

**BUILDING THE CANADIAN ADVANTAGE:
A CORPORATE SOCIAL RESPONSIBILITY (CSR) STRATEGY
FOR THE CANADIAN INTERNATIONAL EXTRACTIVE SECTOR**

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Introduction and Overview

As Prime Minister Harper noted in Tanzania in November 2007, the government encourages and expects Canadian companies to meet high standards of corporate social responsibility. The Prime Minister acknowledged that Canadian investment in the extractive sector abroad can result in a win-win outcome both for the economy of Canada and those of resource-rich developing countries, but that the extractive sector faces unique challenges in operating in complex situations abroad.

Extractive industries (mining and oil and gas) make a major contribution to Canadian prosperity. Building on this domestic strength, Canada has also become a major player in the international extractive sector. At about \$79.3 billion in 2007, mining and energy investment is the third-largest component of Canadian direct investment abroad (stocks), generating significant additional exports from Canada.

Canada is a particularly strong player in the global mining sector. Canadian financial markets in Toronto and Vancouver are the world's largest source of equity capital for mining companies undertaking exploration and development. Mining and exploration companies based in Canada account for 43 percent of global exploration expenditures. In 2008, over 75 percent of the world's exploration and mining companies were headquartered in Canada. These 1293 companies had an interest in some 7809 properties in Canada and in over 100 countries around the world.

Extractive companies are increasingly searching for new resources in developing countries. Canadian mining companies have invested over \$60 billion in developing countries, including about \$41 billion in Latin America (including Mexico) and almost \$15 billion in Africa. The economic downturn that began in 2008 will likely decrease Canadian mining investments in Africa, as well as in other regions in the world. The fact remains, however, that Canadian companies play a major role in the extractive sector worldwide.

The sector faces unique social and environmental challenges when operating in developing countries. Faced with these challenges, a number of Canadian companies are engaging in corporate social responsibility (CSR) initiatives, generally defined as the voluntary activities undertaken by a company to operate in an economically, socially and environmentally sustainable manner. These companies are making substantial contributions to economic development in their host countries. Indeed, Canadian industry associations and extractive companies have been recognized domestically and internationally for their leadership on these issues. However, more can be done. Many companies are looking to the Canadian government for guidance and support in managing the risks of operating in complex and challenging environments.

The Government of Canada has already taken significant steps to promote and support corporate social responsibility by Canadian companies operating abroad. Consistent with the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises,

Canada has established a National Contact Point within the Department of Foreign Affairs and International Trade (DFAIT). In addition, DFAIT has undertaken a number of initiatives to enhance the capacity of its officers through training sessions and an online training tool. DFAIT has created a \$170,000 CSR Fund to assist Canadian offices abroad and in Canada to engage in CSR-related activities. Communications and marketing materials have been developed to promote CSR within the Government and to Canadian stakeholders. DFAIT is also increasing its ability to engage in policy development through a series of research analysis projects aimed at understanding the CSR context internationally.

In Latin America, the Canadian International Development Agency (CIDA) and Natural Resources Canada (NRCan) have provided assistance to resource-rich developing countries to improve their governance capacity in the extractive sector. In addition, Canada has held discussions with free trade agreement (FTA) partners, including Colombia and Peru, on how best to address CSR in the context of negotiations. The recently-signed FTAs with both these countries include CSR provisions that are directed at the Parties, encouraging them to promote voluntary principles of responsible business conduct with their business communities.

Canada is also active in promoting CSR-related principles in the financial arena. The government has frameworks and guidelines in place for the sound management of public funds, which are reviewed regularly. The Canada Investment Fund for Africa publicly discloses its principles related to business integrity, and social, environmental, and health and safety objectives. Canada also supports the consistent implementation of the World Bank Group International Finance Corporation (IFC) Performance Standards. Canada is a State Party to the UN Convention against Corruption. In February 2007, Canada endorsed the Extractive Industries Transparency Initiative, which seeks to ensure revenue transparency in the extractive sector. In October 2007, Export Development Canada became a signatory to the Equator Principles, an international financial industry benchmark consistent with the IFC Performance Standards.

