HOUSE OF COMMONS

International Trade Committee

Oral evidence: UK Export Finance, HC 126

Wednesday 12 May 2021

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Watch the meeting

Members present: Angus Brendan MacNeil (Chair); Mark Garnier; Paul Girvan; Sir Mark Hendrick; Anthony Mangnall; Taiwo Owatemi; Martin Vickers; Craig Williams.

Questions 146-165

Witnesses

III: Dr Kamala Dawar, Senior Lecturer in International Trade and Commercial Law, University of Sussex and Adrian Jones, Trade & Export Finance Manager, Boskalis Marine Contracting Ltd.

Examination of witnesses

Witnesses: Dr Kamala Dawar and Adrian Jones.

Q146 **Chair:** For panel three—in quick succession today—we have Kamala Dawar and Adrian Jones. Kamala, would you like to introduce yourself first: name, rank and serial number, as you see fit yourself, of course?

Dr Dawar: Thank you very much, Angus. I am Kamala Dawar, and I am a senior trade and commercial law lecturer at Sussex University. I have been working on export credit agencies under a Horizon 2020 project for the past four years.

Q147 **Chair:** Excellent—the great Sussex University that has been the main crutch that we found a lot of our knowledge on. I almost feel as if I have been there, I have met so many of the staff. I do not know whether there are many more who I have yet to come across in the area of international trade at the university. Thank you very much for coming along this afternoon. Adrian Jones?

Adrian Jones: Thank you. I am Adrian Jones, and I work for Boskalis. We are a listed Dutch entity, with turnover typically between €2.5 and €3 billion. We have been active in the UK since the 1930s, and exporting from the UK since the late 1940s.

Q148 **Chair:** I think you do jack-up barges and stuff like that in Boskalis, don't you? Am I right on that?

Adrian Jones: No, we don't have any jack-up barges. We do offshore wind installation in a slightly different way. So we have dynamically positioned heavy lift vessels with cranes on top.

Q149 **Chair:** Who needs a jack-up barge when you've got that, I suppose?

Adrian Jones, first, before I move around the Committee, in your written evidence you told us that Boskalis Marine Contracting is part of a global company, which uses both export credit agency support and commercial support for projects. Broadly, in your experience how does UK Export Finance compare with other credit agencies? You probably have experience of other Governments, or what-have-you. Shoot from the hip and tell us what you think.

Adrian Jones: It is a great question. In terms of the Boskalis knowledge, we have been using export credit agency support for more than 30 years. As a Dutch-listed corporate, of course we tend to use Atradius Dutch State Business, and what we have attempted to do over the last seven years or so is expand the number of ECAs supporting us. We have had support from Finnvera in Finland. And our other primary target is to enjoy support from UKEF and to export from the UK, going forward.

In terms of comparing the agencies, the first thing I would like to say is that UKEF has of course transformed itself over the last seven years or so.

Everybody has sat up and taken notice, whether that is the banks, the other ECAs or the corporates, and we have been part of that process.

Looking at a comparison between the two, I would say that, compared with Atradius Dutch State Business, UKEF, with its direct lending facility, has a competitive advantage over the Dutch state. Furthermore, in offshore wind, if you look at the support that UKEF can provide for financing in offshore wind, the multiples that UKEF can provide, which is basically five times UK content as a maximum, is about double the level of support that you can enjoy via the Dutch state. So there are elements where UKEF is highly competitive.

Looking at the real nuts and bolts with UKEF—the content of the wording for Boskalis as an exporter—at this moment in time UKEF have self-described their export wording as quite obsolete, and it is wording that they are working on very hard and looking to fully refresh and relaunch at some point this year. So in that respect, UKEF definitely has some work to do.

Q150 **Chair:** The question that I will ask you next is this: given your interaction with various credit agencies in various countries, you could almost critique each one, but how freely do you feel you can do that, given that you have a relationship with them at the same time? I mean, how freely can you talk truth to power? That is basically my question.

Adrian Jones: What we do in the Dutch space is that we are part of the Rijkscommisse—that is just the royal commission with oversight over the performance of Atradius Dutch State Business. Our CEO and group treasurer participates in that committee on a regular basis and we are extremely vocal in the Dutch space.

