



Mairead Lavery
President and Chief Executive Officer
Présidente et chef de la direction

April 20, 2021

Farida Deif
Canada Director
Human Rights Watch

Daniel Wilkinson
Environment Director
Human Rights Watch

Dear Farida Deif and Daniel Wilkinson,

Thank you for reaching out to Export Development Canada (EDC) with questions relating to EDC's approach to environmental and social risk management. I value hearing from our many stakeholders across the trade ecosystem, including civil society organizations dedicated to defending and upholding human rights.

I have reviewed the findings of the 2020 Human Rights Watch report, "My Fear is Losing Everything": The Climate Crisis and Toll on First Nations' Right to Food in Canada," and share your concerns about the impacts of climate change on Indigenous peoples and communities in Canada.

Since becoming President and CEO of EDC in 2019, I have championed EDC's mandate to help Canadian companies expand their exports and investments around the world. At the same time, I have made it clear that this expansion cannot come at the expense of human rights, environmental sustainability or without modeling responsible business practices. Accordingly, I have promoted greater transparency about EDC's values and about the policies and processes that support our decision making.

Over the last three years, EDC launched new policies addressing human rights and climate change. We have also made international commitments that set a new standard for transparency. As an example of this, EDC became the first export credit agency in the world to sign on in support of the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD).

I note many of your questions relate to EDC's support for the oil and gas industry. In recent years, the amount of business support we provide to the oil and gas sector has been decreasing. In 2020, EDC provided approximately \$8.1 billion in total business support to the oil and gas sector through its financing and insurance solutions, compared to \$10.6 billion in 2019 and \$12.5 billion in 2018. Importantly, we are committed to further reductions consistent with our climate change policy and Canada's overall move towards net-zero emissions by 2050.

However, EDC has equally been clear that Canada's oil and gas sector is incredibly important to our economy and that this sector needs to be included in any efforts to transition to a lower-carbon future. We believe the best way we can effect change is by working within our mandate and partnering with our Canadian customers operating in carbon-intensive sectors, supporting their efforts to innovate and reduce their carbon intensity.

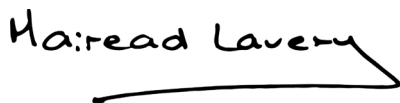
While EDC's portfolio includes companies operating in carbon-intensive sectors, EDC is also the largest cleantech financier in Canada. In 2020, we facilitated \$4.5 billion in business, supporting 288 companies. EDC continues to focus on the sector, as increasing EDC's clean and low-carbon technology business is a key commitment in EDC's climate change policy.

Enclosed you will find answers to the questions you submitted on March 29th. In addition to these, I hope that you will review our upcoming 2020 annual report, which will be published later this spring. It includes EDC's third disclosure in line with the TCFD recommendations as well as a Human Rights Disclosure. These important documents will provide updates on EDC's progress on our approach to climate and the management of human rights-related risks through leverage and remedy.

Finally, I invite you and your colleagues to participate in our second annual civil society stakeholder forum, which will take place this fall. This is an important forum for my colleagues on EDC's executive team and I to engage in direct conversations with stakeholders interested in EDC's business, specifically our approaches to the environment, human rights, business integrity and transparency.

We will be in touch over the coming months with more details.

Sincerely,

A handwritten signature in black ink that reads "Mairead Lavery". The signature is written in a cursive style and is underlined with a long horizontal stroke that extends to the right.

Mairead Lavery
President and Chief Executive Officer

1. Can you share any relevant EDC policies or documents related to human rights and climate change beyond EDC’s Human Rights Policy, Climate Change Policy and Due Diligence Framework, Environmental and Social Risk Management Policy and Guideline, Environmental and Social Review Directive, and Transparency and Disclosure Policy?

As part of the Environmental and Social Risk Management (ESRM) Policy Review that began in 2018, EDC published a dedicated [Climate Change Policy](#) (2019), a dedicated [Human Rights Policy](#) (2019), as well as the updated [Environmental and Social Review Directive](#) (2019), [Environmental and Social Risk Management Policy](#) (2019) and [Transparency and Disclosure Policy](#) (2020). These policies were developed following extensive consultations with stakeholders, including government, business and civil society organizations.

