

CHIEF ENVIRONMENTAL ADVISOR'S ANNUAL REPORT 2004

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MESSAGE FROM THE CHIEF ENVIRONMENTAL ADVISOR



It is my pleasure to inform you of the environmental activities of Export Development Canada in this, our third annual report, covering our activities during 2004. My role as Chief Environmental Advisor was expanded in 2004 to include responsibility for the *EnviroExport* Initiative, in order to

provide an overall focus and coordination to all of the Corporation's environmental expertise and initiatives to contribute to a cleaner environment. This report therefore comprises two main sections, the first addressing environmental review at EDC during 2004 and the second discussing EDC's outreach and business development activities related to promoting good environmental practices and Canadian exports in the environment sector.

The most significant event in 2004 related to environmental aspects of EDC operations was the Auditor General of Canada's audit of EDC's Environmental Review Directive (ERD) and associated policies and procedures. I am pleased that we received a good report card, which reflects diligence and hard work in a team effort by environmental specialists, representatives of business teams, and advice and guidance from EDC's legal department and senior management. It also reflects strict adherence to our environmental review processes and to the requirements set forth by the Organisation for Economic Co-operation and Development (OECD) in its *Common Approaches on Environment and Officially Supported Export Credits*.

In terms of outreach and promotion of good environmental practices, EDC continues its partnership with international financial institutions to push for greater harmonization of global environmental standards. For example, during 2004, EDC partnered with CIDA and China's National Development and Reform Commission to have the World Bank's *Pollution Prevention and Abatement Handbook* translated into Chinese for distribution in 2005 to Chinese industry,

government ministries, and consultants. EDC also has observer status in a World Bank initiative to harmonize environmental assessment requirements amongst the multi-lateral development banks.

Through the *EnviroExport* Initiative, EDC facilitated more than \$825 million in exports of environmental goods and services in 2004. EDC reinforced its efforts to support Canadian environmental exporters through its partnership with the Globe Foundation in the development of GLOBE-Net – an internet database that identifies environmental business opportunities for Canadian companies, through partnership arrangements with governments and industry in India and China, and through ongoing and constant activity with environmental industry associations across Canada.

In 2005, EDC staff is focusing on amending its ERD and associated policies to reflect recommendations by the Auditor General of Canada and will consult with our stakeholders during the year on proposed enhancements to our procedures. As well, EDC is closely monitoring revisions to the *Pollution Prevention and Abatement Handbook* and an overhaul of the Safeguard Policies by the World Bank Group so that EDC has an early understanding of the implications for our procedures and processes. EDC will continue to participate in multi-lateral talks promoting increased harmonization of environmental standards. We will also continue to pursue partnership agreements within markets that show great promise for increased exports of Canada's environmental goods and services. We will pursue these efforts guided by our operating principles and the invaluable advice we receive from the Government of Canada, environmental non-governmental organizations (NGOs), our counterparts at the OECD and other private and public sector organizations in Canada and internationally.

A handwritten signature in black ink that reads "Art FitzGerald". The signature is written in a cursive, slightly slanted style.

Art FitzGerald
Chief Environmental Advisor

EDC MANDATE

EDC is a Crown corporation mandated to support and develop, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities. EDC's trade and investment services helped 6,962 Canadian companies achieve \$54.9 billion in trade in 2004. This business volume contributed \$34.9 billion to national GDP, 3.4 per cent of Canada's total GDP for the year. Trade and investment facilitated by EDC in 2004 was equivalent to 12.2 per cent of all Canadian exports of goods and services and is associated with sustaining more than 439,000 Canadian jobs – about 2.8% of total national employment.

OPERATING PRINCIPLES

EDC's strategic direction and objectives are guided by three fundamental principles: its commitment to conducting business in a way that is respectful of Canada's international agreements, consistent with our corporate social responsibility (CSR) commitments, and ensuring sound financial management.

Who we are and what we do

- * EDC provides insurance and financing to help Canadian companies export their products and services and to make foreign investments.
- * We are a Crown corporation reporting to Parliament, operating on commercial principles in partnership with Canadian and international financial institutions.
- * We are financially self-sustaining, supporting Canadian companies with funds raised through fees for our services and treasury operations.
- * We serve Canadian companies of all sizes, from all regions of Canada, in every industry sector and trading with every global market.

