

MINUTES OF MEETING HELD 15 JANUARY 2003

**Present:** Ms Liz Airey (Chairman)  
Professor Jonathan Kydd  
Mr David McLachlan  
Professor Kate Phylaktis  
Mr Tony Shepherd  
Dr Raj Thamotheram  
Sir Stephen Brown

**In Attendance:** Mr John Ormerod  
Mr Tom Jaffray  
Mr Victor Lunn-Rockliffe  
Mr John Weiss  
Mr Ian Dickson  
Mr Steve Dodgson  
Mr Paul Radford  
Ms Rachel Davies

Mr Gareth Waterhouse (Secretary)

**1 APOLOGIES FOR ABSENCE**

Apologies were received from Mr John Armitt, Mr Martin Roberts and Mr John Elkington.

**2 MINUTES OF THE PREVIOUS MEETING**

The minutes of the meeting held on 11 December 2002 were approved and signed.

**Matters Arising**

**2.1 Trading Fund**

2.1.1 The Secretary of State had made an announcement on 17 December on progress made and the new target date for the establishment of the Trading

Fund. The Council would be sent a copy of this. A further announcement would be made in early 2003. This would focus on ECGD's business strategy and measures that would be beneficial for customers.

2.1.2 The announcement would include: cover policy changes (also to be detailed in the January issue of ECGD News), that were designed to provide more clarity and information for customers; the conclusions of the consultation on the Case Impact Questionnaire – this would lead to simplification of procedures and a change in ECGD's publication of involvement in potential high impact cases; and the publication of the NERA report (See Item 4). At the same time, the results of ECGD's own study of the Customer Perceptions of ECGD's benefits (See Item 5) would be returned to those that had responded to ECGD's questionnaire.

## 2.2 SMEs

2.2.1 At the previous meeting, the Council had requested information on the amount of support that other Export Credit Agencies provided to SMEs. It was presented with extracts from a draft paper being prepared by the OECD Export Credit Working Group. This provided some information on both the levels of business and the mechanisms set up within other ECAs to help SME exporters.

2.2.2 The Council asked if it was possible to gain further information on the success of other ECAs' SME work, including the satisfaction of their customers. It was observed that each country faced a different set of problems. Factors such as the size of firms that are served, and the ability to offer short-term products made like-for-like comparisons with other countries

very difficult. ECGD was soon to launch a Customer Survey that would provide some information on customer satisfaction. It was agreed that other ECAs would be approached informally and the Council would be updated if any additional information became available.

### **3 REVIEW OF EXPORT GUARANTEES ADVISORY COUNCIL**

3.1 The Chairman introduced the paper, which attempted to bring together the previous discussions by ECGD and the Council. She outlined the main conclusions:

- The current Terms of Reference were appropriate. The work of the Council on Business Principles issues was important to ECGD.
- The Council should clearly focus on giving advice that was useful and used. There also needed to be clarity in this advice and in the objectives that were to be achieved. This meant that ECGD needed to ensure that the Council was consulted at an early enough stage, on relevant issues, for its advice to be capable of implementation. This had not always been the case in the past.
- Two problems that the Council should rectify were that it had failed to cover all the areas of its remit, and that it had not made sufficient “challenge” when presented with issues by ECGD.

3.2 In discussion, the following points were made:

- There was still a lack of clarity regarding the position and role of the non-Executive Directors on ECGD's Management Board. It was explained that the non-Executive Directors were similar to ECGD's normal officials rather than being a true external force like the Council. Also, the Council's position of being able to give advice directly to Ministers (and therefore the possibility of questioning ECGD policy) was very different to the role of the non-Executive Directors (whose duties were as part of implementing that policy) as the accountability of the non-Executive Directors was to the Accounting Officer.
- If the Council was to delve deeper into issues and attempt to more completely fulfil its remit, it may be lacking some expertise. Specifically, experience of capital goods exporting and ECGD's products was not strong within the current membership.