However, the government can do more. *Building the Canadian Advantage: A CSR Strategy for the International Extractive Sector* is a comprehensive strategy on corporate social responsibility for the Canadian extractive sector operating abroad. It was informed by a series of consultations with industry, civil society and other stakeholders held in 2006 (the National Roundtables) and additional input from leading Canadian companies and industry associations. It has taken into account recommendations raised in the June 2005 Standing Committee on Foreign Affairs and International Trade (SCFAIT) report, *Mining in Developing Countries—Corporate Social Responsibility*.

Building the Canadian Advantage will improve the competitive advantage of Canadian international extractive sector companies by enhancing their ability to manage social and environmental risks. It recognizes that, while most Canadian companies are committed to the highest ethical, environmental and social standards, those that lack this commitment can cause harm to communities abroad and undermine the competitive position of other Canadian companies. Through its CSR policy, the government will:

- i. Support initiatives to enhance the capacities of developing countries to manage the development of minerals and oil and gas, and to benefit from these resources to reduce poverty.

- ii. Promote, primarily through the Department of Foreign Affairs and International Trade and Natural Resources Canada, the following widely-recognized international CSR performance guidelines with Canadian extractive companies operating abroad:
- International Finance Corporation Performance Standards on Social & Environmental Sustainability for extractive projects with potential adverse social or environmental impacts;
 - Voluntary Principles on Security and Human Rights for projects involving private or public security forces; and,
 - Global Reporting Initiative for CSR reporting by the extractive sector to enhance transparency and encourage market-based rewards for good CSR performance.
- Canada has applied to join the Voluntary Principles on Security and Human Rights as a Participating Country.
- iii. Set up the Office of the Extractive Sector CSR Counsellor to assist stakeholders in the resolution of CSR issues pertaining to the activities of Canadian extractive sector companies abroad.
- iv. Support the development of a CSR Centre of Excellence within an existing institution outside of government to encourage the Canadian international extractive sector to implement these voluntary performance guidelines by developing and disseminating high-quality CSR information, training and tools.

The Government of Canada would like to thank the many experts and members of the public for their valuable contributions to the National Roundtables, particularly the members of the Advisory Group for their many months of hard work and dedication to this process. The government would also like to express its appreciation for the subsequent feedback it has received from stakeholders in contributing to the development of the Strategy.

Host Country Capacity-Building

A number of developing countries are endowed with natural resources, including minerals and hydrocarbons. This provides an important path to their sustainable economic growth, job creation and long-term poverty reduction. The benefits of economic growth are most equitably shared by all citizens when the country has developed the capacity to manage its natural resources in an environmentally sustainable and socially responsible manner. However, many countries face considerable capacity challenges in implementing extractive sector strategies, legislation and regulations that ensure investments and operations are socially and environmentally responsible; support the protection of human rights; and, produce sustainable benefits for communities and industry. Improving resource governance, transparency and accountability in developing countries is critical to ensuring that the extractive sector contributes to poverty reduction, and creates a business and investment environment conducive to responsible corporate conduct in countries where Canadian companies operate.

The Canadian International Development Agency (CIDA) has an important role to play in assisting developing countries move from dependency to self-reliance. In a number of countries, CIDA has been active in building and modernizing the governance regimes to ensure that natural resources are managed in a technically and environmentally sound manner. On an ongoing basis, CIDA supports bilateral and multilateral initiatives that enhance the capacities of developing countries to manage natural resource development. These countries have identified such support as a priority for development assistance. In the long run, these efforts will improve prospects for developing countries to benefit from their own natural resource endowments and to achieve economic prosperity.