In the UK, we speak with our own voice. I mean, we are a tier 1 main contractor in offshore wind, which is of course a sector that UKEF is extremely keen to support. So we will speak with our own voice, but we have also become a member of the British Exporters Association, and we feed some of our points through BExA as well, where required.

Q151 **Chair:** My final question before I move on is this: for large international projects, what are the considerations for companies such as your own when you are seeking export credit support? Why this agency? Why not that one? What are you thinking of when you are looking for this export support?

Adrian Jones: That is another really nice question, because of course we have an internal thought process. So basically, if we are trying to choose between available supporters, we have a kind of sweet spot with the private insurance market, which we describe as the London market, even though the underwriters are London, Paris, New York, etc. A contract with a turnover of somewhere between €10 million and €200 million would typically be the size of a contract that we place with the private market. If we look at the ECAs, they are 200 million plus. The reason for that is simple—the private market has a profit motive and the ECAs have the motive to support the exporter.

In choosing between the ECAs, it is the content of the wording that we are looking for, in combination with the possible diplomatic support, in case we get into difficulty under the contract. What we do as an exporter—we have been exporting for a very long time—if we are executing a major project overseas, one of the first things that we will do is to introduce ourselves to the local embassy or consulate of the supporting Government, wherever we are exporting from. We will make sure that diplomatic support is available, as and when we need it, while executing the contract.

Q152 **Chair:** That is interesting. I thought I had asked my last question, but tell me a little more about the diplomatic support. What does that mean? What is it and its general importance? Is Finland's better than the Dutch, the UK's or whomever?

Adrian Jones: Comparing the Netherlands and the UK, let us go seven or eight years back in time and the Dutch embassy network was definitely better than the UK's embassy network at that moment. The Dutch, as a trading nation, really had an emphasis placed within their embassies on supporting overseas exports and trading relationships.

That is something that we have seen change dramatically, if we look at the UK embassy and consulate network. I have to include the work of DIT as well as UKEF in that process. We have gone from no feed-in for potential new projects and tenders from the UK side to quite a flow from DIT in the past seven years and really picking up speed in the past four or five years.

If I were to run a quick analysis of that, I would say that Brexit had a very positive effect, because it drove the embassy network of the UK to start looking into trade opportunities and to feed those through to exporters. Now I would put them on parity with each other.

Q153 **Chair:** That is good to hear. Were you able to raise your voice when the UK was behind, to tell them? Was it difficult at that moment? There is a game to play as well, as we look into the future—because some people do not want to hear things. Obviously, now, it is easier to say it when you feel there is parity, but when it was behind, was it easy to point it out to them?

Adrian Jones: Yes. We have always had a good hearing. I am a regular visitor—once upon a time to the ECGD, I think I visited that office once—now that UKEF is housed in the same building as the Treasury. I am known to quite a number of the people there. Multiple people have reached out to us from DIT. Whether it is DIT in the embassy in Baghdad, in Vietnam, in Australia or in quite a number of the Latin American countries—Colombia and Brazil come to mind—we have been approached by multiple people and have enjoyed sharing information and obtaining new project leads and notices of upcoming tenders. It has been a very positive interaction between parties.

Chair: Thank you. Hopefully, the Treasury is only a single-edged sword. I will leave it at that. I have said quite enough and, if we are going to be on time with another 20 minutes to go, I will pass the baton to Mr Garnier.

Q154 **Mark Garnier:** Kamala, may I turn to you? In an article you published in October 2019, you were talking about the fact that an awful lot of countries are keen to promote their exporters: “there is a real risk of an export credit race”. Will you tell me a little more about that and, in your answer, will you say why you chose to refer to it as a “risk of an export credit race”, as opposed to an opportunity for borrowers?

Dr Dawar: I guess it depends which side of the table you are on. For the countries that are supplying the export finance, at the moment the risk is that in the desire to get these overseas contracts and compete with China, mainly, which is providing very cheap loans and good deals for its exporters, OECD Arrangement members and participants, which include the UK, have to compete on the terms and conditions of their support rather than on the competitiveness of the product or service itself. If we are going to be a competitive trading nation, we have to be competitive in the transaction rather than the financing beneath the transaction.

