



POSITION

Defence and Security-related
Transactions



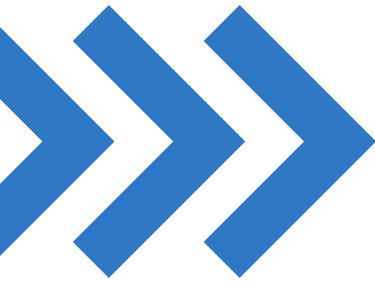


TABLE OF CONTENTS

OBJECTIVE AND SCOPE	1
HUMAN RIGHTS AND OTHER SALIENT ISSUES	1
CANADA'S OBLIGATIONS	2
HIGH-RISK FACTORS	2
EDC POSITION	2
REVIEWS AND REVISIONS	2
DEFINITIONS	3
CONTROL SHEET	4
REVISION HISTORY	4

As Canada's export credit agency, EDC is committed to supporting Canadian exporters across all sectors. However, EDC recognizes that companies operating in or supporting the defence and security sector can be exposed to elevated human rights, financial crimes and reputational risks, which must be taken into consideration. As such, EDC has created a Defence and Security Position to guide its due diligence and decision-making and to uphold its environmental, social and governance (ESG) commitments.

OBJECTIVE AND SCOPE

The Defence and Security Position aims to:

- ensure that EDC is not supporting transactions with a high likelihood of causing or contributing to adverse impacts on the rights of individuals;
- align with existing and relevant [EDC policy commitments](#); and
- consider reputational and financial crimes risks for EDC.

The position provides a framework for decision-making based on the high-risk factors associated with defence and security-related transactions.

Utilizing a risk-based approach and available information, the Defence and Security Position applies to EDC's customer onboarding and transaction review process across all its product lines.

HUMAN RIGHTS AND OTHER SALIENT ISSUES

Activities in the defence and security sector can be associated with severe human rights impacts. Given the nature of defence and security-related goods and services, and the potential for their inappropriate use, human rights violations can include unlawful shootings, civilian killings, torture or other cruel, inhumane or degrading treatment, or punishment of civilians and prisoners of war. Such violations may breach applicable national, international, humanitarian, human rights and other laws, treaties and conventions.

For certain countries, the sale of any good or service to defence or security end-users can result in significant human rights impacts through the enablement and sustainment of authoritarian, repressive and violent regimes.

Finally, defence and security-related transactions are also more likely to be associated with high financial crimes and high reputational risk, both of which are assessed during due diligence.

CANADA'S OBLIGATIONS

In addition to international humanitarian and human rights laws, Canada has signed on to several international treaties and instruments that govern this sector to which EDC is aligned. This includes the *United Nations Arms Trade Treaty (ATT)*, which governs the trade in weapons with the intention to prevent diversion or supply to repressive regimes, terrorist groups and conflict zones. As a State Party to the *Chemical Weapons Convention (CWC)*, Canada is also committed to the complete elimination of chemical weapons and to holding to account those that use them. Moreover, Canada prohibits the export, sale, supply, or shipment of arms and related material to countries that are under United Nations Security Council arms embargos, through regulations under the *United Nations Act*.

EDC adheres to Canada's obligations which are reflected in the Defence and Security Position.

HIGH-RISK FACTORS

Defence and security-related transactions are highly sensitive and complex. EDC recognizes the right of countries to defend themselves, protect their national security as well as fulfil peacekeeping and humanitarian objectives. EDC also acknowledges the importance of this sector for Canadian companies. Yet, the risk of severe human rights impacts associated with these transactions can be high, unmitigable and exacerbated by:

- the **end-use** of the export good or service;
- the **end-users**¹ that will ultimately benefit from the export good or service; and
- the **destination country**² to which the good/service is headed.

1 An end-user can be determined through collecting due diligence information on a best effort basis.

2 A destination country refers to the country where the good or service is going to be used. It does not necessarily refer to the location of a company's headquarters.

3 Countries are assessed as having elevated human rights related risks based on factors including levels of violent conflict, state violence and lack of state commitment to civil and political rights.

4 Under no circumstances will support for controversial weapons be allowed. Controversial weapons are heavily regulated and subject to bans under international treaties and regulations.

