

CHIEF ENVIRONMENTAL ADVISOR'S
ANNUAL REPORT 2005

It's About
More
Than
Exporting



Canada 


Export Development Canada | Exportation et développement Canada

• It's About Environmental Responsibility



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MESSAGE FROM THE CHIEF ENVIRONMENTAL ADVISOR

I became EDC's Chief Environmental Advisor in 2001 with a mandate to build upon the Corporation's long-standing practice of reviewing environmental risk as part of its analysis of projects. My task was to build a world-class team of environmental review specialists, to develop and implement environmental and social policies and procedures including the Environmental Review Directive, and to strengthen working relationships with other export credit agencies and with multilateral financial institutions such as the World Bank. EDC has come a long way in ensuring projects meet today's internationally accepted environmental and social standards. EDC now has a team of seven environmental specialists and a comprehensive system that includes gating and decision making concepts. Our environmental practices are aligned with internationally accepted best practices including those of banks signed on to the Equator Principles and the other export credit agencies that belong to the Export Credits Group of the Organisation for Economic Co-operation and Development (OECD).

The evolution of EDC's environmental and social requirements, the hiring of top notch environmental specialists, and the development of integrated systems happened with significant input from EDC's customers, from the NGO community and from colleagues working for our shareholder in the Office of the Auditor General of Canada and in the Department of Foreign Affairs and International Trade. On behalf of EDC, I wish to acknowledge and thank all of these entities for their contribution to EDC's environmental program. I would also like to thank EDC's senior management and Board of Directors who supported these initiatives every step of the way, and EDC employees for developing and implementing them with such dedication. I believe that the changes to EDC's environmental review policies and practices over the years have improved our ability to support exporters in an environmentally responsible manner, preserving their ability to compete in the global marketplace. I have also seen a shift towards greater appreciation of the importance of environmental conservation in the Canadian and international business community, where environmental reviews are increasingly understood to be a standard operating procedure for certain types of projects.

I am very proud of what EDC has achieved during the past five years. The Corporation now has the people, systems and resources to fulfill EDC's environmental responsibilities while it continues to help Canadian companies compete internationally. EDC has become a strong advocate for high international standards of environmental stewardship, knowing that this approach enhances the reputation Canadian companies have earned for conducting business in a fair, open and responsible manner. Having fulfilled my mandate, I now leave EDC with the great satisfaction of knowing that its commitment to the environment is part of the character and culture of the Corporation.

A handwritten signature in black ink that reads "A. FitzGerald". The signature is stylized and cursive.

Art FitzGerald
Chief Environmental Advisor

MANDATE

EDC's mandate is to support and develop, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade as well as respond to international business opportunities.

This makes EDC a partner in Canada's international business development initiatives. EDC is a Crown corporation reporting to Parliament, and is financially self-sustaining. It works in partnership with government and the private sector to enhance the visibility and success of Canadian companies abroad. EDC's risk management strategies and treasury operations allow it to provide this support without relying on tax dollars. EDC raises funds by charging fees for services and interest on loans, as well as by issuing debt in capital markets. These instruments represent the irrevocable full faith and credit obligation of the Canadian government. This financial strength combined with innovative products, international networks, in-depth analysis of global economic conditions – sector by sector, country by country – help EDC focus on the needs and opportunities of Canadian exporters and investors.

CHANGES TO ENVIRONMENTAL AND DISCLOSURE POLICIES

EDC announced an updated and strengthened environmental policy framework in 2005, including an umbrella Environmental Policy, amendments to its Environmental Review Directive (ERD) and Disclosure Policy following a public comment period. These policy amendments heighten clarity and strengthen transparency across the entire corporation and reflect a balance between the needs of EDC customers and EDC's responsibilities for the environment and to the Canadian public.

The policy review was initiated to reflect changes to the OECD Common Approaches on Environment and Officially Supported Export Credits, recommendations from the Office of the Auditor General in its 2004 examination of EDC's environmental practices; EDC's own experience in implementing the ERD since 2001; and the need to formalize practices already in place in EDC's day-to-day operations. EDC will also conduct reviews of its Environmental Policy a minimum of every three years.

