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# RISKING IT ALL:

HOW EXPORT DEVELOPMENT CANADA'S  
SUPPORT FOR FOSSIL FUELS  
DRIVES CLIMATE CHANGE



This report was researched and written by Alex Doukas and Adam Scott with Oil Change International. The authors are grateful for feedback from the following reviewers: Patrick DeRochie with Environmental Defence, Karen Hamilton with AboveGround, and Philip Gass with the International Institute for Sustainable Development's Global Subsidies Initiative.

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Cover Image: Imperial Oil's Strathcona refinery in Edmonton, Alberta.

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Back Image: Oil and mud.

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Oil Change International is a research, communications, and advocacy organization focused on exposing the true costs of fossil fuels and facilitating the coming transition towards clean energy.

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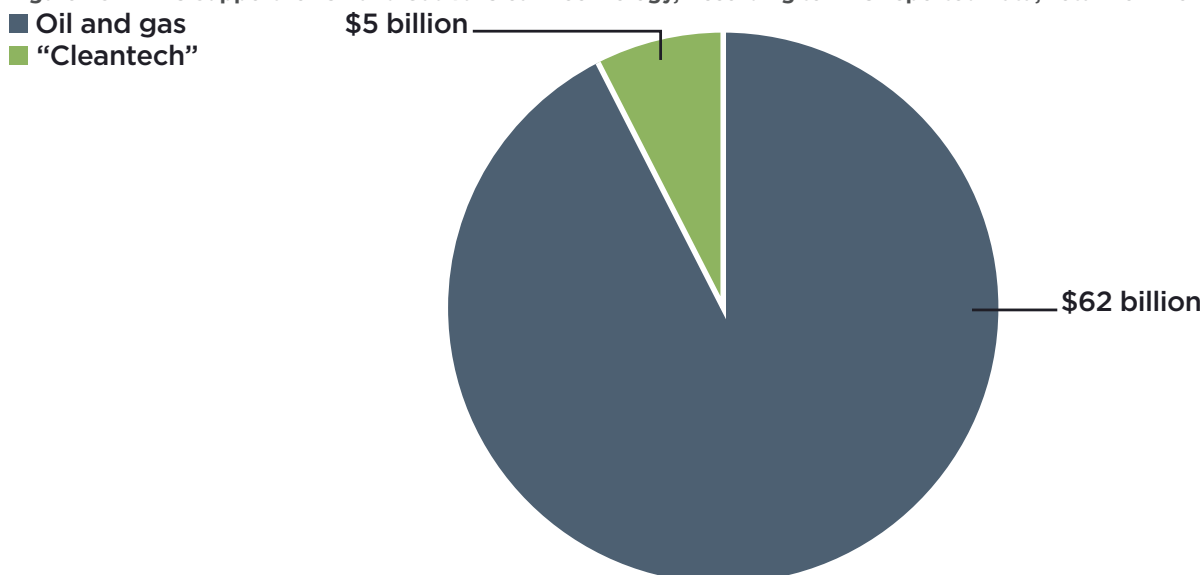
# EXECUTIVE SUMMARY

Canada's official export credit agency, Export Development Canada (EDC), provides billions of dollars in support for oil and gas companies every year. Unlike independent commercial finance providers, EDC's finance is underwritten by Canadian taxpayers. This is make-or-break support for many fossil fuel businesses and large oil and gas projects. This ongoing public backing for the expansion of fossil fuels is entirely incompatible with Canada's commitments under the Paris Agreement and is out of step with momentum across the international finance community to shift financial flows away from fossil fuels to clean energy.

In this report, we examine available data to characterize the nature and scale of EDC's support for oil and gas. Our key findings:

- EDC's massive support for oil and gas is wholly incompatible with Canada's climate change commitments under the Paris Agreement and required actions to keep global temperatures below 1.5 degrees Celsius (°C).
- 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, according to EDC's own published data (Figure ES-1).
- 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 was provided during the last two years of the government of his predecessor, Stephen Harper (CAD 20.9 billion) (Figure ES-2).
- 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.
- From 2013 through 2017, EDC facilitated at least CAD 4.4 billion (likely much more) in activity to support several of the largest upstream and midstream companies involved oil sands expansion and transportation.<sup>1</sup>
- In 2018, EDC guaranteed CAD 1 billion or more in loans from banks to support the Canadian government's purchase of the Trans Mountain Expansion Pipeline project. EDC also provided CAD 1 billion or more in financing to Trans Mountain's construction.

Figure ES-1: EDC Support for Oil and Gas vs. Clean Technology, According to EDC-reported Data, Total from 2012 through 2017



The latest climate science calls for a rapid shift away from fossil fuels. In October 2018, the Intergovernmental Panel on Climate Change (IPCC) showed that global emissions must decline by 45 percent in just 12 years, reaching zero in just 38 years, in order to meet the goals of the Paris Agreement and provide the best chance of avoiding catastrophic impacts from climate change. This means that governments should use every tool at their disposal to accelerate the energy transition, yet Canada's actions have been dangerously inconsistent with its commitments and rhetoric. Canada continues to support new fossil fuel infrastructure that locks in rising emissions and has still not announced a clear path towards achieving its promises to phase out fossil fuel subsidies by 2025.

Public money and government-backed finance is relatively scarce, and should be used in ways that deliver public goods, not in ways that cause harm and undermine globally-agreed priorities. What public support is available should be directed to areas consistent with Canada's humanitarian, environmental, and economic commitments.

Public finance institutions are highly influential thought leaders with considerable influence to create momentum for action across society. Strong precedent exists for public finance institutions to restrict their support for fossil fuel projects in support of international climate change goals. 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.