In Peru, for example, CIDA has worked extensively with the government, mining companies and affected communities to develop and promote regulatory requirements for social and environmental management. CIDA's support has included the provision of tools and expertise in the mining and hydrocarbon sectors, and support for social, environmental and multi-stakeholder dialogue, community participation and conflict resolution. CIDA has assisted Bolivia establish a tax collection unit that administers hydrocarbon taxes generating over US \$1 billion in annual revenues; most of these monies are subsequently re-invested in public services for impoverished Bolivians. In addition, CIDA is developing an Andean Regional Initiative which will strengthen regional and local governments and community capacity to plan, develop and implement sustainable development projects for the well-being of the communities, and will enhance communities' capacity for engagement with extractive sector firms.

Legal and judicial reform is a central element in promoting democratic governance, human rights, and accountable public institutions. Due to Canada's high level of credibility and legal-judicial expertise in both civil and common law systems, CIDA programming in legal and judicial reform has been steadily growing, both in number and in size of projects, over the last decade. Canadian legal-judicial institutions working in developing countries with CIDA's support include the National Judicial Institute, the Canadian Bar Association, and the International Centre for Criminal Law Reform and Criminal Justice.

Looking ahead, CIDA will build on its experiences. As a first step, CIDA will establish an internal focal point with expertise in extractive sector development issues. CIDA will continue to provide support to developing countries to enhance their capacity to manage their extractive sectors. It will work in collaboration with like-minded donors to advance more responsible and sustainable approaches to extractive sector development in the developing world. This will allow CIDA to more effectively identify and support strategically-targeted initiatives that enhance the capacities of developing countries.

The government recognizes that Canada, as a country with significant experience in the development, management and regulation of natural resources, can play an important role in helping developing countries optimize the economic and social benefits of their extractive sector. Further to the above, in collaboration with CIDA, Natural Resources Canada (NRCan) has: provided technical assistance in the development of a set of environmental mining regulations, guidelines and codes of practice for Guyana; sent a mining policy expert to Mali to facilitate a government/industry workshop on fiscal policy for mining; offered training on the mining cycle to indigenous peoples in various developing countries; and, supported multi-government mining partnership organizations in Africa, Latin America and Asia as well as internationally through

the establishment of the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development. These activities are contributing to increased transparency and improved governance in the management of natural resources. NRCan plans to continue to develop and support initiatives aimed at enhancing host country resource management governance, in cooperation with CIDA, the Department of Foreign Affairs and International Trade (DFAIT), and other government departments.

Revenue transparency can help improve governance in resource-rich countries susceptible to high levels of corruption, armed conflict, and poverty. The Extractive Industries Transparency Initiative (EITI) builds the capacity of countries to increase transparency of extractive sector revenues from companies. This helps to prevent corruption or diversion of funds from governments to private interests. The EITI also has very important spin-off effects of fostering debate about how government revenues should be spent, and building the capacity of civil society to hold governments accountable.

On February 10, 2007, the Honourable Jim Flaherty, Minister of Finance, announced Canada's official support for the EITI at the meeting of the G7 Finance Ministers in Essen, Germany. NRCan and CIDA committed \$750,000 initially, and CIDA has committed an additional \$100,000 per year for the following four years, for a total Canadian contribution of \$1,150,000 to the EITI. Canada's participation in the EITI is led by NRCan and managed by an interdepartmental committee comprised of representatives from CIDA, DFAIT, and Finance Canada.

In light of the importance of the EITI, CIDA, in consultation with NRCan and the Department of Foreign Affairs and International Trade, is identifying a Canadian expert in extractive sector governance to be seconded to the EITI World Bank Multi-Donor Trust Fund in Washington. This person will support the implementation of the EITI in developing countries where extractive revenue flows are vital to economic growth and poverty reduction; provide a channel for bringing Canadian public and private sector expertise to the work of the EITI; and ensure that knowledge and best practice in this fast-evolving field are shared with Canadian stakeholders. A senior official from NRCan will sit on the EITI Board of Directors for 2009-2010.

Multilateral organizations have made progress in addressing bribery and corruption, human rights and developmental issues in financing arrangements; however, further progress in improving CSR performance could be encouraged through Canadian influence on the regional and multilateral development bank boards. Canada also has a role to play in this regard within international fora such as the Group of Eight, the Asia-Pacific Economic Cooperation, and la Francophonie.

