

MINUTES OF MEETING HELD 17 NOVEMBER 2004

Present: Ms Liz Airey (Chairman)
Mr Tony Shepherd
Dr Raj Thamotheram
Sir Stephen Brown
Mr Paul Talbot

In Attendance: Mr Patrick Crawford
Mr John Weiss
Mr Nicholas Ridley
Mr David Allwood
Miss Vicky New

Mr Graham Rowcroft (Observer)
Mr Gareth Waterhouse (Secretary)

1 APOLOGIES FOR ABSENCE

Apologies were received from Professor Kydd, Mr Elkington and Mr Roberts.

2 MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 21 October 2004 were approved and signed.

Matters Arising

2.1 Letter to Minister for Trade

2.1.1 The letter had been drafted and dispatched to the Minister and it was agreed that any response would be circulated between meetings.

3 TRADE AND INDUSTRY COMMITTEE

- 3.1 Mr Weiss updated the Council on the Committee hearing that had taken place the day before, making the following main points:
- 3.1.1 The focus of discussions was on the BTC Pipeline Project. The Committee had been passed a copy of the full report for Underwriting Committee prepared by the Business Principles Unit. It was questioned why the report had been judged confidential, and it was explained that there were a number of sensitive comments by and about third parties. The Committee Chairman said that they were planning to call the Minister in the New Year, and transparency would be one of the issues they would cover.
- 3.1.2 Much of the discussion focussed on due diligence and subsequent monitoring, especially with regard to the issues with the coating for the pipeline. ECGD had received criticism about possible over-reliance for information on the project sponsor. ECGD had responded by demonstrating the important role of the independent engineering consultant working for all the lenders. ECGD had also emphasised the continued monitoring of the project by the independent expert advisers, as well as stressing the Department's position as only one of a consortium of lenders, including the IFC and EBRD.
- 3.1.3 A number of questions at the end of the hearing had focussed on the changes to bribery and corruption procedures.
- 3.1.4 TIC would produce their report in the New Year, and the government would then provide a response.

4 BUSINESS PLAN

4.1 Mr Crawford gave an update on progress in producing a Business Plan for the Pilot Trading Fund, making the following main points:

4.1.1 Detailed analysis had been produced on future business volumes for ECGD. This had been developed in consultation with other Government Departments and key customers, and a number of scenarios for the future had been developed. The analysis had shown that there was likely to be a declining trend in recurring business, and hence a greater dependence on occasional large deals.

4.1.2 ECGD would analyse its cost base against a conservative scenario for recurring business. Work had been carried out to assess potential savings in accommodation and IT costs. Current investment in IT was large, but following completion of the Roadmap project in the New Year, efficiency savings would be explored.

4.1.3 Ernst & Young had been taken on to provide advice to ECGD's business modelling team in regard to its work on testing assumptions and decisions, ensuring that forecasts were soundly based, and converting economic concepts into financial accounting measures. This would allow financial numbers to be robust and enable more careful consideration of Key Performance Indicators.

4.1.4 Work was continuing in the Department to prepare for the Pilot Trading Fund, and the implementation of the Roadmap IT project. On behalf of HMT, KPMG would be reviewing ECGD's risk management systems in January, prior to negotiations on a new Treasury Consent.

- 4.2 In discussion, the following main points were made:
- 4.2.1 The Business Plan would deal with a number of sensitive issues, but documents would be made public where possible.
- 4.2.2 Future demand for ECGD support was considered in more detail. All ECAs were experiencing the effect of growth in the private sector capacity for providing insurance; although the UK capital goods exports as a whole were still growing, the proportion supported by ECGD had fallen, and it was expected that ECGD's premium revenues would fall to levels below those that had prevailed in the late 90s. In this context, ECGD needed to lower its cost base to a level more in line with this reduced income.
- 4.2.3 The Council proposed a number of options for ECGD to attempt to expand its business. Providing more cover to service providers and developing what was available for small and medium sized firms were both a possibility; ECGD should also reconsider the issue of bond support if further evidence were available. Although differences between the remits, financial requirements and procedures of ECAs made cooperation between different agencies complex, this was another area that could provide more business. ECGD already worked closely with other ECAs on Airbus cases, and reinsurance arrangements were in place to enable cooperation on large cases with elements sourced from a number of countries. One Council member said that foreign banks, including those of developing countries, were more willing to offer loans than those in the UK, and ECGD could help to resolve this problem for exporters.