The Government of Canada and EDC have an immediate opportunity to address their public finance for fossil fuels: the government is partway through a review of the legislation governing EDC's mandate and operations. In addition, International Trade Diversification Minister Jim Carr asked EDC to thoroughly

review its practices '...to ensure that human rights, transparency and responsible business conduct are core guiding principles for EDC' as part of an ongoing policy review by EDC. These concurrent reviews provide a singular chance for Canada to align EDC's mandate with best-in-class policies and with global goals that Canada has committed to, including the Paris Agreement on climate change.

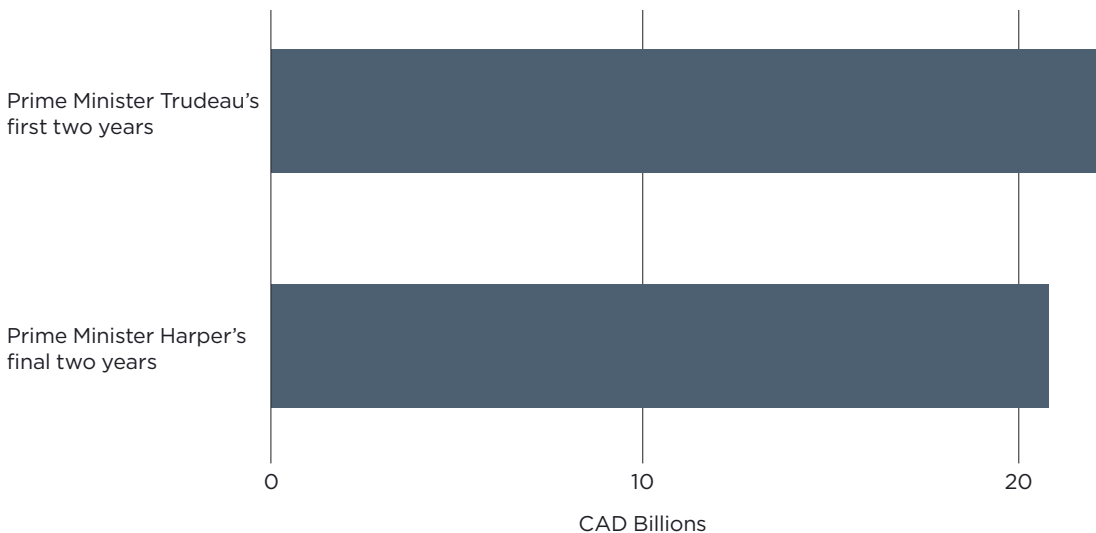
#### **The Government of Canada should, as part of its review of the Export Development Act:**

- Amend the Act to prohibit EDC from supporting oil, gas, and coal projects, including new infrastructure which supports the production, transport, or consumption of fossil fuels (including through the Canada Account). Shift public finance for energy from dirty to clean, applying a directive to end EDC's fossil fuel finance by 2020. The Government should signal this shift in its upcoming budget.
- Ensure that Canada's public finance for fossil fuels, including via EDC and Sustainable Development Technology Canada (SDTC), are considered in Canada's G20 fossil fuel subsidies self-review and peer-review process;
- Close the loophole that allows EDC's continued financing of domestic activities.

#### **EDC should, as part of its review of environmental and social risk management policies:**

- 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.

**Figure ES-2: EDC Support for Oil and Gas in the Final Two Years of Prime Minister Stephen Harper's Government vs. the First Two Years of Prime Minister Justin Trudeau's government**



Source: EDC, "Canadian Industry Sub-sector" disclosures, 2015-2017, <https://www.edc.ca/EN/About-Us/Disclosure/Reporting-on-Transactions/Pages/default.aspx>.

# 1. THE ROLE OF PUBLIC FINANCE IN A CHANGING WORLD

## Why financial flows need to shift rapidly

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<sup>2</sup> (Figure 1), suggesting that a rapid shift away from 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.

Financial flows must shift rapidly away from fossil fuels and towards low-emission development to align with the Paris Agreement's warming limit of well below 2°C and striving to limit warming to 1.5°C.

In June 2018, Prime Minister Justin Trudeau asserted that "[c]limate change is a global challenge that requires a global solution . . . Everywhere, we are seeing the effects of climate change reminding us of the need to act now."<sup>3</sup> Earlier, in 2017, he said that "Canada will not back down from its commitment to fight climate change - and we are not alone. Around the world, nearly every country is on our side. [...] Inaction is not an option."<sup>4</sup>

