New report - Risking it All: How Export Development Canada's Support for Fossil Fuels Drives Climate Change

Q&A with Annie Bérubé, Équiterre's Director of Government Relations

A new report reveals the disconnect between the Canadian government's promises on climate change and the actions taken by its official export credit agency, Export Development Canada (EDC), to support the oil and gas industry. Équiterre's Government Relations Director, Annie Bérubé, explains the main thrusts of the report and why Canadian taxpayers should be concerned by its findings.

1. What is Export Development Canada?

Export Development Canada (EDC) is Canada's export credit agency and a state-owned enterprise wholly owned by the Government of Canada. Its mandate is to support and develop trade between Canada and other countries and Canada's competitiveness in the international market-place.

Export Development Canada is mandated to facilitate growth in Canada's export-related industries and international business interests. It does this through a variety of measures including government-backed financing services, insurance, bonding, and expert guidance. While EDC is structured to operate as an independent business, it is a crown corporation, wholly owned, backed, and controlled by the Canadian government. EDC is accountable to the Canadian Parliament through the Ministry of International Trade Diversification which appoints all of its governing board members and has powers to direct its actions[1].

[1] In 2017, EDC was recently endowed with $300 million in taxpayer dollars to create a new wholly-owned development finance institution to support private sector lending in developing countries.

2. Does “government-backed” mean “taxpayer-funded”?

Unlike independent commercial finance providers, EDC’s finance is underwritten by Canadian taxpayers. This is game-changing for many businesses, particularly those pursuing projects with high levels of inherent risk. By agreeing to assume underlying financial liability, EDC can leverage additional private lending and investment for companies and projects that might otherwise struggle to finance their operations.

3. What are the findings of the *Risking it All* report?

EDC supplies more public funding for fossil fuels than for clean technologies. EDC supports the exploration, expansion and transport of fossil fuels in Canada and abroad, often for projects that are too risky for the private financial market.

- Between 2012 and 2017, EDC provided twelve times more support for oil and gas than for clean technologies, facilitating an average of more than CAD 10 billion in oil and gas finance per year.

- In the first two years of Prime Minister Justin Trudeau’s government, EDC provided more support for oil and gas (CAD 22.4 billion) than his predecessor, Stephen Harper, did during his last two years (CAD 20.9 billion).

- Available data shows an average of nearly 30 percent of EDC’s support for oil and gas is aimed at financing the **domestic** operations of Canadian companies, rather than fulfilling EDC’s original mandate of export-focused international finance. (Unlike most export credit agencies in other countries, the Harper government had expanded EDC’s mandate during the financial crisis of 2008 to allow the organization to also provide Canadian

businesses with direct government-backed financial assistance for projects in Canada, a practice that continues to this day.)

- In August 2018, EDC financed Ottawa's purchase of the Trans Mountain pipeline at a cost of CAD 4.5 billion, and it is EDC that would finance the construction project for the Trans Mountain expansion.

4. How is this financing at odds with our objectives in the fight against climate change?

One of the Paris Agreement's three main objectives, in Article 2.1(c), is "[m]aking finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development." Analysis indicates that burning already-developed reserves of oil, gas, and coal would far exceed Paris carbon budgets[2]. Thus, **eliminating investment in new oil and gas activity is required if the aims of the Paris Agreement – to which the Government of Canada has committed – are to be met**.

The significant amount of public financing earmarked by EDC helps make new fossil fuel expansion projects not only possible but profitable, both in Canada and abroad. **This financing goes primarily toward the growth of oil and gas production.**

Financing long-lived fossil fuel infrastructure risks locking in a high-emissions future. New oil and gas export pipelines have an intended design life of more than 50 years.

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[2]Greg Muttitt, "The Sky's Limit: Why the Paris Climate Goals Require a Managed Decline of Fossil Fuel Production," Oil Change International, September 2016, http://priceofoil.org/2016/09/22/the-skys-limit-report/.

Also, EDC supports particularly damaging forms of fossil fuel development. From 2013 through 2017, EDC facilitated at least CAD 4.4 billion – and likely much more – in activity among several of the largest companies involved in the oil sands, one of the most carbon-intensive energy sources in the world.