CSR Performance Guidelines and Reporting

The Government of Canada has facilitated efforts to increase the quantity and quality of voluntary CSR reporting by Canadian companies. It supported the development of an online Sustainability Reporting Toolkit in 2003, as well as national training workshops on CSR reporting for Canadian companies. The Government of Canada supported reviews of the CSR reporting performance of Canadian companies (across all sectors) in 2001, 2003 and 2005. This work indicated that the number of companies reporting publicly on their CSR practices and

performance doubled between 2001 and 2005. In 2008, 80 percent of all companies listed on the Toronto Stock Exchange reported at least some CSR information in their annual reports or in a stand-alone report.

Canada supports the OECD Guidelines for Multinational Enterprises. Building on this endorsement, the Government of Canada will promote the following widely-recognized international CSR performance guidelines with Canadian extractive companies operating abroad:

- International Finance Corporation Performance Standards on Social & Environmental Sustainability for extractive projects with potential adverse social or environmental impacts;
- The Voluntary Principles on Security and Human Rights for projects involving private or public security forces; and
- The Global Reporting Initiative (GRI) for CSR reporting by the extractive sector to enhance transparency and encourage market-based rewards for good CSR performance. The government will work with the GRI and stakeholders to develop GRI supplements for oil and gas and junior mining companies.

The International Finance Corporation (IFC) Performance Standards on Social & Environmental Sustainability address the specific challenges facing extractive sector companies operating in developing countries. They are the *de facto* performance benchmark for projects in developing countries that require substantial financial investment. Indeed, 80 percent of global project financing for extractive sector projects is provided through financial institutions that are signatories to the Equator Principles, through which they have agreed to adopt lending practices consistent with the IFC Performance Standards. The Performance Standards set expectations of conduct in eight issue areas, including Social and Environmental Assessment and Management Systems; Labour and Working Conditions; Pollution Prevention and Abatement; Community Health, Safety and Security; Land Acquisition and Involuntary Resettlement; Biodiversity Conservation and Sustainable Natural Resource Management; Indigenous Peoples; and Cultural Heritage.

Within the wider community, increasing concerns have been raised about the human rights impacts of the activities of Canadian extractive companies with respect to their operations abroad. Obligations under international human rights conventions apply to states and do not directly create obligations for companies. While such obligations can serve to guide the development of CSR standards, the international legal environment is under pressure for change and adaptation, prompting the appointment of the UN Secretary-General's Special Representative for Business and Human Rights, Harvard Professor John Ruggie, to undertake several studies. In June 2008, Professor Ruggie presented his "Protect, Respect and Remedy" framework to the UN Human Rights Council, containing recommendations on the duties and responsibilities of both States and corporations with regard to human rights. The framework was unanimously endorsed by the Human Rights Council, and Professor Ruggie's mandate was extended for an additional three-year term. Canada has supported the work of the Special Representative since 2005 through the Global Peace and Security Fund.

One area of particular concern with respect to extractive sector operations is violence-related risk assessment, including the relations between extractive industries and security providers. The Voluntary Principles on Security and Human Rights, developed through a partnership of states (initially the U.S. and the U.K.), corporations and non-governmental organizations in 2000, were designed specifically to address these challenges. The Voluntary Principles provide guidelines to help corporate actors anticipate and mitigate most risks related to the deployment of public and private security, such that operations can be protected without excessive force or human rights abuses. This guidance is particularly relevant for companies operating in areas affected by armed conflict or insurgencies, where work sites may be targeted. Canada has applied to join the Voluntary Principles on Security and Human Rights.

Investors, insurers, consumers and other market actors are increasingly seeking reliable information on how extractive sector companies are managing their social and environmental impacts. A growing number of companies are responding to this demand for increased transparency by reporting on their CSR practices and performance. The need for consistent reporting standards led to the development of the Global Reporting Initiative (GRI) Sustainability Framework. Launched in 1997, the GRI was developed (and continues to evolve) via a multi-stakeholder process involving industry, investors, civil society and labour. It includes reporting principles, guidance and indicators for organizations of all sizes and sectors, and is broadly recognized as the *de facto* international reporting standard. A 2005 survey found that 35 percent of Canadian companies (across all sectors) voluntarily reporting CSR information already use the GRI Guidelines in the preparation of their reports.

