



House of Commons
Environmental Audit
Committee

**Export Credits
Guarantee Department
and Sustainable
Development**

Seventh Report of Session 2002–03



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written evidence*

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The Environmental Audit Committee

The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty's Ministers; and to report thereon to the House.

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References

In the footnotes of this Report, references to oral evidence are indicated by 'Q' followed by the question number. References to written evidence are indicated by page number as in 'Ev12'.

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Conclusions and recommendations

1. The balance of ECGD's portfolio, with over half in aerospace and defence, has remained the same despite the introduction of its Business Principles and case impact screening procedures. (Paragraph 20)
2. We recommend that ECGD ensure that the sustainable development impact screening performed by the DTI's Export Control Organisation for sharp-arms defence exports is at least as rigorous as those which it uses for civil projects. (Paragraph 22)
3. We recommend that ECGD bring all aerospace-related applications within its impact screening processes. (Paragraph 23)
4. ECGD introduced new disclosure measures in 2002, including the publication of a list of guarantees issued in its Annual Report. However, these measures apply only to one third of the overall portfolio (defence and aerospace being omitted); are dependent on the permission of the client company; and are limited to the disclosure to exporter, market buyer, a brief project description and ECGD's maximum exposure. No indication of the environmental or social impacts of the projects is included. This severely hampers systematic analysis of ECGD's performance. (Paragraph 27)
5. We recommend that ECGD publish on its website details of all high and medium potential cases under consideration, including relevant information on economic, social and environmental impacts. Acceptance of such disclosure on the part of the client should be a condition of ECGD support. (Paragraph 29)
6. Companies have the right to expect ECGD to treat information which is commercially sensitive in a confidential manner but the onus should be on ECGD's clients to demonstrate the need for confidentiality. Requests for confidentiality should be tested against rigorous criteria to ensure that only such information as might genuinely compromise clients' commercial activities is withheld. A high degree of disclosure should become a condition of ECGD support. We recommend that ECGD adopt a clear predisposition to disclosure of information relating to the projects it supports, especially information regarding social and environmental impacts. (Paragraph 30)
7. We recommend that, as a matter of urgency, ECGD liaise with the Department for the Environment, Food and Rural Affairs to ensure that its practices adhere to EU regulations on environmental information now and in the future. (Paragraph 31)
8. We endorse ECGD's policy of constructive engagement and its attempts to improve the quality of the projects it supports. (Paragraph 34)
9. We welcome the commitment to develop indicators to measure ECGD's impact on project quality but their production and publication has to be in addition to, rather than instead of, greater disclosure on the nature of applications and supported projects. (Paragraph 36)

10. We welcome the establishment of the £50 million a year underwriting facility for renewable projects as a step in the right direction, particularly because of the signals it sends to industry and commerce and the encouragement it gives to companies operating in that sector to compete for overseas contracts. However, this should not be a substitute for treating environmental criteria as a mainstream objective. (Paragraph 39)
11. The Government should ensure that all public bodies concerned with the support, development and promotion of UK trade and industry adopt a consistent approach to sustainable development and ensure that initiatives are co-ordinated to achieve maximum benefit. (Paragraph 40)
12. We recommend that ECGD should develop its capacity to support environmental exports further and should explore the possibilities of offering extended terms of finance and other incentives such as fast-track processing. (Paragraph 41)
13. The Canadian export credit agency, EDC, discloses the precise standard chosen as the basis for environmental review in all high impact cases. We recommend that ECGD adopt a similar approach. (Paragraph 45)
14. There is no circumstance under which it would be acceptable for ECGD, using taxpayers money, to support projects which exploit children or employ bonded or forced labour. We were therefore pleased to receive a further note from ECGD assuring us that “it is the Department’s policy not to provide support for any project that involves the use of bonded or forced labour. The policy statement in the guidance notes for the impact questionnaire will be amended to provide greater clarity on this point”. We look forward to receiving copies of the amended text. We recommend that a similarly categorical statement is made in respect of child labour and the guidance notes suitably amended. (Paragraph 49)
15. We recommend that in future, applications for support for projects in IDA-only countries are accepted only when they meet at least two of the debt sustainability criteria. (Paragraph 52)
16. We welcome the efforts that ECGD has already made to extend the scope of the OECD’s Common Approaches initiative towards sustainable development and to have a requirement for all projects, regardless of size, to be subject to project screening. These issues, together with greater clarity on standards and greater transparency, should be priorities in negotiations on the revised Common Approaches. (Paragraph 57)
17. We recommend that ECGD treat obtaining unanimity as a priority during the negotiations on revisions to the *Common Approaches*; and we further recommend that the Government take a leadership role in reaching international consensus to ensure that common environmental criteria are a key component of all decisions relating to the granting of export credits guarantees. (Paragraph 58)

Introduction

1. Export Credit Agencies (ECAs) are usually Government-sponsored agencies that use taxpayers' money to help their countries' companies to export goods or services or to win overseas contracts. Their support is typically provided in the form of guarantees and insurance and, in some cases, direct loans. The purpose of ECAs is to support their domestic companies in export markets by offering a degree of protection from political and commercial risks.

