



JANUARY 2019

EDC CLIMATE CHANGE POLICY PUBLIC RESPONSE PAPER

SUMMARY OF STAKEHOLDER FEEDBACK
AND EDC RESPONSE



INTRODUCTION

EDC conducts reviews of its environmental and social risk management framework policies to ensure our policies are relevant, rigorous and reflect industry best practice.

These reviews are conducted in response to stakeholder expectations, to continuously improve our policies, to ensure consistency with our current practices, as well as changes to EDC's international obligations such as the Organization for Economic Cooperation and Development's (OECD) Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence and the Equator Principles.

1. Environmental and Social Risk Management Policy
2. Climate Change Policy
3. Environmental and Social Review Directive
4. Human Rights Statement
5. Disclosure Policy

The focus of this paper is on the Climate Change Policy portion of the review. We expect to conclude our full Environmental and Social Risk Management Review in the first half of 2019 as planned. An additional Response Paper summarizing the feedback and EDC's response in the remaining four categories will be issued accordingly.

We thank you for taking the time to share your feedback. The valuable input and broad range of stakeholder perspectives that you provide helps us to understand your expectations and continue to evolve our policies in accordance with industry best practices.

We look forward to continuing the dialogue.

CLIMATE CHANGE POLICY

EDC issued its first Climate Change Policy, as a component of its broader Environmental and Social Risk Management Policy, in 2010.

The recent review of the policy was intended to capture how EDC's positions and practices have evolved over the last few years, as well as to ensure that EDC is keeping pace with relevant international developments, such as the 2015 Paris Climate Change Agreement and the recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures to which EDC signed on in September of 2018.

The updated policy, effective January 28, 2019, demonstrates EDC's approach to this significant and complex global issue and our commitment to supporting a transition to a low-carbon and climate-resilient global economy.

CLIMATE CHANGE POLICY REVIEW PROCESS

The Climate Change Policy review process was launched in January 2018 with an environmental scan to better understand how the landscape has evolved since EDC last issued its policy in 2010. This scan helped inform the publicly-shared [Discussion Paper](#) that set out key areas of focus for the review, as well as pertinent questions for feedback.

The key themes that formed the Climate Change Policy Review included: (i) general; (ii) climate-related opportunities and risks; and (iii) EDC's operations.

The questions included, but were not limited to:

1. Are there specific areas in which stakeholders would like to see greater clarity based on experience with EDC's existing climate change and coal practices?
2. Do you have specific concerns/recommendations with respect to the different areas in which EDC is focusing its Climate Change Policy Review?
3. Do you have recommendations for additional areas EDC should explore as it looks to update its policy?

The stakeholder engagement process began on May 14, 2018 with an invitation to stakeholders from across the Canadian trade and business ecosystems, including government, industry and civil society, to offer input on all areas of the Climate Change Policy over a four-month period. All stakeholders wishing to provide feedback were encouraged to do so via [EDC's website](#) or through ESRMPolicyReview@edc.ca. The deadline for submissions was September 7, 2018.

During this time, EDC also consulted with representatives from the Government of Canada, EDC's Board of Directors, EDC's CSR Advisory Council – comprised of prominent experts who advise on and guide our CSR practices – as well as its customers. Consultations with employees from across the organization were central to the process, including several discussions with EDC's Executive Team. Targeted meetings with employees, customers and civil society representatives were held in EDC's regional offices in Halifax, Toronto, Calgary, Montreal and Ottawa.

To foster transparency, all submissions received from stakeholders who provided consent for publication were posted on [edc.ca](#). A holistic summary, including anonymous feedback, is included in this document (please see Figure 1 below).

CLIMATE CHANGE POLICY REVIEW RESPONSE

STAKEHOLDER PARTICIPATION

Following extensive consultations, EDC received several submissions to its Environmental and Social Risk Management Review, which included feedback that informed the Climate Change Policy Review. All submissions were reviewed by EDC’s Executive Team and Board of Directors.

