

Environmental Policy

Purpose of the Policy

Canadian companies that operate abroad have established a reputation for conducting business in a fair, open and responsible manner. As a partner that facilitates international business for Canadian companies, EDC shares responsibility for, and seeks through its operating principles and policies to maintain and enhance, that reputation.

This Policy sets out EDC's commitments to the environmental aspects of that responsibility, and articulates all measures which EDC employs to fulfill those commitments.

Our Commitments

EDC's Code of Business Ethics is a statement of values and guiding principles that define the business ethics of EDC. It also sets out EDC's commitments to assess environmental risk in the transaction decision-making process, to advocate environmental best practices with its counterparts, and to strive for high standards of environmental conservation while ensuring this does not unduly hinder EDC's ability to support Canadian companies as they compete in global markets. In addition, EDC's Statement of Commitment to Corporate Social Responsibility is to carry out its mandate to support and develop Canada's export trade in a socially responsible manner consistent with its corporate values.

As part of these commitments, EDC

- monitors changes to World Bank Group and other internationally accepted environmental and disclosure practices and updates its procedures accordingly; and
- advocates the adoption of international best practices by other international financial institutions, and by those with whom it does business.

Also as part of these commitments, in connection with transactions for which environmental considerations are regarded as relevant, EDC:

- integrates internationally accepted environmental risk management practices into its transaction decision-making process;
- ensures that transactions comply with host country laws and regulations;
- takes into account multilateral environmental agreements signed by Canada; and
- discloses environmental information to ensure public accountability while respecting customer confidentiality.

Our Policies and Processes

EDC's commitment to environmental responsibility begins with its employees, who subscribe annually to a rigorous Code of Conduct which outlines how the values set forth in our Code of Business Ethics apply to all employees. Those in a position to influence transaction decisions receive training on EDC's environmental policies and processes, and various corporate activities ensure a high level of environmental awareness.

This commitment is supported by a suite of policies and processes that fall under this Environmental Policy. These range along a spectrum, depending on the nature of the transaction, that includes: (a) financial officer screening of individual transactions; (b) exporter declarations that they are not aware of any significant environmental consequences of their transaction and/or business; (c) formal environmental risk reviews by EDC's own Environmental Advisory Services

team; (d) application of the recommendations of the “Common Approaches on Environment and Officially Supported Export Credits” approved by members of the Export Credits Group of the Organisation for Economic Co-operation and Development (OECD Common Approaches); and (e) EDC’s Environmental Review Directive (ERD), a legally binding requirement under the laws of Canada that is relevant for larger, project-related transactions. EDC’s Disclosure Policy is an important complement to this suite of policies and processes, as EDC is committed to transparency in this regard, subject to commercial confidentiality limitations.

EDC trains financial officers to recognize potential environmental risks in transactions related to medium- and long-term financing, political risk insurance and equity participation.¹ Financial officers review information provided by the exporter and/or borrower as well as publicly available information. Also, EDC may request declarations of environmental risks from exporters and/or sponsors to facilitate the review of the transaction. Based on this information, financial officers incorporate environmental risk into their decision whether the transaction should proceed to the next level of environmental risk review.

When environmental risks are determined by financial officers to be present in such a transaction, financial officers will request input from EDC’s Environmental Advisory Services team, who will apply an **environmental risk review process**. The Environmental Advisory Services team will assess such transactions using recognized methodologies and provide an opinion on the degree of environmental risk. Such transactions may pose a variety of environmental risks and the Environmental Advisory Services team takes this into account in their analysis, which can include reviewing relevant information such as the industry sector, the nature of the transaction, regulatory requirements, and the track record of key parties. Where relevant, EDC will also take into consideration a sponsor’s corporate environmental policies and procedures.

Environmental risk assessment shares priority with credit, political, economic, technical and reputational risks in EDC’s transaction decision-making process, except that transactions subject to the ERD are considered according to ERD requirements. Where EDC determines that it is unable to obtain sufficient information in order to conduct an environmental risk review in accordance with its environmental policies and processes, EDC will decline support to a transaction.

