

Response to Call for Evidence

The Inquiry on UK Export Finance

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1 Introduction

- a. CTS is a company registered in England that provides a full spectrum of products and services to the global Commercial Aviation Industry including Airlines, Aircraft OEMs and Independent Flight Training Centres to support the training of Commercial Pilots.
- b. CTS is the only manufacturer of Level D Full Flight Simulators and related flight training technologies in the UK. The products are designed, developed and manufactured at the CTS engineering and production facility in Crawley in West Sussex. Approximately 90% of the company's business comes from Export markets.
- c. This paper provides L3Harris Commercial Training Solutions Limited (CTS) outline responses to the questions asked in support of the Enquiry on Export Finance and is written from the perspective of the company's main business activities with Commercial Airlines in Export markets worldwide. Increasingly, CTS customers are requiring funding arrangements for the provision of Capital Equipment and Services with values typically less than £100m (One Hundred Million Great British Pounds). CTS competes with foreign-based manufacturers and service providers that have support from their own Export Credit Agencies particularly Canada and the Netherlands.
- d. Over the past 12 months, CTS has engaged with the UK Export Finance Team (UKEF) on a number of export opportunities with the most recent secured opportunity for the provision of 1 Airbus A330 EASA Level D Full Flight Simulator to TAP of Portugal.

2 Response to Questions

2.1 Operation

- **2.1.1 Question** *How comprehensive is UKEF's product offering - and how attractive are particular products when compared with private sector options?*

Response

- a. CTS has engaged with UKEF for the provision of Export Guarantees and for Direct Lending.

- b. In most cases, these schemes have enabled customers to benefit from reduced funding interest rates compared to similar finance arrangements on materially the same terms direct from financial markets.
- c. However, this has not always been the case and customers have used a variety of different financial instruments to raise capital including without limitation; Bond issues and negotiated overdraft facilities that have been more appealing than a UKEF solution.
- d. Whilst UKEF is bound by certain restrictions governing the types of financial support and the term of agreements, other financial institutions are able to offer a broader range of 'off the shelf' finance products (e.g. Finance lease, operating lease, Power by the Hour, Lease Purchase etc.) with more varied payment schemes, over longer terms. Sometimes at similar interest rates and with better cash flow profiles.
- e. Subject to customer credit ratings, some financial institutions can be significantly more flexible and innovative.

- **2.1.2 Question** *How suitable is UKEF's process for assessing applications for support?*

Response

- a. CTS operates in a highly competitive market with relatively fast decision-making and, in some cases, exceedingly short sales cycles.
- b. The speed of decision-making and the timeframes for approvals within UKEF require a process of diligence that is less agile than the decision-making processes in the airline client base. Whilst the pace of decision making in UKEF may be suitable for large infrastructure and defence deals, in a number of Airline opportunities pursued by CTS, the opportunity window has passed before the UKEF option is made available thereby losing the competitive advantage that could have been deployed.
- c. On the business side, the UKEF team are very responsive but the area where we have seen the most delays is in the Credit Assessment process and it has appeared from the outside that the UKEF business and treasury teams are not working to the same imperative.

- **2.1.3 Question** *Do particular sectors, types of projects, or projects involving certain export destinations receive more UKEF support than others?*

Response

- a. UKEF does not support all countries or all customers.
- b. On an engagement level certain countries and customers (with existing relationships) have larger more enthusiastic support from the local Embassy and UKTI teams who are very keen to support the use of UKEF solutions than others and the global experience is quite variable.
- c. The support can vary from frequent regular customer and supplier engagement to just an occasional call to ask what is going on (often driven by the need to submit a report).
- d. The UK based UKEF team have been very professional and motivated to move things forward, they have sought to understand our business better and develop systems that will help us.

- **2.1.3 Question** *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?*

Response

- a. The targets and risk appetite appear credible and competitive; however, it does seem that in practice, the actual level of risk appetite as interpreted by the Treasury Credit Assessment teams is at a lower level than those published by the DIT and UKEF business managers.
 - b. CTS has experienced high levels of documentation being requested by the credit teams over and above the standard submissions and higher levels of data and guarantees being required from customers to facilitate the credit decision. This has led to frustration on the part of the customer and their banks and internally within UKEF.
- **2.1.4 Question** *How can UKEF continue to support economic recovery from the COVID-19 pandemic?*

Response

- a. With multiple organisations pursuing opportunities in a reduced market, competition for fewer opportunities has increased and will continue to increase. Canada is a major player in the CTS Market place and the CCC and Canadian Credit teams have been very pro-active in advancing Canadian interests. They have a reputation for being active and engaging more frequently with customers and demonstrate a willingness to adopt a flexible problem solving approach to meet the circumstances of the sales opportunity.
- b. There remains a key role for UKEF solutions to provide a significant advantage in placing the UK supplier on a similar footing to the Canadians, however, increased engagement, and some innovation in financial structures would enhance the number of opportunities during the post-COVID crisis, which for the airline industry is expected to last until 2024.

2.2 Engagement

- **2.2.1 Question** *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?*

Response

- a. The websites, and presentations explain how the various models work.
- b. It does help if you know where to look already.
- c. UKEF would benefit from a more customer needs focussed approach as per the Canadians rather than a factual discourse.

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

Response

N/A

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

Response

N/A

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

Response

- a. Agility and speed of decision-making, greater innovation and a more customer focussed approach.