

UKEF Submission to the International Trade Committee Inquiry into Trade and the Environment

Executive Summary

1. As the United Kingdom's export credit agency (ECA), UK Export Finance (UKEF) has a mission to ensure that no viable UK export fails for lack of finance or insurance, while operating at no net cost to the taxpayer. It is the oldest ECA in the world, and has been fulfilling that mission for more than a century by providing UK companies with finance and insurance to help them win, fulfil, and receive payment for international business where gaps arise in private sector provision.
2. The UK was the first country in the world to legislate net zero in 2019 and UKEF was the first ECA to end its support for overseas fossil fuel projects, with effect from 31 March 2021.
3. UKEF doubled its support for green and sustainable projects to £2.4 billion in 2020 – ranking second among ECAs around the world¹. These projects included financing for two offshore wind farms in Taiwan, two of Spain's largest solar power plants and a solar-powered clean water project in Ghana that will deliver 5 litres of water a day to 225,000 people for less than a quarter of a penny each.
4. In our ambitious Climate Strategy published in September 2021, UKEF announced one of the most far-reaching decarbonisation programmes of any ECA in the world – committing to achieving net-zero by 2050 and to setting interim decarbonisation targets for the nearer term.
5. To serve the needs of UK exporters more effectively, including those in the green economy, UKEF is continually reviewing and upgrading its range of financial support products. Most recently, it has introduced new 'gamechanging' products, the Export Development Guarantee (EDG) and the General Export Facility (GEF), which give companies vital financial backing for their general financing needs, not only those linked to specific contracts.
6. UKEF has further developed variants of these new products to encourage greater use for clean and green purposes. In the Export Strategy, UKEF backed green economy exporters by offering extended payment terms on their EDG facilities. UKEF also expanded eligibility for the EDG to companies that do not currently export from the UK to establish themselves here through investment and to sell their goods and services overseas.
7. UKEF is helping companies transition away from fossil fuels, enabling this key sector to build back greener. Our Transition Export Development Guarantee (TEDG), launched in March 2021 supports UK companies actively working to transition their business away from fossil fuels.
8. This offer for clean growth exporters is integrated into the delivery of the government's Ten Point Plan for a Green Industrial Revolution.
9. Internationally, UNCTAD believes achieving the Sustainable Development Goals will require additional investment of \$2.5trn each year to 2030, 40% of which will fund infrastructure, and the global infrastructure market was worth \$9trn in 2019, with one third awarded to international contractors. This presents a significant commercial

¹ Assessed independently by TXF.

opportunity for UK companies, and UKEF's overseas buyer finance products – guarantees and direct lending – present an attractive source of finance to sovereign and private sector buyers. As part of this offer, UKEF has a dedicated £2 billion clean growth direct lending facility and can offer long-dated financing (up to 18 years for renewable energy projects).

10. At the same time, there is currently considerable liquidity with a mandate to invest in developing market green projects. This amounted to over USD 100 trillion in assets in 2019 in OECD countries alone, and institutional investors potentially represent a major source of long-term financing to support sustainable growth in developing countries,² provided these opportunities are made “bankable”. The relatively cautious risk appetite behind a lot of Green Finance means the available supply of “bankable” green projects is more limited. UKEF is working on how it can take on more select elements of project risk (such as: first loss guarantees, or guarantees on power purchase agreements) that can have a catalysing effect on the private sector providers of Green Finance, encouraging them to “crowd in” to de-risked projects.
11. UKEF is actively directing its marketing and business development activities towards green projects including clean growth, energy transition and renewable energy. Our business origination objective is to have at least half of our future new business pipeline to be in green and clean growth sectors over time. We no longer spend any time on marketing or developing new fossil fuel projects.
12. UKEF also works closely across government departments and arm's length bodies when developing policy, to ensure its approach remains consistent with the government's wider environmental goals.
13. UKEF continues in its commitment to consider climate change across all transactions, in addition to the ESHR considerations that we take account of in medium- to long-term civil, infrastructure and energy transactions through adherence to the OECD Common Approaches and the Equator Principles.
14. In June 2021, UKEF became the first UK government department to make financial disclosures in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). Last year's mainly qualitative disclosures will this year be augmented with more quantitative disclosures, which themselves will continue to be developed in line with market practice over coming years.
15. Following the UK's exit from the EU, the UK took up a place in its own right at the OECD, where export credits are regulated. This enabled UKEF to take the lead in the run up to COP26 in negotiating a multilateral agreement at the OECD to update the Sector Understanding on Coal-Fired Power, thereby ending ECA support for unabated coal-fired power. UKEF also led (with the COP26 Unit of the Cabinet Office) negotiations at COP26 that saw 34 countries (including six of the G7) and 5 public finance institutions signing a joint statement on aligning future international public finance with the clean energy transition from 2022, thereby bringing major partners towards the UK government's fossil fuel policy.
16. UKEF notes that in the report of its recent Inquiry into *The Work of UKEF*, the International Trade Committee offered a suite of recommendations, including three² that