EDC invited public comment on its proposed policy updates during an 80-day public comment period so that interested parties could provide input and feedback. The feedback was presented to EDC management, EDC's Advisory Council on Corporate Social Responsibility (CSR) and the EDC Board of Directors as part of the decision-making process.

The Environmental Review Directive and the Disclosure Policy were also strengthened during the review in 2005. The following highlights how the application of the ERD and Disclosure Policy has been simplified and clarified:

Credit Facilities: The ERD was never intended to inadvertently capture all of EDC's business with corporate borrowers that are involved in projects. Experience has demonstrated that subjecting non-project-related procurement or investment to

NEW ENVIRONMENTAL POLICY

EDC's new Environmental Policy provides the corporation with one "umbrella" policy governing all environmental practices. It extends the principles of sound environmental management to the entirety of EDC's business activities and re-affirms that EDC evaluates environmental risk, on par with credit risk or political risk, in deciding whether to support a transaction. Through the new Environmental Policy, EDC now publicly accounts for all the environmental aspects of its support to Canadian exporters and investors. This includes environmental procedures which touch non-project-related business.

the rigours of the ERD impedes the success of Canadian companies competing for business that is not environmentally sensitive. The revised ERD corrects this by excluding general corporate facilities, although such facilities are still subject to an environmental risk review process.

G7 Projects: A recent independent study revealed that the environmental laws and standards of France, Germany, Italy, Japan and the United Kingdom closely parallel those of Canada and the United States. As such, EDC will apply the same environmental review process used for projects in the U.S. and Canada to projects located in all G7 countries.

Benchmarking Project Categories: The ERD continues to reflect the project categories used by other international financial institutions and export credit agencies and EDC continues to share information with these counterparts to better harmonize assessments. This “benchmarking” is part of EDC’s commitment to common, international standards for the environmental practices of export credit agencies.

Disclosing Standards: EDC now discloses the type of environmental information reviewed, and the standards it applies in determining to support the most environmentally sensitive projects (Category A).

Improved Ex Ante Disclosure: EDC’s updated Disclosure Policy now makes it a requirement, for the most environmentally sensitive projects in non-G7 countries, to publicly disclose environmental impact information at least 30 days prior to final commitment. The policy goes on to state that should EDC need to waive this requirement in certain cases, it will publish a full justification for this waiver.

RESPONSIBILITY FOR ENVIRONMENTAL REVIEW

EDC recognizes that compliance with its Environmental Review Directive (ERD) and the OECD *Common Approaches on Environment and Officially Supported Export Credits* (Common Approaches) is an integrated responsibility. Compliance with this cross-corporate commitment is overseen by the Environmental Review Advisory Committee (ERAC), members of which include EDC’s Senior Executives. ERAC ensures the continuous improvement of EDC’s environmental review policies and practices by establishing effective performance measures and benchmarks, and providing strategic direction and advice. A working level committee exists to raise and address issues in support of the overall objective.

EDC has achieved significant progress towards integrating environmental assessment into the policies of the organization. Projects for which EDC is asked to provide financing or insurance pass through many levels of review before EDC commits support, and a screening for potential environmental impacts is fundamental to all project reviews.

EDC maintains a stand-alone Environmental Advisory Services (EAS) team that consists of seven professionals including scientists and engineers. They provide support to the corporation in a wide range of areas including conducting environmental reviews, performing risk assessments and identifying appropriate mitigation measures related to transactions for which EDC may extend insurance or financial coverage. They also participate in environmental risk management training, stakeholder engagement, business development and support to the CSR objectives.

While EDC has in-house resources to conduct environmental reviews, it also relies on many other EDC employees involved in processing a project to complete them most effectively. The interaction of the various groups ensures the ERD is implemented thoroughly and fairly, with the best interests of both the environment and Canadian exporters assessed before any decision is taken on EDC participation.

