



HOUSE OF LORDS

International Agreements Committee

1st Report of Session 2024–25

**Scrutiny of International
Agreements: UK-Ukraine
Credit Support Agreement
for the Development
of Ukraine’s Defence
Capabilities**

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International Agreements Committee

The International Agreements Committee is appointed by the House of Lords in each session to consider, and where appropriate report on, 1) matters relating to the negotiation, conclusion and implementation of international agreements, and 2) treaties laid before Parliament in accordance with Part 2 of the Constitutional Reform and Governance Act 2010.

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Declaration of interests

See Appendix 1.

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CONTENTS

	<i>Page</i>
Summary	2
Agreement reported for information	3
Framework Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine on Official Credit Support for the Development of Ukraine's Defence Capabilities	3
Background	3
UK Export Finance	5
Support for Ukraine	5
Content and scope of the Agreement	6
Appendix 1: List of Members and declarations of interest	7

SUMMARY

This report considers the following agreement, laid before Parliament in accordance with section 20 of the Constitutional Reform and Governance Act 2010:

- Framework Agreement between the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine on Official Credit Support for the Development of Ukraine's Defence Capabilities (CP 1147, 2024)

We report the Framework Agreement to the House for information. The Agreement offers the Ukrainian government access to funding support for UK defence contracts in the form of loan guarantees from UK Export Finance. The Framework Agreement forms one aspect of a broader programme of UK support to Ukraine and its territorial integrity. The Framework Agreement supersedes a 2021 agreement, narrower in scope, that was debated by the House in January 2022.

Scrutiny of International Agreements: UK-Ukraine Credit Support Agreement for the Development of Ukraine's Defence Capabilities

AGREEMENT REPORTED FOR INFORMATION

Framework Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine on Official Credit Support for the Development of Ukraine's Defence Capabilities¹

1. The Framework Agreement was laid before Parliament on 2 September 2024. The period for scrutiny under section 20 of the Constitutional Reform and Governance Act 2010 expires on 29 October 2024.

Background

2. The Framework Agreement is designed to allow Ukraine to access loans underwritten by UK Export Finance (UKEF) to finance contracts for the supply of goods and/or services by UK-based contractors in support of the development of its defence capabilities. It supersedes a similar agreement concluded in 2021 with a narrower scope,² that allowed Ukraine to access UKEF support for UK-based contracts to develop the capability of Ukrainian naval forces. The 2021 Agreement has been used to facilitate the purchase of two minehunter vessels.³ The 2024 Framework Agreement, while broader in scope and slightly larger in scale, remains similar in structure and content, and has been concluded in the context of escalating conflict within Ukraine's borders.
3. The 2024 Framework Agreement was signed to further the aims of a Memorandum of Understanding (MoU) reached in April 2024, entitled the 'UK Government to Ukraine Government Framework Arrangement on

1 HM Government, *Framework Agreement between the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine on Official Credit Support for the Development of Ukraine's Defence Capabilities*, CP 1147 (19 July 2024): https://assets.publishing.service.gov.uk/media/66d1a277d107658faec7e3e7/CS_Ukraine_2.2024_UK_Ukraine_Framework_Official_Credit_Support_Defence_Capabilities.pdf [accessed 20 September 2024]

2 HM Government, *Framework Agreement between the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine on Official Credit Support for the Development of the Capabilities of the Ukrainian Navy*, CP 553 (November 2021): <https://www.gov.uk/government/publications/ukukraine-framework-agreement-on-official-credit-support-for-the-development-of-the-capabilities-of-the-ukrainian-navy-cs-ukraine-no12021> [accessed 20 September 2024]

3 Ministry of Defence, Press Release: *British minehunting ships to bolster Ukrainian Navy as UK and Norway launch maritime support initiative* on 11 December 2023: <https://www.gov.uk/government/news/british-minehunting-ships-to-bolster-ukrainian-navy-as-uk-and-norway-launch-maritime-support-initiative> [accessed 20 September 2024]

Defence Materiel Cooperation'.⁴ According to the press release issued around this time, this MoU was designed to encourage cooperation on defence and industrial issues⁵ and, according to the Explanatory Memorandum to the Framework Agreement, the MoU allows the MoD to let contracts with UK industry on Ukraine's behalf.⁶ This MoU was not made available to Parliament and does not appear to be publicly available.