2. ECAs, collectively the largest source of public finance for private sector projects in the world, are powerful, influential players in the field of international business. They underwrite ten per cent of exports from large industrialised countries, whose exports account for three-quarters of total world exports.¹ Between 1982 and 2001, ECAs supported US\$7.3 billion of exports, mostly to developing countries, and US\$1.4 billion of foreign direct investment. In 2000 export credit agencies were providing a total of US\$500 billion in guarantees and insurance to companies operating in developing countries and issued US\$59 billion worth of new export credits. This compares to a total of US\$60 billion given out globally in overseas development assistance and the US\$41 billion provided as loans by multilateral development banks (such as the World Bank) in the same year.

3. There are 76 export credit agencies across 62 countries. 51 of these ECAs are members of the Berne Union, in effect the international trade association for export credit and investment insurance providers. The UK's ECA, the Export Credits Guarantee Department (ECGD) is among the largest and most influential ECAs in the world along with the Export Import Bank (Ex-Im) in the United States; the Export Development Corporation (EDC) in Canada; the Japanese Bank for International Cooperation (JBIC) and the Nippon Export Investment Insurance (NEXI); the French Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE); and Hermes in Germany.

4. While the terms of support provided by ECAs are often similar to those offered by the private sector, ECAs frequently provide cover for larger sums, longer periods and for higher risk countries than the private sector would be willing to do. The premiums that ECAs charge are often lower than those offered by in the private sector (although in practice, the private sector usually would not offer cover for the types of projects that ECGD supports).

5. Historically ECAs have operated at a loss, paying out far more in claims than they have received in premium income and recoveries on claims. In 1994 the World Trade Organisation required ECAs to break even in the long run and in 1999 amendments to the 1978 OECD Export Credit Agreement established minimum premium rates. The effect is that since 1995 ECAs have been moving into the black: overall they achieved a net operating surplus of US\$2.8 billion in 2001.

¹ Horst Kohler, *Reforming the International Financial System*, Berne Union Year Book 2001, February 2001.

6. Despite their potential to influence international trade and investment, particularly trade with and investment in developing countries, ECAs have a poor history in taking into account the potential environmental or social impacts of the projects they support.

Export Credits Guarantee Department

7. ECGD, established in 1919, is the oldest export credit agency in the world. Its original mandate was to support British exports, especially those to Russia, because private banks were reluctant to do so. It is a non-ministerial Government department, accountable to Parliament through the Secretary of State for Trade and Industry.

8. Between 1995 and 2000 ECGD underwrote £17 billion worth of exports from British companies; an average of £4 to £5 billion per annum.² This contrasts with the Department for International Development's annual aid budget of around £3 billion. Premium income is between £80 and £100 million each year. ECGD now covers some three per cent of the UK's total exports (a level significantly lower than in past times: in the 1960s ECGD covered around 30 per cent of UK exports). Unlike some other ECAs, ECGD does not provide direct loans. The short-term aspects of ECGD's business were privatised in 1991. ECGD's main areas of business are buyer and supplier credits; supplier credit insurance and overseas investment insurance. Thirty-nine guarantees were issued in 2001-02.

9. The potential for ECGD to promote responsible overseas trade and investment has been recognised in various Government policy statements. The UK Sustainable Development Strategy makes it clear that the Government's drive towards sustainable development is intended to have both domestic and international fronts and that foreign investment on the part of UK companies could be an important feature of the latter:

“the Government will promote responsible business behaviour by UK companies overseas, including in the poorest countries... responsible behaviour will take account of environmental, social and local economic impacts of business, including human rights and corruption... meeting these challenges will enhance the reputation and success of our business abroad and well as benefiting people overseas”.³

This theme was taken up in the 2000 White Paper on International Development, *Eliminating World Poverty: Making Globalisation Work for the Poor*.⁴

Mission and status review

10. In July 1999 the then Secretary of State for Trade and Industry announced a review of ECGD's mission and status. The purpose of the review was to ensure that ECGD could continue to support UK firms effectively and at the same time “become more consistent

² Dr Sue Hawley, *Turning a Blind Eye: Corruption and the UK Export Credits Guarantee Department*, June 2003.

³ *A Better Quality of Life: A Strategy for Sustainable Development for the United Kingdom*, CM 4345, May 1999, para 6.41.

⁴ Department for International Development, *Eliminating World Poverty: Making Globalisation Work for the Poor*, Cm 5006, December 2000, paras 206-8.

with the Government's wider objectives",⁵ including the promotion of sustainable development, human rights and good governance throughout the world.

11. The report of the review argued, and the Government accepted, that it was in ECGD's own interest to promote projects which offer a long-term benefit to the country concerned: badly executed projects can have negative implications for the environment and for local inhabitants and represent a higher level of risk for ECGD. Commenting on the outcome of the review, the Secretary of State stated that

"ECGD can assist the Government's multilateral initiative to help the poorest countries emerge from debt and poverty burdens, and developing countries achieve sustainable development by supporting productive projects".⁶ It was also stated that "The UK will take the lead multilaterally in promoting a similar approach by other Export Credit Agencies".⁷

Our inquiry

12. Our purpose has been to determine the extent to which ECGD has successfully incorporated the Government's commitment to sustainable development and multilateral action into its policies and operations and to identify the need and the scope for further reform and further integration of sustainable development principles.

13. During our inquiry we took oral evidence in May and June 2003 from a range of non-governmental organisations (NGOs) including Friends of the Earth, WWF-UK and The Corner House⁸ in addition to ECGD themselves. We also received several written memoranda. We are grateful to all those who assisted our inquiry.

