

# Environmental Audit Committee

## Oral evidence: UK Export Finance, HC 1804

Tuesday 19 March 2019

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[Watch the meeting](#)

Members present: Mary Creagh (Chair); Alex Cunningham; Mr Philip Dunne; Zac Goldsmith; Caroline Lucas; Kerry McCarthy; John McNally; Dr Matthew Offord; Alex Sobel.

Questions 102 - 326

### Witnesses

I: Guto Davies, Managing Director, Global ECA COE Leader, GE Capital; Matthew Crewe, Managing Director, Green's Power; and Andrew Wiseman, Chair, Export Guarantees Advisory Council

II: Louis Taylor, Chief Executive, UK Export Finance; Baroness Fairhead CBE, Minister of State for Trade and Export Promotion, Department for International Trade; and Lord Henley, Parliamentary Under Secretary of State, Department for Business, Energy and Industrial Strategy

Written evidence from witnesses:

- [Export Guarantees Advisory Council - written evidence](#) | [PDF version](#) ( )
- [UK Export Finance - written evidence](#) | [PDF version](#) ( )
- [UK Export Finance – additional written evidence](#) | [PDF version](#) ( )



## Examination of witnesses

Guto Davies, Matthew Crewe and Andrew Wiseman

Q102 **Chair:** Welcome to our final panel on UK Export Finance. To begin with can I ask our guests to introduce themselves, starting with my left please?

**Matthew Crewe:** Matthew Crewe, Managing Director of a business called Green's Power that is based in Wakefield. We are manufacturers of all equipment for the power sector, which involves renewables and conventional fuels.

**Chair:** Renewables and what, sorry?

**Matthew Crewe:** Conventional fuels.

**Chair:** Can you sit a bit forward and make sure you speak into the microphone please, thank you, because we have Hansard in the room taking a report of everything and that is why we do the intros. Thank you, Matthew.

**Guto Davies:** Guto Davies, Managing Director at EFS or Energy Financial Services at GE Capital within the General Electric Company. My role is to support our industrial businesses and our customers to find financing solutions for the technology that we provide.

Q103 **Chair:** Where are you physically based?

**Guto Davies:** I am in London.

**Chair:** Thank you.

**Andrew Wiseman:** Andrew Wiseman, I am a solicitor by training and I am here as Chair of the Export Guarantees Advisory Council, which is an expert Committee that advises UK Export Finance and its Ministers.

Q104 **Chair:** Can I thank you for the help you have given this Committee in the past on EU environmental law, which has been very helpful to our deliberations.

**Andrew Wiseman:** Thank you.

Q105 **Chair:** Perhaps I can start with a question to Mr Crewe and Mr Davies, could you describe how you heard about the support available from UKEF and talk us through the application and approval process?

**Matthew Crewe:** I heard about UKEF through effectively talking to our local UKTI contact, who came to us probably four or five years ago to tell us about the programme and explain the wider activities of UKTI but picked this out as a specific area for us to consider.

In terms of the programme, we put it in place in 2016. The first time we looked at it we really struggled to get the thing off the ground, we stopped and then—



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Q106 **Chair:** Why?

**Matthew Crewe:** We struggled with it because at the time our bank was not really prepared to support the extra 20% on the bond side. Our business was in a fair position but had some borrowings and our bank effectively said no to it at that point in time.

The second time round our fortunes were much better, the business was debt free and in those sorts of times the banks tend to be a little bit more accommodating. At that point they were throwing the scheme at us and happy to back it so it worked very well.

Q107 **Chair:** How much did you receive and for what?

**Matthew Crewe:** We have received about £1.2 million for bond support. That helped us to free up working capital to run the business and grow the business, which we have done. That support has effectively taken away the need to place 100% cash behind the guarantees that we give our customers.

Q108 **Chair:** What were you making for your customers and where are the customers?

**Matthew Crewe:** Our customers are all over the world. We are making heavy steel equipment that goes behind a boiler. It is called an economiser, it takes the waste heat off the boiler and that waste heat is then used for a second purpose, either heating water or providing further energy. It is a relatively environmentally-friendly product, taking the waste away and doing something else with it. It is heavy industrial equipment.

Q109 **Chair:** Did you come across any issues that might help account for the low proportion of renewable projects? Do you know anything about the renewables scene?

**Matthew Crewe:** We do work in—you could call some of it “renewable”—the waste-to-energy side of things. To be honest, it was all morphed together within the package. It was all about the efficiency of the projects, not necessarily whether they were renewables or not.

Q110 **Chair:** Thank you. Mr Davies?

**Guto Davies:** GE obviously has interest in a number of industrial spaces. In the UK oil and gas power, aviation and healthcare are the primary ones. The projects we are involved in are typically large infrastructure and capital-intensive projects. Certainly over the past few years, since the start of the financial crisis, there has been a growing need from large infrastructure projects for contractors and manufacturers to bring financial solutions to help the projects progress. It has been inherent in the power sector for quite some time, and more recently during the oil crisis it came into that sector as well.



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We have been working with UKEF quite extensively over the past five years on a number of projects that we have.

Q111 **Chair:** Since 2014?

**Guto Davies:** 2014-15.

Q112 **Chair:** Not before then?

**Guto Davies:** Not really required before then. Some of that would be a lack of awareness and some of it is a significant change in philosophy that UKEF has taken on during recent administrations, with a strong drive to promote the products and the services it has. Historically it was very aviation-focused. The leadership team has done a very credible job in diversifying the sectors it is exposed to today, I guess to help balance the portfolio of risk it has, and also to continue to support the other manufacturing sectors it is currently supporting.

We are a global company. We have a lot of manufacturing capability across the globe so we work quite extensively with export credit agencies, multilateral banks, development financial institutions as well as the commercial capital markets to find solutions for our customers. We work with them to find the optimal solution to allow their projects to move forward.

As I say, we have had a relationship with UKEF for quite some time. It has supported a number of projects for us in the oil and gas, power and aviation sectors. We are actively in discussions with it now about how it can help potential inward investment for us in the healthcare sector. That would allow us to potentially open up additional markets, particularly in Sub-Saharan Africa right now.

Q113 **Chair:** Thank you. Did you encounter any issues during your assessment process that would account for the low proportion of renewable projects? You are not in the renewable space, are you?

**Guto Davies:** Not in the UK but we do have quite large renewable manufacturing capabilities.

Q114 **Chair:** Where is that?

**Guto Davies:** Predominately in Germany for the onshore side, with some capabilities in Spain and China. In the offshore space, which GE has recently moved back into, the manufacturing capabilities we have are predominately in France, again with some capabilities in Spain. We are in active discussions with those ECAs and they have been very supportive of a number of projects, particularly onshore wind as I said. We are currently in discussions about ECA support for offshore wind, particularly looking at the next round of UK options that are coming up here in this coming year.

Q115 **Chair:** That will be other countries' export credit agencies supporting you to build offshore wind—



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**Guto Davies:** Supporting the projects. The products that we use within UKEF are slightly different to what Matthew would use, where Matthew is looking for his own working capital capabilities and his funding lines. The role we have is really to find financing solutions for our customers so they have the capability to pay for the goods and services that we provide.

The contracts we are involved in would typically not just be isolated to our technology, so there would be other elements of the power project or the development that would also need to be financed. Our mission and our objective here is that as well as providing a comprehensive technological and commercial solution to the customer you need to provide a comprehensive financial solution as well.

Q116 **Chair:** Thank you. Can I come to you, Mr Wiseman? You are obviously looking at the environmental and social issues of these projects. How often do you meet, and do you review the portfolio? Can you talk us through how it works and what you think UKEF could do to open itself up more to the renewable space?

**Andrew Wiseman:** As an advisory council we meet four to five times a year, which will include a meeting with the Minister as well.

Q117 **Chair:** Which Minister?

**Andrew Wiseman:** In this case Baroness Fairhead, the Minister responsible for UKEF.

Q118 **Chair:** Would you meet her annually?

**Andrew Wiseman:** Yes.

**Chair:** Thank you.

**Andrew Wiseman:** We do not look at current projects, we do not have an executive role in deciding whether UKEF should support a particular project. What we look at are UKEFs policies and procedures and we look back over projects UKEF has supported to see how it applied those policies and procedures. We also look at ongoing monitoring and the way the projects are working going forward.

Q119 **Chair:** Is there a project that you have raised particular concerns about with the Minister?

**Andrew Wiseman:** Rather than particular projects with the Minister we generally talk about the general Government support and the way UKEF tries to take a lead in terms of standards in the international arena.

We have talked as an advisory council with the Department and also with Ministers in terms of the second part of your question, which was support for renewables. The thing we have seen very much is that UKEF depends on the UK's manufacturing base, where the UK is exporting to and the products that it is exporting. Certainly from what we have looked at it is clear that UKEF has very much opened itself up to the renewable business. The difficulty from a UKEF perspective, which maybe a different



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question than for Government wide, would appear to be where the renewables are manufactured, where they are being exported to and whether those are markets UKEF can support.

Q120 **Chair:** We have heard from witnesses that UKEF's policies are flatly inconsistent with the Paris climate goals. Do you agree?

**Andrew Wiseman:** I would not say they are inconsistent with the Paris climate goals. My understanding of the Paris Agreement is very much that it is for individual countries to decide how they will meet their particular goals. If a British exporter is exporting to Kenya, it will be up to Kenya to decide whether that project meets its particular goals. Certainly from a Government-wide perspective the Government signed up to Paris with a view to reducing the UK's emissions and also helping other countries in terms of a transition to lower-carbon economies.

Q121 **Chair:** That may be the case but we have heard evidence about other export credit agencies that have rapidly dialled down their investment in oil and gas products. We are definitely seen as a laggard, is that something you recognise?

**Andrew Wiseman:** We have looked at some of the other export credit agencies and one of the first thing to look at is what percentage of that country's exports are in the oil and gas field in any event. I think Sweden would be defined as a leading ECA in relation to that but my understanding is that Swedish oil, gas and coal exports are relatively small in any event. The Canadian ECA, EDC, is also held up as a leader and certainly they have made some very good recent announcements in terms of monitoring and transparency. However, it also was coupled with an announcement of I think an extra £1 billion of credit availability for the oil and gas sector. It is very much looking at the individual country, what that country's manufacturing base is and then trying to look at whether they are supporting a transition to a more renewable manufacturing base.

Q122 **Chair:** The final question from me, there are these environmental and social impact assessments—the ESIA assessments—that are carried out on projects that are assessed as Category A in terms of potentially big risk. Do you look at those Category A projects?

**Andrew Wiseman:** We do. We get a complete list of all the Category A projects and then we choose—

Q123 **Chair:** Before they are approved or after their approval?

**Andrew Wiseman:** After their approval, although prior to their approval the details are published on the UKEF website. However, as an advisory council we would only look at the project after it has been approved.

Q124 **Chair:** Is that something that is set out in statute, is that something you have decided or is that at the Minister's discretion?



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**Andrew Wiseman:** It is not set out in statute. The statute is fairly open where we are formed so we can advise the Minister on such things that the Minister wishes to be advised on. More a combination of custom and practice is the way the Advisory Council has worked since 1991, also recognising we are not an executive and that there is a separate management board that runs with proper non-executives. We are an advisory committee post the event.

**Chair:** Thank you.

Q125 **Caroline Lucas:** I want to follow up on that because it does worry me that it sounds like you are outsourcing responsibility to the recipient countries rather than accepting that the UK has its own responsibility. Of course, the Minister, Lord Bourne, when he was signing the Paris Agreement said that this is an agreement like no other and that we and all the other signatories will take action to mobilise all finance flows towards sustainable growth. How is that compatible, the sense that all financial flows ought to be going toward sustainable investments? Instead of that I think it is fairly clear to see that UKEF is going in the opposite direction.

**Andrew Wiseman:** It is very important, certainly from my perspective, the UK Government as a whole support countries to make that transition.

Q126 **Caroline Lucas:** It is not, is it? Through the work of UKEF they are doing exactly the opposite. We have been hearing lots of evidence from lots of people who are basically saying there is a gross inconsistency between all the statements about our international obligations and what we are going to do in terms of international climate leadership and what UKEF is actually doing.

**Andrew Wiseman:** I would say—this is very much from my perspective—from the Advisory Council's perspective it would be managing the transition for those countries.

Q127 **Caroline Lucas:** How do you manage a transition if you are investing in a whole set of fossil fuels that then lock you into that in the future?

**Andrew Wiseman:** The issue is the degree to which you say to these countries, "We will not support this particular project". That would not mean that project would not go ahead because the—

Q128 **Caroline Lucas:** That is always the argument, "If we do not do it someone else will use slave labour, someone else will exploit children". That is not a moral argument for a country that is trying to show global leadership, is it?

**Andrew Wiseman:** A country could decide, "We will not support those businesses, we will not support the new project". That would be a political decision for a country to take.

