



**EDC Environmental Policy Review  
Discussion Paper**

**May 28, 2009**

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## Table of contents

<b>1. Introduction</b>	<b>3</b>
<b>2. Overview of EDC's environmental and disclosure commitments</b>	<b>4</b>
<b>3. Objectives of the Policy Review</b>	<b>6</b>
<b>4. Key Issues</b>	<b>7</b>
Project Benchmarking Standards	7
Community Engagement	8
Project Conditions & Monitoring	9
Environmental reviews in high-income OECD countries	10
Climate Change	11
EDC's Environmental Footprint	12
Disclosure	12
<b>5. Invitation for stakeholder comment</b>	<b>14</b>
<b>6. Policy review timelines</b>	<b>14</b>

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## 1. Introduction

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Export Development Canada (EDC) established an Environmental Policy in 2005. This umbrella policy sets out the Corporation's commitments to undertake its business in an environmentally responsible manner and articulates the measures employed to fulfill these commitments.

The 2005 Environmental Policy included a commitment to review beginning November 1, 2008. To that effect, in 2008 EDC initiated the Environmental Policy review process. The purpose of this discussion paper is to set out key environmental and related disclosure policy issues as identified by EDC in order to solicit feedback from interested stakeholders. The paper will be posted for public comment for a 90-day period. EDC will then analyze the feedback received and is aiming to publish a revised Environmental Policy by the end of 2009. A summary of public comments received and EDC's responses will also be published with the revised Policy.

### Export Development Canada

EDC is Canada's export credit agency. Our ongoing mandate is to support and develop Canada's export trade, and Canadian capacity to engage in that trade and to respond to international business opportunities. EDC's mandate has recently been expanded for a temporary period to also support and develop domestic trade and Canadian capacity to engage in that trade and to respond to domestic business opportunities. EDC provides trade finance and risk mitigation services to Canadian companies to help them compete internationally.

As a Crown corporation, EDC reports to Parliament through the Minister of International Trade. EDC's mandate is spelled out in the [Export Development Act](#). EDC operates as a commercial institution that collects interest on its loans and premiums on its insurance products. EDC does not receive annual parliamentary appropriations and does not provide subsidies to Canadian companies. EDC provides an extensive range of insurance and financing products and services that help Canadian companies of all sizes – from small emerging exporters to Canada's export leaders – expand their exports and investments worldwide. Products and services include credit and political risk insurance; contract bonding insurance and guarantees; private equity financing; and direct financing to foreign buyers (private or public) and projects to promote the purchase of Canadian goods or the participation of Canadian companies.

EDC's Environmental Policy outlines the environmental review processes that are applied to the diverse range of EDC's financial products and the numerous markets that we serve across many industry sectors. EDC's Disclosure Policy establishes the standards by which EDC publicly and

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proactively discloses information on its business activities, including environmental and social reporting of project-related transactions.

## **2. Overview of EDC's environmental and disclosure commitments**

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EDC is committed to Corporate Social Responsibility (CSR) practices and works alongside other leading organizations that share the same commitment to the principles of ethical business, social and environmental protection, public accountability and community involvement. The environment is one of the key pillars of EDC's CSR commitments and EDC has established internal policies and procedures to ensure our environmental commitments are fulfilled. While the formal responsibility of conducting environmental reviews at EDC began in 1999, EDC's environmental policies and procedures have evolved significantly since that time in line with legal requirements, international commitments and our own CSR principles. As a result, EDC has grown its reputation as a corporation with a strong environmental capacity.

### **Legal requirements**

The *Export Development Act* (the Act) requires that EDC undertake environmental reviews of projects it is asked to support. Consequently, EDC's Board of Directors issued the [Environmental Review Directive](#) (ERD) in 2001, in accordance with the Act, to define the systematic process that EDC follows when assessing the environmental impacts of projects. The Act also requires that the Office of the Auditor General of Canada (OAG) audit the design and the implementation of the ERD every five years. The findings of this audit are reported to EDC's Board of Directors, the Minister of International Trade, and to each house of Parliament. The OAG will be reporting on its most recent audit in Parliament in mid-June 2009 and the report will then be made available on EDC's website.

In 2005, the OAG conducted an environmental audit of EDC's environmental review practices, where the key finding identified the need for EDC to establish an Environmental Policy. To that effect, EDC undertook stakeholder consultations in support of proposed revisions to the ERD, which led to a revised ERD and the establishment of EDC's [Environmental Policy](#).

