HOUSE OF COMMONS

International Trade Committee

Oral evidence: UK Export Finance, HC 700

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Watch the meeting

Members present: Angus Brendan MacNeil (Chair); Mark Garnier; Paul Girvan; Sir Mark Hendrick; Anthony Mangnall; Mark Menzies; Taiwo Owatemi; Lloyd Russell-Moyle; Martin Vickers; Mick Whitley; Craig Williams.

Questions 57 - 80

Witnesses

Examination of witnesses

Witnesses: Jack Semple, Nicholas Wrigley and Ipek Gencsu.

Q57 **Chair:** Good afternoon, and welcome to the International Trade Committee's evidence session on UK export finance. We have two panels today. Each will be about an hour long and we have three witnesses in each panel. In the first panel we have Jack Semple, Nicholas Wrigley, and Ipek Gencsu, who will hopefully tell me I was quite close there. Maybe we will start in reverse order then and find out—we won't keep the suspense going—how good was my pronunciation there, and also, could you introduce yourselves: name, rank and serial number or however you see fit? Thank you. Ipek.

Ipek Gencsu: It was quite close. Ipek Gencsu. I am a research fellow in the climate and sustainability programme at ODI, a London-based think-tank working on global issues, including on climate change.

Chair: Thank you, and thank you for coming to the Committee this afternoon. Nicholas Wrigley.

Nicholas Wrigley: Good afternoon, everybody. I am the chief executive of a company called Winch Energy. We are a UK-based company building off-grids and electric systems in Africa, Asia and Latin America.

Chair: Excellent, and thank you also for coming this afternoon. Finally, Jack Semple.

Jack Semple: Jack Semple. I am secretary of the Engineering and Machinery Alliance, normally known as EMA, which is an alliance of 10 trade associations across the machinery and component supply chain. Think about it as quite horizontal as opposed to silos, as in aero or auto or oil and gas.

Chair: Excellent. Thank you, and thank you also very much for coming this afternoon.

Just to ease us into this, Mr Semple, can you tell us generally how UKEF supports your members?

Jack Semple: UKEF has a very good range of products, first of all, and the range is one thing. The accessibility and the knowledge is probably another. EMA has had a long engagement with UKEF over many years. We have reinforced that over the last couple of years in terms of promoting UKEF. We have done a couple of webinars. I think we did the first webinar UKEF had ever done on its own account.

The supplier fairs are a great opportunity for businesses to get involved in the nature projects. It taps into a key thing for our members at the moment, which is promoting the SME supply chain in UK manufacturing and engineering, which is very often overlooked. It does not have the profile. I think the tier 1s and the OAMs themselves do not have the knowledge and understanding of what is available in the UK, so, from the

SMEs' points of view, they are a great opportunity to get direct business opportunities, to move into new markets, to take their technology to a new area and working to promote that. However, the supplier fairs are not for everybody, so we have niche companies that know their markets and the direct support for them, as well as for the SMEs who are going to the supplier fair very often, is really important.

I know you have looked before at how UKEF promotes itself but, from our point of view, for UKEF to work very well, companies have to know about it. After 100 years, 30% market knowledge; it does not help those companies to help themselves to get UKEF into their exporting plans. So we have a belief that UKEF should be on the checklist of all exporting manufacturers. To do that, we need a sustained drive to explain to SMEs what the business case for UKEF is. We continued that last week with a webinar on the new general export facility.

Q58 **Chair:** In the briefings we have received, we can see that the export finance given by a number of other countries seems to be higher and greater than what the UK has done—even Finland, I think, which quite surprised me when I was reading that.

Last year, UKEF supported a renewable energy project for Winch Energy in Benin. Nicholas Wrigley, can you tell us more about the relationship you had with UKEF during that project, and how you were able to get its support?

Nicholas Wrigley: Probably unlike quite a lot of businesses, we have daily dealings with UKEF. At the moment we have non-binding commitments. You probably know that it offers initial indications of willingness to finance, probably around £500 million, and that is spread across places like Mexico, Senegal, Benin—which I will come back to in a second—places like Myanmar and Mozambique, and so we really do rely on them on a daily basis.

Q59 **Chair:** So it is sort of par for the course in a lot of the projects that you are doing that it will be involved with you?

Nicholas Wrigley: It is. We are a renewables business, which of course at the moment seems to be quite topical. I think that is fortunate timing for us. A lot of the business we do is effectively Governments acquiring our design and manufacturing capabilities to install, effectively, remote villages—and there are plenty of them in the world, as you probably know—with power and communications.

