



EDC Environmental Policy Review
Summary of Stakeholder Comments and EDC Response
November 1, 2010

Introduction

Export Development Canada (EDC) established an Environmental Policy in 2005. This umbrella policy sets out the Corporation's commitments to undertake its business in an environmentally responsible manner and articulates the measures employed to fulfill these commitments.

The 2005 Environmental Policy included a commitment to initiate a review of the Policy after three years. The Policy review process is now complete. Effective November 1st, EDC has implemented the new environmental and social policy framework which includes the Environmental and Social Risk Management Policy, the Environmental and Social Review Directive and the Disclosure Policy.

The process that EDC has followed in completing this review is outlined below. The purpose of this paper is to provide insight into how feedback collected from our stakeholders has been taken into consideration in the revisions. Similar comments have been grouped together under a series of key themes that emerged during the process.

Policy Review Process

Entering into this review process, EDC considered the following significant inputs:

- customer requests for greater clarity on EDC's environmental requirements;
- evolving international standards;
- Office of the Auditor General of Canada's (OAG) recommendations from the 2009 Environmental Audit of EDC; and
- requests from civil society for more transparency, particularly regarding our review practices.

The objectives of the policy review were to:

- simplify and restructure the Environmental Policy in order to clarify EDC's environmental commitments and environmental review processes;
- ensure our policies and procedures are in line with the international environmental and social risk management practices generally adopted by Export Credit Agencies and EDC's commercial partners;
- consider ways to address the issue of climate change and examine EDC's commitments in terms of its environmental footprint; and,
- identify related adjustments to the disclosure of environmental and social information pursuant to EDC's Disclosure Policy arising from this review.

The review process included activities aimed at soliciting further input from our external stakeholders, which include: our shareholder, the Government of Canada; Canadian civil society organizations; clients; and Canadian industry associations. These activities included:

- a Discussion Paper setting out key environmental and related disclosure policy issues, which was posted for public comment for 112 days; and
- stakeholder engagement sessions in several Canadian cities.

The remainder of this paper sets out the key comments made to EDC during the cross-Canada sessions as well as comments received in written submissions from various stakeholders.

EDC appreciates the feedback we have received. Stakeholders' comments have been carefully considered by EDC's management and its Board of Directors. Many of the recommendations have been incorporated. Where we have not taken the recommendation, we are providing our rationale.

Stakeholder Comments and EDC Response

Environmental and Social Risk Management Policy

Stakeholder comments: Several stakeholders commented that EDC should be clearer about its commitment to encompass social issues in an environmental review, particularly given EDC's alignment with the [International Finance Corporation Performance Standards on Social and Environmental Sustainability](#) (IFC Performance Standards). Stakeholders also thought it would be appropriate to rename EDC's Environmental Policy to include explicit mention of social issues.

EDC response: The Policy and ERD have been renamed to the Environmental and Social Risk Management Policy and Environmental and Social Review Directive (ERD) respectively. The name change is consistent with EDC's current scope of review practices and aligns with the scope of the IFC Performance Standards, which includes environmental and social risks.

International Standards

Stakeholder comments: Several of our customers noted their preference for all lenders to apply the same standards. Some stakeholders noted that it is unclear how EDC selects the applicable benchmark standards in its project review process. EDC's proposal to apply the IFC Performance Standards to all private-sector projects was strongly supported. Most stakeholders were familiar with the IFC Performance Standards and confirmed their relevance for project development. Some stakeholders also wanted more detail about how EDC benchmarks projects to standards and how we address deviations to these standards.

EDC response: When EDC reviews projects, such as large infrastructure developments, they are compared to international environmental standards. Previously, a range of standards were referenced under EDC's ERD; however, the revisions to the Policy and ERD now make the IFC Performance Standards EDC's dominant reference standard for project performance in developing countries. Note that this went further than our original position that retained a distinction between public and private sector projects.

In addition, references to standards of other multi-lateral development banks (MDBs) have been removed, as EDC has recently observed that many MDBs are more closely aligning their standards with the IFC Performance Standards. These changes are expected to clarify our approach for clients, commercial bank partners and other stakeholders.

EDC's Policy has also been revised to describe how projects are reviewed against international standards. Specifically, benchmarking is described as a detailed review and comparison of the project's design, environmental and social assessment, and management plans against host country or international standards (whichever is more stringent). EDC's Environmental Advisory Services team is responsible for conducting benchmarking and may employ independent external experts to support the review, particularly for project financing transactions, and may conduct a site visit.

EDC seeks to avoid deviations from international standards. However, the IFC Performance Standards are not intended as a compliance tool. The standards are intended to identify outcomes for clients to achieve through means appropriate to the nature and scale of the project over a reasonable period of time, and commensurate with the level of risks and impacts. In those exceptional cases where gaps have been identified against the applicable benchmark standards, EDC requires such gaps to be thoroughly explained to EDC's satisfaction. In all cases, projects must meet EDC's criteria for justifying support. EDC currently reports to the OECD material gaps from international standards and will now publicly disclose such gaps within "Project Review Summaries" that will be available on EDC's website. These summaries are discussed later in this paper.