⁵ Department of Trade and Industry, *Review of ECGD's Mission and Status*, July 2000, Cm. 4790, Foreword.

⁶ Department of Trade and Industry, *Review of ECGD's Mission and Status*, July 2000, Cm. 4790, Foreword.

⁷ Department of Trade and Industry, *Review of ECGD's Mission and Status*, July 2000, Cm. 4790, Foreword.

⁸ The Corner House is a not for profit research and advocacy organisation working in the fields of human rights and development.

Recent reform of the case impact analysis process

14. ECGD told us that it first began to consider environmental issues “in a formal way” in January 1999, before the review of its mission and status, when its first Environmental Questionnaire was introduced.⁹ The 1999 review concluded that ECGD needed to consider sustainable development – not just environmental issues – in a more rounded and rigorous manner. In response a Business Principles Unit was created within ECGD. In December 2000, a Statement of Business Principles was published in which ECGD said, inter alia, that:

“We will provide a responsible approach to business and will ensure our activities take into account the Government’s international policies, including those on sustainable development, environmental, human rights, good governance and trade”.¹⁰

15. The Statement of Business Principles also included a commitment on the part of ECGD to “further develop... existing guidelines and working procedures to assist detailed implementation of our policies at a practical level. These will be kept under review and updated to take account of international developments and operational experience”.¹¹

16. Alongside the publication of the Statement of Business Principles, ECGD introduced a revised and expanded Impact Questionnaire and other associated screening procedures (collectively known as the case impact analysis process). These measures were designed to put ECGD’s Business Principles, including its commitment to sustainable development, into practice.¹²

17. ECGD told us that “the introduction of Business Principles and the case impact analysis process... led to fundamental changes in the way ECGD operates”¹³ and indicated that the most significant change was in the way in which it assessed applications. Previously applications were assessed almost solely on the ground of repayment risk. Since the revised procedures were introduced ECGD has also considered “content, location and potential environmental, social and human rights impacts of both the export and any associated project”.¹⁴ All civil, non-aerospace applications for support are screened by ECGD against these considerations (see paras 21-23).¹⁵

18. Until recently ECGD’s initial source of information on the environmental and social implications of a proposed project was the revised Impact Questionnaire. Since April 2003,

⁹ Ev 58.

¹⁰ Export Credits Guarantee Department, *ECGD’s Business Principles*, December 2000.

¹¹ Export Credits Guarantee Department, *ECGD’s Business Principles*, December 2000.

¹² Ev 58.

¹³ Ev 59.

¹⁴ Ev 59.

¹⁵ Aerospace applications are not screen as all UK-manufactured aircraft and aircraft components comply with international environment and safety standards. We discuss defence related exports at paras 21-23.

following extensive consultation with stakeholders in 2002, initial screening has been based on questions included in every application form.¹⁶ Analysis of responses to these questions results in each application being classified as high, medium or low potential impact. The classification determines the nature of any subsequent assessment. For low potential impact applications there will be no further action; medium potential impact applications require completion of the revised Impact Questionnaire, which may lead to further measures; for those classified as high potential impact, a full Environmental and Social Impact Assessment is normally required.

¹⁶ Ev 62.

Scope and impact of the reforms

ECGD's portfolio

19. Aerospace and defence projects are typically associated with high environmental and developmental impacts.¹⁷ In the civil sector, a high proportion of ECGD's support goes to large industrial and infrastructural projects in developing countries, such as power plants, large dams, mining projects, road development and oil pipelines, all of which can have significant social and environmental impacts.

20. **The balance of ECGD's portfolio, with over half in aerospace and defence, has remained the same despite the introduction of its Business Principles and case impact screening procedures.** The Corner House, a research and advocacy group working in the fields of human rights, the environment and development, told us

“a comparison of the support provided by ECGD prior to the adoption of its Business Principles and post adoption reveals no substantive change in the sectors supported or in the percentage breakdown of support by sector” and that ECGD's portfolio remains dominated by unsustainable projects and sectors.¹⁸

Proportion of ECGD support by sector

	1999/2000	2001/2002
Aerospace	22%	24%
Defence	31%	29%
Civil	47%	47%

Defence and aerospace

21. In part this consistency may be explained by the fact that applications for support for aerospace and some defence-related projects are exempt from ECGD's impact assessment procedures. ECGD told us that

“aerospace applications are not screened as all UK manufactured aircraft or components comply with international environmental and safety standards. Sharp-arms are screened by the DTI export licensing system. ECGD is not party to this process but will only support export for which a valid export licence has been granted”.¹⁹

¹⁷ For an analysis of the environmental impacts of aviation, see forthcoming report from the Environmental Audit Committee on The Budget 2003 and Aviation.

¹⁸ Ev 22.

¹⁹ Ev 59.