² The recommendations were as follows:

Recommendation 1: That UKEF provides ‘an update on the work of the clean industries team in September 2022, including its progress in reaching and providing specialist support to more companies that export renewables technologies and their supply chains’.

related to environmental issues. UKEF will provide formal responses about its progress on these recommendations separately, in accordance with the timetable set by the Committee, although the submission below includes useful updates.

17. UKEF looks forward to contributing further to the Committee's Inquiry, and to seeing conclusions that it draws and the recommendations it proposes.

UKEF and the government's net zero ambition

18. UKEF is the UK's export credit agency and a government department, strategically and operationally aligned with the Department for International Trade. As a government department, whilst fulfilling its statutory purpose, it also works closely with other departments and arm's-length bodies to develop and implement government policy. In providing its support, it also takes account of factors beyond the purely financial, including relevant government policies relating to, for example, environmental, social and human rights impacts and climate change.
19. The government's wider environment and climate change goals are set out in a combination of legislation and policy documents. These include, but are not limited to: the Climate Change Act 2008 and its enacting secondary legislation; the Environment Act 2021 and its enacting secondary legislation; the Net Zero Strategy: Build Back Greener; the 2019 Green Finance Strategy; the 25 Year Environment Plan, and The Ten Point Plan for a Green Industrial Revolution, along with other sectoral-focused policy documents.
20. In September 2021, UKEF published its Climate Change Strategy, covering the period 2021-2024 to align with the department's current business planning cycle. With the publication of this Strategy, UKEF became the second ECA in the world to commit **to achieving net zero greenhouse gas emissions across its portfolio and operations by 2050**, continuing its record of being in the global vanguard in this field. This is consistent with, though separate in scope to, the government's commitment to reduce the UK's domestic emissions to net zero by 2050.
21. UKEF will shortly publish specific interim decarbonisation targets, in order to remain fully accountable throughout its journey to net-zero.
22. UKEF's Climate Strategy is based on five pillars:
 - i. **Increasing support to clean growth and climate adaptation.** UKEF will increase its support for the clean growth, climate adaptation and resilience sectors, supporting global mitigation and adaptation efforts.
 - ii. **Reducing greenhouse gas emissions across UKEF's portfolio.** UKEF will build understanding of the greenhouse gas emissions impact of its support and set interim targets to ensure it is on track to reach net zero portfolio GHG emissions by 2050.

Recommendation 2: That UKEF considers 'how it can further contribute to meeting the UK's net zero emissions target by 2030 and ask that it share the outcomes of this consideration with us by the end of March 2022.'

Recommendation 3: That following its first climate-related financial disclosure, UKEF provides 'more information about the projects it supports through a full quantitative disclosure and scenario analysis in its next Annual Report and Accounts.'

- iii. **Understanding and mitigating our climate-related financial risks.** UKEF will assess the potential for climate-related financial risks within the existing portfolio and from new deals, and will take actions to mitigate these risks.
- iv. **Transparency and disclosure.** UKEF will report against its climate-related commitments, enabling its stakeholders to monitor our progress.
- v. **Providing international leadership on climate change amongst other export credit agencies (ECAs) and relevant financial institutions.** UKEF will encourage peers to follow its lead in setting stretching climate ambitions, raising the bar for export finance internationally.

UKEF's Climate Strategy provides a framework to understand its activities and impact in delivering the government's wider climate change goals:

i. Increasing support to clean growth and climate adaptation.