**Caroline Lucas:** It would be a perfectly appropriate political decision for them to take, just like you have taken decisions not to support child



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labour or, indeed, not to support some of the most inefficient coal-powered stations through the OECD guidelines.

**Andrew Wiseman:** That is a question for the UK Government rather than from an advisory council perspective.

**Chair:** We will leave it there, thank you. We are going to move on with a question from John.

Q129 **John McNally:** Thank you, Chair. My question is for yourself, Mr Davies, in the first place. I am looking for some clarity over the Iraqi power plant projects in general. I wonder if you can describe the support GE and yourself have received from UKEF for a variety of projects since 2017 and the terms under which the support was granted.

**Guto Davies:** We, as GE, have had a strong relationship in Iraq for a number of years, have been present there for about 50 years and currently generate about 55% of the generation capacity in Iraq. Obviously post the war there is a significant need for investment in infrastructure in many sectors, including power generation. We have had a Government relationship there for a number of years, looking at a number of facets of rebuilding the power infrastructure in Iraq, this goes from rehabilitating and repurposing existing facilities—which may be either inefficient or not currently in operation due to lack of maintenance—through to the current projects that we are working on. Those are building new capacity and new power generation, two combined-cycle power plants that are currently under construction.

When we look at these projects from an evaluation perspective part of the role we perform is trying to understand where the supply-chain capability that we have is, either within GE or if it is procured in externally, and what support we can provide and give the Iraqi Government to help them finance this. The Iraqi Government are currently running a budget deficit and as such large capital-expenditure projects will require external sources of funding in order to help them proceed. The message was very clear, without financial support these projects would not move forward.

Probably about three years ago we embarked on a series of discussions based on the supply chain capabilities and opportunities we saw to see who had capabilities to provide financial support to Iraq. The structures that have been put forward, which have been supported by the UK, are a mixture of guarantees provided to commercial banks to provide funding loans to the Iraqi Government and some direct lending capability from the UK Treasury in support of those projects as well.

Where the capability exists we have been able to bring in risk mitigation and to get other ECAs to help support the UK Government in sharing the burden. If there is procurement coming from Switzerland as well as the UK we have been able to pool the two other so not one ECA is aggregating all of the risk in one location, they are able to offload and effectively reinsure a proportion of that capability as well.



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Q130 **Chair:** What procurement is coming from Switzerland?

**Guto Davies:** Some of the components. The transactions that involved the UK and Switzerland together were maintenance and upgrades. Some of them were components coming from Switzerland as well as the UK so we were able to put the two together.

The second example is the grid project, where we have transformers coming into the UK. This, again, is a good example of where UKEF is building up the industrial footprint here in the UK. Those transformers would probably have been done in Continental or Eastern Europe, within other factories GE has. The availability of this funding and the financing solution allowed us to bring this into our facility in Stafford and also aggregate it with some technology that we were manufacturing in Switzerland to allow them to combine together to risk share.

All of these solutions have ended up providing loan facilities to the Iraqi Government, to allow them to pay for the goods and services that we provide.

Q131 **John McNally:** What was the total support from the UK for that that GE received in 2018? I have figures here saying you received about \$117 million—

**Guto Davies:** Correct.

Q132 **John McNally:** —to work with ENKA to deliver these two projects. That seems an awful lot of money.

I do not know if Mr Crewe is able to develop this but I am very curious about the cost of a turbine and how much businesses in this country have benefitted from this in the supply chain. I would like if you could develop that a bit more because it sounds like a vast amount of money.

**Guto Davies:** In aggregate the two power plants we are discussing here, the two projects, are about 750 megawatts each so 1.5 gigawatts in total. The capital expenditure on those two projects is in excess of \$1 billion to fully implement. The initial support that was provided by UKEF was to cover the earliest phase of that, to get construction activity going. You may have recently seen an announcement that UKEF posted on its website at the end of December announcing the signature of the loan agreements in relation to the two power plants as well as a grid project we are doing in Iraq. In aggregate the support UKEF provided was around about \$1 billion across all three projects.

Q133 **Chair:** The UK provided \$1 billion?

**Guto Davies:** Across all three projects, yes.

Q134 **Chair:** Can I just stop you there because it says at the beginning UKEF was providing \$117 million in finance for ENKA and GE.

**Guto Davies:** Correct.



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Q135 **Chair:** That was the first phase, was it?

**Guto Davies:** Correct.

Q136 **Chair:** When was phase 2?

**Guto Davies:** For phase 2 the loan agreements were closed in December and since December we have been what is called discharging the conditions, set a precedent on the facility in the order to make it operate.

Q137 **Chair:** How much is allocated in phase 2?

**Guto Davies:** For the power projects, \$620 million and for the grid project around about \$400 million.

Q138 **Chair:** Is that the distribution? You say the “grid”, what do you mean?

**Guto Davies:** Fourteen substations are either being rehabilitated or constructed from new across the whole country.

Q139 **Chair:** That is the 2018-19 financial year?

**Guto Davies:** Correct, so they will come in through this year. To answer your question on the benefit to the UK, the gas turbines you mentioned in this project are investments the Government had already made as part of a procurement strategy some 10 years back to buy a fleet of gas turbines to help rebuild the infrastructure in Iraq.

Q140 **John McNally:** Which Government are we talking about here?

**Guto Davies:** The Iraqi Government. Those were paid for a number of years back and this is the final project that is deploying this fleet of gas turbines. The \$1 billion is the remaining capital expenditure required in order to complete and fully construct the project.

I mentioned before how we look at the supply chain in order to understand where we should focus our attention. We were aware of the UK Government’s strong relationship with the Iraqi Government. We initiated with ENKA—who is the EPC, the construction partner we have—a process with the UK Government and the Department for International Trade, along with the electrical and mechanical trade associations within the UK, to allow us to be able to aggregate the supply chain within the UK. We held a fair in about March of 2017 to initiate that process. We had about 100 companies attend a session here in London to discuss the project and to outline the opportunities that existed within the project for the UK supply chain. As of October of last year we had about 192 UK companies that were currently tendering to ENKA in support of the project. Around \$115 million worth of contracts has already been awarded to UK companies. The rest of these contracts will be awarded once the project achieves financial close, which it achieved yesterday ironically. They will now be the next wave of procurement to come.

The aspiration we agreed with the UK Government is that there should be \$230 to \$250 million of procurement from UK companies out of that



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supply chain as our contribution to the UK economy to make that project work. It equates to about 40% of, shall we say, the non-Iraqi scope of the contract, which is well above the traditional threshold the UK has required.

Q141 **John McNally:** I wonder if you could develop and tell us GE's working relationship with ENKA and how it developed, financially and geographically. Iraq is obviously close to Turkey in this case, but I wonder if you would tell us how you developed this relationship.

**Guto Davies:** We have a strong relationship with a number of internationally-renowned EPCs—equipment, procurement and construction companies—as part of our power business. ENKA is a critical partner for us in many geographies. It has been incredibly successful in being able to construct and commission power plants in Iraq. It would have been one of a number of companies we would have evaluated as part of this project to be a partner.

**John McNally:** Among other groups.

**Guto Davies:** As part of a consortium, indeed, with us. We have had a long-standing relationship with ENKA. As part of that process, as we talked about before, even though we are only a piece of the, shall we say, technological solution on a project we cannot look at our scope in isolation and try to solve the funding problem for that piece. The role is to work with our partners and find an aggregate solution for the whole project, which is why we looked at ENKA as well.

Q142 **Alex Sobel:** How many staff does ENKA employ in the UK to manage this project?

**Guto Davies:** I know that question has been posed to ENKA. I did speak to them yesterday and know they were unable to attend the session today. I know ENKA will prepare a response and will respond to the Committee.

Q143 **Alex Sobel:** You do not know?

**Guto Davies:** I do not know off the top of my head.

Q144 **Chair:** It is zero, isn't it? They have told us they have no staff in the UK.

**Guto Davies:** In fairness to ENKA, part of the process and the dialogue with UKEF is clearly that the project had to get to financial close so the financing is committed. As I said, the financial close happened yesterday so I would expect ENKA would now start to migrate employees from Turkey or employing, hopefully, people here to support that procurement.

Q145 **Alex Cunningham:** Have they told you that it is going to start to employ people in the UK?

**Guto Davies:** That was part of the discussion with UKEF at the beginning, yes, and was part of their commitment.



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Q146 **Chair:** Can I go back to the phasing? When you were allocated the \$117 million back in 2017-18, obviously that was phase 1. Were you given a nod and a wink that if you got the phase 1 through you would be coming back for quite a substantial extra part? There is no point in subsidising phase 1 if it is not going to get to phase 2 and completion, is there?

**Guto Davies:** The point on subsidy I will come back to, there is no subsidy effectively. The project needs to be looked at, as you rightly say, in its entirety. The intention at the beginning was to start the construction activities and we would then commit to build the supply chain up in the UK in order to attract the secondary wave of financing.

The reason the project was split up into phases is really a function of the criticality of the need for power. The intention is that by May of this year some of those gas turbines will be operational and online. GE and ENKA agreed to accelerate a lot of the expenditure before the financial close happened as our commitment to the Iraqi Government to help make sure we achieve that objective of trying to get some of those power-generation units operational by the summer of this year, which is clearly a critical demand issue for the Iraqi Government.

Q147 **Chair:** You said about the phasing and about how much money would go into the UK supply chain, \$230 to \$250 million.

**Guto Davies:** Correct.

**Chair:** You said that is 40% of the procurement spend.

**Guto Davies:** Of the offshore scope.

**Chair:** Of the offshore spend.

**Guto Davies:** Correct.

**Chair:** Which is offshore from Iraq?

**Guto Davies:** Offshore from Iraq, yes.

Q148 **Chair:** Where is the other 60% going?

**Guto Davies:** Some of it is actually in Turkey. Again, this is part of the reinsurance discussion I mentioned before. UKEF advised them the reinsurance capability would exist from Turkey. We know they are in discussions with the ECA of Turkey, Türk Eximbank, to provide reinsurance for the Turkish element so there is some risk sharing in relation to that.

When we look at the supply chain below that it actually scatters into many geographical areas, some of that is in Europe and some will be in Asia. I would say the smaller pieces would be more commoditised products that would be, from a cost perspective, more efficiently procured.

Q149 **Chair:** Mr Crewe, are you involved in the project in any way?



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**Matthew Crewe:** No, not on this project. We are not involved in it.

**Chair:** You are not aware of it. You are now, maybe. Have a chat after the meeting. Thank you.

Q150 **Kerry McCarthy:** Can I bring Andrew in? You have been quiet for a while. In terms of climate change risk assessment, is there much scope at the moment within the ESHR policies that UKEF adopts to look properly at whether there is a climate change risk?

**Andrew Wiseman:** Within the policies, in terms of the risk assessments UKEF will carry out, there are various aspects that relate to climate change. There is, at a base level, an assessment of a project as to whether or not it could be subject to flooding or something of that nature because of climate change. Then there is a higher-level look, if I can describe it as that, and they collect data in relation to CO2 emissions and things of that nature.

Q151 **Kerry McCarthy:** The first thing you said is the impact of climate change on the project.

**Andrew Wiseman:** On the project, yes.

**Kerry McCarthy:** Potential danger to the project.

**Andrew Wiseman:** Yes.

Q152 **Kerry McCarthy:** In terms of the other way round, whether the project itself contributes to climate change—

**Andrew Wiseman:** The impact on the climate, the project on the climate as against the climate on the project.

**Kerry McCarthy:** Yes.

**Andrew Wiseman:** UKEF certainly collects and look at data in relation to the emissions of a project. Those are published as part of the UKEF annual report and also as part of the process of publishing the environmental data of a project.

Q153 **Kerry McCarthy:** The ESHR and then the ESIA are there to try to establish an ethical approach to the funding we put in, would that be right? The issues they are looking at are trying to ensure there is not environmental or social harm and so on. It sounds from what you are saying that it is not a factor that is really considered, it is more something that is noted.

**Andrew Wiseman:** The standards UKEF follows are the international standards of the OECD. There is something called the Common Approaches, which I know your Committee has discussed.

**Kerry McCarthy:** There are the Equator Principles as well.

**Andrew Wiseman:** The Equator Principles as well that are an adjunct, the main one is the OECD Common Approaches. That is meant to create



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a level playing field across all OECD ECAs as to what they look at, what they take into account and what they ask project sponsors to provide.

- Q154 **Kerry McCarthy:** Do you think there could be a change of approach that would mean we will better be able to integrate climate change risk into the way we do things now?

**Andrew Wiseman:** I am sure there is certainly more that could be done. Stating the obvious, there is always more that could be done. Certainly it is one of the things that I think would be good for the Advisory Council to look at going forward, as to what UKEF does with the information it gets and the degree to which that is part of its risk assessment procedure.

