
**SUMMARY OF PROCEEDINGS:
EXPORT DEVELOPMENT CANADA'S ADVISORY COUNCIL ON
CORPORATE SOCIAL RESPONSIBILITY**

16th Meeting
Wednesday December 02, 2009
8:30 a.m. – 1:30 p.m., Ottawa

Present:

CSR Advisory Council

Maureen O'Neil, President and CEO, Canadian Health Services Research Foundation – CSR
Advisory Council Chair

Randy Gossen, Vice President, Global Business Relations, Nexen Inc.

Deanna Rosenswig, Partner, Vantage Concepts

David Runnalls, President, International Institute for Sustainable Development

Deep Saini, Dean, Faculty of Environment, University of Waterloo

Jean-Claude Villiard, Associate Professor, École nationale d'administration publique
(Université du Québec)

David Zussman, Jarislowsky Chair in Public Sector Management, University of Ottawa, and
part-time Commissioner, Public Service Commission of Canada

Absent:

Jean-Louis Roy, Président, *Partenariat International*

Ed Waitzer, Partner, Stikeman Elliott LLP

Export Development Canada (EDC)

Jim Dinning, Chair

Eric Siegel, President and Chief Executive Officer

Jim McArdle, Senior Vice-President, Corporate Secretariat & Legal Services

Ruth Fothergill, Head, Corporate Responsibility

Deborah Berger, Director, Environmental Advisory Services

Yolanda Banks, Senior Advisor, Corporate Social Responsibility, Corporate Responsibility

Guests

Peter Hall, Chief Economist and Vice President, Export Development Canada (EDC)

Marie-Ève Varin-Lacasse, Manager, Loans Services (Diversified Products), EDC

Tim Steed, Senior Business Analyst, Business Systems & Development (Finance), EDC

Summary of Proceedings

A. Introductions and Welcome

Maureen O’Neil, CSR Advisory Council Chair and
President, Canadian Health Services Research Foundation

The Council Chair opened the meeting and welcomed the members. The members recognized the fruitful contributions at the previous evening’s dinner by guest speaker: Dr. Daniel Scott, Canada Research Chair in Global Change and Tourism and member of the Interdisciplinary Centre for Climate Change, University of Waterloo, and Deborah Berger, Director, Environmental Advisory Services. Those discussions on climate change and EDC’s potential positioning on the issue helped to set the stage for this meeting’s discussions.

The Council Chair welcomed EDC’s Chair, Jim Dinning. His participation is an acknowledgment of the importance and relevance of CSR to EDC’s Board of Directors.

B. President’s Update

Eric Siegel, President and CEO

Eric Siegel provided the Council with an update on business priorities and issues facing EDC since the June Council meeting.

EDC has supported over \$80 billion in Canadian business this year to date, \$6 billion less than 2008 reflecting a 24% decline in exports, contrasted with overall business growth of 10% in 2008. In the first quarter of 2009, EDC added 1,000 new customers and expects to finish the year with 1,500 new customers for a total of 8,500 customers served.

To ease the domestic credit crunch, among other things, the Government of Canada made \$3 billion of additional capital available to EDC and other financial Crown corporations. EDC is responding through the Government’s Business Credit Availability Program (BCAP). Fortunately, EDC was already in the market with the competence and connections necessary to provide support, working with the private banking market to make credit available. The Canadian model is envied by other countries. In Canada, the Government had the structures already in place to address the economic crisis, and just needed to ‘turn the dials’.

2010 is expected to be more challenging. We may be facing a situation similar to that in the mid-1980s and the government may have to re-intervene in the banking sector.

Council Discussion and Recommendations

The Council members posed a number of questions regarding EDC’s response to the economic crisis and other corporate issues. Eric Siegel addressed these as noted below.