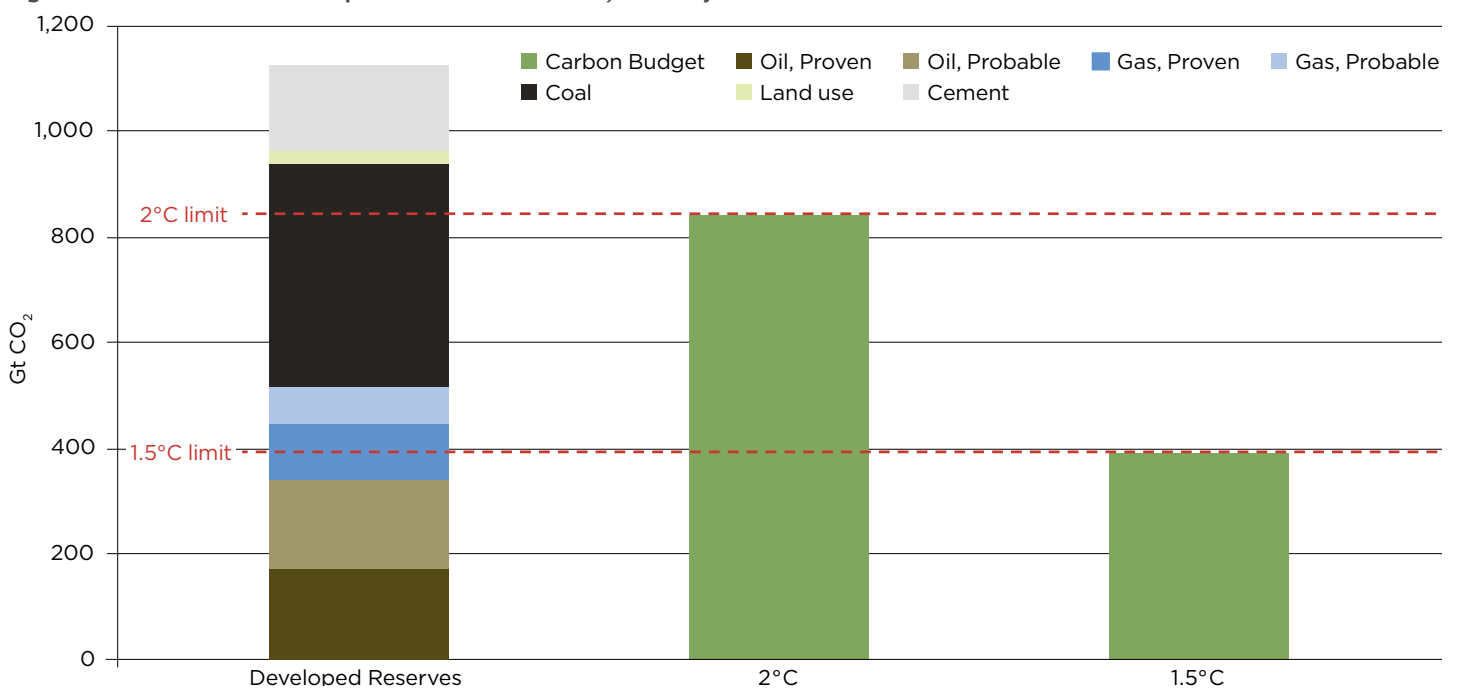
In addition, renewable energy costs have declined precipitously in recent years (Figure 2), making it even easier to support Canada's role in providing renewable energy technologies and services abroad. Global energy investments in renewables are nearly on par with fossil fuel investments in mature economies, and in the power sector, investments in

renewables accounted for over two-thirds of total electricity supply investment in 2017.<sup>5</sup>

Yet despite the urgent need for global climate action, the rapidly declining costs of renewable energy, and the need to shift financial flows toward Paris-aligned activities and away from oil, gas, and coal, the Government of Canada continues to back billions of dollars in finance for fossil fuel expansion around the world each year, primarily through Canada's official export credit agency, Export Development Canada (EDC). EDC's support for renewable energy remains an order of magnitude lower than its support for oil and gas.

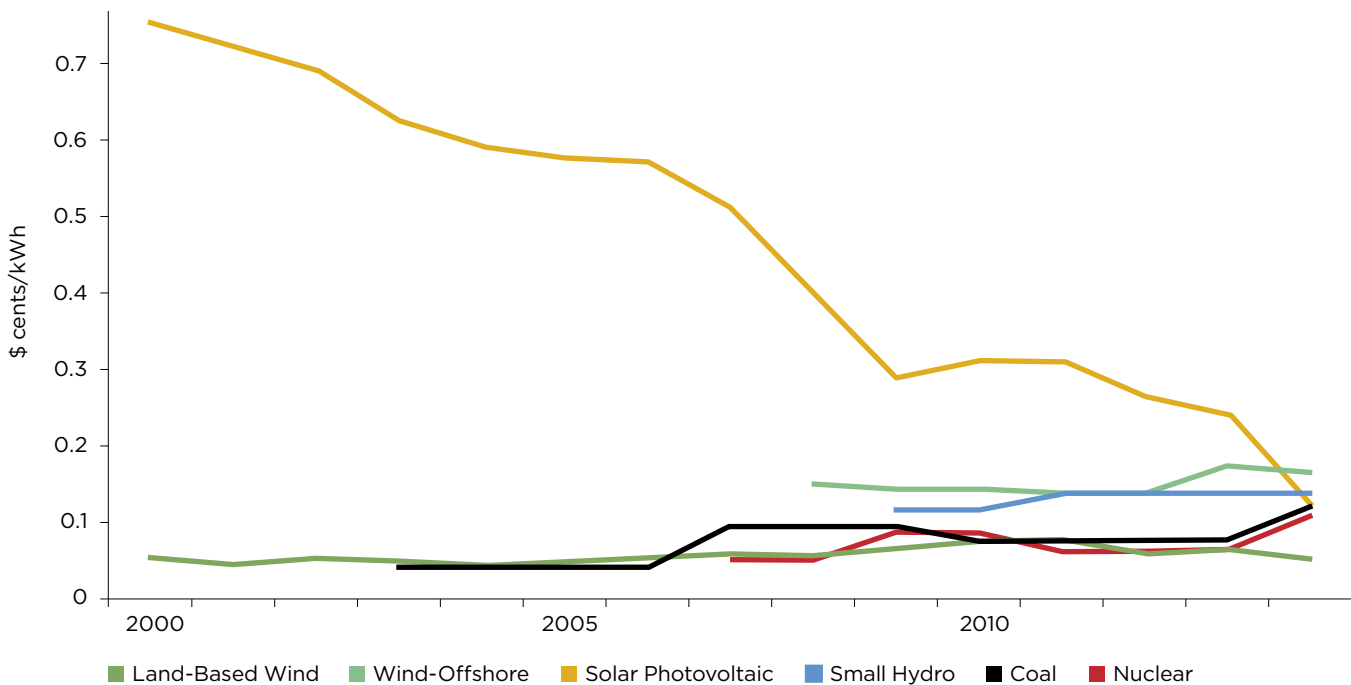
The large volumes of public finance that continue to flow to fossil fuel expansion

**Figure 1: Emissions from Developed Fossil Fuel Reserves, Plus Projected Land Use and Cement Manufacture**



Sources: Rystad Energy, International Energy Agency (IEA), World Energy Council, Intergovernmental Panel on Climate Change (IPCC)