EDC POSITION

- No support will be provided for any good or service sold to a defence or security end-user in countries with higher risks relating to human rights³.
- No support will be provided for any fully-assembled weapons/weapons systems (including, but not limited to, controversial weapons such as chemical weapons and dual-use components or products)⁴, regardless of country market or end-user.
- No support will be provided for any good or service (including dual-use components or products) that enables weapons/weapon systems to be used in countries with higher risks relating to human rights.
- If information is limited or unavailable and there is a reasonable indication that a customer or transaction would contravene EDC's position, the organization will assume high risk and will not support the transaction.
- When the position is determined not to apply, transactions will proceed with EDC's standard due diligence, which includes assessing human rights-related risks.
- In limited circumstances, exceptions to this Position may be considered.

REVIEWS AND REVISIONS

The position will be reviewed and approved every four years, or more frequently should circumstances require.

DEFINITIONS

Terminology	Definition
Arms Trade Treaty	Is a multilateral treaty and legally-binding instrument that regulates and sets common standards for the international trade in conventional weapons, with the objective of preventing and eradicating the illicit trade in conventional arms and preventing their diversion. It was adopted by the UN General Assembly on Apr. 2, 2013, and entered into force on Dec. 24, 2014.
Chemical Weapons	Refers to weapons that use the toxic properties of chemicals to cause physical harm, ranging from discomfort to death. A toxic chemical agent is any chemical, which through its action on life processes can cause death, temporary incapacitation, or permanent harm to humans or animals.
Controversial Weapons	Refers to weapons that are banned or regulated under widely adopted international treaties and conventions, and usually include: nuclear weapons, biological and chemical weapons, anti-personnel mines, cluster munitions/weapons, depleted uranium weapons, white phosphorus weapons and fully autonomous weapons.
Defence and Security Sector	Refers to businesses engaged in the manufacture and/or delivery of products and services or their components, for use by government defence and security-related organizations and/or for defence and security purposes.
Defence End-User	Includes, but is not limited to, state or government organizations such as armed forces, army, marines, navy, air force, ministry of defence, national guard, national militia, strategic missile force, military police, paramilitary force, etc.
Security End-User	Includes, but is not limited to, state or government organizations such as border guard, coast guard, police, constabulary, gendarmerie, protective services, law enforcement agency, civil guard, civic guard, paratroopers, peace officers (not UN peacekeepers), sheriffs, port authorities, rangers, park rangers, highway patrol, military police, etc., as well as private security contractors and close protection retained for government purposes. It can include provincial and municipal-level entities such as provincial and municipal policing.
Severe Human Rights Impacts	Adverse human rights impacts that are particularly grave in nature (e.g., threats to life, child/forced labour and human trafficking), widespread in scope (e.g., large-scale resettlement and working conditions across a sector), or cannot be remediated (e.g., torture and loss of health, etc.).
Weapons	<p>Refers to armaments or ordnance designed to inflict physical damage or bodily or mental harm for use in attack or defence in combat, fighting, or war.</p> <p>Includes dual-use components or products when the end-use is a weapon/weapons system. The Wassenaar Arrangement and relevant lists as issued by the Government of Canada can be consulted to determine dual-use goods and their potential defence/military purpose.</p>
Weapons Systems	<p>Refers to platforms used for weaponry or an integrated system, usually computerized for the control and operation of a weapon and generally sold alongside the weaponry.</p> <p>Includes dual-use components or products when the end-use is a weapon/weapons system. The Wassenaar Arrangement and relevant lists as issued by the Government of Canada can be consulted to determine dual-use goods and their potential defence/military purpose.</p>

CONTROL SHEET

Position Name	EDC Position: Defence and Security-related Transactions
Position Owner	Senior Vice-President and Global Head of Risk and Sustainability
Position Monitor	Vice-President, ESG Integration
Version	1.0
Recommended by	Vice-President, ESG Integration
Endorsed by (if applicable)	Senior Vice-President, Small Business & Partnerships
Approved by	Senior Vice-President and Global Head of Risk and Sustainability
Approval date	September 14, 2023
Effective date (of this version)	January 1, 2024
Inaugural effective date	January 1, 2024
Next Review Date	January 1, 2028

REVISION HISTORY

Version	1.0
Approved/Reviewed/Revised/Rescinded	Approved by Senior Vice-President and Global Head of Risk and Sustainability
Date	September 14, 2023
Comments	Inaugural