COMPLIANCE PROGRAM

EDC's Compliance Officer provides a mechanism for addressing compliance issues about certain CSR policies and initiatives; advises EDC on best-in-class practices in these areas; and oversees compliance audits to determine if EDC is following its CSR policies. In 2005, no complaints pertaining to the mandate of the Compliance Officer were received.¹

REPORTING AND DISCLOSURE

EDC reports ERD activities to the Board of Directors through the Audit Committee of the Board. Reporting is quarterly and includes:

- Total credit commitments under the ERD;
- Category A projects that have been signed during the previous quarter;
- Any Category A projects that have been reviewed and declined for environmental reasons;
- Projects with issues of concern that require ongoing monitoring and supervision, and what actions are being taken to address these concerns; and
- Outreach activities related to harmonizing environmental standards internationally.

Under its *Disclosure Policy*,² EDC reports project information on its website. For all projects where EDC has provided financing by way of a loan, a supplier credit, leasing or financing guarantees, political risk insurance of loans, and equity support, EDC discloses individual transaction information such as:

- The country where the project is located;
- The Canadian exporter or investor involved; and
- In the case of Category A projects, the type of environmental information reviewed and the standards applied in making a determination.

As previously stated, EDC has improved its disclosure requirements to now have Category A projects in non-G7 countries publicly disclose environmental impact information at least 30 days prior to final commitment. Should EDC not be able to meet this commitment it will publish a full justification for this waiver.

1. More information on EDC's Compliance Program is available at www.edc.ca/compliance.

2. The full text of EDC's Disclosure Policy is available at www.edc.ca/disclosure.

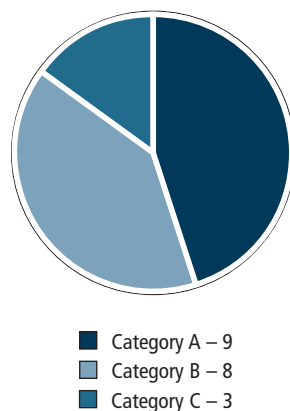
In 2005, all nine signed Category A ERD projects were posted on EDC's website. One such example posted online prior to signing is the New Quito International Airport project in Ecuador. Annex 1 provides details of how this project was managed from an environmental perspective.

Projects signed in 2005

In 2005, a total of 20 project-related transactions meeting ERD criteria were signed. Nine of those project-related transactions fall into Category A, and are listed in the following bullets:

- New Quito International Airport, Ecuador;
- Guajimia Stormwater Project, Dominican Republic;
- Mankato Energy Centre and Blue Earth County Power Projects, United States;
- Qatargas3 Liquefied Natural Gas Project, Qatar;
- Q-Chem II Petrochemical Plant, Qatar;
- Dolphin Energy Project, United Arab Emirates;
- Sohar Smelter and Power Plant, Oman; and
- Kupol Gold Mine,³ Russia.

Signed Projects by Category



Signed Projects By Industry Sector

Mining	3
Infrastructure	5
Manufacturing	2
Energy	7
Telecom	3

Signed Projects By Region

Central & South America	5
North America & Caribbean	4
Middle East	4
Europe	5
Asia	1
Africa	1

3. EDC support included both financing and political risk insurance therefore this project has been counted as two transactions in the accompanying chart.

