Response to
Trade White Paper – Call for Evidence
By
The Corner House

> "The green effort should not be downgraded or swept under the carpet because of spending cuts and austerity. On the contrary, both developed and developing countries have the potential to make massive gains from a green economy; the low carbon market is already worth up to £3.2 trillion and is forecast to grow by around 4% a year over the next five years."
>
> Prime Minister David Cameron, 28 November 2010[1]

1. The Corner House is a not-for-profit research and advocacy group, focusing on human rights, environment and development. Over the past 11 years, it has closely monitored the support given to UK industry by the UK Export Credits Guarantee Department.

2. The Corner House welcomes the Government's Trade White Paper and the opportunity to comment on the issues raised.

3. The Corner House supports the use of taxpayer-supported funds to assist exporters, particularly at a time of economic recession. But it is firmly of the view that such support should:

    - Not be provided to companies that are able to finance their insurance and export finance needs through the commercial market;
    - Be conditional on projects, for which export support is provided, meeting international environmental, social and human rights standards;
    - Dovetail with domestic efforts to build a low carbon economy;
    - Be directed towards supporting "sunrise" industries that have long-term prospects within a low carbon global economy rather than "sunset" industries whose prospects are in long-term decline;

- Be available only to companies that pay taxes in the UK and which are committed to remaining in the UK rather than exporting production abroad.

4. The Corner House contends that:

- Successive governments have failed to provide the vast majority of UK exporters with the support they deserve, favouring instead a small group of politically well-connected businesses and banks, whose needs have been catered for at the expense of the majority;
- The UK's failure to support the growth of a domestic low carbon economy means that the UK is missing out on the export opportunities provided by the $3 trillion global market in low carbon goods and services;
- The government's efforts to boost exports by scrapping or weakening environmental and social safeguard standards is misconceived and will work against the long-term interests of the UK's exporters.

FAILURE TO SUPPORT SMALLER EXPORTERS

5. One of the principal vehicles for UK government support to exporters is the Export Credits Guarantee Department (ECGD), which provides exporters with a range of guarantees and other services.

6. The Corner House shares the concerns recently expressed by the British Exporters Association that ECGD's portfolio continues to be dominated by a few large companies, with very little support for the small- and medium-sized enterprises (SMEs) that provide more than 50 per cent of the jobs in the UK.[2]

7. The majority of ECGD support has historically gone – and continues to go – to major multinationals, notably Airbus. In 2009-10, Airbus accounted for over 90 per cent of the value of business underwritten and 83 per cent of the policies issued.[3] By contrast, SMEs account for some 68.7 per cent of applications for support from Germany's export credit agency, Hermes.[4]

8. Such near-monopoly support for Airbus comes at a time when SMEs were in desperate need of ECGD-backed finance because of the credit crisis and when other European export credit agencies were taking measures to ensure such support, for example, by obtaining exemptions from the European Union's state aid rules by allowing support for exports within the European Union.

9. Whilst ECGD has recently tailored a new bond facility that would benefit Airbus and Rolls Royce,[5] it has yet to respond in any substantive way to calls by SMEs for special facilities that would meet their needs.

10. The Corner House agrees with the British Exporters' Association (BEXA)[6] (and Vince Cable, the Secretary of State for Business Innovation and Skills, prior to his entry into government[7]) that many of the large multinationals that currently dominate ECGD's portfolio are in a position buy private political risk insurance and medium-term credit in the market.

11. The Corner House sees no reason why such companies should receive tax payer-backed support. The case against such support is all the more when the applicants are based in tax havens and do not appear to pay UK taxes, as has been the case with several recipients of ECGD support.[8] The Corner House also notes that many of the companies that have historically received the bulk of ECGD's support have consistently shed jobs in the UK in favour of production overseas, BAE Systems being a case in point.[9]

12. The Corner House would urge the Government to target ECGD's support on SMEs. It would also propose that ECGD be required to justify the extent to which its support for individual exporters contributes to long-term, sustainable jobs creation in the UK and to tax revenues in the UK.