### **EDC's international commitments**

In the interest of advancing the incorporation of environmental risk assessment into officially-supported export credits, in 2001 EDC adopted and implemented the [OECD Recommendation on Common Approaches on Environment](#), an international, multilateral consensus on environmental

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review practices that aims to level the international playing field and ensure that projects supported by export credit agencies (ECAs) meet established international environmental and social standards. EDC implements the OECD Common Approaches through the requirements of the ERD.

In 2007, EDC also adopted the [Equator Principles](#), a financial industry benchmark for determining, assessing and managing social and environmental risk in Project Financing. Adopting the Equator Principles reflected EDC's ongoing commitment to conduct its international business in a socially and environmentally responsible manner when partnering with commercial financial institutions.

### **Other CSR policies and procedures**

EDC commits to carry out its mandate in a socially responsible manner consistent with its corporate values. To ensure that EDC fulfills this commitment, EDC has progressively put in place a series of [CSR policies, practices and procedures](#) with increasing levels of formal requirements in addition to EDC's environmental commitments previously described. For example, EDC has formal policies and procedures to ensure efforts to control and combat bribery, corruption and unethical practices. [Codes of Business Ethics and Conduct](#) ensure a standard of corporate and individual behavior that embraces integrity in EDC's business.

In 2001, EDC introduced its first formal [Disclosure Policy](#). The Disclosure Policy establishes the framework, as well as the standards, by which EDC proactively makes information publicly available on transactions at both the aggregate and individual transaction levels, including disclosure of environmental and social project information. A key function of the Disclosure Policy is to strike a balance between sharing information that enhances EDC's public accountability, while protecting the commercially confidential information entrusted to EDC by its clients as per the *Export Development Act*. The Disclosure Policy and the *Access to Information Act* ensure a high degree of transparency in EDC's operations. EDC also maintains an ongoing engagement with all of its stakeholders, including Canadian companies, business associations, the Government and civil society.

Additionally, in April 2008 EDC established a [Statement of Commitment on Human Rights](#) which defines EDC's current practices in considering human rights issues associated with potential business. External commitments signed by the Government of Canada from which EDC takes guidance include the Extractive Industries and Transparency Initiative, the Voluntary Principles on

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Security and Human Rights, the OECD Guidelines for Multinational Enterprises and the OECD Sustainable Lending Principles.

### **Accountability**

EDC is accountable for its CSR commitments. EDC also has a Compliance Officer who serves as a bridge between all stakeholders and certain CSR initiatives of EDC. The scope of the Compliance Program permits the Compliance Officer to address compliance issues related to certain CSR initiatives, to provide advice to EDC regarding leading CSR practices, and to oversee compliance audits of EDC's CSR initiatives. EDC also reports annually on the implementation of EDC's CSR commitments through public release of its annual [CSR Report](#). As previously described, EDC is also subject to environmental audit by the OAG. Additionally, the OAG undertakes a special examination of EDC's financial and management control and information systems and management practices at least once every five years. In 2008, the OAG initiated a special examination of EDC which incorporated aspects of EDC's CSR policies and practices into its scope. The findings of the special exam will be reported to EDC's Board of Directors in mid-June and will then be available on EDC's website.

### **3. Objectives of the Policy Review**

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EDC recognizes that there is complexity and overlap in its various international and domestic environmental commitments, including many commonalities between our Environmental Review Directive, the OECD Common Approaches and the Equator Principles. The objectives of this review are to:

- Simplify and restructure the Environmental Policy in order to clarify EDC's environmental commitments and environmental review processes specific to different types of business (e.g. Project Finance, insurance) and specific to project-level and non-project level support;
- Ensure our policies and procedures are in line with the international environmental and social risk management practices generally adopted by ECAs and EDC's commercial partners;
- Consider ways to address the issue of climate change and examine EDC's commitments in terms of its environmental footprint; and

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- Identify related adjustments to the disclosure of environmental and social information pursuant to EDC's Disclosure Policy arising from this review.

#### **4. Key issues for the Environmental Policy review:**

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Key issues for discussion include project benchmarking standards, community engagement, project conditions and monitoring, environmental reviews in high-income OECD countries, climate change, EDC's environmental footprint, and related adjustments to the disclosure of environmental and social project-related information. These issues will be considered in detail during the Environmental Policy review process and may require supporting revisions to EDC's ERD.