EDC’s new Climate Change Policy, which received approval from the Board of Directors, is the result of careful consideration of all comments, recommendations and suggestions received from stakeholders, and helped to improve EDC’s organizational approach to climate change.

KEY THEMES AND EDC RESPONSE

Feedback on EDC’s Climate Change Policy was received from a variety of stakeholders, representing the Government of Canada, EDC’s Board of Directors, EDC’s CSR Advisory Council, civil society organizations, industry associations, customers and employees from all levels of the organization.

STAKEHOLDER GROUP	KEY THEMES
Board of Directors	<ul style="list-style-type: none"> • Find balance between EDC mandate and climate change commitments • Provide support for industry transition • Continue climate impact analysis • Be clear in your approach
Civil Society Organizations	<ul style="list-style-type: none"> • Commit to ending support for fossil fuels • Apply internal carbon price • Set GHG emissions reduction targets across EDC’s business portfolio • Increase support for cleantech
Customers	<ul style="list-style-type: none"> • Consider and prioritize international competitiveness of Canadian companies • General support for clarifying EDC’s climate change position, but mixed views on the need for a stand-alone policy • Ensure consistency and transparency • Undertake continuous review of appropriate approach across different sectors
Shareholder	<ul style="list-style-type: none"> • Align with Government of Canada international commitments, e.g. Paris Agreement, Powering Past Coal Alliance • Support the broader Government of Canada efforts to transition to a lower-carbon economy and increase transparency
CSR Advisory Council	<ul style="list-style-type: none"> • Align to Government of Canada and Environment and Climate Change Canada • Develop approach for fossil fuels • Explore knowledge-sharing and relationship-building opportunities around low-carbon transition • Commit to measure and report on carbon exposure
Employees	<ul style="list-style-type: none"> • Balance between tackling climate change and responding to EDC’s mandate • Provide support for industry transition • Ensure ongoing competitiveness in global market • Increase guidance, predictability; provide clear position on entities to support /not support • Provide training for EDC on the new policy and decision-making • General support for stand-alone policy

Among the issues submitted for consideration by our stakeholders, five main interest areas emerged:

1. Balancing EDC’s mandate to support Canadian exporters with commitments to combat climate change
2. Enhancing EDC’s transparency toward climate-related requirements
3. Integrating climate change into EDC’s decision making, including with respect to fossil fuels
4. Increasing EDC’s clean technology and low carbon business
5. Ensuring the ongoing competitiveness of Canadian companies in a global market

FIVE MAIN INTEREST AREAS AND EDC'S RESPONSE

Below is a summary of the five main interest areas submitted by the stakeholders for consideration, and EDC's response to each.

1. BALANCING EDC'S MANDATE TO SUPPORT CANADIAN EXPORTERS WITH ITS COMMITMENTS TO COMBAT CLIMATE CHANGE.

STAKEHOLDER COMMENTS:

A dominant theme in the feedback we received from stakeholders, including the Government of Canada, our Board of Directors, the CSR Advisory Council, our customers and employees, underlined the need for EDC to find the right balance between fulfilling our mandate as Canada's export credit agency and any climate change commitments we choose to undertake. At the same time, stakeholders from civil society organizations told us that, as a Crown corporation, aligning with the Government of Canada's international commitments to limit global warming was imperative. Their recommendations to advance Canada's efforts to transition to a low-carbon economy focused on EDC distancing itself from supporting carbon-intense sectors.

EDC RESPONSE:

As Canada's export credit agency, we benefit from a clear mandate, spelled out under the Export Development Act of 1985: "to support and develop Canada's trade, and the capacity of Canadian companies to participate in and respond to international business opportunities." We are committed to growing Canada's role in the world in a manner in which we can all be proud. And this includes demonstrating leadership in our capacity as Canada's export credit agency on the significant and complex issue of climate change.

EDC's large and diverse portfolio includes companies operating in carbon-intense sectors, as well as businesses at the leading edge of the clean technology sector. We believe that companies across this spectrum can play a role in the transition to a lower carbon and climate-resilient economy. The oil and gas industry, for instance, is one of the main drivers of the Canadian economy. While obviously a carbon-intense sector, businesses within it are increasing their efforts to develop alternative energy sources and technologies. Many oil and gas companies are partnering with cleantech firms to find innovative technology solutions to emissions and carbon output. EDC believes that one of the most important contributions we can make, given our role and mandate, is through continuing to provide products and services which support our customers' innovation and transition.