CORPORATE SOCIAL RESPONSIBILITY

The environment is a key principle of EDC's CSR commitment, along with ethics, transparency, community investment and organizational climate. This statement encompasses EDC's approach to meeting the social, environmental and ethical challenges of the global marketplace.

CSR Statement of Commitment

At EDC we commit ourselves to carry out our mandate in a socially responsible manner consistent with our corporate values.

ENVIRONMENTAL REVIEW

Given the new responsibilities for the EnviroExport Initiative assigned to the Chief Environmental Advisor in 2004, EDC created the position of Director, Environmental Advisory Services (EAS) to provide dedicated day-to-day management of environmental review of potential projects. In addition to overseeing the work of the EAS team, the Director liaises with his counterparts at export credit agencies and other international financial institutions and contributes to the work of EDC's CSR initiatives. The Director reports to the Senior Vice President and Chief Economist who has responsibility for the International Trade Advisory Services Group.

EDC recognizes that compliance with its Environmental Review Directive (ERD)¹ and the Organisation for Economic Co-operation and Development (OECD) *Common Approaches on Environment and Officially Supported Export Credits (Common Approaches)* is an integrated responsibility. The Environmental Review Advisory Committee (ERAC) represents this cross-corporate commitment. Members include the Executive Vice-President, Medium and Long Term Financial Services; the Senior Vice-President, Legal Services and Secretary; the Senior Vice-President, Finance; the Senior Vice-President and Chief Economist, International Trade Advisory Services;

1. The full text of the ERD is available under the heading "Environmental Review" at www.edc.ca/environment.

the Vice-President, Corporate Communications and External Relations; the Vice-President, Internal Audit and Evaluation; and the Chief Environmental Advisor. ERAC's objective is to ensure 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.

In 2004, ERAC met regularly to discuss EDC's environmental risk management practices, the progress of the audit of the ERD and related environmental review procedures by the Auditor General, and possible enhancements to its environmental review and disclosure policies.

EDC has achieved significant progress towards integrating environmental stewardship into the ethos 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. Effective management of environmental impacts is only possible when procedures, roles, and processes are clear, and EDC understands that everyone has a role to play at various times. While EDC has built an EAS team and developed in-house resources and capacity to support environmental review, the extent to which it does so effectively is attributable to the collaboration of a wide range of EDC employees involved in processing a project.

Financial services officers within EDC's business sector teams are key to the collection of environmental assessment information. These officers have the closest relationships to project sponsors and implement the initial screening of projects prior to referral to EAS for in-depth assessment. EAS has ongoing and close interaction with EDC's Risk Management Office, Internal Audit and Evaluation, International Relations, Corporate Communications and External Relations, and Legal Services. The interaction of these groups related to environmental review ensures the ERD is implemented thoroughly

and fairly, with the best interests of both the environment and Canadian exporters carefully and objectively assessed before any decision is taken on EDC support.

THE ROLE OF ENVIRONMENTAL ADVISORS

EDC's EAS team consists of six professionals including engineers and scientists. 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.

EAS professionals do this by drawing on their knowledge and extensive experience gained through reviewing the environmental aspects of projects across numerous industry sectors, and by referencing and benchmarking against the environmental and social requirements of other international financial institutions (including the World Bank Group). They maintain ongoing active participation in international conferences and related activities.

COMPLIANCE PROGRAM

EDC's Compliance Officer provides a resolution mechanism for complainants with respect to certain CSR policies; advises EDC on ethical business practices; and recommends compliance audits to determine if EDC is following its CSR policies. A compliance audit conducted in 2004 regarding a complaint about a nuclear power plant in Cernavoda, Romania that was received in 2003 concluded that EDC complied with all relevant sections of its Disclosure Policy, Environmental Review Directive and Code of Business Ethics. In 2004, no complaints were received.²

ENVIRONMENTAL REVIEW DIRECTIVE AUDIT

The Auditor General of Canada recognized that EDC has improved its environmental review processes in a report on an audit of the design and implementation of

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

EDC's ERD and associated policies tabled in Parliament in October, 2004.³ The Auditor General's audit report found "major improvements in the manner in which EDC implemented its environmental review processes, including the Directive, over a similar audit conducted in 2001." The Auditor General's report also affirms that "the Directive operated as designed." The review found that EDC's current environmental review policies are consistent with those of other export credit agencies and private sector financial institutions.

