Summary of Proceedings – EDC's Advisory Council on Corporate Social Responsibility

Tuesday April 26, 2016
EDC Head Office, Canada Room
Ottawa, Ontario

Participants

From the CSR Advisory Council:
Pablo de la Flor, Vice-President, Corporate Affairs, Banco Crédito del Perú
Gordon Lambert, Suncor Sustainability Executive in Residence, Ivey School of Business, Western University
Jean-Louis Roy, President, Partenariat International
David Runnalls, Senior Fellow, Sustainable Prosperity
Jean-Claude Villiard, Associate Professor, École nationale d'administration publique (Université du Québec)
Ed Waitzer, Partner, Stikeman Elliott LLP
David Wheeler, President and Vice-Chancellor, Cape Breton University

Absent
Deanna Rosenswig, Partner, Vantage Concepts
David Zussman, Jarislowsky Chair in Public Sector Management, University of Ottawa

From Export Development Canada (EDC):
Herbert M. Clarke, Member, Board of Directors
Benoit Daignault, President & CEO, and Council Chair
Catherine Decarie, Senior Vice-President, Corporate Affairs & Secretary
Signi Schneider, Vice-President, Corporate Social Responsibility (CSR)
Yolanda Banks, Senior Advisor, CSR

Guest Speakers
Katie Sullivan, Director (North America and Climate Finance),
International Emissions Trading Association (IETA)
Thibaut Millet, Partner, Climate Change & Sustainability Services**,**
Ernst & Young

April 26 -- Meeting

Theme: **Post-COP21 and Expectations for Financial Institutions**

EDC Head Office, 150 Slater Street (corner of O'Connor)
Canada Room, 18th floor

1. **Welcome, Introduction of New Members and President's Update on Corporate Issues, including CSR**
   Benoit Daignault, President and CEO and CSR Advisory Council Chair
   Catherine Decarie, Senior Vice-President, Corporate Affairs & Secretary
   Signi Schneider, Vice-President, CSR

EDC's President provided an update on key corporate developments since the Council's last meeting in May 2015. An update on CSR issues had been provided as background reading.

EDC is getting to know the new government's team. While the philosophy around trade issues is similar, there is strong interest in climate issues. The outcome of COP21 evoked a truly positive mood in Davos, and all sectors are supportive, but the business community needs an international framework and uniform pricing. The next challenge will be to put these together so the business understands the bounds within which it can operate.

Recap of EDC's 2015 results
EDC supported over $100 billion in business volume. Recognizing the oil and gas sector is under stress, EDC put in place a special facility ($750mn) to assist those companies likely to survive the downturn (good base business model and diversified, but going through a tough time). Oil and gas companies at greatest risk are not the large producers, but those in the supply chain.

The lower Canadian dollar is favourable for the manufacturing sector. Getting more companies exporting will serve to buffer future shocks of a falling dollar.

Emerging Markets
EDC's business in emerging markets was down 40%. To build this business, EDC will augment its presence in Johannesburg, Jakarta and London (to cover the Middle East and North Africa and Western Europe). The emerging markets will recover. Colombia and Peru show promise. EDC's inability to operate in Russia presents a constraint for the private sector. Exporters have expressed an interest in Iran, and EDC is examining how to re-engage and tackle practical problems like identification of correspondent banks. India continues to prove a challenging market, in spite of its early promise. In Brazil, the corruption scandal known as *Lava Jato*, has had an impact. Petrobras faced a perfect storm: a political crisis, falling oil prices and a political and institutional crisis, and more fallout is expected.

Non-governmental stakeholders
The Volkswagen (VW) crisis gave occasion for EDC to be in contact with the trade union, Unifor, a stakeholder with which it had previously had relatively low engagement. Unifor expressed their discontent regarding EDC financing of VW. EDC will re-think its engagement with stakeholders with critical opinions of EDC.

Strategy
EDC is placing emphasis on strategy development to help Canadian companies 'go, grow and succeed' in international markets. This includes work on how to connect CSR to the corporate strategy and position CSR as a differentiator.