It is on the taxpayer’s purse. It is a downward spiral, because if we see that Germany is repeatedly offering more generous loans, then France will, then the UK will and we are all going to be trying to catch up with China’s extremely generous export finance support mechanism. So, there is a rationale for having some kind of agreement to make sure that we don’t compete on terms and conditions, and we compete on the actual product or service itself.

Q155 **Mark Garnier:** But if I am an exporter of a product to China, of, say, power station equipment, have I got a choice to go to UKEF or the Chinese equivalent?

Dr Dawar: Yes. Actually, that is becoming really interesting when we talk about additionality. UKEF is supposed to be the lender of last resort, so they are supposed to offer only if the commercial banks aren’t willing or able to do so. For example, in the US, when EXIM lost its ability to provide more than $10 million because Congress did not authorise it, studies looked to see where those companies got their finances from and whether they had real problems exporting. We know that Boeing was even more successful when EXIM was not really functioning. It was getting support from Italy, by the way, from SACE.

So, we see this extremely interesting idea whereby firms are able to play export credit agencies off against each other, but export credit agencies are competing against each other and collaborating together for bigger contracts. Germany—the Euler Hermes—will go into a collaboration with the other German-speaking ECAs, to try and get more business as a German-speaking ECA. It is an extremely complex and sophisticated market, which is trying to compete and collaborate together as OECD Arrangement participants, always knowing that China is out there, way ahead, eating up the contracts.

Q156 **Mark Garnier:** I know this is being backed by banks, but it is exactly the type of environment where you get a race to the bottom in terms of the challenge. It is this type of thing that caused the banking crisis 10 years ago. At that stage, obviously, this wasn't being backed by Governments.

Do you think there is a potential problem with this? Hypothetically, if someone like UK Export Finance has to compete with China to try to get business, because at the moment it is not guaranteeing anywhere near its capacity of £50 billion, and if it is under pressure from people like us saying, "Why aren't you lending more?" and one of the answers is that their customers are going to China, we then force them to undercut China. Are we not therefore causing potential instability in the finance system?

Dr Dawar: I think it is fuelling the problem. It is a real problem for the UK Government to find a way forward. If they decide, "We are going to do real due diligence on all our export finance support, really look at the environmental and human rights effects of this, look at debt sustainability and really abide by all the guidelines," then either the transaction is gone, because they are very fast transactions, or we are not going to be competitive.

The previous speaker said this well; it is a bigger environment for the UKEF. It is also about making our businesses competitive in ways that are more attractive than China's, for example. Maybe it is an after-care service or a niche market, but it will take a much more sophisticated strategy to come out ahead than just entering the race.

Q157 **Mark Garnier:** Is that export as a whole or just as the export finance piece?

Dr Dawar: I think it is the whole of export. The Government have to see it as a whole. They have to think, "Well, what do we need in terms of skills, to make our workforce really competitive?" so that it is not the finance we are competing on, but the fact that people want to buy British and they look at British goods and services as having a niche or better service. It has got to be a bigger package than the financing, because we have the sustainability problems, we have the debt distress problems and then, what about the companies that do not receive export finance support? That is a competition problem. We see again and again—other speakers spoke to this—that they never give it to someone who hasn't had an export contract before. It is a chicken-and-egg problem. It gets concentrated with your favourite companies, who have a sort of revolving door policy, and there is a whole swathe of companies that do not even get near that door.

Adrian Jones: Can I come in on this point about a potential race to the bottom? It is worth referring back to the BExA report, released in January this year, which also ran a comparison on the outcomes in financial terms of the European ECAs. If I remember the data correctly, basically, six European ECAs were earning between one and three and a half times more premium than they were paying claims, and one ECA—UKEF—was earning between 45 and 50 times premium than it was paying in claims. This was on a cumulative basis over five years and the data that is available from all of these European ECAs goes back 10-plus years.

