

International Trade Committee

Oral evidence: UK Export Finance, HC 126

Wednesday 23 June 2021

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

Questions 166 - 236

Witnesses

I: Graham Stuart MP, Minister for Exports, Department for International Trade; and Louis Taylor, Chief Executive, UK Export Finance.



Examination of witnesses

Witnesses: Graham Stuart MP and Louis Taylor.

Q166 **Chair:** Thank you all for joining this afternoon's hybrid session of the International Trade Committee on the UK Export Finance inquiry. We are very fortunate today to have not one but two distinguished guests, Louis Taylor, chief executive of UK Export Finance, or UKEF as we have tended to call it during the Committee evidence sessions, and, of course, Graham Stuart, Minister for Exports at the Department for International Trade. I thank both gentlemen for joining us this afternoon. Minister Stuart, I understand you have a few brief words that you might want to share with us before we kick off, so I am sure that the next minute will be info packed.

Graham Stuart: Thank you very much, Mr Chairman. I must first of all say I am delighted to be here before you, and I thank you and the Committee for conducting this inquiry but, of course, I express my deep disappointment that you, Mr Chairman, were not able to join us. I know that the Committee feels your loss equally, as I do.

UKEF's annual report and accounts for 2020-21 were laid before Parliament on Tuesday 22 June, and I am pleased to say they have so far been positively received. Key points arising from them include the fact that UKEF underwrote a record amount of business in 2020-21, providing £12.3 billion in support for UK exports, directly supported 549 companies, double the number from 2018-19, and with an estimated direct support of 107,000 UK jobs right across this United Kingdom.

UKEF has been ranked second by TXF among all export credit agencies for sustainable deals supported in 2020, up from I think third the year before. Clearly, with the recent Government announcements, you could expect that we are ambitious to go further, and I will have more to say on that in the session, not least because we have committed to ending support for new fossil fuel projects overseas and supporting the Prime Minister's 10-point plan for a green industrial revolution.

In the past year—and I know this Committee has always asked us to look at how we can do more to be flexible, serve the economy more effectively and SMEs in particular—we have launched the export development guarantee to support major exporting firms and, of course, their supply chains, announcing £7.6 billion of support, predominantly for the automotive and aviation industries, supporting up to 76,000 jobs.

Those are some of the headlines that I wanted to put on the record first. I recognise that you may find it more productive to go into specific questions, Mr Chairman, but thank you very much for having us today.

Q167 **Chair:** Thank you very much, Minister, and thank you for your kind words at the beginning that you keenly feel my absence and that of my Committee colleagues as well. We are trying to show the world that we



can use the technology of the 21st century; we do not need to exist always in the methods of the 19th century.

With that in mind and with, of course, DIT being a cutting-edge Department and things moving on, I am sure, Minister, you would probably like to tell us a bit more about UKEF and the Department for International Trade signing the memorandum of understanding. Can you tell us more about what that is and how it will change the two Departments that will be working together in the future?

Graham Stuart: The MOU, which should now have been shared with the Committee—I hope that can be confirmed, excellent—is a framework with set principles for joint working between UKEF and the Department for International Trade. As you know, UKEF is a separate Government Department in its own right, but it comes under the Department for International Trade, myself and then, of course, the Secretary of State for International Trade.

The MOU covers seven broad areas of the relationship between the two Departments: domestic and international relationships and collaboration; digital data and technology; strategic and operational alignment; training and knowledge sharing; marketing and communications; policy strategy and MOU managers; and HMG and ministerial priorities. Actions specified in the MOU will be reviewed quarterly, and that should ensure it delivers an even stronger relationship between DIT and UK Export Finance. This quarterly review will also inform the two Departments' public reporting on the MOU agreement, as requested by the Public Accounts Committee. It has come out of parliamentary scrutiny and we have sought to respond to that.

I guess it would be fair to say that I was a little sceptical of the benefits that would come from an MOU, given that we work closely anyway, but if you go through it, although it is in some sense a principles-based document, there is a lot of detail. By having defined accountable officers in each of the organisations to work together, I think that we can ensure that we are even more joined up. We recognise that improvements can be made, and I am pretty confident that the MOU will deliver it. I look forward to your scrutinising us on the specific workstreams, and so on, that have resulted from it.

Q168 **Chair:** On the MOU, it is quite an interesting process. Was that MOU created by DIT and given to UKEF to accept, was it something that was collaboratively formed or is it an iterative process? What is the genesis of the MOU?

Graham Stuart: I can tell you that it was long, complicated and tortuous, in so far as there were drafts going backwards and forwards from both organisations. It was a joint enterprise, and I think we have come to a positive conclusion. The very act of creating it helped to ensure there was better understanding of the mechanics of each organisation by the other, as well as identifying areas where we could ensure—and I gave



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you those seven broad areas to concentrate on—that we are totally aligned.

Chair: Excellent. That is a very mature way to bring about a memorandum of understanding. I am just reflecting that during the Trade Bill, when the DIT wanted a memorandum of understanding not just with this Committee but with the Committee in the House of Lords on the scrutiny of trade Bills and certainly of trade agreements, the process was very one way. We had to take it or leave it. I take it as a hope for the future that the DIT could possibly engage with this Committee and the equivalent Committee in the Lords on an iterative, mutual process to mark these things down in an MOU going forward.

I will park that where it is at the moment and move on to my colleague Anthony Mangnall.

Q169 **Anthony Mangnall:** Mr Taylor, the memorandum of understanding that you have lists key priorities, including food, drink, technology, digital, renewables and clean growth. Can I ask why those were the areas that you specifically identified at the start?

Louis Taylor: I think the reference to those sectors is contained in the Secretary of State's letter on her priorities for UKEF for the next year. Those sectors are those that the Secretary of State has identified as being important not only for UK Export Finance to support but also for the Department for International Trade. The campaigns that will be going behind support for those sectors will be a mutual undertaking not only of DIT but UKEF, because the offer of finance can materially make a difference to the impact these campaigns have in bringing them alive.

Q170 **Anthony Mangnall:** They are the Secretary of State's priorities, but what previous form do we have in showing that UK Export Finance has supported those areas?

Louis Taylor: There is a legacy of deal flow, which we can produce for you. It is also fair to say that the Secretary of State was identifying some areas where perhaps trade promotion has not seemed to be as effective historically as in other sectors and to level up, as it were, the impact of trade promotion across sectors. We have committed to listening harder to the sectors that we have supported perhaps a bit less to make sure that we have understood whether there is or is not a need for our intervention and, to the extent there is, what the nature of that intervention should be. We want to listen and hear what is needed, rather than creating solutions that are looking for a problem.

Q171 **Anthony Mangnall:** To draw it down, can you be specific about an example of somewhere that has not necessarily received prior support but is now in the Secretary of State's priorities as something we would like to see developed over time?

Louis Taylor: I would say that the food and drink area is one where UK Export Finance has not traditionally played a big role. What we have tended to offer is long-term financing, and financing the purchase of a jar



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of Marmite for five-year money is not necessarily the right thing to do. That does not mean to say that our working capital offering could not be quite attractive to exporters that are building up their international business and need assistance that way.

Anthony Mangnall: I think the Chairman of this Committee will be delighted to hear that Scottish whisky might get a little more support on this front.

Chair: Indeed.

Q172 **Anthony Mangnall:** Can I push on about ensuring that these new areas and the ones that have been identified as the Secretary of State's priorities are aware and updated on the level of opportunity that is afforded them by UK Export Finance?

Louis Taylor: You will see rolling out over the coming months a series of focused campaigns that will be in collaboration with DIT. All of these are planned. There are events in relation to each campaign for each sector, and we will be making sure that, by the end of the year, we are fully up to speed with what the sectors need and providing what they need in a very different way from historically.

Q173 **Anthony Mangnall:** It is maybe a bit too early to say, but what is the metric for success on this? How will you be measuring it?

Louis Taylor: The metric for success will be the volume of exports and whether there is growth or whether there is contraction relative to what else is happening in the global economy.

Q174 **Anthony Mangnall:** Is there a period of time in which you expect there to be a take-up? Is it going to be over a year, three years or five years?

Louis Taylor: For different interventions from a combination of DIT and UKEF the timeframe is going to be different. We find that quite often we will start talking to a company and the flash to bang time to do anything with them can be years. They are aware of what we can do but they do not necessarily have the circumstances they need. They then become aware. I think it will be different products, different services, different trajectories.

Q175 **Anthony Mangnall:** Presumably, you are looking to bring that flash to bang time down?

Louis Taylor: The flash to bang time is not a process issue, it is a need issue.

Graham Stuart: All of us involved in UKEF, other than perhaps Louis and the team, can easily get confused as to its purpose. It is worth remembering that it is there to ensure no viable export is lost for lack of finance or insurance, where the private sector is not there. We are not an organisation seeking, like a private sector business, to go in and do business. We are there to fill in the cracks. If there isn't a crack, if there isn't a problem, we are not there. We are not trying to go into food and



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drink to push UKEF into it. What we want by exposing the food and drink sector, for example, to more information about UKEF is greater understanding, and we have put a lot of work into our marketing. The parliamentary export programme has had UKEF built into its first meeting, for those of you who have been involved in that, to raise awareness.

