ABOVE GROUND

September 18, 2023

Mary Ng, Minister of Export Promotion, International Trade and Economic Development
Jonathan Wilkinson, Minister of Natural Resources
Steven Guilbeault, Minister of Environment and Climate Change

cc:
Mairead Lavery, President and Chief Executive Officer, EDC
Laurel Collins, MP and Critic for Environment and Climate Change, NDP
Monique Pauzé, MP and Critic for Environment, Bloc Québécois
Gérard Deltell, MP and Critic for Environment and Climate Change, CPC

Dear Ministers Ng, Wilkinson and Guilbeault,

As you know, the Government of Canada has committed to phasing out public financing for the fossil fuel sector, including by Crown corporations such as Export Development Canada (EDC).

We were pleased to see Minister Ng reaffirm this commitment in her 2023 Statement of Accountabilities and Priorities for EDC, in which she explicitly directs the agency "to [c]ontinue to support Canada's transition to a low-carbon economy, in particular, by phasing out support for new projects in the fossil fuel sector." The government's guidelines for implementing the Glasgow Statement, released in December 2022, also reaffirmed the government's "policy agenda on phasing out public financing of the fossil fuel sector."

And on June 12, the House of Commons adopted a motion calling on the government to "stop investing in fossil fuels." We applaud the passing of this motion, and in particular the support it received from government MPs and ministers, including yourselves.

We have been alarmed, however, to note a series of recent facts and statements from EDC that seem to contradict and undermine the government's commitments. Our concerns are only heightened by the numbers from EDC's 2022 annual report, which show that far from reducing its support for the oil and gas sector, this support instead soared to reach $8.7 billion – more than double the support provided in 2021.

We outline our concerns below.

EDC appears to be backtracking on its Glasgow commitment

As we stated in our January 2023 letter to EDC President Mairead Lavery, Above Ground applauded the apparent breadth of the activities that fall under the scope of the Glasgow guidelines, as well as the robustness of the conditions under which exemptions may be granted. We expressed concern, however, at ambiguities in the text which could allow for continued support for fossil fuel projects abroad.

Statements made in EDC's 2022 annual report validate and heighten these concerns. In addressing the Glasgow Statement, EDC states that 85% of its support to the oil and gas sector in 2022 was "indirect through short-term insurance coverage and bonding," and that only 15% was "direct financing (loans)." It's important to note that since 2019, EDC's financing (loans) portfolio has represented a minority of its overall support for the oil and gas sector, with guarantees and insurance composing the majority. In excluding insurance and bonding – and potentially guarantees – from its definition of "direct" financing, EDC may therefore be excluding a significant portion of its overseas support for the sector from the scope of the Glasgow guidelines.

EDC's categorization also contradicts the definition contained in the Glasgow implementation guidelines. In the guidelines, the government defines "new direct public support" to include "financial (including commercial or concessional), advocacy, export finance, and any other direct financial or promotional support provided by Government of Canada and Crown entities." The Trade Commissioner states that export finance "[e]ncompasses all of the methods and mechanisms by which firms fund the production, sale, and delivery of goods and services to foreign buyers, and the ways they alleviate the risks of doing business abroad," including "accounts receivable insurance and letters of guarantee."

To allow EDC's unique definition to stand would directly contradict the government's Glasgow guidelines, gravely undermine the effect of the Glasgow commitment, and set an irresponsible precedent for future government policy regarding domestic financing for the sector. It would also place Canada offside other signatories to the Glasgow commitment that have published implementation policies. These countries, including the United Kingdom[1], France[2], Sweden[3] , Denmark[4] and New Zealand[5], have barred their export credit agencies from providing all forms of support, including guarantees and insurance, to the overseas oil and gas sector, except in extremely limited circumstances.

EDC continues to neglect the global impact of its support

Our concerns around EDC's commitment to the Glasgow Statement, and to Canada's international climate obligations more broadly, are further amplified by the agency's persistent neglect of the downstream emissions resulting from the products it supports.

