review until after underwriting decisions had been taken and that environmental questionnaires on which an impact assessment was based were not made public.⁹¹

65. For ECGD, Mr Weiss said that the revised OECD Common Approaches (on which ECGD had taken a leading role) required all environmental impact assessments on high impact projects to be made publicly available, and that this was now standard ECGD

⁸⁷ Qq 464-475

⁸⁸ APP 10

⁸⁹ APP 9, APP 14, APP 19

⁹⁰ APP 19

⁹¹ APP 14, APP 19, Q 373

procedure.⁹² Once the Environmental Impact Regulations came into force in the UK on 1 January 2005, publication would be mandatory.⁹³

66. The development of a policy of transparency within ECGD is to be welcomed. The focus of such a policy should be the publication of as much information as possible consistent with the need to respect justified commercial confidence.

Support to SMEs

67. The vast majority of ECGD's customers are large companies. We received several comments on the ECGD's support for small and medium-sized enterprises (SMEs). FoE and others felt that a lack of such support could hinder exports of environmentally-friendly technology.⁹⁴ BCCB agreed that more emphasis should be placed on services to SMEs but suggested that the main problem for such companies was the cost at which it was provided.⁹⁵ BExA felt that the shortage of SME clients was because the type of support required by smaller companies tended to be short term credit and insurance, which could be obtained from commercial markets.⁹⁶ BExA also suggested that the complexity of ECGD's administrative processes could act as a deterrent to small companies.⁹⁷

68. ECGD told us that it had improved access to its services for companies new to export credit finance and insurance by launching its New Customer Service Team in November 2002 to provide prospective customers with specialist advice about the availability of ECGD products. By the beginning of March 2004, the team had received more than 200 enquiries from SMEs, about 10% of the total. Two of the three new customers found through this initiative were small companies.⁹⁸ **The New Customer Service Initiative has made modest, but promising, progress since its inception.**

Business Integrity

69. In setting out its Business Principles, ECGD promised

- to be objective, consistent, fair and honest in all dealings; to combat corrupt practices; and to manage its affairs with due diligence having regard to best governance practice;⁹⁹
- in implementing policies designed to achieve these objectives, ECGD is committed to operate within the legislative and policy framework set down by Government; to ensure as far as possible that its support for projects is based on compliance with

⁹² Q 459

⁹³ Q 460

⁹⁴ APP 14, APP 9

⁹⁵ Q 35

⁹⁶ Q 100

⁹⁷ Qq 84-86

⁹⁸ APP 10

⁹⁹ *ECGD Business Principles*, ECGD, December 2000

relevant legislation to implement and promote the relevant OECD Convention on Combating Bribery;¹⁰⁰ and

- To comply with the OECD Consensus¹⁰¹ and with Berne Union Guidelines¹⁰² and other international agreements on the regulation of export credits and investment insurance.

70. We received several comments about the Department's policies relating to business integrity; in particular a number of witnesses commented on the progress that had been made by ECGD in combating corruption

71. In this context, Transparency International (UK),¹⁰³ CAAT¹⁰⁴ and FoE¹⁰⁵ all welcomed the introduction of the Anti-Terrorism, Crime and Security Act 2001. Part 12 of the Act has the effect that the bribery of foreign officials or business by a UK company or individual is a crime, irrespective of where the transaction takes place. Transparency International (UK) felt that the Act seriously increased risk exposure of banks and the ECGD, in that contracts could be more readily voided for illegality where they could not have been so treated previously.¹⁰⁶ The Corner House emphasised ECGD's critical role in combating corruption.¹⁰⁷

72. ECGD told us that the new powers granted to them under the Act had resulted in investigations into five allegations of corruption, and their referral to the National Criminal Intelligence Service.¹⁰⁸ This action was acknowledged by all of the NGOs who had comments to make on this aspect of ECGD's operations, although the Corner House doubted that any of them had been initiated by ECGD.¹⁰⁹

73. On 1 April 2004, ECGD announced the implementation of improved procedures to reduce the risk of bribery and corruption.¹¹⁰ Under the new arrangements, which came into force from 1 May 2004, ECGD extended the scope of the information it requires from applicants to ensure that no improper agents' payments have been made to win contracts; will take greater power to inspect exporters' documents, particularly those relating to agents' payments; requires applicants to warrant that they have not been involved in corrupt practices, and so on.