##### **1. Project environmental and social standards**

EDC expects that a project it may support is designed in accordance with host country environmental requirements. In addition, the potential environmental and social impacts of a project are assessed against international standards. International financial institutions and development banks, such as the World Bank Group, have established industry sector-specific environmental and social standards to ensure that projects in developing markets, where environmental and social standards may not meet accepted international practice, are designed to minimize their potential impact on the environment and affected communities. These international standards continue to evolve. The two prevailing international environmental and social standards are the IFC Performance Standards and the World Bank Safeguard Policies:

- The IFC, the private sector arm of the World Bank Group, established Performance Standards which define the roles and responsibilities of project sponsors to manage the environmental and social risks and impacts in private sector financing. Introduced in 2006, the [IFC Performance Standards](#) have become the predominant international standards for private sector developments in emerging markets. There are eight Performance Standards covering: social and environmental assessment and management systems; labor and working conditions; pollution prevention and abatement; community health, safety and security; land acquisition and involuntary resettlement; biodiversity conservation and sustainable natural resource management; indigenous peoples; and cultural heritage. The IFC Performance Standards are also supported by more than sixty [IFC Environmental, Health and Safety \(EHS\) Guidelines](#) which provide technical guidance to project developers in various sectors.

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- The [World Bank Safeguard Policies](#) are applied to its public sector development projects to prevent and mitigate environmental and social risks and impacts. There are ten Safeguard Policies covering environmental assessment, natural habitats, forests, pest management, physical cultural resources, involuntary resettlement, indigenous peoples, safety of dams, international waterways, and disputed areas. The Safeguard Policies were formerly supported by the Industry Sector Guidelines of the World Bank Pollution Prevention and Abatement Handbook (PPAH); the Industry Sector Guidelines of the PPAH have now been replaced by the IFC EHS Guidelines described above.

Currently, in accordance with the Equator Principles and the OECD Common Approaches, EDC reviews projects for which EDC is proposing limited or non-recourse Project Financing against the requirements of the IFC Performance Standards (and the supporting IFC EHS Guidelines). Where EDC provides other types of support directly related to a project (e.g. Political Risk Insurance or full-recourse loans), EDC reviews such projects against the requirements of the World Bank Safeguard Policies.

As noted above, the IFC Performance Standards have become the predominant environmental and social standards for private sector developments. During the Policy review, to ensure a better alignment of all of EDC's support to private sector clients with the requirements of the IFC Performance Standards, EDC will propose to apply the IFC Performance Standards (and the supporting IFC EHS Guidelines) to all cases where EDC's support is directly related to projects being undertaken by private sector clients, and not just to limited or non-recourse project financing transactions.

This would require projects being undertaken by all private sector sponsors and project companies to meet the obligations of the IFC Performance Standards. EDC would continue to apply the World Bank Safeguard Policies to its public sector project support in keeping with the Safeguard Policies' public-sector focus.

EDC expects the actual number of projects affected by this change in the application of the IFC Performance Standards, and the impact to our clients, to be minimal.

## **2. Community Engagement**

Community engagement is a term used to describe the processes through which a sponsor works collaboratively with community stakeholders potentially affected by a project. Community engagement acknowledges the benefits of including community stakeholders' views throughout the project cycle. EDC expects that sponsors undertake community engagement activities in

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keeping with international practice. It is important to distinguish between the sponsors' responsibility to have a community engagement strategy at the project level, from EDC's own disclosure requirements outlined in EDC's [Disclosure Policy](#), as discussed in issue 7 below.

As part of a community engagement strategy, structured and culturally appropriate consultations should be conducted with communities that might be affected by a project, and the results of these consultations should be taken into account during the environmental assessment of a project. This is established practice under EDC's international commitments such as the OECD Common Approaches and the Equator Principles. For example, the Equator Principles (Principle 5) require that for projects with significant adverse impacts on affected communities, the consultation process will ensure communities' free, prior and informed consultation and facilitate their informed participation as a means to establish, to the satisfaction of the lender, whether a project has adequately incorporated affected communities concerns. EDC evaluates the project documentation of the community engagement process such as environmental and social assessment documentation, grievance mechanisms, and public consultation and disclosure plans to ensure its expectations and relevant international standards are met.