- The results of EDC's biennial Employee Opinion Survey show a very high sense of pride in and satisfaction with EDC as an employer. Council members encouraged EDC to share this data with the federal Treasury Board. This was achieved during a year of exceptional demand on EDC's human resources.
- EDC did not relax its credit rules or focus on any sectors not previously supported. EDC did however take more risk, and there was more concentration in given sectors, such as the automotive sector where EDC provided more insurance on accounts receivables for strategic suppliers.
- EDC worked in partnership with commercial banks with a relatively even distribution of usage by the banks.
- Default rates have risen and we expect to see more in the coming year. EDC's list of impaired loans has doubled, but these are not all losses.
- There is reduced appetite on the part of commercial banks to finance projects. This business is now being driven by export credit agencies and multilateral development banks.
- Bill C-300 continued to draw EDC's attention. Jim McArdle represented EDC in testifying before the parliamentary Standing Committee of Foreign Affairs and International Development. EDC also sponsored a dialogue on the role of corporations and human rights organized by Osgoode Hall Law School for Dr. John Ruggie, the United Nations Special Representative on Business and Human Rights (more below).

C. *Tour de Table* Exchange and Recommendations Council Members

One of the Council members provided the following overview of the challenges facing the energy sector. The sector has three key themes, or drivers: cooperation, innovation and investment.

- **Co-operation:** this is a new dynamic emerging in the relationship between national oil companies (NOCs) and international oil companies. NOCs realize they need to partner with IOCs in order to access capital and technology. Co-operation is an imperative not just within the sector, but also between sectors, as well as with governments and non-governmental organizations, and will be a key theme for the future.
- **Innovation:** more research and development is required to look for projects, particularly as the sector shifts to non-conventional sources of energy. There has been a general shift toward non-conventional sources of supply of energy requiring changes in sector capabilities.

- Investment: the sector is facing a \$0.5 trillion financing gap. Once the economic crisis is past, demand will increase and prices could surge, an unwelcome phenomenon.
- Over-riding issue: the oil and gas sector is viewed by the younger generation as a ‘sunset sector’, i.e. a sector in decline. Young graduates seek to work for socially responsible companies. The sector needs to be a better communicator to attract young graduates and address the gender balance.

Council members continued to discuss EDC’s Climate Change-related support. One member noted that USEXIM has a special facility to support financing for renewable energy technologies. EDC is encouraged to consider something similar.

Eric Siegel noted that EDC has been working with Sustainable Development Technology Canada (SDTC) and has been targeting renewable energy projects and environmental technologies through its Equity program. The Council encouraged EDC to incorporate these suggestions into its discussions with the EDC Board when it next discusses the Equity program.

Discussion followed about future financing and the need to address investment in renewable energy sources. It was explained that commodity price increases will also facilitate the shift to renewable sources. According to statistics from the International Energy Agency (IEA), the current global energy mix is approximately: fossil fuels (85%), renewables (8%) and nuclear (5-6%). Some shift will occur in 20-25 years with renewable growing to 11%, with a slight decline in oil and gas, an increase in coal and gas and nuclear power generation remaining the same.

The Council felt that developments in the wind energy sector bear watching noting that the *US Energy Act* will create incentives for investment in wind power. The transmission segment of the sector, moreover, has not innovated as it should (for example to a ‘smart grid’ system), largely due to over-regulation.

D. Results of the Review of EDC’s Environmental Policy and the Environmental Review Directive

Deborah Berger, Director, Environmental Advisory Services

EDC held a commentary period based upon a Discussion Paper that was posted on its website for 112 days. In addition, EDC conducted direct meetings with multi-stakeholder groups in four cities across Canada.

The key issues considered in proposed revisions to EDC’s Environmental Policy were:

- rationalization of standards for benchmarking
- streamlining of treatment of OECD high-income countries
- alignment of the thresholds for the OECD Common Approaches and the Equator Principles, to the extent feasible; and not to proceed to apply EDC’s

- Environmental Review Directive (ERD) to general corporate loans where a portion is related to projects
- development of a statement on climate change
 - alignment of the ERD to reflect the requirements of the International Finance Corporation (IFC) Performance Standards and Equator Principles with respect to Community Engagement.

Council Discussion and Recommendations

Council members sought feedback on EDC's perception of the effectiveness of a web-based process versus stakeholder meetings. EDC confirmed that while the web dialogue was an important means to offer an outlet to those who could not attend meetings, direct multi-stakeholder meetings were essential.