- Q155 **Kerry McCarthy:** Can I ask the other two specifically about the Iraq application that we have already been talking about. At any point during the discussions you have had did UKEF raise or promote emissions concerns with you?

**Guto Davies:** The project is classified as a Category A project, potentially a high-impact project. As part of that process it was clear an environmental and social impact assessment was required to be performed to make sure it complied with international standards. GE and ENKA, at the request of the Iraqi Government, supported them in getting the report commissioned. We retained a company called 2U1K, based out of Turkey, to perform the ESIA. Throughout this whole process we had the environmental teams from UKEF and the lenders in the project working with us to develop the scope of work, to understand exactly what needed to be assessed and to make sure the report was prepared in the appropriate way.

- Q156 **Kerry McCarthy:** We have some details here of the factors that were considered in the ESIA report, it is things like air quality, hydrology and soil. Climate is mentioned but it is not clear from what I have in front of me whether that is the impact on climate change. There is aquatic flora and fauna and key biodiversity areas, lots of different things it will look at. However, what we are trying to get to the bottom of, because it is the purpose of this inquiry, is whether the emissions themselves were something that was a key part of the discussions.

**Guto Davies:** Emissions would have been part of the assessment.

- Q157 **Kerry McCarthy:** Quite often when an assessment has a long list of things to look at it can become bit of a tick-box exercise, "We've looked at this, we've looked at that".

**Guto Davies:** No, it is an assessment. Obviously each plant is unique based on its configuration, the environmental conditions it operates in as well as the fuel that it uses to operate. The good story that comes out of this is that the original plan the Iraqi Government had here was to run one of these plants on heavy oil and the other on crude, which clearly would not have been an optimal solution. With the involvement of the international lenders and UK Export Finance, and getting the study up to



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the required needs, the Government committed to switching the primary fuel to natural gas and are currently building the gas infrastructure that brings gas into the project.

**Q158 Kerry McCarthy:** Are you saying that is because of UKEF exercising some influence, if they had gone down the heavy-fuel approach it would not have been approved?

**Guto Davies:** Yes, because they would not have met the emissions standards required should they be running on either the heavy fuel oil or the crude and UKEF would not have been able to support otherwise.

**Q159 Caroline Lucas:** I am coming back to Mr Wiseman again. How would you respond to those who have called UKEF the elephant in the room when it comes to undermining UK climate and development leadership?

**Andrew Wiseman:** I would not see it as the elephant in the room. Once again, I think this is a wider-Government issue in terms of what project it supports and the degree to which Government are enabling businesses to transition. I see UKEF and the work we have carried out on the Advisory Council as being open for business in relation to renewables but the renewable industry in the UK not needing its support. I am sure there is more UKEF could do in terms of publicising and making sure all renewable businesses know about it. This will be a sweeping generalisation so I apologise for that, but generally renewable businesses in the UK do not export to markets that UKEF would be allowed to support.

**Q160 Caroline Lucas:** It is interesting that if you compare our percentage of the energy portfolio that goes towards fossil fuels it is significantly higher than other G20 export credit agencies. To the contrary, if you look at the G20 export credit agencies they have about 7% going to renewables and we have 0.5% going to renewables. I do not suppose British renewables are that different from those in other G20 countries.

**Andrew Wiseman:** Unfortunately I think British renewables are most likely lower in terms of export markets than some countries. The UK is about number 7 in terms of support for oil and gas exporters in terms of the G20 and is a lot lower in terms of renewables.

**Q161 Caroline Lucas:** There is a sense that UKEF is entirely passive in all of this and can only be responsive to what comes to it. However, we know that, for example, Philip Hammond had a roundtable in Buenos Aires and did invite oil and gas companies to see what support UKEF could give to them but chose not, at that point, to invite renewable companies.

**Andrew Wiseman:** I cannot comment on that. I would certainly hope and expect that UKEF engages actively with the renewable industries that want to export and also—I looked at it when it was UKTI—in terms of DIT's links with BEIS and supporting UK businesses.

**Q162 Caroline Lucas:** Parking renewables for a second because it does not



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have to be the case that you can only disinvest from fossil fuels if the renewables options are there. The policy option obviously remains for the Government to decide simply not to be investing in fossil fuels at this point. I will be really interested to know what advice you might have given about how UKEF should change its way of operation post Paris. After the Paris Climate Agreement what changes did you observe or did you advise in the way UKEF works?

**Andrew Wiseman:** We have certainly seen a considerable increase in UKEF activity in terms of marketing to renewable companies.

**Caroline Lucas:** No, I want to look at where it is disinvesting from fossils. What change did you see as a result of that?

**Andrew Wiseman:** I would say we have not seen a particular change from UKEF.

Q163 **Caroline Lucas:** Is that a problem?

**Andrew Wiseman:** I would say the problem is a Government-wide issue in terms of supporting the transition. There is a clear policy decision to be taken as to whether or not—I am sitting within kicking distance of GE so I need to be careful—you say, “We will not support any fossil fuel projects” with the impact that would have on a number of constituencies and jobs around the country as against managing the transfer from fossil fuel supports.

Q164 **Caroline Lucas:** You are talking about our country, British jobs?

**Andrew Wiseman:** Yes.

Q165 **Caroline Lucas:** In a sense you are saying that because of the impact on British jobs this much-vaunted global climate leadership that we keep hearing about is not actually going to happen because it is going to have an impact on British jobs?

**Andrew Wiseman:** I would not say that is a question for me. I would say it is a question for the UK Government as to—

**Caroline Lucas:** You raised the subject.

**Andrew Wiseman:** I see it as a genuine policy decision to be taken.

**Caroline Lucas:** I am finding it really hard to pin down. I appreciate you are not the Government, you are not making the political decisions, but nonetheless you have a role in overseeing advice in this area.

**Andrew Wiseman:** Advising, yes.

Q166 **Caroline Lucas:** What advice would you have given UKEF after the Paris Climate Agreement in terms of its investment decisions?

**Andrew Wiseman:** The advice after Paris I would have given to—

**Caroline Lucas:** What did you do, not would have done. What did you



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do?

**Andrew Wiseman:** It is in terms of discussions with DIT and BEIS to ensure there is a proper and good transfer for UK-based companies so they can use UKEF for supporting non-fossil fuel renewable business.

Q167 **Caroline Lucas:** It does not look as if that is happening, does it?

**Andrew Wiseman:** It is happening but it is happening slowly.

Q168 **Caroline Lucas:** What more could, and should, be done in your view?

**Andrew Wiseman:** I am not an expert on, UKTI, DIT and BEIS and how they interact with companies in the UK to provide them with support on that transition.

Q169 **Caroline Lucas:** Who is giving that advice if you are not in a position to do so?

**Andrew Wiseman:** BEIS and DIT will be the people.

Q170 **Caroline Lucas:** Sorry, I know we need to move on and I will but there seems to be a big gap if your council is not in a position to be able to advise on what is the greatest threat facing humanity and indeed many of the businesses we are talking about today.

**Andrew Wiseman:** We can advise UKEF on making sure it is open for business for all renewables, and that renewable business that is exported can go through UKEF and there are no barriers from UKEF.

Q171 **Caroline Lucas:** That sounds a very passive thing to be doing, just making sure there are no barriers. We need a massive investment in renewables if we are to have any chance of avoiding climate catastrophe. Simply for you to say, "We just make sure there are not any barriers" does not feel commensurate to the scale of the challenge.

**Andrew Wiseman:** I am looking at UKEF's role, not the Government-wide role.

Q172 **Caroline Lucas:** I think UKEF has a very big role in this potentially. Let me go on and ask GE and Green's Power, what will be the consequences for your businesses if UKEF did start considering and reporting on emissions in its project assessments? We will begin with Mr Crewe first.

**Matthew Crewe:** There will be some impact on our business but the fact is our business is so much smaller, has moved into the renewable area and will not be that heavily affected.

**Caroline Lucas:** GE, Mr Davies?

**Guto Davies:** From our perspective, it is perfectly clear the Iraqi project would not have been one anchored out of the UK from a supply-chain perspective.



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To some of the points Andrew was making before, if I look at projects from an investors' perspective when I am trying to finance the project, you start off with the largest capital-expenditure item in the project. Let us use windfarms as an example, it is the machine, the nacelles that sit on top of the towers and the blades on the towers. Those are the three key elements and then there are the physical construction costs. You would look at the supply chain effectively anchored into each of those and where the primary manufacturing locations of the nacelles would be located. In the UK we do not have that capability today.

Q173 **Chair:** Except in Hull where we make the turbines.

**Guto Davies:** It is coming.

**Chair:** We do have it with Siemens. It is a Germany company located here working for a Danish company.

**Guto Davies:** Correct, hopefully the investment is coming with the next round of auctions. The Government's recent announcement into the renewable sector and their planned investments to help build that supply chain infrastructure will initially, yes, be focused on building up the capabilities for deploying the offshore developments in the UK but it will become the export platform of tomorrow. UKEF is a very demand-led institution by nature.

I think the other context to bring in here is that a lot of the renewable projects do attract a lot of private sector capital from green funds and the like. It is not UKEF's job to compete with the private sector if that project can be viably financed with private sector capital. If there is no need for UKEF to provide support it is quite right they do not play a part. The dynamic here with the UK sector is you probably have a lot of small SMEs and suppliers that provide subcomponents to Siemens, to Vestas, to Mitsubishi, whomever.

Q174 **Caroline Lucas:** We have less of an argument about why UKEF is not doing more when it comes to renewables, where the argument really is why it is not withdrawing some of its support from so many fossil fuel initiatives and projects. As I said earlier, we are disproportionately invested in locking developing countries into fossil fuel dependence and that seems to be a perverse thing to be doing.

**Guto Davies:** I also think the likes of gas will be part of the energy mix moving forward. I do not think it is in any forecast today that gas will not play some kind of baseload capability within the generation mix moving forward. I think even the UK in 2030 is still planning to have about 20% to 25% of its capacity within gas, even though coal will be dismantled all together and there will be a significant growth of renewables. It is a transition that cannot happen overnight and there are some economies that do not have the capability to run other fuels in order to generate power.

**Caroline Lucas:** I do not get a sense of where this transition is.



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**Chair:** I am going to leave it there, we have two more questions.

Q175 **Mr Philip Dunne:** Thank you very much for explaining the Iraq contract as clearly as you have. Do you happen to know whether it was one of the largest UK contributions to the rebuilding of Iraq following the war?

**Guto Davies:** Yes, those three contracts are the largest contributions the UK Government have made. The signature on the last three agreements, which closed at the end of December, basically completed UKEF's capacity within Iraq. We would like to see more, there is plenty more that needs to be done.

Q176 **Mr Philip Dunne:** Mr Wiseman has explained that UKEF is very demand led. The Iraqi state has the benefit of significant fossil fuel reserves, self-evidently. Was there any contract available for supply of renewable energy in rebuilding power capacity in Iraq?

**Guto Davies:** No, there is nothing there that is happening as of right now.

Q177 **Mr Philip Dunne:** Had this opportunity not been financed there was not an alternative renewable. You did not propose a renewable alternative to Iraq?

**Guto Davies:** Correct.

**Mr Philip Dunne:** Thank you. I want to ask in relation to the way in which you look at projects—perhaps this is a question for both GE and Green's—whether you do any calculation of the Scope 3 indirect lifecycle emissions or is it purely financially driven?

**Matthew Crewe:** In the main financially driven. What we do look at is the heat-recovery aspect, where some of the heat is saved by using our products. It is the flipside of it. Our products save some of the base fossil fuel, the engineering around that helps.

Q178 **Mr Philip Dunne:** You do an energy efficiency calculation for the client.

**Matthew Crewe:** Exactly, yes.

Q179 **Mr Philip Dunne:** You must therefore do a calculation of what the emissions are likely to be, or not?

**Matthew Crewe:** It tends to be on the efficiency rather than on the emissions.

Q180 **Mr Philip Dunne:** What do you do it on?

**Guto Davies:** Keeping on the topic of Iraq, as you mentioned before the emissions would have been part of the assessment process from an environmental perspective in order to get the necessary approvals. Part of the commitment the Iraqi Government have to make is to retain a consultant who will be retained during the process of construction and during the repayment term of the loan facility to continually monitor all of



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the environmental, social and humanitarian aspects of that project throughout the life that UKEF will be exposed to.

Q181 **Mr Philip Dunne:** Is that a requirement of the Iraqi Government of UKEF's financing?

**Guto Davies:** It is imposed by the lenders collectively, UKEF and the other two banks that are involved in the project.

Q182 **Mr Philip Dunne:** As far as you are aware you think UKEF is keeping an analysis of the emissions of the projects it supports?