EDC notes that the International Finance Corporation's Performance Standards are presently undergoing revisions. EDC is an engaged participant in the IFC Performance Standards review process, alongside other Equator Principle financial institutions and export credit agencies. The IFC's Performance Standards review is expected to conclude by mid-2011.

High Income OECD Countries

Stakeholder comments: Stakeholders presented opposing views on EDC's proposal to streamline project reviews in all High Income OECD countries. Some stakeholders supported the view that many countries do have comparable or stronger requirements than those under the IFC Performance Standards and that the proposed change would be an efficient use of resources by allowing EDC to focus more effort on due diligence for projects in developing countries. Other stakeholders believed that this assumption could not be made across each of the countries under consideration and that the same standards should be applied to projects that EDC supports regardless of their location.

EDC Response: EDC has retained its current practice with respect to projects in developed countries. No streamlining was extended to High-Income OECD countries beyond the current G7 countries (Canada, France, Germany, Italy, Japan, United Kingdom, United States). However, as is our current practice and in accordance with the requirements of the OECD Common Approaches, EDC may still benchmark projects to other internationally recognized standards that EDC considers to meet or exceed the requirements of the IFC Performance Standards. For example, if EDC is considering support to a project within the European Community, EDC would consider the European Community Standards to be the most relevant internationally recognized standards and likely would compare the project against those standards. The standards to which projects are benchmarked are disclosed on our website.

Enhanced Clarity:

Stakeholder comments: Stakeholders were supportive of maximizing alignment across EDC's various international commitments, wherever possible. Stakeholders felt that the Policy should be clear about EDC's expectations of clients. The Policy should use visuals (e.g. process map) and should separate policy from process to describe how the Policy is implemented.

EDC response: Client responsibilities as outlined in the Policy are to manage the environmental and social risks of the business that EDC is asked to support and the provision of relevant documentation to EDC, as required. Furthermore, the Environmental and Social Risk Management Policy has been reorganized in order to offer additional detail on the spectrum of environmental review processes for different types of transactions, including the addition of a diagram (Annex 1) that provides a visual overview of when EDC undertakes environmental

reviews. It is further noted that the project review requirements of EDC's ERD, the OECD Common Approaches and the Equator Principles are generally aligned. Finally, the ERD has been revised to align with the current requirement of the OECD Common Approaches that the ERD will apply to any Project located in a sensitive area regardless of the value of our support.

Other CSR Commitments:

Stakeholder comments: Some stakeholders encouraged EDC to clarify which CSR/Environmental certifications and validations standards it promotes and/or requires. A few made specific mention of the Voluntary Principles on Human Rights and Security.

EDC response: In its environmental and social risk review processes, EDC takes into account commitments that its clients have made under relevant corporate social responsibility initiatives and guidelines. EDC's Policy has been revised to reflect this practice and an illustrative list of such initiatives and guidelines has been provided in Annex II of the revised Policy.

Monitoring:

Stakeholder comments: Many stakeholders had questions regarding EDC's current monitoring practices including EDC's expectations of projects' ongoing performance post-signing; how it develops and enforces monitoring conditions; and the requirements for independent reviews to verify project monitoring and reporting.

Some stakeholders expressed interest in public disclosure of EDC's monitoring requirements and reports related to environmental and social performance of projects. Others pointed out that the disclosure of actual monitoring reports would be difficult as these reports can constitute a contractual obligation between the sponsor and lender, and as such, must remain confidential. In addition, there was concern that monitoring reports can be misinterpreted resulting in misleading conclusions about project performance and diminished benefit to the project developer. Some interest was also expressed in obtaining information on declined projects. Customers also believed that much could be learned from understanding why certain projects were not successful in securing EDC support although it was recommended that individual companies not be identified.

EDC response: Monitoring is an integral part of EDC's environmental and social risk management process. In an attempt to provide clarity on the importance of monitoring and how EDC practically undertakes monitoring, further detail has been added to the Policy regarding EDC's post-signing monitoring practices and common types of conditions that EDC may impose on a project. Independent review and monitoring is required for EDC's Category A and, as appropriate, Category B Project Finance transactions under the Equator Principles. In addition, EDC has an in-house team of environmental and social specialists who review project environmental monitoring information. For transactions that fall outside of the Equator Principles, EDC may engage independent experts to

monitor projects on a case by case basis where particular expertise is needed, or where additional resources are needed.

For the reasons noted above, the disclosure of monitoring reports remains a sensitive issue. Accordingly, EDC did not accept the recommendation to release these reports publically. However, in accordance with its application of the IFC Performance Standards, EDC continues to expect its clients to make information available to project affected communities that describes the implementation status of the project's environmental and social action plan. EDC will also aim to provide more information on general monitoring requirements and endeavour to provide more information on its decline of support to projects related to their environmental and social impacts through its annual CSR report.