Specific disclosure requirements applicable to public companies are specified in securities law and are currently the responsibility of the provinces and territories. There are a number of existing requirements that affect environmental disclosure by reporting issuers in extractive industries. In particular, issuers are required to disclose the following specific information about environmental matters in their Annual Information Form:

- The financial and operational effects of environmental protection requirements on the issuer's capital expenditures, earnings and competitive position in the current financial year and the expected effect in future years;
- If the issuer has implemented social and environmental policies that are fundamental to its operations, such as policies regarding the issuer's relationship with the environment or with the communities in which it does business, a description of those policies and the steps the issuer has taken to implement them; and,
- Risk factors relating to the issuer and its business, including environmental and health risks.

Environmental disclosure has been the subject of increased scrutiny by Canadian securities regulators over the past several years. One example is the 2006 Continuous Disclosure Review Program released by the Alberta Securities Commission on February 16, 2007, which stated that the Commission will increase its focus on the adequacy of this disclosure in future reviews and encourages public issuers to improve their disclosure by increasing the specificity of any

environmental risks likely to affect the issuer. The Ontario Securities Commission is also looking at the quality of disclosure as part of a targeted review of continuous disclosure.

CSR Centre of Excellence

The government's *Advantage Canada* strategy underscores the importance of government partnerships with the private sector aimed at enhancing the sector's entrepreneurial advantage in a competitive world market. As noted by many industry representatives, corporate social responsibility makes good business sense since it enables companies to better manage the social and environmental risks of their operations.

While the primary responsibility for CSR rests with companies, information, education programs and tools are needed to enhance the capability of Canadian companies to address CSR in their operations. The government understands that junior companies, in particular, are often constrained by their human or financial resources in the types of activities that they can undertake without support.

In response to this identified need, the government will support the development of a CSR Centre of Excellence within an existing institution outside of government. The Canadian Institute of Mining, Metallurgy and Petroleum (CIM) is interested and well-positioned to take on this role. The Centre will serve as a forum through which sector stakeholders can provide timely access to high-quality CSR tools and information for clients in industry and government, at home and abroad. The Centre could also serve as a source of technical advice to CIDA in its initiatives to enhance the capacities of developing countries to manage their natural resources.

The Centre would:

- Develop and disseminate, in cooperation with stakeholders, CSR information and tools for clients in government and industry;
- Develop CSR information packages for targeted markets and sponsor business briefings on a proactive basis;
- Develop an in-house inventory of Canadian company CSR contacts, activities and best practices;
- Create a "community of practice" web-based public platform for companies and Canadian CSR practitioners to share experiences and best practices.

The efforts of the Centre would initially be focussed on high-priority sectors and issues, such as the mining and oil and gas sectors, and materials for high-risk countries.

Office of the Extractive Sector CSR Counsellor

Unresolved disputes directly affect businesses through expensive project delays, damaged reputations, high conflict management costs, investor uncertainty, and, in some cases, the loss of investment capital. In consultations with stakeholders, there was strong support for a mechanism

to enable the sector to resolve CSR disputes related to the Canadian extractive sector active abroad in a timely and transparent manner. In response, the Government of Canada will appoint an Extractive Sector CSR Counsellor (“the Counsellor”).

The Counsellor will be appointed by the Governor in Council and will report directly to the Minister of International Trade.

The mandate of the Counsellor will relate exclusively to the activities of Canadian extractive sector companies operating abroad. The Counsellor will:

- review the corporate social responsibility practices of Canadian extractive sector companies operating outside Canada; and,
- advise stakeholders on the implementation of endorsed CSR performance guidelines.