- 4.2.4 Dependence on a small number of cases could pose challenges for ECGD's capital efficiency, and the Pilot period would be used to test whether ECGD had a sustainable business that could be run in a commercial fashion. Council members felt that finding opportunities to diversify risks, even if the business was only on a break even basis, would reduce this problem and also provide a stronger rationale for ECGD's existence as it served a wider variety of exporters.
- 4.2.5 The Council would be able to discuss the Business Plan in more detail at the January meeting.

5 FREEDOM OF INFORMATION

- 5.1 Mr Ridley gave a presentation on implementation and implications of the Freedom of Information Act.
- 5.2 In discussion, the following main points were made:
- 5.2.1 Council members felt that it would be difficult for them to personally respond to FOI requests. One possibility was that, where no exemption applied, papers could be published following the meetings to avoid the possibility of Council members directly receiving a request. Any requests that were made should be immediately sent on to ECGD. This issue should be considered again at the January meeting, which would be within the first 20 days of implementation.
- 5.2.2 The exemptions existed so that it was still possible to record sensitive discussions and exchange confidential information.

6 ANTI-CORRUPTION PROCEDURES

6.1 Mr Weiss presented a paper, making the following main points:

6.1.1 New procedures would be introduced at the beginning of December, and the changes between these and those introduced in May were set out in the paper. Some cases that had taken place since May had been conducted using interim anti-corruption rules, though these were enhanced by comparison with the procedures used before May.

6.1.2 There was now some media interest, and a meeting was due to be held the following day with NGO representatives in order to explain to them the nature of and reasons for the change. Transparency International had complained that ECGD had not consulted more widely on the changes; this had not been considered necessary, as the revisions were to deal with specific problems and did not change the substance of the procedures. Transparency International and other NGOs had been advised that ECGD would continue to consider enhancements to its procedures for a later date, and hence any views they might offer would be taken into account when further changes were under consideration in the future.

6.2 In discussion, the following main points were made:

6.2.1 ECGD recognised that it would have been better if it had checked on the practicality of arrangements with customers prior to their introduction. While six weeks had originally been allowed between announcing the procedures and their implementation, in order to deal with any queries that customers

may have had about the new procedures, ECGD had not foreseen the practical difficulties for customers.

6.2.2 It was questioned whether the Council had been able effectively to provide advice before the changes were introduced. Although the Council had provided advice on anti-corruption procedures to Ministers in January, specific advice had not been officially sought since discussions had commenced on the changes requested by customers. The Council had nevertheless been regularly updated at meetings. But it was agreed that there might have been a benefit for ECGD if the Council had been able properly to review the changes.

6.2.3 Council members felt that they had been unable to properly engage on this issue, whereas the role and benefit of EGAC was to give timely advice in such circumstances. This should be considered going forward, and the Council hoped that their view would be sought on any changes in policy.

6.2.4 The experience had also reinforced the need for some form of customer representation or interface for the Council, so that advice could be better informed. The Council requested any analysis of how ECGD compared with other ECAs on anti-corruption procedures.

7 GUARANTEES ISSUED – EGAC(04)23

7.1 There were no comments on the paper.

8 EGAC ACTIVITY – EGAC(04)24

- 7.1 The topics that the Council had covered during the year thus far were considered. It was agreed that ECGD's risk management policies would be discussed in the context of the Business Plan at the next meeting. An item at the March meeting would cover ECGD's marketing and product development policies.

9 ANY OTHER BUSINESS

- 8.1 There was none.

GARETH WATERHOUSE

EGAC Secretariat