Figure 2: Levelized Cost of Energy (World Average)



Source: OpenEI, Transparent Cost Database, adapted from the World Economic Forum's Renewable Infrastructure Investment Handbook, 2016.

undermine global climate action. To meet globally-agreed climate goals, it is crucial that public finance shifts away from fossil fuel production for a number of reasons, including:

- **Continued investment in fossil fuel development can lead to carbon and political lock-in.**<sup>6</sup> Financing long-lived fossil fuel infrastructure risks locking in a high-emissions future and entrenches the political interests most likely to resist climate regulations that could result in their assets being stranded or devalued. For example, new oil and gas export pipelines have an intended design life of more than 50 years and are therefore incompatible with the accepted scientific requirement that emissions are reduced by 45 percent in just 12 years and to net-zero in just 38 years in order to have a reasonable chance of staying below 1.5°C.<sup>7</sup> Projects creating long-lasting carbon lock-in are incompatible with Canada's commitment to carbon neutrality by 2050.<sup>8</sup>
- **Public money is scarce.** Each dollar must be used as strategically as possible, and further public finance for fossil fuel expansion risks undermining the Paris Agreement.
- **Public finance institutions are thought leaders.** They play a central role in supporting and de-risking large

fossil fuel infrastructure projects via concessional finance (lending with more favorable terms than on the competitive market).<sup>9</sup> They also send key signals to the broader financial community, making shifting public finance a crucial early step on the road to more broadly aligning financial flows with the Paris Agreement's aims.

### Financial institutions are already beginning to shift away from fossil fuels

Many financial institutions, both public and private, are already taking steps to shift their investments away from fossil fuels. In 2017, the World Bank Group committed to end financing for upstream oil and gas activity after 2019. Some other multilateral development banks, including the African Development Bank and Asian Development Bank, have already ruled out financing for oil and gas exploration activities (a narrower range of activities than covered by the World Bank Group commitment) for several years.

Dozens of public finance institutions have already ruled out providing public finance for coal-fired power plants. In 2013, several multilateral development banks and national governments started to adopt significant restrictions on international public financing of coal, mainly due to climate concerns. These

institutions include the World Bank Group, the European Bank for Reconstruction and Development, the European Investment Bank, and the governments of the United States (building on prior restrictions), the United Kingdom, the Netherlands, and the Nordic countries. In 2014, France and Germany both announced policies to limit coal finance. In November 2015, Organisation for Economic Co-operation and Development (OECD) governments representing 29 export credit agencies (including EDC) entered into an agreement to restrict financing for coal-fired power plants, which came into force in January 2017. EDC also instituted its own more stringent policy restricting coal finance<sup>10</sup> (though this is expected to have little practical impact, as EDC has not financed coal-fired power plants in recent years), and the Powering Past Coal Alliance, co-led by Canada, contains a provision that requires members to end public financing for unabated coal-fired power plants.<sup>11</sup> Together, the multilateral development banks and the International Development Finance Club have committed to align their substantial resources within the aims of the Paris Agreement. As the concrete details of this commitment remains vague, public finance institutions like EDC can demonstrate a strong precedent by committing to end financing for not just coal, but also for oil and gas to better align with the Paris Agreement's aims.

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.

Yet despite this global momentum and important precedent from prominent public finance institutions such as the World Bank Group, government-backed EDC is still providing billions of dollars each year to expand oil and gas infrastructure in Canada and abroad, alongside other Canadian government public finance for domestic oil and gas activity.

EDC has announced its intention to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).<sup>12</sup> While this is a positive step, government-backed financial institutions must go further, faster in order to shift broader financial flows. Plans to reduce and ultimately end financing for oil and gas activity are required to ensure alignment with the aims of the Paris Agreement, yet neither EDC nor the Government of Canada have signaled their intent to move in this direction.

## The role of Export Development Canada

Export Development Canada is Canada's official export credit agency. It 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 Canadian parliament through the Ministry of International Trade Diversification which appoints all of its governing board members and has powers to direct its actions.<sup>13</sup>

## The Public Finance Advantage

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. EDC's many

services include its Export Guarantee and Political Risk Insurance programs which shield companies, commercial lenders, and investors from losses.<sup>14</sup> These are powerful tools which provide considerable commercial advantages for EDC's clients, which include Canadian companies operating internationally as well as international companies looking to invest within Canada.<sup>15</sup>

In spite of an externally focused directive, finance Minister Jim Flaherty extended EDC's mandate during the 2008 financial crisis to also allow it to provide direct government-backed assistance to the domestic activities of Canadian companies (very unusual among export credit agencies).<sup>16</sup> EDC's new powers have never been significantly rolled back, in spite of lasting economic recovery. In a recent example of this domestic support in 2016, EDC extended CAD 750 million in government-backed support to small and medium sized oil and gas companies in response to a global downturn in oil prices. The program provided substantial commercial and competitive advantage for domestic fossil fuel producers alongside federal and provincial producer subsidies.<sup>17,18</sup>

## Canada's federal sources of public finance for fossil fuels

EDC often states that it offers financing at commercial rates, yet EDC also frequently emphasizes that it enjoys the full faith and credit of the Government of Canada. 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.