It is one of those strange ones where, in a sense, you have to have an input metric rather than the ideal outcome metric. If they do not need it, they are not going to ask for it. Conceptually, with UKEF it is quite easy to think about, "Why don't we go and do this and do that with this Government money?" or whatever. We are there only to fill in the cracks.

Fundamentally, we are a demand-led organisation and, therefore, there is a limit. The Secretary of State and I push Louis and the team very hard to make sure there is greater awareness, but we recognise that does not necessarily lead to loads of people suddenly using the services. They use it if they need it and there is no alternative. If there is an alternative, we guide them to it and that is part of what we do as well.

Louis Taylor: I would also say that, in relation to the sectors we are talking about, it is not only sectors that have historically had less support; it is new sectors as well. Because they are new, we would not have supported them in the past. Around clean and green, the level of our support is going up very fast and our pipelines are very strong in that area.

Q176 **Anthony Mangnall:** I am glad you mentioned clean and green because I think UK Export Finance suggested that it should publish a climate-related financial disclosure in its annual report. Forgive me, has that been included?

Louis Taylor: It absolutely has. We are the first UK Government Department to do so yesterday.

Anthony Mangnall: Brilliant, thank you.

Q177 **Chair:** Minister, you talk about food and drink. I take on board your points about filling in the cracks and perhaps things are not required, but have you been looking around? Have other countries perhaps been doing something in this sector that the UK is doing less of? Has the UK been more in one sector than other countries might have been? Are you learning from other countries when you are suggesting this, or is this just completely blue-sky thinking within the Department?

Graham Stuart: No, it is a good question. One of my pet issues is to make sure we have a better understanding of what the competitor offer is. I am not sure it is always as strong as it should be, so you are quite right to ask that question.

In food and drink, I looked at what support there is in the United States and in Australia, to name two. Louis could maybe add more detail, but on



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examination it turns out it is very different from the SME-based sectors we have. It is about large commodities where there is a role for export finance to play a part in a way that does not occur in UK agriculture, as I understand it.

I am not saying that we always do it as well as we should, but we are always looking at competitor activity and trying to learn from it, although it is pleasing to note that UKEF, as well as being the world's oldest credit agency, is repeatedly voted the world's best. We are not complacent about that, and we are always looking to learn from others.

Chair: I think that is a very good point, to have a look at the competitor offer and see what is there.

Q178 **Sir Mark Hendrick:** I want to talk a little bit about the clean growth aspect of your work. In March of last year, UKEF was given an additional permanent £2 billion allocation for direct lending for new renewable projects. Mr Taylor, how much of that money was spent in the last financial year?

Louis Taylor: Specifically on that £2 billion facility, we have not yet disbursed that money, but the projects to which we would disburse that money have quite a long gestation period. We have earmarked plenty of that money for future projects as we work through them. There is a kind of booking of the capacity, which is finite because it involves the Treasury borrowing money in order to lend it on. We are very focused on getting that money out of the door. In fact, we are so confident of being able to use it that I can confirm we will put in a bid to the Treasury at the spending review for an increase in the direct lending limit.

Q179 **Sir Mark Hendrick:** How quickly will that money be going out of the door, as you put it?

Louis Taylor: It is going to take at least a couple of years, but it could go out in amounts of a few hundred million at a time, which, if there is £2 billion, could be used quite quickly. It does depend on the projects that end up coming to fruition, which is not always within our control. The project sponsors may choose to go a different route or may not go through with the project, or circumstances might change. I cannot give you an exact time, but I can tell you that we are working on a pipeline of transactions that would consume that direct lending foreseeably.

Q180 **Sir Mark Hendrick:** What proportion of the £3.9 billion of UKEF support for civil infrastructure and energy projects in the last financial year went to renewable projects, and what proportion went to fossil fuel projects, for example? I would like to include liquefied natural gas.

Louis Taylor: In terms of specific renewable energy projects, we did not complete any in the year, but we have signed up and they are being completed and will complete this year, so two offshore wind facilities in Taiwan, for example, solar farms in Spain, those sorts of projects.



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In terms of fossil fuel support last year, it was just over £1 billion, the vast bulk of that going into a single project in Mozambique in relation to liquefied natural gas. That was before the latest Government policy, which pertains now, of withdrawing support for overseas fossil fuel projects, whether coal, gas or oil.

Q181 **Sir Mark Hendrick:** You are saying just £1 billion of the £3.9 billion?

Louis Taylor: Was on fossil fuels, yes.

Q182 **Sir Mark Hendrick:** How much of that £3.9 billion has been spent?

Louis Taylor: We have committed the £3.9 billion to project sponsors. They are drawing it down. We have not lent all that money. We have given guarantees to banks that are lending the money. I cannot tell you exactly how much has yet been drawn down, but it would be in line with the production schedules or construction schedules of the projects to which the financing relates.

Q183 **Sir Mark Hendrick:** In evidence to the Environmental Audit Committee in 2019, you said, "For renewable energy projects there is a considerable amount of liquidity available for those projects, so the need for UK Export Finance is reduced, to an extent." Do you still believe this to be the case?

Louis Taylor: I do believe it to be the case. What is changing is the following. When we were doing large oil and gas projects, we were generally dealing with a national oil company and they were a big, professional organisation with lots of resources and credit analysis was relatively easy. In renewable energy, quite a lot of these projects are much smaller. Financial investors are involved rather than strategic investors, so the range of different sponsors is much broader. There is a lot of money looking for yield that will naturally gravitate towards these smaller utility projects, and that is still a very strong flow.

What has also changed, though, is the scale of some renewable projects. If we look at the Dogger Bank wind farm, for example, that is a \$3.5 billion financing or pan-financing, and that does require some export credit agency help. There will be situations where we absolutely are involved. If you look at our Taiwanese offshore wind farms, you have a market there with a big domestic pool of long-term capital in life insurance and pension funds but not a huge amount of credit risk analysis behind the offshore wind industry. That cash going into offshore wind in Taiwan is more likely to go if they have a wrapper of comfort from a guarantee from the UK Government. We have used the need for that to drive UK content into those Taiwanese projects.

Q184 **Sir Mark Hendrick:** It seems to me that you have a great deal of money but it is not necessarily going out the door as quickly as you might like. Is that an issue, and is the Chancellor looking over your shoulder to see if this money is being put to good use?



Louis Taylor: UKEF has a total capacity of £50 billion under its current framework, plus an additional £10 billion for a Covid facility that we will talk about. When I took on this job five years ago, we were at about £21 billion of exposure and we are currently at about £39 billion of exposure, so we have been growing exposure. We obviously see amortisations each year. It is a bit like a bath: there is a plughole with the amortisations going out and there are taps with the new deals coming in.

We have been growing the amount of money we have been using, but we do not seek to use money where the private sector can provide it perfectly well. There is no point in using the money and putting it on the taxpayers' balance sheet when the private sector can properly do it themselves.

I think we will be needed more in some economic circumstances than in others. We tend to be countercyclical, and the amount of money that we have provided in support in the last year is indicative of a very difficult economic environment created by Covid. We anticipate that will pertain for some time to come.

Q185 **Mark Garnier:** Louis, could I start with you? It is probably worth getting on the record that you and I have known each other for five years or so, since working together in the Department, and we continue to work together in my capacity as the Prime Minister's trade envoy. I have to say that I find your efforts extremely laudable in terms of helping the whole of that programme.

I want to turn to the number of people you are helping. Looking at the latest annual report, I think UKEF has supported 549 exporters in the last financial year, and your direct access was to 167 exporters, I think, an increase of 28. Don't worry too much about the numbers, what I really want to ask—and I am very mindful of Minister Stuart's point about filling in the cracks between what is commercially available to people—is whether you feel you are reaching enough exporters. Do you feel it is working as well as it should be, or do you think there may be cracks that are not being filled?

Louis Taylor: We feel there is potential for us to do more, we always do. We feel we are constantly developing our products in relation to providing working capital, particularly to SME exporters, in a way that continually makes us more accessible, continually makes it easier for the banks to use what we do in order to help their SME customers.

At the same time, it is possible to overestimate the need for export finance rather than, particularly for SMEs, the need for access to finance generally. With 250,000-odd companies in the UK out of 5 million that are exporters, using your export credit agency to solve the access to finance issues of all of the SMEs is a nut to crack a sledgehammer a bit. The British Business Bank, which we work with very closely, is the institution focused on helping to get access to finance for small businesses.



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At the same time, there is a lot of work to do with the banks in getting them to be able to find a way effectively and profitably to operate in this space, because the costs they have to service an SME customer generally will outweigh the profitability potential that that customer has for them. That is part of the issue in why the banks are criticised for reluctance to be lending there.

We have made our process as easy as possible, as advantageous for the banks as we can within the regulations we have to work in, and we have some new products, the general export facility particularly that we introduced in the last year, which ought to broaden the appeal of our products hugely for the banks. I believe the three bankers who gave evidence to this Committee in this inquiry were very supportive of that view.