Typically, it will take the form of a direct lending loan to the sovereign—Benin in this case. It wasn't a particularly large deal for us. It was about €35 million, but with renewables, as you probably know, you get 20-year money and that in itself is of interest to a developing economy, having long-term tenants on their finances.

Q60 **Chair:** Probably more to Jack Semple: what do you see the constraints are for your members who get involved in this, given we have seen the knowledge rates? How can this be opened up and better utilised?

Jack Semple: If I could take a step back, I think across Government there is an issue with how they support the SMEs. They are very well tuned into the large companies. We have seen great initiatives from UKEF, starting with Rolls Royce, with the supply chain discount guarantee where they can help their supply chain on contracts. But there needs to be more focus on the other way round—on the SMEs themselves directly.

I think there has been very much a reliance on the banks but I think UKEF in the last year—you have to remember that Covid has slowed things down. The general export facility was announced 18 months ago but it has really only been launched now because of Covid. Fundamentally, we would really welcome UKEF having a sustained drive. In many ways it is starting to show the way for public sector organisations in their dealing with SMEs, but that has to be sustained. We also have to speed up the response time for loans. Historically, the banks and UKEF have had a very different perception of what is needed from the SMEs themselves who are looking for a quick turnaround.

We are very aware that in a changing environment, moving into green, moving into different markets, new challenges, people have to know about UKEF if they are going to benefit from it. I have to say the message that we are giving out to our members is, "If you are having any difficulties at all with your banks in this area, get in touch with UKEF and get it into a meeting. We have heard directly from companies that it can make a really big difference, so don't wait for UKEF to come to you—you go and ask UKEF how it can help."

Chair: Just before I move on to my esteemed colleague, Mark Garnier, I have just run the figures. The UK was in the top 10 but above it, surprisingly—no surprise, Germany perhaps was above it—Finland, Belgium and the Netherlands were all above it. As I mentioned, Finland is more than two and a half times the UK figure. There is perhaps work to be done in that area.

Q61 **Mark Garnier:** Nicholas Wrigley, may I start with you? You have a fascinating business going into some really exotic parts of the world. One of the things that the Secretary of State and the Minister for Exports recently said is that "The UK is ready to trade with the world, and there is huge opportunity ahead for businesses, particularly in emerging markets". You gave a list of countries that have some quite interesting human rights records, including Myanmar in particular. One of the problems that happens with some of these emerging markets is that because they have questionable individuals running them there are sanctions against some of those individuals, and that has implications for banks' ability to go into those countries. Myanmar, as I am sure you are aware, has a very significant problem, in so far as it is essentially unbanked by the outside world; it only has domestic banks. Of course, ultimately, UKEF is only a guarantee. It is not actually the lender.

How in any practical sense do you get around some of these sanctions? Frankly, if you want to go and borrow money to go into somewhere like Myanmar—and the same applies to a lot of Africa—how do you actually do it? It is quite tricky. Do you find that UKEF helps you with this or do you find you have to go and make your own way or make your own arrangements? It is a big problem. Discuss, Nicholas. Thank you.

Nicholas Wrigley: Thank you for that question. It is obviously a vast area. I will try to keep it short. You will be pleased to know that we are not presently active in Myanmar. That project is on hold, for a reason I do not think I need explain.

Developing new projects businesses in the developing world is very challenging. To be constructive, we get tremendous help from UKEF, but it is not a single-player game. When you see—and it does not surprise me—the list that one of your colleagues just pulled up about the largest export credit finances in the world, what happens with other countries—and I would name even places like Denmark, Sweden, the US, Japan and China—is that it is a team effort between the export credit agency, the department for international trade and, I think really importantly, diplomacy.

We are only a small company but with the sort of deals we are looking at, 140 million in Ethiopia—it is probably on your list—and so on, you really need diplomacy to back up the export credit. There are a number of reasons for that. First, competition is fierce, and secondly, sovereign states that are borrowing this money very much view this as a state-to-state arrangement. Yes, the supply is important, but ultimately they view it as the British Government coming in and lending them money. That is very strategic.

You have seen the US come roaring back into action since there has been a change of leadership. US diplomacy is very, very focused on commercial, on promoting SMEs, large companies and corporations from the US. They are pretty powerful and they have a very powerful voice within the given countries.

To come back to it, we tend not to do deals in countries where we don't get some sort of diplomatic cover. The diplomatic cover is there to help us secure the deal. It is also there to deal with the delicate issues that we raise around human rights, corruption and so on. You need—we have got an umbrella, basically. If you have got that support—human rights is a separate issue but corruption, which of course is at the forefront of all our minds, tends not to be a problem if you have got the British ambassador in Ethiopia who is having direct dialogue with the ministries concerned who are looking at entering into this contract with Winch.