Description: Oil platform P-51 in Brazil





# 2. METHODOLOGY

This report utilizes information disclosed directly by EDC and SDTC, as well as data from Oil Change International's Shift the Subsidies database, which tracks energy finance from public finance institutions, but not the value of the private finance mobilized. In addition to reviewing information made publicly available by majority government-owned financial institutions and other public sources of information, this database draws information from the Infrastructure Journal (IJ) Global database, as well as supplementary information provided by Above Ground.<sup>a</sup>

## Export Credits vs Fossil Fuel Subsidies

In this report, the term “public finance” is used in a narrow sense, to refer to finance from dedicated public finance institutions. Other types of government support for fossil fuels, such as subsidies to oil and gas development through direct budget measures or tax expenditures, are not considered here, though have been catalogued in other recent analyses.<sup>19, 20</sup>

In terms of volume of finance, Canada's main source of public finance for fossil fuels is Export Development Canada (EDC). While other federal sources of public finance for fossil fuels exist – in particular, Sustainable Development Technology Canada (SDTC) – and there are also some provincial sources, the bulk of this report focuses on EDC's high levels of government-backed support to the fossil fuel industry.



Enbridge buried pipeline marker for 'Line 9' in Ontario.

<sup>a</sup> The Shift the Subsidies database classifies each finance entry as fossil fuel, clean, or other based on the description of the project and project documents. In this analysis, fossil fuels include any oil, gas, or coal projects, or projects supporting the development or transmission of fossil fuel power. Clean energy includes energy that is both low carbon and has negligible impacts on the environment and on human populations if implemented with appropriate safeguards. Some energy efficiency and some renewable energy – energy coming from naturally replenished resources such as sunlight, wind, rain, tides, and geothermal heat – is included as clean energy. The data also includes an 'other' category. The development of some 'renewable' sources – notably large hydropower, biofuels, and biomass – can have significant impacts on the environment and on human populations that make it difficult to consider them truly 'clean.' These energy sources, along with nuclear power, incineration, and other forms of power that are not fossil fuels but also not clean, are included in the 'other' category. See more about this methodology at <http://www.shiftthesubsidies.org/#methodology>.

# 3. FINDINGS

## Export Development Canada's self-reported data

EDC's own reported data reveals the extent of their involvement in the oil and gas industry: in the six years from 2012 through 2017, EDC reports they facilitated nearly CAD 62 billion in oil and gas finance, compared to just CAD 5 billion in all "cleantech" finance over that same period.

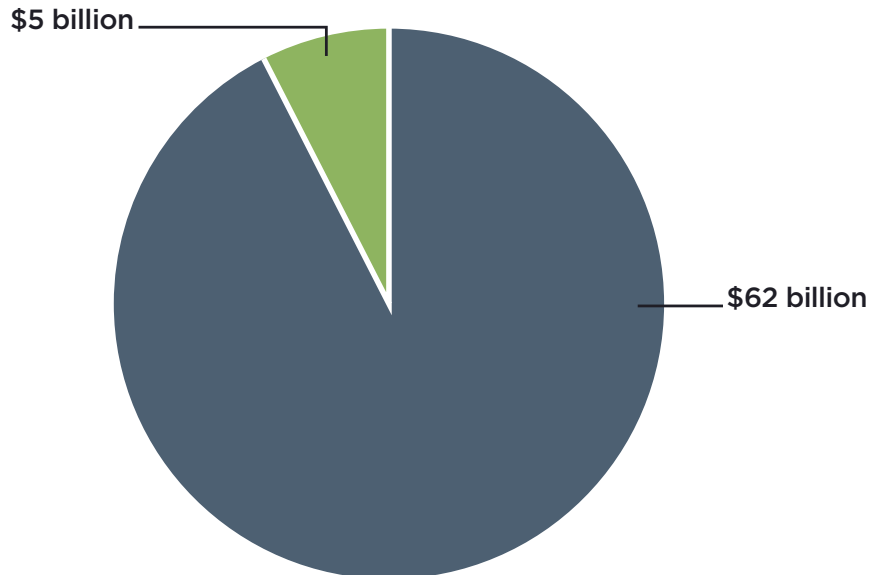
While EDC does not report renewable energy business in aggregate ("cleantech" is a broader category that appears to span clean technology investments in multiple industries), it is clear that EDC's financing for oil and gas is an order of magnitude greater than its support for clean technologies. This is even the case when comparing EDC's oil and gas finance to both their support for renewable energy and to the more expansive "cleantech"

finance category they have reported in aggregate (Figure 3).

EDC's extremely large volume of support for the oil and gas industry do not show signs of waning in recent years: in 2017, EDC reported a record level CAD 1.5 billion in "cleantech" finance - yet this record figure is just one seventh of the support EDC provided to oil and gas companies in that same year (CAD 10.4 billion).