23. UKEF is uniquely placed to support UK exporters to take advantage of opportunities in global markets in low carbon and clean growth technologies and services. UKEF has a track record of innovation, making changes to its offering to adapt to the needs of exporters and the priorities of government, and is deploying this approach to boost its support of clean growth exports. UKEF keeps its product offer to support clean growth under close and regular review.
24. For example, in 2020 UKEF introduced a £2 billion direct lending facility dedicated to financing clean growth projects overseas. UKEF has aligned its definition of 'clean growth' with the Green Bond Principles. Prospective transactions are considered on a case-by-case basis. Under the Green Bond Principles, the following types of projects are eligible for the clean growth direct lending facility:
- a. Renewable energy
 - b. Energy efficiency
 - c. Pollution prevention and control
 - d. Environmentally sustainable management of living natural resources and land use
 - e. Terrestrial and aquatic biodiversity conservation
 - f. Clean transportation
 - g. Sustainable water and wastewater management
 - h. Climate change adaptation
 - i. Eco-efficient and/or circular economy adapted products, production technologies and processes
 - j. Green buildings
25. At present UKEF has provisionally allocated £1.2bn of the facility to projects which satisfy the eligibility criteria listed above. Projects already supported include a €102 million loan for over 700 solar-powered water pumps to provide clean water to communities in Ghana and £31 million for a state-of-the-art Green Building in the UAE. Further details of future projects in the pipeline are commercially sensitive and will be provided as and when UKEF support is given.
26. While direct lending is the most competitive support UKEF can provide for overseas buyers, this sits alongside UKEF's existing guarantee offering, which provides an alternative and attractive offer for clean growth projects by de-risking projects in order to crowd in private sector finance. Recent examples include £217 million worth of government backing for Turkey's largest solar facility. This will power approximately 2 million households when constructed and prevent around 1.1 million tons of carbon emissions annually once fully operational. UKEF provides favourable financing terms for

renewable energy projects and can give overseas renewable projects repayment periods of up to 18 years, nearly double the 10-year term of most loans under OECD rules.

27. UKEF is also continuing to seek ways of increasing and improving its support for clean growth projects overseas, particularly through taking on the specific risks that inhibit private sector participation, thereby enabling more projects with increased levels of UK content.
28. UKEF can also finance major domestic investments in capacity to produce clean and green goods and services through its Export Development Guarantee (EDG) product. The EDG provides a guarantee of up to 80% to support bank loans of more than £25 million for general working capital or capital expenditure requirements. It is already helping support energy transition in the automotive industry, enabling UKEF to guarantee over £2 billion of loans to the UK operations of Ford, Nissan and Jaguar Land Rover to help finance their transition to electric vehicles. Through its more standardised General Export Facility, UKEF can offer similar support to smaller exporters for loans up to £25 million.
29. In December 2020, UKEF supported its first Sustainability Linked Loan (SLL) through its EDG product, a £2 billion loan to British Airways. This loan has a variable interest margin, with the interest paid going up or down based on BA's achievement of agreed climate-related targets. The SLL is designated by the lender (rather than UKEF). However, UKEF expects Sustainability Performance Targets agreed for SLL loans to be assessed by an independent third-party consultant.
30. In November 2021, the government's Export Strategy announced an enhancement to UKEF's EDG product for clean growth exporters, to allow them to benefit from extended repayment terms. Exporters of clean growth technology and services can now be offered repayment terms of up to 10 years, rather than the typical 5 years. The EDG's eligibility criteria were also widened, allowing UKEF to support investments into the UK (including foreign direct investment) which would lead to future export activities, which will be particularly relevant for high-growth emerging sectors and technologies such as clean growth.
31. UKEF's support for domestic exporters is augmented by the Transition Export Development Guarantee (TEDG) product. The TEDG is specifically designed for UK companies actively working to transition their business away from fossil fuels, and was announced in March 2021 as part of the government's response to the consultation on 'aligning UK international support for the clean energy transition'. Applicants must demonstrate a credible energy transition plan, which is independently assessed and monitored through the life of UKEF support. The product incentivises transition through a variable interest rate which increases or decreases based on whether the company meets pre-agreed milestones. UKEF's first TEDG supported a £430 million loan to Wood Group in August 2021, to allow them to capitalise on emerging green opportunities.
32. Each of these product developments will help to build the UK supply chain in clean and green goods and services. For UKEF, we can only support overseas projects if there is UK content in them, and we are keen to play our part in ensuring the UK's clean and green supply chain is comprehensive and competitive. If there is no exporting supply chain, we cannot offer support. Our activities in the automotive space are an example where UKEF has helped build-up the UK's clean vehicle capabilities. Many future new net zero technologies will be conceived in the UK, and UKEF can play a big part in ensuring that they are also commercialised in the UK, and sold to the world, the latter being an imperative given that Net Zero is a global undertaking.