74. Transparency International (UK) and others welcomed the new measures announced by ECGD.¹¹¹ It pointed out, however, that what mattered would be the seriousness with

¹⁰⁰ <http://www.oecd.org/def/nocorruption/20novle.htm>

¹⁰¹ <http://www.oecd.org/ech/pub/arrangement-98-en.pdf>

¹⁰² <http://www.Berneunion.org.uk>

¹⁰³ APP 18

¹⁰⁴ APP 7

¹⁰⁵ APP 14

¹⁰⁶ APP 9

¹⁰⁷ APP 9, Q 300

¹⁰⁸ APP 10

¹⁰⁹ Q 299

¹¹⁰ ECGD Press release: <http://ecgd.gov.uk/print.news> 1 April 2004

¹¹¹ Q 129

which the new procedures were implemented, and if they proved to be effective in preventing corrupt practice in the future.¹¹² Much would depend on the administrative and investigative procedures put in place by ECGD to ensure that it was exercising due diligence.¹¹³ The Corner House pointed out that the new procedures would still rely heavily on a paper-based approach which would not have a significant effect without practical enforcement measures.¹¹⁴ We were told that the intention of ECGD to give five days' notice of any audit inspection and not carry out spot checks left The Corner House unconvinced that ECGD intended to use its full investigatory powers.¹¹⁵

75. Several witnesses proposed that ECGD should be able to deny future finance or support for further applications from a company found to have bribed.¹¹⁶ We were told that this was standard practice of the World Bank group of institutions and was recommended best practice of the OECD Group.¹¹⁷ According to Transparency International (UK), ECGD had claimed that it was unable to apply this practice on legal grounds and the general principle of administrative law that the Secretary of State may not fetter his or her future discretion. It was said that this precluded automatic debarment of a company that had been convicted of corruption or had been debarred from the services of another institution.¹¹⁸

76. ECGD confirmed this interpretation of the legal situation, but assured us that the administrative procedures adopted by the Department could achieve the same practical effect as an automatic screening process.¹¹⁹

77. While they do not go as far as some would wish, we welcome ECGD's improved procedures for combating bribery and corruption. Their effectiveness will depend, however, on the rigour with which they are to be implemented. In this context, we regret ECGD's intention to conduct audit inspections only after five days' notice; while we do not intend to recommend an oppressive system of spot checks, it seems to us that such voluntary constraints undermine confidence that ECGD will be rigorous in exercising its new powers.

¹¹² Q 131

¹¹³ Q 135

¹¹⁴ APP 9

¹¹⁵ Q 298

¹¹⁶ APP 9, APP 14, APP 19

¹¹⁷ APP 19

¹¹⁸ *Ibid*

¹¹⁹ Qq 476-478

Conclusions and recommendations

1. It is our normal practice to complete our consideration of all of the evidence gathered during an inquiry before producing a report to the House. On this occasion, however, we were informed by ECGD that a decision was expected from Ministers, before the Summer Recess, on key issues associated with the future operation of the Department, particularly on its establishment as a Trading Fund. We decided that, in order that our Report can inform the decision-making process within Government on the future status of ECGD and to avoid delay, we would separate consideration of the Department's involvement in the Baku-Tbilisi-Ceyhan (BTC) pipeline project from the other issues that we wished to address. The BTC project will therefore be the subject of separate consideration. (Paragraph 9)