The Auditor General recommended several adjustments to EDC's policies and practices, including amendments to EDC's disclosure policy and practices to enhance corporate transparency. Among other recommendations, the Auditor General advocates that EDC disclose the specific standards used in carrying out environmental reviews of Category A projects and establish general principles to guide its interpretation and application of its environment and disclosure policies with a view to supporting projects that are environmentally sound and sustainable.

EDC shares the Auditor General's view of the importance of accountability and transparency. Since the ERD was implemented in 2001, EDC has continually improved its environmental and disclosure practices, while promoting common approaches to environmental review and disclosure internationally in the interest of developing a level playing field for Canadian companies. Environmental review and disclosure practices continue to evolve and EDC is committed to ongoing improvement in its practices through dialogue and co-operation with its OECD counterparts. Following up on the Auditor General's recommendations, EDC will consult with representatives from the Government of Canada, non-governmental organizations and EDC's customers on proposed changes to EDC's policies

and practices related to the ERD and to disclosure later in 2005.

COMMON APPROACHES TO ENVIRONMENTAL REVIEW

EDC has advocated common international standards for environmental practices of export credit agencies for many years as a member and signatory to agreements undertaken by the Organisation for Economic Co-operation and Development's Export Credits Group, comprising the 29 of the OECD's 30 member countries that have export credit agencies. In December, 2003, the Group agreed to enhance the Common Approaches on environment and officially supported export credits in a number of areas, including the following:⁴

- Projects should comply with the environmental standards of the host country. When the relevant international standards against which the project has been benchmarked are more stringent, the international standards will be applied.
- The relevant international standards are those of the World Bank Group and, where applicable from a geographical viewpoint, those of Regional Development Banks. Members may also benchmark against any higher internationally recognizable environmental standards, such as those of the European Community.
- With regard to the most sensitive projects, the environmental standards to be applied will be reported and monitored by the Export Credits Group of the OECD, and exceptional deviations below international standards will have to be justified.
- For Category A⁵ projects, members will seek to make environmental information, particularly environmental

3. The full text of the Auditor General's ERD audit report, including EDC's Management Response is available under the link "Auditor General of Canada Reports" at: www.edc.ca/mediaroom.

4. From the news release of 18/12/2003 entitled "OECD Adopts Stronger Environmental Common Approaches for Export Credits" available at www.oecd.org.

5. Category A projects are those that are likely to have significant adverse environmental effects, potential effects associated with Category B projects are less adverse, and Category C projects are likely to have no or minimal adverse effects. Complete descriptions of each category, consistent with the OECD *Common Approaches* agreement, are found in the ERD.

impact assessment (EIA) reports, publicly available 30 calendar days before final commitment.

EDC updated its procedures to take the OECD revisions into account, and applied these revised procedures from the beginning of 2004. The revisions to the *Common Approaches* were already closely aligned with EDC's existing environmental review policy, as described in its ERD, and with EDC's Disclosure Policy. EDC will incorporate the revisions to the *Common Approaches* and recommendations set forth by the Auditor General of Canada in its audit.

REPORTING AND DISCLOSURE

The Chief Environmental Advisor reports on EDC's activities under the ERD 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 where there are issues of concern that require ongoing monitoring and supervision, and what actions are being taken to address issues of concern; and
- Outreach activities of interest to the Board related to EDC contributions to harmonization of environmental standards internationally, and the EDC EnviroExport Initiative

Under its *Disclosure Policy*,⁶ 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, a reference to whether the project's design met or exceeded one or more international standards among a list of international standards.

For Category A ERD projects, and for Category A projects in Sensitive Areas⁷ which fall under the *Common Approaches*, EDC also seeks consent from the project sponsor – prior to signing of the transaction – to inform the public that EDC is considering financing, guarantee, political risk insurance of loans or equity support. Information such as the project name and a project sponsor contact are then disclosed in the Environmental and Social Reporting section of EDC's website.

In accordance with revisions announced late in 2003 to the OECD *Common Approaches*, EDC committed to seek project sponsor consent to notify the public that it is considering support for certain Category A projects that fall outside the scope of EDC's ERD. EDC was not required to review any such transactions during 2004. In 2004, potential EDC support to five Category A ERD projects was posted on EDC's website. An example of a Category A project that was posted on EDC's website prior to signing is the Veladero mining project in Argentina. Annex 1 provides details of how this project was managed from an environmental perspective.