The Counsellor will only undertake reviews with the consent of the involved parties. The five stages of the review process are: initial assessment; informal mediation; fact-finding; access to formal mediation; and, reporting.

Requests for review may originate from an individual, group or community that reasonably believes that it is being or may be adversely affected by the activities of a Canadian extractive sector company in its operations outside Canada. A request could also originate from a Canadian extractive sector company that believes it is the subject of unfounded allegations concerning its corporate conduct outside Canada in relation to the endorsed CSR performance guidelines.

The Counsellor will not review the activities of a Canadian company on his or her own initiative, make binding recommendations or policy or legislative recommendations, create new performance standards, or formally mediate between parties.

The Counsellor will submit an annual report to the Minister of International Trade, the Minister of Natural Resources and the Minister of International Cooperation on its activities, and the report will be tabled in Parliament by the Minister of International Trade.

Canada’s National Contact Point for the OECD Guidelines for Multinational Enterprises, an interdepartmental committee chaired by Foreign Affairs and International Trade, will continue to be responsible for promoting the effective implementation of the OECD Guidelines across all industry sectors, and will remain the primary authority concerning these guidelines.

Transparency and Disclosure

The Government of Canada expects and encourages Canadian companies operating abroad to respect all applicable laws and internationally-agreed principles of responsible business conduct. As part of this Strategy, the government will take steps to ensure that government services align with high standards of corporate social responsibility, as appropriate.

The Canada Investment Fund for Africa (CIFA), a US\$211 million public-private investment fund jointly managed by U.K.-based Actis and Montreal-based Cordiant, was designed to

stimulate growth in Africa through mid-market private equity investments with a focus on financial services, consumer businesses, natural resources, logistics and agro-industry. Canada launched CIFA with a \$100 million contribution from the Canada Fund for Africa, in response to the G8 Africa Action Plan and the New Partnership for Africa's Development (NEPAD). Approximately 24 percent of CIFA investments are currently in six extractive sector projects, four of which are operated by Canadian or Canadian-listed companies.

Prior to the launch of the Canada Investment Fund for Africa, the Canadian International Development Agency (CIDA) ensured that its Limited Partnership Agreement stipulated principles related to business integrity, and social, environmental, and health and safety objectives that must be taken into account by Fund Managers. At the request of CIDA, the Canada Investment Fund for Africa publicly disclosed its principles related to business integrity, and social, environmental, and health and safety objectives, on its website in February 2007.

The government will continue to monitor the Fund's performance with respect to CSR through ongoing participation in CIFA's Investors' Panel, quarterly meetings, conference calls and field visits to projects. CIDA reports to Parliament on developmental results, as well as CSR measures, through the annual Departmental Performance Report. Additionally, CIDA and DFAIT encourage the Fund Managers to promote CSR in a way consistent with the *Building the Canadian Advantage* Strategy for the Canadian international extractive sector, and to make public any measures undertaken to promote CSR in its operations and individual investments where possible, given commercial and confidentiality considerations.

The Government of Canada recognizes that implementation of this Strategy within official development assistance programs, and more proactive disclosure concerning safeguards used in decisions concerning support to private sector partners, could contribute to stronger effectiveness, accountability and stakeholder relations. Projects related to the extractive sector have been perceived in the past by some civil society organizations as having a negative developmental impact in developing countries, despite the fact that assessments are undertaken concerning potential social, environmental, governance and economic impacts.

To strengthen implementation of this Strategy in Canada's official development assistance programs, CIDA will assess its procedures and guidelines related to projects involving Canadian private sector partners, in order to determine the extent to which existing measures are consistent with the CSR Performance Guidelines, and to identify any measures that could be undertaken to strengthen the promotion of corporate social responsibility.

In 2003, the OECD's Export Credit Group formally adopted the Recommendation on *Common Approaches on the Environment and Officially Supported Export Credits* (the "*Common Approaches*"), which require export credit agencies to increase transparency while respecting their primary role of promoting trade in a competitive environment. In addition, Export Development Canada (EDC) has a Disclosure Policy to make public information on the transactions it supports, including the release of information on projects with the potential for significant environmental and social impacts in advance of EDC providing support. EDC regularly engages with its stakeholders and other export credit agencies to give consideration to how it can increase transparency while respecting the confidentiality concerns of its clients.