**Guto Davies:** For this Category A project, yes, it would have access to emissions data.

**Matthew Crewe:** I think it does take some information from us too. There are two big aspects of the UK application that we see. The first bit is around the environmental policy part and the other part is around bribery and corruption and that kind of thing, which sort of goes hand in hand. They are two areas of real focus. For me, having gone through the application, those are big areas.

**Guto Davies:** The only thing I would probably add is that the standards UKEF and the international community would hold—this is not just Iraq but I think in general—in emerging markets typically are significantly higher than local domestic standards would otherwise be.

Q183 **Mr Philip Dunne:** I think you were saying in response to an earlier question the source of fuel was also a determining criteria.

**Guto Davies:** Correct.

**Mr Philip Dunne:** Moving to gas from heavy fuels was required by the Iraqi Government or by UKEF as part of its criteria?

**Guto Davies:** By the lenders, by UKEF and the two banks involved in the project as part of the approval. If it was not for the change of fuel it would have failed the environmental test, which would mean the funding would not have been available.

Q184 **Mr Philip Dunne:** The banks' test or UKEF's test?

**Guto Davies:** Collectively, they run to the same standard.

**Andrew Wiseman:** We run to those same standards so UKEF would not have supported it had those standards not been met.

Q185 **Mr Philip Dunne:** That is an environmental policy that UKEF has introduced?

**Andrew Wiseman:** Yes, they are international standards that UKEF follows.

Q186 **Mr Philip Dunne:** As far as you are aware, Mr Wiseman, does UKEF assess the emissions of projects that it lends to?



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**Andrew Wiseman:** It does. It collects that data and that data is published. The data is available for the project as a whole. Obviously UKEF sometimes will only support one aspect or a smaller part of it so it does not go into that granular detail, but for the project as a whole it does collect that data.

Q187 **Mr Philip Dunne:** Does that cover Scope 3 emissions, the indirect emissions over the lifecycle of projects?

**Andrew Wiseman:** I believe it does.

**Mr Philip Dunne:** We can ask them shortly.

**Andrew Wiseman:** Yes, certainly, but I am quite happy to find that out and write to the Committee.

Q188 **Mr Philip Dunne:** That will be helpful. Do you think that also covers its portfolios, is it assessing the environmental emissions impact of its portfolio?

**Andrew Wiseman:** In terms of what are defined as Category A projects, yes.

**Mr Philip Dunne:** Thank you.

Q189 **Chair:** Can I come back on Scope 3? Mr Davies, you talked about a consultant being retained, is that the Turkish-based company you talked about in one of your previous answers?

**Guto Davies:** It will be tendered out to a range of environmental consultants.

Q190 **Chair:** In this country?

**Guto Davies:** Yes, they will be open to bid. There have been invitations extended to some as well, so that procurement process is underway right now.

Q191 **Chair:** Did you have to submit your Scope 3 emissions calculations for this project?

**Guto Davies:** We would have provided operational data in relation to how our technology would operate, which would have fed into the environmental and social impact assessment as part of the calculation process for the emissions. Yes, we would have fed into the process.

Q192 **Chair:** You included your value-chain emissions in that?

**Guto Davies:** Correct.

Q193 **Chair:** Was that done to the Greenhouse Gas Protocols Corporate Value Chain Standard, the international standard, do you know?

**Guto Davies:** I am not an environmental expert.

Q194 **Chair:** If you could go back to your environmental experts and get us the



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answer to that it would be very helpful to us in our deliberations.

I want to get clear on the money. We have had figures in pounds of £87 million and £88 million to you and to ENKA and yet you have told us it is \$117 million. Are we doing current exchange rates?

**Guto Davies:** It would have been the exchange rates at the time. The contracts are dollarized so apologies for this.

**Chair:** That is fine.

**Guto Davies:** The initial phase would have been about £70 to £80 million. The second phase, as I said, just closed now, which was \$620 million.

**Chair:** We will be able to do the maths on that. Thank you, it is very helpful.

Q195 **Alex Cunningham:** Before we move on I have a supplementary question. Before I ask a supplementary question I think I have to place on record that I chair the All-Party Parliamentary Group on Carbon Capture and Storage.

Is there any time that, when these projects are being put together, there is consideration of carbon capture, storage and use?

**Matthew Crewe:** From my perspective it will have been considered by the EPC contractors that we work for, not directly by us.

**Guto Davies:** Not in relation to this project, no.

Q196 **Alex Cunningham:** Thanks very much. This is for Mr Crewe and Mr Davies. We have heard that countries that do well in export markets usually have a good home market to start from. What I am interested to know is what you are doing to promote and develop a low-carbon business model. Mr Crewe?

**Matthew Crewe:** A low-carbon business model—

**Alex Cunningham:** Not really your bag, is it?

**Matthew Crewe:** Not really but we are pushing our business more heavily towards the renewables and recyclable projects, so in the last five years we have moved our business very heavily away from the coal-fired power stations in its heartland of Wakefield all the way into the waste-to-energy and other aspects, which are nicer on the environment. That is our input into that.

In transporting goods, we try to limit the level of transportation that we have to do, the painting of the goods, the materials that we use we try to look at the best possible materials to use in that. Rather than painting something five times at a certain level and a certain standard we push our customers to do it at a lesser level because any equipment that we use is going to burn it off it in the first five minutes anyway, so it is only protective.



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**Guto Davies:** I am not an expert on these matters but GE is a global company that holds itself up to good corporate citizenship. We have a large renewables business as well, so from that perspective I think we power around 60 gigawatts of wind across the globe so we do have a very strong environmental ownership and responsibility.

Q197 **Alex Cunningham:** We have heard lots this morning that betrays the fact that very little of the investment money or the loan money that is going in from UKEF is going into green projects, so that means we have the others. To what extent do you consider your projects, the gas projects and the oil projects and whatever could be at risk of the assets being stranded or maybe because of all the climate risk issues associated with it, do you think your assets could be stranded in the shorter or mid-term?

**Guto Davies:** These are decisions for owners and customers to make and I think we are living in an environment where the energy mix is changing. When we look at gas, I think I mentioned earlier on today, we do still expect that in years to come and even when these power plants will be coming to the end of their life cycle that gas power generation will still be part of the energy mix within certain Governments. Some of them have more options than others as regard to what fuels they can use to generate, and I know that other witnesses have provided different testimonies here, but it is our view that those projects are not going to create an inherent risk to the taxpayer.

Q198 **Alex Cunningham:** So no risk at all?

**Guto Davies:** Never say never.

**Matthew Crewe:** I think limited risk from our perspective. Most of our work is retrofit, so it is after, it is not new build fossil fuel kind of stuff. It is retrofit stuff and most of it is focusing on e-Recovery and efficiency, so the drive of the customer is coming towards us for that kind of project still, so I do not think projects will be stranded. Our projects last probably six to nine months as well, so we do not see them as term projects. Probably what will happen is when these plants do go out of commission we lose the repeat work that we would have ordinarily done 20 years after we were doing it the first time around.

Q199 **Alex Cunningham:** So no real risk for you either?

**Matthew Crewe:** No major risk, no.

Q200 **Alex Cunningham:** Mr Wiseman, I wonder if you could tell us what actions you would expect to see UKEF taking in order to align itself with the global requirement to be at net zero emissions by 2050 and meet the Paris Agreement targets?

**Andrew Wiseman:** I see that as an overall Government objective, so looking at DfID, DIT and UKEF and anyone involved.

Q201 **Alex Cunningham:** Okay, but UKEF have a specific responsibility of their



own.

**Andrew Wiseman:** They do. The UKEF main responsibility under its Act of Parliament is to support exporters, so I would say that the UKEF's role in terms of the Paris side of things is to ensure that they are supporting exporters and helping the transition to support Paris in countries worldwide.

Q202 **Alex Cunningham:** Yes, but we are facing a situation where the vast majority of investment is in anything but projects that will contribute to that objective.

**Andrew Wiseman:** That is correct in terms of their current mix, so I hope and expect that as years develop and exports develop that you would see that mix change. That is the important thing from my perspective that needs to be worked towards, to increase the amount of renewables, as we describe it.

Q203 **Alex Cunningham:** But we are not even taking small steps yet. We are hardly crawling as far as UKEF's investment is concerned. Is that not the case?

**Andrew Wiseman:** The percentage is incredibly small of UKEF's portfolio. I think it is roughly 1%.

Q204 **Alex Cunningham:** In your very specific role, what advice are you giving them to tell them that they need to up their game?

**Andrew Wiseman:** We have had a lot of discussions with them about their, for want of a better way of describing it, marketing and making sure that they are open to business, for renewables business. I think that is the essential role for UKEF in terms of the renewables business, making sure that those businesses that want to export know about UKEF and UKEF is open to their support. I think that is essential.

Q205 **Alex Cunningham:** Finally, do you think UKEF are quite invisible at the moment? If there is a very tiny percentage being invested in renewables are renewables companies really aware that it exists?

**Andrew Wiseman:** I do not think UKEF are invisible. I think that there is always more that can be done and there is always more that can be done across Government to encourage renewables companies to export. Now, whether they want to export to markets that UKEF will support is something that is up to those companies to decide, but with support from Government.

Q206 **Chair:** A final question, Mr Davies, you said that this is a gas plant with diesel backup. Are the gas turbines in this power plant working?

**Guto Davies:** They are not yet. They have not been commissioned, but they were procured by the Government many years back, so they have been in storage for quite some time, and we are in the process of installing the first units now.



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Q207 **Chair:** In the project's projections, how many times do you expect diesel to be used annually as backup?

**Guto Davies:** It is not envisaged. It is allowed to a certain degree but there is a ceiling on how many hours per annum it will be allowed to operate on the backup fuel.

Q208 **Chair:** What is that ceiling?

**Guto Davies:** I will have to find out.

Q209 **Chair:** Who sets that ceiling?

**Guto Davies:** It is with UKEF as part of the environmental diligence that was performed.

Q210 **Chair:** So the creditors, and they monitor that on the basis of the environmental consultant that is going to be appointed?

**Guto Davies:** The consultant that will be providing the reporting during the operation phase, yes.

Q211 **Chair:** What is the problem if it goes beyond those hours? What is the sanction?

**Guto Davies:** I believe, and again I will have to get the legal guys to opine, it would be potentially an event of default.

Q212 **Chair:** They will be in breach of their contract?

**Guto Davies:** Yes, in breach of their obligations.

Q213 **Chair:** Okay, if you could write to us on the details of that it would be very helpful. We have them coming in, so we will explore some of these issues further with them.

**Guto Davies:** Understood. I will have to take advice on commercial confidentiality as well, but we will advise the Committee.

**Chair:** Thank you very much indeed.

### Examination of witnesses

Louis Taylor, Baroness Fairhead and Lord Henley

Q214 **Chair:** I welcome our second panel and I am grateful to you all for attending. This is our final panel on the UK Export Finance scheme. Can I ask you to introduce yourselves, starting from my left?

**Louis Taylor:** Good morning. My name is Louis Taylor. I am the Chief Executive of UK Export Finance.

**Baroness Fairhead:** Good morning. I am Baroness Fairhead. I am at the Department for International Trade, responsible for trade and export promotion.



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**Lord Henley:** I am Lord Henley, Parliamentary Under Secretary, Business, Energy and Industrial Strategy.

Q215 **Chair:** Thank you all very much indeed for coming. If I can kick off with a question to Mr Taylor, if your role is to provide support to UK businesses why did you award £88 million in 2017 to ENKA, which is a company that appears to have no staff, premises or operations in the UK?

**Louis Taylor:** The support that we have given to British business through that transaction is the UK content that ENKA has procured for its projects in Iraq, which may not otherwise have been procured out of the UK without the support that we gave.

Q216 **Chair:** How much business has been procured by ENKA to UK companies?

**Louis Taylor:** The project is still awarding contracts, as I think the previous panel would have told you, so the initial £88 million was initial stage financing. We have just completed the majority of it. We committed to around \$250 million of UK content in a \$620 million financing, so around 40% is UK content.

Q217 **Chair:** Is that normal practice, to award funding to external firms who then procure in the UK?

**Louis Taylor:** Yes, we have done this several times before. Names you might recognise include Siemens from Germany, Boeing from the US, Caterpillar from the US as well. It is the UK content that we follow rather than the nationality of the company that we are supporting, because the support goes to the exporters from whom the goods and services are procured.

Q218 **Chair:** Thank you. That is helpful. ENKA registered as a UK company just months before being awarded UKEF support. What are the requirements that a company must meet to receive UK taxpayers' money?

**Louis Taylor:** We need to see the UK content going into a project in order to be able to support it and our stated public policy following a consultation is that we will support projects with a minimum of 20% UK content in there but we often, and mostly, achieve a higher percentage of UK content. The establishment of ENKA in the UK was really a facilitation of the aggregation of the UK supply chain that instead of around, let us say, 100 UK SMEs having to export their goods to ENKA abroad ENKA can aggregate them in a UK entity and then undertake the logistics of exporting those products and services to their projects subsequently.