I do not have enough good things to say about UKEF, but I think the joined-up writing between the Department for International Trade and FCDO, the Foreign Office, is absolutely key to helping large and small businesses in the UK secure some of these very exciting projects.

By the way, the gestation period for these projects is very, very long. They take years from the day you go in. With the Benin project, we have been active in Benin since about, I think, 2016 and it has only just got to fruition, so you need to be extremely patient, you need to have relatively deep pockets and lots of spare oxygen, but you need to go in with the diplomatic umbrella and UKEF can only do as much as it can from London.

Q62 **Mark Garnier:** In summary, the emerging market approach is one that is a whole-of-Government effort. As you say, everybody has to come together in order to make it work. If that does not come together then, presumably, you cannot get on?

Nicholas Wrigley: Yes. We have a number of issues—I feel I am obliged to voice this—as the United Kingdom, when seeking to enter into some of these markets. One of the issues, for example, is tied aid and our—

Mark Garnier: I was going to ask you exactly this.

Nicholas Wrigley: Apologies for raising this one. It is a difficult subject. You will find with all our competitors—French, German, Japanese, Chinese and American—the concept of tied aid doesn't really exist because aid is tied by definition. For example, our competitors in the US—and there are now some increasingly in Africa—will get given grant money from USAID to promote a specific project that will go to create US jobs. There is no thought of a British company getting that aid. That aid is to promote US jobs.

Coming back to one of my witness colleagues, if we really want to promote SMEs in these new markets we have to help them. We are one of the greatest aid donors in the world and, ironically, quite a lot of that aid goes to promote our competitors. Effectively, because it is so untied, ironically it is actually easier to give it to a Chinese supplier indirectly than it is to a British supplier. That is a big issue because, as you probably know, a lot of these developing countries are facing another debt crisis. That means that their ability to borrow is severely limited. It tends to be limited to what we call concessional lending.

Concessional lending is basically UKEF and FCDO working together to reduce the cost of the loan. That today is not something that, as a Government, I understand we are prepared to contemplate. The Danes, for example, have no issue with that, so people that we may associate ourselves with as being in the same club have absolutely no restraint in marrying aids to financing.

Q63 **Mark Garnier:** A very quick point as to why that is like that. In order to meet the 0.7% target or 0.5% target as we are now doing, you have to go by the Development Assistance Committee rules as laid down under the OECD. We absolutely vehemently subscribe to those rules, which is how we can achieve that target, but other countries only in part apply those, which is why they can get away with tied aid and we cannot. It is entirely possible that other countries are giving more in aid than we are but it doesn't qualify under the DAC rules, which is that point. I am well aware it is very controversial.

Jack Semple, I want to pick up on a point you were making about how UKEF and DIT are helping SMEs. One of the interesting points on something that we were discussing a few minutes before this meeting started, was the role that high street banks have in terms of delivering UKEF financing for loans below £4 million. I think it is below £4 million. It was set up some time ago—in fact in 2016—so that high street banks would be able to sign off UKEF loans without necessarily reverting back to UKEF. I am not sure I have seen any evidence of that working at all. Can you talk about that at all? That is how UKEF should be delivering to the SMEs. I just wonder if you have come across that.

Jack Semple: It is critical. I don't have any direct evidence as to how it is working. I am told that it is working better but I have indications that there is still room for improvement. I think it is fair to say that not all the banks are equally enthusiastic. It is also fair to say that they have had problems with Covid of their own.

If I go back 10 or 15 years, a former chairman of EMA, who had set up businesses in Germany and the US, used sometimes to get stuff made in Germany because the UKEF equivalent was easier to access. I think we have come some way but we need to come further on that.

One way that UKEF and DIT specifically can work very well together, I would have to say, is to work also with trade associations—I would say that, wouldn't I? Also, the 2018 export strategy said specifically how important it was to have joined-up communication with trade associations and similar. Within our world of advanced engineering that was going pretty well with DIT. That team has sadly closed down just in the last month.

But I think there is a broader lesson. Trade associations, like those that are within EMA, can deliver cohorts of members in terms of delivering messages and getting information very effectively. They all have very different views on life. Some will be selling through the US, others won't be; some to emerging markets, for example, in the printing industry, the new Nordics, Estonia and so on have a different perception; targeting South American countries, others not; India and so on.