LINKING EXPORT SUPPORT TO THE BUILDING OF A LOW CARBON ECONOMY

13. The Prime Minister has expressed concern that UK exporters are lagging far behind other countries in the trillion pound market for green goods and services.[10] Official government figures show that the UK has less than a five per cent share of this global market – lower than that of France, Germany, USA or Japan.[11] The UK's environmental industry currently exports £10 billion a year,

compared with £50 billion of annual exports by the German green industry.[12] Meanwhile, China is surging ahead of the rest of the world in building its renewable energy capacity, creating what the *Financial Times* has referred to as a "new world order" in the low-carbon sector.[13]

14. The Corner House believes that the UK will continue to be poorly placed to take advantage of the growing market for low carbon technologies and services until the government takes action to stimulate the growth of a low-carbon economy domestically. In The Corner House's view, this is not assisted by the UK providing taxpayer subsidies for exports to fossil fuel projects abroad, such as BP's Caspian Baku Ceyhan oil pipeline or the development of gas fields in Iran. The Corner House would contend that ECGD should abandon its current business model of supporting all exporters regardless of their activity and focus instead on support for exporters developing low-carbon technologies.

15. A recent report by Platform and the World Development Movement (WDM) notes that there is already wide political support for a Green Investment Bank to promote a low-carbon economy. The two groups recommend that the Royal Bank of Scotland (RBS), now owned by UK taxpayers, should be transformed into such a bank, providing investment to create a sustainable economy.[14]

16. Incorporating ECGD into a new Green Investment Bank would give the ECGD direct access to the exporters it needs to support if it is to deliver the Coalition Government's stated aim of transforming the Department into a champion "for British companies that develop and export innovative green technologies around the world, instead of supporting investment in dirty fossil-fuel energy production."[15]

17. Such direct, daily contact with green exporters would also provide a strong stimulus for ECGD to develop the sort of bespoke export finance packages, such as guarantees on bonds, that would assist UK green exporters in winning business abroad. Such guarantees should be conditional on the companies issuing them being under a legally-binding contract to have management systems in place that ensure adherence to international environmental, social anti-corruption and human rights standards in their operations at home and abroad.

STRENGTHENING, NOT WEAKENING, STANDARDS

18. The Corner House believes that, as a taxpayer-backed and subsidised institution, ECGD should condition its support for companies on their adhering to strict anti-corruption, environmental, social and human rights standards.

19. The Corner House is therefore extremely concerned by ECGD's decision in May 2010 to weaken its environmental and social due diligence procedures on the grounds that these procedures had placed UK exporters at an international competitive disadvantage. In future, ECGD will restrict its anti-corruption, social and environmental screening and assessment procedures only to those standards agreed internationally by the Export Credit Group of the Organisation for Economic Co-operation and Development (OECD).

20. As a result, ECGD will no longer assess the environmental and social impacts of projects whose repayment term is under two years or in which the UK exporter's share of total project costs is less than SDR (Special Drawing Rights) 10 million (equivalent to £10 million).

21. The new rules mean that ECGD's absolute ban on supporting child and forced labour is now ineffective, since a range of projects will no longer be assessed for the potential involvement of such practices. As a result, there is a high risk that ECGD will support child and forced labour. Moreover, applicants will no longer even be informed that ECGD has such a ban, rendering it hard, if not impossible, for ECGD to seek recourse in the event that child or forced labour is discovered after a project has been approved.

22. ECGD's claim that UK exporters would be at a disadvantage if it maintained its previous procedures, under which all projects (other than aerospace and defence contracts) were screened for environmental and social impacts regardless of value or repayment terms, is highly misleading. As the OECD's own figures reveal, the majority of ECGD's main competitor export credit agencies (ECAs) have stricter procedures than those of ECGD. The OECD records, for example, that 20 out of 31 member state ECAs conduct some form of review of projects with repayment terms less than two years[16] and that 15 ECAs screen projects regardless of value.[17] The OECD's assessment also reveals that the majority of

OECD member ECAs apply a range of standards that are additional to those required under agreed OECD rules.[18]

23. The Corner House believes that the ECGD's current policy is short-sighted and damaging to the UK's future export prospects. Not only does it disadvantage those firms, including many SMEs, that have introduced procedures for ensuring compliance with international environmental, social and human rights standards, but, by permitting lower standards, it also will leave many companies ill-equipped to take advantage of the rapidly growing markets for "green" goods and services.

