

## Briefing Note: Export Development Canada and Accountability

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### Overview

Accountability is the cornerstone of democratic governance. Yet Export Development Canada (EDC), a Crown Corporation mandated to promote Canadian trade abroad, is still relatively unaccountable for the potentially environmentally devastating projects they finance.

As a first step towards enhancing its disclosure practices, for projects with potential significant adverse environmental impacts, and in particular those through the Canada Account, EDC should *require* companies to disclose project details 120 days prior to board consideration, and project environmental impact information at least 60 days prior.

### Tools for Public Accountability

Although it operates as a financially self-sustaining entity, EDC is a public financial institution: its initial capital base came directly from taxpayer money, it pays no taxes, and its credit rating is backed directly by the government (that is, if a country or company defaults or delays repayment on a loan to EDC, the government – and ultimately the Canadian public – assumes the risks and losses).

EDC is responsible to the Departments of Finance and International Trade, and reports to Parliament through the Minister for International Trade. EDC issues are discussed in the Standing Committee on Foreign Affairs and International Trade and the Senate Banking Committee. In terms of Parliamentary oversight, EDC tables its annual report and budget before Parliament, as well as its Corporate Plan (five-year forecast of activities). The latter outlines EDC's public policy objectives and financial plan within the broader context of how the Crown Corporation operates. The Auditor General (AG) reviews EDC's financial statements annually, and the implementation of its environmental policy every three years. EDC now also has its own internal Compliance Officer that investigates complaints by external parties alleging EDC has failed to comply with its policies on disclosure, environment, human rights and business ethics.

Despite measures recently put in place to periodically hold EDC accountable, the Crown Corporation is still relatively unaccountable to the Canadian public. This is particularly true in regard to the environment and EDC's use of the Canada Account.

In terms of the environment, EDC has developed disclosure and environmental policies to help screen, categorize and review projects that pose a potentially significant adverse risk. However, for the most risk-prone category of projects (Category A) EDC still requires the company's consent to disclose even basic project details and the environmental impact assessment (EIA). Without the company's consent, the Canadian public may never know whether or not EDC has funded an environmentally harmful project. And even when the project details are disclosed, EDC has never publicly disclosed the EIA for any Category A projects it has supported. For example, although a March 2004 Press Release announced EDC as one of four ECAs lined up to provide trade financing for the controversial Nam Theun2 Dam in Lao<sup>1</sup>, EDC has yet to disclose any details about the project. In contrast, the World Bank, which began consultations on the project in September 2004 and is currently considering financing it, has had information posted since July, and the French ECA, COFACE, since mid-June.

### **The Canada Account – Whose National Interest?**

The Canada account provides the same types of insurance, financing and guarantees as EDC's regular corporate account, but at both concessional (below market) and non-concessional (market) rates and terms. Generally it is used for transactions over \$50 million, that are excessively risky (politically or financially) or exceed EDC's exposure to any one country or sector. Justified as being in the "national interest" (i.e. they bring economic benefits to Canada, support an important export market, or have particular "foreign policy implications"), they are approved by Cabinet. As such, the federal government directly assumes the risks for the transactions, meaning that defaults or delays on repayment of loans are absorbed by the Consolidated Revenue Fund and ultimately the Canadian taxpayer.

In the past three years, two companies have monopolized the Canada Account: AECL and Bombardier. In 2001, AECL received a \$323 million loan guarantee for the sale of a nuclear reactor to Romania. Between 2001 - 2004, Bombardier secured three separate deals, amounting to at least \$300,000 and probably more than twice that. The most recent was for approximately \$250,000 for the sale of 10 jets to Comair, a subsidiary of Delta. In recent months Delta has seen their shares and credit rating tumble.

Just as one might expect a higher level of transparency for projects posing greater environmental risk, EDC's use of the Canada Account (see table above) would also seem to demand greater due diligence and public accountability. The Canada Account is used to finance projects that are high-risk, often controversial, and involve large sums of money. Through it, EDC has, for example, provided close to \$5 billion for eight Candu nuclear reactors and \$86 million for the Yacreta Dam in Argentina<sup>ii</sup>. Justified as being in the "National Interest", it ultimately puts Canadian taxpayer money at risk, since the financing is guaranteed by the government. Yet the Canadian public and Parliament often only know about these projects once deals have been signed. Furthermore, no EIA has ever been made publicly available for Canada Account-funded Category A projects. The last Canada Account Report came out in 2002.

This lack of disclosure is especially disturbing when one considers how EDC policies can encourage riskier projects. For example, EDC employees annually receive a bonus based on the volume of transactions that they sign. This creates a perverse incentive in favour of pushing larger projects, despite the fact that they have the potential to be a source of greater environmental risks.

### **Policy Recommendation**

The Canada Account should be subject to higher standards of transparency and much greater parliamentary and public scrutiny than is currently the case. As a first step toward enhancing its accountability to the public, for projects with potential significant adverse environmental impacts (Category A) and especially those being funded through the Canada Account, EDC should require companies to disclose project details at least 120 days prior to board consideration. Environmental and social impact assessments for Category A and Canada Account project should be made available at EDC offices in the region and on the internet a minimum of 60 days prior to board consideration.

### **For further information, contact:**

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*The Halifax Initiative is a Canadian coalition of development, environment, faith-based, human rights and labour non governmental organizations working for global economic democracy.*

<sup>i</sup> See "Export Development Canada and the Environment" *NGO Working Group on EDC Briefing Note* for details, or [http://www.namtheun2.com/mediango/pdf/R\\_Nam%20Theun%2020Financing%20Launched.pdf](http://www.namtheun2.com/mediango/pdf/R_Nam%20Theun%2020Financing%20Launched.pdf) for the press release.

<sup>ii</sup> See NGO Working Group on EDC, *Reckless Lending*, (March 2000) for details. Figures for the Nuclear Reactors include Cernavoda2.