BRITISH EXPORTERS ASSOCIATION

Mr Angus Brendan MacNeil MP
Chair
International Trade Committee

28th February 2022

Dear Mr MacNeil,

RE: BExA response to the International Trade Committee inquiry examining Trade and the Environment

Overview of BExA

The British Exporters Association (BExA) is an independent national trade association representing the interests of the UK's exporters. Our membership is drawn from across the exporting community, including capital goods manufacturers and international traders (large corporates, MSBs, SMEs and Micro exporters), and their bank, credit insurance and other service providers. BExA seeks to promote the interests of its members and all UK exporters, with a particular focus on trade finance and export credit insurance.

How well are the Government's free trade agenda and its environmental policies aligned? And is the Government ambitious enough in its approach?

There is currently a disconnect in how the free trade agenda and environmental policies are delivered. The free trade agenda is supported by businesses as it provides the least resistive method of trading with 3rd party countries. There are still non-tariff barriers that need to be overcome or navigated around but generally it is the best approach.

The Government's environmental policies look to take a leading global role in the fight to tackle climate change. This does, however, frequently result in conflict with UK companies' competitiveness overseas.

For example, UK Export Finance's Fossil Fuel Policy is a cliff-edge approach to the problem that can cause more issues than it solves. The overnight removal of support for fossil fuel related projects has had a significant adverse impact on several UK exporters. Projects that had been worked on for considerable periods of time, with substantial financial outlay that were previously financeable were rendered unfeasible overnight.

Whilst this may be applauded from an environmental perspective, it should be noted that the project was only rendered unfeasible for the UK exporter. No other ECA has implemented such a policy and as a result these projects remain financeable for our overseas competitors. In the absence of alignment of fossil fuel policies across ECAs, UK exporter interests will be prejudiced for no net environmental benefit since project sponsors will continue their activities with other countries' exporters.

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To what extent have the Department for International Trade and UK Export Finance changed their working practices in order to bring together the Government's environment and trade policies?

The answer to the previous question covers the unintended consequences of UKEF's Fossil Fuel Policy. UK businesses are well aware of the need to transition to net zero, with many having published their journeys towards their own targets, however the indisputable fact is that this transition will take time. The implementation of a UKEF Fossil Fuel policy should have been aligned with the UK's own transition target to net zero and not jumped ahead of it.

A tapered approach that links to the UK exporter's own transition journey, with rewards for greener solutions would have a far greater impact on reducing global emissions than the current policy. A more nuanced approach, as opposed to the cliff edge of the current policy, could transform it into one that works for both business and the environment.

On a more positive note, UKEF's statutory powers that allow support for exporters rather than a specific export give UKEF tremendous flexibility when it comes to the products they provide for UK exporters. Their new EDG (Export Development Guarantee) and GEF (General Export Facility) have provided UK exporters with much needed access to capital during recent challenging economic conditions. These products will continue to provide an extremely valuable funding option to UK businesses as we emerge from the current COVID crisis. There are improvements that could be made to the GEF to enhance its availability to the smaller exporters, as it is often made uneconomical by the funding bank's security requirements.

What might be the impacts of measures introduced by the UK's trading partners designed to reduce reliance on carbon-intensive fossil fuels – for example carbon border adjustment mechanisms – on UK trade? And what could a UK carbon border adjustment mechanism mean for its imports and exports?

The theory of the proposed Carbon Border Adjustment Mechanism is sound in so far as it seeks to protect the environment from producers in markets which fail to recognise the cost of carbon and its environmental impact. Avoiding carbon leakage is a noble aim.

Members have, however, expressed concern that its implementation may present little more than a trading or arbitrage opportunity for third parties to profit from. A key issue is the assessment methodology for the true cost of carbon and that UK exporters may be prejudiced if the adjustment mechanism is skewed to protect the interests of trading partners' member states.

Were the UK to implement a similar regime, it should ensure equivalence with trading partners' schemes and have robust, independent oversight of overseas suppliers' carbon cost claims in their supply chains.

What are the benefits and costs of the UK's approach to environmental and climate change commitments in free trade negotiations to date? And to what extent might the inclusion of Investor-State Dispute Settlement clauses in free trade agreements affect the UK's climate change policies?

The UK's approach to date in FTA negotiation appears to have been to copy/paste the bulk of prior arrangements without specific integration of the UK's own Net Zero Strategy policies. Separately, it is vital to recognise the developmental impact of global trade and that a one-size-fits-all approach to FTAs and environmental/climate change commitments will not align with the UK's equally important developmental commitments to the less industrialised nations.

By what measures should the environmental impacts of new free trade agreements be assessed?

FTAs should align with both the UK's own Net Zero Strategy as well as the broader UN Sustainable Development Goals. It's important to consider the trading partner's developmental status and not burden less developed nations with unreasonable commitments, whilst concurrently balancing the interests of UK citizens and exporters.

How effective is the Government's engagement with international forums to ensure that there is a broad consensus among its trading partners on how to align trade with environmental issues?

This currently appears to be poor, UKEF are the only ECA to have stopped support for all fossil-fuel projects. If this has been introduced by all other OECD ECAs then it would provide a level-playing field for all respective businesses to compete on.

What can the UK learn from how other countries' experiences of aligning trade and environmental policies? How have other countries innovated in this area?

Denmark has been a leading exporter of environmentally aligned goods & services for decades and has developed a comprehensive support model for both SME and large industrial exporters. It has recognised that "Made In" and "Designed In" / "Innovated In" / "Serviced From" need not necessarily be aligned.

It has also successfully integrated private institutional investors (pension funds) with its ECA's product suite ensuring that capital is readily and competitively available to support environmentally aligned exports of any size or complexity.

Canada has also adopted a very pro-active approach to supporting Canadian interests by working closely with the largest Canadian institutional investors to ensure that their investee companies are supported from both a financial support perspective as well as access to decarbonisation best-practise.

What opportunities are there for the Government to innovate to create more opportunities for "green" goods and services to export, to decarbonise and green supply chains?

The Government has multiple related areas of activity from the DIT's Investment Directorate seeking to increase FDI into the UK, to UKEF's enhanced product proposition, BEIS's Clean Growth Directorate and not least, the UK Infrastructure Bank.

It's vital that the Government delivers a coordinated and integrated approach across these intrinsically linked areas of activity to ensure the maximum benefit is realised for the UK, its taxpayers, its overseas trading partners and not least the global environment.

Please do not hesitate to contact us should you wish to discuss our response in more detail.

Yours sincerely,

Marcus Dolman
Co Chairman – Large Exporters

Mark Wakem
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