

Challenges to Acting Ethically in a Global Marketplace:

Notes for an address by

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Introduction

Thank you and good afternoon. It's a pleasure to appear before a distinguished audience of business leaders and ethics advocates, to speak about the ethical challenges facing Canadian companies and more specifically Export Development Canada, in the global marketplace. It's good to be in Toronto, home to so many large, influential, multinational companies, where so much of Canada's global business is done. What better place, therefore, to talk about my company's approach to mitigating the risks of doing business abroad -and how trading responsibly can make a positive difference to the bottom line of Canadian business.

For those who aren't as familiar with EDC, we are a commercial Crown Corporation charged with facilitating foreign trade and investment by Canadian companies. We've been doing this for almost 60 years by providing unique finance and insurance services to thousands of Canadian exporters and investors doing business around the globe.

I might add that we do so without annual parliamentary appropriations -and turn a profit on top of that! More recently, you may know us from our TV ads as the company that's opening doors all over the world. Some of you may even be dying to know what's in that red box, so –as long as you don't make it the first question to follow my speech – I just might tell you.

As you've just heard, I'm the Executive Vice-President, Medium & Long Term Financial Services at Export Development Canada. In very general terms, I oversee EDC's loans, guarantees, bonding, political risk insurance and equity services for exporters. My team handles projects that tend to be large in scale and inevitably entail a host of social and environmental issues. As a member of EDC's executive I also sit on our Risk Management Committee. There, such projects are evaluated not only on the cost/benefit side, but also on the risk/reward side of properly managing the sensitive issues or ethical dilemmas surrounding them. At EDC, we take business ethics very seriously.

EDC served over 7,200 clients last year, facilitating more than CAD\$51 billion in exports and investments. This business generated nearly CAD\$32 billion in GDP and sustained 429,000 person-years of employment. Clearly, we have a role to play in Canada’s economy and our viability matters to it.

Interestingly, roughly CAD\$36 billion of last year’s business helped small and medium-sized Canadian exporters simply selling their goods abroad. Although the “project slice” is a relatively small component of our annual activity, the risk of mishandling ethical dilemmas in this narrow part of our business can be significant for our overall operations.

I - The Ethical Challenges

Last year, 152 of the 182 markets where we did business were developing markets. It's not hard to find challenges to successful international trade and foreign investment when we cover so much of the global marketplace. It's easy to imagine how infrastructure projects, by virtue of their size, can displace local communities or damage ecosystems. It's also becoming clearer that an ethical issue such as bribery can lead to charges before official tribunals and damage corporate reputation. It's important, therefore, to understand what ethical challenges lie in wait -to manage them properly, in order to prosper - rather than perish, in the global market place.

So what are the big ethical challenges to behaving responsibly in the global marketplace?

I'll primarily look at four areas where EDC has been working harder to overcome the ethical challenges of the global market place. Those are: the environment, human rights, corruption and transparency.

How, you may ask, did these issues become so important to the way we conduct international trade?

From greenhouse gas emissions to deforestation, global pressures on the environment are undeniably high. As participants in the global economy, we're duty-bound to ensure that economic growth in developing countries does not come at the price of environmental degradation.

When human rights are neglected, the conditions favorable to trade suffer also. Human rights abuse is a sign of political instability, which promotes further instability and discourages foreign investment. It also prevents all participants in an economy from sharing equally in the reward of development and creates inefficiencies. It's an obstacle to sustainable development.

Corruption impedes the free flow of goods and services across borders, distorts international trade processes and inhibits economic growth, especially in developing countries. Since 1999, when Canada's *Corruption of Foreign Public Officials Act* came into force, Canadians found to be engaging in corruption while doing business abroad become criminally liable.

In the wake of huge corporate fraud scandals such as Enron and Worldcom, the significance of disclosure is better understood than ever. Secrecy is viewed with instant suspicion -it can kill corporate reputation. There is a need to increase trust between business and its stakeholders -to demonstrate that it behaves ethically, both at home and in the course of international business.

There is a growing consensus that ethical behaviour is a vital component of corporate success –that maximizing profits alone will not protect your brand or guarantee market share. If it is not perceived to be behaving in a socially responsible manner, a company risks its reputation; risks its customer base; risks shareholder support; and, as a consequence, risks its bottom line. This has created a need for a philosophical change in the way business is done now and in the future.

Meeting ethical challenges through Corporate Social Responsibility

There is a way to change –or should I say improve- the way business is done in the global market place. EDC's choice, as well as that of a growing number of Canadian companies, has been to embrace operating principles which reflect Corporate Social Responsibility (CSR). Corporate social responsibility is more than just compliance with legal standards -it is the practical integration of core values such as honesty, respect, fairness and integrity into policies, procedures and day-to-day business practices. Such an approach helps companies address the ethical challenges we face in the global marketplace.

