

Call for evidence – Inquiry into UKEF's operations and its engagement with stakeholders

Response on behalf of: Boskalis Marine Contracting Ltd, Boskalis Subsea Ltd, Gardline Ltd & Horizon Geosciences Ltd (all UK members of the Boskalis Group)

Name of Respondents: Adrian Jones & Oskar Henkelman

Introduction to the Boskalis Group

1. Boskalis, a merger of the Dutch family names of “Bos” & “Kalis” first spread its wings and entered a new market, the UK, in the 1930s, with the arrival of Mr Kalis as the head of UK operations. He created the “Westminster” dredging company and this was expanded in the coming decades to include a number of export markets. The name “Westminster” still appears within the name of our Stock Listed company, Royal Boskalis Westminster N.V., which is listed on the Amsterdam Stock Exchange.
2. In the UK today, in addition to its long term high market share in the domestic dredging and shore protection markets, vital to UK commerce and communities, Boskalis has expanded into a number of sectors including Offshore Wind & Subsea Diving (Boskalis Subsea Ltd) and Marine Survey (Gardline and Horizon Geosciences). In relation to Offshore Wind, Boskalis has laid more cables connecting wind farms than any other Contractor, worldwide. Our solutions in this sector, relating to development and installation are now ‘total’ as we can conduct the initial surveys, install the foundations and turbines, install the cables and undertake cable repairs.
3. Please find a short list of our recent projects both in the UK & managed from our UK offices, which demonstrate our capabilities, all of which can be utilized in wider export markets:
 - a) Portsmouth Approach Channel for the Queen Elizabeth Class Aircraft Carriers (Dredging of the approach channel and clearance of unexploded ordnance)
 - b) Triton Knoll Offshore Wind Farm, 32 kilometers off the coast of Lincolnshire (Installation of both the Export and Inter-Array Cables)
 - c) East Anglia One Offshore Wind Farm, 43 kilometers off the Suffolk coast (Installation of Foundations for Wind Turbines & Inter-Array Cables)
 - d) Tyra Project, in Danish Waters, managed & executed from our Aberdeen Office (Subsea Diving, installation of flexible pipelines)
 - e) Empire Wind Offshore Wind Farm, US Eastern Seaboard (Marine survey)
 - f) Ostwind 2 Offshore Wind Farm, German Baltic Sea (Marine survey)

4. As exporters, we are a truly global company, operational in 60-70 export markets at any one time. We are highly familiar with the execution of works in 'difficult' markets and we have enjoyed the support of both Export Credit Agencies and the private Credit & Political risk insurance markets for 30-40 years.

Reasons for submitting evidence

5. We are submitting our evidence today, as we are dependent on the support of ECAs when executing large dredging and land reclamation contracts, eg. Duqm in Oman (whose financing is supported by UKEF) & when positioning ourselves for tenders in new export markets in offshore wind eg. Taiwan. Without this support, we can simply state that our competitors, with Export Credit Agency (ECA) support from other countries, would win these contracts. Further, we have the ambition to expand our exports, from the UK, working hand in hand with UKEF.

Executive Summary

6. **UKEF's transformation in the last 5 years has been remarkable and the UK State's support for Exporters is now 1st class and directly comparable to the best ECAs in the World. However, there is always room for improvement and in particular, we find that UKEF is in a position to significantly increase its risk appetite and support for exporters, as detailed in our answers below.**

Responses to the questions asked in relation to this Inquiry

- How comprehensive is UKEF's product offering - and how attractive are particular products when compared with private sector options?
7. The UKEF product offering when compared to other ECAs in W. Europe is comprehensive, combining capabilities to support ECA financing, Direct Lending, Guarantees for Local Currency Financing (with a long list of possible local currencies) and Export Insurance amongst others.
 8. ECA financing is attractive as it generally enables longer tenors than are possible via private sector options.
 9. Direct Lending is often at attractive interest rates. It provides a tranche of the total financing package, alongside private sector loans. Acting both as a catalyst for the total lending package (not a competitor to be compared with commercial lending possibilities) & enhancing UK content levels in overseas projects.