So what I can say at the moment is that if we look through a couple of business cycles now, none of the European ECAs is in breach of the OECD guidelines, which require them to have a break-even or slightly better result. The only standout ECA in that mix is UKEF, which is making almost excess profits at the expense of the exporters and the banks that are using UKEF support, so, for me—

Q158 **Mark Garnier:** I am sorry; just very quickly on that. Presumably, if they are making a lot of money, if their profit ratio is so much greater than other people, that means they are less attractive and they have a higher hurdle of risk that they need their customers to get over. Is that right?

Adrian Jones: BExA is still trying to get to the bottom of it at the moment. I think there is a chief analyst at UKEF who is also trying to analyse the data. He is yet to provide his feedback to BExA. That is an open question at the moment.

My general feeling is that UKEF has benefited from a lot of bank deals, which are highly structured in the medium to long term, and has not necessarily got a lot of straightforward export insurance contracts within its own books, so it might be the mix of business, but at the moment, it is still a question that is outstanding. It is not known to BExA at the moment.

Q159 **Mark Garnier:** Kamala, just very quickly on the OECD. I get the sense from your previous answers that it is absolutely desirable that we have a level playing field among all the players within the export credit arena. Is it possible? At the end of the day, if China can undercut the OECD, why wouldn't it?

Dr Dawar: There has been a lot of effort to get China to the table to negotiate. The international working group on export credits started in 2012 and, from what I hear, China was a very constructive member of those negotiations—they wanted to create the OECD second generation of the Arrangements and the way that it interfaces with the WTO agreement on subsidies and countervailing measures.

I think the problem there was that China wanted to negotiate sectorally and most of the OECD members wanted to do horizontal cross-cutting. Then we had the trade war and relations deteriorated strongly. Then I think most of the OECD participants walked away from the international working group temporarily—they suspended their negotiations last year. They have started a new discussion with the OECD Arrangement.

It seems as though the OECD Arrangement participants are thinking, "If we are not going to get something sorted out with China, we are going to have to upgrade the OECD Arrangement anyway", because more and more products are falling outside the scope of the Arrangement and India's coming up, South Africa's coming up and they are not members of the OECD.

I have no idea what China thinks about how long it can sustain this export support and state-owned enterprise support, but it is clear from the OECD members that even among themselves, they are going to have to do something to change the rules to give them more flexibility.

Q160 **Mark Garnier:** This is an absolutely fascinating area, and I could bang on about it for hours and hours, particularly when we start looking at it in the context of the belt and road initiative. Angus, you are looking anxious, as a Chair who has a deadline to reach, so I will hand back to you. Feel free to carry on with this particular subject, because it is brilliant, although it is your meeting, of course—you are the Chair.

Chair: Your generosity to the Chair is greatly appreciated, Mr Garnier, and I am sure it is also appreciated by the fantastic Mr Mangnall, who is going to come in now.

Anthony Mangnall: The Chair is being suspiciously nice to me today. I don't know quite what he has in store for me.

Chair: I am messing with you head—that's all I am doing.

Q161 **Anthony Mangnall:** I think I am about to be sent somewhere. I want to pick up on something you said, Dr Dawar, about what other countries are doing. What are other countries doing? Do they have a similar system in place? If you were to put it on a scale, how would we fare? Are we at the top or the bottom in how we perform?

Dr Dawar: I guess it depends on what you are measuring the performance on. The UK has done very well in the last few years. Post Brexit, it has really tried to push exports, and you can see that it is now the sixth-biggest provider of medium to long term, so it is nudging against Germany and Italy, which are said to be very aggressive. The US has just bounced back and is now blending its finance more. The UK has a problem, in that there is no concessionality from UKEF and sometimes World Bank projects say you have to have a certain amount of concessionality in your loan, which means that UKEF cannot actually provide the loan. Previously, it would have kicked over to DFID and CDC. We have these blurred mandates now that DFID and the Foreign Office have come to FCDO. We now have the issue of what the mandate is in the FCO and DFID. Is it really going to be about development, or is it about national interest? How will this relationship affect UKEF? Previously when DFID supported projects, they would not go anywhere near the British embassy, because they did not want to get caught up in local relationships; they wanted to have a very independent appraisal of a project. Now, everything seems to be based in the embassy, so I am wondering how those conflicts of interest are going to be dealt with in the field.