As EDC has worked to implement these policies, we have published additional documents that serve to add transparency and provide additional information to our approach to climate change and human rights. These include:

- the [Due Diligence Framework: Climate Change](#), which provides additional details as to how EDC has integrated climate change into its approach to environmental and social due diligence;
- two disclosures aligned to the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) ([2018](#), [2019](#)). In the 2020 annual report, EDC will publish its third TCFD disclosure, which will provide an update on EDC’s progress over the last year in the areas of governance, strategy, risk management, and metrics & targets.
- the [Due Diligence Framework: Human Rights](#), which provides additional details as to how EDC has integrated human rights into its approach to environmental and social due diligence; and
- an [Implementation Plan](#) that explains what we have already put in place and describes the key areas we are focusing on while implementing our Human Rights Policy.
- This spring, EDC will publish a stand-alone Human Rights Disclosure, which will provide an update on EDC’s approach to using leverage and enabling remedy. This will include the Principles on Leverage and Remedy, a guiding document that will serve to translate the Human Rights Policy commitments into systematic and organization-wide practices.

In 2021, EDC will begin a review of its ESRM Policy Framework and will again be seeking input from stakeholders across the trade ecosystem on its environmental and social risk management policies and practices. We would be pleased to include the expertise of Human Rights Watch in our consultations informing our review.

2. How does EDC identify and assess human rights and climate risks in project and non-project financing?

EDC’s approach to identifying and assessing climate and human rights risks in project and non-project financing is outlined in the [Due Diligence Framework: Climate Change](#) and the [Due Diligence Framework: Human Rights, respectively](#).

These frameworks are a first step in disclosing EDC’s due diligence approach for identifying and addressing risks related to climate and human rights, respectively, associated with the business we support. EDC expects these frameworks to evolve as our business, the business of our customers, as well as industry best practice, evolves.

3. In deciding whether to provide financial support, how does EDC weigh or balance a company's proposed mitigation plans against the severity of identified risks?

EDC makes decisions whether to proceed with financial support by assessing several factors, including:

- our mandate as Canada's export credit agency;
- a clear understanding of risk, both credit and non-credit;
- the company's capacity to manage identified risk; and
- EDC's own ability as a financial institution to influence its customers to prevent and address risks or impacts in response to concerns about potential environmental, social or human rights issues, as well as concerns relating to business integrity (financial crime, bribery and corruption).

To identify and assess risks and impacts associated with our customers, EDC conducts due diligence in accordance with our [Environmental and Social Risk Management Policy](#) and the [Environmental and Social Review Directive](#) for project-related transactions. Our due diligence processes are informed by the [OECD Common Approaches](#), the [Equator Principles](#), the [OECD Guidelines on Multinational Enterprises](#) and the United Nations [Guiding Principles on Business and Human Rights](#) (UNGPs).

In our Human Rights Policy, EDC has provided more clarity and detail on the elements that comprise our transactional due diligence process. These elements include important UNGP concepts such as prioritization, leverage and remedy. It also includes the criteria that we use when deciding to invest or divest from a customer relationship, such as the severity of the impacts on peoples, our clients' capacity to address these impacts and the amount of leverage EDC has to influence the actions of our customers.

4. How is EDC monitoring the human rights impacts of support it provides to the oil and gas sector? Does EDC consider scope 3 emissions as part of this process? If not, why?

EDC's monitoring process is described in [our Environmental and Social Risk Management Review Guideline](#), and in our [Due Diligence Framework: Human Rights](#). In 2020, EDC began asking oil and gas customers receiving EDC's financing products (>\$5M, >2-year tenor), and that are not already doing so, to align with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). The TCFD recommends that companies should disclose Scope 3 emissions when appropriate. While EDC does not currently require Scope 3 disclosures from our oil and gas customers, we continue to work with customers to ensure a shared understanding of climate-related risks and opportunities for their business.

5. How does EDC determine when project or non-project finance qualifies as "Mining," "Utilities & Alternative & Renewable Energy," or some other sector category as opposed to "Oil & Gas" support when the company in question is an oil and gas sector company? Does EDC use a formula to make such determinations? If so, could you share said formula?

EDC relies on internal subject matter expertise, an understanding of the company's operations and revenues (particularly where the majority of its revenues are derived) and industry classification systems to determine

how a company is categorized. In light of the transition to a lower-carbon economy we are monitoring the evolution of industry classification systems to ensure that our approach reflects industry best practice.