Discussion and Comments by Council Members
The power of civil society organizations lies in their ability to form coalitions. EDC noted that the latest focus of its main civil society stakeholder is corruption and has questioned EDC support for companies implicated in corruption matters. EDC's strategy is to engage with such stakeholders, explaining our CSR processes.

One Council member commented that academic literature points out that companies should pay greatest attention when stakeholders have power, legitimacy and urgency. It may be in EDC's interest to develop a discussion forum for issues to avoid being blindsided.

EDC migrates into the business intelligence space which would be value-added for EDC and go beyond its core business. EDC produces a lot of information, but it needs to be more easily accessible. EDC should declare a desired outcome, define what success looks like and what will be needed to achieve it. Due to its brand and a general perception as trustworthy, EDC has an opportunity to become an independent, authoritative voice, to explain the Canada's economic growth potential and available financial services. Reflecting upon the World Bank's experience, becoming a knowledge centre will not be an easy undertaking. EDC should ask its customers what information/knowledge is most relevant to them and then define its target.

2. Members' Roundtable
Council Members

Members provided observations on issues, key trends and developments in CSR that might be relevant for EDC, and identified the following:

- *Leadership vacuum in Canada on sustainability/CSR issues*: the new government has an appetite, but does not know yet what to do; there is a role for EDC to play 'convene the conversation' to help companies achieve success and build value into the Canadian brand; a powerful opportunity exists for EDC to become the authoritative voice on trade and investment with a CSR overlay
- *Human rights*: EDC must keep in mind indigenous rights; Canada is still trying to figure out how to assist and integrate these communities into the broader fabric of Canadian society
- *NGOs*: more sophisticated and adept at exercising influence on the international stage through the creation of powerful coalitions
- *Corruption*: there is a greater awareness of its perverse societal and economic impacts; companies continue to engage in corruption in spite of having strong codes of conduct and compliance programs; we need to think through the next level of required actions
- *Lack of capacity (know-how) in developing countries*: assistance is needed
- *Education*: access to quality education is critical for the success of developing economies; there are lots of creative approaches in the sector, e.g. P3s, and the Canadian experience can be helpful

- *Climate change*: a front-and-centre topic; Canada is in an 'energy transition', and EDC will have an important role to play; society's move away from carbon has the potential to create 'stranded assets' with consequential negative impacts on investments and financial stability; of note is the closure of key US coal producers; EDC and other financial institutions will be called upon to finance the transition to a new energy future, e.g. in India where coal is the primary source of power; both corporate and investment portfolio managers are looking at how to intentionally manage assets to address system level risks and rewards like climate change;

- *Social conflict*: anger and outrage fueled by social media is here to stay; not everyone will like what you are doing, so EDC will need to learn to navigate through it; recent climate and rights-based lawsuits have brought business leaders to the realization that these are a manifestation of a broader societal dissatisfaction with wealth distribution;
- *Offshore tax havens*: the pertinent question is where do large corporations shelter corporate income? This issue will likely result in regulation by an international body, e.g. OECD.

3. **Climate Change: Issues and Implications for Financial Institutions**
   Opening Remarks
   David Runnalls, CSR Advisory Council Member

Views from the Panel
Katie Sullivan, Director (North America and Climate Finance)
International Emissions Trading Association (IETA)
Thibaut Millet, Climate Change & Sustainability Services
Ernst & Young

Panelists presented their perspectives on the outcomes of COP 21, convened in Paris in late November and early December 2015, and implications for financial institutions. The discussion aimed to help EDC's strategy development regarding an appropriate climate change approach as EDC considers the agenda and expectations of the Government of Canada.

Climate change is perceived as the single largest challenge of the 21st century, and has moved to the forefront of international and national discussions, not only due to the attention brought by the COP21 agreement, but because business has felt the effects of climate change directly. For example, inflation-adjusted insurance losses from climate-related events have increased from an annual average of around $10bn in the 1980s to around $50bn over the past decade. The global economy will need $ 90tn in investment, and an additional 5% to make that low carbon investments. A low carbon approach will require a combination of standardization, technical assistance and policy action.

