

October 31, 2003

Mr. Fraser Reilly-King
Halifax Initiative
153 Chapel Street, Suite 104
Ottawa, Ontario
K1N 1H5

Dear Mr. Reilly-King:

This refers to your letter of August 21st, 2003 concerning EDC's position on bribery and the treatment of companies convicted of such offences. I would also like to take this opportunity to address EDC's general position on corruption and bribery as it supports our treatment of this specific case.

Let me state at the outset that Export Development Canada did not support the Lesotho Highlands Water Project. Nevertheless, the case of Acres International illustrates in practical terms how our Anti-Corruption Program works. I should emphasize that EDC's response is guided in each instance by all of the factors and circumstances of the offence and of the convicted company, including any subsequent actions they have taken.

Although we do not automatically 'blacklist' companies, there may be instances where EDC would refuse to do business with companies implicated in acts of corruption. Our principal consideration is whether the company has adopted a management system to deter and detect future acts of corruption and that such a system is consistent with international best practices. As appropriate, EDC would engage an independent specialist in the field of anti-corruption policies and procedures to review a company's anti-corruption program.

Since the Lesotho conviction, Acres has provided to EDC and our special external legal counsel a detailed description of the procedures that they have adopted to identify, avoid and detect situations involving corruption. EDC has relied on independent, expert advice, and the facts as we know them, in determining that Acres' anti-corruption policy is now fully satisfactory to EDC. These measures and safeguards, as well as EDC's normal business considerations and application of its Anti-Corruption Program, help to ensure that future business for which Acres might seek our support is not tainted by corruption.

We have reviewed a list of our transactions and business relationship with Acres and are satisfied that the current safeguards, both on our side and on the part of Acres, will assist in detecting and deterring corruption.

EDC is conscious of the negative effects of corruption which not only undermine the international trading system, but expose EDC to unacceptable risk. We have been actively taking steps to fight corruption in international business transactions for many years. Our formal declaration of principles, as contained in our Code of Business Ethics, dates back to 1998.

On the international front, in November 2000 EDC accepted the Organization for Economic Cooperation and Development (OECD) Action Statement on Bribery. We continue to play an active role within our peer group in the implementation of this and any future Action Statements. Working in conjunction with other Export Credit Agencies creates a formidable global weapon in the fight against corruption in international business.

Closer to home, EDC has developed an Anti-Corruption Program to comply with our Code of Business Ethics commitments regarding bribery and corruption, the *Corruption of Foreign Public Officials Act* (CFPOA), the OECD Action Statement and Canada's international undertakings in this area. Our Anti-Corruption Program entails, among other things, system enhancements and extensive staff training including how to recognize 'red flags' that may alert us to the presence of bribery or corruption in a transaction. Also the Program requires EDC's customers to submit anti-corruption declarations and/or accept relevant representations and covenants in appropriate documentation.

The Anti-Corruption Program also aims to educate our customers. In 2002, EDC was a national sponsor of a series of cross-country workshops on business integrity which included a focus on corruption in international business and the implications of the CFPOA for Canadian businesses operating abroad. In 2003, EDC distributed an anti-corruption brochure to inform customers of the potential risks they face if exposed to corrupt business practices, and to encourage the development of corporate best practices in this area (copy enclosed). In the coming year, we will continue to exploit opportunities to convey to our customers our position on this issue.

We believe the efforts outlined above demonstrate that EDC takes an aggressive stance on corruption. This also minimizes the risk that we would facilitate a transaction involving bribery and corruption.

This is an important issue for EDC and we are open to an exchange of views on this matter. Our officials would be pleased to further discuss the above with you at a mutually convenient time.

Yours sincerely,

A. Ian Gillespie