24. In addition, poor due diligence can lead to companies breaking the law, with potentially adverse consequences for jobs. Three companies supported in the past decade by ECGD have recently pleaded guilty in UK courts to criminal activities: Mabey and Johnson and M. W. Kellogg for corruption offences; and BAE Systems for false accounting. Such convictions have the potential to deny companies future contracts in the US and in the EU.

25. The Corner House believes that the ECGD's current policy of stripping back its due diligence in order to attract a wider exporter base is misplaced and recommends that ECGD should reinstate immediately its previous screening and assessment procedures for all projects, regardless of value and repayment terms.

The Corner House
3 December 2010

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1 David Cameron, Use the profit motive to fight climate change. *The Observer*, 28 November 2010
http://www.guardian.co.uk/commentisfree/2010/nov/28/david-cameron-climate-change-cancun

2 There are around 4.8 million businesses in the UK are categorized as small- and medium-sized enterprises (SMEs), comprising 99.9 per cent of all UK businesses. They provide over half of private sector employment.

See:

HM Treasury and Department for Business, Innovation and Skills, "Financing a private sector recovery", 2010, para 3.5
http://www.bis.gov.uk/assets/biscore/corporate/docs/f/10-1081-financing-private-sector-recovery.pdf.

3 ECGD, *Annual Review and Resource Accounts 2009-10*, p.8,
http://www.ecgd.gov.uk/assets/bispartners/ecgd/files/publications/ann-reps/ecgd-annual-review-and-resource-accounts-2009-10.pdf.

4 British Exporters Association, "Export Credit Agencies: Export support available to British exporters, ECGD benchmarking", July 2010 http://www.bexa.co.uk/docs/Final%20-%202010-07-26%20bexa%20research%20-%20eca%20benchmarking%20report%20(final)1.pdf.

5 "Deal Analysis: AerCap's ECA bond", *Airfinance Journal*, 8 September 2010, http://www.airfinancejournal.com/Article.aspx?ArticleID=2663612.

6 The British Exporters' Association states:

> "the commercial reality is that a large company which already pays substantial annual premium for a well-spread portfolio of risk and is able to take a high level of risk share can generally secure cover on insurable risk, even for the more economically challenging contract structures, credit risks, horizons or destination customers and/or countries."

See: British Exporters Association, "Export Credit Agencies: Export support available to British exporters, ECGD benchmarking", July 2010, p.7, http://www.bexa.co.uk/docs/Final%20-%202010-07-26%20bexa%20research%20-%20eca%20benchmarking%20report%20(final)1.pdf

7 In February 2004, the Rt Hon Vince Cable MP stated:

> "When my former colleagues in the oil industry and others approach the Minister for help, why cannot they be told that it is possible to buy private political risk insurance and medium-term credit in the market? Why does the taxpayer have to underwrite it?"

See:

Hansard, 26 Feb 2004: Column 407, http://www.publications.parliament.uk/pa/cm200304/cmhansrd/vo040226/debtext/40226-04.htm.

8 A case in point is BP's Baku-Ceyhan oil pipeline project, for which ECGD provided $150 million (£81,703,893). The consortium that sought support is registered in the Cayman Islands.

9 Campaign Against Arms Trade reports of BAE, which, until recently last year, received up to half of ECGD's annual support to exporters:

> "In 2000, BAE employed 52,600 people in the UK. By 2008 this had dropped to 32,800, with further reductions of 590, 1,116 and 642 being announced during 2009. Over the same period, BAE has radically expanded its operations in the US to position itself for contracts from its most important customer, the Pentagon."

See:

Campaign Against Arms Trade, "BAE – committed to UK jobs?" http://www.caat.org.uk/issues/jobs/bae_jobs_graph.php.

10 David Cameron, Use the profit motive to fight climate change. *The Observer*, 28 November 2010 http://www.guardian.co.uk/commentisfree/2010/nov/28/david-cameron-climate-change-cancun

11 Green Investment Bank Commission, "Going for Growth: Building Britain's first Green Investment Bank",

http://www.bobwigley.co.uk/wp-content/uploads/2010/02/Green-Investment-Bank-growth-week.pdf**.**

12 Green Investment Bank Commission, "Going for Growth: Building Britain's first Green Investment Bank" http://www.bobwigley.co.uk/wp-content/uploads/2010/02/Green-Investment-Bank-growth-week.pdf**.**

13 Harvey, F., "China surges ahead on clean energy investment", *Financial Times*, 29 November 2010 http://www.ft.com/cms/s/0/56c0f8e6-fbea-11df-b7e9-00144feab49a.html?ftcamp=rss&ftcamp=crm/email/20101130/nbe/ScienceEnvironment/product#ixzz16lct6RUO.