Q219 **Chair:** We know that the gas-fired energy plant in Iraq will have a diesel backup and we have asked the previous panel how many times a year is the diesel allowed to run for how many hours. Do you know?

**Louis Taylor:** I do not personally know that answer, but we can find out and it would have been part of our environmental assessment. I can write to you with that information.



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Q220 **Chair:** That would be helpful. If they run the diesel for more hours than you permit them what are the sanctions?

**Louis Taylor:** The recipients of our guarantee are the banks who provide the cash, so we will not be withdrawing those guarantees, however we monitor all of the projects that we have exposure to through the life of that exposure, and we would seek to ensure that the maintenance of the gas-fired power station was such that it obviated the need in future for the further use of diesel and to reduce the overall emissions on that basis.

Q221 **Chair:** So they are meant to do it but it is a penalty-free issue for them?

**Louis Taylor:** They will never get our support again unless there are other mechanisms for ensuring. It is not a free lunch. There are obligations there and subsequent draw-downs, unless the deal is already fully drawn down, would be subject to remediation or an environmental plan to ensure that the project was back on track.

Q222 **Chair:** You have talked about the life span. What is the life span of this project, of your guarantee to it?

**Louis Taylor:** The first financing of £88 million was a three-year transaction to help with getting the construction underway, and then our lending is for 10 years from the point of completion of the project.

Q223 **Chair:** When will the project be completed?

**Louis Taylor:** The project will be completed within the next two years. A lot of the equipment is already in place.

Q224 **Chair:** We understand you have just signed off this project in December, project close. Is this the biggest investment that you are making in this financial year?

**Louis Taylor:** This will not be the largest transaction for this tax year in the totality of our support, nor will it be the largest investment around fossil fuels.

Q225 **Chair:** Which investment will be?

**Louis Taylor:** On an individual basis the support that we are proposing for the Duqm oil refinery in Oman will be around US\$700 million.

Q226 **Chair:** Are there any other large fossil fuel investments this year?

**Louis Taylor:** We are certainly working on some, but they may not close this financial year. We will be disclosing all those that have in our annual report and accounts, which will be published around June to Parliament. Those projects we are looking at that are Category A, high potential risk projects, have already been notified on our website in accordance with the OECD Common Approaches and the Equator Principles requirements.

Q227 **Chair:** I am still struggling with the fact that they could run it entirely on diesel and you do not have any recourse to any action. I find that



extraordinary.

**Louis Taylor:** Let me get back to you if the terms of the agreement provide for any sanction. I am not aware that we have a particular sanction but I can write to confirm that or alternatively send you details on that.

Q228 **Chair:** So basically your attitude is, "We would like you to do it on gas and we are very keen on you supporting British businesses in the supply chain and procurement". Once it is up and running you have a small environmental consultant who maybe visits Iraq, I do not know, how many times a year, monitors, reports back to you and says, "They are running it completely on diesel" and there is just a shrug of the shoulders?

**Louis Taylor:** The incentive is to run it on gas, in the sense that that is a way more efficient use of the equipment and that diesel is a backup and is not an efficient use of the equipment, plus the ability to use gas in these power stations uses domestic gas, which otherwise would not be used and so again there is an incentive to use that gas.

Q229 **Chair:** But if the diesel is cheaper to extract than the gas then the financial incentive is to run it on diesel, isn't not?

**Louis Taylor:** We undertake these transactions on the terms that we do. We do not have a history of non-compliance with the requirements that we have and we are monitoring around 80 projects at the moment. There is no history of failure to comply.

Q230 **Chair:** So you have not had any breaches in your fossil fuel—

**Louis Taylor:** We have had no material breaches on an emissions basis, no.

Q231 **Kerry McCarthy:** Can I talk more generally about UKEF support for fossil fuels? We know the IPCC has warned that we ought to be aiming for a 1.5 degree target, so down on the 2 degree target. Ban Ki-moon has called on the UK to stop supporting fossil fuels in developing countries, but if you look at the statistics for your investment it seems that over 99% of energy support in 2017 to 2018 in low and middle income countries was for fossil fuel projects, whereas in high income countries it was just 4%. Why is that happening? Are we just exporting our carbon footprint?

**Louis Taylor:** I do not believe we are exporting our carbon footprint. The points that Ban Ki-moon makes in his statement are quite a narrow focus on the overall issue.

Q232 **Kerry McCarthy:** What do you mean by that?

**Louis Taylor:** The focus is on the UK, or UKEF for example. There are six other export credit agencies that are way ahead of us in terms of the volume of fossil fuel support and they do not mention that. There is a much broader agenda there and to focus on UKEF—



Q233 **Kerry McCarthy:** So you are saying he has unfairly singled the UK out?

**Louis Taylor:** The UKEF is less than 0.02% of the investment in any one year in global oil and gas.

Q234 **Kerry McCarthy:** Right, but in terms of developing countries, how do we compare to other countries? So 99% of our support to developing countries or to low and middle income countries goes to fossil fuel projects as opposed to renewables. You cannot really get much worse than 99%.

**Louis Taylor:** I think there are a variety of factors here. First, you look at the industrial capacity of the UK. While there is some good industrial capacity in producing the equipment for offshore wind and onshore wind for solar it is pretty limited. Waste-to-energy is small transactions and on hydropower it is micro-generators as well, which do not lend themselves to large-scale financing.

Q235 **Kerry McCarthy:** You are saying we are not very good at renewables?

**Louis Taylor:** No, it is not that we are not good at it. We just do not have the industrial capability to build wind turbines, in the same way that we do not have the capability to build big gas turbines these days either. We cannot support UK content where there is no UK content to support.

The second big factor is that we are there to fill in gaps in private sector provision of finance, not to compete with the private sector. 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. Those would be two of the significant reasons why we are financing less in renewables in developing markets.

The third element is of course the element of transition. So a large project we did in the last two years in Ghana, which is an offshore oil and gas field, will help to reduce CO2 emissions because the gas that is piped ashore and burned in power stations will obviate the need for hundreds of diesel generators that will pollute far more than the gas. This is genuinely a transition story.

Q236 **Kerry McCarthy:** Of support for projects in high income countries, just 4% goes to fossil fuel projects, so how does that square with what you were saying about capacity and liquidity in the market and so on?

**Louis Taylor:** I think it goes to exactly that point because they develop—

Q237 **Kerry McCarthy:** Should it not be the case in developing countries they make that leap to renewables more quickly than countries that have had to gradually edge away from fossil fuels?

**Louis Taylor:** Certainly with wind and solar power the power needs to be generated where the environmental conditions are right, rather than where the power is needed. It is not always the case that a developing market has wind resources that can be harvested or adequate solar, or



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that the cost of producing those is materially the same at least as the cost of producing fossil fuel energy.

**Q238 Kerry McCarthy:** Do you engage, and this is a question for the DIT as well, with the renewable energy industry and try to promote renewable exports?

**Baroness Fairhead:** Absolutely we do. It is as if we are in a debate here about climate change being an issue. We understand that climate change is one of the big issues facing the world, so let us be clear about that.

In terms of the IPCC report that you referred to, we see the challenges there, but equally in that report it does say that there will be a transition required and that for the foreseeable future there will need to be fossil fuels as part of the industry. What we are trying to do is make sure that renewables, low carbon, is a priority for UKEF. I think Louis has articulated why sometimes it is difficult to provide support. We only fill in gaps, so if the support is there from the private market we are not needed. £500 million of exports took place in offshore wind export contracts last year from the UK, all pretty much financed, with small exceptions, from the private market.

Are we trying to encourage? Yes, we are. For example, we hired four people with specific capability in renewables, directly into UKEF rather than in DIT. We also have supplier fairs where one of the issues that we have, and I think it was referred to earlier also, is that we do not have big prime contractors but we have a lot of very capable small and medium-sized businesses, so the issue for us is reaching them. That is why these supplier fairs where we say, "Here is the contract on offer. Use your skills in renewables to help this export" is successful.

We are talking to the industry, talking to bodies, leading missions, to try to support renewables. I know that when I go out as DIT on trade missions we are linking to the Industrial Strategy. The Export Strategy links to the Clean Growth. Renewables remains a focus. We are supporting Government in a number of ways through the Green Finance Initiative. We are supporting through the Offshore Wind Sector Deal so as a Department we are trying to help move this transition to make sure that we are consistent with UK policy and within UKEF we would love to offer more support to renewables. The reality is we have a private sector market that is perfectly able to support a lot of that, but whatever we can do we are seeking to do, and if you have feedback to us where we could do more we would be interested, because we genuinely want to.

**Q239 Kerry McCarthy:** It seems that you are partly saying that the renewables sector does not need your support but the fossil fuel sector does.

**Baroness Fairhead:** There is a transition happening here. Louis talked about the 0.02% we have of oil and gas investment that comes from UKEF. Every year there is something like \$650 billion invested in oil and



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gas development. I think what we are saying is there is a bigger market for that. There are more investment needs for that. It is also, I think, at a different point in the cycle. It is based on the volatility of oil and gas and therefore there are more demands for the oil and gas sector.

**Louis Taylor:** It is also fair to say that changes in bank regulation have made it much more expensive for banks to lend large amounts for long periods in difficult jurisdictions. Hydrocarbon investment tends to be on a scale that is very different from the projects in renewable energy, so it is multiple billions of dollars for an oil refinery and the bank capacity is more limited for that than a maximum of around \$1 billion, \$1.2 billion for a large-scale offshore wind farm.

**Baroness Fairhead:** The one thing I would also add is that we have a very substantial oil and gas capability in this country. We have over 300,000 people whose jobs depend on this industry. That is already down because of the oil price and the recognition of the climate change agenda by 160,000 people. Our belief is we have an industrial base that we have to support while we go through this transition and our assessment is that it is better to make sure that we are supporting those jobs and also allowing them the financing to invest in and transition and pivot towards renewables. The 29th Oil and Gas report is saying that is now happening. Oil and gas companies are now pivoting towards renewables and low carbon and we are supporting that.

Q240 **Kerry McCarthy:** In terms of the projects that you are supporting in developing countries now that is a very long transition to renewables, if you are supporting new fossil fuel projects now. It is not in line with what we need to do under the Paris targets.

Canada has ended all support for coal, they have gone beyond the OECD Common Approaches policy. We have not agreed to do that. Is there a reason why we are not matching Canada in terms of our ambitions?

**Baroness Fairhead:** I think in the previous panel that question was asked and it was addressed on the basis of it is for each sovereign state to determine what is the appropriate approach. In Canada, for example, they agreed something on coal but increased their support for other fossil fuels.

Q241 **Kerry McCarthy:** They have targets for reducing the carbon intensity of the overall portfolio. That is not something we have, is it?

**Louis Taylor:** We do not have specific targets, and this comes down to the legal framework within which we operate. We are set up by statute and we have a statutory purpose. Were we unilaterally to decide that there was a sector that would be off-sided or we would not work on then it is arguably not legal.

Q242 **Kerry McCarthy:** Within the Common Approaches there is no legal barrier to us refusing to support fossil fuel exports. Are you saying that it is the way you are constituted in the UK that means you could not do it?



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**Louis Taylor:** Yes, I am. We have a statutory purpose that opens us to support all exporters. If we were to blanket ban the coal industry then arguably we are legislating something that Parliament has not legislated through the back door. We look at everything on a case-by-case basis, which is a common principle of administrative law as I understand and certainly it is the advice that has been given to us. We will look at every case on an individual basis and look at Government policy in the round, and attach what we believe is the appropriate weighting to Government policies relative to our statutory purpose.

Q243 **Kerry McCarthy:** It sounds like our climate objectives are not really a factor in terms of you making decisions as to what you are going to support or not. Is that fair to say?

**Louis Taylor:** We genuinely do take Government policy in the round into account.

Q244 **Kerry McCarthy:** Have you turned anything down because you are trying to help us meet that?

**Baroness Fairhead:** Yes.

**Louis Taylor:** Yes.

Q245 **Kerry McCarthy:** Can you give us examples?

**Baroness Fairhead:** A good example would be coal-fired power stations, and if you look at how the global attitude has changed towards coal-fired power stations we have been one of the leading voices, I think, DIT and UKEF with BEIS have been one of the leading policy-changers on that Coal Sector Understanding at the OECD, which essentially bans all new coal-fired power stations unless in the most exceptional circumstances of poverty. If we look at what we have done, we have not supported any new coal-fired power stations since 2002. In 2016, before the Coal Sector Agreement came into place there was a coal-fired power station project in Vietnam and we turned that down.

Q246 **Chair:** That goes slightly against what you said, which is that under statute you have to be open to everything, but you have just described a process where under that statute you have said no to coal.