In transactions that are related to a specific project, EDC applies the recommendations of the **OECD Common Approaches**. The latter establishes criteria to be followed by export credit agencies in evaluating the environmental impact of projects that they may support, to ensure that these meet World Bank Group or other internationally accepted standards, or host country environmental standards, whichever is the more stringent. The OECD Common Approaches also establishes criteria to be followed for the public disclosure of information related to such projects.

In accordance with the OECD Common Approaches, EDC categorizes and conducts environmental reviews for potential projects for which contemplated support is SDR 10 million or higher and for which contemplated repayment terms are two years or longer. When the project is to be located in a sensitive area, these processes are applied regardless of the magnitude of EDC’s contemplated support. In all such cases, exporters and/or sponsors are required to submit environmental assessment documentation for review by EDC’s Environmental Advisory Services team.

At the most rigorous end of EDC’s environmental process spectrum, EDC applies the **Environmental Review Directive**. The Environmental Review Directive sets out a systematic process EDC follows when assessing the environmental impacts of projects it is asked to support, requiring a determination whether EDC is justified in supporting the project. The ERD applies to financing, political risk insurance and/or equity transactions that are related to a particular

¹ Transactions involving EDC’s Accounts Receivable Insurance are not subject to environmental review.

identified project, have a value of SDR 10 million or more and have a repayment term of two years or more.²

In these cases, EDC financial officers obtain from project sponsors the information needed for EDC to conduct an environmental review of the project. Such projects are screened by the Environmental Advisory Services team for their potential adverse environmental impacts and categorized as A, B, or C, with information requirements and the extent of EDC's review linked to the project's category. EDC then benchmarks the design of the proposed projects in order to determine whether they are acceptable from an environmental perspective according to international practices, standards and guidelines, such as relevant World Bank Group standards.

EDC also ensures compliance with host country laws and regulations, including the environmental standards of the host country, and environmental performance through policy and loan documentation. To ensure that projects are constructed and operated as designed, EDC monitors information provided by the sponsor or exporter and through site visits as required.

Roles and Responsibilities

The Senior Vice-President, Corporate Affairs and Chief Economist is responsible for implementing this Environmental Policy, and EDC Senior Management makes regular reports to EDC's Board of Directors on its implementation.

EDC's external Advisory Council on Corporate Social Responsibility, comprised of prominent leaders from business, academia and civil society, provides advice to EDC on matters related to evolving best-in-class CSR practices, including this policy.

The Environmental Review Advisory Committee, comprised of a cross-section of EDC executives and senior managers, is responsible for establishing effective performance measures and benchmarks, and providing strategic direction and advice, regarding EDC's environmental review policies and practices.

The Environmental Advisory Services team consisting of environmental specialists conducts environmental reviews, identifies appropriate mitigation measures related to transactions which EDC may support, participates in environmental risk management training and in engaging stakeholders, business development and supporting other corporate social responsibility objectives.

Financial officers within EDC's business sector teams are responsible for the collection of environmental information and for facilitating the initial screening of relevant transactions.

Employees of the Corporation are responsible for adhering to the policies and procedures set forth in this Policy in the transaction decision-making process.

Reporting and Disclosure

The Auditor General of Canada undertakes a periodic review of the design and implementation of the Environmental Review Directive in accordance with the requirements of the Export Development Act and submits a report on the audit to the Corporation's Board of Directors, to the Minister for International Trade, and to each house of Parliament.

EDC's disclosure practices are also guided by criteria established within its own Disclosure Policy. Under EDC's Disclosure Policy, section D2, all financing (including guarantees), political risk insurance to lenders, and equity transactions are reported within 90 days after signing. Disclosure Policy section D3, which covers environmental and social reporting, sets out the

² The ERD also applies to political risk insurance transactions in respect of (a) an equity investment or loan made by or on behalf of a project sponsor in or to a particular identified project, or (b) a loan to a project company or sponsor in respect of a particular identified project.

conditions under which EDC will publish information about projects classified as a Category A, including making some information available prior to signing the transaction.

In addition, public consultation with stakeholders is an important component of an effective environmental policy.

Expiry Date

This Policy Directive shall be subject to review no later than November 1, 2008.