### 3.3 The following actions were also decided upon:

- The Council should seek to more proactively lead the agenda, deciding on which subjects to take with reference to ECGD needs and the status of the issue. It was hoped that this would enable advice to be provided at the appropriate time, and also allow more effort to be made to fulfil the entire remit.
- The Council membership should be supplemented with an individual who had relevant experience of exporting and using ECGD's services. Additionally, the possibility of adding a member who had experience of employment issues (for example, from a national trade union) should be investigated.

- The Council should receive a paper at its next meeting which would address how it could engage with other ECGD stakeholders. This would be important in helping the Council to become more proactive and provide well-informed challenge to ECGD.
- The Council intended to organise two meetings. Firstly, with ECGD's non-Executive Directors – this was intended to clearly establish the divisions between the responsibilities of the two. Secondly, a meeting with officials from the Treasury, as this was ECGD's major stakeholder.
- The nature of papers presented to the Council should change. The Council should receive shorter papers to facilitate discussion and these should be explicit about where advice was desired (or required). Further, where possible, Council members might be consulted on papers that were within their specific area of expertise.
- The Council should monitor advice that it had given so that it might better review its value and performance.
- The Council should receive updates on relevant issues between its bimonthly meetings. These would include items that it was unnecessary to present in full at meetings (such as the Monthly Financial Reports and Quarterly Risk Review).
- The Council also decided on items for its forward diary. At the March meeting, the Council would receive an update on the Business Strategy, including the Corporate Plan and Customer Proposition. At the meeting in May, the Council provisionally proposed to consider a paper on a review of

ECGD's Business Principles. It would also consider the way in which it handled Business Principles issues in the future. Additionally, it was agreed that work on the preparation of the Council's Annual Report should be started.

#### **4 NERA REPORT ON ESTIMATING THE ECONOMIC COSTS AND BENEFITS OF ECGD**

4.1 The Council had been supplied with the executive summary of the report by National Economic Research Associates (NERA). The study was to be published in early 2003. Mr Radford presented the main findings of the report.

- The approach NERA had taken was set out in the original (2000) report they had produced as part of the ECGD Mission and Status Review. This took a National Accounts Approach to estimating the costs and benefits of ECGD, estimating the value added of ECGD by using premium income as a proxy.
- The new NERA study had analysed all of the cases that ECGD had underwritten between 1992 and 2002 and compared the price that was charged to a theoretical "ideal" price that took into account the full costs (including a return on capital) of taking on the business. NERA had presented the results of this analysis using two different sets of assumptions – one where the optimal price was determined as if ECGD operated with a capital cost that traditionally would be required in the

public sector (but also with constraints imposed on public sector firms), and a second scenario where ECGD operated with underlying assumptions that were akin to a private sector comparator.

- The results showed that, for the central estimates on both of the scenarios, ECGD did fully cover the expected loss, administrative costs and a return on capital on aggregate over the 10 years. The inclusion of ECGD's Overseas Investment Insurance portfolio slightly increased the surplus. However, NERA pointed to the large losses on the Fixed Rate Export Finance account as indicating that ECGD's total activities were, overall, subsidised during this period.
- There were a number of problems and assumptions within the analysis which meant that this conclusion was not clear-cut. It had been impossible to accurately assess the capital impact of every case individually. If different assumptions had been made (specifically the capital costs being higher than estimated), then the results indicated that there had been a significant (up to £50m a year) undercharge. The examples given as reasons for changing the capital costs would be to allow for headroom for further business, excess capital in case of volatility, and to take account of ECGD's liability for catastrophic risks.
- The other major problem was the retrospective nature of the analysis. ECGD had charged in line with the WTO breakeven objective and, in recent years, according to the OECD Consensus premium benchmarks. Subsequently applying different rules to the pricing meant that any surplus/subsidy was incidental.