In its 2022 annual report, EDC states that “helping oil and gas companies lower their emissions… is a key part of our strategy, and we expect to continue to support those kinds of transactions in the sector.” Yet in focusing solely on production emissions, EDC continues to neglect the 80% of lifecycle emissions from oil and gas products that are generated when the fuels are burned. EDC has explicitly acknowledged this narrow focus on operational emissions as a cornerstone of its climate strategy.[6]

This critical flaw in EDC’s policies contrasts with the global perspective and science-based principles reflected in the Glasgow guidelines. The guidelines define the term “unabated” to refer exclusively to projects in the power generation sector that are equipped with “effective” operational carbon capture or equivalent technologies. All fossil fuel production projects are therefore within scope of the policy, and a priori, are ineligible for government support. The guidelines do allow for exemptions for “emissions mitigation projects” (exemption 4). Yet these projects must satisfy robust conditions which, if implemented with integrity, would account for downstream emissions by “establish[ing] that the project will be coherent with… a 1.5°C pathway.”

By contrast, the absence of equivalent conditions applied to EDC support suggests that Canada’s export credit agency is prioritizing support for oil and gas companies while failing to account for the global net impact of potentially encouraging ongoing and even expanded oil and gas production. As such, EDC’s statements, policies and record throw into question the agency’s understanding of the core principles and consequences of the Glasgow Statement, as well as its capacity to implement the guidelines with integrity and rigour.

The government must hold EDC accountable by codifying the Glasgow guidelines

The concerns highlighted above point to the pressing need to pass binding rules to ensure EDC be held accountable for its respect of the Glasgow guidelines. This can be achieved by passing a federal regulation that would codify the guidelines. This regulatory solution would also provide the opportunity to strengthen the implementation framework by resolving ambiguities in the guidelines (such as the definition of “direct” financing), clarifying departmental roles and responsibilities (pertaining to the application of exemption conditions, notably), and establishing clear mechanisms of transparency and accountability.

Above Ground has drafted a model regulation that we believe would accomplish these policy goals. We will seek a meeting with your office in the coming weeks to present and discuss the proposed regulation.

We look forward to speaking with you on this critical matter.

With regards,
Karen Hamilton
Director, Above Ground

Notes:

[1] The UK's policy applies to "all direct and indirect support for which it is deemed possible to specify where funds will ultimately be deployed or how profits will be reinvested." It further states: "For financially intermediated transactions, including indirect equity investments, debt to financial institutions or corporate loans (or other fungible finance) for which it might not be possible to strictly specify where funds will ultimately be deployed or how profits will be reinvested, we will seek credible evidence that the recipients of the investments (e.g. commercial financial institutions, utilities, private or state-owned companies) are working towards aligning future activities and portfolios with the Paris Agreement. Where applicable, support should be restricted to circumstances where the applicant can credibly demonstrate that the funds requested are conducive to the low carbon transition process and the future growth of their 'clean growth' capability, and will be used to that end." See the UK's Glasgow implementation policy, p. 11.

[2] France's implementation policy contained in the 2023 budget bill (Article 152), adopted in December 2022, forbids the French state from providing "la garantie de l'État" for the export of products or services involving the near-totality of fossil fuel activities. The effect is to bar its export credit agency, BPIFrance Assurance Export, from providing loan guarantees or insurance to support the international operations of fossil fuel companies active on its territory. See explanations (in French) from Novethic and Amis de la Terre France.

[3] Sweden's two export credit agencies, SEK and EKN, specialize respectively in loans and guarantees. Their coordinated sustainability policies bar both agencies from supporting the vast majority of fossil fuel projects. See the SEK policy (p. 6) and the EKN policy (p. 7).

[4] See Denmark's implementation policy.

[5] See the New Zealand government's media release about its implementation policy.

[6] The July 2022 update of EDC's Net Zero 2050 strategy states, "[O]ur target does not imply an end to EDC support for Canadian oil and gas producers…. We…see an opportunity to support producers in lowering operational emissions associated with production." (p.7)