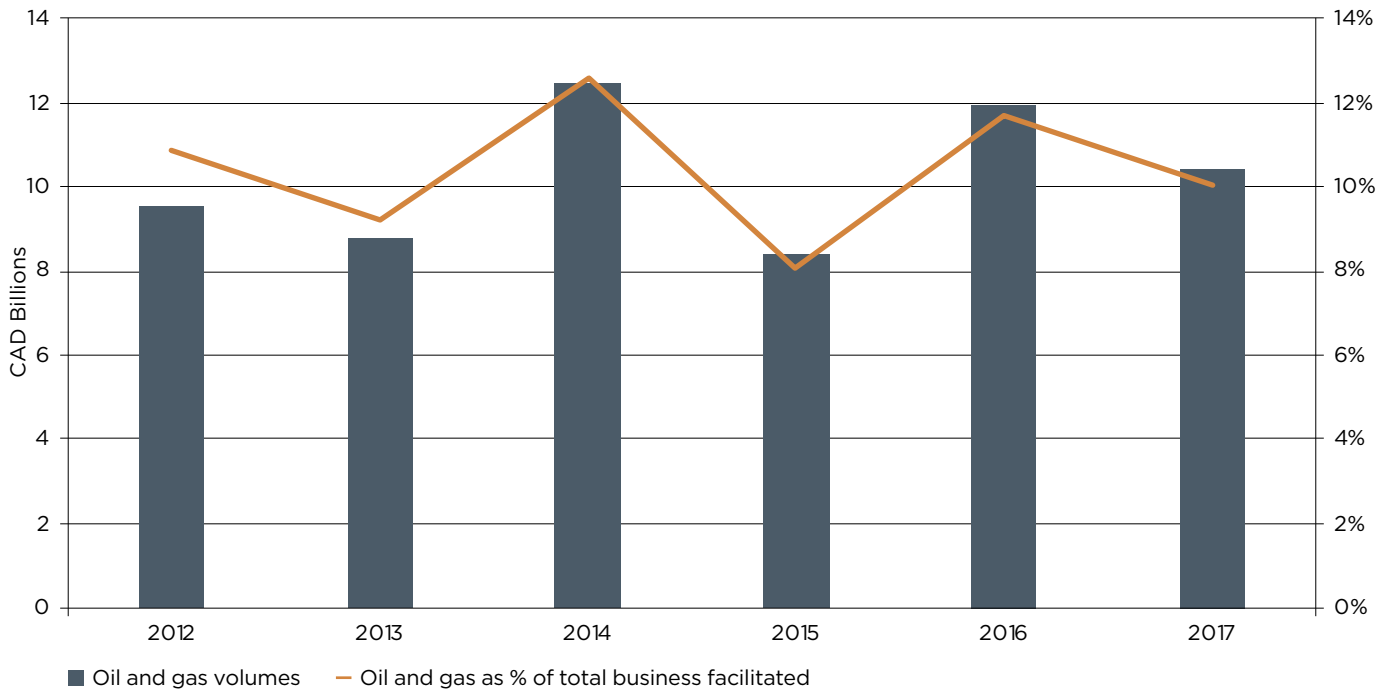
**Figure 3: EDC Support for Oil and Gas vs. Clean Technology, according to EDC-reported Data, Total from 2012 through 2017**

■ Oil and gas  
■ "Cleantech"



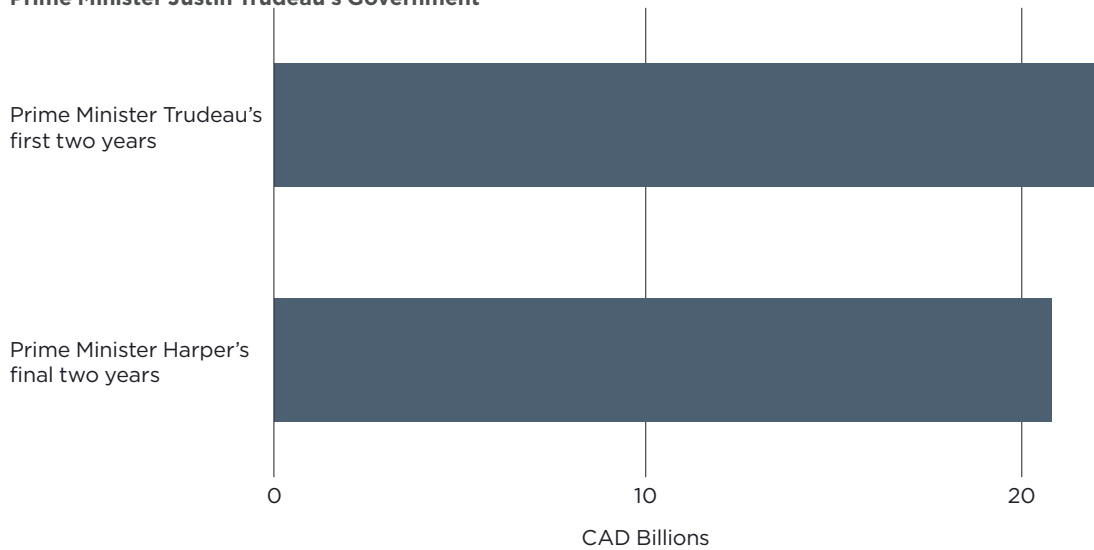
Source: EDC, "Seizing the opportunities cleantech offers," May 11, 2018 <https://www.edc.ca/en/blog/seizing-cleantech-opportunities.html>, and EDC, "Canadian Industry Sub-sector" disclosures, 2012-2017, <https://www.edc.ca/EN/About-Us/Disclosure/Reporting-on-Transactions/Pages/default.aspx>.

**Figure 4: EDC Oil and Gas Finance, 2012 through 2017, Disaggregated by Year – Total Oil and Gas Transaction Volumes, and Oil and Gas Volumes as a Percentage of EDCs Total Business Facilitated**



Source: EDC, "Canadian Industry Sub-sector" disclosures, 2012-2017, <https://www.edc.ca/EN/About-Us/Disclosure/Reporting-on-Transactions/Pages/default.aspx>.

**Figure 5: EDC Support for Oil and Gas in the Final Two Years of Prime Minister Stephen Harper's Government vs. the First Two Years of Prime Minister Justin Trudeau's Government**



Source: EDC, "Canadian Industry Sub-sector" disclosures, 2015-2017, <https://www.edc.ca/EN/About-Us/Disclosure/Reporting-on-Transactions/Pages/default.aspx>.

As EDC is a government-backed and ultimately government-controlled public finance institution, it is also instructive to consider how EDC's support for oil and gas has changed in line with changes in government. In the first two years of Prime Minister Justin Trudeau's government, EDC

states that it has provided CAD 22.4 billion in support to oil and gas, more than was provided in the final two years of Prime Minister Stephen Harper's government, at CAD 20.9 billion (Figure 5; note that these figures are approximate as EDC only reports aggregate data by calendar

year, but the Trudeau government actually came into office in November, 2015).

As of the end of 2017, oil and gas was the industry EDC had most exposure to, accounting for 15 percent of EDC's total exposure.<sup>21</sup>

## Understanding Export Development Canada's transaction-level data

It is difficult to assess EDC's activities based on published transaction-level data, as the transactions are only reported in a very broad range (for example, a CAD 150 million transaction would not be reported as such, but would be instead reported as "CAD 100 million to CAD 250 million"). This lack of exactness and transparency makes it difficult to make precise assessments of EDC's activities, but it does allow for a broad understanding of the types of activities EDC's resources are supporting.