Q162 **Anthony Mangnall:** Okay. That is certainly a bigger topic, but you have touched on my next question. We have heard from some people about whether UK Export Finance should support concessional lending for developing countries. I would be grateful for your views on this, and for Adrian's beyond that point, and then I will go back to the Chair.

Dr Dawar: I think it depends on which way you look at it. In some ways, they would get more business because of the World Bank and development bank requirements. On the other hand, where are the mandates here? There has been an awful lot of post-colonial legislation in the UK to make sure that we have a solid development angle, but it is about developing country benefits and their sustainable development. As soon as you start bringing in, "What do I get out of this?", where is the monitoring and the accountability? Is the NAO going to come in five years after? Is there going to be accountability after the event? I am really not sure how the back end of the FCDO is going to work, in terms of blurring mandates.

Anthony Mangnall: Understood. Adrian?

Adrian Jones: On concessional lending, I have used the Maldives as a good case in point. After the tsunami, the Maldives had an urgent need to build up a number of their islands to act as safe points or points of recovery in case of a future tsunami. That was one reason why we started working quite extensively in the Maldives and rebuilding some of their infrastructure. We have since expanded our relationship, so we are now building new ports and other facilities in and around Malé, the capital. The Maldives is a country that is always on the edge, in terms of sustainability and its debt load. What it means is that, looking at the concessional lending side, UKEF is not very well placed to assist the Maldives with their urgent infrastructure needs. It is a very simplistic point from my side at Boskalis, but if UKEF or the UK Government is enabling concessional lending or even providing concessional lending, it could really make a difference to a country such as the Maldives. Of course, in many other countries in west Africa and other parts of the world, the same applies.

Anthony Mangnall: That is very helpful. Back to you, Chair.

Chair: Now to Martin Vickers.

Q163 **Martin Vickers:** In March, the Government published its new plan for growth and it said it would develop a new export strategy to align its support for growth and sectoral priorities. Do you think that will help or hinder exports? What specifically do you think the Government should do to encourage UK companies into the export market? Kamala, would you like to go first?

Dr Dawar: I think it's about the UK deciding that we are going to go for niche, very high-end markets. We are a reasonably small economy size-wise. We are not going to be able to do those mass industrial products like cars and that kind of thing. We are going to go into niche aerospace, IT, artificial intelligence. From my perspective, the Government need to build up the skills base in order to be very high end and to be a market winner, not for the lowest price but because we have such a good service behind it and because people trust British products. That is a long-term strategy in terms of training, education and making sure that the skills force stays here and does not disappear into a brain drain when they are all skilled up. For me it is about flanking policies and a wider ecosystem that encourages very high-end skilled labour here.

Q164 **Martin Vickers:** Adrian, what are your thoughts?

Adrian Jones: Looking at the last three or four years, the UK has been promoting offshore wind. The UK is the world's largest offshore wind market at this moment in time, but of course looking to build on that success and export with a strong favouring of offshore wind as a sector over and above other sectors. Oil and gas has now effectively been closed out. Fossil fuels have been closed out. At Boskalis, broadly, we very much support that process. That is also from self-interest because we are heavily involved with offshore wind.

So, yes, I think a sector-by-sector approach is a better way of doing things, trying to almost play blind to the sector and generally offer support. I don't think it creates enough intellectual rigour in the assessment of the sectoral needs and the support that can be provided, whether it is offshore wind or—I don't know—further development of the Suez Canal or whatever needs to be done. In each sector there are different requirements, and we very much support a sector-based approach.

Q165 **Martin Vickers:** So in other words we are playing to our strength by adopting this new strategy.

Adrian Jones: Yes, I would say so.

Chair: Actually, we have managed to catch up. We are a couple of minutes ahead of ourselves. I thank our final panel today, Dr Kamala Dawar and Adrian Jones, for their time. It has been very useful. Listening to Adrian at the end, the voice of the oil and gas sector might be quite interesting as well. He said he spoke from self-interest, from a wind area. There is maybe another stone to turn here. I thank the witnesses and the other panels we had earlier. It has been an informative afternoon. I hope we have all enjoyed it, including the viewer in Wiltshire, who was among many other viewers, I am sure. Feasgar math. Thank you all and we will see you next time, same channel. Cheers. All the best.