Q186 Mark Garnier: I will come back to the banks a little later. One of the complaints, I suppose, that I get from people when they are trying to get export finance is—and it seems a perfectly reasonable thing on your part and may be a lack of understanding on the part of the exporter—the fact that you are guaranteeing 80% of the loan. Thereby the argument is that they have 20% of their own skin in the game. Of course, the problem is that sometimes they just do not have that 20% and this is where it becomes, I guess, an unviable product. Can you talk a little about that? It does seem to be quite a common problem. I have certainly seen in my role as a Thai trade envoy one or two people mentioning this. Is there a solution to this or, ultimately, does every banking decision have to have at least a little bit of the client's skin in the game to make everybody comfortable with the transaction?

Louis Taylor: I think there are two elements to this issue. The first is that giving 100% guarantees to banks is not a recipe for ensuring probity around the quality of the credit of the company concerned, and collections could also be a significant issue in the event that there is some element of default. There has been criticism in the press of the Bounce Back Loan Scheme, which is a 100% guarantee scheme.

The second element is that, historically, we have been operating under the EU state aid rules and we are not allowed to represent a subsidy, so our 80% guarantee, with 20% unguaranteed, is demonstration of a commercial undertaking in terms of that lending. The pricing that we obtain on our 80% guarantee is set with reference to the pricing a bank requires on its 20%. We can say that the pricing on that is commercial as well. Those two elements have led us into the construct we have.

Q187 Mark Garnier: Can you describe how the crack works, which Minister Stuart was talking about? What is that little bit? If you are not allowed to effectively be better than the banks, because that would count as state aid, how do you fit in? What is that little gap you are filling in between the unviable—



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Louis Taylor: We hope generally not to be de-risking the banks and allowing them to lend less. We hope to be incremental to the banks four times with the 80% guarantee. If the bank would lend a company 100, we can cause them to lend another 400. That is how we hope it operates. Often it does, but I have to say there must be times when the bank decides it would rather just lend 20 and the company can have 100 rather than—

Q188 **Mark Garnier:** Let me just get this clear. The bank will lend the 20, you will lend the 80; therefore, the customer has 100?

Louis Taylor: We will guarantee the bank lending the other 80. Effectively, it is lending to the Government.

Q189 **Mark Garnier:** So the customer gets 100%?

Louis Taylor: The customer gets 100% in that case. What I am saying is—

Q190 **Mark Garnier:** Sorry, I just want to get this absolutely clear. If the bank is saying, “We are not going to do the 20 but we will take the 80 from UKEF,” that is where you get the gap that I was trying to describe a little earlier? Is that right, or have I misunderstood it?

Louis Taylor: Not necessarily. The gap appears where the bank decides it either does not like it at all and will not even take the 20 or it likes it and it will want 100%. That is the issue with it. That is the construct we are in.

Graham Stuart: They have the ability, we have given them the ability, simply to write the business and inform us digitally, so we have tried to minimise the transaction cost. Effectively, if they think it is the sweetest deal in the world, they will take 100% because they would be fools not to, and if they have total misgivings they will not do any of it because they are in for 20% and it keeps them real. If it is somewhere in the middle, thus the gap, they share it with us. We get the same fee, the same interest rate and we have them with skin in the game.

I think the balance is a good one, but it is early days. I think it was described by one of the banks as a game changer. The Secretary of State and I have been keen to see how we can do more in the SME space, accepting the cracks, accepting the rest of it. How do we do more there? The previous products were tied to specific export contracts, and you had all the due diligence and costs of administration around that. Clearly, that was only going to work for big companies doing big deals. The EDG at the big levels is very different from the GEF, potentially game changing, low administration, and it provides working capital to the companies. It is different. It is not tied to a particular export. There are specific rules around the percentage of turnover that has been an export and is expected to be an export and so on.



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We do not tell them how they spend it. They do not have to spend it on some export-related thing. It is access to working capital, and hopefully we help expand that. You will have seen the talk about shortage of trade finance globally. It is one way of seeking to ensure that, where there is a gap and where the bank and ourselves will come in, we can extend a little more credit to businesses with a viable export, so it is not lost for lack of finance or insurance.

Q191 Mark Garnier: I genuinely want to come back to the banks in a few questions' time, but getting back to the SME piece, Louis, the question wording here is: what proportion of the overall value of support given by UKEF went to SMEs? I suppose that is a slightly odd question because, presumably, the vast majority of it went to big organisations with big demands. In terms of how many SMEs you think you are covering either directly, through the banks or through other parties, do you think you are getting the right level of coverage, notwithstanding what you said a little earlier about taking a sledgehammer to crack a nut?

Louis Taylor: I think we are making progress, but we still have a way to go. There are a variety of points in here. The first is that, while we have supported those 549 companies—79% of which were SMEs, and 54% of which small or micro businesses—their supply chains or the supply chains of the big companies number the thousands and will number thousands of SMEs around the country as well. When we support Airbus, there are 2,300 supply companies, 1,300 of which all around the country are SMEs. Ford has 1,100 suppliers in the UK, and Nissan and JLR will not have any less, I can tell you. There are thousands of companies that benefit indirectly from the support we give.

In terms of getting to SMEs themselves, we feel the most important thing is for the banks, to whom we have delegated the use of our guarantee for SMEs, and their relationship managers to know about UKEF, far more than the companies themselves know about it, because these facilities are distributed through the banks and the banks need to play a role in it.

We have a marketing campaign. Over the last three years the previous Secretary of State secured us money to be able to do that. It has been very successful and we have seen, as we have shown in our annual report, an increase in the awareness among our target customer base, year on year, because of the results of that campaign.

Mark Garnier: I will say that your team have been reaching out to trade envoys to try to get more help with that. Angus is waving his hand like a key grip at the back of a TV set, getting me to move on, so I will hand back to him.

Anthony Mangnall: If you were here, Chair, you would not be waving frantically in the room.

Chair: I much prefer technology.

Q192 Anthony Mangnall: Mr Taylor, just pushing in on this, I do not know if



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this is the right way to ask it but what is your strike rate? We have heard it is finding those cracks, filling them in, and people who have tried the private route are coming to UK Export Finance as presumably one of the last resorts available to them. I am quite interested in how many you fail in terms of applications that come through.

Secondly, with the impact of Covid, surely there has been a huge increase in numbers of applications. I presume also because the Government's financing has been extremely generous over the last 14 or 15 months. Has this created a bit more thought that you can go to UK Export Finance first without going through the private sector?

Louis Taylor: Two sets of questions there. In relation to Covid, we have seen a huge increase in applications for credit insurance rather than financing, because the Government's financing schemes have been very accessible and have been intentionally very available on a binary basis, which has meant we have not seen a massive increase in requirements for working capital support particularly. But credit insurance, absolutely. Last year that was three times the number of applications than the previous year.

In terms of what we turn down, we generally turn down very little but we are not sure how many the banks turn down without coming to us. We have recently increased the level of credit risk, lowered the credit rating, to which we are prepared to accept the banks using our guarantee. Truthfully, it is probably beyond where the banks are comfortable to go. We probably have greater risk appetite there than they do at this stage.

We track what we turn down. We turn down very little. We will go and go and go at it. We will try to structure it in a way that mitigates the risk and figure out a way to do most things. There are some things that are not viable.

Q193 **Anthony Mangnall:** Very quickly, because I know we have to go back to the Chair, in terms of lowering it, do you have the data yet to show how much of that has increased? It sounds like the banks are being the gatekeepers before they even bother coming to you. That is presumably quite a good self-regulating model.

Louis Taylor: It is not just self-regulating; it is also in keeping with the concept of it being a commercial and financing opportunity, not state aid. It is true to that principle as well.

Q194 **Anthony Mangnall:** And data in terms of the increase? Since you have dropped down, have you suddenly seen that it is already having an impact and you are getting more applications?

Louis Taylor: Not particularly. No, we have not seen any real change in that.

Q195 **Paul Girvan:** I want to come in on the back of that, and I am looking at it from a devolved institution perspective. We have investment hubs



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operating in Scotland, Wales and Northern Ireland. How is that loop closed in relation to access to funding for SMEs within devolved areas?

Graham Stuart: We have announced that we are opening hubs of our own for DIT in the devolveds and, as you know, Invest Northern Ireland, Scottish Development International and the Welsh Government are all involved in this space. We are opening these hubs because—and the Chair will be interested in this—there is an indication that there may be lower take-up of UK Export Finance in Scotland compared with the rest of the United Kingdom. We are determined to ensure we get that.

Q196 **Chair:** Wales is the worst, is it not, for take up per capita?

Graham Stuart: Which is a useful indicator but may not tell you the whole story, because it depends on the pattern of business there and the like. But, in direct answer to Mr Girvan's question, we are putting those hubs in place and working closely. I went to see the new team in Edinburgh the other day and met with Ivan McKee, the newly reappointed Scottish Trade Minister, and I know my ministerial colleagues are working closely.

We are trying to make sure we are building that across, and we have appointed a specialist UKEF representative in Scotland with a focus on clean growth, again because of the huge energy piece, the relevance in Scotland there. There is quite a lot going on to try to make sure that we are more joined up.

Perhaps going forward—digital, the websites, our UK Export Academy online courses and the like—we can create a more coherent national offer, which then helps people go down to the devolveds' contribution as well. We are trying to get all the pieces to come together and make sure that nowhere is less well served.

