



House of Commons
Environmental Audit
Committee

**Government Response
to the Committee's
Seventh Report
2002–03 on ECGD and
Sustainable
Development**

**Seventh Special Report of the
Session 2002-03**

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The Environmental Audit Committee

The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty's Ministers; and to report thereon to the House.

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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at: www.parliament.uk/parliamentary_committees/environmental_audit_committee.cfm. A list of Reports of the Committee in the present Parliament is at the back of this volume.

Committee staff

The current staff of the Committee are: Mike Hennessy (Clerk); Emma Downing (Committee Specialist); Eric Lewis (Committee Specialist); Anna O'Rourke (Committee Assistant); and Caroline McElwee (Secretary to the Clerk of the Committee).

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Seventh Special Report

Export Credits Guarantee Department and Sustainable Development – Government Response

1. The Environmental Audit Committee published its report on the *Export Credits Guarantee Department and Sustainable Development* on 17 July 2003 as HC 689.
2. The Government's Response to the Committee's Report was received on 23 October 2003 in the form of a memorandum to the Committee. It is reproduced as an Appendix to this Special Report.

Appendix

Environmental Audit Committee: ECGD and Sustainable Development

This report gives the Government's response to each of the recommendations in the Environmental Audit Committee's report on the Export Credits Guarantee Department and Sustainable Development. Each recommendation is shown in italics with the response directly afterwards. Some recommendations that deal with similar issues have been grouped together.

Recommendation 1: *The balance of ECGD's portfolio, with over half in aerospace and defence, has remained the same despite the introduction of its Business Principles and case impact screening procedures.*

It is true that the mix of business sectors that ECGD supports has not changed significantly since the introduction of Business Principles. There was no expectation that it would. This business mix broadly reflects the mix of manufacturers exporting from the UK to emerging markets which look to ECGD for support and ECGD can only support business for which it receives applications.

That said, we would contend that the Business Principles have led to an improvement in the environmental and social impacts of individual projects, particularly the larger ones. ECGD now works with project developers and other lenders to ensure that project impacts are properly assessed and minimised. This approach is leading to improved project standards, more consultation with local communities and general progress towards greater environmental and economic sustainability.

Recommendation 2: *We recommend that ECGD ensure that the sustainable development impact screening performed by the DTI's Export Control Organisation for sharp-arms defence exports is at least as rigorous as those which it uses for civil projects.*

Overall control of export licensing rests with the DTI, and while the Secretary of State has responsibility for both departments, ECGD officials have no input into the licensing process. The Government is confident that this process is rigorous and takes proper account of human rights and sustainable development. DFID is consulted on licence applications and ensures that any sustainable development concerns are addressed.

Recommendation 3: We recommend that ECGD bring all aerospace-related applications within its impact screening processes.

For aerospace exports that are subject to International Civil Aviation Organisation standards the Government does not believe that any useful purpose would be served by additionally including them within ECGD's screening procedures. All other civil aerospace exports are already dealt with under ECGD's impact screening process.

Recommendation 4: ECGD introduced new disclosure measures in 2002, including the publication of a list of guarantees issued in its Annual Report. However, these measures apply only to one third of the overall portfolio (defence and aerospace being omitted); are dependent on the permission of the client company; and are limited to the disclosure to exporter, market buyer, a brief project description and ECGD's maximum exposure. No indication of the environmental or social impacts of the projects is included. This severely hampers systematic analysis of ECGD's performance.

Recommendation 6: Companies have the right to expect ECGD to treat information which is commercially sensitive in a confidential manner but the onus should be on ECGD's clients to demonstrate the need for confidentiality. Requests for confidentiality should be tested against rigorous criteria to ensure that only such information as might genuinely compromise clients' commercial activities is withheld. A high degree of disclosure should become a condition of ECGD support. We recommend that ECGD adopt a clear predisposition to disclosure of information relating to the projects it supports, especially information regarding social and environmental impacts.

There are no exclusions on the basis of sector. ECGD's Annual Report for 2002/3 lists guarantees issued relating to defence and aerospace exports. Only three exporters requested non-disclosure of guarantees issued for reasons of commercial confidentiality. However insurance policies are generally treated as commercially confidential to protect the financial interests of ECGD (and thus the taxpayer).

ECGD has taken steps to publish more information, most notably with the prior disclosure of the Department's consideration of high impact cases. From next year, the case impact category (i.e. high, medium or low) will be included in the list of guarantees issued. The Committee might also like to note that ECGD will shortly be publishing a more detailed version of its environmental and social impact assessment procedures.

Recommendation 5: We recommend that ECGD publish on its website details of all high and medium potential cases under consideration, including relevant information on economic, social and environmental impacts. Acceptance of such disclosure on the part of the client should be a condition of ECGD support

The Government believes that project developers should be responsible for publishing information on high impact projects. ECGD already provides notification of high impact projects along with details of where further project information can be obtained. The Government has no plans to extend this to medium impact cases. No other European Union ECA does this. These cases are not generally controversial and attract very little public interest.

Recommendation 7: We recommend that, as a matter of urgency, ECGD liaise with the Department for the Environment, Food and Rural Affairs to ensure that its practices adhere to EU regulations on environmental information now and in the future.

The Government is satisfied that ECGD has always been aware of the Environmental Information Regulations and that it has always complied with them. It has been involved with DEFRA in the drafting of the new Regulations. This process has been occurring for the better part of two years and has involved not only comments from ECGD on the prospective Regulations but the on-passage of advice from ECGD's experience of the operation of the old ones. ECGD will continue to bear in mind the legal obligations under the new Regulations.

Recommendation 8: We endorse ECGD's policy of constructive engagement and its attempts to improve the quality of the projects it supports.