Currently, the ERD does not adequately convey our current expectations with respect to community engagement at the project level in accordance with international practice established under the Equator Principles and the IFC Performance standards. For example, EDC's ERD requires that project consultations be undertaken with affected parties for each Category A<sup>1</sup> project, taking into consideration the political, legal and cultural context of the host country. Other aspects of community engagement such as disclosure of adequate environmental information by the sponsor and establishment of a grievance mechanism have not been articulated in our policies. As such, EDC will include its expectations for community engagement and reflect our commitments to evolving international standards within the revised Environmental Policy and any associated revisions to EDC's ERD.

### **3. Project Conditions and Monitoring**

As part of the environmental due diligence process, EDC may identify particular requirements (e.g. covenants or other conditions that establish the project's environmental commitments) which may need to be incorporated into the loan or insurance documentation. Recommended covenants or conditions vary on a case-by-case basis, depending on the nature of the project and

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<sup>1</sup> Category A projects are likely to have significant adverse environmental effects that are sensitive, diverse or unprecedented. These effects may affect an area broader than the sites or facilities subject to the physical works, and may be irreversible.

Category B projects are likely to have potential environmental effects less adverse than the potential environmental effects of Category A projects.

Category C projects are likely to have minimal or no adverse environmental effects.

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the outcome of the environmental review. EDC confirms that a project maintains ongoing compliance with the host-country laws and regulations through warranties and representations. Examples of other requirements include ongoing conformance to international standards, timely reporting of environmental incidents and accidents and submission of annual monitoring reports.

After a transaction has been signed, monitoring the environmental and social impacts of a project is an integral part of EDC's environmental review process. EDC conducts environmental and social monitoring of projects in accordance with international practices (such as those established by the OECD Common Approaches and the Equator Principles) to ensure projects are designed and operate in accordance with the project sponsor's commitments. This typically involves reviewing monitoring reports prepared by the project sponsor as well as other relevant project documentation. It may also involve a site visit. Generally, environmental monitoring requirements are expected for Category A projects but may also be recommended for Category B.

At present, EDC's Environmental Policy only mentions our monitoring commitment as "striving for high standards of environmental monitoring and mitigation of projects" and to ensure that transactions comply with host country laws and regulations. The Environmental Policy does not mention the common practices described above. EDC will consider ways to provide further detail about its environmental monitoring commitments and procedures, including how EDC engages with project sponsors and encourages disclosure of monitoring information, where appropriate, as per the OECD Common Approaches. This detail may be provided either within the revised Environmental Policy or through other sources of information such as EDC's website.

#### **4. Environmental reviews in high-income OECD countries**

EDC's Environmental Policy applies to all of its business globally. However, we recognize that many of our customers operate in jurisdictions where environmental regulatory requirements are equivalent or higher than international standards such as those of the World Bank Group. Therefore EDC currently implements a streamlined environmental review process for projects located in G7 countries<sup>2</sup>. In such cases, EDC ensures that the projects are designed to comply with applicable host country requirements.

The OECD Common Approaches and the Equator Principles also recognize that some countries have equivalent or higher environmental regulatory standards than those of the World Bank Group. The Equator Principles state that the regulatory, permitting and public comment process

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<sup>2</sup> G7 Countries: Canada, France, Germany, Italy, Japan, the UK and the USA

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requirements in high-income OECD countries<sup>3</sup>, as defined by the World Bank Development Indicators Database, generally meet or exceed the requirements of the IFC Performance Standards and EHS Guidelines. Consequently, to avoid duplication and to streamline the review of these projects, successful completion of an environmental assessment process (or its equivalent) in compliance with local or national law in high-income OECD countries is considered to be an acceptable substitute for the IFC Performance Standards and EHS Guidelines. Similarly, under the OECD Common Approaches, the standards of the European Community are considered to meet or exceed the World Bank Group standards.

EDC is considering extending this streamlined environmental review process to projects located in high-income OECD countries. This change is consistent with our established environmental principles and, at the same time, promotes consistency between EDC and other Equator Principle financial institutions and export credit agencies.

## **5. Climate Change**

EDC is wholly-owned by the Government of Canada and operates in a manner consistent with, and in support of, the Canadian government's climate change policies and initiatives.