**Louis Taylor:** The situation was that we had already agreed that the new Sector Understanding at the OECD would come into force and we had signed up to it and this project just was sneaking under the radar and the Ministers took the view that because we had already committed to this higher standard it would not be appropriate to approve a project at a lower standard, having already committed to the higher.

**Baroness Fairhead:** Just to be clear, all coal-related projects come to the Minister for ministerial discretion, because we want to make sure that we are aligned with Government policy in the round.

Q247 **Chair:** When do you think fossil fuel projects are going to start coming to



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you? For your policy commitment that you signed up to at the Paris Climate Change Conference in 2015 and the Coalition Government's proposals for working towards a zero or low carbon world, the policy does not seem to have caught up with those international agreements.

**Louis Taylor:** We very often do bring those projects to Ministers. We operate under a Treasury consent that requires consent not only for anything over £200 million of exposure but also anything that is novel, contentious or repercussive. In light of Government policy some projects could be viewed as contentious. We raise those with the Treasury. They suggest whether we should or should not consult with relevant policy Departments within Government and we take policy into account through that mechanism.

**Chair:** Thanks. I am going to move on to Philip, because Philip has to go.

Q248 **Mr Philip Dunne:** Thank you. I think this session is at the heart of what our inquiry is about. It is about whether Government policy is affecting the activities of the UK Export Finance and you have started to lay out some of the things that you are doing. Following the Clean Growth Strategy, has the Department reviewed the objectives of UK Export Finance in relation to meeting climate change objectives? Perhaps Baroness Fairhead could answer that first.

**Baroness Fairhead:** We looked at the Paris agreement. There was a review by the team in UKEF and it was agreed to support the coal sector deal. We did not feel that there was any immediate change needed in our policy. We have also, as you are aware, an advisory council to whom we talk about policy issues and obviously our position was relayed to them and they supported that position.

Q249 **Mr Philip Dunne:** We heard in the previous session from the advisory council that they do not regard it as their job to advise you on policy. They implement policy. They talked about the environmental impacts of some of the lending done by UK Export Finance but not whether or not UK Export Finance should be lending to particular areas. You might like to have a word with them about that.

**Baroness Fairhead:** Let me try to be clear what their role is. Their role is not to opine on any specific project, and that is clear. It is not for them to give advice on whether or not we should support a particular project and provide finance. They are there to provide advice on policy issues, environmental and other ethical issues. We have an executive function too that reviews that in our environment and social risks lead in UKEF. They are there to advise on the policy issues regarding that, and they are also to ensure that we implement the policies that we have appropriately. That is their clear role.

Q250 **Mr Philip Dunne:** Lord Henley, what role does BEIS play, given your responsibility for Clean Growth, in determining policy in relation to the UK?



**Lord Henley:** Our policy is set out in the Clean Growth Strategy, which you have seen and you know about. We are committed as you know to reducing, decarbonising in the UK, but we know that is going to take a long time and we do not want to see disruption of the major sector that Baroness Fairhead referred to, on which 300,000 jobs are dependent all around the UK. It is also a major export earner when talking about oil and gas. We offer support to that sector even while we are decarbonising and it is very important to remember. There is the Oil and Gas Authority that we set up as a regulator, but also as a steward and one of its principal objectives is to maximise the economic recovery of petroleum from the UK continental shelf. We are committed to both decarbonising but supporting that industry over the years while we do it.

We have a very good record on decarbonising and I see Caroline Lucas does not quite agree with me and she shakes her head, but we can go through the figures, that reduction of some 40% between 1990 and 2017, while we have also had economic growth. There is no point in trying to decarbonise at an enormous speed that is going to lead to economic decline. I think most of the Committee would support me in that, and that is certainly what BEIS wants to do. While we are doing that we will continue to support domestically that industry, just as we will commit ourselves to renewables and I think we are making progress there. Last year we saw more than half of our electricity coming from low carbon sources. We are getting there. We have our carbon budgets for the next five years. We have met the first one or two, I forget where we are on that.

Q251 **Chair:** We are on 3. We are on carbon budget 3 and we are about to miss our target. We have a policy gap of 7% for carbon budget 4 and I am amazed that you do not know that.

**Lord Henley:** We are not on target to reach it but we can still reach it. We have further budgets going up to 2032 and we will continue to try to meet those. The point I want to make is that while trying to get there we also want to continue offering support to a major industry for the United Kingdom that supports a very large number of jobs in a very large number of parts of the country.

Q252 **Mr Philip Dunne:** If we may get back to the issue of UK Export Finance. Was BEIS running the cross-departmental review of the Government response to climate change following Paris?

**Lord Henley:** BEIS leads on that, yes.

Q253 **Mr Philip Dunne:** Does your Department therefore have any responsibility for compliance under the climate change policy of the Government by UKEF or did they participate in a review or are you aware of their participation?

**Lord Henley:** BEIS takes the lead on climate change. That is one of the points behind BEIS. UKEF belongs to the Department for International Trade and obviously these things have been discussed between us.



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Q254 **Mr Philip Dunne:** Perhaps Mr Taylor could indicate what role he played in that review, and whether any of the policies have been adjusted as a result of that review.

**Louis Taylor:** I would make two points. The first is that within the statutory purpose of UKEF there is not a developmental or environmental statement in there at all. It is support for exporters, but I talked about Government policy in the round.

The second point is that in terms of—

Q255 **Mr Philip Dunne:** Sorry, on that, does that mean that because of your statutory basis you can ignore Government policy in the round?

**Louis Taylor:** No, we must take it into account in the round.

Q256 **Mr Philip Dunne:** My question was what adjustments to your working practices reflect the change in policy?

**Louis Taylor:** I would highlight the co-operation between BEIS and UKEF in negotiating at the OECD a Sector Understanding on coal-fired power stations that took effect in 2017 and is up for renewal again this year, where the UK has been very active in pushing a policy of trying to reduce participation as much as possible in coal-fired power stations but the OECD is a consensus organisation and there are some other countries that have very different views.

Q257 **Mr Philip Dunne:** Baroness Fairhead, you have outlined why there are relatively few opportunities for UK Export Finance, and certainly the track record suggests that there has been very limited support for renewables. Are you trying to address that? You talk about the transition from the significant dependence on fossil fuel of the industry sector in the UK and we have heard some examples of small renewables companies looking to develop something. Is there anything proactive that the Department is doing that you can encourage UK Export Finance to support in its role in generating more renewable projects?

**Baroness Fairhead:** I think UKEF has taken a number of steps, as I have said, in terms of hiring people, having supplier fairs with the focus on renewables. DIT for example is supporting and working with the Energy Industries Council, which has a lot of the small and medium-sized oil and gas companies who are looking to pivot towards renewables and there is a big import fair where we are welcoming people across the world to Aberdeen in June. That is again exposing our companies to opportunities that allow them to sell their renewables capability as well as their existing capability overseas.

We work very closely on trade missions on the overall Industrial Strategy, the Clean Energy Strategy and I would imagine a lot of the investment that we are making here in this country in terms of renewables, on batteries, on offshore wind is of great interest when we travel overseas. We are trying to ensure that people know about the capabilities and the



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challenge we have, as I said right at the beginning, and I think Louis said too, is we do not have any big primes in renewable. The gas turbine capability, these are all for us a challenge to make sure we can really pull through the supply chain, which is why we have taken to other ways to pull our supply chain, renewable supply chain, and help them sell across the world, even though we do not have prime capability in significant parts of that market.

**Louis Taylor:** Mr Dunne, I would say that while we have not been able to give financial support on many projects so far the opportunity is absolutely there and as developing countries become more interested in renewable energy our ability to aggregate the fragmented UK supply chain rather in the way that we have done for ENKA and what we have described there is growing. Two weeks ago I was in South Korea for the second time talking about their new offshore wind industries. UKEF and organisations like us tend to be involved at the leading edge of an industry and at the trailing edge of an industry, because once people, investors, get confidence in an industry then we are needed less.

Q258 **Mr Philip Dunne:** A final question from me, I suspect South Korea is the kind of market where the private sector may well be able to supply the finance, because it is a stable, mature, developed country, but you mentioned developing countries. DfID has perhaps the best insights into what has happened, dare I say it, better perhaps than DIT in opportunities in the truly developing countries where you would have a clear role to play. Are you bought into the DfID carbon lock-in concerns emerging from the climate change review, ie investing in things that are not going to lock them into fossil fuels for future energy supply?

**Louis Taylor:** A couple of points, in relation to South Korea, you are right, it is a deep liquid capital market but their investors are not particularly sophisticated in analysis and they really want a guarantor over a new enterprise like offshore wind, so we think UKEF does have a role and does have an ability to pull a UK supply chain into South Korea.

Secondly, in relation to developing countries and locking them into fossil fuels, we regularly interact with DfID. They have responsibility for the sustainable debt management of the projects that we do and have a say in sustainable debt markets as to whether we are allowed to undertake projects and value for money is absolutely something that they look at and the social and developmental benefits of projects and fossil fuels would absolutely be part of that.

**Baroness Fairhead:** May I add that if you travel to Aberdeen and see the small companies there a lot of the technologies that were applied to the fossil fuel, oil and gas, are exactly those technologies that are being used on the systems, the integration and the monitoring of the offshore wind, so that is what I mean by the pivoting. We can help and are encouraging them to take that step.

Q259 **Chair:** DfID has a carbon lock-in tool kit aimed at helping decision-



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makers to assess the risk of carbon lock-in. Do you use it?

**Louis Taylor:** We have our own environmental social and human rights due diligence team who are fully qualified. They talk regularly to DfID.

Q260 **Chair:** So that is no?

**Louis Taylor:** I am not aware they specifically use that document but we absolutely adhere to the standards we are required to for sure under the OECD Common Approaches and the Equator Principles as well.

Q261 **Chair:** But not a separate Government Department's carbon lock-in tool kit, which they developed specifically to avoid fossil fuel dependence in developing countries?

**Louis Taylor:** I would be surprised if we did not use it, but I cannot confirm that we do and I will write to you to confirm that.

**Chair:** That would be helpful, and we will write to DfID as well and ask them whether they use it in their advice to you on these policy issues. Thank you.

Q262 **John McNally:** I would like to move on to emissions reporting, so my questions are absolutely straightforward and I think are very simple and very clean. The first question I have to ask you is what are the projected emissions of the UKEF's portfolio and does this include Scope 3 emissions?

**Louis Taylor:** Our reporting does not include Scope 3 emissions.

Q263 **John McNally:** Why not?

**Louis Taylor:** First, there is no requirement on us to do that at the moment but, secondly, and I am not an environmental expert, the measurement of the Scope 3 emissions is not such that they have universal acceptance as a measure.

**Baroness Fairhead:** In terms of the emissions we include Scope 1 and Scope 2, which means that we include all projects where we directly support any increase in emissions or any emissions, and Scope 2 is indirectly. It is important to understand where UKEF works in the decision-making process. The decision-making process has been decided in the country in which it happens, which will be outside of the UK because it is an export market, and it is an export finance capability. That sovereign state will have decided its own emissions capability based on its commitments and there will be an investor or a project where the decision has been made to invest. We come in to help finance UK exporters to support that, so we believe currently that Scope 1 and Scope 2 is the right thing to connect with, which is what we either indirectly or directly are providing support to.

Q264 **John McNally:** You are telling me that you are moving to Scope 3 as an evolving project. Is that your destination of travel here? Certainly in the measuring of emissions Scope 1, Scope 2, Scope 3 is in the Greenhouse



Gas Protocol, so surely that must come into your considerations.

**Louis Taylor:** I think that we are certainly not going to go backwards in terms of the reporting that we do. There will be progress on environmental standards, reporting standards and a variety of other things as well. We equally have a policy that we do not go beyond the agreements that the UK signed up to that impact export credit agencies in order not to make uncompetitive UK exporters. To the extent that standards are adopted for other ECAs we would absolutely adopt them.

Q265 **John McNally:** Does UKEF publish the emissions of its portfolio at both a project and portfolio level and if not, why not? So developing the same question, there must be an ambition here to cover both and if you are spending such a vast amount of money in areas you must have some sort of mechanism to understand what the emissions are. As the Chair mentioned earlier, the threat of diesel concerns everybody here and if you cannot understand the impact that diesel might have simply because it might become cheaper to extract from the ground there has to be some consequence to that, and emissions has to be one of them.

**Louis Taylor:** We assess what the likely emissions are going to be when we undertake the environmental assessments on Category A and Category B projects that we are looking at. What we publish is more limited, but we do monitor the emissions and require reporting of the emissions to us from projects. We do not publish those numbers but we do gather the data.

**John McNally:** Would anybody else like to comment?

**Louis Taylor:** We do require projects where the projected emissions are in excess of 100,000 tonnes of CO<sub>2</sub> a year, to report those publicly.

