

MINUTES OF MEETING HELD 21 OCTOBER 2004

Present: Ms Liz Airey (Chairman)
Professor Jonathan Kydd
Mr Martin Roberts
Mr John Elkington
Mr Tony Shepherd
Sir Stephen Brown
Mr Paul Talbot

In Attendance: Mr Graham Pimlott
Mr Patrick Crawford
Mr John Weiss
Mr Victor Lunn-Rockliffe
Mr Ian Dickson
Mr David Allwood

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

1 APOLOGIES FOR ABSENCE

Apologies were received from Dr Thamotheram.

2 MINUTES OF THE PREVIOUS MEETING

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

Matters Arising

2.1 Meetings with ECGD Stakeholders

2.1.1 A meeting between Council members and the DTI Shareholder Executive should be arranged.

2.2 Trade and Industry Committee

2.2.1 Mr Weiss said that the Trade and Industry Committee were calling ECGD back on 16 November to give further evidence related to the BTC pipeline project. Hence, the Committee would not issue its report before the next Council meeting.

3 BRIBERY AND CORRUPTION

3.1 Mr Weiss gave an update on the revision of procedures originally introduced in May, making the following main points:

3.1.1 Discussions with exporters had still not been finally concluded, although a great deal of work had taken place since July.

3.1.2 Issues on documentation and practical problems had now been resolved, and the only outstanding area for agreement was with regard to the details disclosed about agents. A final resolution was now being considered by Ministers. Settlement would mean that procedures had been enhanced since last year, but there had been some necessary changes to the original changes announced in March.

3.1.3 The Financial Times had reported on the situation, and this had generated a large amount of interest and Parliamentary Questions.

3.2 In discussion, the following main points were made:

3.2.1 ECGD was at the upper boundary of best practice for ECAs. There was not total clarity about the policies of other agencies, and some variation in practice for different aspects of preventing bribery and corruption, but ECGD was applying high standards in all areas.

3.2.2 ECGD would require information about agents on all contracts where their commission was included in the insured amounts. On other cases, information would be provided if the commission were greater than 5% of the contract value. This 5% value had been chosen as it was endorsed by Transparency International, although they had subsequently stated that the nature of the relationship between agent and buyer was more important than the amount of commission.

3.2.3 The Council questioned the sanctions that were available against firms accused of corruption. Mr Weiss said that further legal advice was required, but ECGD was constrained to act only following a successful conviction. A further complication was that guarantees were supplied to banks, not directly to the exporter. The Council proposed that a simple approach could be to introduce a further provision in the contract to require a penalty to be paid to ECGD if a conviction was found. It was agreed that this could be considered the next time policies in this area were reviewed.

3.2.4 The key lesson for ECGD was to avoid the problems encountered on this issue by consulting more widely before introducing new policies. One Council member said that it was important to provide NGOs with information on the changes to procedures and for them to understand the exporters objections.

4 ROLE AND REMIT OF EGAC

4.1 Mr Pimlott said that not as much progress had been made as was originally hoped. It had not been possible to have a detailed dialogue with the

Shareholder Executive, as they had been engaged in the switch of their operations from Cabinet Office to DTI. They would need to be consulted before proposals could be put to the Minister.

4.2 Progress was expected shortly and would be reported at the next meeting.

4.3 In discussion, the following main points were made:

4.3.1 The Shareholder Executive was headed by Richard Gillingwater and had firstly been established in the Cabinet Office to take on a management and review role for a range of government “shareholdings”; largely quasi-commercial entities such as the Royal Mail and British Energy. The aim was to create a more efficient interaction between government and the entity, including agreeing the organisation’s plans, monitoring its performance and acting as a mechanism for resolving conflicts within government. During the last few months, the Shareholder Executive had transferred to DTI, with its staff complement supplemented. Its relationships were at various stages of development: some entities had established review regimes but there were others that where the Shareholder Executive was still in the process of developing understanding.

4.3.2 The Shareholder Executive would review ECGD’s Business Plan but were also keen to ensure clarity in the governance structure. One Council member said that his experience with them was positive.

5 ECGD ORGANISATIONAL CHANGES

- 5.1 Mr Crawford explained the changes that had been made and the rationale behind them, making the following main points:
- 5.1.1 The new structure had been introduced with three main purposes. First, to create a more logical structure: this should ensure divisions were arranged in a way better suited to their functions; bring together all client-facing activities and skills involved in handling cases; and consolidate all treasury activities with accounting and budgeting functions. The second aim was to streamline the top management team, slimming down and simplifying the organisational structure. Third, to simplify the risk management process by condensing the activities of six committees down to one Risk Committee, whilst improving the mechanisms for handling cases.
- 5.1.2 The actual activities carried out by individuals had been almost entirely unaffected by the changes. However, there was a general concern among staff about future prospects: it had been recognised for some time that ECGD's cost base and business levels were out of line and some of the £5m per annum premium reductions promised in the July Announcement by the Secretary of State would need to be facilitated by reduced costs. At the current time, delivery of the Roadmap IT systems, and work leading to Pilot Trading Fund, were demanding a great deal of staff resource, and outcomes from these changes would need to be considered when looking at staff numbers.
- 5.1.3 From the Council's perspective, one key aspect of the change was the move of the Business Principles Unit from the dissolved Strategy and Communications Division, into the Business Group. The BPU worked with clients and was involved in negotiating transactions, so there was clear logic

in this change. It did not mean that ECGD was less committed to applying Business Principles, and the BPU had direct access to the Chief Executive if they felt their position was compromised in any way.

