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

MEDIA 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.

Yet - with just weeks 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 both one of the largest fossil financiers signed onto the pledge and one of only a handful of financing signatories that has still not turned the Glasgow pledge into action.

It is critical that Canada follow through on its pledge and reorient public finance from all fossil fuels to clean energy solutions. **Before the end of the year, 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.[1]

Currently, G20 trade and development finance institutions provide at least 64 billion CAD a year in support for fossil fuels.[2] The Glasgow Statement signatories' alone 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.[3]

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.

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[1] For clarity, note that there are also Glasgow statements on Tourism and Climate Action, and Food Security.

[2] https://energyfinance.org/

[3] 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 among the worst in the G20 for providing fossil fuels public financing.[4] By comparison, Canada's support for clean energy is relatively meager. From 2019 to 2021, Canada supported an annual average of CAD 11.1 billion in public finance to fossil fuels. This was more than 11 times its support to clean energy ($1 billion), compared to the G20 average of 4:1 fossil finance to clean energy.

Most public financing provided to the fossil fuel sector is done by crown corporation Export Development Canada. So far in 2022 EDC has already provided up to $18 billion to oil and gas companies, and just $790 million for clean energy.

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."[5] Canada is lagging behind other countries in implementing its pledge to shift its public finance out of fossil fuels and into clean energy. The UK, France, Belgium, Denmark, the Netherlands, Sweden and Finland have already published policies to turn their COP26 pledge into action.

Canada's 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. These promises are interlinked and should be implemented together given that public financing is a fossil fuel subsidy.

What to watch out for: Loopholes that could undermine the new policy

1) A weak definition of "international"

Canada's policy risks using a narrow definition of what constitutes 'international' finance to only end fossil fuel finance to international companies operating abroad, but continue to allow finance to domestic companies operating abroad. This narrow definition would leave the door open for EDC to continue funding fossil fuels internationally. Because of the limits

[4] Tucker, B. et al. (2022) At a Crossroads: Assessing G20 and MDB international energy finance ahead of stop funding fossils pledge deadline.. Oil Change International, Friends of the Earth US. Available: https://priceofoil.org/content/uploads/2022/11/G20-At-A-Crossroads.pdf

[5] 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

[6] https://www.edc.ca/content/dam/edc/en/non-premium/edc-net-zero-emissions-2050-update.pdf, p. 8.

in EDC's public reporting on their financial transactions it is not possible to accurately calculate how much of their average annual fossil fuel finance would be allowed to continue. However, based on the publicly available information on fossil fuel transactions for 2021, an estimated 78% of international support may be able to continue if a weak definition is adopted. Some examples in 2021 and 2022 include:

- At least $200 million to Enbridge and $165 million for Vermillion, United Safety, and Enerflex for operations in the United States.
- At least $50 million to Parex Resources Inc. for oil and gas projects in Colombia.
- There are also a number of companies that EDC has financed over 2021 and 2022 that have operations in multiple countries, such as Shawcor Ltd., which received at least $50 million in 2022 for the sale of oil and gas equipment. It is unclear whether these companies would continue to receive funding if the Canadian policy applied only to 'International' companies.

None of the Glasgow aligned policies that have been implemented by signatories to date have interpreted international support in this way to allow ongoing funding for domestic companies operating abroad.

2) Loopholes 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.[7]

3) Loopholes for CCUS

There's also a loophole in the Glasgow Statement 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. There's a danger that Canada will exploit this loophole to keep pumping public dollars into false solutions, including fossil hydrogen, that will only serve to prolong our dependence on fossil fuels**.** EDC has already set a dangerous precedent with greenwashing 'transition bonds' that prioritize CCUS over proven climate solutions.

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

[7] 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

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.** Gas infrastructure, including for LNG and gas-fired power, should be excluded from financing.
- **Close loopholes for carbon capture and storage.**
- **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.