One area where DIT and UKEF could really deliver working with trade associations, for example, is if you can identify a group of buyers who may be interested in what the UK has to offer and bringing those buyers, either physically or virtually at the moment, to the UK and planning in advance. We have had one or two good examples of that, for example, in automation and control. One of our trade associations, working with DIT and UKEF, brought a group from abroad, from a developing country, an emerging economy. The earlier we can get the information as to who is coming and what they want, the better, but those three can work really well together: the trade associations, UKEF and DIT.

Q64 **Mark Garnier:** But again it is a team effort. It wouldn't be easy working together.

Jack Semple: As I said, the 2018 export strategy highlighted the importance of that apart from myself.

Q65 **Mark Garnier:** Very quickly, as I am conscious of time, if you were an SME who was a member of a trade association, how would you hear about UKEF?

Jack Semple: As I say, we have done two webinars now. I would urge UKEF to do lots to get the message out there. Also, it helps to build a cycle of feedback as to what is working and what is not, which is one of the reasons why we did the original webinar and again last week. If I am a member of a trade association, my members get updates on what UKEF is doing and we also have discussed: are we happy to be challenged by UKEF and by DIT? Yes, we are. There is an open offer there. Obviously it has to be a reasonable challenge but we are open to being challenged to working and getting the message and market information more strongly flowing two ways.

Q66 **Martin Vickers:** Ipek, if you could answer initially: the Prime Minister, Boris Johnson, has announced a policy shift, inasmuch as export finance will be phased out in terms of support for fossil fuel projects; how will this policy change support our commitments under the Paris Agreement—or not, as the case may be?

Ipek Gencsu: Indeed, it will very much support our commitments under the Paris Agreement. The announcement by the Government to stop financing fossil fuel projects overseas, with limited exceptions, has been very welcome. It is important to remind ourselves of the particular part of the Paris Agreement, article 2.1c, which basically calls for all countries to make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

What has been an issue in the past is that all the different flows of Government finance have been ignored. While there has been some great progress on financing for coal, for example, financing for oil and gas has been ignored. Similarly, countries have looked at, for example, domestic financing for fossil fuel whereas, internationally, the financing has been ignored. I think it is a great step by the Government to stop financing fossil fuels overseas and it sets a good precedent and it is very much aligned with the Paris Agreement goals.

It is also important to say that it is probably not enough. Our research at ODI shows that the UK Government provide over £16 billion of financing for fossil fuels per year, both domestically and abroad. This includes domestic financing from fossil fuel production and consumption. In addition to that is the financing for international fossil fuels. It is important to look at the bigger picture, all the different flows of financing, but yes, the international finance is a big piece.

If I could add, in terms of UK export finance, some research we have done in the past, together with CAFOD, has shown that between 2010 and 2017 around 97% of UKEF's financing for energy was from fossil fuels. Of course, a lot of this predates the Paris Agreement but it just shows you the size of the portfolio and the great shift that is clearly occurring now towards financing renewable projects. It shows that it is a huge change that has to take place because so much money is already tied up in fossil fuel projects. We definitely have to keep an eye on how that transition is going on and, finally, on what these limited exceptions will be because, obviously, there are arguments to continue to support specific projects.

Perhaps I can go into a bit more detail later on natural gas, for example, which many people see as a transition fuel but is really not. It is not a bridge fuel and we have to be very careful about ending all support for all fossil fuels.

Q67 **Martin Vickers:** Could I ask our other two witnesses if they broadly support the change in policy and whether they feel it will have a positive impact? Mr Wrigley, you are involved in a number of renewable solar projects and the like, so presumably you would see this as a good move?

Nicholas Wrigley: It is a good move. It has to be tackled somehow. The only note of caution I would sound is that the renewables world is still a nascent business—certainly in the developing countries, where typically UKEF would be asked for loans to private projects, as opposed to sovereign loans. There are two issues. One is it takes a long time to develop these projects, so the switchover is going to take a while before the renewables build up the momentum to replace, pound for pound, what the oil and gas has removed. I will give an example. We built a large wind farm in Morocco, which is a middle-income country, even a developing country. That took 10 years from start to finish; that was about a €250 million transaction. That gives you a sense of how long it will take to build that momentum.

Also, providing finance to projects, which are owned by the private sector, is quite a competitive world. You have people like the European Development Bank, the European Investment Bank, the Japanese banks, Chinese banks, all lending to projects. I would not underestimate the skills required within an organisation like UKEF. You need to understand how these projects work and they need to be given the people to do it.

Also, lending to a sovereign is like a corporate loan, for want of a better description. The stuff we do is lending the Republic of Benin some money. You are looking at the overall creditworthiness of the Republic of Benin. Lending to a project really means you have to dig deep into the project, and you need skilled people to do that. It is not entirely clear to me that

that is necessarily UKEF’s core business today. It needs to be, but it probably isn’t.