In developing its policy and practices, EDC will continue to utilize the OECD *Common Approaches*, which establish the procedures and processes export credit agencies should use in evaluating the environmental and social impacts of projects with a view to ensuring that projects meet established international standards. Moreover, on 25 October 2007, EDC became a signatory to the Equator Principles, an international financial industry benchmark for assessing and managing social and environmental risk in project financing consistent with the IFC Performance Standards. EDC will continue to work with other export credit agencies to promote the consistent implementation of relevant agreements, and will remain a vocal advocate for the adoption of international standards for project reviews by export credit agencies. As well, EDC continues to enhance its efforts to make companies more aware of social impacts and environmental considerations.

In April 2008, EDC issued a Statement on Human Rights that sets out the principles that guide its consideration of potential impacts on the human rights of individuals affected by the transactions EDC has been asked to support. EDC routinely conducts country- and project-level political risk assessments that include an analysis of factors that influence human rights conditions in host countries. In its Statement, EDC committed to undertaking additional due diligence for investment projects and countries that are determined to have a higher potential for human rights issues, which may include an examination of the country's socio-economic dynamics, history of conflict and site-specific challenges. EDC is committed to working with the Government of Canada and other stakeholders to identify emerging best practices, and to incorporate into its due diligence those practices that are relevant to the mandate of a financial institution.

Financial Incentives

Socially Responsible Investment (SRI) and disclosure refer to the integration of CSR considerations into traditional investment decision-making and ownership processes. It may be motivated by strict financial reasons (to reduce financial risk and enhance profits) or by moral considerations (for example, in the case of ethical funds). Recent statistics suggest that Canadian investors have over C\$500 billion invested according to SRI principles. SRI is becoming a common practice for large institutional investors such as pension funds that account for over one-third of the world's invested assets. Pension funds are often major owners of the companies in which they invest, including extractive companies, and can therefore play a strong role in influencing corporate direction through shareholder resolutions and engagement. A number of pension funds have formed coalitions around specific issues, such as climate change, in order to pressure companies (including extractive companies) to identify, manage and report the risks associated with their operations and performance. The Canada Pension Plan Investment Board and its *Policy on Responsible Investing* underscore the importance of SRI to its investment decision-making.

The Government of Canada has frameworks and guidelines in place for the sound management of public funds, as well as certain arm's length entities, such as foundations, that receive government contributions. These frameworks and guidelines are reviewed on a regular basis to ensure prudent and responsible management of public funds. The government will also continue to assess means to strengthen the viability of federally-regulated pension plans. Any proposal will allow for sufficient time for consultation with interested parties.

A component of the Canada Pension Plan Investment Board's (CPPIB) legislated mandate is to invest the assets of the Canada Pension Plan in a way that maximizes returns without undue risk of loss. The CPPIB is committed to promoting sound corporate governance and responsible investing practices, including using its ownership in companies to encourage improved performance on, and disclosure of, environmental, social and governance (ESG) factors. The CPPIB developed a *Policy on Responsible Investing*, contributed to the development of the UN Principles for Responsible Investing and the Extractive Industries Transparency Initiative, and became a signatory to these. The CPPIB is also involved in the Carbon Disclosure Project and the Enhanced Analytics Initiative, which is designed to encourage better investment research on ESG issues. As part of its commitment to disclosure and transparency, the CPPIB is increasing reporting on responsible investing activities to be on at least an annual basis.

The legislative and regulatory framework of the Canada Pension Plan Investment Board is the responsibility of federal and provincial Financial Ministers. At the conclusion of the latest triennial review of the CPP in June 2006, Finance Ministers endorsed the CPPIB's fiduciary mandate and *Policy on Responsible Investing*, and commended the CPPIB for signing the UN Principles for Responsible Investing. This commitment to the UN Principles for Responsible Investing will include an annual benchmarking process.

