



House of Commons
Environmental Audit
Committee

The Export Credits Guarantee Department and Sustainable Development

Eleventh Report of Session 2007–08

*Report, together with formal minutes, oral and
written evidence*

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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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Summary

Since our predecessor committee looked at the Export Credits Guarantee Department in 2003, the agency has continued to make progress on sustainable development that deserves to be recognised. Sound foundations have been laid and mechanisms put in place that offer a good framework for further action. There is still room for improvement in the way sustainable development is incorporated into the agency's decision-making and the ECGD must ensure its activities are in line with wider Government aspirations on sustainable development.

The challenge is for the ECGD to demonstrate that sustainable development is given appropriate weight within its current remit, and that it does nothing that would actively undermine this principle. In particular, the ECGD should identify areas where its environmental standards could be tightened. More rigorous standards can then be applied across its portfolio, including to aerospace exports. The ECGD must improve the transparency of its assessment processes and increase the level of disclosure of project information. It is important that the department does more to attract renewable energy and other projects that support sustainable development; support from Department for Business Enterprise and Regulatory Reform (DBERR) will be vital in taking this forward.

The ECGD's approach to sustainable development is all the more important because of its ability to influence and raise standards internationally. A bolder approach from the ECGD on sustainable development issues and transparency will be vital in improving the performance of Export Credit Agencies in general.

1 Introduction

1. The Export Credits Guarantee Department (ECGD) is a non-ministerial department, accountable to Parliament through the Secretary of State for Business, Enterprise and Regulatory Reform. The ECGD's role is to assist UK exporters by providing financial guarantees and insurance for export contracts in markets where commercial cover would not normally be available. In the 1970s the ECGD supported up to 37% of all UK exports through its guarantees and insurance policies. The level of ECGD business has since declined significantly (in 2007, the ECGD supported less than 1% of UK exports) but it still fulfils an important role for the industries and projects that make use of its facilities.

2. In 2002–03, our predecessor Committee investigated the extent to which the ECGD was incorporating the Government's commitment to sustainable development into its policies and operations.¹ In particular, the inquiry examined the impact of the ECGD's Business Principles and the revised case impact analysis procedures, introduced in 2000. Among other issues, the Committee highlighted shortcomings in the coverage of the impact analysis process, a need for greater transparency, and concerns over the composition of the ECGD's portfolio. Five years on, we felt it appropriate to revisit the ECGD's progress on this matter, especially in the light of the planned review of the Case Impact Analysis Process. In particular, our inquiry examined how well the ECGD takes account of environmental impacts in its assessment and decision-making processes, and how the ECGD's procedures could be improved, especially with regard to information disclosure and transparency.

3. We are grateful to all who contributed to the inquiry, in particular the National Audit Office for its substantial memorandum providing factual and descriptive information on the ECGD's operations and procedures.²

2 An effective role for the ECGD

4. Existing ECGD procedures on sustainable development derive from its 1999 Mission and Status Review. This 'strongly affirmed that there was a continuing need for ECGD and that its primary purpose should still be to facilitate trade. However, it argued that ECGD should also use its leverage to support projects which underpin the Government's international policies to promote sustainable development, human rights, and governance'.³ This review led to the establishment of a set of Business Principles and, to support their implementation, a Business Principles Unit within the ECGD. The Business Principles relating to sustainable development state the ECGD will:

1 Environmental Audit Committee, Seventh Report of Session 2002–03, *Export Credits Guarantee Department and Sustainable Development*, HC 689.

2 Reproduced here as ECGD 12, see Ev 81–98.

3 Ev 84

[...] promote a responsible approach to business and will ensure our activities take into account the Government's international policies, including those on sustainable development, environment, human rights, good governance and trade.⁴

The primary mechanism for incorporating the Business Principles into the ECGD's procedures is the Case Impact Analysis Process (CIAP), which guides the ECGD's decisions on applications. We examine the CIAP more closely in Chapter 3.

5. The NAO was broadly positive about the steps taken by the ECGD, noting that it had 'done much to incorporate sustainable development considerations into its project screening procedures'.⁵ This was supported by the Joint Nature Conservation Committee (JNCC), which stated:

JNCC's experience of collaboration with ECGD indicates that the department takes environmental and sustainable development issues seriously, and is committed to improving standards within its own work and globally.⁶

The Confederation of British Industry, representing a number of the businesses that have to operate under any new conditions introduced by the ECGD, described the application of sustainable development criteria to the ECGD's work as 'rigorous and comprehensive'.⁷ **The ECGD has made progress on supporting sustainable development that deserves to be recognised. The objectives introduced by the 1999 Mission and Status Review placed considerable demands on a small, specialised department, with a difficult role to play in balancing business and financial needs with wider government concerns. The mechanisms put in place following the review are a sound basis for further action on sustainable development.**

6. While the ECGD has clearly increased its capacity to incorporate sustainable development into its work practices, it has continued to attract criticism over the extent to which it has done so. There has been consistent criticism of the ECGD's approach from a number of NGOs, of which WWF and the Corner House are among the most vocal.