Q68 **Martin Vickers:** Mr Semple, do you wish to add anything?

Jack Semple: We all recognise the high-level requirement to take leadership in this area. The question is: how quickly? I think from your submissions it is clear that the business community wanted a longer transition. We look forward to seeing details of the Transition Export Development Guarantee, which, as I understand it, is going to be UKEF’s mechanism for helping companies to transition out of oil and gas.

We have huge expertise in that area. UKEF has huge expertise in that area. We are going to take a long time to transition out of oil and gas. We are going to carry on selling petrol-engine cars in this country until 2035 and running them for 10 years thereafter. I was interested in Ipek’s comments about natural gas being a transition fuel. At the moment, we have a discount to lorry operators to run their lorries on natural gas, but a substantial duty discount to encourage that. The issue is: what is going to be the impact on UK companies? Is it going to stop a project going ahead? We have a lot of expertise in UKEF, within the UK and within UK supply chains. It is just a question of the phasing.

The one-year extension for SMEs is welcome. The issue is whether it might have been a bit longer, because we are going to be using that expertise in the UK anyway and UKEF’s mission is that no viable export opportunity should be lost through lack of finance.

Q69 **Mick Whitley:** This question is to Mr Wrigley: in March, the Government announced that it would introduce a Transition Export Development Guarantee to support oil and gas-focused companies’ transition to greener alternatives. Is there more that UKEF can do to support companies that are already producing green energy?

Nicholas Wrigley: That is an interesting question. We don’t need any more help than any SMEs need to go into new markets. There has been a lot of talk over the last couple of years about the UK diversifying its export markets to export customers. If you look at what happens in other countries in the OECD, there is a lot of help to press SMEs to go into new markets, whether it is development assistance—I mentioned diplomacy before, hinting that maybe we could do with a little more support on that front; but when you go into these markets the cost of developing is huge, compared to churning money away in the existing marketplace.

In particular, if you look at markets, like Europe, where not only did we sort of share the same values but we have been trading with them for years, it is very difficult to get an SME and costly for an SME to start trading in Africa, as we do. We are one of the very few SMEs that is a relative newcomer to Africa and it is largely down to my wanting to do it, rather than has it always made economic sense. It does now but it has been six years of hard graft and very significant investments from our substantial shareholders, so the answer is that the more the Government can give some help, obviously the greater chance there is of SMEs developing these new export markets.

Q70 **Mick Whitley:** Mr Semple, what will be the effect on your members of the Government's policy to end UKEF support for fossil fuel projects?

Jack Semple: Before I come to that, could I mention briefly—picking up on the last point—that I think there is an opportunity for UKEF as we transition to green projects? We have a lot of activity going through Innovate UK and the Catapult system. If we could join up thinking with those innovation development projects, that would be useful. Our members would want to say that Europe is absolutely an important market for members.

In terms of phasing out support of oil and gas, the comment I was making before was that they recognise the imperative and they recognise the Government's desire, rightly, to be seen to be taking the lead in this area. Across the supply chain, the question we would ask is on the speed of the implementation of that and what has to be the practical effect on whether these projects go ahead. It absolutely does not preclude UKEF transitioning its own expertise and putting great support behind green projects.

Q71 **Paul Girvan:** My question links in with what Martin was saying in part of his question. It is to Ipek. As well as earning support for fossil fuel projects, is there more that UKEF can do to help meet the UK commitment under the Paris Agreement? Basically you are mentioning about how we can encourage companies to get involved in green energy projects, but is there more that can be done to meet the requirement we have under the Paris Agreement?

Ipek Gencsu: I also wanted to quickly pick up on a couple of other points and I will tie it all together. One of the important things we have to do is to look at the climate and science targets realistically. We understand that this feels like a fast pace of change from the business side but, when you look at the science, we are already behind. The Production Gap Report and other research that has been done in this area has shown that, to reach our climate targets, we need to start winding down oil production by 4% and gas production by 3% annually between now and 2030 globally.

Actually, Governments are on track to continue to increase their production and the UK, which is seen as a climate leader, has to really speed up the pace of the transition while, of course, providing all the support that is needed to businesses and to communities that are being impacted by this transition. But we need a realistic plan because, if you think about the costs of not doing so, the costs of investing in further oil and gas infrastructure, and then having to transition away from that, in addition to the climate risks, the liability risks, and so on—I know there is a separate session later on where you might be discussing risk in a bit more detail—if we look at the long-term costs of that, we really have to take a bolder and quite fast timescale to the transition.