22. ECGD will not provide cover for such projects unless an export licence has been issued by the Department of Trade and Industry in consultation with other departments as appropriate. The export licensing procedures used by the DTI have been significantly tightened since 1997 and now include scrutiny for human rights, environmental and other concerns. It would be pointless for ECGD to duplicate work that has already been undertaken by another branch of Government, provided that the criteria used are broadly consistent. We are concerned, however, that ECGD are apparently unaware of the extent of environmental screening performed by the DTI's export control organisation.²⁰ **We recommend that ECGD ensure that the sustainable development impact screening performed by the DTI's Export Control Organisation for sharp-arms defence exports is at least as rigorous as those which it uses for civil projects.**

23. Excluding applications for support for exports of aircraft and aircraft components is less justified. All aircraft and aircraft components manufactured in the UK comply with agreed EU and US environmental and safety standards and the international standards and noise and emissions set by the International Civil Aviation Organisation. ECGD argue that this makes "environmental screening on a case by case basis by ECGD unnecessary".²¹ Such adherence however reveals nothing of the social, developmental or human rights consequences that such exports may have in the buyer country nor about the effect they may have on the local or regional economy - issues that would be covered by ECGDs existing case impact screening. We note the Government's rejection of the Trade and Industry Committee's recommendation in 2000 that aerospace projects be covered but find its grounds for doing so unpersuasive.²² **We recommend that ECGD bring all aerospace-related applications within its impact screening processes.**

Transparency

24. ECGD's mission statement notes that transparency is important to maintain public confidence and to demonstrate accountability. Its Business Principles commit ECGD to being as open as possible and some steps have been made to implement this. ECGD's Annual Report now includes a chapter on sustainable development. The minutes of the ECGD Advisory Group are published on ECGD's website and a transparency working group has been established.²³

25. Several of our witnesses welcomed increased openness of the part of ECGD staff and greater engagement with stakeholders since the Business Principles were introduced but felt that ECGD's transparency still fell far short of best practice. The Friends of the Earth told us that "the prevailing culture of shadow and secrecy remains intact",²⁴ citing some high profile instances of their inability to extract environmental information from ECGD.

²⁰ Q132.

²¹ Ev 66.

²² Third Report from the Trade and Industry Committee, Session 1999-2000, on the Future of the Export Credits Guarantee Department, HC 200; and the Tenth Special Report from the Trade and Industry Committee, Session 1999-2000, Government Observations on the Third Report on the Future of the Export Credits Guarantee Department, HC 849.

²³ Ev 60.

²⁴ Ev 4.

26. Mr Brown, ECGD's chief executive, argued that in some cases ECGD was not the owner of the environmental information it was asked to disclose: "it is not simply a question of exercising discretion or doing a balance; we are not entitled to reveal that information".²⁵ In other cases, information may be of a commercially sensitive nature. We recognise the awkwardness of ECGD's position but it is one which it can, and should, resolve. It is taxpayers' money that ECGD is using to support British business. Taxpayers have a right to demand that ECGD can be held to account for the way in which it uses taxpayers' money. Moreover, as The Corner House commented, it is extraordinary that a public body should withhold Environmental Impact Assessments in particular when the whole purpose of such documentation is to be consulted upon and to inform the public.

27. ECGD introduced new disclosure measures in 2002, including the publication of a list of guarantees issued in its Annual Report. However, these measures apply only to one third of the overall portfolio (defence and aerospace being omitted); are dependent on the permission of the client company;²⁶ and are limited to the disclosure to exporter, market buyer, a brief project description and ECGD's maximum exposure. No indication of the environmental or social impacts of the projects is included. This severely hampers systematic analysis of ECGD's performance.²⁷

28. Other ECAs provide examples of good practice in this area that ECGD could look to for guidance. The Canadian ECA, for example, provides a clear statement on the types of information which it considers can be withheld on the grounds of commercial confidentiality and its decisions on these matters are subject to review by an ombudsman. The Ex-Im Bank in the USA and the Australian ECA have for some time been the most transparent in terms of prior disclosure. Japan and Switzerland introduced prior disclosure in 2002.

29. Earlier this year ECGD agreed to publish details of high potential impact cases under consideration on its website. The details are limited to the name of the project, a brief description and contact details for sources of environmental information. This is a welcome improvement but we are still concerned over the limited nature of the information provided and the fact that disclosure is subject to client consent. **We recommend that ECGD publish on its website details of all high and medium potential cases under consideration, including relevant information on economic, social and environmental impacts. Acceptance of such disclosure on the part of the client should be a condition of ECGD support.**

30. Companies have the right to expect ECGD to treat information which is commercially sensitive in a confidential manner but the onus should be on ECGD's clients to demonstrate the need for confidentiality. Requests for confidentiality should be tested against rigorous criteria to ensure that only such information as might genuinely compromise clients' commercial activities is withheld. A high degree of disclosure should become a condition of ECGD support. We recommend that ECGD

²⁵ Q178.

²⁶ Two clients, between them with guarantees accounting for slightly less than 10 per cent of the total, withheld permission for publication.

²⁷ Ev 22.

adopt a clear predisposition to disclosure of information relating to the projects it supports, especially information regarding social and environmental impacts.