Council members questioned the mix of stakeholders and the balance of customers and non-governmental organizations (NGOs) and the willingness to discuss issues openly. EDC confirmed that meetings with a mix of stakeholders worked well and participants expressed themselves freely.

Since their introduction in 2006, the Performance Standards have emerged as relevant and widely used, and EDC was encouraged to use the IFC Performance Standards across the board, in all EDC product categories, whether in financing, equity or project finance structures.

While the Community Engagement aspect of the Performance Standards is still a challenge in certain jurisdictions, such as the Middle East, it was felt that EDC should strive for consistency in its approaches and apply the same basic principles. For example, EDC should determine who has the legitimate right to participate in community engagement and to benefit from a given project. Some discussion followed noting that IFC has not encountered similar situations because it does not support projects in advanced economies such as the Middle East. The International Institute for Sustainable Development, through a board of directors contact, may be able to help EDC understand the community context in the Middle East.

The Council appreciated that EDC has made a commitment to disclose those instances when EDC-supported projects do not meet international standards. In addition, members understood there is still stakeholder appetite to understand how EDC determines whether standards are truly met.

The Council agreed EDC should be encouraged to use exclusively the IFC Performance Standards and minimize reference to the World Bank Safeguard Policies. EDC acknowledges that there would be some challenges in applying the re-settlement provisions where, in public sector projects, it is the host country government's responsibility to meet the Performance Standards. A similar situation would be encountered on the Performance Standards labour requirements.

In response to the principle that EDC wants to avoid the perception that it is ‘picking and choosing’ standards, the Council encourages EDC to use the IFC Performance Standards as its basic benchmark, but default to the World Bank Safeguard Policies when portions of the IFC Performance Standards cannot be applied to governments.

On the question of whether or not EDC should adopt *free, prior and informed consultation* and the fact that the IFC Performance Standards go further and commit to *broad community support*, the Council observed that it is one thing to quantitatively measure consultations, but another entirely to judge the qualitative response from the project-affected community.

The members spent time discussing the fact that companies now face a wide gambit of standards. They questioned whether EDC is creating standards that are much higher than exist in Canada? Canadian companies operating abroad are expected to do more than our national companies would do operating in Canada. Research is needed to assess how these standards actually impact communities.

The discussion then turned to the question of whether EDC will apply these standards to general corporate loans, and were advised that it was considered, but the decision was not to apply these to corporate loans. The ERD requires EDC to apply the standards if proceeds of a corporate loan are largely for a project. In such cases, EDC will do a supplemental (add-on) environmental review. One Council member observed that EDC could be non-competitive if other banks do not adopt a similar practice. The Equator Principles Financial Institutions (EPFIs) have created a Working Group to develop a guidance note and a pilot phase.

Council members asked for clarification on EDC’s process in cases where non-compliance with standards occurs after a loan has been provided. EDC’s Asset Management and Environmental Advisory Services teams monitor commitments on an ongoing basis. In cases of non-compliance, these teams would examine the issue to determine whether a default has occurred. Normal practice is to work with the company to bring it back into compliance. EDC can withhold loan disbursements until the project is once more compliant with the pre-conditions established in the loan documentation.

Council members queried the logic behind not extending to all OECD countries the exemption for G-7 countries from project environmental reviews. While many OECD countries have sound environmental regulations, it is a much wider group of countries. EDC would have to undertake extensive analytical work to confirm the degree of implementation of host country regulations. Council members concurred that the prudent approach is not to extend the exemption.

Disclosure of Environmental Information

Yolanda Banks, Sr. Advisor, CSR

EDC’s proposals on the disclosure of environmental information comprise:

- enhancement of access to environmental and social documentation making greater use of web-based Environmental Impact Assessments (EIAs)

- development of a pilot project to enhance information disclosure related to Category A projects; the pilot would produce a “Project Review Summary” to cover the rationale for project categorization, as well as monitoring and mitigation requirements
- disclosure of information related to declined projects
- disclosure of climate change-related information for Category A projects
- amendment of EDC’s Disclosure Policy to reflect OECD reporting requirements.