Q266 **John McNally:** In our notes from previous evidence gathering it says, "Currently the UKEF is reporting greenhouse gas emissions from the UK and domestic travel in their annual report but do not get to publish any data on the life cycle of emissions of the projects at project level or portfolio level" and that just seems an absolutely big omission that we are not doing that and people will need to know why you are not doing that. I would like to know why you are not doing that. It seems to me a straightforward question.

**Louis Taylor:** It is a straightforward question but not a straightforward answer, which is part of the reason why it is difficult to produce the numbers that everyone would agree are on the correct basis, but the obligations of the OECD Common Approaches and the Equator Principles that apply to us do not require that reporting.

**Lord Henley:** Are you suggesting a total change in how we count emissions and whether we should be counting, for example, imported goods? To do that would in fact require a conceptual approach and international agreement and I do not think there is an international



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appetite for it, so I think it best to stick to how we are calculating at the moment.

**Baroness Fairhead:** My understanding is that since the 2008 to 2009 financial year we have reported on our website all projects that we are supporting where the operational phase emissions are calculated or estimated to exceed 25,000 tonnes of CO<sub>2</sub> equivalent. Adopting further the Equator Principles, which happened in 2016, we have also required as Louis said any sponsors of Category A projects where the emissions are over 100,000 tonnes of CO<sub>2</sub> equivalent to disclose those publicly again in the operational phase. The sum of those emissions were estimated between 2013 to 2014 and 2017 to 2018 to be 25.5 million tonnes of CO<sub>2</sub> equivalent, but in fact the actual was a little bit less, at 17.9 million tonnes.

**Louis Taylor:** Those are gross numbers. At the moment the project I mentioned in Ghana, which will remove a lot of diesel generators and replace them with gas, would net reduce the CO<sub>2</sub> emissions and the numbers that Baroness Fairhead has just given do not include the reduction of CO<sub>2</sub> that would occur from that and other projects where more efficient energy development is being used.

**Baroness Fairhead:** I think that talks to the point that we are in transition so the Ghanaian project that we have will reduce emissions and that is something that we are encouraging our own industry to do and are very pleased to support moving to gas, which as the Committee will know, in terms of emissions and the environmental situation, is better than oil.

Q267 **John McNally:** I still think there seem to be contradictory ambitions going on here. On one hand we have a measure to reduce emissions and renewable energy and on the other hand you are encouraging fossil fuel extraction. I think that is a mixed message. You have talked about Aberdeen, and I am not that familiar with the industry but I know a bit about it, and if you are telling them that they ought to manage that transition, which is understandable and probably achievable but simultaneously you are developing and supporting other projects. I think that is contradictory.

**Baroness Fairhead:** I think everyone is struggling, Mr McNally, with the challenge that even under the IPCC report there is an acknowledgement that further investment will be required in oil and gas, as we manage the transition. Therefore, that is what we are all wrestling with, but there is no question that the direction of travel is towards low carbon and renewables, but that is the challenge we are all facing.

Q268 **Chair:** Can I ask you to clarify the numbers? You gave us the numbers up to 2014.

**Baroness Fairhead:** No, between 2013 to 2014 and 2017 to 2018.

Q269 **Chair:** Okay, and you do not have for 2018 to 2019, because we have



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not closed the year yet?

**Baroness Fairhead:** Yes.

Q270 **Chair:** Okay, fine. Is there any part or wing of Government where the Scope 3 emissions calculations are used? You said it was used at the beginning since 2008 to 2009 Scope 3 greenhouse gas emissions, ie the supply chain. Is there anywhere in Government where they are used? Do either of the Ministers know?

**Baroness Fairhead:** In 2008 to 2009 it was that we were disclosing the emissions, Category A emissions over 25,000 tonnes.

Q271 **Chair:** Are they direct emissions or indirect emissions?

**Baroness Fairhead:** Scope 1 and Scope 2.

Q272 **Chair:** Scope 1 and Scope 2, but not 3?

**Baroness Fairhead:** That is right.

Q273 **Chair:** Okay, that is helpful, thank you. Is there anywhere in Government where Scope 3 is looked at, or used, or measured?

**Lord Henley:** I would have to take advice on that.

Q274 **Chair:** Thank you. It would be helpful if you could write to us.

**Lord Henley:** We will write.

Q275 **Alex Cunningham:** In the first panel session this morning two of the witnesses said there was little if any risk of stranded assets due to climate risk. Can you tell me please, I think this is for Mr Taylor, your exposure to climate risk across the entire £31 billion portfolio?

**Louis Taylor:** We do not really calculate it in terms of climate risk. We take individual credit risk decisions that consider the repayment ability of the debt we are going to be supporting over the life of that debt and we take a lot of factors into consideration including the demand for the product or for the power that is being produced by fossil fuel projects, so we make a credit risk assessment on that.

We are a member of the Equator Principles. They review their principles regularly. There is a cycle of review going on at the moment and one of the areas that the Equator Principles is looking at is whether a climate change assessment should be made of individual projects and we can inform you when that review has completed, but we are signed up to the Equator Principles.

Q276 **Alex Cunningham:** With £31 billion worth of investment there must be some projects within that that are maybe a little riskier than others. Can you tell us about them?

**Louis Taylor:** Oil refineries, for example, may fall into the category of assets that are considered potential stranded assets in the future. They



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have very long life spans, up to 40 years. Our lending to those projects can last up to 17 or 18 years, depending on the length of time of their construction period. One of the factors we take into consideration in assessing the credit risk and the demand for the product going forward is the fact that there is quite a lot of runway between 18 years and 40 years for the project to be restructured if it got into financial difficulty and because of the amount of money invested in these projects the likelihood is of upgrade to meet new demand and higher standards, rather than abandonment of projects.

While we take these absolutely into consideration we are comfortable with the way we report at the moment. The taskforce on climate finance reporting has not yet brought out any strict standards that we should report but if they do we would absolutely consider reporting those.

**Q277 Alex Cunningham:** Okay, so you are saying that you do consider the risk?

**Louis Taylor:** We consider it, but not as a separate climate change consideration. We consider the overall credit worthiness of the project we are looking to support.

**Q278 Alex Cunningham:** Are there particular countries or particular projects that are a bit more difficult than others?

**Louis Taylor:** Ghana is a difficult jurisdiction. It is a single B-rated country whereas Bahrain or Oman are also double B-rated countries, so we are looking at tricky jurisdictions but quite often the production from these projects is not going to be domestically consumed in total. Ghana is somewhat of an exception with a high proportion of domestic consumption, but there is comfort in difficult jurisdictions from the export of this product, which will generate foreign exchange earnings that will allow debt repayment to be more certain than were we to rely on local currency revenues converted into dollars.

**Q279 Alex Cunningham:** Was there something you wanted to add, Baroness?

**Baroness Fairhead:** I have been advised that the figures I gave you were Scope 3, as the Chair suggested. I will write to you with that confirmation, so they were Scope 3. The reason that there was some hesitation was that these are not UKEF numbers. These are the numbers given from the project sponsors, so they are not our numbers but I will write to clarify that.

**Q280 Chair:** It is funny, because when we met with GE beforehand they were not aware of Scope 3, and yet they are the people financing the project, so you are saying you do require Scope 3 emissions to be taken into account in individual projects? I can see your official nodding. Is that an official nod?

**Louis Taylor:** We get reporting on that, but we do not necessarily publish those numbers. In the case of GE they are the provider of the



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equipment but the obligor and the owner of the project is the Iraqi Government and it is their obligation to report to us.

Q281 **Chair:** Before you finance the project. This is at completion, is it not? This is the supply chain.

**Louis Taylor:** No, the reporting of the emissions is through the life of the project.

Q282 **Chair:** I understand that but I am asking about Scope 3, which is about the supply chain, so that is what they have told you?

**Louis Taylor:** Yes.

Q283 **Chair:** Yes, so it is used in response to my question and it has been calculated and you have the calculations?

**Baroness Fairhead:** The project owners have given their assessment.

Q284 **Chair:** Fine. Thank you. That has certainly answered my question. Do you think it is extraordinary that the Bank of England is warning of the risk of stranded assets and climate risk and your Department, Lord Henley, is working on green finance with the Treasury, and yet the Department for International Trade UKEF arm is not subject to the same policy imperatives that you are asking businesses outside—and hopefully Government—to achieve? A systematic analysis of climate risk in your projects and your portfolio is what we have asked the pension funds to do. We have changed the FCA and the FRC and the Pensions Regulator. We have changed those things on the back of this Committee's report and yet the Government have not changed their own methodologies. Is that not a policy inconsistency?

**Louis Taylor:** The policy stated for UKEF is that we will follow the international agreements that apply to export credit agencies, but we need to have regard to the competitiveness of UK exporters relative to others because we are there to level the playing field.

Q285 **Chair:** You have said that several times. Ministers, do you not see it as a policy inconsistency?

**Lord Henley:** I do not quite follow you as to what exactly is this inconsistency.

Q286 **Chair:** The risk to investments that institutions, pension funds, asset managers, City of London is investing in from the physical, transition and liability risks of climate change should be taken into account in portfolio management and decision-making. We are changing policy for the financial regulators in this country. Is it not a policy anomaly that you as Ministers are not changing Government policy?

**Baroness Fairhead:** My assessment would be that we have our own risk assessment. If the point being referred to is the risk of a stranded asset, which is the aim of the Bank of England and the policy changes—



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Q287 **Chair:** No, there is the physical risk, which is the oil refinery being destroyed by rising seas. There is a liability risk, which is the people losing their homes because of sea levels rising and suing you for financing projects that directly contribute to climate change. Those are in the wide basket of risk.

**Baroness Fairhead:** As Louis articulated, every project we look at on a case-by-case basis. The risk of having a stranded asset, the risk of having an impact on the local area and the biodiversity are all risks that we take into account. If you look at the annual report and accounts, that will talk about an airport in Uganda or building bridges in Sri Lanka, which we supported. We look at the biodiversity impact and assess those risks. There is obviously the Bank of England requirement against those regulated bodies, but in terms of our risk assessment, we would take into account the risks. The stranding of an asset is equally a risk that we would assess in other industries, too, based on equipment becoming obsolete, for example. Those are risks that we would take into account on a case-by-case basis.

Q288 **Caroline Lucas:** I was looking at UKEF's ESHR policy and the words "climate change" do not appear in it once. Is that a source of concern?

**Baroness Fairhead:** The ESHR policy is that we comply rigorously with the Equator Principles, which, as you of all members will be aware, has climate change as one of the elements.

Q289 **Caroline Lucas:** I am suggesting that it should be in your own policy documents. Isn't it rather strange that it is not?

**Baroness Fairhead:** Because I see the practice and we are compliant and we do assess ourselves rigorously against those standards, my assumption is that it is taken into account. But I will hand that to Louis because it is a fair challenge.

**Louis Taylor:** It is a similar answer to the previous question, Chair. We may not package it up as a climate change assessment but the factors you have mentioned are all accounted for in the overall credit risk assessment that we take.

Q290 **Caroline Lucas:** It would give a lot more reassurance to people looking from the outside in. When so many other Departments of Government and so many other ECAs themselves have a climate change policy, that rather than just having to take your word for it that as you go through it you are looking at the different documents that are there, if you were to have a rigorous climate change policy, it would give reassurance to a lot of people.

Going back to something you said quite a long time ago in response to the question about which was the biggest in terms of size of investment this year, you talked about £700 million going to an oil refinery in Oman. How is that remotely consistent with the Paris climate commitments we have and how does that help a transition?



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**Louis Taylor:** As Baroness Fairhead has mentioned, the IPCC 1.5-degree report acknowledges that foreseeably oil and gas are going to be part of the mix—

Q291 **Caroline Lucas:** The IPCC report says we have to halve global climate emissions by around 2030. How is that consistent? What is the life of an oil refinery in Oman?

**Louis Taylor:** The life of an oil refinery could be up to 40 years.

Q292 **Caroline Lucas:** How is that consistent with a transition to far less carbon—

**Louis Taylor:** Because even the IPCC acknowledges the need for new investment in oil and gas and fossil fuels.

Q293 **Caroline Lucas:** Not over 40 years it certainly does not. It really does not. We have to be net zero by 2050. If UKEF is going around investing in heavy fossil fuels—not even gas, but oil—that has a lifetime of at least 40 years, then you can do the maths as well as I can. How does that add up to transition?

**Louis Taylor:** It does not preclude the production of other sources of energy and—

Q294 **Caroline Lucas:** With respect, that is an extraordinarily weak answer. Of course it does not preclude it, but it does not matter whether it precludes it. If it is generating and in operation using oil as a fuel source, it does not matter what other fuel sources are out there. The impact on climate emissions is still coming from that plant in Oman that you are funding.

**Louis Taylor:** As I have said before, the mandate for UKEF's statutory purpose is what it is and—

Q295 **Caroline Lucas:** Do you think it needs to change?