Q197 **Paul Girvan:** Currently in Northern Ireland there is an investment hub. We are now talking about an economic hub as well, which is a slightly different body. I am not sure whether both of them are working against each other, but that is an argument for another day.

Louis Taylor: UK Export Finance is generally all of the UK, because the only guarantee that the financial markets recognise is the guarantee of the Westminster Government, which we will utilise in all the devolved Administrations where we have not just one rep in Scotland, we have four around Scotland. We have reps in Wales and Northern Ireland. I know in Northern Ireland our rep sits in Invest Northern Ireland's offices, very linked in with them.

Q198 **Chair:** Mr Taylor, there is obviously a temptation for me and Mr Girvan—who is only a consonant away from being the First Minister of Northern Ireland, but is not—to cover the Celtic nations of Northern Ireland and Scotland. To pick up the baton for our cousins in Wales, I am aware that in the last year the support given by UKEF to Wales is about 1%, which has dropped from 5% in the previous year. Particularly in Wales, what is



UKEF doing to better support Welsh exporters?

Louis Taylor: The numbers you have quoted are skewed by the fact there have been some significant-sized transactions that have gone to companies headquartered in England, such as Rolls-Royce, British Airways and Ford, and that has skewed the numbers. Historically, UKEF has generally been able to offer finance roughly in proportion to the GDP of the various parts of the United Kingdom. But you are right in this last year.

In relation to what we are doing in Wales, we have Export Finance managers based there who are working, just like our Export Finance managers in the rest of the UK, to ensure that SMEs get the access to finance that they need, either through UKEF provision, through a bank or through introduction to a different private market source that they may not otherwise have been able to source themselves.

Chair: I thought for a moment you were making a plea for Welsh independence that could demand a company headquarters within their own country, but you probably were not. I do not want to tread in those waters at all. With that, maybe we will let Craig Williams pick up that particular baton.

Q199 **Craig Williams:** Given the Chairman has alluded to the Welsh figures, which we all very much welcome, how much of that has been underpinned by UK Export Finance and other UK Government vehicles that the Welsh Government are now jumping up and down about and claiming sole credit for?

Graham Stuart: Our aim would always be to work hand in hand with devolved Governments. It is the nature of government that one would tend to point to one's own successes rather more than that of one's partners.

Chair: A very fair answer, Minister.

Graham Stuart: The challenge that perhaps underlies your question, Mr Williams, is for us to make a better job of making sure that people do understand that the businesses, their employees, the communities that depend on the guarantee of UKEF, that the world's leading export credit agency is a function of Her Majesty's Government and of this United Kingdom. Without that you would no longer have access to that fantastic facility. The range of other facilities that are projected around the world and can only be projected around the world as effectively as they are, as a result of this United Kingdom.

If that is a premise that underlies your question, Mr Williams, I would entirely agree that we can never stop our efforts to ensure that businesses and ordinary people around the country realise how much of their economic prosperity, stability and future relies on the continuation of those excellent institutions and a capability that cannot be matched and independence could never deliver.



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Craig Williams: Thank you, Minister, for balancing out our Chairman.

Chair: Perhaps someday the UK can catch up with Finland. In the meantime, until the UK does catch up with Finland and what it is doing, I shall move on to the herald of Cleethorpes, the great Martin Vickers.

Q200 **Martin Vickers:** Just before I move on, Mr Taylor, could I go back to what you were saying a few minutes ago about SMEs and accessing funding? You will be aware that the FSB, when they gave evidence, were quite critical. In the same way as you suggested that banks should be more aware of what is on offer from UKEF, could greater efforts be made to make sure that the FSB, chambers of commerce and these sorts of organisations are more aware so that they can direct SMEs directly to you?

Louis Taylor: I totally agree with you, and our marketing campaign, which I referred to earlier, absolutely includes the chambers of commerce and the trade associations with whom we work incredibly closely, particularly around our suppliers fair programme. We might get on to that. But you are right, while the bank relationship managers are key in this, knowledge by SMEs of what UKEF can do can only be a good thing.

Q201 **Martin Vickers:** Some 59% of your medium and long-term support in the last financial year went to the aerospace sector. In addition, 228 of the 231 claims made were also in that sector. Should UKEF be diversifying its medium and long-term customer base?

Graham Stuart: Total UKEF support for the aerospace sector was £7.067 billion, equivalent to 58%. It reflects the global economic downturn and recognises the particular impact on aerospace. We make no apology for stepping up to help these great British businesses. The total support for the aerospace sector, excluding the EDG, which of course is the major firms' working capital fund, was £890 million.

We are not there to direct on a fair basis across the economy. We are there to fill in the gaps, and there was a significant one in the aviation industry. The aviation industry has been, is and will continue to be an important part of the UK economy, and we are determined to make sure that we do everything we can to support it.

Q202 **Martin Vickers:** I do not think any members of the Committee would disagree with the support given to that sector. It is merely the fact that you say in the annual report that supporting companies to win clean energy contracts and transition from fossil fuels is critical. Should the focus perhaps be shifting more towards that?

Graham Stuart: Absolutely, it is. We have already talked a little about the amount of business that we have done. We have moved from being the third highest-rated credit agency on sustainable projects to the second, with ambitions to go further.

Mr Chairman, if I may—between your sips of Coke—I would like to take this opportunity before the Committee to announce that UKEF is going to



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create a large and dedicated team, a clean industries team, with 20 staff to help transact increased volumes of business across growth sectors like wind power, solar, green hydrogen, tidal and decommissioning, as well as being able to spend more time developing the relationships across these sectors that can help to maximise participation, and the UK supply chain's participation, in international projects.

Only yesterday, I co-chaired the first meeting of the Energy Supply Chain Taskforce, jointly with the Minister for Energy, Minister Trevelyan, and Stuart Broadley of the EIC. We are determined at UKEF, at DIT and, more broadly, across Government to do everything we can to support not only our transition to net zero but, by developing the industrial capability, the technologies and the applications to help deliver it at home, to have exportable capability abroad. With this new team at UKEF, as well as the other efforts, we are confident that we can continue to see the increasing business that we have been doing in this space.

Q203 Martin Vickers: I am sure businesses in our Humber constituencies will welcome that, Minister.

Graham Stuart: Absolutely, and of course around us you see not only offshore wind, in the deployment of which we are the world leader, but we are seeking more broadly to make sure that we have policies in place to capture more of the industrial capability than perhaps we have to date in offshore wind, but also to learn the lessons from that for hydrogen, carbon capture and storage, green and blue hydrogen and the other aspects. There is a lot to be got out of it.

It is a very prime ministerial thing, but we want to have our cake and eat it, don't we? We want to do our bit to deliver the domestic responsibilities and move to net zero, and we want to do it in such a way that if we can lead the world as we are with the biggest cut in emissions of any major economy, if we can develop those technologies, get our policies right to develop the capability, we will then be able to help the rest of the world move on a net zero path and become more prosperous, have better paying jobs and a more sustainable economy as well. We are looking to have our cake and eat it, do the right thing and prosper from it. That is our strategy and UKEF is part of it. I am delighted to have this opportunity, thanks to you, Chair, to announce this new group today.

Chair: What is cake for, but for eating, of course?

I think Mark Garnier might want to come in with something brief. I am not sure I understood the Minister correctly, did you say the Prime Minister had eaten all the cakes or something?

Q204 Mark Garnier: To go back to this evaluation of your success, and it is relevant to the aerospace sector because of what you mentioned about the supply chain, there are possibly four different ways you can measure your success: the number of transactions; the number of clients; the value of the support you are putting out there; and the economic value. Which is most important to you, and how would you define economic



value?

Louis Taylor: As you said, there are a range of different metrics, and they should all be considered when taking into account the performance of UK Export Finance. Volume of support provided relative to the economic climate is important; the number of customers supported, definitely. In terms of economic value, we are doing GVA calculations. We feel it is difficult to get the real data behind that and for us to feel confident in the results of the calculations yet. We will keep trying to refine it. It is like the number of jobs supported, which we have only started to do more recently, as we have a methodology that we are comfortable being able to put out there. Even then it is an estimate of jobs supported. We do not claim jobs created. We may well have created jobs, but we do not think it is right to claim that. We are focused on what we can genuinely prove we have done, and the impacts that we are putting into our annual report and accounts are what we feel we have genuinely provided.

Q205 **Mark Garnier:** Your point about Rolls-Royce is particularly important. If I remember rightly, the Trent 700 engine supports 110,000 people in the supply chain. Graham Stuart will be able to correct me on that, as he has an interest in this area. Without your support, presumably that supply chain could have collapsed and would therefore affect 110,000 jobs one way or the other.

Louis Taylor: There is no question, and this comes back to Mr Vickers's question about the aerospace industry. When we finance an airline to purchase an aircraft from Airbus, the money pours into Airbus and 80 cents of every euro goes from Airbus into the supply chain. Whether that is Rolls-Royce or Rolls-Royce's supply chain, the trickle down is huge.

Chair: I have great pleasure now to hand the stage to Craig Williams.

Q206 **Craig Williams:** Thank you, Chair. Business associations have told us that the eligibility criteria for the General Export Facility and the Export Development Guarantee exclude first-time exporters. Can you comment on how you are addressing these concerns?