There's a strong feeling that Canadian companies are, for the most part, behaving in a socially responsible manner, as a recent Ipsos-Reid poll demonstrates. While 76% of Canadians surveyed found that companies did a "good" to "very good" job of being socially responsible, a comparably large number of respondents (55%) also admitted to having either rewarded or punished companies because of corporate behaviour. These consumers made a conscious decision whether or not to buy the product or service of a company based on their opinion of that company.

These findings are important. They show that issues such as the environment, human rights, corruption and transparency matter to the people who matter to corporate bottom lines. Fortunately, good corporate citizenship is not a revolutionary concept. We have all exhibited sound corporate behaviour in the past. The challenge posed by our customers and other stakeholders is that we have to do it better -and in all circumstances.

II- What has changed

One of the key challenges to acting ethically in the global market place is trying to keep pace with the rapid changes affecting international trade. So where is the change taking place? Well, it's happening to:

- international trade standards;
- risk assessment;
- the host country business environment; and, quite importantly,
- the critics of international trade

The pace of change has picked up internationally. Over the last five years, we've seen the Organization for Economic Co-operation and Development (the Paris-based international body which promotes dialogue and consensus in areas such as education, innovation and trade) formally act on ethical issues such as corruption and the environment by creating comprehensive international norms.

In terms of the environmental and social impacts of projects, international banks have now conceived their own voluntary code of conduct for project finance (they call them the Equator Principles) and the list of signatories keeps growing. RBC Financial Group, for example, is one of its signatories.

Large infrastructure projects need to be handled differently today, than even five years ago. For international banks or lenders assisting such projects, the risks of not fully addressing stakeholder issues has a definite influence on the decision to do business with the project partners. At EDC, to do a good job of helping Canadians export or invest abroad, we need to comprehensively identify the risks inherent to their transactions. By so doing, we are helping them pinpoint and manage the ethical risks inherent to global trade. Corporate Social Responsibility compels us to look at a new set of risks and we consequently support better projects and better foreign investments.

The distorting effects of corruption on foreign investment are well known. G8 countries and others have been putting increasing pressure on foreign governments to end corruption as a condition of increasing trade and those governments are beginning to respond. American oil executives are facing charges and investigations for bribery in Kazakhstan. The same is occurring in Lesotho, where convictions have already been handed down and the prosecution of other foreign executives continue.

But it's not just foreign laws that are tightening up. Better governance, greater transparency and stronger regulations are beginning to take shape in the developing world and are beginning to change the landscape for those who play by their own rules. Those who've already taken a strong stand against corruption –who are already ahead of the pack if you will- are well positioned to take advantage of this change. It's making it easier, not harder, for them to do business in the global marketplace.

Keeping pace with the rising expectations of the critics of international trade is another major challenge. These critics cover a broad spectrum: from trade protectionists, to labour unions, to broad coalitions of interest groups united by a social justice agenda. We've seen a transformation from the Seattle street fighter to the emergence of well-connected, well-organized Non-Governmental Organizations (NGOs) that are trying to engage government and business in a constructive examination of the very issues that give rise to the ethical challenges faced by those competing in the global market place.

They are highly effective monitors of international trade. They have great access to the media, they exploit the Internet far better than they (or anyone else) did 5 years ago. They are skilled campaigners and the Canadian companies that have been attacked and whose reputations have been damaged on the international scene can attest to their efficacy. They have a tremendous capacity to shape public opinion.

Companies now have to look hard at what Corporate Social Responsibility means to their enterprise, find out what they're doing right, do other things better and by all means, get their CSR message out there or risk distortions or allegations that can cause long-term damage. Although we don't always agree with everything these stakeholders say, we have to talk to them, just like we have to communicate with our shareholders or our Board of Directors. We do that at EDC and I'll have more to say about that later.

III - New Requirements from the Financial Community

In response to all the changes I've been talking about, the international banking sector is asking more of its clients. As a result, it's starting to do a better job of managing risk. The international banking environment has evolved and the new rules that are emerging will be beneficial to business competing in the global market place. I've told you how several banks have committed to the Equator Principles as a new way to conduct project financing. Many have also adopted ISO 14001 standards to benchmark their environmental review processes.

As a lending institution, an insurer or an equity investor, EDC is thrust in the position of exporting Canada's idea of fairness, equality and respect throughout the global marketplace. Some would question our right to "impose" our interpretation of these values on other parts of the world. Other would say that it is unethical to engage in any trade with countries that do not have a glowing record on human rights or corruption. We're in the middle of a tough dilemma where we even ask ourselves: Can we can do this? Should we do this? With very few exceptions, we do end up participating in many developing markets. We do it because at EDC, we believe in constructively engaging those "less than perfect" governments instead of freezing them out. Trade is a powerful means of effecting positive development on many fronts. When properly sustained, trade creates a climate that can generate political stability and social development –not just dollars and cents.