Cross-government work on clean growth exports

33. UKEF regularly works with other government departments and public sector bodies to ensure its offer for clean growth exports is well understood and promoted within cross government plans and strategies.
34. UKEF works closely with the Cabinet Office, FCDO, DIT and BEIS to support the COP Unit in implementation of HMG COP26 policy objectives. The UKEF offer for clean growth exporters is integrated into the delivery of the Ten Point Plan for a Green Industrial Revolution. UKEF also continues to work alongside DIT, BEIS and HMT to develop an 'innovation to export pathway' (as part of the implementation of the Innovation and Export Strategies) that will support business to consider supply chain development, finance requirements and export potential as an integral part of the innovation process.
35. On the international platform, UKEF is a core pillar of the UK's Build Back Better World toolkit, sitting alongside ODA funding and British International Investment, the UK government's development finance institution, as part of the UK government financing offer for renewable energy and sustainable infrastructure in developing countries. As part of this, UKEF is working with the FCDO to develop and roll out the new British Support for Infrastructure Programme, which will help low income and lower-middle income countries to prepare, procure and finance high-quality, developmental public infrastructure projects that require funding support. BSIP will combine UK aid with commercially-priced finance, such as ECA financing from UKEF, helping to level out the playing field with other countries' tied concessional finance offers.

Finding clean growth opportunities

36. UKEF actively seeks out clean growth opportunities overseas through the work of its marketing and business origination functions. UKEF has experts across the UK and overseas specifically focusing on identifying and supporting UK clean growth exports. Our business origination objective is to have at least half of our future new business pipeline made up of green and clean growth sectors over time.
37. UKEF has a dedicated Renewables and Transition (R&T) underwriting team of 22 members of staff, which was announced by the then Minister for Exports, Graham Stuart MP, in his appearance before the ITC on 23 June 2021. The R&T Team supports the growing renewable and clean energy business, including established wind and solar renewables sectors alongside the developing sectors from hydrogen to tidal and many others. It is also responsible for grid enhancement, critical to energy transition, as well as providing support to those exporters in their transition phase.
38. As the profile of UKEF's role has increased, the R&T team is now in the detailed due diligence phase of progressing 7 transactions in renewables sectors, for which the value of UKEF support is expected to total well over £1 billion. Many other transactions are in earlier stages of consideration. UKEF is not able to disclose details of transactions prior to underwriting due to considerations of commercial confidentiality.

ii. Reducing greenhouse gas emissions across UKEF's portfolio

39. UKEF is committed to reducing its emissions to net zero across both its operations and its portfolio by 2050, which reflects the government's net zero commitment, but is different in scope. Understanding and mitigating UKEF's climate-related financial risks, and working proactively with partners across the finance sector to do so, will contribute towards this objective (see next section).
40. UKEF will also shortly publish specific interim decarbonisation targets, to ensure the department remains on track to reach net-zero by 2050. Over this period, it will be seeking significant reductions in greenhouse gas emissions (GHG). These interim decarbonisation targets will be developed through an understanding of emissions associated with its portfolio which will increase in sophistication over time, subject to data availability.
41. Wider government policy is aligned with this journey towards achieving net zero. For example, since 31 March 2021, the government no longer provides support for new fossil fuel energy sector projects overseas other than in exceptional circumstances. UKEF is implementing the government's policy on the fossil fuel energy sector alongside all other relevant government departments. UKEF's implementation of this policy will help it in reducing its portfolio emissions.

iii. Understanding and mitigating our climate-related financial risks.