Louis Taylor: It is the case that we make general working capital available for companies that have a track record in exporting, because our statutory purpose is to support exports and we need to be sure that we are doing that.

For new exporters, we have a product that allows us to support an individual contract that is an export contract, rather than the generality of their working capital. They can access our support that way, whether it is working capital, a bond that they have to put up against a contract or credit insurance.

Graham Stuart: Otherwise we are providing working capital to companies on the basis they might export at some point. I do not think that is the right way to go. It is not within our mandate either. I think it



is a minimum of 5% over the previous three years, or 20% in the last year, so it is a relatively low share of turnover, particularly for an SME. We have to draw the line somewhere, and I think we have drawn it in a fairly sensible place. If the Committee has recommendations or thoughts, I do not see that the principle is wrong.

Q207 Craig Williams: I am not disputing the principle, but can we draw you on the figures of the direct contribution through the contract element that you just described for first-time exporters and what the scale of it is?

Louis Taylor: That was the working capital product that we had until we introduced the General Export Facility in the last year. It worked to a point. Truthfully, it probably was more administratively burdensome for the banks and their relationship managers than was really attractive, and that is why the General Export Facility is seen by the banks as such a game changer. They can put in place financing for the next two or three years for a company, rather than constantly having to work on the working capital churn of contract-by-contract support.

Graham Stuart: It is an exciting prospect to see upping business investment. We have lagged on business investment for too long, and if what might have been maximum appetite from the bank of £100,000 becomes £500,000 for an SME, it could be transformative in terms of the kit and their ability to compete both domestically and internationally. As I say, we hope it will be a game changer but time will tell.

Q208 Craig Williams: I suppose it is still worth us looking at, given how many businesses in this country do not export at the moment. They would be first-time exporters and the push of other Government Departments, and your Department, gets people exporting.

Graham Stuart: I hope the finance director might look at it, and it might in some places be a brake on international ambitions. All the data and all our research shows that companies that export, compared with their peers that do not, and of course it does not bring it down to the individual company but in general, are more resilient, more productive, more innovative and tend to pay higher wages. It is literally a description of all the things you would like to have happen across the UK economy. Those are tendencies that come from exporting.

If you add the fifth thing, and if you start to grow even to as little as 5% of your turnover from international sales, not only are you diversifying a market, which any good financier should know is a fundamentally sensible thing to do, but you open up the possibility of additional financing, which is otherwise not available to a company that does not have 5% or more export sales.

Hopefully, we are trying to create the conditions. Everything we are doing across DIT, and in which UKEF plays a part, is to change the culture in this country. We think there could be as many companies with products and services who could export who do not as there are who can and do.



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Given all the positive outcomes if they do start to export, we really need to work together. That is why the parliamentary export programme is in place, and it is why we are working so hard to try to find ways to galvanise and use every conduit we can to help it happen.

Louis Taylor: It is also important to say that we do not just support exporters. We support the suppliers to export supply chains. If a company can demonstrate that, even if they themselves are not exporting, they are supplying an exporter, we can provide them with working capital on that basis.

Craig Williams: I had better pass back to the Chair before he gets excitable.

Chair: We are about halfway through our planned areas, but can we pick up the pace during the second half? To give an excellent demonstration of that, Mr Mark Garnier.

Q209 **Mark Garnier:** Thank you. Louis, back to banks. Are you happy with the way it is working with the banks? I remember the first time we met, we were signing the joint memorandum with the banks to do that, to extend that £4 million-worth of facility to them all. Has it worked how we all envisaged it would on that morning in June 2016?

Louis Taylor: I would say that we still have a way to go before I think we could sit back with a satisfied expression on our faces, but we are making good progress and I think the enthusiasm with which the banks have helped to develop the General Export Facility and then have received it and started to roll it out is promising.

I would also say that I think the banks are much more focused properly on helping customers who want to trade internationally than they have been because, for all the reasons that Minister Stuart has just said, exporting companies are the ones we want to encourage. The banks have realised the very same thing. I think things are getting better.

Q210 **Mark Garnier:** Is that message getting down to the frontline, to the relationship managers in the branches in Beverley, Kidderminster and Bewdley? Is it happening?

Louis Taylor: We believe so, but the proof of the pudding will be in a year's time when we look at the numbers and see the progression and whether the curve is exponential or not in terms of the uptake of the General Export Facility.

Q211 **Mark Garnier:** We heard from Lloyds that UKEF has no service level agreement in place so, for manual transactions, potential customers have no idea how long it is going to take to be processed. I think the original aim was to get an answer back within a day. Is this something you have considered introducing in terms of what they are asking for?

Louis Taylor: The vast majority of transactions will go through an automated process where UKEF does not do any administrative process



at all. The bank is simply providing the data on the deal and telling us we are guaranteeing them. Where it goes manual is where there is a circumstance that requires further due diligence, such as the company has used an agent overseas to obtain an export order, which is a circumstance that would require us, from a public policy point of view, to do some compliance due diligence, for example. We will attempt to do that as expeditiously as possible, but that can be where delay comes in and it is not that it can be totally elastic, but it is not necessarily easy to determine exactly how long it will take. A service level agreement, other than to say we are going to be as expeditious as we can, is perhaps not appropriate.

Q212 **Mark Garnier:** So Lloyds are probably being a bit ambitious by asking for this, or a little bit unfair?

Louis Taylor: I think they are focusing on the exception rather than the general rule.

Q213 **Paul Girvan:** The latest set of accounts state that it is UKEF's ambition to expand staff numbers further. What areas of the organisation do you feel are currently under-resourced? I think the Minister mentioned that earlier.

Graham Stuart: Louis can come in with more detail, but fundamentally we are doing record levels of business, hence why we have a 31% or 32% increase in budget, which I have to say is tremendously welcome, that the Treasury has given us. We are doing more business and we need the people to make sure that business is done right. Secondly, we are in a time of high stress after quite a number of years of remarkably benign market conditions. There are more stresses in the global system now, and we need the staff on hand to make sure we are able to manage that risk.

It is worth saying at this point, Chair, if you will allow me—

Chair: As long as it is a brief statement.

Graham Stuart: A brief statement coming from a Minister, thank you. It is just to get the overview on UKEF, because it is so easy to think of it as giving out public money. UKEF prices the risk it takes; the aim, as we said, is to stop no viable export being lost, but it does so at no cost to the taxpayer. If you look over 30 years, £2 billion has been given to the Treasury. It is quite an extraordinary organisation, and I do not think we recognise it sufficiently. Here is an organisation that does not cost anything to the taxpayer, and it has returned £700 million in the last five years, or something like that. Louis can come in, but it is a significant sum. It does not cost the taxpayer anything. It invests in projects that otherwise might not go ahead, which one hopes is for the common good and the international good, and it draws in UK business that otherwise we would not get. It does all this while entirely absorbing its own operating costs, which are a fraction of the cost of any major bank rival, if you like. We are not a rival; we are deliberately seeking to complement.



UKEF, and it is voted again and again to be the world's best, fills that gap, brings enormous benefit to UK business, contributes to global development and then returns hundreds of millions of pounds to the taxpayer. I think it is worth setting that out, because I think people take it for granted or do not understand it, and think somehow we are spending public money. This peculiar Department does not spend public money; it literally hands it back to the Treasury and does good at the same time. A lot of other Departments could learn from it.

Chair: A healthy criticism of the UK Government there, I see.

Q214 **Paul Girvan:** I would like to hear what Mr Taylor has to say in relation to where those jobs are going and the expansion of them.

Louis Taylor: The Minister has properly said that the volume of business that we are doing requires more resource to undertake it, and that is not just execution resource. It is going to be risk management resource. It is also going to be origination resource and operational resource. It is not that one part of the Department is deficient. We are augmenting in certain sectors. We talked about the clean industries group, and that focus will continue, but we would be wrong to massively increase our marketing department if we do not have the ability to deliver what they generate in new business. Similarly, to massively increase our execution capability with no pipeline of deals would not be right, so the Department generally is growing and, as the Minister said, we have the added issue that the credit environment is way less benign now than it has been for the last 10 years, and our focus on recoveries, collections and restructurings is much greater than it has been.

Q215 **Paul Girvan:** The reason I was keen to ask this question is in relation to looking at how the banks operate now. It is not just a matter of walking in and having a word with your bank manager about money or a project that you are involved in. They need to have some expertise within the region that you are dealing with. For argument's sake, Danske Bank in Northern Ireland, one of the bigger banks, has real expertise within the agri-food industry and agriculture, but there are aspects of it where, if you want to get into the tech industry, it has people who specialise in that and give you good advice.

We ran into this problem in the Northern Ireland Executive when we wanted a heat renewal system. RHI it was called. The difficulty we had associated with that was because we had a lack of expertise within a Government body that was supposedly delivering the money. Are you sure that you have this expertise in some of the areas that you are underwriting? That is vitally important.

Graham Stuart: The clean industries group, which I was pleased to announce before the Committee today, has 20 staff. It is not just having deep sectoral expertise; you also need geographical expertise. DIT and UKEF are unique among Government Departments, in that we have staff coverage across the whole of this United Kingdom and then a whole international network as well, so it is bringing all those elements to bear.