7. The ECGD has an important and visible role on the world stage. The high profile projects supported by the ECGD represent an opportunity to set a standard both in the regions where it operates and for other Export Credit Agencies (ECAs) to follow.⁸ Alongside the ECGD's capacity for positive influence, there is a danger of negative influence if it was perceived as failing to set or meet appropriate standards.⁹ The standards set by the ECGD influence the standards used by other ECAs and can help to raise international standards overall, notably the OECD's 'common approaches'. WWF noted:

4 ECGD, *ECGD's Business Principles*, December 2000.

5 Ev 81

6 Ev 73

7 Ev 65

8 Q 3

9 Q 20

improvements in the various guidelines for ECAs on sustainable development issues have tended to come as a result of one ECA setting new standards and then encouraging others in the forum of the OECD to follow. As such the OECD has been a medium for improving standards multilaterally, but not the driver.¹⁰

While the ECGD must balance the duty to raise its standards of sustainable development against its duty to support the competitiveness of UK industry, it has a unique capacity to influence and raise standards internationally.

Remit

8. The current ECGD remit is derived from the 1991 Export and Investment Guarantees Act, which sets a primary duty to assist exporters of UK goods and services to win business abroad and invest overseas. The Business Principles, including sustainable development objectives, are subsidiary to this primary duty. The NAO noted that ‘while ECGD can take account of wider Government policies (including environmental policies), it cannot allow these to prevent it from fulfilling its statutory purpose’.¹¹ However, Malcolm Wicks, the Minister overseeing the ECGD’s operations at the Department for Business, Enterprise and Regulatory Reform, assured us repeatedly during evidence that the status of the business principles would not prevent the ECGD from refusing a project if it failed to meet the department’s sustainable development standards.¹²

9. The question has been raised whether the ECGD would be more effective at incorporating sustainable development into its activities if sustainable development became part of its primary duty. WWF insists that the current remit is out of date, and that the primary duty should be recast in order to reflect wider government policy on sustainable development.¹³ The Corner House argued that a change to the primary remit was ‘probably essential in terms of any real movement towards fitting the ECGD more with government sustainable development objectives’.¹⁴

10. However, as the NAO put it:

ECGD is neither a development bank nor an aid agency, and to transform it into one would not only require a fundamental statutory change but also risk duplicating the functions of other organisations such as DfID.¹⁵

Mr Wicks reiterated this argument,¹⁶ and even the Corner House noted that it was important to remain focused on improving the consideration of sustainable development within the ECGD’s existing role.¹⁷ **We conclude that a change to the ECGD’s primary**

10 Ev 10

11 Ev 94

12 See, for example, Q 80

13 Q 13

14 Q 12

15 Ev 94

16 Q 39

17 Q 10 (Mr Hildyard)

remit is not currently necessary, but continued scrutiny of further progress is important. The current remit provides an adequate basis for sustainable development to underpin its activities. The challenge for the ECGD is to demonstrate that sustainable development is given appropriate weight within its current remit, and that it does nothing that would actively undermine this principle.

11. WWF has expressed concern that the Business Principles are not translating into meaningful and continuous progress on sustainable development issues,¹⁸ while the Corner House described the principles as ‘largely aspirational and [...] their implementation discretionary’.¹⁹ To some degree, these criticisms arise from shortcomings in the CIAP process and from a lack of transparency in the ECGD’s assessment and decision-making procedures. We make recommendations on how to address these problems in Chapters 3 and 4.

Portfolio and client base

12. The contents of the ECGD’s portfolio have changed significantly since 2000. Both the value of business and the number of projects supported have declined, a phenomenon ascribed to a number of factors including changing patterns in manufacturing and the increasing maturity of foreign markets. Most notably, the 1991 privatisation of the ECGD’s short term trade credit insurance operation led to a significant reduction in its role, which has been further eroded by the increasing availability of insurance from the private sector.²⁰ The profile of the ECGD’s portfolio has also changed: defence and aerospace cases have always been important but now dominate, while civil projects have shrunk to a fraction of the ECGD’s business. The NAO believed this raised ‘significant issues for the ECGD as its customer base has continued to shrink and it is now largely dependent on a small number of exporters operating in the civil aerospace and defence sectors’.²¹

13. These concerns are not new: the 1999 Mission and Status Review proposed widening the ECGD’s customer base and identifying specific export markets to support the Government’s sustainable development objectives.²² The NAO noted that the ECGD had been ‘less able to respond’ to these ‘wider aspirations’²³ (the various reasons for this are set out in the paragraphs below). In addition, the domination of the portfolio by aerospace and defence, coupled with the high proportion of fossil-fuel-related projects in the civil non-aerospace sector, has attracted the criticism of environmental groups. WWF accused the ECGD of sending a message that the government, contrary to its environmental aims, is prepared to subsidise and support these heavily polluting sectors.²⁴