With regard to what else UKEF could do, I think it is a really welcome development that it is a party to the Taskforce on Climate-Related Financial Disclosures. Again, it is leading the way because the UK is making this mandatory across the economy by 2025 and UKEF will be making its first disclosure in its annual report, so that is critical. I think that further support in renewables—as has been discussed recently—is very much a priority and any other challenges and hurdles they face in the countries where they are being developed.

We also have to look at the progress that has been made in renewables. The costs have come down. Year after year projections have been wrong because costs have come down drastically, so we have to have a bit more faith in the future of this technology. Again—and I am not undermining the everyday challenges that businesses face, especially in politically sensitive circumstances—I would urge businesses and the Government to work together to have realistic plans with regards to what zero net emissions by 2050 will mean for these sectors. Locking into more fossil fuels is going to create more costs.

Again, transition away from previously funded projects is important, just because they don't happen to fall in this financial year but they were funded last year. Research has shown that last year UKEF provided an extortionate amount to fossil fuels as well as other projects. These are now projects that are in the pipeline and we have to look at them very realistically to see if they are compatible with climate targets.

Q72 **Anthony Mangnall:** Forgive me, it is a bit of an open question. It seemed to me that the Prime Minister last year said that there would be very limited exemptions in which they would invest in businesses around fossil fuels. I wondered if any of you had any idea as to what those parameters of limited exceptions might include. It is probably one for you, Ipek, if that is suitable.

Ipek Gencsu: Thank you. There was some further guidance that was expected to be released at the end of March. I have not seen it but I think the exemption for SMEs, for example, of the one-year delay is one of them.

It is worth mentioning that we have done some research, for example, on energy access as part of the sustainable development goals, and similar on providing universal energy access in a lot of the countries where people still lack electricity. There can be some challenges around whether you provide access first or wait for renewables to be available. I think that one exception that can be made could be around natural gas for clean cooking and for people living in poverty, for example.

The research we have done has recommended that an independent assessment takes place about the energy poverty reduction impacts of any investment and avoided emissions, because we shouldn't just be able to give blanket support to any project that justifies energy access. A lot of these countries are developing their energy systems for the first time, providing access to people, and the types of energy that they lock into will be there for decades to come. So, again, these sorts of exemptions can be provided but it has to be very limited and it has to be assessed by an independent body making sure that it is the right solution and it is a time-limited solution with a proper transition plan attached to it.

In answer to your question, I haven't seen the detailed guidance on the exemptions.

Q73 **Anthony Mangnall:** If you do see the information and would like to write to the Committee I would be very interested to hear your views on it, because I think you have hit the nail on the head there.

You have evolving countries that are concerned about their energy supplies, and they might turn to something like Winch Energy and say, "We will go renewable," but what are we doing to encourage them, through our mechanism, to make sure that they do go in the renewable direction, to be able to make sure that we are globally fulfilling our obligations to the climate? That seems to me to be the biggest challenge and the biggest uncertainty that we face at the moment. It is not just the UK alone; it is what we do collectively that will make a difference.

Ipek Gencsu: Absolutely, and for a very long time one of the justifications for continuing to support fossil fuels has been, "There is a demand for it. Countries are asking for this. They are building their energy systems. They need access." So we really need an independent assessment and realistic plans, as I mentioned, with regard to very serious climate science targets. So, yes, I will absolutely look out for the exemptions and provide further written evidence to the Committee, gladly.

Anthony Mangnall: Thank you, and thanks, Paul, for letting me ride in on your coattails.

Q74 **Chair:** Nicholas, do you want to come in briefly?

Nicholas Wrigley: I just wanted to add that I hope it is clear to everyone that when we talk about renewables, this is not limited by any size to solar and wind power. My personal view—it is a personal view—is that hydrogen is the golden goose. That actually plays quite well to the skill base of UK engineering Plc because, without boring everybody, there is a lot of combined skills between producing hydrogen and the oil and gas business. There needs to be joined-up writing between UKEF, frankly, and the Government to make sure that domestic hydrogen projects are encouraged. I am not just talking about hydrogen buses; I am talking about hydrogen production. We have some of the largest wind parks in the world. I think we have the largest wind resource in the world, and certainly Europe. In order to exploit that we should be making green hydrogen.

I don’t want to make too much of a plug for hydrogen, because we are involved with it. But that is an obvious win—an easy win that we could be using UKEF money for.

Chair: We are living in the “Saudi Arabia of wind power”, as it was termed by a Scottish First Minister. That is music to my ears. Moving from matters Scottish to matters Welsh, which are usually far more important, Mr Craig Williams.