Council Discussion and Recommendations

Council members questioned why EDC has chosen to use the term “request” rather than “require” in relation to disclosure of environmental information. EDC differentiated between what was “required” as those items covered by obligations such as the ERD and international agreements, e.g. the OECD Common Approaches. Other information stipulated under its policy is “requested”. EDC was encouraged to use “required” where feasible.

Members noted that disclosure and transparency are key given that situations vary and EDC needs to retain flexibility. One Council member noted that caution is warranted on transparency as EDC should be able to exercise some discretion and not disadvantage itself until a common approach by EPFIs is developed.

Council members queried what would happen if a customer declined consent to disclose the proposed “Project Review Summary”. It was observed that a pilot project with this disclosure mechanism was a good way to test the process.

The Council agreed that focus on the process and reasons for declined transactions would be a reasonable approach to enhance disclosure of information on projects that EDC did not support, in part, on environmental grounds. EDC is conscious of the potentially negative commercial impact of disclosure of this type of information if it could lead to the identify of a company.

EDC clarified its monitoring practices: use of third-party, independent consultants for Project Finance transactions; use of internal resources for monitoring other projects and some major projects.

Climate Change-related disclosure was an EDC proposal to collect greenhouse gas emissions data according to information customers already generate for Category A projects. Council members considered the implications of an EDC “request” of this information. This type of disclosure is already on the horizon. EDC was encouraged to strengthen its proposal for disclosure of this information. It was also noted that EDC should manage well its own environmental footprint if it is to have a strong position from which to request/require such information from its customers. EDC noted that it has been measuring and publicly disclosing its footprint data. In 2010, EDC will offset its travel, in addition to encouraging staff to use alternate meeting methods in lieu of travel.

E. The Economic Context: “The Race to Recovery”

Peter Hall, Chief Economist

EDC’s economic forecast is intended to provide a lens for EDC customers on the economy. The economy is unfolding pretty much as predicted. The term “recovery” is over-used and does not quite apply to describe the current economic situation. “Race to Recovery” more aptly characterizes current circumstances. Forecasts wax and wane monthly, from optimism to pessimism.

Why are economic conditions so ‘choppy’? There is a hefty amount of physical stimulus in the market compressed into the past 8-12 month period. The monetary stimulus has added 15-17% to China’s GDP. This affects global economic measures: currency valuations, commodity pricing, *et cetera*, and has the effect of creating ‘choppiness’ on the global economy.

How does the world get back on track for a sustainable recovery? The excess in housing supply is likely to last until the first half of 2010 after which a growth cycle will begin. Firstly, the financial markets are still unstable with high unemployment. Defaults are likely to peak in the first or second quarter of 2010.

The second hurdle is inflation. Rising gold prices could cause an untimely unwinding of monetary policy. The Consumer Price Index could mushroom and interest rates could rise.

The third hurdle is protectionism, always a risk at times of economic crisis. Finally, the fourth hurdle is the persistent strength of the Canadian dollar, always damaging to Canadian exports and could hamper Canada’s readiness for global recovery. A C\$0.86 is forecast for 2010.

There is much about which to be optimistic: the strength of Canadian financial institutions, Canada’s relatively better fiscal situation, the diversification of the Canadian economy and our infrastructure. All of this has prepared us for growth, and we can look forward to a positive situation in 2011.

Council Discussion and Recommendations

In the question period, Peter Hall noted made the additional points noted here. Interest rates are likely to rise to 4% by 2012. Consumer demand is lower on a per capita basis, but exhibits growth year-over-year. As the recovery takes hold and stock markets rise, consumers will feel more comfortable with their overall position to resume spending. Consumer debt is being addressed through substantial ‘de-leveraging’ and ‘swapping’ with the public sector taking on more debt. Consumer patterns of borrowing against home equity to take advantage of lower interest rates is a potentially dangerous trend which could lead to another mortgage crisis when interest rates re-set.