**Louis Taylor:** That is not a matter for me.

Q296 **Caroline Lucas:** I will ask the Ministers. Do you think that the statutory purposes of UKEF need to be revised? I am taking your argument here that you cannot make the kinds of decisions that we would like—or some of us would like—in terms of ruling out certain investments because you have said that that would be against the law. We have had some legal evidence that suggests that is not the case. But even if it were the case, even if it were against your statutory guidelines, should those not be revised in light of things like the Paris Climate Agreement?

**Baroness Fairhead:** When there is multilateral agreement like on coal-fired power stations, we will agree with those policies and conform with those policies. It goes back to a bigger issue of the industrial base of this country where we have 300,000 jobs relying on oil and gas and they need to have continued business to provide the funding to have the investment in renewables and that transition.



Q297 **Caroline Lucas:** That argument has been so categorically destroyed. Your argument essentially is that for the next decades we are simply going to continue with business as usual when organisations like the IPCC are pretty much talking about a climate emergency and when we have David Attenborough saying that if we do not act in the 12 years, we might not have the opportunity to get off the collision course we are on to climate catastrophe. I recognise that those people in those jobs absolutely need to have reassurance and support to transition into other jobs, but I do not see any evidence anywhere that that support and that green transition is happening to ensure these workers are being reskilled to enable them to work in a greener economy, which after all is far more labour-intensive. I do not see how that transition is happening.

**Lord Henley:** I go back to our domestic policy. You do not accept that we are not making progress. We are making progress.

Q298 **Caroline Lucas:** Not fast enough.

**Lord Henley:** You may say it is not fast enough and David Attenborough may say it is not fast enough.

Q299 **Caroline Lucas:** Science says it is not fast enough.

**Lord Henley:** David Attenborough is not the be all and end all in these matters. We listen to what the IPCC says, we have taken note of it and we want to try to meet those targets. That is why we have set out those targets in the various carbon budgets. You claim that we are not going to meet them. We have already overshot on the first and we are heading towards meeting the second and third.

Q300 **Caroline Lucas:** How are investments in Oman and Bahrain in oil refineries that are going to last for at least 40 years compatible with this new reality, which you say you are taking note of, post the Paris IPCC reports?

**Lord Henley:** Both in this country and throughout the world, oil and gas are going to remain part of—

Q301 **Caroline Lucas:** We are talking about oil specifically here just now. Let us keep on oil. I will take your points on oil and gas.

**Lord Henley:** They are both hydrocarbons and are going to remain part of the fuel mix. Everyone accepts that. We want to see that come down. But reducing it as fast as you say risks disrupting not only our own economy here—and I am very grateful to Baroness Fairhead for what she said about the number of jobs that are involved—but also—

Q302 **Caroline Lucas:** Your economy depends on there being a sustainable planet on which that economy can be based. I do not see any understanding from you—

**Lord Henley:** I agree with you. Where we disagree is on the speed with which we aim to go to that. We have set our targets and we will continue to try to meet those and I am sure we will. I am an optimist in these



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matters. I suspect you are more of an Eeyore when it comes to these things. We will continue to try to meet those and that will involve—

Q303 **Caroline Lucas:** It is much more than trying to meet those. The planet does not think, “That is fine because the Minister tried to meet the targets”. The planet and climate emissions are pretty unforgiving when it comes to what is permissible in terms of what will trigger runaway climate change and what will not. Although we do not know the exact answer to that, we do know that if we continue to invest in projects like an oil refinery in Bahrain for the next 40 years, by which time we have to be net zero, that is not going to compute to being a climate leader. Let us not forget that all of this is happening in the context of Britain positioning itself as a global leader on climate change.

**Lord Henley:** This is possibly where there is a fundamental disagreement between us. My view is that disrupting not only the UK economy but the worldwide economy is going to make it harder to meet those climate change targets. We want to have a good economy and a strong economy. We want to continue to grow. That is why we boast of the fact that—throughout Conservative, Labour and Coalition Governments since 1990 and since the Climate Act in 2008—we have seen a reduction in our carbon footprint—and quite a serious one—while also seeing the economy grow. It is ensuring that the economy grows—

Q304 **Caroline Lucas:** That is the point that we are not seeing globally. Lord Henley, just a last point, though. Seriously, no one is disputing that we have made some progress domestically. We are saying that there is a huge disconnect between what we are doing domestically and the role we are playing globally, specifically the role that UKEF is playing globally when it is locking in fossil fuel investments for decades to come in some of the poorest countries.

**Lord Henley:** If I could speak for BEIS, if you are saying that there is a disconnect between us and my colleagues in the Department for International Trade, I do not agree because what we are saying about the UK economy applies to the world economy. We do not want to see that disrupted.

Q305 **Caroline Lucas:** We will agree to disagree.

**Baroness Fairhead:** I would just add that, yes, UKEF is helping to support some projects in oil and gas, but it is 0.02% of the global investment. We are in supporting investment in Ghana moving to more sustainable fossil fuels and we do take a leadership role. UKEF has been asked to join the Council for the Equator Principles. We are seen as having a leadership role

The challenge is a challenge facing us all as we transition. Given that we are at 0.02%, if we were not there, do we think that those would not get financed?

Q306 **Caroline Lucas:** That is not a moral argument of any kind. Plus, if you



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look at those middle-income countries that Kerry was talking about earlier, around 99% of your investments were going into fossil fuels. You can give that global figure and, yes, that makes it look very small. But we have a moral responsibility to show climate leadership. We keep saying that and yet—I can find this figure in just a second—about 99% of our support in the energy world in middle-income countries is going to fossil fuels.

**Louis Taylor:** That would be 99% of our energy investments, which are only 11% of our overall portfolio.

Q307 **Chair:** Can I bring it back to the assumptions and principles that you are using? Your biggest investment this year, you have told the Committee, is this oil refinery.

**Louis Taylor:** In energy, yes.

Q308 **Chair:** In energy. That is £700 million, did you say?

**Louis Taylor:** Yes.

Q309 **Chair:** You say you are exposed for 18 years on that project?

**Louis Taylor:** Up to 18 years, yes.

Q310 **Chair:** That takes us to 2038. We had Professor Jim Skea in to see us—not David Attenborough, sadly—who is on the IPCC and who said that all of the policy assumptions that are being made by the IPCC are done pretty much on a political basis for what politicians are able to take on board, analyse, manage and deal with. But he thinks that they are overoptimistic about the future technologies around carbon capture and storage, which you will need in your refinery to mitigate those climate impacts that it is undoubtedly going to have. It is not going to be up and running for two or three years.

If you are going to mitigate your risk over the next 18 years, is there anything in the contract about CCS or about rising sea levels in the Gulf and how they could impact on your investment? What assumptions have you made when you have taken into account climate risk?

**Louis Taylor:** We have construction consultants who are involved as part of our team and as part of the advisory group to the multiple ECAs who are involved in that transaction. We are not alone in this transaction by any means. They will absolutely have taken into account rising sea levels and other elements of climate change.

Q311 **Chair:** I am asking you, not them.

**Louis Taylor:** We rely on their reports. We commission and rely to an extent on their technical reports and we then take a commercial view on the creditworthiness of the overall project from a variety of different perspectives.

Q312 **Chair:** You are relying on construction people to give you your climate



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risk?

**Louis Taylor:** Construction, environmental, engineering consultants. A big project like that has a raft of different professional consultancies looking at different aspects and all of those will be taken into account.

Q313 **Chair:** Could you possibly share with the Committee the climate change risk that you have had on both the GE project and this new oil refinery?

**Louis Taylor:** Chair, we can pull together the elements that we would consider part of an overall climate change agenda, but we do not specifically package it up ourselves as a climate change assessment.

Q314 **Chair:** It would be helpful for the Committee to see what assumptions you are relying on in terms of the climate risks to your project for us to formulate our policy responses.

**Louis Taylor:** While I accept that this is quite a long-lived asset and a lot of the arguments that have been made, it is a new refinery with the best available technology. It meets all the standards—and we are diligent about this—of the Common Approaches and the Equator Principles.

Q315 **Chair:** As a Committee, we have noted the fact that the amount of money given out by UKEF between 2010 and 2016 is £4.8 billion of support for fossil fuels. The DfID, which you use to advise you on some of these things but not on the carbon lock-in toolkit, is a contributor to the United Nations International Climate Fund. In the same period it donated £4.9 billion to that fund. One arm of the Government is giving money to lock in fossil fuels while the other arm of the Government, DfID, is giving money to mitigate against that. Do you see any parody or anomaly in that, Minister Fairhead?

**Baroness Fairhead:** It goes back to the transition issue. I can understand how you are saying it is £5 billion one way and £5 billion the other way. It goes to the bigger picture of transition that we are all fighting to help change, but in sensible way given the industrial base of our country and with some very clear principles. I cannot stress enough how rigorously we apply the Equator Principles and the Common Approaches. These issues are taken into account. Ghana was a really positive project because it moved from oil to gas. It is a bit simplistic to say £5 billion and £5 billion, although I can see optically it looks as if it is completely counterintuitive.

Q316 **Chair:** Are there any investments where UKEF has lost money or not had a return or bad debts?

**Louis Taylor:** Our default pay-outs have been less than 0.037% of our portfolio.

Q317 **Chair:** What is that in cash terms?

**Louis Taylor:** We have paid out £1 for every £2,361 of cover that we have given, whereas we charge for the risk that we cover and we have given back to the Treasury around £500 million in the last five years and



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almost £1 billion in the last 10 years. We are mandated to operate at zero net cost. We price for risk. Our rate call upon that has been very positive.

Q318 **Chair:** Could you send the Committee a list of the projects that have failed or not returned that investment?

**Louis Taylor:** I am sure we could.

Q319 **Chair:** That would be helpful, just for us to get a flavour.

**Louis Taylor:** Fossil fuels is not a big area.

Q320 **Alex Sobel:** Moving on to transparency now in terms of UKEF's reporting, Louis, would UKEF consider reporting its support levels according to both its own and other popular definitions of subsidies?

**Louis Taylor:** We do not believe we are a subsidy at all. We price for the risk that we take on and charge for that. There are many ways that people look at subsidies. I know the way that the British Government looks at them is different from some others and they do not agree, but with the way the Government looks at this we do not represent a subsidy. The WTO has an exception for export credit agencies that more than cover their costs of operation, which we absolutely do. In the end, I look to the long track record of cash generation that UKEF has represented as demonstrating that we are not a subsidy. We are a net contributor to the Treasury and we are not giving grants to anybody.

Q321 **Alex Sobel:** Last year the OECD published its Companion to the Inventory of Support Measures for Fossil Fuels using a credit rating-based approach. The report offers a practical strategy on how to quantify the support elements of Government credit assistance to fossil fuel-related projects. Have you considered the OECD's guidance and are you intending to implement it?

**Louis Taylor:** We are well aware of the OECD's guidance. To some extent, we are willing to look at the adoption of it. However, a lot of it is quite theoretical with capital asset pricing model variations and the assumptions involved in all of that. As I say, if you look at the cash track record, we feel that is a better mechanism for us assessing the performance we have given.

Q322 **Alex Sobel:** That would not weight it in relation to fossil fuels?

**Louis Taylor:** We can isolate the premium we have received on fossil fuel projects versus the pay-outs we have made and the level of subsidy we have been giving. We can do that and we do.

Q323 **Alex Sobel:** Would you be willing to publish that publicly?

**Louis Taylor:** We publish the losses that we make and we publish the premium that we take in, not specific to each individual project because there is an element of commercial confidentiality, but we are regulated by a Treasury consent that requires us to demonstrate that we have priced



for risk; that is that the premium we receive is at least 1.35 times the calculated cost of the risk that we are taking on. That extra 0.35 is to cover the administrative costs of running the Department, hence meeting the OECD and WTO obligation to operate in a way that covers our costs.

Q324 **Alex Sobel:** Do you agree that, Baroness Fairhead, that it would be useful to see this in the context of both fossil fuels and renewable projects rather than in isolation?

**Baroness Fairhead:** We would not have an issue. We have to report both the losses by sector and the premiums returned by sector. If that is helpful, we can share those with you.

Q325 **Alex Sobel:** In the energy sector, we could do that?

**Baroness Fairhead:** Our view is that it is hard to say it is a subsidy, not even under the OECD definition, we believe, given that, as Louis said, we are required to provide support but at no net cost to the taxpayer. Our track record has been very strong. £500 million returned would be a strange subsidy, but we would be happy to share it by sector. We cannot do it, as I hope you understand, on a project basis because of the commercial confidentiality.

Q326 **Chair:** Thank you all very much indeed for your time this morning. It has been a very interesting and enlightening session. That concludes our inquiry into UK Export Finance.

I welcome our colleagues from the Government of Jersey. I am sure you were listening with great interest to what we had to say on that.

We look forward to publishing our report in the late spring. Thank you all very much indeed.