Craig Williams: Representing the middle of Wales, I can certainly agree.

Chair: A wee south of the middle of Wales.

Q75 **Craig Williams:** Thank you, Chair. Looking at some of the comments that the chief executive of UKEF, Louis Taylor, made a year ago to the Environment Audit Committee, he said that there was significant private finance available to fund renewable energy and so requests to UKEF to complement the private market have been currently limited. Could I ask Nicholas—since you probably still have an historic hand up—and Jack to comment on that and whether you agree with that statement?

Nicholas Wrigley: Sorry, I just took my hand down. There are two different markets. There is what I call the North Atlantic renewables market, which is the G20 economies that are perfectly capable of providing credit back in a power purchase arrangement, without going into specifics. Then you have everybody else. Private banks will not lend to projects where the offtaker is a sovereign that has poor credit, so that is basically the rest of the world. That is 154 minus 20, so you have plenty of opportunities out there.

So, yes, UKEF should be there to stand in where private finance is not available. My understanding is it has lent to a project in Tunisia, for example; a large wind project out there. That is a classic example where a private bank’s money is not available necessarily for projects in Tunisia. The European Investment Bank, European Development Bank moneys are but not, for example, Barclays Bank. I do know Louis and I feel quite comfortable disagreeing with him.

Q76 **Craig Williams:** Jack, do you want to come in?

Jack Semple: From companies’ point of view, I think SMEs and large companies are evolving their sustainability plans. It is rising. You can almost see it month by month. Now as we come out of Covid it is becoming a more conscious issue.

Within EMA we have a full array of technologies in terms of machinery and the computer control systems that we sell into Europe, for example, to some simpler, lower cost, lower spare parts machinery, sometimes with none the less sophisticated control systems; sometimes not. There is a full spectrum of demands around the world. India is keen on getting some old technology. It doesn’t want the latest technology.

Whereas UKEF was very well known in oil and gas, I am not sure it was so well known in renewables. There is a huge opportunity for it to make the same name for itself in renewables and in green machinery, from our point of view—just about all of our machinery now is increasingly green—to develop that expertise, to explain to its potential customer base what that means and to have the same success in renewables as it has had in other sectors, notably oil and gas.

Q77 **Craig Williams:** If UKEF did put greater emphasis and support for renewables in, do you think you could quantify what that would mean for UK jobs?

Jack Semple: I can think of projects off the top of my head that would mean jobs at the headline company that would get the contract. What is also hugely important is the jobs it creates in the supply chain, potentially, that are not in the headlines.

To get back to the point, there is a real issue in Government, and tier 1s and OAMs, about understanding the capabilities and competitiveness of what is in the UK. Within Government it came home in the ventilator challenge. My own membership was creating medical clusters among their members in the 24 hours between Mr Hancock announcing the challenge and the online site coming on board. We were already sending names for business departments of companies that could help. It was clear that they did not have the visibility of what is here, and I think the same is true of tier 1s and OAMs.

Craig Williams: Thank you. I caught some of that. My internet is a bit unstable so I will pass back to you, Chair.

Chair: Thank you very much. We are doing okay for time. We will just have to keep our pace going. I don't really need to say that to Mr Mangnall, who is an exemplary angel when it comes to time.

Anthony Mangnall: You have always said that I was eloquent in brevity, so I shall do my best.

Chair: I have to be good to you. You have been tipped earlier—people will know—as a future Prime Minister, so my relationship with you as a Scottish nationalist has to start here, because with an independent Scotland you will be our best friend so—

Anthony Mangnall: When you lose the referendum I shall extend the hand across the aisle and send you abroad, so, don't worry, it will be my pleasure to do so.

Chair: I apologise to the witnesses for our digression, but there will be much more of this until the day of independence.

Q78 **Anthony Mangnall:** I am not sure that my question has not already been answered by Ipek but, with specific reference to the Mozambique gas project, I am wondering how that fits in with the environmentally friendly approach of UK Export Finance, if at all.

Ipek Gencsu: It simply doesn't. Unfortunately, this has been a project that has been shown to have huge environmental impacts. It threatens a national park around it, which includes coral reefs, mangroves, etc. The processes involved with the construction of the gas plant will really threaten ecosystems, endanger plant and animal species, etc. Beyond the environmental impact there is, of course, the wider climate impact. The construction alone is expected to lead to an increase of 10% in Mozambique's emissions by 2022. Mozambique is a country that is in the early stages of development and a lot of people don't have access to electricity so their emissions are relatively low, so it is really expected to add to that.