Discussion followed on the situation in Europe which is more problematic. Europe has cyclical and structural problems, e.g. the structure of the labour market. The economic crisis has suppressed consumption and accentuated investment for the sake of investment. This

has made Europe more dependent on trade for growth, and an appreciating Euro is not what is needed at present. A similar, but more exaggerated, situation exists in Japan where the yen is appreciating. Canada should enjoy an advantage over other markets for the next two years.

It was noted that the Chinese renminbi is not expected to float. In a recession, the Chinese government is likely to allow only incremental changes. Its dilemma is that it has few levers with which to stimulate economic activity.

F. Update on CSR Priorities at EDC: including results of Committee appearance on Private Member's Bill C-300; Stakeholder Outreach

Jim McArdle, Senior Vice President (Legal Services) and Secretary

EDC concluded its CSR strategic review earlier this year and the senior management has approved a focus on three priorities over the medium-term: human rights, transparency and climate change.

EDC was pleased to sponsor and participate actively in the UN Expert Consultation organized by the Osgoode Hall Law School for the UN Special Representative on Business and Human Rights, Dr. John Ruggie. Dr. Ruggie has introduced his “protect, respect and remedy” framework as a means to understand the respective roles of the state, corporations and civil society toward human rights. The workshop addressed how corporate laws could be changed to build in more CSR. The Osgoode Hall event, as well as another CSR event, provided an opportunity to work more directly with Dr. Ruggie.

Since the last Council meeting, EDC executives received a presentation on its own human rights framework. The challenge remains - how to release this process framework to the public.

EDC's testimony before the parliamentary committee considering Bill C-300, *An Act respecting Corporate Accountability for the Activities of Mining, Oil or Gas in Developing Countries*, provided an opportunity to establish its position on the issues. EDC supports the spirit of the bill, but sees its implementation as problematic and could limit its ability to work with mining companies. For example, if Bill C-300 were enacted, EDC would not be able to work with companies to improve their knowledge of and implementation of human rights provisions.

Jim McArdle also mentioned his opportunity to speak to a number of stakeholder audiences on CSR, e.g. the National Management Forum, a gathering of business school administrators hosted by the *École des Hautes Études Commerciales*, and to various audiences in Brazil. In Brazil, he noted that the public is very aware of CSR and large companies have embraced CSR concepts, but this does not appear to have trickled down to mid-tier industries.

Council Discussion and Recommendations

The Council members identified a few anomalies in Bill C-300: how can you legislate public good? Such conduct is better achieved through the establishment of guidelines. Also, as an opposition bill, Bill C-300 cannot have any budgetary provisions, and consequently lacks substance relative to what it proposes to achieve.

G. EDC CARE *Beyond Exports*

Ruth Fothergill, Head, Corporate Responsibility

Marie-Ève Varin-Lacasse, Manager, Loans Services (Diversified Products)

Tim Steed, Senior Business Analyst, Business Systems & Development (Finance)

The Council received a presentation on the EDC-CARE Canada partnership, *Beyond Exports*, and results arising from the Council's 2008 advice to EDC to adjust its priorities and develop an international component in emerging markets to community investment. Following an introduction by Ruth Fothergill, the two EDC Volunteers provided an overview of their experience and the results of their work on micro-finance projects in Peru from May to August.

Council Discussion and Recommendations

The Council asked whether the EDC volunteers' business coaching was sustainable and replicable. In response, it was noted that indeed the effort is sustainable. The volunteers expect that CARE will build upon the technical assistance provided by integrating new approaches into their own business coaching models. The effort is, moreover, replicable in that CARE can follow the model in any microfinance/business coaching initiative.

In response to a Council question, the volunteers also outlined the linkages between local financial institutions and CARE's microfinance initiatives in the Huaraz region of Peru.

H. Final Comments, Wrap-Up and Conclusions

Maureen O'Neil, CSR Advisory Council Chair

The Council Chair summarized by thanking and congratulating EDC on a most informative and encouraging session, including the opportunity for an expert guest speaker on climate change and the special opportunity to hear directly from EDC's volunteers in the *Beyond Exports* program.

It was agreed that proposed meeting dates for 2010 will be identified and sent shortly to Council members.