42. UKEF considers climate change across its product range and is continuing to develop its approach towards taking account of climate change when making decisions, including those relating to credit risk and to the provision of our support.
43. Risk management has been a core capability of UKEF for more than 100 years. UKEF is now broadening and deepening its approach to risk management in order to understand and respond to the financial risk that climate change poses to the global economy, our portfolio and therefore to the UK taxpayer. UKEF is further developing its understanding of climate risk as part of its implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This includes the impact of physical and transition climate risks on its portfolio of support and in its decision-making in relation to new support.
44. In addition to its consideration of the risks posed by climate change, UKEF is also committed to high standards of environmental, social and human rights risk management. It rigorously follows the OECD Common Approaches³ and Equator Principles⁴, which together set the multilateral framework for export credit agencies and banks in mitigating project-related risks associated with these transactions.
45. When considering a request for support, UKEF undertakes appropriate due diligence, including environmental, social, and human rights (ESHR) due diligence and consideration of climate change, to understand the ESHR risk it is being asked to take in line with its published ESHR Policy. UKEF's Environmental and Social (E&S) Team identifies ESHR risks and carries out due diligence in relation to projects to be satisfied they comply with applicable local and relevant international laws, and align with international ESHR standards, prior to providing support. The E&S Team also monitors ESHR performance of projects, where UKEF support is provided, to be satisfied of projects' continued alignment to ESHR standards during construction and operations, for the duration of UKEF's support. The international ESHR standards used by UKEF⁵

³ Further information about the OECD's 'Common Approaches' on environmental and social due diligence can be found at: www.oecd.org/trade/topics/export-credits/environmental-and-social-due-diligence/.

⁴ The Equator principles are available in full at: www.equator-principles.com/about-the-equator-principles/.

incorporate the full range of potential environmental considerations, including resource efficiency, pollution prevention, biodiversity conservation and sustainable management of living natural resources.

46. Since 1 April 2020, UKEF's E&S Team has formally recorded its consideration of climate change as part of its ESHR due diligence process for medium- to long-term civil, infrastructure and energy transactions and documented the consideration of climate change in a memorandum, as part of an ESHR Report, a separate Climate Change Report or within a screening form. UKEF also considers case-specific climate change factors for all trade finance and insurance cases and has undertaken an assessment of approved financial institutions where they consider climate factors on behalf of UKEF.
47. Where a stand-alone **Climate Change Report (CCR)** is provided, for example for applications for medium-to-longer term support within potentially high carbon projects or where significant GHG emissions may arise, the CCR may consider the following factors:
 - a. The host country's Nationally Determined Contribution to the Paris Agreement and other policies that may be relevant
 - b. The Project's relevance to the Paris Agreement / whether, and if so how, the Project will contribute to fossil fuel transition or GHG emissions reduction at a national (and, if relevant, international) level
 - c. Alternative analysis (to the project)
 - d. The project's GHG emissions during construction and operation phases
 - e. Transition risks
 - f. Physical risks and the Project's plans and systems to manage those as well as any relevant points relating to climate change resilience and adaptation
48. A completed CCR provides a reasonable, objective, and proportionate overview of the relevant climate change considerations for a project. The CCR is then considered by the underwriting decision-maker, alongside other considerations, such as credit risk, compliance with anti-bribery and corruption rules, sustainable lending, environmental, social and human rights as well as alignment with UKEF's mission and relevant government policies. UKEF will continue to review and refine its decision-making processes in relation to climate-related issues as it implements the TCFD recommendations.
49. UKEF also collaborates with other ECAs and financial institutions on ESHR and climate matters, to maintain a 'level playing field' across these institutions, meaning the pursuit of consistent and diligent application of relevant standards and requirements and good international industry practice.

Iv. Transparency and Disclosure

50. In July 2019, as part of the government's Green Finance Strategy, UKEF committed to make financial disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD) as soon as practicable after the end of 2020-21.
51. In its Annual Report and Accounts for 2020-21, UKEF made its first TCFD disclosure and in the process became the first government department to do so.