- The relatively small difference between the ideal premium intake and that which ECGD actually received (particularly in comparison to the whole of the UK capital goods industry) meant that the NERA analysis showed that if ECGD changed its prices to eliminate any undercharge the overall impact on the UK economy would be negligible.

4.2 In discussion, the following points were made:

- The Council observed that the NERA analysis was strongly academic and thorough. However, it would have been useful as a next step to compare the value added of ECGD with the resources that it employed
- Some members of the Council felt that the overly technical nature of the study, and the fact that complexities had made it difficult to draw any clear conclusions, would weaken it under scrutiny from someone without the required academic background. Further, the Council strongly questioned the view that this was the only (or best) way to calculate the value of ECGD. Examples of factors that had been discounted, but the Council viewed as relevant, were: employment; balance of payment impacts; and the strategic development and preservation of key industries. It did not seem to take into account that in the real world other exporting countries maintained export credit guarantee agencies, and that unilateral withdrawal of export support by the UK could have serious consequences for key sectors of the UK economy. Finally, it was acknowledged that, by excluding these factors just mentioned, the methodology of the study was at best carefully neutral. Approaches that incorporated these other considerations would have painted ECGD in an even more positive light.

Thus it is reassuring that ECGD came out reasonably well when tested by a methodology based on somewhat sceptical premises.

- ECGD officials said that the report did contain a great deal of detail, and there were many elements that were valuable and could be useful in future decisions regarding the Trading Fund. The report was complicated by virtue of its subject matter, but there were still benefits from completing the study.
- The Council said the conclusions could indicate that ECGD should increase its prices. Ministers have, however, agreed that ECGD would not put up premium rates across that board. The NERA methodology would be employed to ensure that transactions were priced according to their full risks and costs.

## **5 THE CUSTOMERS' PERCEPTION OF THE VALUE OF ECGD**

5.1 Mr Radford described the background to this study:

- Work had begun last March to attempt a systematic assessment of the impacts that ECGD had on its customers in terms of output, jobs and other benefits. It was hoped that this analysis would complement the NERA study by approaching the question of benefits from a different direction.
- A questionnaire had been sent to a sample of customers, as well as relevant banks and Trade Associations, in order to gather information about the general impressions of ECGD and the value of its service, as

well as specific information on cases that had previously been underwritten.

- The findings of the study had been compiled into a report that would be sent to those firms that responded, and made available on request.

5.2 The main findings of the questionnaire study were outlined:

- ECGD support was associated with a large number of jobs within the exporting firms and there was diversity between sectors and geographical regions within this impact.
- Contracts supported by ECGD involved large amounts of work in complex supply chains that often included smaller companies. There was also estimated to be a significant impact on employment in these firms.
- Follow-on business subsequent to an ECGD-supported contract was often forthcoming.
- There was strong evidence to support the fact that ECGD support was additional to what was available in the private sector. Responses indicated that the majority of cases would not have gone ahead without ECGD and that many others would have been lost to the UK.
- Exporters indicated that availability of cover was their prime concern as this was the vital first step in utilising the potential value of support. In written submissions that were enclosed with questionnaire responses and by banks and Trade Associations, the importance of ECGD being competitive with other ECAs was the one key theme.

5.3 In discussion, the following points were made:

- The Council agreed that they had found the results of this study much more accessible than those of the NERA study. It was felt that this work was more likely to be embraced by the recipients as a representation of ECGD's benefit.
- The Council noted some potential problems. Firstly, the study had made no reference to the costs or resources employed in these activities. Secondly, the self-reporting nature of the study meant that the answers could be held up for scrutiny. It was pointed out that the second problem was unavoidable, and the depth of results would have been impossible to achieve using any other methodology.
- The Council looked forward to receiving a copy of the final report.

## **6 GUARANTEES ISSUED**

The list of guarantees was given to the Council for information only and was not presented at the meeting.

## **7 ANY OTHER BUSINESS**

There was no other business

GARETH WATERHOUSE

EGAC Secretariat