ENVIROEXPORT INITIATIVE

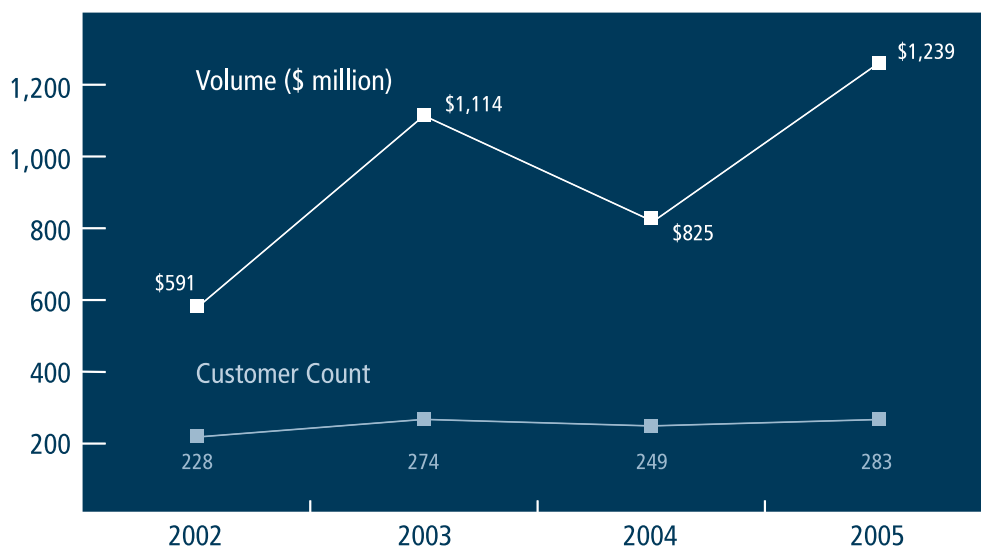
Canadian companies are renowned for their environmental technologies and expertise in such areas as water treatment, air pollution control and alternative or “clean” fuels. EDC is helping these and many other Canadian exporters of products and services that conserve and improve the environment to take their business to the world, through EDC’s *EnviroExport* Initiative.

Eighty-three per cent of companies that EDC serves in this sector are small- and-medium-sized enterprises (SMEs) and many, particularly in the energy sector, are in pre- or early-commercialization phases. Most of EDC’s support is through insurance products, both short-term credit insurance and medium-term credit insurance and bonding guarantees. This is consistent with the type of support required by SMEs and emerging exporters in other industries.

Measuring EDC’s support for the sector

In 2005, EDC facilitated \$1.24 billion in environmental exports with 283 customers. EDC has tracked the number of customers and the associated volume of environmental goods and services exports facilitated by EDC since 2002, indicated in the graph below. The increase in volume over 2004 is largely attributable to several large water treatment projects that EDC signed in 2005.

EDC SUPPORT FOR ENVIRONMENTAL EXPORTS SINCE 2002



Owing to the predominance of SMEs, in 2005 a key performance measure for the *EnviroExport* Initiative was set as the number of transactions facilitated by EDC rather than volume of export sales because one large transaction can account for more volume than a series of smaller, more challenging transactions. EDC has set a target of 10 per cent annual growth in the number of transactions in our medium and long-term portfolio facilitated under the *EnviroExport* Initiative. EDC exceeded this target in 2005, with 282 such transactions compared to 244 in 2004.

The figures in the graph represent EDC support in the following sub-categories of the environmental goods and services industry:

- Air pollution control and monitoring: scrubbers and recovery systems which reduce emissions from industrial stacks;
- Alternative fuels: fuel technologies other than gasoline or diesel, incorporating many of the new technologies such as hydrogen fuel cells, biofuels, and advanced batteries as well as more established technologies such as natural gas;
- Engineering: capacity building, energy audits, environmental impact assessment;
- Recycling: redistribution or reuse of waste material excluding solid or hazardous waste;
- Renewable energy and energy efficiency: energy from wind, solar, small hydro geothermal, wave and tidal and biomass. Energy efficiency and management such as green buildings and building control systems;
- Solid and hazardous waste management: remediation and clean-up services;
- Water and wastewater management: includes equipment and services for water and sewage treatment;
- Miscellaneous environmental goods and services: noise abatement, education and geographic information systems used to monitor and manage the environment.

Historically, the *EnviroExport* Initiative has focused its efforts on defining and measuring environmental exports, gathering market intelligence, developing relationships with exporters, government departments, industry associations and international organizations and sponsoring industry events. Moving forward, EDC will increase its focus on the sector by dedicating one of its business teams to focus on infrastructure and environment.

