

Canada under Pressure to End Public Finance for Fossils Ahead of COP27 Deadline

Backgrounder

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environmental
defence

Last year at COP26 in Glasgow, UK, Canada joined 39 other countries and institutions — including the US, UK, and Germany — in signing a landmark agreement to stop providing public finance for fossil fuel projects abroad and prioritize support for clean energy by the end of 2022, known as the Glasgow Statement.¹

Yet - with just months to go before the end of 2022 - Canada has still not turned this pledge into action by delivering on a Glasgow-aligned policy. Canada is the largest international fossil fuel financier in the world, providing CDN 13 billion per year on average from 2018 to 2020 – which is over a third (38%) of the signatories' total for that period.

It is critical that Canada follow through on its pledge and reorient public finance from all fossil fuels to clean energy solutions. **In the lead up to COP27, the Government of Canada must release a new plan to show how it intends to keep its promises - without any loopholes.**

Why is the Glasgow Statement Important?

The Glasgow Statement on International Public Support for the Clean Energy Transition is the first multilateral commitment to address public finance for oil and gas.

The Glasgow Statement signatories' account for \$38 billion a year in overseas public finance for oil and gas. If that was redirected, it could more than double their international clean energy finance, from \$24 billion a year to \$46 billion.²

These government-backed loans, guarantees, and equity investments have an outsized influence on what kinds of energy projects get built. If these billions of public money flow instead to support climate solutions, the world will be on a path to a genuinely healthier, more resilient and more equitable future. With some of the largest providers of energy finance joining the commitment—including Canada, the United States, Italy, and Germany—the initiative sets a potentially transformative precedent. Successful implementation could mean a transformative boost for the energy transition.

¹ UK COP 26 (2021) Statement on International Public Support for the Clean Energy Transition. Available: <https://ukcop26.org/statement-on-international-public-support-for-the-clean-energy-transition/>. For clarity, note that there are also Glasgow statements on Tourism and Climate Action, and Food Security.

² Dufour, L. *et al.* (2022) Turning Pledges into Action. International Institute for Sustainable Development & Oil Change International. Available: <https://www.iisd.org/publications/report/turning-glasgow-statement-into-action>

Why should Canada act?

Canada ranks worst in the G20 for providing public financing to oil and gas companies. Most public financing provided to the fossil fuel sector is done by crown corporation Export Development Canada. By comparison, Canada's support for clean energy is relatively meager. Canada's public finance for clean energy – through Export Development Canada (EDC), development bank FinDev, and Global Affairs Canada – was only USD 543 million per year in the same period, 14.5 times less.³

When Canada signed on to the Glasgow Statement last November, the government committed to “develop policy direction that will define the scope of this policy.”⁴ A handful of governments and institutional signatories have already adopted policies that are either compatible or go beyond the requirements of the Glasgow Statement. These include Denmark, the United Kingdom, Sweden, France, and Belgium as well as the FMO, and the EIB.⁵

What to watch out for:

Canada's policy is expected to be released in the lead up to COP27. The policy is being developed by Natural Resources Canada and Environment and Climate Change Canada. EDC has suggested they are already in compliance with the Glasgow Statement as they will end “new direct financing to international fossil fuel companies and projects by the end of 2022,⁶” but this will leave out much of Canada's international fossil fuel support, which flows to domestic companies involved in international fossil fuel trade and operations. This would also be misaligned with how other signatories have interpreted the commitment for their export credit agencies thus far.

Canada has also committed to ending fossil fuel subsidies by 2023 and phasing out all domestic public finance for fossil fuels.⁷ These promises are interlinked and should be implemented together given that public financing is a fossil fuel subsidy.

³ Tucker, B. & DeAngelis, K. (2021) Past last call: G20 public finance institutions are still bankrolling fossil fuels. Oil Change International, Friends of the Earth US. Available:

<http://priceofoil.org/content/uploads/2021/10/Past-Last-Call-G20-Public-Finance-Report.pdf>

⁴ Natural Resources Canada (2021) Canada announces commitment to end new direct public support for the international unabated fossil fuel sector by the end of 2022. Available:

<https://www.canada.ca/en/natural-resources-canada/news/2021/11/canada-announces-commitment-to-end-new-direct-public-support-for-the-international-unabated-fossil-fuel-sector-by-the-end-of-2022.html>

⁵ Dufour, L. *et al.* (2022) Turning Pledges into Action. International Institute for Sustainable Development & Oil Change International. Available: <https://www.iisd.org/publications/report/turning-glasgow-statement-into-action>

⁶ Export Development Canada (2022) EDC NET ZERO 2050: Steps, considerations and decisions along the path to net zero by 2050. Available: <https://www.edc.ca/content/dam/edc/en/non-premium/edc-net-zero-emissions-2050-update.pdf>

⁷ The Liberal Party (2021) Forward For Everyone: Eliminating Subsidies and Public Financing for Fossil Fuels. Available: <https://liberal.ca/our-platform/eliminating-subsidies-and-public-financing-for-fossil-fuel/>

What must be included in a strong policy?

In order to meet the Glasgow Statement commitment with integrity, Canada's policy should:

- **Include all export finance, regardless of company or project location.** Most of Export Development Canada's financial products do not differentiate between 'international' and 'domestic' support, and continuing export finance for domestic fossil fuel companies would undermine Canada's commitments to end all fossil fuel subsidies and end domestic public finance for fossil fuels. The Government of Canada should instead ensure an updated policy ends all fossil fuel support. This would also be misaligned with how other signatories have implemented the commitment so far.
- **Implement robust fossil fuel exclusion policies.** Canada must adopt a fulsome definition of fossil fuels within this commitment that includes ending support for exploration, production, transportation, storage, refinement, and energy end uses of coal, oil, and gas.
- **No exemptions for gas.** Support for gas is incompatible with the agreed 1.5°C global warming limit, and research shows that clean alternatives are better suited to serve energy security and clean development pathways.⁸ Gas infrastructure, including for LNG and gas-fired power, should be excluded from financing.
- **Close loopholes for carbon capture and storage.** There's also a loophole in the text which could allow countries to support power generation projects equipped with carbon capture technology. But carbon capture remains prohibitively expensive, and doesn't actually effectively reduce emissions.⁹ There's a danger that countries might exploit that loophole to keep pumping public dollars into false solutions, including fossil hydrogen, which will only serve to prolong our dependence on fossil fuels.
- **Develop concrete plans for shifting public finance from fossil fuels to clean energy.** Efforts to end international public financial support for fossil fuels need to be matched by efforts to greatly increase support for clean energy to enable a globally just energy transition.
- **Ensure the commitment is binding** by cementing it into legislation and holding EDC and other crown corporations accountable to enforcing it.

⁸ Muttitt, G., *et al.* (2021). Step Off the Gas: International public finance, natural gas and clean alternatives in the Global South. International Institute for Sustainable Development. Available: <https://www.iisd.org/publications/natural-gas-finance-clean-alternatives-global-south>

⁹ Levin, J. (2022) Buyer Beware: Fossil fuel subsidies and carbon capture fairy tales in Canada. Environmental Defence Canada. Available: <https://environmentaldefence.ca/report/buyer beware/>