14 Leaton, J., and Reed, H., *A Bank for the Future: Maximising public investment in a low-carbon economy*, Platform and World Development Movement, 2010, p.12, http://www.wdm.org.uk/clean-banks/bank-future-maximising-public-investment-low-carbon-economy.

15 Cabinet Office, *The Coalition: Our Programme for Government*, 2010, http://www.cabinetoffice.gov.uk/media/409088/pfg_coalition.pdf.

16 OECD Working Party on Export Credits and Credit Guarantees, "Export Credits and the Environment: 2009 Review of Members' Responses to the Survey on the environment and officially supported export credits", 29 April 2010, http://www.olis.oecd.org/olis/2009doc.nsf/LinkTo/NT000098F2/$FILE/JT03282654.PDF

Para 88 of the OECD report, which was based on a survey conducted prior to ECGD stripping back its procedures, states:

> "Short-term business is reviewed for potential environmental impacts on a case-by-case basis: nine Members/ECAs, *i.e.* Austria, Canada, Denmark, Finland, France, Hungary Eximbank and MEHIB, New Zealand and Sweden.
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> "Short-term business subject to separate environmental review procedure: three Members/ECAs, *i.e.* Germany, Mexico and Switzerland (if the value is over CHF 10 million)."
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> "Short-term business is treated in the same way as other business under the 2007 Recommendation: eight Members/ECAs, *i.e.* Australia, Belgium, Japan JBIC, Luxembourg, Netherlands, Norway, Slovak Republic and United Kingdom."

17 OECD Working Party on Export Credits and Credit Guarantees, "Export Credits and the Environment: 2009 Review of Members' Responses to the Survey on the environment and officially supported export credits", 29 April 2010, http://www.olis.oecd.org/olis/2009doc.nsf/LinkTo/NT000098F2/$FILE/JT03282654.PDF

Paragraph 21 of the OECD Report shows that 15 ECAs (out of 31 from 30 countries) classify all projects regardless of value, 15 impose a SDR 10 million limit and one sets a SDR 20 million limit.

18 OECD Working Party on Export Credits and Credit Guarantees, "Export Credits and the Environment: 2009 Review of Members' Responses to the Survey on the environment and officially supported export credits", 29 April 2010, http://www.olis.oecd.org/olis/2009doc.nsf/LinkTo/NT000098F2/$FILE/JT03282654.PDF

Para 38 of the OECD assessment records, for example, that:

"20 ECAs use such international standards on a case-by-case basis when such standards "are more stringent than or not addressed by World Bank Group standards."

"18 ECAs gave examples of using European Community standards, but also, for example, those of the World Health Organisation".

Para 42 states:

"Eleven Members/ECAs reported that they might apply additional standards for issues not adequately addressed by the primary standards, such as unique effluent or discharge (Canada), animal production (Denmark), social issues (Korea Eximbank) and emissions (Sweden)."

Para 43 states:

"Twenty Members/ECAs reported that they may use other internationally recognised sector specific or issue specific standards where such standards are not addressed by the World Bank, such as,

- Exporting country standards for air quality (Germany) and animal production (Denmark)
- International Atomic Energy Agency (IAEA) standards for nuclear projects (Canada, Italy and United States)
- International Commission on Large Dams (ICOLD) (Hungary Eximbank and MEHIB)
- International Cyanide Management Code (Canada)
- IUCN Red list for endangered species (Italy and Japan NEXI)
- MARPOL Convention (Canada and Japan NEXI)
- Montreal Protocol (Spain)
- Multilateral Investment Guarantee Agency standards for investment insurance (Hungary MEHIB)
- World Commission on Dams and International Hydropower Association (Austria, France, Germany, Spain and Sweden)
- World Health Organisation for water quality (Canada)".

"Three Members/ECAs, *i.e.* Belgium, Netherlands and Turkey, reported that they may use other internationally recognised sector specific or issue specific standards on a case-by-case basis."