June 11, 2024

To:

Hon. Chrystia Freeland, Deputy Prime Minister & Minister of Finance
Mairead Lavery, President and CEO of Export Development Canada

CC: Hon. Jonathan Wilkinson, Minister of Natural Resources
Hon. Steven Guilbeault, Minister of Environment and Climate Change
Hon. François-Philippe Champagne, Minister of Innovation, Science and Industry

Re: Reject Financing Proposal for Cedar LNG

It has come to our attention that Export Development Canada (EDC) is considering the provision of financing for the Cedar LNG project. We are concerned and urge decision-makers to reject the financing proposal.

The Government of Canada first committed to ending domestic public financing for fossil fuels in 2021 and is currently in the process of developing a policy to do so. It has repeatedly reiterated its commitment to publish this policy in the coming months, by fall 2024, most recently articulated in April in Budget 2024.

Within the same month, EDC posted that it is considering new public finance support for the Cedar LNG[1] project, located in the Douglas Channel, British Columbia. EDC posted Cedar LNG under Category A projects on April 26. Category A is for "projects with potential significant adverse environmental or social effects that are sensitive, diverse, or unprecedented."[2]

We urge you to respect Canada's climate commitments and reject the financing proposal for Cedar LNG.

EDC's proposed financing of Cedar LNG would contradict Canada's commitment to end public finance for fossil fuels in Canada. Locking in new financing for years to come is not in the spirit of the commitment. Reforming public finance is a critical government lever to accelerate the energy transition and attract private capital to low carbon industries.[3] If Canada's forthcoming policy includes a mechanism to apply retroactively, it could potentially result in the support for Cedar LNG needing to be phased out, leaving the project stranded. Additionally, unlike Canada's fossil fuel subsidies commitment, the domestic public finance commitment does not have a clause about "inefficiency" and thus should encompass all domestic public finance without exceptions.

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[1] Cedar LNG is a floating LNG liquefaction facility to be located in the Douglas Channel, British Columbia, and associated on-shore infrastructure. https://www.projects.eao.gov.bc.ca/api/public/document/631b8d7117bc0a0022a18053/download/ECCC_Cedar%20LNG_GHGs_2Sept2022.pdf

[2] https://www.edc.ca/en/about-us/corporate/disclosure/reporting-transactions.html

[3] https://www.iisd.org/publications/report/ending-canadian-public-financing-fossil-fuels

As EDC's support for Cedar LNG would be project financing, prior to deciding whether to proceed, EDC must determine, "(a) whether the project is likely to have adverse environmental effects despite the implementation of mitigation measures; and (b) if such is the case, whether the Corporation is justified in entering into the transaction."[4] In addition, per EDC's Environmental and Social Risk Management (ESRM) Policy Framework, EDC assesses the environmental and social risks of each transaction and customer, in part, by "reviewing, examining, understanding and considering the potential environmental and social impacts of the transactions and Customers we support."[5] To do this, the Framework states that, "in considering the risk associated with a particular transaction, EDC assesses Customers' activities across the Value Chain[6] to identify both the likelihood of environmental and social impacts and the severity of any potential impacts." In assessing the environmental effects of the proposed project under the Export Development Act and ESRM Policy Framework, EDC must be guided by, to ensure alignment with, Canada's international law obligations and commitments—including under the Paris Agreement and international human rights law treaties.[7]

New LNG infrastructure contradicts Canada's climate commitments. The IEA's Net Zero Emissions scenario found that no new long-term fossil fuel projects should be developed in order to stay on target for 1.5C globally.[8] As a major historical polluter and a wealthy country with a low economic dependence on fossil fuels, Canada has a responsibility to lead the transition off of fossil fuels.[9]

Cedar LNG claims to be "net-zero" but this claim largely relies on carbon offsets, which are not part of a credible climate strategy. This net-zero claim also does not include the bulk of emissions, including fugitive emissions and downstream combustion emissions. EDC must consider the full value chain–upstream and downstream–emissions of Cedar LNG as part of its assessment of the project's environmental and social risks. This is necessary for EDC to assess the full impact of the project and alignment with its commitments and Canada's obligations.[10] According to Clean Energy Canada's recent report[11], Cedar LNG will amass 8.1 Mt C02e per annum in combustion emissions at destination, 0.7 Mt C02e per annum upstream, and 0.3 Mt C02e per annum at the facility.