4. The Framework Agreement will allow the Ukrainian Government to enter into credit agreements with a lender with a payment guarantee from UKEF. These contracts must meet UKEF's UK content requirements - that is to say, a minimum level (20% of the contract value) of the component parts of the goods or services must be considered to have originated in the UK.⁷
5. The Explanatory Memorandum (EM) provided by UKEF explains that Ukraine's public procurement rules do not allow it to make a single source contract award, or to require a certain percentage of the goods/services to originate from one country. However, these conditions are incompatible with UKEF's content requirements outlined in the paragraph above.⁸
6. The EM indicates that Ukrainian law allows for certain exceptions to its public procurement rules, including where provided for by a legally binding treaty.⁹ The conclusion of the Framework Agreement therefore allows Ukraine and the UK to introduce specific requirements on the contracting—for example by including the minimum content requirements referred to above.¹⁰
7. **We welcome the helpful detail in the Explanatory Memorandum accompanying this Agreement.**
8. **We note with regret that the Memorandum of Understanding on Defence Materiel Cooperation is not publicly available and has not been shared with Parliament.**

4 Department for Business and Trade, *Explanatory Memorandum on the Framework Agreement between the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine on Official Credit Support for the Development of Ukraine's Defence Capabilities*, CP 1147 (July 2024): <https://www.gov.uk/government/publications/ukukraine-framework-agreement-on-official-credit-support-for-the-development-of-ukraines-defence-capabilities-cs-ukraine-no22024> [accessed 20 September 2024]

5 Department for Business and Trade, Ministry of Defence, Press Release: *UK and Ukraine sign new defence pact* on 10 April 2024: <https://www.gov.uk/government/news/uk-and-ukraine-sign-new-defence-pact> [accessed 20 September 2024]

6 Department for Business and Trade, *Explanatory Memorandum on the Framework Agreement between the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine on Official Credit Support for the Development of Ukraine's Defence Capabilities*, CP 1147 (July 2024): <https://www.gov.uk/government/publications/ukukraine-framework-agreement-on-official-credit-support-for-the-development-of-ukraines-defence-capabilities-cs-ukraine-no22024> [accessed 20 September 2024]

7 HM Government, *Framework Agreement between the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine on Official Credit Support for the Development of Ukraine's Defence Capabilities*, CP 1147 (19 July 2024): https://assets.publishing.service.gov.uk/media/66d1a277d107658faec7e3e7/CS_Ukraine_2.2024_UK_Ukraine_Framework_Official_Credit_Support_Defence_Capabilities.pdf [accessed 20 September 2024]

8 Department for Business and Trade, *Explanatory Memorandum on the Framework Agreement between the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine on Official Credit Support for the Development of Ukraine's Defence Capabilities*, CP 1147 (July 2024): <https://www.gov.uk/government/publications/ukukraine-framework-agreement-on-official-credit-support-for-the-development-of-ukraines-defence-capabilities-cs-ukraine-no22024> [accessed 20 September 2024]

9 *Ibid.*

10 *Ibid.*

UK Export Finance

9. UK Export Finance is the UK government's export credit agency. It is a UK Government ministerial department, strategically and operationally aligned with the Department for Business and Trade, and is accountable to the Secretary of State for Business and Trade. It supports UK exporters by guaranteeing finance to international buyers for UK-sourced contracts; guaranteeing working capital to UK-based lenders to support their export activities; and providing insurance against buyers defaulting.
10. It operates under a framework agreed with HM Treasury allowing it to provide export support by providing or underwriting loans, while managing the risks to the Exchequer. In 2022, UK Export Finance advised the Government that providing support in the form of loan guarantees for Ukraine would fall outside of its normal underwriting criteria, due to the financial risks associated with the geopolitical situation.¹¹
11. At this time, the Government issued a Ministerial Direction¹² instructing UKEF to maintain coverage for Ukraine with a £3.5 billion market limit, subject to certain UKEF criteria, and with HM Treasury's consent to be sought for each transaction.¹³ The incoming Government has confirmed this Ministerial Direction.¹⁴
12. **The Government's ongoing support for Ukraine in light of continued Russian aggression will be generally welcomed. It is important that the Government ensures that all financial support remains sustainable.**

Support for Ukraine

13. This Framework Agreement has been concluded within the broader context of a range of military and non-military assistance measures implemented by the UK in its support for the Ukrainian defence effort. The UK Government announced in July 2024 that it would sustain current funding packages including £3 billion in military aid until 2030/31,¹⁵ and a new package of military equipment was also announced in July 2024.¹⁶ The UK is the third largest contributor to the NATO Comprehensive Assistance Package for Ukraine,¹⁷ and coordinates the International Fund for Ukraine (a funding mechanism that pools funds from international contributors to procure priority military equipment).¹⁸

11 *Ibid.*

12 Ministerial Directions are formal written instructions issued by a Government minister to approve spending contrary to the advice given by an accounting officer. See more: House of Commons Library, *Ministerial Directions*, Briefing Paper, [Number 08412](#), 24 October 2018.

