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Demystifying the Costs and Benefits of Environmental Impact Assessment

Environmental impact assessments can benefit Canadian companies of all sizes operating abroad. Here's how.

Companies today are facing greater environmental and social challenges than ever. Project decisions can have far-reaching environmental and social impacts and long-term consequences – good or bad – on a company's reputation. These challenges stem from local communities in emerging markets increasingly demanding to participate in corporate decisions that will affect their lives.

The Environmental Impact Assessment (EIA) process is an effective way to manage these challenges and brings with it tangible benefits to companies. Simply put, EIA is the process of identifying, evaluating, and managing the likely environmental and social effects of projects. Public and stakeholder participation is integral to the process.

Furthermore, the globalization of trade has resulted in a greater number of Canadian companies looking to develop or invest in foreign projects. These companies may have the technical expertise and financial resources to initiate and support these projects, however, they may be encountering international EIA requirements for the first time, or a degree of responsibility for an EIA that they have never before experienced.

In EDC's experience, the purpose and benefits of EIA are not always clear to mid-sized and smaller project sponsors. Incorporating EIA early into business development is often viewed as an additional cost and the benefits are too often underestimated. A common mistake is to focus solely on minimizing capital costs and, in doing so, limiting the amount of time and effort spent on environmental management. It is difficult to determine the exact costs of an EIA and related environmental programs, but typically EIA costs range from 0.1 to 2 per cent of the capital project cost. Limiting or delaying this investment can significantly undermine the project's reputation and long-term viability.

EDC's experience has shown that there are concrete savings associated with undertaking EIA over the life of a project.



By Greg Radford

Photo: Martin Lipman

A well-designed project incorporates EIA early in the project development cycle; generally, the earlier these assessments are introduced, the greater the benefits and the lower the expense. When environmental baseline studies and stakeholder consultation are integrated into the project preparation phase, project designs are less likely to be modified at a later date. Extractive (mining) projects, for example, should initiate these activities during exploration to maximize benefits and begin obtaining that "social license to operate" with local communities.

Other benefits that can be achieved through effective EIA, including:

- Informed decision-making to avoid problems before they occur – resulting in lower project costs.
- Improved design or location of a project resulting in early abandonment of environmentally and socially unacceptable actions.
- Publicly disclosing and ensuring compliance with both host country and international standards.
- Reduced time and costs of regulatory approvals.
- Opportunity to engage with local stakeholders and identify appropriate ways to generate positive environmental and social results and improve the long-term quality of life in affected communities.

Projects can be halted or delayed by not following the proper EIA process. For small and mid-market project sponsors, it is often prudent to hire environmental and social consultants to initiate and undertake the EIA process. Ultimately, hiring external consultants with the necessary expertise does not replace the need to develop your company's own capabilities and accountability in this area.

The International Association for Impact Assessment and the International Finance Corporation provide useful EIA guidance for project sponsors operating abroad.

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