5. Does EDC's public financing represent a "subsidy" for fossil fuels?

As a government-backed financial institution, even if EDC provides net returns to the treasury, EDC's risks and liabilities are still borne by Canadian taxpayers, and, as with all export credit agencies, EDC's support and financing instruments contain some favourable elements beyond what purely commercial financing arrangements typically offer. **Where terms are more favourable than market terms, a subsidy component exists** (although the degree to which terms are more favourable than market is difficult to assess due to limited transparency at the transaction level).

Thus, shifting EDC's financing for fossil fuels is closely linked to Canada's commitment to end fossil fuel subsidies.

6. Do EDC's fossil fuel financing practices set it apart from other state-owned enterprises and public sector finance institutions?

Yes. EDC's practices differ from those of several public finance institutions that have reduced their support for fossil fuel projects at their shareholders' request and in order to lower the financial risk posed by a carbon-heavy investment portfolio. The most notable of these is the World Bank Group, which in 2017 established a new standard by committing to end financing for upstream oil and gas activity after 2019.

Commercial banks and a multitude of other kinds of investors have also taken major steps to reduce their financing of fossil fuel activities, whether financing for coal mining, coal-fired power plants, or unconventional oil and gas development (including bitumen production, shale oil and gas, and liquefied natural gas infrastructure). These institutions include some of the world's largest banks, such as BNP Paribas, ING, HSBC, JPMorgan Chase, Credit Agricole, Société Générale, as well as some of the world's largest insurers, such as AXA, Allianz, and Swiss Re.

We have long known that EDC's financing practices are problematic not only for the climate, but for human rights as well. EDC has financed a number of projects by foreign companies involved in abuses of power, corruption and human rights abuses. The Auditor General of Canada has also found a number of major shortcomings in this state-owned agency's risk management.

The Government of Canada conducts a review every ten years of the *Export Development Act*, which governs EDC's mandate and legal framework. This legislative review is currently underway.

7. What are Équiterre and its partners recommending that Ottawa do?

The Government of Canada should, as part of its review of the Export Development Act:

- Prohibit EDC from supporting oil, gas, and coal projects, including new infrastructure which supports the production, transport, or consumption of fossil fuels by 2020.

The Government should signal this shift in its upcoming budget, which will be tabled this winter.

- Ensure EDC policies clearly phase out financing and support for fossil fuels, and that EDC's climate change policy ensures alignment of EDC's portfolio with the most ambitious aims of the Paris Agreement;

- Increase EDC's transparency in reporting on individual transactions, to include more detailed information about specific activities as well as financing volumes.

- Close the loophole that allows EDC's continued financing of domestic activities.

8. When all is said and done, why should Canadians be concerned, and what can we do?

Public money is scarce. Each dollar must be used as strategically as possible, and further public finance for fossil fuel expansion reduces the money available for exporting clean technologies that offer solutions in the fight against climate change.

Canada compares poorly to many other countries when it comes to public finance for energy, with among the highest proportion of public finance for oil and gas relative to the size of Canada's economy.[3] This appears to be in line with Canada's domestic tax expenditures and budget support for oil and gas, an area in which Canada ranked last among G7 countries in a recent fossil fuel subsidies scorecard.[4]

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[3] Alex Doukas, Kate DeAngelis and Nicole Ghio, *Talk is Cheap: How G20 Governments Are Financing Climate Disaster, Oil Change International, Friends of the Earth U.S.*, Sierra Club and WWF European Policy Office, July 2017, http://priceofoil.org/content/uploads/2017/07/talk_is_cheap_G20_report_July2017.pdf/.

[4] Whitley and coll., *G7 fossil fuel subsidy scorecard*.

EDC is a Crown corporation that must be governed closely and must be accountable to the Parliament of Canada. Canadians are entitled to know where government funds and credit are going to. Canadians must be confident that the International Trade Diversification Minister has control over this agency.

The Government of Canada must eliminate all EDC financing of fossil fuels as part of its commitment to do away with fossil fuel subsidies.

Sign the petition calling on Ottawa to eliminate fossil fuel subsidies!