ABOVE GROUND

Ending Canada’s Public Finance for Fossil Fuels

A submission to the Standing Committee on Environment and Sustainable Development (ENVI)

May 8, 2022

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We welcome the opportunity to submit a brief for ENVI's study pursuant to Standing Order 108(2). Our brief addresses the government's commitment to "develop a plan to phase out public financing of the fossil fuel sector" and the commitment's potential to help "achiev[e] Canada's climate targets and obligations under the Paris Agreement."[1]

As we outline below, in order to respond to the urgency of the climate crisis and meet its Paris Agreement obligations, Canada must put an immediate end to all forms of public financial support for the fossil fuel sector through legally binding and enforceable measures.

These measures should apply to all Canadian public institutions that provide, or have the potential to provide, financial support for the fossil fuel sector. While our brief focuses on Export Development Canada (EDC), other relevant institutions include the Bank of Canada, the Business Development Bank of Canada, the Canada Infrastructure Bank, and Sustainable Development Technology Canada.

## Context

Current levels of global warming are having devastating effects worldwide. One in three people are exposed to deadly heat stress, half the world's population is suffering severe water shortages, and heightened temperatures and rainfall are increasing the spread of diseases in people, animals and crops.[2] There is broad scientific consensus that climate change is accelerating,[3] that the primary driver is the burning of fossil fuels,[4] and that urgent action is required to avoid further severe and irreversible adverse impacts.[5]

Despite this, between 2018 and 2020 Canada provided more public finance for the fossil fuel sector than any other country in the G20.[6] Nearly all of this financing was delivered through Canada's export credit agency, EDC. This Crown corporation provided on average $13.6 billion a year in support to Canadian and foreign oil and gas companies.[7]

In September 2021, the Liberal government was re-elected on a platform that included a commitment to "[d]evelop a plan to phase-out public financing of the fossil fuel sector, including from Crown corporations, consistent with [Canada's] commitment to reach net-zero emissions by 2050."[8] The finance and environment ministers have been tasked with developing the plan, with support from the natural resources minister.[9]

For this plan to be effective in addressing the climate emergency and ensuring that Canada meets the country's climate targets and obligations under the Paris Agreement, it must put an immediate end to all public financial support for fossil fuel companies and projects, without loopholes for unproven technologies, and through measures that are legally binding and enforceable.

1. There must be an immediate end to all forms of public financial support for the fossil fuel sector

*1.1 No new public financial support for fossil fuel exploration and production*

Canada is bound by the Paris Agreement to put forward its "best efforts" to achieve the deep cut in greenhouse gas emissions needed to limit the global temperature increase to ideally no more than 1.5°C.[10] The Intergovernmental Panel on Climate Change (IPCC) has consistently found that keeping global warming below dangerous levels requires a rapid shift away from fossil fuels.[11] The International Energy Agency says that limiting global warming to 1.5°C requires that there be no development of new oil and gas fields,[12] and a 2021 study in the journal *Nature* found that global oil and gas production must immediately start declining to stay within this critical limit.[13]

Yet in 2021 alone, EDC provided up to $513 million in support to fossil fuel companies "in relation to oil and gas exploration and production" in Canada, Colombia, Mexico and the United States (see Annex A for details). EDC also provides other types of support to fossil fuel companies – including "working capital support" and "support for Canadian direct investment abroad[14] – of which a considerable portion may be used for exploration and production.

*1.2 No new public financial support for fossil fuel storage and transportation*

Canada is the world's fourth-largest exporter of oil and gas.[15] Yet Canada is not accountable for the emissions its fossil fuel exports play in worsening the climate emergency. This is because Canada does not include in its national tally the emissions created in the countries that import and burn Canadian fossil fuels.

Between 70 and 80 percent of oil and gas emissions are generated when the product is burned.[16] Canada's oil and gas exports in 2020 generated 883 megatonnes of $CO^2$ equivalent,[17] 31 percent more than our total national emissions for the same year.[18]

Canada's global role as an oil and gas exporter is fueled by large sums of public financial support. In 2020 EDC approved a loan of up to $500 million for the construction and operation of the Coastal GasLink Pipeline,[19] which will transport gas for export to Asian markets.[20] In 2021 EDC provided up to $100 million in financing renewals to Alliance Pipeline L.P. "in relation to oil and gas transportation and storage."[21] The Alliance pipeline system enables Canada to export gas to the US market.[22] Between 2018 and 2022, the Government of Canada used the EDC-administered Canada Account to provide over $19 billion in project financing, financing renewals and guarantees for the Trans Mountain Pipeline expansion project,[23] which will transport oil for export to international markets.[24]

The federal government should deliver a plan to immediately end all forms of financial support from any public institution, including Crown corporations like EDC, for companies whose primary business is in fossil fuels. This should include all companies involved in the exploration and production of fossil fuels, as well as companies involved in fossil fuel storage, transportation and distribution.