10. Guarantees for Local Currency Financing assist local borrowers obtaining longer term loans at favourable rates. It also avoids situations where borrowers borrow in currencies other than the currency of their primary revenue streams, reducing default risk. Not aware that the private sector participates in this market to any great extent, so this 'filling a gap' approach by UKEF, especially with a list of 60 possible currencies, is an attractive proposition / support.
11. However, we note the product offering is not comprehensive in two respects:
 - a. UKEF does not cover Tender to Contract Exchange Rate Risk, where exporters issue a fixed price bid in USD vs their 'base currency' eg. GBP or EUR (for example) for the time period between submission of their tender, to award and contract signature. It is impossible for an exporter to hedge in this period, when one of a number of tenderers, as the likelihood of an award may be as low as 10-20%. To be noted that other ECAs provide this cover, enabling other exporters to offer fixed priced tenders vs their base currencies, when required and leaving UK exporters at a serious disadvantage. Further, we note the former private sector option, provided by Atradius Special Products (UK) is no longer available.
 - b. The private market tailors its available policy wordings to support specific sectors, including the contracting / construction sector (a core sector for Boskalis, covering dredging, civil works, shore protection, offshore wind amongst others), whereas the UKEF Export Insurance Policy is not tailored for the construction sector. Over the years, we have raised this issue with ECGD (once) and UKEF (twice) and attempted to engage in a tailoring exercise in order to arrive at an acceptable wording, but without any form of positive response by the UK's ECA. **This baffles us and acts as a deterrent to exporting from the UK.** Further, we note private market insurers in the UK have issued tailored wordings for the contracting and construction sectors for decades, meaning that the knowledge base, in order to complete a tailoring exercise for the construction sector is available. Further, we note other European ECAs have tailored policy wordings for this sector, which are easily accessible via their websites.
- How suitable is UKEF's process for assessing applications for support?
12. If we compare ECAs we find that UKEF does not fully empower its Underwriters leading both to unnecessarily bureaucratic processes and delays. Starting at the front end of any process, we are able to obtain an Expression of Interest (EOI) from other ECAs within 24 hours and a Non- Binding Pricing Indication inclusive of commentary over and above that published, on the Country Policy applied by that ECA to the destination country for the export, within 48 hours.

13. When working with UKEF, we find that EOIs require consultation with multiple personnel, additional internal discussions within UKEF and at least 7-10 days for issuance. Similarly Non-Binding Indications can take weeks and requests to discuss the applicable country policy often lead to responses to “refer to the website” (which is likely to be somewhat out of date, as Country Policy is generally updated 1-3 times per year).
14. Therefore, the initial UKEF experience is a “turn off” in the initial stages. However, we persevere as the general capabilities of UKEF, fully supported by the UK State, are “impressive” as evidenced by their recent awards.
15. Our recommendation is that UKEF empowers its Underwriters enabling them to respond quickly to EOI and Non-Binding Pricing Indication requests. EOIs should take no longer than 48 hrs to issue and Non-Binding Pricing Indication requests, run through set models long established within ECAs should be available within 3-4 days.
16. It is also worth noting that Lloyds of London Credit & Political Risk Underwriters are frequently capable of providing their pricing, especially in relation to Public (i.e. sovereign or sub-sovereign risks), ‘on the spot’ within 5-10 minutes of the brokers description of the risk at the box in Lloyds (or via a Teams meeting in today’s circumstances).
 - Do particular sectors, types of projects, or projects involving certain export destinations receive more UKEF support than others?
17. “Yes” and since we are extremely active in the Offshore Wind sector, we are great supporters of this approach. However, traditional sectors should not be neglected, so while we fully support driving coal out of the supported energy mix, we need to see support maintained for other less polluting sources of energy such as LNG & Natural Gas, which will help provide a bridge two renewables in the coming 10-20 years. Further, we believe UKEF should work at a global level, via the OECD, in coordinating approaches towards specific sectors and types of projects, as any move on an individual basis risks ‘vacating the space’ for other countries exporters, via the support of other ECAs to win contracts at the direct expense of ‘UK Plc’.
18. In relation to export destinations, we find UKEF generally has sufficient country limits in place and we note their efforts to obtain additional private market reinsurance to boost these limits, where necessary.