31. Moreover, the restrictions which currently apply to the disclosure of environmental information may fall foul of the new European Directive on Public Access to Environmental Information which is expected to come into force later this year. **We recommend that, as a matter of urgency, ECGD liaise with the Department for the Environment, Food and Rural Affairs to ensure that its practices adhere to EU regulations on environmental information now and in the future.**

The civil sector and constructive engagement

32. It is possible to make some general observations on that part of ECGD's portfolio which is subject to case impact screening, based on the information available. An increasingly large proportion of ECGD's overall business is supporting power generation and fossil fuel dependent energy projects, often in developing countries. Such energy projects are often associated with high levels of emissions of greenhouse gases such as carbon dioxide. Climate change, driven largely by emissions of greenhouse gases, is the greatest environmental challenge facing the world and a key element of the UK Government's sustainable development agenda. The Government is committed not only to reduce domestic CO₂ emissions but also to assisting developing countries to curb theirs.²⁸ WWF-UK argued that the increase in support for such projects, up from 42 per cent in 1999 to 47 per cent in 2001, indicated that ECGD was "not being effective in reducing the emphasis on oil and gas and on a carbon economy".²⁹

33. We asked ECGD directly whether it had ever rejected an application for support on sustainable development grounds. It told us "no cases have been turned down on purely environmental or social grounds".³⁰ However, ECGD argued that this was a result of its policy of "constructive engagement" with its clients, in which it seeks to improve "the quality of the projects rather than changing the nature of particular projects".³¹ Any success that ECGD may have had in this approach would not be reflected in figures on the amount of support given to particular types of projects because they do not provide any indication of the quality of the project. ECGD told us that it had no concerns about the increase in support for fossil fuel projects "provided we are looking at those projects and we satisfy ourselves they meet the necessary international standards".

34. The Corner House argued that "ECGD's policy of constructive engagement in order to improve the quality of the project, though admirable in intent... fails to recognise that a number of the sectors in which ECGD is involved are inherently environmentally unsustainable".³² The policy is however consistent with the Government's position on the

²⁸ In 1997 the Prime Minister told the Special United Nations Session on Sustainable Development that "industrialised countries must work with developing countries to help them combat climate change ... we must live up to our side of the bargain and ensure that they have the resources to do this". Similar, Rt Hon Michael Meacher, when Minister for the Environment, emphasised the need for policies that "encourage developing countries to abate their greenhouse gas emissions while taking full account of their legitimate need to eradicate poverty and achieve sustainable development".

²⁹ Q55.

³⁰ Ev 60.

³¹ Q97.

³² Ev 26.

future of energy provision. The recent White Paper on Energy notes the complex decisions that countries will have to make on fuel mix and recognises that there will continue to be a demand for fossil fuel-based energy generation, especially poor countries where the provision of energy is closely connected with both economic development and human welfare.³³ The UK has strong energy, oil and gas sectors that attract overseas business and ECGD is itself dependent on the applications for support received. **We endorse ECGD's policy of constructive engagement and its attempts to improve the quality of the projects it supports.**

35. It is however at present impossible to tell whether the policy of constructive engagement is actually resulting in improvements in project quality because the data required to make such judgements is not available. There is some anecdotal evidence to suggest improvements in some cases. ECGD argued that UK companies concerned with the Ilisu Dam withdrew from the project when it became apparent that compliance with environmental standards would make the project commercially unviable – although NGOs contested this analysis.³⁴ The Secretary of State for Trade and Industry drew attention to a particular project where ECGD involvement has resulted in “significant improvements to the design and implementation” although as the particular project concerned was unnamed, these claims cannot be tested.³⁵

36. ECGD told us that it was in the process of developing sustainable development indicators to measure its impact. **We welcome the commitment to develop indicators to measure ECGD's impact on project quality but their production and publication has to be in addition to, rather than instead of, greater disclosure on the nature of applications and supported projects.**

Promoting sustainable trade and investment

37. ECGD is reactive organisation, dependent on the applications for support that it receives to determine the shape of its portfolio. This does not mean however that it can not send out appropriate signals to industry and commerce to encourage applications for projects and exports which would make a positive contribution to sustainable development.

38. Improving the energy capacity and infrastructure in developing countries is an essential element of poverty reduction and sustainable development. The use of traditional fossil fuels to achieve this can be very damaging both to the environment and quality of life for local inhabitants. The UK has an opportunity to contribute to sustainable development on a global scale through the provision of renewable energy technologies and equipment.

39. The Prime Minister announced during the World Summit on Sustainable Development in Johannesburg in 2002 that ECGD would make £50 million a year available to support renewable exports and projects. Mr Brown told us that

³³ DfID, *Energy for the Poor*, 2003, p. 8.

³⁴ See also Twelfth Report from the Trade and Industry Committee, Session 2000-01, on Ilisu Dam, HC 512; Fifth Report from the International Development Committee, Session 2000-0, on ECGD, Developmental Issues and the Ilisu Dam – Further Report, HC 395; and Sixth Report from the International Development Committee, Session 1999-2000, on ECGD, Development Issues and the Ilisu Dam. HC 211.

³⁵ WA, 3 June 2003, col. 332.

“the purpose of that was to proactively indicate that we were particularly open to projects of that kind coming forward” and assured us that “if we had more projects involving renewable energy coming forward then we would be happy to consider them. £50 million is not a ceiling”.³⁶

We welcome the establishment of the £50 million a year underwriting facility for renewable projects as a step in the right direction, particularly because of the signals it sends to industry and commerce and the encouragement it gives to companies operating in that sector to compete for overseas contracts. However, this should not be a substitute for treating environmental criteria as a mainstream objective.