The following section relies on data from Oil Change International's Shift the Subsidies database, culled from EDC's transaction-level reporting. Unless more precise information is available from another source, which is rarely the case, this data represents the lowest end of the range for each transaction reported by EDC, which ensures that these figures are highly conservative, and are considerably lower in total than energy finance figures reported in aggregate by EDC itself (for example, EDC reported CAD 10.4 billion in oil and gas support in 2017, while the Shift the Subsidies database contains transactions totaling only CAD 4.4 billion

in finance for the same year). The following data should be understood in that context.

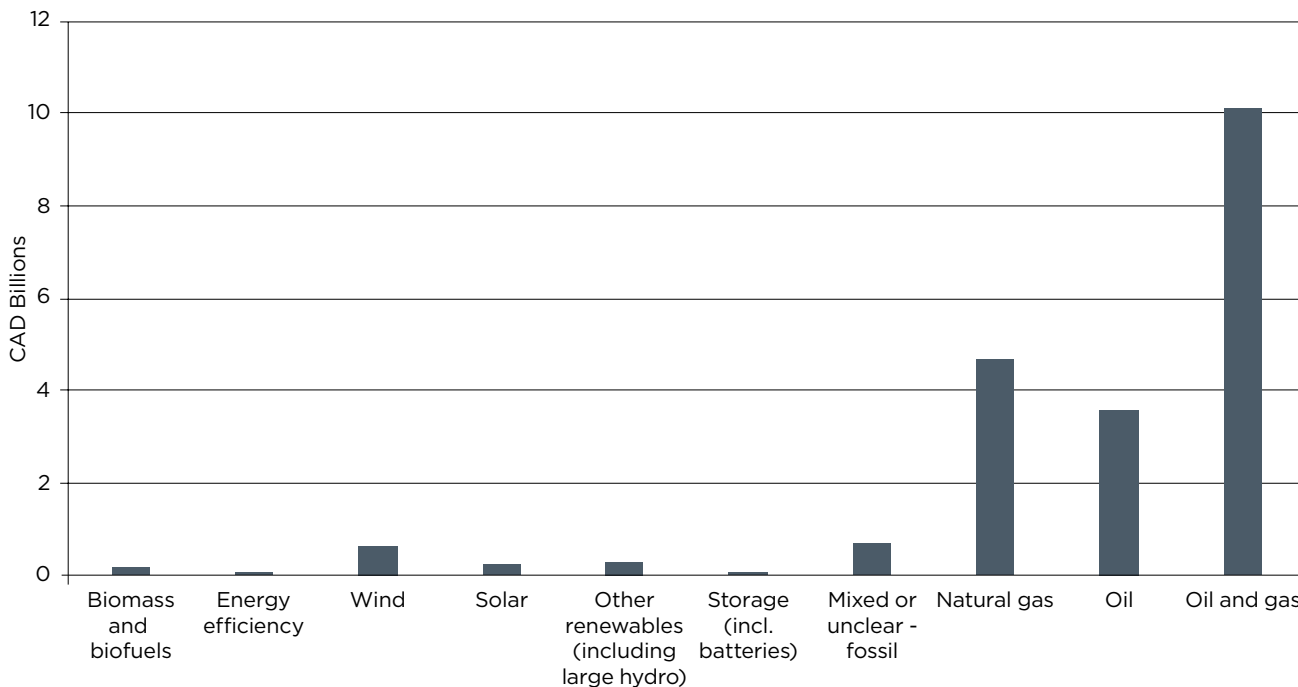
While EDC's own reported figures show the dominance of oil and gas in their portfolio, data at a transaction level allows for a closer look at the magnitude of support that is flowing to oil and gas compared to different types of renewable energy and other energy sources (Figure 6). In the five years from 2013 through 2017, EDC's combined support for oil and gas was 35 times that of its support for wind and solar power combined.

It's also notable that EDC appears to be devoting significant resources to support for domestic activities, despite EDC's supposedly export-focused mandate.<sup>22</sup> Changes to the law around the time of the 2007/2008 financial crisis enabled EDC to expand its support to domestic activities, and while the financial crisis is long over, the law has not been revised to return EDC to its original mandate. On average, it appears that nearly 30 percent of EDC's support for oil and gas is aimed at domestic activity, rather than fulfilling EDC's original mandate of export-focused international finance.

While there is no role for public finance in supporting any form of expanded oil

and gas production in a Paris Agreement-aligned world, within the oil and gas sector, 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 oil sands-involved companies (those involved in producing and transporting oil sands products).<sup>23</sup> The two largest single recipients of support from EDC over this period in the energy sector were Enbridge Inc., with at least CAD 1.4 billion, and TransCanada Pipelines Ltd., with at least CAD 950 million (these figures do not include support for other entities affiliated with Enbridge and TransCanada, many of which also received support from EDC, including, for example, TransCanada American Investments Ltd.) TransCanada and Enbridge are two of North America's largest fossil fuel infrastructure companies. In addition to considerable fossil gas distribution networks and other energy projects, both are pursuing massive new oil pipeline projects designed to facilitate reckless expansion of the oil sands over the coming decades. TransCanada is seeking to build its Keystone XL pipeline, a project previously rejected by the Obama administration as incompatible with leadership on climate change.<sup>24</sup> Enbridge is seeking to build its new Line 3 pipeline

**Figure 6: EDC Energy Finance, 2013 through 2017, by Industry/Sub-sector**



Source: Oil Change International's Shift the Subsidies database, <http://priceofoil.org/shift-the-subsidies/>.

project with a similar intent to ship bitumen south from Canada.<sup>25</sup> Both projects pose considerable risks to water, lands, and the climate, and are opposed by impacted Indigenous communities and landowners along proposed respective routes.