Community Engagement:

Stakeholder comments: Stakeholders were generally supportive of EDC's proposal to update its Policy and the ERD to better reflect EDC's current expectations of customers regarding community engagement and to align with the requirements of the IFC Performance Standards and the Equator Principles. Some stakeholders were supportive of EDC elaborating on its expectations in this area and encouraged EDC to also adopt the IFC Sustainability Policy that commits to ensuring broad community support for a project within affected communities. Some stakeholders also sought to ensure that EDC would adopt whatever improvements are made regarding the issue of community engagement within the revised IFC Performance Standards which are expected to be released in early 2011.

EDC response: EDC's requirements for stakeholder engagement are aligned with the requirements of the IFC Performance Standards; EDC's Policy and the ERD have been revised to reflect this. EDC has not specifically introduced a requirement for broad community support within its Policy; however, EDC intends to adopt the forthcoming revised IFC Performance Standards which are expected by mid-2011, and will continue to seek to understand the IFC's practices in this area in greater detail. As previously described, EDC continues to be an engaged participant in the IFC Performance Standards review process.

Disclosure of EDC's project reviews:

Stakeholder comments: Stakeholders expressed interest in more reporting on EDC's project categorization rationale, analysis of environmental and social impacts and more clarity on the application of international standards in benchmarking projects considered for support.

EDC response: To provide greater clarity on its internal review of the environmental and social impacts of projects, EDC will produce a "Project Review Summary" for Category A projects that it supports. The Summary will be subject to a project sponsor's review prior to publication on the EDC website.

Climate Change:

Stakeholder comments: With the emergence of climate change as an issue of public concern, stakeholders expressed a wide variety of views on EDC's disclosure of climate change related information and its strategy. Some stakeholders expressed interest in obtaining information regarding GHG emissions for projects EDC proposed to support. It was noted that sponsors of large projects under consideration by EDC were likely accustomed to generating this data. However EDC was encouraged to avoid creating duplicate work and accept data generated through methodologies already widely in use. Many stakeholders felt that project developers should remain accountable for their own emissions. Several stakeholders pointed to the discrepancies that currently exist across GHG accounting standards and noted that differences in methodologies would create confusion in the data reported by EDC and, as such, some believed it would be difficult for EDC to report on GHG emissions in a consistent, meaningful way. Some stakeholders suggested that EDC also set reduction targets and ultimately reduce its support to high-emissions sectors in order to lower the overall carbon footprint of its business portfolio in coming years.

A few commenters suggested that EDC look at the strategic opportunities around climate change, for example, stimulating investment in low-carbon technologies and services in developing countries. Some companies also suggested that EDC look at broadening the definition to include energy efficiency. Others expressed skepticism about international carbon trading, noting that emissions trading and carbon offsets fail to address the root causes of climate change and preferred that EDC work with clients to achieve real emission reductions through energy efficiency, better project design, use of renewable energy, etc.

Some stakeholders advocated that EDC should conduct another policy review within three years after the current review because of the rapidly evolving policy context related to climate change.

EDC response: There is a new section in the Environmental Policy that outlines EDC's strategy with respect to climate change risks and opportunities. The strategy centers around engaging with our clients to understand and assess the carbon and climate risks and opportunities associated with their business. It also includes an expectation for clients to provide estimates of greenhouse gas emissions (GHG) of projects using recognized methodologies. Further, EDC's revised Disclosure Policy requires project sponsors of Category A projects to provide GHG emissions data in their Environmental Impact Assessments. To facilitate access to this data by stakeholders, project sponsors will be encouraged to follow best practice and provide EDC with a weblink to their EIAs that can be posted on EDC's website prior to EDC providing support. These revisions align with requirements of the IFC Performance Standards.

Environmental footprint:

Stakeholder comments: Stakeholders were supportive of EDC's proposal to incorporate EDC's commitment to measure and report on EDC's operational footprint within the Policy.

EDC response: The Policy has been amended to include EDC's commitment to measure, manage and report on EDC's operational footprint. EDC will continue to report on its footprint through its annual corporate social responsibility reporting.

Human Rights:

Stakeholder comments: Some stakeholders noted that EDC should adopt a human rights policy (or include human rights within the scope of EDC's Environmental Policy) and increase transparency regarding its human rights policies and procedures.

EDC response: EDC's Policy has been revised to clarify that its commitments also extend to *social* risk management with clarification that social risk refers to potential impacts defined within the international standards applied by EDC. These risks relate to: labour, community health, safety and security, indigenous or vulnerable groups, cultural heritage, and involuntary resettlement. It should be noted that EDC has addressed human rights responsibilities more broadly within its [2008 Statement on Human Rights](#). EDC's Statement on Human Rights notes that EDC recognizes that financial institutions must endeavour to assess the potential for adverse human rights outcomes for individuals directly affected by such projects. Following the Statement's publication, EDC put in place internal procedures to screen for human rights issues in transactions. EDC's Annual CSR Report for 2009 provides more information about how EDC screens for human rights issues within transactions.