The new Climate Change Policy does not mean we are moving away from supporting carbon-intense sectors, such as the oil and gas industry. It does mean that we will take a more systematic and transparent approach to all sectors, including enhanced awareness and tracking of carbon intensity to factor climate change into EDC's established risk-assessment processes.

Our new Climate Change Policy reflects that climate change has broad implications for our organization. It includes Guiding Principles and Commitments that clearly outline our approach to our organization's climate change-related risks and opportunities for our stakeholders, including our shareholder, customers, industry and civil society organizations, and our employees.

We are committed to taking action on climate change and supporting the Government of Canada's commitments 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.

As outlined in the Climate Change Policy, our decision-making will take climate-related risks and opportunities, such as carbon intensity, into our risk assessment processes, while we will also continue to be guided by commercial considerations, evolving market trends, sound risk management principles and industry best practice.

2. ENHANCING EDC'S TRANSPARENCY TOWARD CLIMATE-RELATED REQUIREMENTS

STAKEHOLDER COMMENTS:

All stakeholders asked EDC to be clear, consistent and transparent about its commitment and approach to climate change, specifically in relation to carbon-intensive sectors. While most stakeholders welcomed EDC's efforts to clarify its position on climate change, some industry stakeholders had mixed views on the need for a stand-alone policy for a range of reasons, while civil society stakeholders suggested EDC disclose more on its decision-making approach and support rationale to climate-related sectors.

EDC RESPONSE:

We understand that clarity, consistency and transparency are key to helping Canadian businesses transition to a low-carbon economy. EDC recognizes that it needs to be more transparent with respect to its decision-making process. In this respect, the overarching aim of EDC's updated Climate Change Policy is to clearly outline the principles and commitments that guide EDC's approach to climate-related risks and opportunities, as well as its decision-making. Our goal is to be more transparent in our approach to carbon-intensive sectors, starting with a strengthened thermal coal position as outlined in the Policy.

To further enhance our transparency, EDC committed to increasing its climate-related financial disclosure when it became the first export credit agency globally to sign on as a supporter to the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD) in 2018. Established by the Financial Stability Board, the TCFD developed voluntary recommendations on climate-related information that companies should disclose to help investors, lenders, and others who make sound financial decisions.

For EDC, aligning to these recommendations will be a journey, as we improve our understanding of our climate-related risks and opportunities and how we can best integrate these into our business, strategies and financial planning. Our commitment is to work toward the implementation of the TCFD's recommendations, to help advance the availability, consistency, and comparability of climate-related information.

EDC decided to establish a stand-alone Climate Change Policy, rather than continuing to address this issue in the context of our Environmental and Social Risk Management Policy. We believe that this approach recognizes that climate change is no longer solely about environmental and social risk, but has broader implications for our organization, including the opportunities presented by a transition to a low-carbon and climate-resilient economy. Further, this approach provides clarity and guidance for our internal and external stakeholders, acts as an easy reference point for those who are looking to better understand EDC's approach to a significant global issue, and is emerging as a baseline expectation for many companies, including others operating in the financial sector.

**OUR GOAL
IS TO BE
MORE
TRANSPARENT
IN OUR
APPROACH
TO
CARBON-
INTENSE
SECTORS.**

3. INTEGRATING CLIMATE CHANGE INTO EDC'S DECISION MAKING, INCLUDING WITH RESPECT TO FOSSIL FUELS

STAKEHOLDER COMMENTS:

Some stakeholders noted that to be consistent with Canada's international obligations on climate change, EDC should integrate climate change into all of its decision-making with respect to its transactions. Others felt that EDC should go further, by developing a strategy with respect to fossil fuels and making measurable commitments on the carbon exposure of its portfolio. Here again, we also heard some suggest that EDC should limit any support to carbon-intensive sectors, including the withdrawal of its support from projects and companies whose primary business is coal, oil or gas. These stakeholders also noted that they would like to see EDC commit to achieving sharp reductions in greenhouse gas emissions through ambitious targets and for EDC to set an internal price on carbon to facilitate the shift to a low-carbon economy.