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In addition to the network of export finance managers around the world, UKEF can help prospective exporters through its export finance managers around the UK, as opposed to the IEFEs, with seven in northern England, seven in the midlands and the south-west, eight in London, south-east and east of England, three in Scotland, one in Northern Ireland and one in Wales. But I absolutely agree with you, Mr Girvan, it is getting all those things.

We are always playing three-dimensional chess or whatever, but we have the regions of the UK. We then have the sectors and then we have the regions of the world. By the time you combine all those, you get quite a dizzying set of numbers. Yet often it is the combination of those three that you need to pull together to make it meaningful for the business, particularly the SME, to understand what the opportunity is and for our staff to be able to support them in getting it.

Louis Taylor: Mr Girvan, I agree with everything you said. My earlier answer to Mr Mangnall, about listening to sectors and understanding the needs they have and whether we can fill those needs, is at the heart of what we are going to be doing. We need an element of sectoral expertise but, actually, the prime expertise that we have, which most of the rest of Government does not have to the same degree, is financing expertise. For an overdraft from a bank there will not be one type of overdraft for a food and drink company versus a different sector.

Anthony Mangnall: Can I briefly come in, Chair, if that is all right?

Chair: Very briefly, because I am about to turn to Martin Vickers.

Q216 **Anthony Mangnall:** Apologies to Mr Vickers for jumping in front of him. The Minister has just mentioned the clean industries group, which is particularly welcome. Presumably that is within DIT.

Graham Stuart: No, within UK Export Finance.

Q217 **Anthony Mangnall:** Okay, fine. Just for clarification, there was a report this morning in *The Times* about this new oil field development that is going on. I think it is the Cambo heavy crude field. Am I right in thinking that the Department for International Trade has not had any role in that or in helping that contract come to fruition?

Graham Stuart: Sorry, which oil field is this? This is in the North Sea?

Anthony Mangnall: Yes.

Graham Stuart: It is always dangerous to say you have nothing, but we are an international Department, so we do not play a role in that sort of decision domestically.

Q218 **Martin Vickers:** Returning to the staff issues and so on. Is the level of pay and conditions a problem in terms of staff retention and recruitment?

Louis Taylor: Pay and remuneration is our lowest score in the engagement survey every year, which the civil service runs and that we



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run. We have staff turnover that has dropped during Covid from about 19% to about 15%, 14%, 13%, around there. That level of turnover is not ideal, but it is to some extent healthy to ensure a levelling of the mix. At the same time, we are expanding the Department, and a lot of people are coming in from outside the Department.

We have little difficulty in recruiting young people into the Department, and we can attract senior people who are at a later stage of their career, for whom commercial considerations are perhaps often a little less, and they are able to come into the organisation and mentor teams. Our tricky spot is the mid-career people, who are knowledgeable, industrious, very capable and productive. That is where we struggle to recruit people, which puts a premium on developing our young people and making sure they have a career path all the way through to that level, and then we get best value from them.

Martin Vickers: Talking of people in mid-career, back to you, Angus.

Chair: That is a great compliment. I was a bit worried you were going to say, "the end of his career." Talking of careers, it is a great pleasure to take in one of Scotland's favourite sons or famous sons next—not quite the most famous now. Of course, we have a superstar who was man of the match at Wembley the other night. I am not sure if he is related or was a neighbour at one time of the great Mark Menzies, but Mark Menzies will get the opportunity to mention Billy Gilmour. He was fantastic the other night. Unfortunately, he wasn't available last night. Mr Menzies, I have said enough about that great event on Friday. We will go back to where we are just now with the International Trade Committee. Over to you.

Q219 **Mark Menzies:** Indeed, Chair. I would not have expected you not to have mentioned Friday night. I knew you would get it in somehow.

This question is to Minister Stuart initially. UKEF has given £300 million direct loans and £850 million in guarantees to banks to support our liquefied natural gas project in Mozambique. As this project is led by the French energy company Total, what is the expected benefit to UK taxpayers?

Graham Stuart: All projects are subject to the rigorous scrutiny that we give them and, like all projects that we support, there is a requirement for a minimum UK content, so the benefit is that you get a premium income from the fee that, over time, has so far never led, on a portfolio basis, to losses coming to the taxpayer. There is a fee income covering the risk, and then, as a by-product of this business that does not cost the taxpayer anything, there is a whole lot of extra business for UK companies from companies like Total and others involved in the project.

Q220 **Mark Menzies:** Essentially, that would be used as a means of levelling up the UK content in the project? Whether it is through consultancy or various other means, we would have a minimum 50% UK content in that programme?



Graham Stuart: It is 20%, Mr Menzies.

Mark Menzies: Okay, sorry.

Graham Stuart: You are right, it is typically well above that, and UKEF has a history of running supplier fairs and events in order to help developers who are required to deliver at least 20% content. The great thing is, once they are exposed to the UK supply chain, they often end up spending a great deal more. You are also right that it includes not just products, goods as such, but also services. Whether it is design, all sorts of elements, environmental assessments, whatever, it can all count towards the UK content total.

As you also rightly say, of course, across the energy sector there is expertise right across the country, so all parts of the country benefit from it.

Q221 **Mark Menzies:** Absolutely. Louis Taylor, on 26 April 2021 the project in Mozambique was suspended indefinitely due to serious violence caused by Islamic State-linked militants. How much is UKEF expected to pay in claims as a result?

Louis Taylor: Certainly a force majeure has been called. That can be remedied, and we will see whether it is, or it isn't. In terms of what has been drawn down on the UKEF facility we committed to, the only drawdown has been in relation to the premium payment to UK Export Finance ourselves, so effectively at the moment we are cash collateralised on the exposure we have. The cash that has been drawn down has been given to us in our premium, so there is no claim that we believe we would be required to pay at this stage.

Mark Menzies: That is helpful.

Q222 **Sir Mark Hendrick:** Could I ask Mr Taylor about the pressure of competing as an export credit agency? We have heard that UKEF is experiencing pressure to compete with other agencies and to uphold higher standards in terms of the environmental, social and human rights areas. If this is the case—and I would like you to say whether or not you think it is—how are you managing these competing demands, and how do you think you are faring?

Chair: Good question.

Louis Taylor: I think the competition between export credit agencies is in relation to pricing, particularly for those export credit agencies not in the OECD who are not subject to pricing restrictions and other terms, such as China, India and Brazil, and also in relation to the due diligence standards around the environment, social, human rights and climate change, where again the OECD agencies are regulated by a set of standards, which are judgmental and are applied, I would confess, to different degrees of seriousness.



We are, appropriately, at the stronger end of applying those standards and feel that a leadership role is important. We have examples where we have been able to make a notable difference to the standards to which a project has been built and specified as the result of our intervention. At the same time, as an accounting officer, I am mindful of the guidance in managing public money that unreasonable compliance procedures should not be put in the way of helping the customers that the Government are there to serve, so what we have to do is be proportionate at the same time. I think we get the balance about right. We are progressive, we have a leadership role and we have high standards, but we are not so uncompetitive and unrealistic that we disadvantage UK exporters.

On the pricing side, other countries probably face more of a threat from subsidised pricing, perhaps from China, for example, than the UK does. That is largely because the heavy industrial areas that China particularly majors on are not necessarily supplied very much out of the UK, other than in professional services and high value add services, which are relatively price insensitive because of the technical nature of those services. From a pricing point of view, we do not suffer too much. I hope we get the balance right in terms of the ESHR issues that you have referred to.

Q223 Sir Mark Hendrick: If you could name another agency that was on a par with or pretty close to how UKEF is performing at the moment, which one would it be?

Louis Taylor: I think our Canadian counterpart has a pretty responsible attitude. In the same way, I think we work well with our French and German counterparts. This is just within the G7. The US EXIM Bank also has high standards. I would not say that within the G7 there are any real laggards around all of this, but I think some are more sophisticated and more focused on this than others.

Graham Stuart: I would just add that we keep working at it. I met with the export credit agency of Denmark when I was in Denmark last week. It is also worth saying that we collaborate with other ECAs, so we don't just sit there. You talked about the competitive environment, we actively go out to meet with them and other financial institutions regarding ESHR matters to establish a harmonised and rigorous joint approach for ESHR risk management across those institutions. That means we hopefully get a consistent and diligent application of the standards, and they can be confident that we are doing it as much as they are doing it in a joint way. It is an ongoing exercise.

It is worth pointing out that, in 2018, UKEF was appointed to the steering committee of the Equator Principles—which we adopted back in March 2016—which is a voluntary environmental and social risk management framework for ESHR due diligence and monitoring to support responsible risk decision-making. By being an active part of that, as well as our other outreach, we can try to create confidence, which everybody needs to have, the sense that they are not being undermined by others and that



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we are all working together in a consistent way that upholds the highest possible standards.

Chair: We go now to a man at the beginning of his career, who has been given good notice that he is going to be called, Mr Anthony Mangnall.

Anthony Mangnall: You are far too nice to me, Chair, and I don't think it gives my career any helping hand.

Chair: I was always nice to Mr Stuart when he was across the corridor from me, and look where he is now.