⁵ International Finance Corporation (IFC) of the World Bank Group (WBG) Performance Standards on Social and Environmental Sustainability (2012)

52. That first disclosure detailed the steps UKEF had taken so far to align with the TCFD's recommendations across its four key pillars (Governance; Strategy; Risk Management; and Metrics and Targets), and UKEF's current practice and future plans for taking into account climate-related risks and impacts in its business decisions. It also outlines how UKEF will enhance its subsequent disclosures to maximise transparency, including increasing the quantitative nature of its disclosure.
53. Summary highlights from UKEF's first TCFD disclosure (published in June 2021) include:
- a. Governance: The creation of a new Director-led "Strategy, Policy and Climate Change" Directorate. An element of its mandate is to define and lead the climate strategy and policy of UKEF, taking into account UKEF's role and activities in the context of wider government policies on climate change.
 - b. Strategy: UKEF's Origination and Client Coverage Division has expanded its overseas network of International Export Finance Executives to 11. The buyer-facing nature of their role explicitly includes targeting and maximising clean growth and low carbon opportunities for UK exporters to sell into these markets.
 - c. Risk management: For all transactions which fall under the requirements of the Equator Principles, a climate change risk assessment has been conducted using the guidance provided by Equator Principles 4, which UKEF committed to follow from 1 July 2020. For transactions not covered by the Equator Principles, UKEF documents how it will take account of climate change within our decision-making processes, proportionate to the risks and impacts associated with projects and our support. This climate change consideration is included with UKEF's credit committee and underwriting submissions, required to be approved by senior management prior to UKEF underwriting any relevant case.
 - d. Metrics and Targets: UKEF has published its own direct operational carbon footprint directly apply to its business activities following the HM Government Green Reporting Guidelines each year
54. Aside from TCFD, UKEF also publishes with its Annual Report and Accounts details of export contracts supported including, where relevant, the ESHR risk/impact categorisation in line with the definitions in the OECD Common Approaches and Equator Principles, estimated operational GHG emissions, and the status of projects and existing operations that reached financial close in that year or are being monitored for alignment with host country laws and international standards, and other information required to be reported by the OECD Common Approaches and/or the Equator Principles. UKEF additionally reports to the OECD and the Equator Principles Association in line with the requirements of the OECD Common Approaches and the Equator Principles respectively.
55. In line with UKEF's ESHR Policy, where projects or existing operations are classified as Category A (high-risk from an ESHR perspective) UKEF notifies interested parties on its website that we are considering providing support and signpost interested parties to published ESHR impact information, at least 30 calendar days before deciding whether to provide support.
56. Where projects or existing operations are classified as Category A or B (medium-risk) UKEF notifies interested parties through its website that we have decided to support a project or existing operation and provides information on the applicable international standards that the project or existing operation was benchmarked against, and information on the ESHR works and impacts.
- v. Providing international leadership on climate change amongst other ECAs and relevant financial institutions.**

57. UKEF has demonstrated itself to be an international climate leader during recent years.
58. For example, UKEF played a crucial role in the run up to COP26 in leading negotiations, alongside the United States and the EU in particular, to a multilateral agreement at the OECD to update the Sector Understanding on Coal-Fired Power, thereby ending ECA support for unabated coal-fired power.
59. At COP26, the UK launched a joint statement on aligning international public finance with the clean energy transition. To date, the statement has been endorsed by 34 countries and 5 public finance institutions.
60. UKEF took a leading role in an initial workshop for signatories to the joint statement to define a common interpretation and minimum standard of implementation for the commitments in respect of export credits and trade finance.
61. Also in 2021, UKEF was a founding signatory of the Export Finance for Future (E3F) initiative, a coalition of countries which endorsed a statement of principles to better integrate climate considerations in export finance provision.
62. UKEF is one of the founding members of a Berne Union Working Group on Climate Change which will work with export credit and trade finance organisations in the public, private and multilateral sectors on Climate Change matters.
63. UKEF adopted the Equator Principles (EPs) in 2016 and has been elected by the Equator Principles Financial Institutions (EPFIs) to the EP Steering Committee in a management support role. During 2018-19 UKEF also led and contributed to various working groups tasked with considering updates to the EPs which have more recently concluded with the update to EP4, including the climate change working group. EP4 significantly strengthened commitments and reporting requirements for addressing the risks posed by climate change.
64. This year, UKEF will continue to encourage its peers to follow UKEF's lead in setting stretching climate ambitions and updating the Common Approaches on ESHR due diligence, raising the bar for public export finance internationally, through the OECD. UKEF will also drive this through E3F and other multilateral forums such as the G7 and the Berne Union.