Given our large and diverse client base, part of our business involves support for Canadian companies in sectors where significant greenhouse gas (GHG) emissions are generated. EDC's activities in these sectors, as with all sectors, are guided by sound financial and environmental risk management principles. EDC will continue to rely on these principles while also staying abreast of emerging due diligence practices and renewable energy technologies and markets.

EDC recognizes that action by multiple players including governments, companies and the financial sector is required to mitigate the effects of climate change. As such, EDC will consider various ways that balance cost and technical feasibility, when approaching this issue including:

- Engaging with our clients to understand and assess the carbon and climate risks and opportunities associated with their business;
- Evaluating climate change risks at a project level, for example when EDC is financing a project such as a greenfield fossil fuel power generation facility (The IFC Performance Standards require an evaluation of technically and financially feasible options to reduce or

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<sup>3</sup> High-Income OECD Countries: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Rep., Luxembourg, Netherlands, New Zealand, Norway, Portugal, Slovak Republic, Spain, Sweden, Switzerland, United Kingdom, United States.

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offset project-related GHG emissions during the design and operation of a project. EDC will consider emerging practices to ensure that projects are designed to incorporate mitigation and adaptation to climate change.);

- For projects that release or are likely to release 100,000 tons of GHG per year, requiring project sponsors to quantify their direct GHG emissions from their facilities as well as indirect emissions from off-site power facilities and monitor emissions in accordance with international practice (these projects are typically Category A, as per the ERD categorization procedure); and
- Supporting the export of environmental goods and services, including those related to GHG reduction, through EDC's EnviroExport Program.

## **6. EDC's environmental footprint**

EDC is committed to measuring and reducing its own direct impact on the environment – its operational footprint. While EDC currently discloses annual environmental footprint performance indicators such as paper, electricity and water consumption and business travel, for its head office buildings, EDC's Environmental Policy does not yet include EDC's commitment to account for and minimize the environmental impacts of its operational footprint.

The Policy revision will incorporate EDC's commitment to measure and report on EDC's operational footprint.

## **7. Disclosure**

EDC's Disclosure Policy is distinct from EDC's Environmental Policy. EDC, however, recognizes that the disclosure of environmental and social information is relevant to many of the issues under consideration during the Environmental Policy review and thus will examine possible related enhancements arising from this review. Examples include:

- EDC's role in encouraging sponsors to disclose a project's environmental and social assessment and monitoring information;
- The need to amend EDC's Disclosure Policy to reflect EDC's commitment to report (upon receiving project sponsor consent) to the OECD the environmental and social standards against which the project has been benchmarked, whether or not the project has met certain aspects of those standards and, in cases where standards have not been met, the justification for providing support to the project. This change also implies that EDC would

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release this information provided to the OECD upon the request of interested parties and inquirers; and

- EDC's role in facilitating the engagement of project sponsors in disclosing GHG emissions as noted in Section 5, and EDC's responsibility to disclose its own internal environmental footprint performance as noted in Section 6.

EDC welcomes feedback from its stakeholders and the public with respect to what kind of environmental and social project-related information may be needed and why. EDC recognizes that the disclosure of relevant information is an essential element in demonstrating accountability and public awareness of and confidence in how EDC fulfills its mandate.

Please note that EDC will also incorporate some minor, administrative revisions to the Environmental Policy such as; the date by which the Policy will require its next review, a definition for Special Drawing Rights (SDR), and revised roles and responsibilities to reflect current job descriptions.

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## 5. Policy Review timeline

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The public comment period will proceed from May 28 to August 25, for a total of 90 days.

## 6. Invitation for stakeholder comment

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Throughout the public comment period, EDC invites all interested parties to submit comments via [www.edc.ca/environment](http://www.edc.ca/environment). EDC will also be conducting meetings with various stakeholders throughout this period. EDC encourages stakeholders who are interested in participating in these meetings to indicate their interest to EDC at [environmentalpolicy@edc.ca](mailto:environmentalpolicy@edc.ca).

EDC will also take into account the findings of the OAG audit of EDC's environmental review policies and procedures that is currently underway. Findings of this audit are slated for completion in 2009. After the 90-day comment period, EDC will analyze the feedback received, as well as the results of the OAG Audit, after which we will post a summary document. EDC aims to publish a revised Environmental Policy by the end of 2009.