18 Ev 4

19 Ev 18

20 Further analysis of the changes to ECGD’s portfolio can be found in the NAO briefing note, Ev 91-93.

21 Ev 83

22 Ev 84

23 Ev 85

24 Ev 2

14. Evidence to the inquiry from business groups stressed the vital role played by the ECGD. The CBI insisted that any move to limit support for aerospace, defence, or fossil fuel projects could put UK business in these sectors at a competitive disadvantage and have a negative impact on the economy.²⁵ SBAC insisted that such a move could even have negative environmental consequences, because it ‘would result in making the equipment of UK competitors financially more attractive even if it is less efficient and more environmentally damaging.’²⁶ **The ECGD has a responsibility to support UK exporters. Any move by the Government to adopt policies that limited support to sectors such as defence, aerospace and fossil fuels, or to assess these sectors by different standards, would need to be carefully assessed. While these sectors remain within the ECGDs portfolio, the agency must take steps to improve the scrutiny of sustainable development in these areas.**

15. The Corner House argued that the agency should be trying to improve the balance of its portfolio.²⁷ However, the ECGD does not choose its business: it is a reactive organisation and its business is determined by the applications it receives. Any attempt to change the nature of the client base will either need to restrict ECGD support in these more polluting sectors, or encourage new industries to take advantage of ECGD facilities and redress the balance. In 2003 our predecessors welcomed the establishment of a £50 million underwriting facility for renewable energy projects as a ‘step in the right direction’;²⁸ but not a single application for support through this facility has been received. The NAO attributes this to the fact that the UK has relatively little manufacturing capacity in the renewable energy sector, and that those firms that do exist are not of the size to require support of the kind provided by the ECGD.²⁹ Patrick Crawford, the ECGD’s Chief Executive, noted that even in the USA, where the renewable energy industry is larger and better established, little use was made of export credits to support renewables.³⁰

16. The ECGD is not able to offer subsidised facilities to exporters:

To do so on a tied basis to UK exporters would not only conflict with international guidance on ECAs but might be viewed as anti-competitive and incur the risk of legal action—for example, by the EU or WTO.³¹

The agency is also limited in terms of how actively it can market its services to potential applicants. The department has a non-statutory policy objective to ‘complement, not compete with, the private market’.³² As such, the department is restricted to raising awareness of its services, rather than actively selling its wares or chasing down business opportunities. Mr Dodgson summarised how it currently goes about this:

25 Ev 65

26 Ev 69

27 Q 7

28 Environmental Audit Committee, Seventh Report of Session 2002–03, *Export Credits Guarantee Department and Sustainable Development*, HC 689, para 39

29 Ev 94

30 Q 85 (Mr Crawford)

31 Ev 94

32 Ev 41

One of the key links is through UKTI [UK Trade & Investment] because it has contacts with industry. A number of my staff sit on some of the trade sector groups so we are linked with industry on those groups and they are aware of what we do. We also participate in conferences or exhibitions, and in some cases we will go out and visit exporters. The other arm of it is also to be known overseas because project sponsors are very influential in where they place business. [...] Therefore, there is a role in making sure that our posts overseas are aware of our services and facilities, but, frankly, it is about awareness rather than selling.³³

This activity is encouraging, but it has clearly not been able to bring about the changes in the ECGD's client base that would support a more sustainable portfolio.

17. A large programme of support for sustainable and environmental industries would help the ECGD to revitalise its role while remaining within its current remit. Although it cannot compete directly with the private sector, the ECGD should establish a programme actively to promote its services to environmental industries and to other projects that could support sustainable development.

3 The Case Impact Analysis Process

18. The ECGD carries out an environmental and social impact assessment for all civil non-aerospace applications, including defence exports not requiring an export licence. In 2007–08, 13 of the 96 cases supported by the ECGD required an assessment of this kind.³⁴ The Case Impact Analysis Process (CIAP) is set out in detail in the memorandum from the NAO, which describes CIAP as 'a good framework'³⁵ and notes:

Since 2000, ECGD has done much to incorporate policies and processes which seek to ensure that sustainability considerations are taken into account in deciding whether or not to approve applications for support. These meet or exceed all the requirements and expectations set out in international rules on the operation of export credit agencies.³⁶

19. The assessment process is carried out by the Business Principles Unit (BPU), on the basis of information provided by the exporter through impact questionnaires. The BPU reports any concerns to the ECGD's Risk Committee, which then decides whether it would be appropriate to support the application. The NAO stressed that the effectiveness of the CIAP depends upon the experience and resources of the BPU.³⁷ The NAO was satisfied that the BPU's assessment of the information provided to them by exporters was comprehensive, but raised concerns about the timescales involved, stating:

33 Q 87

34 Ev 81

35 Ev 88

36 Ev 81

37 Ev 88