Q224 **Anthony Mangnall:** It is appreciated, none the less. Minister, at the start of this session we talked about the key priority areas that had been identified by the Secretary of State but also that had history in terms of support from UK Export Finance. Can I ask how you are marrying them up with the key priority markets, and what is the process? Is it the case that people can come to you and say, "We are very focused on Brazil" for example, and that is then the direction that you go in, or is it a case that there is an objective that you see in an emerging market for totally different reasons and that becomes your key priority market? I am trying to get an understanding of how you picked those countries that were outlined in your business plan?

Graham Stuart: Focusing on UKEF in particular, we have expanded our global network of internationally based regional heads, as I have already said, who are resolutely focused on unlocking UK exports. That network helps UKEF remain connected to overseas markets, finance major projects and create export opportunities for UK business.

We believe the international network is valuable—and perhaps it is particularly effective for the UKEF network because finance is so key in developing markets—and has a pipeline worth nearly £10 billion for UK suppliers. There are large concentrations in Africa, the Middle East and Asia and Pacific.

Just to give you a future deals pipeline insight, if that is useful: Africa has about 32%, Asia and Pacific 20%, the Middle East 17%, emerging Europe and central Asia 16%, the Americas 8% and Western Europe 7%. Our international export finance executives—IEFEs or whatever you want to call them—are currently located in LATAC: Brazil, Mexico, Colombia. Africa: Ghana, Kenya and South Africa. Turkey. MEAP in UAE. South Asia: India. Asia-Pacific: Indonesia and Philippines. And China has Beijing. We are also looking to appoint international export finance executives in North America in Houston, Egypt in Cairo, and Malaysia in Kuala Lumpur.

Q225 **Anthony Mangnall:** Sorry if I have missed the point here, but the value of those priority markets probably depends on whether or not you are supporting UK businesses and organisations in trading to those areas. How many of those countries that you have just mentioned are we actually doing regular trade and business with?



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Louis Taylor: The fact is that UK Export Finance will play more in developing markets than in developed markets, because that is where the gaps in private sector provision are greatest. We are inevitably going to have a relatively small amount of business in western Europe, which is a deep liquid capital market, just as the US is as well. We have chosen to focus on developing markets, and we have put people in regional hubs, all with a regional role, in markets where we think we will play most. We track the leads that they are developing, and we track how many of those leads move through to actual deals done.

It is a massive success story in west Africa. Our first international export finance executive, Steve Gray, is based in Accra. We have had eight transactions done and over £1 billion of business in Ghana, and Côte d'Ivoire is coming up because of his efforts there, Benin and Togo as well. We are using these people to help drive greater discovery of deals and greater UK content into those deals.

Q226 **Anthony Mangnall:** Sorry to keep going over this but, just to be clear, you have people in these areas and, because you have people in these emerging markets, you are finding businesses coming towards you saying, "You can help us with our export finance to trade into these countries." That is fantastic. How much of it goes the other way, which is, "I am a food and drink company and I want to start exporting to Oman"? Are you then thinking, "I am going to start appointing people to that area, to try to make sure that we can open that market"? I am not trying to be difficult. I am just trying to understand the process of why you are placing the people that you are locally.

Louis Taylor: Our people locally—small in number but big in impact—are there to augment the Department for International Trade's overall trade promotion effort by adding financial knowledge and being able to have that conversation, which is a real changer of the nature of the conversation that, "We would love UK content in your project, and we can underwrite \$0.5 billion." A different conversation from just the first bit of that.

In terms of companies going abroad, we are not the part of DIT that will help companies to just go out there and figure out what the market is and whether there is a market there for them. But for a bigger company who says, "We can see an opportunity in Mexico," we are absolutely there for them. We are able to help them to navigate local financing partners, to navigate the Ministry of Finance often, if it is a Government project, to be able to enhance their ability to win a project.

Graham Stuart: More often, what we have people in field to do is to identify the big projects that are happening and go and engage with that project, whether it is the Solidarity hub in Poland. Not that UKEF has ended up supporting it, but Trade Envoy Menzies was instrumentally involved in the major breakthroughs in Peru and the regeneration of northern Peru. It is having people on the ground to get those projects and then tell people who did not really look to the UK to be a partner,



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and then to engage with them and say, "We can be a really good partner." That is what these international export finance executives can bring.

If you look at somewhere like the continent of Africa, GDP is expected to double between 2015 and 2030. I suppose it might be of interest to the Committee to look at what putting people on the ground there has done, the opportunities that open up and whether there is more potential there if we really do go out. The places work Government to Government has the greatest traction, and in a sense UKEF is often in that space, is typically in developing economies. They have gigantic infrastructure and energy requirements, and we have a good contribution to make but too often we are not getting involved, which takes us into other areas.

Louis Taylor: One of the important roles of these international export finance executives is to help the local DIT team to triage what is real from what is not real, because it is easy to go into a room with a potential project sponsor on a project and the telephone numbers start being talked. If you have done one or two of these things, you know what is real and what is not, so we stop people spinning wheels on things that we don't think are realistic or where there is no UK content and that are not financeable, and we focus on the things that are. It is more productive as a result.

Q227 **Anthony Mangnall:** It sounds like a fantastic success story. Are there any examples of where you have had to scale it back because there has not been the demand from the UK side in a certain area?

Louis Taylor: The programme has only been running for three or so years and, as I say, the gestation period on some of these projects is extremely long. Even if in some countries we haven't had a huge string of new projects, the value of the executive in country has been in relation to perhaps a problem loan that we may have in that jurisdiction where, having somebody on the ground who can go and visit the Ministry of Finance or whoever else it is, and move things along in the creditor bunfight that is going on, that in itself is really valuable. There are multiple ways in which that network is of value to us, and we do track the value. We have just had an internal audit of it, which came out very positively.

Q228 **Anthony Mangnall:** Just moving on slightly, I spent a bit of time working in west Africa. I know the markets differ quite heavily in that area, and you do have to deal with bribery and corruption and a number of other issues where our domestic legislation is being updated, modern slavery being one of them. In identifying the countries that you have thus far, and have already mentioned, what account are you taking of bribery, corruption, modern slavery and human rights violations? What is your process there?

Louis Taylor: We take a huge amount of regard for it. Truthfully, I do not really care if a country is No. 50 or No. 150 on the Transparency



International index—it kind of does not make any difference—we will take a risk-based approach to the due diligence we do. Generally, what we are due diligencing is not a whole country; we are due diligencing the procurement of a single contract. That is a defined piece of due diligence that is perfectly practical to do in a proportionate way, and we feel we do that on a pretty good basis. You mentioned the modern slavery issues, and we do due diligence around all of that. We will be publishing in September, in line with all Government Departments, a modern slavery statement, but we do due diligence on the supply chains we are supporting to ensure that there isn't modern slavery involved in those. All of those issues are very much front of mind.

We have an expert committee statutorily appointed, the Export Guarantees Advisory Council, who advise me, the Secretary of State and the Minister on all these issues. There are experts in areas of anti-bribery, corruption, modern slavery, climate change, all of those ethical issues.

Q229 Anthony Mangnall: Two very quick points on that: how do you prevent that from tying up your ambitions in red tape and asking for multiple statements? Secondly, we heard from Dr Hawley who referred to the bribery statements as "paper tigers". Certainly, an update to the Modern Slavery Act is due to be brought back to the House at some point. I will declare my interest here, because I would like to see it include not just supply chains but investments. How do you view changes like that impacting on your operations?

Louis Taylor: Just as with the environmental point that I made earlier, we cannot put unreasonable compliance processes in the way of serving customers, so—

Q230 Anthony Mangnall: Can you define "unreasonable compliance"? What is unreasonable compliance to you?

Louis Taylor: It would be disproportionate, and the concept of proportionality is embedded, as I say, in managing public money. The document that accounting officers have to pay regard to. That is the approach that all the private sector financiers will also take, that they take a proportionate approach.

We also have to recognise that in the area of bribery and corruption or any other area, we are not an investigatory authority, like the SFO or the National Crime Agency or the police, so we cannot detect bribery or cannot be responsible for detecting it. Where we have or think we have or have had suspicions, we have a responsibility to report those suspicions or that discovery. Where they deter bribery is through the processes that we employ. Providing working capital to a UK exporter through a bank we see as a relatively low risk kind of environment for bribery and corruption, and the banks themselves undertake due diligence. It is different in Ghana, Nigeria or Kenya, and even the UK in relation to some big companies who have had big settlements on



corruption. We take a proportionate view, and we look at the circumstances of each case.

Q231 Anthony Mangnall: It is fascinating that, up until last year, there were British banks that were recommending boohoo as one of their sustainable investments. I take the point about being proportionate and all of that side, but there is a point where Government money and the function that you are offering should also be there to drive people to go beyond their own in-house examination, which seems to me what lots of the banks are doing. Again, I am just trying to get to the point of how much you push the people you are working with, the organisations you are working with, the banks you are working with, to actually go that little bit further to ensure that due diligence is not just in-house and goes a little bit further.

Louis Taylor: We do our own due diligence. That is how we do it. We do it to the standards that we are satisfied with. We cannot do the due diligence for a bank, and we would not want a bank to be engaged in financing with us on the basis that we said it was all right. They should do their own due diligence, because they are grown-ups as well. We certainly have high standards. The standards that we have in various business areas accord with what are accepted in the financial services industry, such as the Equator Principles on environmental standards and human rights standards. But there are additional standards that we are subject to, such as the Bribery Act, that we would want to enforce. We don't get any complaints from those that we provide support to that we are undercooking due diligence.