***EnviroExport* business development activities**

EDC engages in a variety of business development activities to ensure that exporters know of the support that EDC provides to the sector. For example:

- EDC continued its support for the Globe-Net web portal launched in 2004 to provide news and information on market opportunities associated with the environmental sector;

- EDC's Energy Team is establishing relationships with companies developing renewable energy technologies and alternative fuels in preparation for providing export support as the companies mature to a commercial phase of development;
- EDC partners with Trade Team Canada Environment, International Trade Canada and Natural Resources Canada on initiatives to support the sector;
- EDC representatives participated in many sector-based conferences and events including the Canada China India Symposium at Americana; the Sustainability Forum of the Environment and Energy Conference (EECO) focused on Environmental Issues of the Great Lakes Economic Region; the Energy and Ethics Forum hosted by the Canadian Centre for Ethics and Corporate Policy; Canada-China Environmental Cooperation Council Seminars; and Trade Team Canada Environment missions to India and China.

OUTREACH

EDC undertakes a variety of outreach activities to fulfill its obligations on international agreements to which Canada is a signatory and to advocate for increased global harmonization of environmental standards. For example:

- Following up on EDC's support for a Chinese translation of the World Bank's Pollution Prevention and Abatement Handbook (2004), EDC again partnered with Canadian International Development Agency (CIDA) and China's National Development and Reform Commission (NDRC) to make this handbook available in Chinese on the internet;
- EDC continued to play a leadership role at Environmental Practitioners meetings attended by members of the OECD Export Credits Group, consulting with peers from other countries to assist with issues of interpretation and implementation of the Common Approaches on Environment and Officially Accepted Export Credits (The Common Approaches);
- EDC continued to foster the international harmonization of environmental impact assessments through its active engagement on this subject in meetings with multilateral development banks;
- EDC environmental review experts contributed to international understanding of best practices in environmental review by presenting papers and chairing sessions of the annual conference of the International Association for Impact Assessment, a forum for advancing innovation, development and communication of best practice in impact assessment.

LOOKING AHEAD

This 2005 Chief Environmental Advisor's annual report will be the last stand-alone report on EDC's environmental programs. Over the years, environmental review has become increasingly integrated into EDC's normal transaction decision-making, and environmental responsibility is now a fundamental consideration in how EDC conducts its business. Accordingly, the Corporation has determined that reporting on this aspect of its business will in the future be integrated into its larger Corporate Social Responsibility (CSR) annual report. One of the Corporation's CSR operating principles states that, "at EDC we are conscientious about the environmental impacts of our business." EDC is committed to this principle and will continue reporting on its actions and results in this area with equal candour within the CSR annual report.

QUITO INTERNATIONAL AIRPORT, ECUADOR

The new Quito International Airport is a large Greenfield project located 25 kilometers north of the city of Quito. The original Quito airport was built 70 years ago and the city has since grown around it. Air traffic has increased about 10 per cent annually for the past decade and, with no place to grow, the city was losing out on economic benefits by not having a larger international airport with a free trade zone which will attract manufacturing and create jobs.

Leading the development of the new airport is the Toronto-based Aecon Group Inc. Aecon's partners are infrastructure development firm Andrade Gutierrez Concessoes of Brazil, the Airport Development Corporation of Toronto, and HAS Development Corporation of Houston, Texas. In September 2002, Aecon and its partners, operating under the name Quiport, were awarded a 35-year concession contract to design, build, finance and operate the new airport and the concession rights to continue operating the existing airport until construction is complete, expected in 2010. In November 2002, Quiport, took over operations of the existing Marucal Sucre Airport through a consulting contract.

The new international airport was categorized as Category A by EDC as well as other lending institutions including the Inter-American Development Bank, United States Overseas Private Investment Corporation (OPIC) and the United States Export-Import Bank. An environmental impact assessment (EIA) meeting World Bank guidelines was carried out for the project by Komex International, a Canadian-based environmental consulting company.

The project company has committed to implementing an integrated management system to ensure that quality, environment, health and safety issues are appropriately managed and monitored throughout the construction phase. This integrated management system is based on the following standards: ISO 9001, ISO 14001, and OSHAS 18001.

EDC and the other project lenders hired an independent consulting firm to review the new airport project, including the EIA. Concurrent with its own environmental review, EDC disclosed its potential support to the project on its website in February 2003. After determining that the project met its Environmental Review Directive requirements, EDC approved support to the project in August 2005.

More information on the project is available at www.quiport.com.



◀ The new Quito International Airport project site.