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[4] *Export Development Act,* RSC 1985, c E-20, s.10.1 (1). https://laws-lois.justice.gc.ca/eng/acts/e-20/FullText.html
[5] https://www.edc.ca/content/dam/edc/en/non-premium/environmental-social-risk-management-policy-2022.pdf
[6] EDC defines value chain as "every step a business takes to produce a product or service and deliver it to the customer from its conception to its end use and beyond."
[7] *See* R v Hape, 2007 SCC 26 at para 53; *Canada (Minister of Citizenship and Immigration) v. Vavilov,* 2019 SCC 65 at paras 114, 182; EDC, ESRM Policy, p. iii (listing the Paris Agreement as one of the international agreements that the Framework is designed and informed by), p. 3 (EDC considers relevant multilateral agreements or frameworks signed by Canada, and requires compliance with host country laws). See also Viñuales, J. E. (2023). *Legal Opinion: International Obligations Governing Canada's Development of New Liquefied Natural Gas Production Capacity in light of the climate change emergency*. David Suzuki Foundation. https://davidsuzuki.org/science-learning-centre-article/legal-opinion-international-obligations-governing-canadas-development-of-new-liquefied-natural-gas-production-capacity-in-light-of-the-climate-change-emergency/
[8] https://www.iisd.org/system/files/2022-06/ipcc-pathways-paris-aligned-policies.pdf
[9] https://pure.manchester.ac.uk/ws/portalfiles/portal/213256008/Tyndall_Production_Phaseout_Report_final_text_3_.pdf
[10] *See e.g.* U.N, Working Group on the issue of human rights and transnational corporations and other business enterprises, Information Note on Climate Change and the Guiding Principles on Business and Human Rights (June 2023); District Court of the Hague, *Milieudefensie et al v. Royal Dutch Shell*, paras. 4.1.4, 4.1.18-20 case no. C/09/571932 / HA ZA 19-379 (May 26, 2021) (appeal pending).
[11] https://cleanenergycanada.org/wp-content/uploads/2024/03/Report_LNG-Macrh2024.pdf

Further, the proposed financial support for Cedar LNG would result in increasing upstream gas production, which puts in jeopardy the Government's commitment to reduce methane emissions by 75% below 2012 levels by 2030. This also challenges EDC's own commitment to reach net-zero by 2050, given the project lifespan of at least 25 years.

Public financing from Canada's crown corporations should be consistent with other government positions and policies. Notably, Minister Wilkinson recently indicated that the federal government is "not interested in investing in LNG facilities. That's the role of the private sector."[12]

EDC's proposed financing of Cedar LNG would prop up a project that is not otherwise economically viable. Recent research from Clean Energy Canada has found that this project is not economically viable without government subsidies and support.[13] A study by the Institute for Energy Economics and Financial Analysis (IEEFA) analyzed the economics of another LNG project on the BC Coast, LNG Canada, and found that high and increasing capital costs and pipeline transportation costs (via the Coastal GasLink pipeline) could make the cost of production double the cost of LNG produced on the U.S. Gulf Coast.[14] Ultimately, investments in new LNG infrastructure risk creating stranded assets, especially if the government succeeds in meeting existing climate objectives.[15]

Global demand projections for gas have been consistently revised downward – following high gas prices, increased renewable energy capacity, and transition policies in other jurisdictions — making the economic case for new LNG exports in Canada increasingly unsustainable.[16] (Existing trends have only been accelerated by the Russian invasion of Ukraine. According to IISD research, "both the European Union's REPowerEU plan and U.S. investments via the Inflation Reduction Act will continue to drive down costs and scale up the deployment of clean competitor technologies".[17] Renewables are increasingly more competitive and less susceptible to volatile price spikes than fossil fuels, threatening LNG demand in many emerging Asian markets especially.[18] Consequently, the International Energy Agency[19] and other forecasts[20] project a glut in LNG supply by mid-decade that will drive down prices, combined with a leveling off of gas demand in Asia.

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[12] https://www.ctvnews.ca/politics/feds-not-interested-in-investing-in-lng-facilities-energy-minister-1.6828149
[13] https://cleanenergycanada.org/report/an-uncertain-future/
[14] https://ieefa.org/resources/british-columbia-lng-project-costs-rising-again
[15] https://www.hilltimes.com/story/2024/06/05/lng-projects-should-stand-on-their-own-two-feet-assuming-they-can/423782/
[16]https://www.iisd.org/story/setting-the-pace/#:~:text=Setting%20the%20Pace%20examines%20how,the%20implications%20for%20Canada%27s%20economy.
[17]https://www.iisd.org/story/setting-the-pace/#:~:text=Setting%20the%20Pace%20examines%20how,the%20implications%20for%20Canada%27s%20economy.
[18]https://ieefa.org/sites/default/files/2024-04/Global%20LNG%20Outlook%202024-2028_April%202024%20%28Final%29.pdf
[19]https://iea.blob.core.windows.net/assets/f2cf36a9-fd9b-44e6-8659-c342027ff9ac/Medium-TermGasReport2023-IncludingtheGasMarketReportQ4-2023.pdf
[20] https://www.iisd.org/articles/deep-dive/lng-expansion-canada-not-worth-risk

The Government of Canada, including crown corporations, have a responsibility to make investments in line with its commitments and legal obligations. LNG expansion is not in line with commitments, and unlikely to be economical over the span of the project. The adverse environmental effects of this project are too significant and funding this project cannot be justified. Approval would be contrary to the legislation, policies, and Canada's international obligations.

Sincerely,

Environmental Defence Canada
David Suzuki Foundation
Climate Action Network Canada
Oil Change International