To achieve the desired influence on the global marketplace and to meet the growing expectations of its stakeholders, EDC is gradually building a CSR culture. We're doing it by taking the best practices of the past, adapting them to the key lessons of today's market place and implementing initiatives that create stronger operating principles which make sense to our business.

So what has EDC been doing?

CSR at EDC

As I told you earlier, EDC's approach to meeting the ethical challenges of the global marketplace has been to embrace operating principles which reflect Corporate Social Responsibility. I'll discuss some of the components of our CSR program in a bit more detail.

EDC has been quite active on the environmental front. Our environmental assessment approach has graduated from a voluntary regime to one that has become integrated with our parent legislation (The Export Development Act) since 2001. This legislative regime is known as the Environmental Review Directive. It establishes clearer processes and objectives to follow when reviewing the environmental assessments of projects under consideration. It's an evolution of the environmental reviews we've employed for decades and it fully respects the guidelines of the OECD Agreement on Environment and Export Credits.

Besides representing Canada as a signatory to that Agreement, EDC is a proponent of “raising the bar” among its fellow signatories by actively meeting with them, sharing our practices and trying to strengthen environmental standards. Our Chief Environmental Advisor, who oversees the administration of the Environmental Review Directive, is supported by the largest dedicated staff of any Export Credit Agency -and it's still growing.

Our business teams are trained to apply the Directive to each project-related transaction and all of EDC's staff has been introduced to this key mechanism through formal training. Our environmental focus is not treated as a compartmentalized function. Rather, it is an integrated component of EDC's underwriting processes for which all participants have a responsibility.

Just last month, we publicly released our first Environmental Annual Report, which took stock of our environmental review practices and performance since the legislative change of 2001. We credit our new processes for raising awareness among our customers, partners and other interested parties and for upgrading the quality of projects that are presented to us. But at the same time, we acknowledge the need to continue improving our approach and sustaining our exchanges with stakeholders. In accordance with our legislation, the Auditor General of Canada is also auditing the suitability of our environmental framework and will report to Parliament in 2004. We hope this independent review will bear out the same progress we've noticed.

As an agency of the Canadian government, we are obligated to respect and reinforce Canada's foreign policy in terms of human rights. If it undermines Canada's foreign policy to do business in certain countries, we won't go there. But where Canada has an opportunity to effect change through engagement, instead of isolation, we can play a role by facilitating trade. EDC is also interested in building a capacity to analyze how potential projects can impact upon and alter the social and human rights environment in developing countries. In this regard, EDC carefully reviews Social Impact Assessments submitted by projects sponsors prior to extending its support. We measure these assessments against our own political and social intelligence, supplemented by inputs from the Department of Foreign Affairs & International Trade. We are conscious of human rights and we are thankful for the help of the Government of Canada in managing this serious ethical challenge.

We have established an anti-corruption program to build awareness among our employees and customers of the international conventions and Canadian laws addressing this serious issue. Beginning with declarations from borrowers, exporters and financial intermediaries, EDC underwriters must identify the potential for corrupt practices. Our insurance policies and loan documentation are then backed up by protective clauses which would be triggered by the discovery of corruption in EDC supported transactions. EDC may terminate policies and refuse claim payments in these cases. We take a proactive approach to preventing incidences of corruption and we feel we are helping to deter it by communicating our clear stand against it.

At EDC, policies governing corporate and employee behaviour have long existed. We continue to formalize our best practices, to solidify them and to make them more observable. We've strengthened our Code of Business Ethics to clearly state the guiding principles that define EDC's ethical values and our Code of Conduct outlines how our commitment to legal and ethical conduct applies to EDC personnel. We actually require our staff, from the President down, as well as the Board of Directors, to re-familiarize themselves with, and sign the EDC Code of Conduct every year.

We're also talking and meeting more with our stakeholders. By consulting them, we're learning what others expect of us. We're getting feedback on the effectiveness of our policies and procedures. We've therefore put a full-time NGO liaison officer on staff, to allow us to communicate frequently and constructively with the NGOs.

They have valid input to provide and we have the desire to listen. We're prepared to take our lumps because we'll always have our critics, no matter what we do. We need to engage our critics, even if we feel we'll never change their minds. We cannot isolate them, because then we'll lose the opportunity to learn from and understand their perspective.