6. Does EDC have a grievance mechanism for communities or individuals potentially impacted by EDC-backed business activity? If so, can you please share related documents, or links for accessing the grievance mechanism? Has EDC received complaints raising concerns about the local or global human rights impacts of EDC's support for fossil fuel-related business?

At this time, EDC does not have its own grievance mechanism. However, we recognize the important role that grievance mechanisms can play in recognizing and resolving complaints. Grievance mechanisms are essential for ensuring that a company's stakeholders, including community members, have a channel to raise complaints or concerns. As part of our transaction due diligence we look closely at our customers' grievance mechanisms where there is considered to be higher human rights-related risks. Where we identify a high likelihood of potential or actual severe human rights impacts, we assess the effectiveness of the company's stakeholder engagement program and grievance mechanisms as described in the UNGPs.

We believe it's essential for companies to strive to prevent issues by engaging proactively with affected stakeholders. Shortcomings in a company's stakeholder engagement program and grievance mechanisms may trigger the need for additional due diligence and dialogue, as well as the inclusion of time-bound commitments in our customer agreements, the implementation of which would be monitored over time.

For its part, EDC regularly engages with stakeholders across the trade ecosystem, including civil society organizations who provide us with important perspectives and expertise on EDC's business operations and how they affect communities. We regularly respond to queries and strive to meet with stakeholders when possible. In accordance with EDC's Transparency and Disclosure Policy, we publish formal queries directed to EDC's Chair of the Board of Directors and/or to the President and CEO on our website. In 2020, EDC held its first civil society stakeholder forum to provide an opportunity for our executives to hear directly from stakeholders and to share EDC's progress in the areas of human rights, environment and business integrity.

EDC is also committed to co-operating with Canada's National Contact Point and Canadian Ombudsperson for Responsible Enterprise processes when our customers are involved.

7. Does EDC engage in direct outreach to oil and gas sector companies to solicit new partnerships? If so, how?

EDC supports Canadian companies in the oil and gas sector looking to expand their business internationally. This includes offering direct financing and insurance support to Canadian companies operating in the space and continuing to support direct exports to international buyers. EDC does not proactively solicit nor engage in new partnerships with international oil and gas companies.

In response to the COVID-19 pandemic, EDC has provided support to companies in the oil and gas sector to help companies access the liquidity they need to keep their operations running and to support their employees during the crisis. As a condition of our support for particular EDC products like corporate lending (>\$5M, >2 year tenor), companies in the oil and gas sector are required to publish a climate-related disclosure report, if they do not already do so.

Our goal is to be proactive and transparent in our approach to carbon intensive sectors as part of the transition to a lower carbon future. This means working directly with oil and gas companies and industry associations to share our climate commitments and requirements, such as the TCFD climate disclosure. In doing so, we're supporting this important sector of the Canadian economy and collaborating in support of the transition.

8. Does EDC have or intend to adopt a policy setting sector-specific carbon caps for its financing portfolio? If not, why?

Within the financing portfolio, we are focusing initially on assessing the climate transition risk of the structured and project finance and corporate loans portion, which represented 88 per cent of the portfolio in 2020. Of this portion, 26 per cent was financing to the six sectors that we consider to be the most carbon intensive: airlines; cement manufacturing; metals smelting and processing; petrochemicals, refining and chemicals manufacturing; thermal power generation; and upstream oil and gas operations.

In 2019, we published the details of our target to reduce our cumulative exposure to carbon intensive sectors and have prioritized action in this area in the short term. As a result of this reduction, the carbon-intensive exposure of EDC's financing portfolio was targeted to decrease by approximately \$3.3 billion by December 31, 2023. Thanks to active portfolio management and clearly defined parameters guiding EDC's business in these sectors, we made progress and have attained the 2023 target ahead of schedule.

We are currently considering next steps for continuing to drive changes in the composition of our portfolio in line with the low-carbon transition. More information on EDC's climate commitments will be available in the 2020 Annual Report.

9. Does EDC have or intend to adopt a policy restricting financial support for oil and gas exploration or production in line with Prime Minister Trudeau's recent commitment? If not, how does EDC reconcile this gap with its commitment to taking action on climate change?