Account and portfolio management

2. The development of an ECGD strategy of active portfolio management is to be welcomed because it should reduce the Department's exposure in markets where its risk is concentrated. In addition it will help to provide a commercial measure of the cost of the risks being accepted by ECGD. (Paragraph 15)

Performance of ECGD compared with other ECAs

3. Exporters' complaints about the level of premium charged by ECGD and the time it can take to obtain a decision from ECGD are not new. They were highlighted in the previous Committee's Report more than four years ago. The financial constraints within which ECGD works and the administrative procedures introduced as a result of the Mission and Status Review do not seem to have improved the service which the Department provides to exporters. However exporters need to recognise that whilst ECGD remains underwritten by the Government there will inevitably be a need for a cautious approach to ensure the taxpayer is not exposed to unnecessary risk. (Paragraph 26)

Rationale for ECGD support

4. While we support the Government's attempts to reduce export subsidies on a multi-lateral basis, any unilateral action in this direction would put some UK exporters at a disadvantage. (Paragraph 32)
5. Moreover, we are not convinced that all of the functions of the ECGD could be performed by the private sector. In our view, analysis of the case for continued ECGD support for exporters would be strengthened by a systematic examination of the costs and benefits derived by the UK economy from companies which are assisted in maintaining a manufacturing base in this country as a result of the Government's support for exports. We recommend that the Government undertakes such an examination. (Paragraph 33)

The future of ECGD as a Trading Fund

6. The delay in the establishment of the Trading Fund is to be regretted, and it is concerning that ECGD management so obviously under-estimated the task ahead of them when they first considered the timetable. It is vital that a project of this type and value is founded on the correct basis, but this does not absolve the Government from all blame for failing to make more rapid progress. Now that the completion of the necessary preparations is approaching, it is essential that Ministers publish their conclusions and future plans for ECGD as quickly as possible. (Paragraph 42)

Capitalisation of the Fund

7. On the basis of the evidence before us it is not possible to come to a conclusion on the appropriate level of capitalisation for the Trading Fund. The widely-anticipated pilot project should provide invaluable information on this question. In view of the cyclical nature of the global economy and of the pronounced effects that this can have on demand in certain industrial sectors, it is necessary to ensure that the new funding arrangement has an in-built mechanism to review the capitalisation of the Fund and, if necessary, to increase it. In such exceptional cases when it would be necessary to increase the capitalisation of the Trading Fund, Parliament would need to be consulted before such action could be authorised. (Paragraph 46)

Return on capital employed (ROCE)

8. Discussions within government on the methodology for determining the appropriate ROCE to be required of the Trading Fund are continuing, and we do not have the information necessary to enable us to comment on what the appropriate level might be. We understand the concern expressed by industry that reliance on an annual vote of funds could lead to further uncertainty over the availability of ECGD support in the future. On the basis of the evidence presented to us, it would seem that establishing a target based on past experience and realistic expectations of business development would provide a more transparent system than setting a high initial target and relying on annual appropriations to top up ECGD funds when the Department cannot meet that target. Any proposal to alter the target ROCE or add to the capitalisation of the Trading Fund would need to be placed before Parliament for its consideration. (Paragraph 51)

ECGD and sustainable development

9. Under the present legislation, ECGD is required to consider all applications for support on a case-by-case basis. A clearer statement of ECGD's policy in support of sustainable development would draw further attention to the Department's willingness to support projects which contribute to the Government's objectives, and not those which do not, while at the same time offering clarity to those who are concerned about the dilution of the Department's focus on export facilitation. It would also be helpful if ECGD's Annual Report were to provide information on applications for support which had been rejected on grounds of non-compliance with the Government's objectives for sustainability. (Paragraph 56)

Environmental impact assessment

10. We acknowledge the progress which ECGD has made on the development of its procedures for assessing the environmental and other impacts of projects for which its support is requested. We note that some organisations do not feel that the Department has adequately defined the standards to which project sponsors should work in order to qualify for assistance. We believe that the further definition of such standards would be useful, but should be done in the context of the possible development of standards within the OECD Group. (Paragraph 61)