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

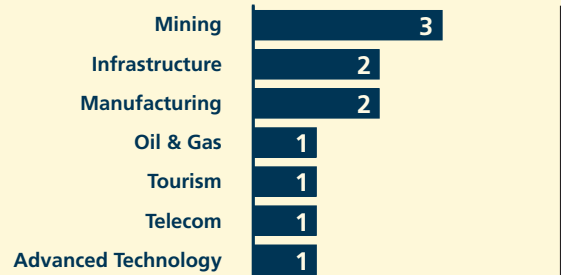
7. There are some obvious characteristics of "Sensitive Areas" and EDC is already applying existing guidelines of recognized international institutions. Most guidelines identify World Heritage Sites, national parks and primary tropical forests as clearly defined sensitive areas, but also list areas that will require some degree of professional judgment to determine potential sensitivity, such as wetlands and cultural sites. EDC participates in discussions among OECD member practitioners in an effort to achieve common understanding of key concepts such as "Sensitive Areas" in order to fulfill the intent of the revised *Common Approaches*, namely a leveling of the international playing field with respect to the environmental review of projects.

PROJECTS SIGNED IN 2004

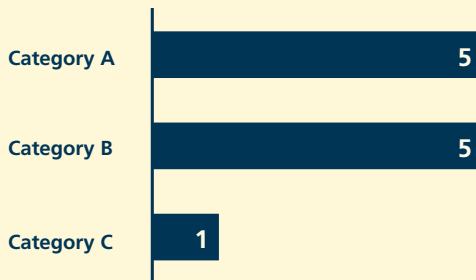
In 2004, a total of 11 project-related transactions meeting ERD criteria were signed. Five of those project-related transactions fall into Category A, and are listed in the bullets below:

- Veladero Gold Mine, Argentina;⁸
- Los Pelambres Copper Mine Expansion, Chile;
- Santa Fe Pulp Mill Expansion, Chile; and
- Buzzard Offshore Oilfield Development, United Kingdom.

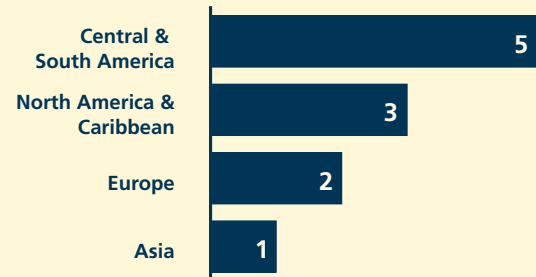
SIGNED PROJECTS BY INDUSTRY SECTOR



SIGNED PROJECTS BY CATEGORY



SIGNED PROJECTS BY REGION



OUTREACH

EDC undertakes a variety of outreach activities to fulfill its obligations to respect international agreements to which Canada is a signatory, to advocate for increased global harmonization of environmental standards, and to promote and facilitate the exports of Canadian environmental goods and services.

INTERNATIONAL AGREEMENTS AND PARTNERSHIPS

EDC's EAS and International Relations teams collaborated in support of the OECD negotiations to develop common environmental review practices amongst the ECAs

that are members of the Export Credits Group. The International Relations team's contribution to these negotiations was augmented in 2004 with the addition of a professional engineer and former EDC environmental advisor. This initiative includes active participation at meetings with other ECA environmental specialists in order to share experiences and work towards greater consistency in the environmental review of projects.

EDC has observer status in an initiative to harmonize environmental assessment requirements amongst the

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

multilateral development banks. When this process concludes it is anticipated that other international financial institutions – including the export credit agencies and private sector banks that are signatory to the Equator Principles⁹ – may adopt these harmonized environmental assessment requirements. The benefits are a well developed set of requirements incorporating input from multiple stakeholders and that can be used by co-financiers of projects in developing countries to ensure they meet high environmental standards. The harmonized requirements for sponsors and owners will improve the efficiency of doing business with financial institutions by eliminating the need to meet multiple sets of environmental requirements.

International Environmental Assessment

In 2004, EDC and the United States Export-Import Bank co-sponsored a two-day workshop in Washington, D.C. for export credit agency environmental specialists. Most ECAs were represented. The workshop involved presentations from a number of multilateral development banks in the field of environmental assessment. EDC also participated at environmental practitioners meetings hosted by the OECD in Paris.