In its 2005 report, the Standing Committee on Foreign Affairs and International Trade recommended that the government "work with like-minded countries to integrate and mainstream international human rights standards in the work of international financial institutions (IFIs) such as the World Bank and the International Monetary Fund—as outlined, for example, in the final report of the Extractive Industries Review (December 2003)—to ensure that projects and investments funded by IFIs conform to international human rights standards."

Canada supports strengthening CSR through the consistent implementation of the IFC Performance Standards, both at the World Bank Group and regional development banks. Recent World Bank initiatives have focussed on the need for good governance as a necessary prerequisite for successful development. In this regard, the government will encourage the World Bank to undertake analytical work to examine how human rights fit into their own constitutional framework and what positive contribution they could make to the development process. The means by which the World Bank enforces CSR requirements must be consistent with the World Bank's articles of agreement regarding non-interference in the political affairs of countries.

Legal Incentives

Canada is a State Party to the OECD *Convention on Combating Bribery of Officials in International Business Transactions*, the *Inter-American Convention against Corruption*, the *United Nations Convention against Transnational Organized Crime*, and the *United Nations Convention against Corruption*. As a general rule, Canadian criminal law applies to offences committed on Canadian territory. The Canadian courts have interpreted the Canadian territorial jurisdiction to extend to offences committed outside Canada when there is a "real and substantial link" between the offence and Canada. This interpretation currently applies to offences under the *Corruption of Foreign Public Officials Act (CFPOA)*. In rare cases, generally when there was an obligation to do so under an international convention, Canada has extended its jurisdiction to specific offences committed by a Canadian outside Canada.

The Government of Canada will examine the possibility of extending the application of the offence of bribing a foreign public official in section 3 of the *CFPOA* on the basis of the active nationality principle of jurisdiction.

An Annual Report to Parliament is made by the Minister of Foreign Affairs, following consultation with the Minister of International Trade and the Minister of Justice, on the implementation of the *Convention on Combating Bribery of Officials in International Business Transactions* and on the enforcement of the *CFPOA*. To date, nine Annual Reports have been tabled. They can be found at:

<http://www.international.gc.ca/trade-agreements-accords-commerciaux/ds/index.aspx?lang=en>

Since February 2005, the Royal Canadian Mounted Police (RCMP) has put in place a commissioned officer who provides functional oversight of its anti-corruption programs. The bribery of foreign public officials is now specifically referenced in the RCMP Commercial Crime Program's mandate. The RCMP has the capability to track *CFPOA* cases being handled by the Force and is confident that credible allegations reported to other law enforcement agencies or Canadian foreign missions will be reported through to the RCMP. The Department of Justice gathers information on prosecution of offences under the *CFPOA*.

Since March 2005, the RCMP has included the issue of foreign bribery generally, and the *CFPOA* in particular, in its training of all RCMP liaison officers before they depart for their assignments overseas. While the RCMP has had responsibility for *CFPOA* enforcement as a federal statute, specific reference to the corruption of foreign public officials in the Commercial Crime Program's mandate is intended to raise awareness of this responsibility among investigators.

Continuous Improvement and Stakeholder Involvement

This Strategy identifies a number of activities to be undertaken to strengthen existing efforts, and to lay the foundations for new approaches, to respond to and mitigate the social and environmental challenges faced by Canadian extractive companies operating abroad. A number of issues will require further analysis, including how best to enhance the resource governance capacities of developing countries. Ongoing work will also be required to implement key elements of this Strategy, including the promotion of CSR performance consistent with the IFC Performance Standards and the Voluntary Principles on Security and Human Rights. In addition, work to ensure the usefulness of tools developed by the CSR Centre of Excellence will also require input and validation by users. Close cooperation with stakeholders is, therefore, required for the successful implementation of the *Building the Canadian Advantage* Strategy.

The government will undertake a review of the effectiveness of the *Building the Canadian Advantage* Strategy at the end of a five-year period following its initial implementation.