EDC is becoming more accountable in reporting the nature and extent of its business. Through aggregate and individual reporting of transactions, EDC's entire business is publicly disclosed. In respect to EDC's support for projects, we also seek consent and cooperation from sponsors to notify the public, ex ante, when considering projects likely to have significant environmental impact. It makes our commitment to the environment, and understanding the risks, that much more credible. Our drive for transparency is also an attempt to educate the public on what we do, to create a better understanding of our role within Canada's economy and towards its participants.

To continue improving our Corporate Social Responsibility practices, we have created an Advisory Council of seven prominent leaders from business, academia and the broader stakeholder community to provide advice and guidance on matters related to evolving CSR practices. At the same time, we have appointed a Compliance Officer to enhance existing transparency and accountability practices in areas such as public disclosure of information, environmental reviews, human rights and business ethics. As such, the Officer provides a centralized review and monitoring function, independent from EDC management.

Benefits of CSR

I've already talked about the public opinion gains that can result from CSR. Research also suggests that CSR practices can impact line gains which can be measured in areas such as productivity, manufacturing and recruitment efforts. An Environics Millennium Poll on Corporate Social Responsibility indicated that:

- Up to 20% of top talent is attracted to an organization's sustainability image; and
- 30% of employees report being energized by sustainable development initiatives and 25% of them increase their productivity.

In other words, the role of CSR in shaping corporate culture counts. Polling results aside, we've found at EDC that following CSR principles simply produces better projects. And it's not just abroad that CSR matters. I'd like to leave you with two projects where we've been involved and where there were many of successes, because the many issues surrounding them were properly managed.

In Mozambique, the Mozal aluminium smelter, completed in 2000, represents the largest private sector investment in Mozambique. The project employed 9,000 people during the peak of construction and was completed with an excellent safety record. It generated several positive and enduring impacts on the quality of life of the local community.

A total of 740 jobs were created, 650 filled by Mozambicans, with indirect employment reaching 2,500. More than 5,500 Mozambicans were trained in construction skills during the project that will help them attain future work. Roads, bridges and port facilities in the region were improved.

The project was implemented according to World Bank standards with numerous programs to preserve and protect the environment. On the humanitarian side, education, prevention and treatment programs were launched for AIDS, other sexually transmitted diseases and malaria.

Does CSR change from the developing world to the developed world? It really doesn't.

Canada's Diavik Diamond Mine, located at Lac de Gras NWT, 300km northeast of Yellowknife, is the second diamond mining project to operate in Canada's far North. The fragility of the environment in that part of our country is well known and the project partners have understood this since the early exploration phase.

Independent assessments of the project found that effects such as changes to caribou migration, air pollution, loss of fish and fish habitat, loss of land for traditional uses, as well as employment and training opportunities had all been thoroughly addressed. The Diavik partners have invested in an ISO 14001 environmental monitoring system to manage environmental concerns over the life of the project.

Over 300 meetings were held with stakeholders, during which the public participated in an open, inclusive review of the project. Although not bound by any law or regulation, the project proponents signed environmental and socio-economic agreements (Impact Benefit Agreements) with all five aboriginal groups potentially impacted by the project. These contain provisions such as scholarships for Aboriginal children, commitments to hire within the Aboriginal population, training, as well as an employee and family assistance program.

The objective of developing an important export commodity at Diavik has been achieved, as was the development of a valuable resource in Mozambique. Both projects demonstrated how sustainable implementation was possible because of the closely-aligned relationships among many partners from industry, engineering, banking and government. They also demonstrated the universal importance of responsible, sustainable development. Today, all the partners who collaborated closely on these projects are justifiably proud of their many achievements.

Conclusions

Global trade, despite its inherent risks, has a tremendous capacity to bring about positive change. It also holds great promises for the continued growth of the Canadian economy, but several ethical challenges must be met “head on” if we are to succeed in the global marketplace.

There is a way for business to meet the rising expectations of stakeholders. Responsible investment is achievable –and feasible– through a culture of corporate social responsibility. By pursuing values shared equally by business leaders and public opinion holders, Canadian exporters and foreign investors can prove that international trade is not a “race to the bottom”.

Today, we're seeing Canadians taking a greater interest in the behaviour of business. In fact, all our major trading partners are experiencing this trend and I see far more good than harm in this. It's compelling every player on the domestic and international scene to raise their standards -without fear of losing their competitive edge. By becoming a habitual way of doing business, Corporate Social Responsibility will become the Total Quality Management of tomorrow – less of an issue and more of a logical, smart way to act.

The old fear that getting too far ahead of the pack would cost you business no longer holds true. Now, there is business to be gained by trading and investing more responsibly. Export Development Canada and its exporting partners are discovering that today.

Thank you.