- Are UKEF's performance targets suitable? Is UKEF's current financial allocation from HM Treasury and risk appetite appropriate to allow it to meet these targets?

19. As above, we see UKEF's prioritization of renewables as appropriate to today's 'climate emergency'. In addition, support should also be prioritized for climate change mitigation efforts – as there is no denying the impact of global warming anymore - such as coastal and urban environment protection, in light of rising sea levels.

20. In relation to financial performance targets, we note, selecting a few figures from UKEF's 2019/20 Annual Report:

- a. Outstanding claims paid ... from business issued after 1991 has reduced slightly in the year to £347 million
- b. Overall recoveries (on all business, both principal and interest) amounted to £102 million as at 31 March 2020
- c. UKEF earned net premium in the year of £177 million.

21. Meaning that UKEF (in our eyes) and looking through several business cycles is not performing in accordance with its Mission:

22. "To ensure that no viable UK export fails for lack of finance or insurance from the private sector, while operating at no net cost to the taxpayer "

23. as rather than acting at no net cost to the taxpayer, meaning that looking through the business cycle, UKEF under the applicable OECD guidelines, is supposed to target a break even result in order to avoid subsidizing exports, UKEF has instead become a profit center for the UK Exchequer over many years and through several business cycles. The above figures show UKEF 'earned' net premium + recoveries of £279 million in 2019/20 vs a total stock of post 1991 Outstanding Claims of 347 million.

24. Looking at the last 5 years, the figures are even more dramatic:

Financial overview – 5-year summary

	2019-20 £m	2018-19 £m	2017-18 £m	2016-17 £m	2015-16 £m
Business supported	4,423	6,776	2,530	2,966	1,793
Premium income earned	177	332	103	102	73
Premium income issued	294	397	151	147	91
Claims paid	8	0	2	8	5
Net operating income	217	128	5 ¹	149	106

25. Which are numbers that private market insurers can only dream of.

26. Of course this is a positive position and credit to UKEF’s Underwriters over almost 30 years, but from an exporters position it simply translates as “too little risk appetite / not enough support / too high premiums for the risks insured” resulting in excess profits for the UK Exchequer, year on year on year.

27. Flipping the coin over, we hope UKEF’s numbers extinguish any idea UKEF provides any form of ‘subsidy’ for the private sector, as their numbers demonstrate, without doubt, that this is not the case. UKEF / the UK State has been / is currently leveraging its long-term liquidity resources to enjoy premiums from exporters and banks and make a ‘profit’, through the cycle. In turn exporters and banks are willing to pay premiums to UKEF, as the support is essential to many of our transactions.

28. This is a happy symbiotic relationship, but while exporters and banks are broadly supportive of UKEF’s positive performance an increase in both risk appetite and support & a decrease in premiums would both bring UKEF closer to its Mission statement (as governed by the OECD guidelines) & provide a significant boost to UK exports.

- How can UKEF continue to support economic recovery from the COVID-19 pandemic?

29. As demonstrated above, we call on UKEF to act in a counter-cyclical manner and significantly increase its risk appetite and support, for all exporters, in the current tough market conditions, brought on by the Pandemic.

