



UK Export
Finance

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Rt Hon Philip Dunne MP
Chairman of the Environmental Audit Committee
House of Commons
London
SW1A 0AA

16th December 2020

Dear Mr Dunne,

Thank you for your letter of 20th November 2020 in which the Committee asked for the following information:

1. What procedures are in place to ensure that companies who enter into agreements with UKEF comply with their requirements, particularly those on the percentage of UK content in the supply chain?
2. Has UKEF conducted any follow up with ENKA UK on the commitments which formed part of its agreement with UKEF?
3. Is UKEF aware of ENKA UK having employed any local hires as a result of establishing an office in the UK?
4. What proportion of the goods and services that constitute the wider procurement chain for this project have been sourced from UK companies?

Please find below a response to the questions raised in relation to UKEF's support to ENKA UK and the procedures relating to UK content.

UKEF procedures – UK content

All exporters must complete and sign an application form which sets out the details of UK content. Furthermore, the exporter must enter into an "Exporter Agreement" with UKEF in which the exporter represents (a representation that repeats over time) that they are in compliance with UKEF's content requirements. The Exporter Agreement is entered into as a condition to support and before any funds are disbursed. UKEF's template Exporter Agreement requires that any change to the contract which would increase the "non-UK supplies limit" (ie, overseas content) must be approved by UKEF. The Exporter Agreement also includes the right to conduct an audit by UKEF of the relevant exporter, which incentivises exporters to report accurately and enables UKEF to satisfy itself that the requirements are being followed.

In addition, UKEF works with an agent bank to administer the loans on UKEF's behalf. Each drawing of funds is certified by the exporter and includes a confirmation that the "non-UK supplies limit" has not been exceeded.

ENKA UK – UK content

Based on the information provided in the application form, the "non-UK supplies limit" was set at 66% in the Samawa and Dhi Qar Power Plant projects. By including this limit, UKEF aims to ensure that UK content in the contract remains at least 34% during the tenor of the loan.

UKEF's support for the project was predicated upon ENKA procuring from the UK supply chain in line with the non-UK supplies limit set in the Exporter Agreement, rather than investing into UK operations. We are aware of ENKA's intent to set up operations in the UK and to make local hires (ENKA have informed us that 12 staff were hired in their Birmingham office to work on procurement but this is now down to 4 as procurement has ended). We will continue to support their efforts to expand their UK operations in any future project they consider.

I can confirm that UKEF has not conducted an audit of ENKA UK in relation to this project and would not normally do so in a case like this unless there was a particular cause for concern (eg, it has come to light, or is alleged, that the information being provided is not correct). The drawings continue to be made through the agent bank and we are not aware of any delays or issues with the project. Certifications are being provided as expected. As of today's date, ENKA have confirmed that US\$275.2 million has been procured from the UK for the Samawa and Dhi Qar projects which represents 41% of UK content.

Finally, I would like to take this opportunity to clarify that the reference to "phase 2" in ENKA UK's 2019 accounts is to the upgrade of the two power plants to combined cycle (which UKEF is not supporting) with phase 1 being the construction of the two simple cycle power plants that UKEF did support. ENKA UK and General Electric use the term "phase 2" in different contexts. In the evidence provided by General Electric the reference to "phase 1" and "phase 2" was in relation to the financing of the early stage works and the financing of the construction of the two simple cycle power plants which in combination relate to "phase 1" in ENKA's terminology.

I hope that this additional information proves useful to the Committee.

Yours sincerely



Louis Taylor
Chief Executive
UK Export Finance