Over this same five-year period, EDC's support to activities related to fossil fuel exploration averaged over CAD 1 billion per year, despite the fact that already-developed reserves of fossil fuels would far exceed the limits established in the Paris Agreement if burned.

In June 2018, EDC guaranteed CAD 1 billion or more in loans from two Canadian banks to support the Canadian government's purchase of the Trans Mountain Pipeline project, at the direction of the Minister for International Trade.<sup>26</sup> In August 2018, EDC also provided CAD 1 billion or more in financing to "Project Deliver I," the name of the entity the Canadian government is using to pursue construction of the Trans Mountain Expansion. The Trans Mountain project is deeply interlinked with oil sands production and future plans for expansion. Federal approval for the Trans Mountain Pipeline expansion project was subsequently quashed by the federal court of appeal in August due to failings of the Government and the National Energy Board (NEB) to adequately consider environmental risks and uphold Indigenous rights.<sup>27</sup>

Canada's oil and gas sector is its single largest source of domestic emissions, even higher than those of the transportation sector.<sup>34</sup> The sector's absolute annual emissions continue to increase steadily each year, driven mainly by the ongoing growth of oil sands production.<sup>35</sup> Even greenhouse gas intensity per barrel of extraction, a strong communications focus for industry, has not materially improved since 2004.<sup>36</sup> Continued growth of the sector has been identified as a primary barrier for Canada to achieve its Nationally Determined Contribution (NDC) under the Paris Agreement.<sup>37</sup> It is important to note that Canada's 2030 NDC commitment has been rated 'highly insufficient' by Climate Action Tracker and is not considered consistent with holding warming to below 2°C, let alone limiting it to 1.5°C as required under the Paris Agreement. Future

increases in the ambition of Canada's emissions reductions will be required to reach Paris compliance.<sup>38</sup>

Viewed from a total lifecycle perspective, carbon extracted by Canada's oil and gas sector is a globally significant contributor to climate pollution. In 2016, Oil Change International estimated that without action to stop additional production, carbon released from Canada's planned oil extraction alone over the coming decades could account for 16 percent of the total remaining emissions the planet can afford to release while staying below 1.5°C.<sup>39</sup> Oil sands projects and supporting infrastructure like pipelines are uniquely capital intensive and long-lived, creating a lock-in effect after commissioning. Once capital is spent and projects are producing, these projects are difficult to shut down. Locked-in oil sands projects contribute to potential future oversupply in global oil production, inducing demand and undermining international efforts to reduce emissions.<sup>40</sup>

## Canada's public finance for fossil fuels in context

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.<sup>41</sup> 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.<sup>42</sup>

Another area where Canada scored poorly, placing second-to-last among the G7, was transparency around its fossil fuel subsidies. EDC also exhibits very little transparency with respect to its fossil fuel finance; issues of concern include a lack of detail about specific activities associated with individual transactions, as well as the reporting of transactions in overly-broad ranges of finance (ie. "\$100 million to \$250 million") rather than more precise figures.

### Export Development Canada's support for dirty and dodgy energy projects around the world

Within the last five years, EDC has supported scandal-plagued Petrobras, Brazil's state-owned oil company. Petrobras has been a magnet for controversy. In 2018, Petrobras agreed to pay nearly USD 3 billion to settle a shareholder lawsuit in the United States related to their corrupt practices;<sup>28</sup> Petrobras' corruption was so widespread that it reoriented Brazil's political landscape.

Beyond the rampant corruption within Petrobras, exploitation of Brazil's vast pre-salt oil reserves, which are targeted for exploration and development by Petrobras, would be disastrous from a climate perspective, given the energy-intensity of oil production in these fields.<sup>29</sup> Offshore oil production has already devastated communities, making waters too dirty to swim in, in some areas. Land defenders and fisherfolk opposing oil and gas development have been killed.<sup>30</sup> Petrobras is also expanding into areas near uncontacted tribes, and contact could threaten to destroy these communities (especially through introduction of common diseases for which they have no immunity).<sup>31</sup>

EDC has also provided recent support for Pan American Energy, a unit of BP which is playing a leading role in one of the world's most controversial fossil fuel expansion projects: the development of a shale megaproject in Argentina's Vaca Muerta region. In this region, the rights of indigenous Mapuche communities have been routinely violated, and development continues despite the fact that fifty local municipalities and one province have passed local regulation against fracking.<sup>32</sup> Pan American Energy was also allegedly involved in a USD 300 million bribery scheme in Argentina, and has also faced accusations of large-scale groundwater contamination in its areas of operation.<sup>33</sup>

# 4. CONCLUSIONS AND RECOMMENDATIONS

Assessing EDC's activities brings a stark reality into focus: in 2015, governments around the world – including Canada's – agreed that meaningfully addressing climate change requires a shift of financial flows away from carbon-intensive infrastructure. Yet, despite this imperative, Canada's annual public finance for fossil fuels is now billions of dollars above 2015 levels.

If the Government of Canada wants to demonstrate serious commitment to climate action, it must take a cue from world-leading public finance institutions such as the World Bank Group and signal an end to Canada's public finance for fossil fuels.

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

- › Amend the Act to prohibit EDC from supporting coal, oil, and gas projects, including new infrastructure which supports the production, transport, or consumption of fossil fuels (including through the Canada Account). Shift public finance for energy from dirty to clean, applying a directive to end EDC's fossil fuel finance by 2020. The Government should signal this shift in its upcoming budget.
- › Ensure that Canada's public finance for fossil fuels, including via EDC and SDTC, are considered in Canada's G20 fossil fuel subsidies self-review and peer-review processes;
- › Close the loophole that allows EDC's continued financing of domestic activities.

## **EDC should, as part of its review of environmental and social risk management policies:**

- › 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.

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