Engagement

- How user-friendly are UKEF products for its range of customers, including small and medium enterprises? How well does UKEF communicate its offering to new and existing customers?
30. We find UKEF's products 'user-friendly' as they cover a wide range of risks for exporters. However, as already highlighted, the lack of tailoring of the Export Insurance Policy wording to cover contracting and construction risks makes this wording broadly unacceptable to us, especially as UKEF Underwriters are not willing to engage in the amendment of its contents, so the user-friendly score in relation to this Policy is therefore "very low."
31. In contrast, UKEF's communication of its offering in the last 5 years has been "1st class". We strongly appreciate the positive transformation of UKEF from its tired days as ECGD into a dynamic ECA with significant reach and capabilities.
32. In relation to SMEs (we are not one, but we have a view):
33. When you insert the word UKEF into a search engine and click the first link: <https://www.gov.uk/government/organisations/uk-export-finance> you find 6 Press Releases, with 3 pages (to scroll down) of information underneath inc. links to "UKEF products"
34. To assist SMEs a single Main page should only have the following topics
- a. Products to cover risks for UK exporter
 - b. Products helping exporters to offer (customer) financing to their clients
 - c. Description of base UKEF process inc. contact points in the local area
 - d. UKEF Country policy
 - e. A link to a Premium Calculator (note that a premium calculator should enable an exporter to calculate a premium for both Govt and Pvt clients. For Pvt clients: after entering all risk elements the result should be a list of premiums per buyer risk category rather than than the buyer risk category should be an element to enter in the calculator)
 - f. Overview of policies issued / projects assessed historically
35. Note that all other information e.g. targeted for professionals like banks interested in Direct Lending / Buyer Credits etc. should not be on the main page. Such professionals will be able to find and access information on secondary pages.

- How does UKEF engage with DIT, the British Business Bank and private sector partners to ensure the requirements of businesses exporting overseas are met?

36. UKEF and DIT have been working hand in hand for several years now and we have received leads, support and opportunities from both institutions, which is greatly appreciated.

37. Furthermore, the use UKEF makes of the private market to purchase reinsurance, to alleviate capacity constraints is noted and applauded. No exporter should be prevented from signing a deal (where ECA support is essential), just because UKEF is 'full', especially when risk can be laid off elsewhere.

- To what extent does UKEF draw on external expertise and knowledge in the design and review of its products?

38. We note UKEF has been recruiting heavily in the last 5 years, bringing in expertise from Exporters / Banks and Private Market Insurers, with all the benefits that these new people bring, with their wider contacts in industry, legal circles and other institutions.

39. However, as above, we do need to see UKEF design a policy tailored to contracting and construction contracts.

40. We do need to see UKEF launch a Tender to Contract Exchange Rate Risk product.

41. As a team of 5, we confirm that we have 75 years' credit & political risk experience between us, as a former insurance broker, former credit risk underwriter at a private market insurer, former ECA underwriter and a former economist & a legally trained, former options trader. We already engage in the design and review of another ECA's products and would love to engage with UKEF in the design and review of its products as well.

42. In particular, we confirm that the former Atradius Dutch State Business Underwriter, responsible for their Tender to Contract Exchange Rate Risk works for us. To date, UKEF has not taken us up on our offer to support and engage with the development of their products.

- What could UKEF learn from other successful export credit agencies around the world?

43. A nice open question and we take the opportunity to summarise our response to this Inquiry, while answering it, as follows:

- a. UKEF could achieve far more by empowering its Underwriters & shortening its decision making lines, enabling quicker response times.
- b. The reflex to 'refer to the website' eg. in relation to Country Policy should be avoided. Generally exporters have already looked at the website and they wish to speak with an Underwriter who has additional knowledge and expertise about the country in question / about UKEF's available support for exports to this country.
- c. UKEF has significant room to increase its level of risk appetite and support for UK exporters, in line with its mission to act at no net cost to the tax payer. As detailed above, the pendulum has swung too far looking at this both over a 30 year timeframe and in the last 5 years, making UKEF a profit center at the expense of the private sector (exporters and banks).
- d. To compete with other ECAs (& we note that ECAs are now openly competing), UKEF has room to expand its range of policies and products, tailoring its policies and filling further gaps.

44. All in all, we salute UKEF's transformation in the last 5 years. It has been remarkable and the UK State's support for Exporters is now 1st class and directly comparable to the best ECAs in the World.