EDC RESPONSE:

EDC recognizes the scale of the climate change challenge. We also recognize that, as a financial institution with a specific operating mandate, we can contribute to addressing this challenge through the choices we make about the provision of financing, insurance and knowledge products and services.

We heard our stakeholders' concerns and understand that phasing out coal power generation represents a significant step to tackling climate change and meeting Canada's international commitments. A critical decision for EDC in this regard was the implementation, beginning in January 2017, of our first-ever position on coal-fired power plants. Coal-fired power plants are a leading contributor to climate change and phasing them out would make a significant contribution to mitigating global greenhouse gas emissions. Based on the stakeholder feedback we received through this review, as well as EDC's two years of experience in implementing our existing position on coal-fired power, EDC has further clarified its position on thermal coal, integrating it into its Climate Change Policy. Effective, January 28, 2019, EDC will no longer finance new coal-fired power plants regardless of location. This moves beyond EDC's previous position, which, further to the OECD Sector Understanding on Coal-Fired Power Plants, allowed for support to coal-fired power in certain geographic locations depending on level of development and availability of alternatives. In recognition of the importance of also addressing the supply chain for coal-fired power plants, EDC will no longer provide new financing for the development, construction or expansion of thermal coal mines or other projects solely focused on supplying coal-fired power plants (e.g., thermal coal terminal, rail links).

Further, for corporate loans, EDC has developed an initial approach for how it will consider companies that have significant exposure to the thermal coal-fired power or thermal coal mining sectors. That approach has been designed to recognize efforts such companies may be making to transition their business models, allowing for EDC's participation where concerted, public and demonstrable efforts toward a low-carbon transition are being made.

Our revised position, which integrates mining, associated infrastructure and corporate facilities, provides greater clarity for our internal and external stakeholders regarding how EDC will approach transactions involving the thermal coal sector.

Beyond thermal coal, EDC is continuing its work to better understand its exposure to climate-related risks and opportunities in Canada's carbon intense sectors. We believe that one of the most important contributions we can make toward combatting climate change is through ongoing engagement with our customers as they work to innovate to make the transition to a low carbon and climate-resilient economy. It will take decades to build the infrastructure required to support a cleaner, lower-carbon economy. EDC will continue to work with Canadian companies in all sectors, helping them to understand their climate change-related risks, as well as opportunities for new products and services emerging as a result of this transition. This includes companies in Canada's oil and gas sector, which are exploring innovative ways to lower their emissions and reduce their environmental impact, resulting in cleaner production and more responsible energy use.

Accordingly, EDC's Climate Change Policy commits us to taking a more systematic and transparent approach to sectors it has identified as carbon intense. This will include monitoring and measuring the carbon intensity of our loan portfolio, and commencing in 2020, setting targets to reduce that intensity over time. Further, EDC will continue to strengthen its efforts to integrate climate change considerations into its established risk assessment processes for both project finance and corporate loans. We believe that starting with measurement and monitoring is essential to better understand the nature of our portfolio before setting meaningful targets as a next step in our journey to support a transition to a low-carbon and climate-resilient future.

4. INCREASING EDC'S SUPPORT FOR CLEAN TECHNOLOGIES AND A LOW-CARBON ECONOMY

STAKEHOLDER COMMENTS:

Stakeholders across the spectrum were supportive of the strides EDC has made in how we contribute to Canada's climate change efforts, specifically our increasing support for the clean technology sector. They would like to see this trend continue with EDC investing more in companies and projects with a low-carbon footprint at an accelerated pace.

EDC RESPONSE:

We are proud to be a leading financial supporter of cleantech companies. Since 2012, we have supported hundreds of Canadian cleantech companies, facilitating approximately \$5 billion in business for the cleantech sector. In 2018, we facilitated \$1.67 billion in cleantech exports, surpassing the previous year and continuing the trend of growing EDC support for this emerging sector.