Again, moving beyond the environmental impact to the broader social and political impacts, we can see with this project what some people have called the presource curse—similar to the resource curse—so, even before the gas has been extracted, multinationals have all come to the table expecting a piece of the pie but, when you look at the country's own development objectives and the country's own people who are expecting to have access to electricity, it looks like the project isn't going to benefit them at all. They are already facing huge challenges. Hundreds have been displaced from their homes. As you might have read, there has been recent violence that has led to the deaths of many civilians. It was targeted by the gas companies but, of course, it is the wider impact of this sort of project.

Again, going back to the original points I was making around locking countries into this sort of development, this sort of fossil fuel-based energy, it is definitely going in the wrong direction.

Q79 **Anthony Mangnall:** Can I push you on that a little bit, because I have seen the Bright Blue report on this making exactly the same point that you are about locking countries in. But you have the developing world that is saying, to the western world especially, "Hang on. You guys, 100 years ago, evolved, had an industrial revolution, created the structures that you want. We want to get up to the same level as you." Unless we put forward a cheaper alternative in renewable form—subsidies, whatever—there does not seem to be much ability for them to play catch-up. So how can you change that mindset within developing countries, without saying, "Here is rapidly the cheaper option of non-renewable sources"?

Ipek Gencsu: There are two things worth pointing out. First of all, the natural gas that is expected to be extracted from this project and turned very rapidly into LNG—liquefied natural gas—is expected to be shipped away from the country to markets in Asia, in Europe and so on. So it is not even expected to benefit the locals, which is what they had hoped initially. It is also debatable what the initially planned projections of profit would do to the country's economy. As I mentioned, there are many challenges around the initial projections and maths around that, both in terms of elevating the country, in terms of their economic development and also providing energy access.

Also, when it comes to renewables, I agree with you that there should be alternatives being offered, and there can be. Mozambique does have very large renewable potential in terms of wind and solar, but also for hydropower. I do think there is a responsibility for developed countries to work together to provide solutions, and to speed up the uptake of these solutions in a way that will not lock that country into further political, social and economic turmoil and, also, link them to an increase in their emissions in the years to come.

Anthony Mangnall: That is a really helpful answer.

Ipek Gencsu: Sorry to interrupt, but I forgot to mention—again you might have read—that Total, the main investor, declared force majeure a couple of days ago and halted the project, based on the violence that has been occurring. This shows that these sorts of projects are becoming more and more risky and if we look at the other risks around transition, around liability, around climate, the time has come to completely stop these sorts of projects.

Q80 **Chair:** Excellent. I noticed in our brief that over the years to come, the expectation that there will be a slight, well, reasonable decline—reasonable, slight—in the support going into the fossil fuel side but an increase in the renewable side but, even by 2035, the support in the more renewable side will still not be matching today's level for the oil and gas and crude oil sort of areas. Ipek, given the Government's wider espoused statements and positions and policies, would you say there is joined-up thinking going on between what is happening and what they would like to happen? I am not particularly pinpointing the Government; I think many in society are in the same situation.

Ipek Gencsu: Look, it is a really welcome step that the Government are speeding up this process. The increased emissions reduction target is very welcome. This sort of commitment to stop international financing of fossil fuels is very welcome, but I keep going back to the point that we are behind when you look at the science. Unfortunately, it is difficult. It is not in human nature to think about, "This is where we have to be. Therefore, let's trace back and look at what we do." We are accustomed to just look at, "What are we doing tomorrow and how are we going to transition? What does this mean step by step?" But we need a much more realistic plan. It might sound very bold right now to make these kinds of transitions so quickly, but we absolutely need to do it and make sure that there is joined up thinking.

For the past couple of years we haven't seen this in the Export Credit Agency sphere and now we are seeing it. Similarly, we have not seen it in multilateral development banks. It took a very long time for them to make similar commitments. Finally, they have been making those commitments: the World Bank, the European Investment Bank and so on. It is unfortunately taking a bit too long to get there and we need to speed up the process.

Chair: Yes, by 2035, when we do indeed have Prime Minister Mangnall in place, that might be the acceleration that is required. Certainly, for some of the renewable stuff, I can name Burntisland and Arnish in my constituency for the production of jackets for offshore wind towers. We also have links with Harland and Wolff in Belfast, to reach across the Committee.

Panel 1, thank you very much, all three of you, for coming along this afternoon: Jack Semple, Nicholas Wrigley and Ipek Gencsu. Did I get that right in the end? Yes, I am improving. Thank you. At least one thing has been learnt. Just to reiterate our thanks to you. You are really here to educate us. As MPs we are generalists, so we do appreciate your time.