40. Isolated action on the part of ECGD is however unlikely to impact on UK overseas trade and industry in any significant manner. The renewable energy sector illustrates this point well. Take up of the fund is dependent on companies making applications for support. Companies will not make such applications unless they have the right products and services to offer to buyer countries. We have commented before on the difficulties faced by the renewable energy sector in the UK and the lack of Government support for the development of renewables technologies.³⁷ If these technologies are not brought to market in a commercially viable manner, there will be little potential for UK industry to exploit the ECGD’s provision. **The Government should ensure that all public bodies concerned with the support, development and promotion of UK trade and industry adopt a consistent approach to sustainable development and ensure that initiatives are co-ordinated to achieve maximum benefit.**

41. Some witnesses argued that ECGD itself could do more to foster and enhance the competitiveness of the UK environmental sector. ECGD would face a number of barriers in doing so. Environmental projects often have high up-front costs and longer payback periods, increasing the risks associated with a project; nor does ECGD have the facility for short-term loans which are often favoured by the small and medium-sized companies typical of the UK environmental sector. Moreover, many companies operating in this sector are eligible for grants from other parts of Government. It is however possible to identify a role for ECGD to “provide real leadership in supporting UK environmental exporters and improving environmental quality in host countries”.³⁸ Ex-Im, JBIC and some other ECAs encourage environmental exporters through the provision of extended terms of finance and other measures. **We recommend that ECGD should develop its capacity to support environmental exports further and should explore the possibilities of offering extended terms of finance and other incentives such as fast-track processing.**

³⁶ Q104.

³⁷ Fifth Report from the Environmental Audit Committee, Session 2001-02, on *A Sustainable Energy Strategy: Renewables and the PIU Review*, HC582.

³⁸ Ev 57.

Case impact analysis process

42. ECGD's constructive engagement approach, as opposed to a more straightforward refusal to support projects with significant negative sustainable development impacts, means that it is essential that project screening procedures are robust.

Environmental Screening

43. ECGD has adopted a case by case approach to the assessment of applications which benchmarks proposed projects against internationally agreed standards. This practice, which is common among ECAs, means that there is not one clear environmental standard which all applications must meet

44. WWF-UK argued that "the development of a set of clear...standards could bring significant benefit to ECGD and the companies it supports". Setting out the standards to be applied to applications for cover in advance would not only mean that projects could be designed from the outset with these standards in mind—usually a much cheaper option than amending specifications at a later date—but it could also reduce the administrative burden on both ECGD and its clients by minimising the time spent on unsuccessful and sub-standard applications. ECGD told us that its widely promulgated position of applying World Bank standards in most circumstances effectively means that it has pre-defined standards.³⁹ However, in practice, ECGD's permissive policies mean that it remains for client companies to "to choose which international standards they wish to apply to their project".⁴⁰ The chosen standards are then benchmarked against other standards by ECGD.

45. WWF-UK argued that "the benchmarking approaches mean a lack of predictable and consistent standards". In practice this does not appear to be the case. ECGD told us that in practice "we have never had an exporter or a project developer come to us and say we do not understand what you mean in your impact questionnaire by international standards, we have never had anyone tell us that they are confused by our apparent lack of specificity for particular standards". Confidence in the system is not however enhanced by non-disclosure of the standard to be used. **The Canadian export credit agency, EDC, discloses the precise standard chosen as the basis for environmental review in all high impact cases. We recommend that ECGD adopt a similar approach.**

Impact questionnaire and guidance notes

46. Applicants for ECGD cover are required to complete the impact questionnaire when initial screening has resulted in their case has been identified as having medium potential impacts. The impact questionnaire is accompanied by a series of guidance notes.

47. The UK has ratified the United Nations Convention on the Rights of the Child and the International Labour Organisation conventions on the abolition of child labour. We were therefore surprised to see that the guidance notes, despite recognising the UK's

³⁹ Q155.

⁴⁰ Q153.

commitments in these areas, employ a loose form of wording which implies that there are circumstances under which ECGD would consider supporting projects which exploit children. They state that “there must therefore be exceptional circumstances for ECGD to provide cover to projects which involve child labour”.

48. Similarly, despite the UK’s ratification of the International Labour Organisation Conventions on forced and bonded labour, rather than ruling out support for projects which breach the convention, ECGD state that “it is difficult to imagine circumstances in which ECGD could provide cover to projects which involve forced labour”.⁴¹

49. Mr Brown defended ECGD’s position by arguing that it was important for ECGD to be able to consider the circumstances of individual cases; that other international organisations adopted a similar approach; and that it did not want its discretion fettered.⁴² **There is no circumstance under which it would be acceptable for ECGD, using taxpayers money, to support projects which exploit children or employ bonded or forced labour. We were therefore pleased to receive a further note from ECGD assuring us that “it is the Department’s policy not to provide support for any project that involves the use of bonded or forced labour. The policy statement in the guidance notes for the impact questionnaire will be amended to provide greater clarity on this point”. We look forward to receiving copies of the amended text. We recommend that a similarly categorical statement is made in respect of child labour and the guidance notes suitably amended.**

Productive expenditure

50. Poverty reduction and elimination is a key part of sustainable development. Despite debt write-off under the Heavily Indebted Poor Country Initiative, many countries continue to have economies that cannot support high levels of debt. ECGD apply a productive expenditure check in assessing applications for cover for projects in the world’s poorest countries. (These are the countries defined by the World Bank as IDA-only, that is countries that can only borrow from the World Bank on highly concessional terms). Applications for cover for projects in these countries are judged on whether they:

- assisting social and economic development
- or are of maximum benefit to areas most affected by poverty
- or tackle problem areas where private investment is not available
- or, wherever possible, earn foreign exchange
- or, encourage viable self-financing projects.