Of late, the climate discussion has become particularly relevant for financial institutions, due in part, to the legitimacy conveyed by Mark Carney, Chair of the Financial Stability Board, who has created a *Task Force on Climate-related Financial Disclosures* headed by Michael Bloomberg. EDC should monitor the Task Force's forthcoming report on physical, liability and transition risks associated with climate change, and what constitutes effective corporate financial disclosures in this area. M. Bloomberg argues for making all aspects of financial services 'carbon transparent'.

The cleantech sector represents a significant business opportunity with exports estimated at $7bn of which 20% comes from non-USA markets. Some countries will attempt to meet their climate reduction commitments through market mechanisms. Article 6 of the COP21 climate agreement does not reference “markets”, but allows for trading and cooperative approaches to meet commitments, and these will help keep costs to a reasonable level. The COP21 agreement will need $100bn in private investments and financing to work, e.g. the Green Climate Fund will need the participation of private capital. The dilemma is how to get capital moving and to use public funds to de-risk these investments. This is where EDC can play, but the solutions will not be easy.

Methodologies for measuring carbon risk of loans are becoming standardized, including measuring asset risk at a portfolio level. The UN Environment Program-Finance Initiative (UNEP-FI) has issued useful guidance. Methodologies for export credit insurance and bonding products are less well developed, but could work if carbon intensity is measured. Some financial institutions are developing an internal carbon price, while others are developing a shadow price for carbon.

Companies face a potential fiduciary liability in potential climate-related lawsuits. Defendants will be asked to demonstrate they considered the impacts of carbon and took action. The discussion today is about suppliers and users of capital with climate change as the inflexion point.

<u>The policy environment</u>
In Canada, navigating the transition from a fossil fuel-dependent economy to more carbon-neutral forms of energy is challenging. Some governments prefer a carbon pricing solution with others favour a cap-and-trade approach. Alberta has adopted the former where carbon emitters are subject to a graduated tax reaching $30 per tonne of CO_2 emitted by 2017. Flow through costs to consumers is estimated at $500 per year with some tax relief offered to low income residents via rebates.

The challenge is to think differently about economic growth and re-shape the economy, diversifying away from fossil fuels without creating undue economic disruption and hardship. It will necessitate seeing the oil industry differently: not as a source of cheap oil, but a supplier of by-products like lubricants.

4. **Council Discussion on Climate Change Issues and Implications for EDC**
   Moderated by Gordon Lambert, Council Member

Council members presented a number of observations, ideas, thoughts and recommendations for EDC’s consideration in reaction to what was heard from the guest speakers. These are noted below.

A source of creative tension on this new environment is how to be successful in a carbon-constrained, lower growth world. Figures 1 and 2 below diagrammatically illustrate a framework for finding solutions to the world’s climate dilemma and EDC’s role.

EDC has dual, somewhat conflicting, goals: promoting protection of the climate and carrying out an export mandate. Its potential role will lie in providing resources to help achieve Canada’s climate goals and commitments. Whatever approach EDC chooses, it must be calibrated to achievable goals and ambitions.

What does this mean for EDC?

There are a number of steps EDC can and should take to address climate risk, and more importantly, to capitalize on opportunities. Generally, these were noted as:

- risk assessment: to the extent possible, measure the current degree of carbon exposure in the lending portfolio;
- understand offsets and structure deals to include offsets; although criticized by some, offsets will be needed; Norway is an example of a country that is meeting missed targets, by financing offsets which support climate initiatives in developing countries;
- take a customer-focus:
    - consider financial solutions to aid the transition of industry to a low-carbon future;
    - consider a more proactive dialogue with EDC customers; ask them for information on their strategies for climate-related adaptation;
    - consider an increased risk appetite and better pricing for climate initiatives;
- to demonstrate EDC is part of a more climate-conscious future, establish EDC as a convenor of a dialogue/public debate regarding a more sustainable energy future; take a leadership position, including being a global thought-leader on issues related to climate and finance;
- EDC needs to be helpful in achieving the Government of Canada's 30% target, and in the next one to two years, declare its fit with this direction based on real measurement, policy and data;
- decide where EDC wants to be in 5 – 10 years and use metrics to help get there; this will determine current investment decisions
- Climate commitments will lead to action in developing countries and will create interesting opportunities for EDC;
- EDC can be instrumental in financing sustainable infrastructure solutions such as those being examined by the Global Commission on the Economy and Climate (led by former Mexican President, Felipe Calderone)
- Climate finance: consider more green bonds? Look at the UK Green Investment Bank as a source of ideas
- Remain aligned with EDC's shareholder on these issues
- We need to go much further than the recently signed OECD Coal Sector Understanding; much is still permitted, e.g. ancillary facilities
- Integrate climate more deeply into EDC's core business processes and catalyze a dialogue with customers simply by asking for their mitigation, climate adaptation and end-of-life plans
- Look for where the ambition is emerging and capture the ownership of reductions for business that will cause net reductions to occur

Figure 1: An Economic Adaptation Model

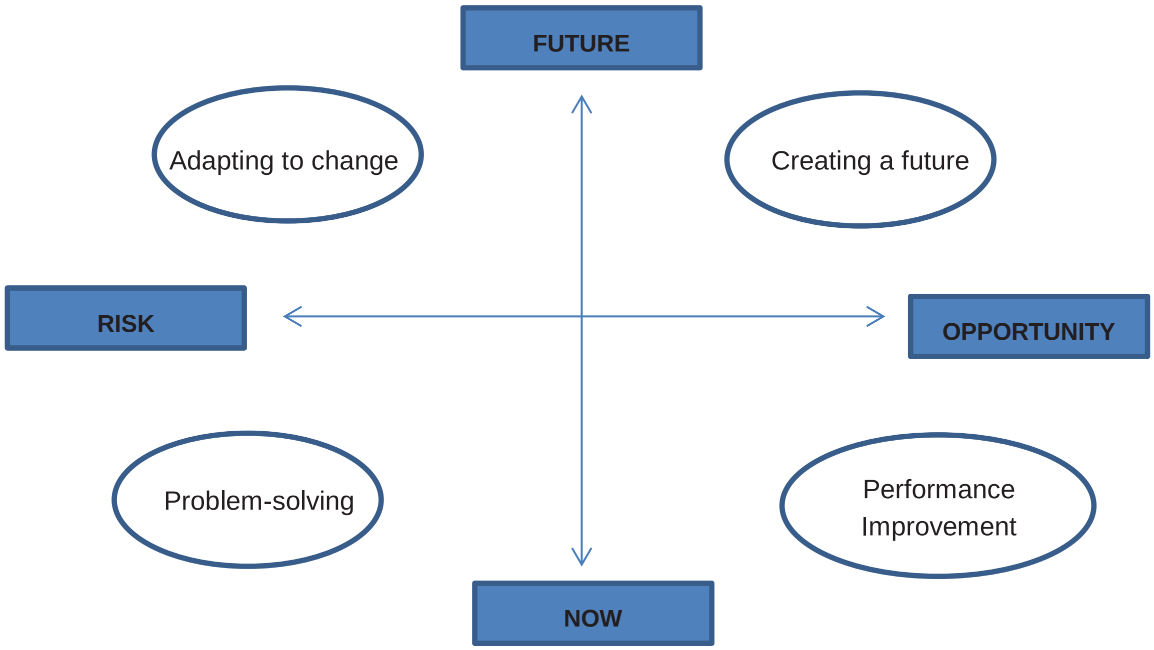

Figure 2: A model for addressing climate change and EDC's role

5. **Council Business**
   Signi Schneider, Vice-President, CSR

The Council bid farewell to departing members, Jean-Claude Villiard and David Zussman, and thanked them for their service over ten and nine years, respectively. The recruitment effort of new members is ongoing.

The meeting was characterized as one of the best, particularly because of the active participation of the Council members, and adequate time for in-depth exploration of an interesting and relevant subject.