EDC partnered with China's National Development and Reform Commission (NDRC) (the ministry responsible for modernizing Chinese industry) and the Canadian International Development Agency (CIDA) to have the World Bank's *Pollution Prevention and Abatement Handbook* translated into Chinese for distribution to Chinese industry, government ministries, and consultants. The industry sector guidelines contained in the Handbook are the standards that EDC and other international financial institutions use as benchmarks for projects they support. The partners undertook this initiative in support of China's efforts to manage its rapid development in a sustainable manner.

The EAS team also participated in meetings with a variety of associations and stakeholders including environmental non-governmental organizations (NGOs) in Canada and internationally with whom it has ongoing relationships. As part of this outreach effort, EDC and the International Finance Corporation co-sponsored an International Finance and Environmental Assessment seminar at the annual conference of the International Association for Impact Assessment in Vancouver in April 2004.

ENVIROEXPORT INITIATIVE

EDC plays a key role in expanding exports of Canadian environmental goods, technologies and services around the globe. Environmental exporters include all companies operating in Canada that are involved in whole or in part in the production of environmental goods, the provision of environmental services and the undertaking of environmental-related construction activities.¹⁰

The global market demand for these services and technologies exceeds \$1 trillion per year and in 2004, EDC's trade finance and risk management services facilitated \$825.5 million in environmental industry exports and investments with 249 companies. The vast majority of environmental export transactions facilitated by EDC are conducted by small and medium-sized enterprises and are valued at less than \$25 million each. Of the 249 Canadian environmental exporters that used EDC services in 2004, 145 were small enterprises, 70 were medium-sized enterprises and 34 were large enterprises.

While the total volume of environmental exports facilitated by EDC is lower than the 2003 volume of \$1.115 billion – which had been boosted by a small number of very large transactions, including an unusually large bonding facility of \$245 million – it nonetheless represents about a third of Canada's total environmental exports, showing the effectiveness of EDC's marketing and business

9. The Equator Principles are a voluntary set of guidelines developed by commercial banks for managing social and environmental issues related to the financing of development projects. More information on the Equator Principles is available at www.equator-principles.com

10. EDC's definition of an environmental good or service is based upon that of Statistics Canada. Environmental goods and services are used or can potentially be used to measure, prevent, limit or correct environmental damage (both natural or by human activity) to water, air, soil as well as problems related to waste, noise and ecosystems. They also include clean or resource-efficient technologies that decrease material inputs, reduce energy consumption, recover valuable by-products, reduce emissions and/or minimize waste disposal problems.

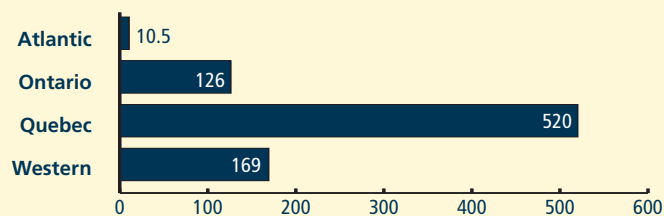
development efforts to make sure exporters in this sector are aware of the services available to them.

ENVIROEXPORT BUSINESS DEVELOPMENT

The Canadian environmental goods and services sector is diverse, comprising a wide array of technologies, services, and markets. To provide optimal support to the sector, EDC works through a variety of channels.

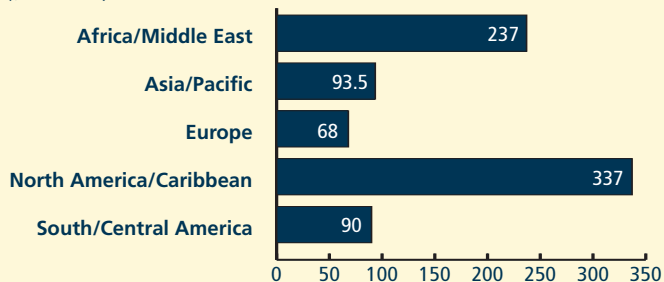
EDC's ENVIROEXPORT BUSINESS VOLUME BY CANADIAN REGION

(\$ in millions)



EDC's ENVIROEXPORT BUSINESS VOLUME BY GEOGRAPHIC MARKET

(\$ in millions)



Industry Outreach

Business development efforts undertaken in 2004 by EDC in support of the sector included ongoing and constant activity with industry associations across the country to ensure that EDC reaches out to, monitors and addresses the needs of small and medium-sized businesses on a regular basis. EDC established regular working and information relationships with Ontario, Alberta, Quebec, Nova Scotia and Newfoundland Environmental Industry Associations to provide their membership with a better understanding of EDC's services.