13 Written Statement UIN [HLWS182](#), Session 2023–24

14 Department for Business and Trade, *Explanatory Memorandum on the Framework Agreement between the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine on Official Credit Support for the Development of Ukraine's Defence Capabilities*, CP 1147 (July 2024): <https://www.gov.uk/government/publications/ukukraine-framework-agreement-on-official-credit-support-for-the-development-of-ukraines-defence-capabilities-cs-ukraine-no22024> [accessed 20 September 2024]

15 Prime Minister's Office, 10 Downing Street, Press Release: *UK to stand with Ukraine for as long as it takes, PM to tell NATO* on 10 July 2024: <https://www.gov.uk/government/news/uk-and-ukraine-sign-new-defence-pact> [accessed 20 September 2024]

16 Ministry of Defence, Press Release: *New Defence Secretary pledges to step up support for Ukraine on visit to Odesa* on 7 July 2024: <https://www.gov.uk/government/news/uk-and-ukraine-sign-new-defence-pact> [accessed 20 September 2024]

17 Prime Minister's Office, 10 Downing Street, Press Release: *UK to stand with Ukraine for as long as it takes, PM to tell NATO* on 10 July 2024: <https://www.gov.uk/government/news/uk-and-ukraine-sign-new-defence-pact> [accessed 20 September 2024]

18 Ministry of Defence, 'Guidance: International Fund for Ukraine', (updated 14 July 2024): <https://www.gov.uk/guidance/international-fund-for-ukraine-ifu> [accessed 20 September 2024]

14. The Government has also liberalised tariffs on goods originating in Ukraine,¹⁹ and entered into a Memorandum of Understanding on Security Cooperation between the UK and Ukraine.²⁰
15. **The Government’s ongoing assistance to Ukraine is to be welcomed.**

Content and scope of the Agreement

16. The Framework Agreement sets out the broad UKEF financing support for contracts between the government of Ukraine and UK suppliers. It does not form the contracting or financing arrangements themselves, or bind the UK to provide specific financial support. Rather, the Framework Agreement provides the legal framework to allow such contracts to take place. Credit support is subject to UKEF’s due diligence processes and approvals,²¹ as well as the minimum levels for UK-originating content.²² The Framework Agreement includes commitments to combat corruption.²³
17. Article 2 sets out the upper ceiling of credit support used for financing contracts as £2 billion.²⁴ This remains within the current £3.5 billion cover limit, while allowing sufficient space within the market limit for the value of interest and the risk premium also to be paid by Ukraine. The Framework Agreement contains a provision for the unilateral increase in the credit available on the part of the UK. Any increase would be agreed at the discretion of UK ministers.
18. Article 8 contains a commitment from both Parties to fight against corruption in international commercial transactions, and the UK can refuse to allocate contracts or suspend disbursements of credit where commitments are breached.
19. **We welcome the commitment to combat corruption.**
20. Article 12 provides that the Agreement may be amended by written agreement between the parties. This provision does not explicitly require a ratification process. **We note and welcome the commitment by the Department for Business and Trade in the EM to subject any amendment of the Framework Agreement to parliamentary scrutiny under CRAG.**
21. **We report the Agreement to the House for information, together with our comments in paragraphs 7, 8, 12, 15, 19 and 20.**

19 Letter from Lord Johnson of Lainston CBE, Minister for Investment and Minister for Regulatory Reform, Department for Business and Trade to The Rt Hon Lord Peter Goldsmith KC, Chair, International Agreements Committee re Extending Trade Measures to Support the Ukrainian Economy, 8 February 2024: committees.parliament.uk/publications/43419/documents/216003/default/

20 Prime Minister’s Office, 10 Downing Street, Policy Paper, *Agreement on Security Cooperation between the United Kingdom of Great Britain and Northern Ireland and Ukraine* (12 January 2024): <https://www.gov.uk/government/publications/uk-ukraine-agreement-on-security-co-operation> [accessed 20 September 2024]

21 Department for Business and Trade, *Explanatory Memorandum on the Framework Agreement between the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine on Official Credit Support for the Development of Ukraine’s Defence Capabilities*, CP 1147 (July 2024): <https://www.gov.uk/government/publications/ukukraine-framework-agreement-on-official-credit-support-for-the-development-of-ukraines-defence-capabilities-cs-ukraine-no22024> [accessed 20 September 2024]

22 Article 2(5) of the Framework Agreement.

23 Article 8 of the Framework Agreement.

24 Article 2(2) of the Framework Agreement.

APPENDIX 1: LIST OF MEMBERS AND DECLARATIONS OF INTEREST

Members

Lord Anderson of Swansea
 Lord Boateng
 Lord Etherton
 Lord Fox
 Lord German
 Lord Goldsmith KC (Chair)
 Lord Grimstone of Boscobel
 Lord Hannay of Chiswick
 Lord Howell of Guildford
 Baroness Kingsmill
 Lord Marland
 Lord Udny-Lister

Declarations of Interest

Lord Anderson of Swansea
No relevant interests

Lord Boateng
*Independent non-executive director, at the Ghana International Bank
 Board member, Syngenta Foundation*

Lord Etherton
No relevant interests

Lord Fox
No relevant interests

Lord German
No relevant interests

Lord Goldsmith KC
Partner, Debevoise & Plimpton LLP (International law firm)

Lord Grimstone of Boscobel
No relevant interests

Lord Hannay of Chiswick
*Member, advisory board of the Centre for European Reform,
 Member, European Leadership Network
 Chair, European & International Analysts Group*

Lord Howell of Guildford
No relevant interests

Baroness Kingsmill
No relevant interests

Lord Marland
Director, Fanspeed Technologies Ltd (manufacturer of motor parts)

Lord Udny-Lister
Advisor to the Group Chairman of HSBC