⁴¹ Guidance Notes on completion of the Impact Questionnaire, p.iv.

⁴² Q171.

51. Three projects have been rejected on the grounds that they did not represent productive expenditure since the check was introduced in 1997, one of which post-dates the review.⁴³

52. Applications need only meet one of these criteria to pass the productive expenditure check. That means that projects that will earn foreign exchange or encourage other self-financing projects are not required to promote social or economic development nor to make a contribution to poverty reduction. The productive expenditure check needs to be a more rigorous tool if it is to contribute to the Government's aim of replacing the vicious circle of "debt poverty and economic decline" with a "virtuous circle of debt relief, poverty reduction and economic development". **We recommend that in future, applications for support for projects in IDA-only countries are accepted only when they meet at least two of the debt sustainability criteria.**

⁴³ WA, 3 June 2003, col 331.

Common Approaches on the Environment and Officially Supported Export Credits

53. In 2001, ECGD was a significant driving force behind the adoption by 24 out of 26 members of the OECD Export Credit Group of the *Common Approaches on the Environment and Officially Supported Export Credits* which sets baseline requirements for environment assessment among ECAs.⁴⁴ *Common Approaches* sets out a methodology for screening projects and taking account of environmental impacts.

54. *Common Approaches* has been rounded criticised by NGOs as being too weak and inadequate to instil best practice in all ECAs, although ECGD's efforts to make improvements have also been acknowledged.⁴⁵ Criticism has focused in particular on

- the absence of mandatory environmental standards;
- an exemption from screening procedures where an ECA exposure represents only a small proportion of overall risk (in the case of the Ilisu Dam, this exemption would have meant that several participating ECAs, including Hermes in Germany, would not have had to perform a detailed environmental assessment despite the high potential impact of the case);
- the absence of a requirement for an Environmental Impact Assessment in all high potential impact cases (at present there is only an expectation that an EIA will take place);
- and the absence of any requirement for Environmental Impact Assessments to be made public.

55. As a consequence of these weaknesses, some NGOs have been critical of ECGD's decision to sign up to the *Common Approaches*, arguing that this "left more progressive voices with the international ECA community isolated".⁴⁶ This seems to us to be a misunderstanding of the purpose of the *Common Approaches* which is to increase the extent to which ECAs across the board take account of the environmental, social and developmental consequences of their support decisions. This does however mean that ECGD's approach needs to be twin track – pushing ahead with domestic reform while at the same time working to promote the adoption of more rigorous common standards at an international level.

56. ECGD's own procedures needed little amendment in 2001 to bring them into line with the *Common Approaches* requirements. The reforms that ECGD has subsequently implemented, on prior disclosure for instances, means that it has gone well beyond the basic requirements even if it is still short of best practice in some cases.

⁴⁴ Turkey declined to agree *Common Approaches* because it took exception to a minor part of the text but nevertheless has implemented a similar system. The USA already had in place a system which exceeded the requirements of the *Common Approaches*.

⁴⁵ Q57; Ev 20.

⁴⁶ Ev 20.

57. The *Common Approaches* are due to be revised during the summer of 2003, with agreement on a the revised text expected in November 2003. ECGD told us that the existing agreement had been “instrumental in encouraging other ECAs to introduce meaningful environmental assessment systems”⁴⁷ and that in practice some of the more reticent ECAs had found that implementing the requirements of the *Common Approaches* had not been as difficult as might have been imagined at first.⁴⁸ On the basis of this experience there is real potential for this year’s revision to make significant advances. **We welcome the efforts that ECGD has already made to extend the scope of the OECD’s *Common Approaches* initiative towards sustainable development and to have a requirement for all projects, regardless of size, to be subject to project screening. These issues, together with greater clarity on standards and greater transparency, should be priorities in negotiations on the revised *Common Approaches*.**

58. Part of the strength of the *Common Approaches* stems from the fact that such a large number of ECAs, including many of the largest and most influential, were party to the agreement. We have already noted the limited potential for unilateral action to affect the processes of international trade and investment. Much better results can be achieved, and more quickly achieved, through concerted multilateral action. **We recommend that ECGD treat obtaining unanimity as a priority during the negotiations on revisions to the *Common Approaches*; and we further recommend that the Government take a leadership role in reaching international consensus to ensure that common environmental criteria are a key component of all decisions relating to the granting of export credits guarantees.**

⁴⁷ Ev 60.

⁴⁸ Q200.

List of Acronyms

COFACE	Companié Française d'Assurance pour le commerce Exterior, France
ECA	Export Credit Agency
ECGD	Export Credits Guarantee Department
EDC	Export Development Corporation, Canada
Ex-Im	Export Import Bank, USA
JBIC	Japanese Bank for International Co-operation
NEXI	Nippon Export Investment Insurance, Japan
NGOs	Non-Governmental Organisations
OECD	Organisation for European Co-operation and Development

Formal minutes

Wednesday 9 July 2003

Members present:

Mr John Horam, in the Chair

Mr Peter Ainsworth
Mr Gregory Barker
Mr Colin Challen

Mr Mark Francois
Joan Walley
Mr David Wright

The Committee deliberated.