5.2 In discussion, the following main points were made:

5.2.1 The proposed “soft limits” for country cover would be based entirely on a risk basis, although risk assessments did consider the nature of governance and transparency in the country. Business Principles would continue to be applied on every case as part of processing the application, so relaxing central control over access to cover should not have an effect.

5.2.2 Policy on Business Principles, including bribery and corruption, would continue to be a responsibility of the BPU, although recent discussions on bribery and corruption had been carried out at a higher level for practical reasons. The Review of Business Principles would take place once the Pilot Trading Fund was underway, as resources were currently stretched and it was important to properly engage with exporters and NGOs in drafting the new statement.

5.2.3 The reporting lines for the top team were clarified: in practical terms, the Chief Executive reported to the Chairman and non-executives on the Board, although government accountability meant that the Accounting Officer (Chief Executive) would have overall responsibility for ECGD. The makeup of the Board would be changed, individuals with current credit risk skills, and from industry would supplement the membership. One Council member strongly felt that a Board member should have current exporting experience, but it was agreed that it was difficult to avoid conflicts of interest.

5.2.4 The Council welcomed the changes to ECGD, which seemed to be logically thought out and had been carried through well.

6 EGAC MEETING WITH NGOS – EGAC(04)20

6.1 The Chairman said that the meeting had gone very well. It had been constructive, well received by the NGOs, and they had said that it was helpful in subsequent correspondence.

6.2 Another Council member who attended the meeting said that he had been pleased, and that further meetings annually would be beneficial. There had been some interest in NGOs having a more direct role on the Council.

6.3 Mr Allwood said that the NGO representatives clearly appreciated direct contact with ECGD, and that they felt Council members were able to engage in a constructive discussion.

6.4 In discussion, the following main points were made:

6.4.1 There was a perception within the NGOs that ECGD was a pressure point, or lever, that could be pulled with a multiplier effect that had greater influence on other bodies. The Chairman said that there was a clear belief that ECA support unlocked other forms of finance. Another Council member said that ECAs had only recently become a target for NGO interest and that it was natural for them to be moving up a learning curve and exerting pressure to see what results they could achieve. It was agreed that, while ECGD tended to have a greater influence than some other ECAs, it did not carry the weight

that the NGOs believed, and that they should be further educated on this issue.

- 6.4.2 The Council's engagement with other stakeholders of ECGD was discussed. Although changes to the Council's remit and membership would affect the exact requirements, it was agreed that continuing to meet with interested parties would be valuable. An annual programme was proposed, to include NGOs, major exporters and banks, and key government stakeholders (now Shareholder Executive and HM Treasury). It was agreed that senior ECGD officials should also engage with NGOs, but that it would be best for the Council's interaction to be separate.

7 CASE REVIEW: TOBACCO PROCESSING LINE – EGAC(04)17

- 7.1 Mr Weiss presented the paper. This relatively small case had been quickly identified as sensitive and a decision made in consultation with a number of other government departments. It was decided that offering support on this case would not be consistent with Government policies on tobacco and health and the exporter had accepted the decision.

- 7.2 In discussion, the following main points were made:

- 7.2.1 Some Council members felt that the decision was wrong. Given other industries where ECGD provided support, and that this activity was not illegal in the UK or the buyer country, it seemed that there were not sufficient grounds to make a decision not to offer support. ECGD officials said that the Minister had written to colleagues who had concurred with the decision. It

was not the case that the exporter was being denied the opportunity to pursue the contract, but rather that ECGD would not be providing support.

7.2.2 EGAC's main concern was with the lack of transparency over the way in which the decision was made. It was explained by ECGD that this was a decision on a specific case, and that it did not constitute government policy. However Council members believed that it would be impossible, given the inconsistency, to take a different approach on subsequent cases, and hence a policy had been created.

7.2.3 It was agreed that the Council would write to the new Minister expressing their views on this issue.

8 Guarantees issued – EGAC(04)18

8.1 It was agreed that the Council would review a case for a gas project in Iran at its next meeting.

9 ANY OTHER BUSINESS

9.1 Forward Agenda

9.1.1 In addition to the case review, it was agreed that the Council would discuss the following issues at their next meeting: implementation of the Freedom of Information Act; an update on bribery and corruption; ECGD's Business Plan; and a review of the items discussed so far during the year to inform the agenda for meetings in January and March.

GARETH WATERHOUSE
EGAC Secretariat