Sue Hawley may think differently, but I would argue that, as with the environmental point I made before, we think we have the balance about right. We are not standing still on any of this because the circumstances change, and what we consider acceptable changes, and we have to keep evolving.

Q232 Mark Garnier: Just continuing this international development piece, we have heard from some witnesses that some exporters are getting concessional lending linked to aid. I think the French export credit agency is doing concessional lending linked to aid. Some exporters are saying this will be beneficial to them, but the problem we have in the UK is because we are trying to hit either 0.7% or 0.5%, depending on which side of the argument you are on. All of that is defined by the DAC Committee within the OECD, so in order that aid spending meets that target it has to fall within the DAC definition. The suggestion—and I wonder if this is a confused suggestion—is that, because it does not fit within the DAC definition, you may not necessarily lend on that aid spending because it might confuse the picture. Does this mean anything to you at all? Because presumably, ultimately, trade is trade—

Graham Stuart: UK support is currently non-concessional, being provided in line with the OECD rules on export credit but, as you rightly say, we are aware of a number of countries, including France, Austria, the Netherlands, Japan, Korea and China that provide both tied and



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untied concessional finance schemes for which we do not have an equivalent.

As I said in an earlier answer, I had three and a half years as Trade Minister and I went around—you were a Trade Minister as well—and saw where the zeros are. It is in infrastructure and energy. It is these massive projects. If we are not able to compete, that has an impact on the UK supply chain and the UK economy.

Meanwhile, the Build Back Better World initiative—which colleagues will remember came out of the G7—is a new partnership for meeting the infrastructure needs of low-income and middle-income countries, recognising that there is a financing gap there, as well as the context of the belt and road initiative and so on.

UKEF, DIT and the FCDO have done initial work on an untied but concessional finance scheme, the developing markets infrastructure programme. However, this scheme has not yet been launched yet due to pressures on the ODA budget. As part of this, we are continuing to work with the FCDO to develop the Government's approach to concessional finance. Should the Government decide to develop a concessional finance offer, UKEF could deliver it, although we would most likely need to borrow powers in order to do so.

I know concessional finance has been identified as a key Government-to-Government lever used successfully by other states to position their industry overseas and deliver strategic leadership benefits, for example, in terms of soft power and influence. In 2019 alone, other OECD countries provided tied concessional finance worth £10 billion. China and other non-OECD countries provide significant volumes although, as they do not adhere to OECD transparency requirements, we don't know the exact quantum.

While UKEF's offer is competitive against other export credit agencies, IMF sustainable lending rules mean that ECAs cannot operate, or can only do so within constraints, in a number of low-income markets. In the absence of a UK concessional finance offer, UK firms are, therefore, effectively locked out of those markets.

Mark Garnier: That was a fantastic answer. It was almost as if you were reading it from a script. Thank you very much indeed. It is extremely helpful.

Q233 **Chair:** On 24 June last year, the Secretary of State told the Committee that the new export strategy led by you would be launched shortly. When will the launch be?

Graham Stuart: Oh, shortly.

Chair: That last "shortly" was about 364 days ago.



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Graham Stuart: You have been in Parliament the same time as me, 16 years. You know what the Government shorthand “shortly” is. The current expectation is that it will definitely be produced by the end of this year.

Chair: Fair enough.

Graham Stuart: If you combine the words “expectation” and “definitely” then, in true ministerial style, I have just done so.

Q234 **Chair:** What plans do the Government have to ensure co-ordination across Departments to support UK companies that have the potential to export? There must be a number of companies with untapped potential. I am sure you have given a lot of thought to that, knowing you as I do.

Graham Stuart: When I was Investment Minister, I remember saying that the most important thing wasn’t our global team, our national team or anything else, it was making sure that the most investable business environment in the world wasn’t wrecked by the rest of Whitehall. I genuinely believe in reaching out across Government to recognise the essential need to get the economy first. If you want to solve your social problems, first of all, you had better make sure that your wealth production keeps going.

We put a lot of effort into that. We are working very closely with BEIS, as you would expect, and doubtless as you will always have heard in the past from Ministers. I reckon it is closer than ever before. That is good. You have different sectors, so whether it is defence and security. We have a cross-departmental board on which I sit. We have a number of mechanisms. Clearly, the nature of Government and Departments is that there is a sort of silo effect. Our aim is to try to work across that. Maybe the circumstances help concentrate everyone’s mind, because the circumstances are such that we need to be co-ordinated. We need to optimise our trade potential, so we are working in an unprecedented way across Government.

Technology does make it easier. It is people who literally cannot get somewhere, rather than those who just choose not to, who you can have meetings with. That allows us to bring bodies together. We are doing outreach all the time across industry, across Government, to try to make sure we are as co-ordinated as possible.

The interesting thing is that, even before the pandemic, there were headwinds for global trade. We saw rising protectionism pre-pandemic. In 2019, according to UNCTAD—Chair, you will doubtless have been sitting up reading this last September when it came out—nine of the top 10 exporting nations in the world saw their exports fall in 2019. Chinese exports fell, so did the US, so did Germany, so did Japan, nine out of 10. That is pre-pandemic, and you will have a protectionist kneejerk response to the pandemic, which we need to fight, and we are doing that at the WTO and elsewhere.



On a positive note—because I know there is no greater champion of United Kingdom exports than your good self, Chair, and this Committee, because that is your duty in this Parliament—is that the one country in the top 10 whose exports grew in 2019 was the United Kingdom. We overtook France to be the fifth largest exporter in the world, so never let naysayers, Cassandras and general catastrophists talk you out of the UK's capability of making a success of itself in the world. This Department and UK Export Finance, and the rest of Government, are dedicated to doing that and, with your support and doubtless the excellent recommendations you will make in a report following this, we can all move forward stronger than ever.

Q235 Chair: Those are very positive words. I just did a quick google, and trade volumes were up year on year globally by 11.2% in 2020.

Minister, I want to finish by asking a question on where you think UKEF is going. In our brief we have a size of about £2.1 billion, a little behind the Netherlands, Belgium, Finland, France, Germany and Italy in ascending order of European countries. Given the volumes of other countries, the likes of Finland are 260% larger, do you think there is potential for greater growth and more scope in what you are doing with UKEF at the moment?

Graham Stuart: I laid out to the Committee just what a successful organisation it is and how positive its effect is. If we can do more of it, while sticking to the principles, that would be great. Can we do more? I think we have shown in the last couple of years, in the last year in particular, that we can. There is a long gestation, as Louis has made clear in his answers, for quite a lot of the projects.

Areas like infrastructure and energy across the world are enormous opportunities, running into the trillions over coming years. Can UKEF, suitably tweaked, funded and freed from certain constraints, do even more? I would have thought the answer is probably yes.

I always remember that the Institute for Government, years ago, said that about 45% of Select Committee report recommendations—if I have that right—were implemented. My experience as a Select Committee Chairman is that the Government will probably diss your report when it first comes out and then, six months later, slowly start to implement it, so I very much look forward to your recommendations. I hope, as such, that both the Department and UKEF can implement them super quickly if they are, indeed, up to scratch. We are all looking to you, Chair, to lead that.

Q236 Chair: We look forward to you bucking the trend, as the Minister charged with the response.

One final question. I mentioned Finland and, given they are 260% larger, could you see yourself going to the likes of Helsinki to see what they are doing and maybe to learn and share approaches? Ultimately, the point of these export credit agencies is to do better everywhere and for enabling



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commerce. Is there much of that sort of interaction going on at a Government level?

Graham Stuart: We are always looking to learn. *Global Trade Review*, the industry publication to which I am sure you have had a long subscription, awarded UK Export Finance the title of best ECA for each of the last three years, 2018 to 2020, TXF named us the best export credit agency for the last two years, and the British Exporters Association's external benchmarking shows how comprehensive our offering is and how it compares favourably with other OECD ECAs.

I well remember that you managed to tell me, Chair—at a time when UK investment figures had surpassed every other nation on Earth, with the sole exception of the United States—that somehow we were failing in investment, which was a remarkable argument to sustain, so congratulations on doing something so difficult. I would just tell you that this export credit agency is regarded by those on the outside as the best in the world. We will always seek to learn from other countries. I am not sure that Helsinki, with no disrespect to them, is necessarily a place that we have to rush to. Although, as I was in Copenhagen and learning from them last week, I am always open to new ideas. Thank you so much for your positive contribution, Chair.

Chair: Absolutely. It is purely coincidental that Finland was chosen, being the size of Scotland. Thank you also, Minister, for your attendance here this afternoon. It is a great pleasure, and we look forward to producing a report for your reading, for your aid and help in Government, and for recommendations to be put into play quickly. As a former Chair, as you laid out so eloquently, rather than waiting for six months and losing time, you will of course be into the saddle and galloping with our report as soon as it lands on your desk. For that we are greatly appreciative. As we are greatly appreciative of your attendance at our hybrid Committee meeting today. It is great to see your usual good humour. Can I also thank Mr Louis Taylor from UK Export Finance for being with us? It is greatly appreciated by all members of the Committee. Thank you both, gentlemen.