EDC also regularly issues green bonds, the proceeds of which go towards EDC's portfolio of green assets. These loans are made to companies that are active in fields of preservation, protection or remediation of air, water, or soil; the creation of renewable energy; and mitigation of climate change. In 2014, EDC became the first financial institution in Canada to issue a green bond, and in 2017 became the first to issue a green bond in Canadian dollars. So far, EDC has issued more than USD \$1.5 billion in green bonds.

EDC has also contributed to the Government of Canada's climate finance commitments under the Paris Agreement and in 2016 and 2017, provided \$550 million toward projects or companies that contribute to greenhouse gas emissions avoidance or reduction in developing countries.

Our goal over the long-term is to continue playing a leadership role in supporting Canadian exporters and investors operating in clean and low-carbon technology sectors. This is reflected in the Climate Change Policy, which commits EDC to continue to find ways to increasing its support for business in the clean and low-carbon technology space, and to enable its customers to respond to climate-related risks and opportunities through our products and services.

**WE
FACILITATED
\$1.67
BILLION IN
CLEANTECH
EXPORTS,
SURPASSING
THE
PREVIOUS
YEAR.**

5. ENSURING THE ONGOING COMPETITIVENESS OF CANADIAN COMPANIES IN A GLOBAL MARKET

STAKEHOLDER COMMENTS:

Stakeholders told us that the competitiveness of Canadian companies was top of mind, both from a risk and an opportunity perspective. Some industry stakeholders expressed concern about the ability of companies to compete under the burden of more stringent environmental standards. Others encouraged EDC to seek out companies looking to develop products and services that support the transition to a low-carbon and climate-resilient economy.

EDC RESPONSE:

As Canada's export credit agency, our job is to help every Canadian company go, grow and succeed internationally. To do this successfully, we must understand the global context and help our customers navigate the evolving environment.

Today, there is a global momentum to mitigate and address the impacts of climate change. Key global economies, including Canada's, are undertaking ambitious climate change commitments. Additionally, there are increasing expectations from governments, business communities and civil society organizations to take meaningful action to address climate change.

The need to transition to a low-carbon economy is clear; however, we recognize the transition must be managed in a way that doesn't compromise Canada's competitiveness in today's international business environment.

EDC's position is that companies across the industry spectrum can play a role in the shift to a lower carbon and climate-resilient economy. EDC continues to provide products and services in support of our customers' innovation and transition as we build the portfolio of the future.

An important component of our updated Climate Change Policy is our commitment to encourage our customers to disclose climate-related information, which will help them to better understand risks and opportunities. As companies around the world place increasing focus on transparency, proactive disclosure will position Canadian companies for success, giving them a competitive advantage over those who are not evolving at the same pace.

As outlined in the Climate Change Policy, EDC will also continue to increase its support for businesses focused on clean and low-carbon technology. As an example, EDC continues to work with key partners in the cleantech ecosystem, to help Canadian companies take advantage of the growing opportunities as the sector grows and matures. Today, EDC is the largest financier of Canadian cleantech companies, having facilitated close to \$5 billion in export support since making this sector a priority in 2012.

Finally, we have included in our Climate Change Policy a commitment to continue engaging actively with our financial sector peers to advance dialogue and action around climate-related risks and opportunities.

EDC is a leader in managing international risk. We believe that helping Canadian exporters respond to climate-related risks and positioning them for opportunities through our financing, insurance and knowledge products and services, can be a differentiator for Canadian companies and a key driver of innovation across all sectors of the economy.



FIND OUT MORE ABOUT OUR PRODUCTS AND SOLUTIONS

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ABOUT EDC

Export Development Canada (EDC) is Canada's export credit agency. We are dedicated to helping Canadian companies, of all sizes, go, grow and succeed beyond our borders. As international risk experts, we provide them with knowledge, financing, insurance and connections. We also provide financial solutions to global companies to facilitate and grow purchases from Canada.

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