Transparency

11. The development of a policy of transparency within ECGD is to be welcomed. The focus of such a policy should be the publication of as much information as possible consistent with the need to respect justified commercial confidence. (Paragraph 66)

Support to SMEs

12. The New Customer Service Initiative has made modest, but promising, progress since its inception. (Paragraph 68)

Business Integrity

13. While they do not go as far as some would wish, we welcome ECGD's improved procedures for combating bribery and corruption. Their effectiveness will depend, however, on the rigour with which they are to be implemented. In this context, we regret ECGD's intention to conduct audit inspections only after five days notice; while we do not intend to recommend an oppressive system of spot checks, it seems to us that such voluntary constraints undermine confidence that ECGD will be rigorous in exercising its new powers. (Paragraph 77)

Formal minutes

Tuesday 8 June 2004

Members present:

Mr Martin O'Neill, in the Chair

Mr Roger Berry	Ms Judy Mallaber
Mr Michael Clapham	Linda Perham
Mr Nigel Evans	Sir Robert Smith

The Committee deliberated.

Draft Report (The Work of the Export Credits Guarantee Department), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 77 read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Sixth Report of the Committee to the House.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House. – (*The Chairman.*)

[Adjourned till Tuesday 22 June at 9 a.m.]

Witnesses

Tuesday 30 March 2004

Mr Colin Adams, **British Consultants and Construction Bureau**
Mr John Tyler, Ms Maria Malinowska and Mr Richard Hill, **British Exporters Association**

Tuesday 20 April 2004 (morning)

Mr Laurence Cockcroft, Mr Graham Rodmell and Mr Neill Stansbury, **Transparency International (UK)**
Ms Ann Feltham, **Campaign Against Arms Trade**
Ms Sue Walton, Mr James Caldwell and Mr Nigel Taylor, **Society of British Aerospace Companies**

Tuesday 20 April 2004 (afternoon)

Mr Paul Ingram and Mr Mark Ingram, **British American Security Information Council (BASIC)**
Mr Nicholas Hildyard and Ms Sue Hawley, **The Corner House**
Mr Digby Jones, Mr James Larkin and Mr Andy Scott, **Confederation of British Industry**

Tuesday 11 May 2004

Ms Hannah Griffiths, Ms Hannah Ellis and Ms Naomi Kanzaki, **Friends of the Earth**
Mr John Weiss, Mr Tom Jaffray and Mr John Ormerod, **Export Credits Guarantee Department**

List of Written Evidence

- 1 Airbus
- 2 British Consultants and Construction Bureau
- 3 British American Security Information Council (BASIC)
- 4 BASIC supplementary memorandum
- 5 British Exporters Association (BExA)
- 6 BExA supplementary memorandum
- 7 Campaign Against Arms Trade
- 8 Confederation of British Industry
- 9 The Corner House
- 10 Export Credits Guarantee Department (ECGD)
- 11 ECGD first supplementary memorandum
- 12 ECGD second supplementary memorandum
- 13 ECGD Trade Union Side
- 14 Friends of the Earth
- 15 Rolls-Royce plc
- 16 Society of British Aerospace Companies (SBAC)
- 17 SBAC supplementary memorandum
- 18 Transparency International (UK)
- 19 WWF-UK
- 20 WWF-UK supplementary memorandum
- 21 Transparency International (UK) Supplementary Memorandum

List of Unprinted Written Evidence

Additional papers have been received from the following and have been reported to the House but to save printing costs they have not been printed and copies have been placed in the House of Commons library where they may be inspected by members. Other copies are in the Record Office, House of Lords and are available to the public for inspection. Requests for inspection should be addressed to the Record Office, House of Lords, London SW1. (Tel 020 7219 3074) hours of inspection are from 9:30am to 5:00pm on Mondays to Fridays.

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