Draft Report (The Export Credits Guarantee Department and Sustainable Development), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 58 read and agreed to.

Resolved, That the Report be the Seventh Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

A paper was ordered to be appended to the Minutes of Evidence.

Ordered, That the provisions of Standing Order No. 134 (Select Committees (reports)) be applied to the Report.

Ordered, That the Appendix to the Minutes of Evidence taken before the Committee be reported to the House.

The Committee further deliberated.

[Adjourned till Wednesday 16 July at half-past Three o'clock.]

Witnesses

Wednesday 14 May 2003

Page

Mr Tony Juniper, Executive Director, **Mr Phil Michaels**, Legal Adviser, **Mr Nicholas Hildyard**, Friends of the Earth Strategic Adviser and **Ms Hannah Griffiths**, Friends of the Earth Corporations Campaigner, Friends of the Earth.

Ev6

Ms Sally Nicholson, Head of Global Policy, **Mr Jules Peck**, Global Adviser, and **Ms Jodie Thorpe**, Consultant, WWF-UK.

Ev51

Wednesday 21 May 2003

Mr Vivian Brown, Chief Executive Officer, **Mr John Weiss**, Director, Business Group, **Mr John Ormerod**, Director, Strategy and Communications and **Mr David Allwood**, Business Principles Adviser, Export Credits Guarantee Department.

Ev58

List of written evidence

1	Friends of the Earth	Ev1
2	The Corner House	Ev13, Ev47
3	WWF - UK	Ev49, Ev56
4	Export Credits Guarantee Department	Ev58, Ev96
5	Oxford Research Group	Ev96

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2002-03 Session

First	Pesticides: The Voluntary Initiative, HC100 (<i>Reply, HC 443</i>)
Second	Johannesburg and Back: the World Summit on Sustainable Development–Committee delegation report on proceedings, HC 169
Third	Annual Report, HC 262
Fourth	Pre-Budget 2002, HC 167 (<i>Reply, HC 688</i>)
Fifth	Waste – An Audit, HC 99
Sixth	Buying Time for Forests: Timber Trade and Public Procurement, HC 909.

2001-02 Session

First	Departmental Responsibilities for Sustainable Development, HC 326 (<i>Reply, Cm 5519</i>)
Second	Pre-Budget Report 2001: <i>A New Agenda?</i> , HC 363 (<i>HC 1000</i>)
Third	UK Preparations for the World Summit on Sustainable Development, HC 616 (<i>Reply, Cm 5558</i>)
Fourth	Measuring the Quality of Life: The Sustainable Development Headline Indicators, HC 824 (<i>Reply, Cm 5650</i>)
Fifth	A Sustainable Energy Strategy? Renewables and the PIU Review, HC 582 (<i>Reply, HC 471</i>)
Sixth	Buying Time for Forests: <i>Timber Trade and Public Procurement</i> , HC 792-I, (<i>Reply, HC 909, Session 2002-03</i>)

2000-01 Session

First	Environmental Audit: <i>the first Parliament</i> , HC 67 (<i>Reply, Cm 5098</i>)
Second	The Pre-Budget Report 2000: <i>fuelling the debate</i> , HC 71 (<i>Reply HC 216, Session 2001-02</i>)

1999-2000 Session

First	EU Policy and the Environment: An Agenda for the Helsinki Summit, HC 44 (<i>Reply, HC 68</i>)
Second	World Trade and Sustainable Development: An Agenda for the Seattle Summit, HC 45 (Including the Government response to the First Report 1998-99: Multilateral Agreement on Investment, HC 58) (<i>Reply, HC 69</i>)
Third	Comprehensive Spending Review: Government response and follow-up, HC 233 (<i>Reply, HC 70, Session 2000-01</i>)
Fourth	The Pre-Budget Report 1999: pesticides, aggregates and the Climate Change Levy, HC 76
Fifth	The Greening Government Initiative: first annual report from the Green Ministers Committee 1998/99, HC 341
Sixth	Budget 2000 and the Environment etc., HC 404
Seventh	Water Prices and the Environment, HC 597 (<i>Reply, HC 290, Session 2000-01</i>)

1998-99 Session

First	The Multilateral Agreement on Investment, HC 58 (<i>Reply, HC 45, Session 1999-2000</i>)
Second	Climate Change: Government response and follow-up, HC 88
Third	The Comprehensive Spending Review and Public Service Agreements, HC 92 (<i>Reply, HC 233, Session 1999-2000</i>)
Fourth	The Pre-Budget Report 1998, HC 93
Fifth	GMOs and the Environment: Coordination of Government Policy, HC 384 (<i>Reply Cm 4528</i>)
Sixth	The Greening Government Initiative 1999, HC 426
Seventh	Energy Efficiency, HC 159 (<i>Reply, HC 571, Session 2000-01</i>)
Eighth	The Budget 1999: Environmental Implications, HC 326

1997-98 Session

First	The Pre-Budget Report, HC 547 (<i>Reply, HC 985</i>)
Second	The Greening Government Initiative, HC 517 (<i>Reply, HC 426, Session 1998-99</i>)
Third	The Pre-Budget Report: Government response and follow-up, HC 985
Fourth	Climate Change: UK Emission Reduction Targets and Audit Arrangements, HC 899 (<i>Reply, HC 88, Session 1998-99</i>)