As Canada's export credit agency, EDC has a clear mandate, "to support and develop Canada's trade, and the capacity of Canadian companies to participate in and respond to international business opportunities." This includes demonstrating leadership in our capacity as Canada's export credit agency on the significant and complex issue of climate change.

EDC is committed to supporting the Government of Canada's commitment to the Paris Climate Change Agreement, which aims to strengthen the global response to the climate change challenge and spur a transition to a low carbon and climate-resilient future.

We have taken significant steps in recent years: committing to no new financing for coal-fired power plants, thermal coal mines or dedicated infrastructure, setting a target for reducing our financing portfolio's exposure to carbon intensive sectors, enhancing our climate-related reporting and encouraging our customers to do the same.

Our first carbon target was an important step in our journey towards a lower-carbon financing portfolio. The goal of this target was to reduce EDC's exposure to carbon intensive sectors in its lending portfolio by 15 per cent over five years, with a target deadline of December 31, 2023. Thanks to active portfolio management and clearly defined parameters guiding EDC's business in these sectors, we made progress and have attained the 2023 target ahead of schedule. We are currently working on the next iteration of the target and will have more to share over the coming months. Steps like these, help ensure we're continually building on our efforts while working with all sectors of the Canadian economy.

We also understand the public's interest in EDC's support for Canada's oil and gas sector, which remains an important segment of our national economy and is playing a role in the transition to a low-carbon future. It is our belief that the most important way we can effect change is by working with Canada's oil and gas sector and supporting those companies as they innovate in response to the low carbon transition.

In recent years, the amount of business support we provide to the oil and gas sector has been gradually decreasing. In 2020, EDC provided approximately \$8.1 billion in total business support to the oil and gas sector through its financing and insurance solutions, compared to \$10.6 billion in 2019 and \$12.5 billion in 2018.

It is important to keep in mind that oil and gas companies are important partners for the cleantech sector as they help support the development and commercialization of cleantech solutions. EDC was one of the first export credit agencies to identify the sector for its opportunities and has since become the largest financier of Canada's burgeoning cleantech industry.

The number of cleantech companies we served in 2020 grew by 27 per cent compared to 2019, to 288 businesses, and we facilitated \$4.5 billion in business – an 80 per cent year-over-year increase. For context, compare this to 2015, when EDC served 77 cleantech customers and facilitated \$917 million in business. Our goal over the long term is to continue to grow our support to the cleantech sector, as it remains a central element in our strategic approach to climate change.

EDC is implementing its cleantech strategy by building its sub-sector knowledge in emerging topics such as alternative proteins, energy storage, hydrogen and carbon capture; increasing market penetration among customers across the country and across all sub-sectors; and continuing to leverage its ecosystem partnerships.

10. In the absence of a policy restricting financial support for oil and gas, what specific measures are being taken to address the considerable risks associated with projects that employ hydraulic fracturing or “fracking”?

EDC's [environmental and social risk management policy framework](#) and associated due diligence examine a wide range of environmental and social issues, including those that might be posed by projects employing hydraulic fracturing.

EDC's [Climate Change Policy](#) and upcoming TCFD disclosure in the 2020 annual report (set to be published this spring) are helpful documents, which articulate the actions EDC is taking to address the climate-related implications of its business.

11. Can you provide further details on the nature of oil and gas sector activities outside of North America currently receiving financial support from EDC?

In light of EDC's climate change policy and commitments, we are prioritizing our efforts to support Canadian exporters versus foreign companies with whom we would engage in prospective trade creation activities. All of EDC's transactions are published in accordance to our [Transparency and Disclosure Policy](#) and are available for review on edc.ca.

12. Does EDC engage in efforts to support development of renewable energy overseas and in Canada? If so, please elaborate.

In 2020, through EDC's project finance we supported \$3.2 billion in business facilitated to our customers in the renewable power generation sector. Of that amount, \$1.3 billion was in support of international renewable power projects. Renewable power generation includes:

- Solar panels, components and systems
- Wind turbine components and systems
- Small hydro (<20MW), in-river, tidal, wave
- Waste to energy (gasification, advanced incineration, anaerobic digestion of organic waste)
- Bio-feedstock to heat
- Co-generation (from bio-feedstock)
- Geothermal
- Green hydrogen
- Other non-emitting energy supply