To inform more exporters in the environmental sector of EDC's financial tools, EDC partnered with the Globe Foundation in establishing GLOBE-Net, a dynamic, interactive web site and email system designed to provide market intelligence to Canadian environmental industry companies on business opportunities for environmental goods, services and technologies. GLOBE-Net is available at www.globe-net.ca.

EDC also worked closely with the Globe Foundation and the Government of Canada on the Globe Environmental Business Conference. EDC's sector and market knowledge and services to environmental exporters were highlighted in participation in three panels, a direct mailing to attendees, the sponsorship of the Gala Awards and Export Café, in addition to one-on-one meetings with attendees, customers and partners.

Market focus – Trade Team Canada Environment

EDC, along with Industry Canada, International Trade Canada, Environment Canada and Natural Resources Canada was a key participant in Trade Team Canada Environment missions to Central Europe, India and Mexico, during which EDC representatives were able to highlight Canadian environmental capabilities and to identify opportunities for Canadian environmental exporters.

EDC signed a Memorandum of Understanding (MOU) with the Environment Management Division of the Confederation of Indian Industry (CII-EMD) that will foster closer ties between Canadian and Indian companies operating in the field of environmental management. The MOU commits EDC and CII-EMD to share intelligence about business opportunities and environmental regulations, standards and methodologies. The agreement will help Canadian exporters of environmental goods and services to pursue opportunities in this sector within India because CII-EMD has the contacts and knowledge to help Canadian companies identify Indian partners that will be essential to implementing projects in a foreign environment.

Sector focus – renewable energy

EDC conducted an extensive analysis of Canadian capabilities in renewable energy and alternative fuels, and met with companies in this sector to begin assessing their needs in export markets. As part of this effort,

EDC participated in the Fuel Cells Canada Conference in Toronto. In addition, EDC supports the development of special terms and conditions for export credits for renewable energy and water projects at the OECD.

LOOKING AHEAD

EDC will continue to pursue high standards of environmental performance, both in its own processes and procedures for environmental review, and in its advocacy for greater harmonization of international standards. Key to maintaining its proactive stance on environmental issues is EDC's engagement with its many stakeholders including clients, exporter associations, NGOs, partners in other export credit agencies and international financial institutions, the Government of Canada and EDC's employees. These stakeholders will have an opportunity to make a significant contribution towards

EDC's maintenance of high standards of environmental performance during consultations on proposed enhancements to our procedures later in 2005. EDC will also continue to promote Canada's burgeoning environmental export sector, particularly during its participation in Canadian trade missions to developing markets. For example, in 2005, EDC will participate in information sharing sessions with government and industry leaders on the harmonization of environmental standards, as well as participating in environmental trade missions to China, India and Mexico.

ANNEX 1: CASE STUDY – ERD CATEGORY A PROJECT

VELADERO MINE, ARGENTINA



The Veladero Property is located in San Juan Province, Argentina, approximately 320 kilometers northwest of the city of San Juan. The project site is located at elevations of between 4,000 and 4,850 meters above sea level.

Barrick Veladero is being built as an open-pit mine, with the gold and silver from two pits going to a valley-fill heap leach operation and a two-stage crushing process. Full construction began in the fourth quarter of 2003, with production expected to start in fourth quarter 2005. Based on existing reserves of 12.8 million ounces, the minimum mine life is expected to be 16 years.

Around the world, Barrick operates in the framework of *Responsible Mining*, which means following the highest standards in operations, environmental practices, human resources and social responsibility. Veladero is a clear example of what *Responsible Mining* means at Barrick.

The Project was classified as Category A by EDC thus requiring the submission of an Environmental Impact Assessment (EIA) report. EDC and the other Project Finance Lenders hired an independent consulting firm to review the Project, including the EIA, in accordance with international standards.

Concurrent with its own environmental review, EDC disclosed its potential support to the Project on its website in December 2003. After review of the EIA and supporting documents, EDC determined that the Project met its ERD requirements. In July 2004, EDC committed its support to the Project.



EDC is acting as the lead Technical and Environmental Agent on behalf of the other Lenders, including the United States Export-Import Bank and commercial banks that are signatory to the Equator Principles. This role includes monitoring the Project to ensure that it is built in accordance with host-country laws and IFC environmental guidelines.

More information on the Veladero mine is available at www.barrick.com.