Recommendation 9: We welcome the commitment to develop indicators to measure ECGD's impact on project quality but their production and publication has to be in addition to, rather than instead of, greater disclosure on the nature of applications and supported projects.

ECGD has recently supported an in-depth MSc research thesis that looked at sustainable development performance indicators that might be suitable for the Department. The recommendations from this thesis are currently being considered.

Recommendation 10: We welcome the establishment of the £50 million a year underwriting facility for renewable projects as a step in the right direction, particularly because of the signals it sends to industry and commerce and the encouragement it gives to companies operating in that sector to compete for overseas contracts. However, this should not be a substitute for treating environmental criteria as a mainstream objective.

Recommendation 11: The Government should ensure that all public bodies concerned with the support, development and promotion of UK trade and industry adopt a consistent approach to sustainable development and ensure that initiatives are co-ordinated to achieve maximum benefit.

Recommendation 12: We recommend that ECGD should develop its capacity to support environmental exports further and should explore the possibilities of offering extended terms of finance and other incentives such as fast-track processing.

The Government shares the Committee's wish to see more renewable energy and other environmentally beneficial exports coming from the UK. ECGD may be able to play a part in meeting this goal and the Department has taken some steps to encourage more

applications from these sectors. This has focused on raising awareness and ECGD is working closely with TPUK to encourage more applications from the renewable energy sector.

To date few suitable projects have been identified, mainly because renewable energy in emerging markets is not yet generally considered commercially viable. Projects often require generous financial assistance, but the level of export credit support that the Government can provide is constrained by the disciplines imposed by the OECD consensus on official export credit. The UK, together with the Danes, has however recently proposed extending the maximum allowable repayment terms for renewable energy projects from 12 years to 15 years. OECD members have generally welcomed this move but it may take some time to negotiate and implement it.

Other sources of Government support for renewable energy are in place. TPUK has two dedicated sustainable energy export promoters who work to identify projects and help UK exporters win business overseas. The Government has also provided substantial funding and support for the Renewable Energy and Energy Efficiency Partnership which is promoting the use of sustainable energy worldwide.

Recommendation 13: The Canadian export credit agency, EDC, discloses the precise standard chosen as the basis for environmental review in all high impact cases. We recommend that ECGD adopt a similar approach.

High impact projects hoping to attract ECGD support are required, as a minimum, to comply with the more stringent of host country or World Bank Group environmental standards and guidelines. Details of the required standards are set out in the 'ECGD Case Handling Process – Information Note' and in the guidance notes to the Impact Questionnaire, both of which are available on the Department's website.

Recommendation 14: There is no circumstance under which it would be acceptable for ECGD, using taxpayers' money, to support projects which exploit children or employ bonded or forced labour. We were therefore pleased to receive a further note from ECGD assuring us that "it is the Department's policy not to provide support for any project that involves the use of bonded or forced labour. The policy statement in the guidance notes for the impact questionnaire will be amended to provide greater clarity on this point". We look forward to receiving copies of the amended text. We recommend that a similarly categorical statement is made in respect of child labour and the guidance notes suitably amended.

A copy of the relevant amended guidance notes is attached. The Committee will note that this covers child labour as well as bonded and forced labour.

Recommendation 15: We recommend that in future, applications for support for projects in IDA-only countries are accepted only when they meet at least two of the debt sustainability criteria.

Officials from ECGD and DFID are working together to up-date the criteria for ECGD support to HIPC and IDA-only countries. It is likely that the new criteria will focus on ensuring that projects contribute to economic and social development without harming

the buyer country's debt position. Up-dated guidance on these criteria will be published in the coming months.

Recommendation 16: We welcome the efforts that ECGD has already made to extend the scope of the OECD's Common Approaches initiative towards sustainable development and to have a requirement for all projects, regardless of size, to be subject to project screening. These issues, together with greater clarity on standards and greater transparency, should be priorities in negotiations on the revised Common Approaches.

Recommendation 17: We recommend that ECGD treat obtaining unanimity as a priority during the negotiations on revisions to the Common Approaches; and we further recommend that the Government take a leadership role in reaching international consensus to ensure that common environmental criteria are a key component of all decisions relating to the granting of export credits guarantees.

The OECD Common Approaches is important both for protecting the environment and for protecting the competitive position of UK exporters. The review of the agreement is currently on going and the Government is pressing for greater clarity on project standards and for more transparency. We agree that unanimity is an important goal but the need to persuade other countries may mean that the UK will not achieve all of its objectives at this round of negotiations. We are confident, though, that progress can be made.

ANNEX 1 – GUIDANCE NOTES

Child labour

Are any children under 14 employed? What mechanisms are being put in place to monitor this? Do any children accompany their parent(s) onto the business premises?

In common with most countries around the world, the UK has ratified the United Nations convention on the Rights of the Child and the International Labour Organisation conventions on the abolition of child labour. It is ECGD's policy not to provide support to projects that involve harmful child labour.

The World Bank Group has produced a Policy relating to harmful child and forced labour which is available from the IFC website at:

<http://www.ifc.org/enviro/enviro/childlabor/child.htm>.

ECGD uses this policy as the benchmark of good practice for projects involving child labour.

The IFC has also produced a Good Practice Note entitled *Addressing Child Labour in the Workplace and the Supply Chain*. This is a good source of information for situations where child labour is considered essential.

Bonded or forced labour

Is any of the work extracted for no payment and/or under threat of force or penalty e.g. does the employer hold workers' identity documents? Is work extracted as payment for debt?

In common with most countries around the world, the UK has ratified the International Labour Organisation Conventions on the elimination of forced or compulsory labour. It is ECGD's policy not to provide support to projects that involve bonded or forced labour.

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