2. There must be no exemptions for questionable emissions-reduction technologies

In March 2022, the ministers of the environment and natural resources published an opinion piece defending the inclusion of carbon capture, utilization and storage (CCUS) technologies in the government's 2030 Emissions Reduction Plan.[25] That same month EDC released its Sustainable Bond Framework,[26] which is in part directed at oil and gas companies for their "acquisition, development, construction, installation, operation and maintenance of CCUS technologies."[27] These are strong indications that Canada's plan to phase out public financing of the fossil fuel sector will include exemptions for companies and projects using CCUS.

Canada is obliged under the Paris Agreement to follow "the best available scientific knowledge" in its efforts to mitigate climate change.[28] The best available science raises significant concerns about CCUS, including that:

*2.1 CCUS cannot address the vast majority of fossil fuel emissions*

As mentioned above, the overwhelming majority of emissions associated with the fossil fuel sector – up to 80 percent – are the emissions released when products are burned. Reducing emissions from the extraction and production of the fuels, as CCUS aims to do, could at best solve only a very small portion of the problem.[29] Furthermore, as 400 Canadian climate scientists and academics have warned, the tiny quantity of carbon being captured by the industry so far is largely being used to boost oil production through 'enhanced oil recovery' operations, driving up emissions overall.[30]

*2.2 CCUS is not yet sufficiently effective at capturing emissions*

It has been five decades since the first carbon capture project[31] and CCUS projects across the global consistently fail to meet their emission-reduction targets.[32] Furthermore, CCUS technology still remains unproven at scale. The current global carbon capture capacity is 39 megatonnes – roughly 0.1% of annual emissions from fossil fuels.[33] For CCUS to play a significant role in achieving the Paris Agreement goal of limiting global warming to no more than 1.5°C, gigatonnes of $CO^2$ would need to be captured and permanently stored.[34] Many analyses have concluded that CCUS technology is not yet effective enough, and will not be sufficiently effective or available for broad use by the fossil fuel sector in the time required to meet this goal.[35]

The IPCC is clear that while there may be a role for CCUS, the fastest, least expensive and most effective pathway to reducing emissions requires a rapid transition away from fossil fuels and towards renewable alternatives.[36] Canada's plan to end public financing of the fossil fuel sector must exclude exemptions for CCUS and other unproven technologies. The plan must ensure that public institutions like EDC no longer provide financial support that prolongs global reliance on fossil fuels.

3. Measures must be <u>binding and enforceable</u>

While EDC claims to be working to "tackle climate change,"[37] the agency has repeatedly failed to develop policies that adequately respond to the climate emergency. Instead, the agency has made clear that it will not be "moving away from supporting carbon-intense sectors, such as the oil and gas industry."[38] Its approach is to "balance"[39] the need for action on climate with its mandate to "promote and support Canadian exports worldwide, across all sectors of the economy."[40]

EDC's ongoing support for the fossil fuel sector is at odds with Canada's commitments under the Paris Agreement and with effective action on climate change. The government's plan to end public financial support for the fossil fuel sector must include legal measures that prohibit EDC from providing any new support to fossil fuel companies or projects, in Canada and abroad. Such measures would ensure that EDC is subject to legislative oversight and held accountable for its decision-making.

Equivalent measures should apply to all Canadian public institutions that provide, or have the potential to provide, financial support for the fossil fuel sector. In addition to EDC, these institutions include the Bank of Canada, the Business Development Bank of Canada, the Canada Infrastructure Bank and Sustainable Development Technology Canada.

About Us

Above Ground works to ensure that companies based in Canada or supported by the Canadian state respect human rights and the environmental wherever they operate. We are an active member of the Canadian Network on Corporate Accountability and of Climate Action Network Canada. Above Ground is a project of MakeWay, a registered charity.

Annex A:

2021 EDC transactions "in relation to oil and gas exploration and production"[41]

| Date of Signing | Country of Transaction | Principal Counterparty | EDC product | Range (millions of Cdn $) | |
|---|---|---|---|---|---|
| 22-Jan-21 | Canada | Tangle Creek Energy Ltd. | Financing | 15 | 25 |
| 28-Jan-21 | Various countries | FreePort Energy Services Ltd. | Guarantee | 0 | 1 |
| 26-Mar-21 | Canada | Whitecap Resources Inc. | Financing Renewals / Amendment | 50 | 75 |
| 26-Apr-21 | Canada | Nuvista Energy Ltd. | Financing Renewals / Amendment | 50 | 75 |
| 31-May-21 | Colombia | Parex Resources Inc. | Project Financing Renewals / Amendment | 50 | 75 |
| 23-Jun-21 | Canada | Gear Energy Ltd. | Financing Renewal / Refinancing | 5 | 15 |
| 28-Jun-21 | Canada | Yangarra Resources Ltd. | Financing | 15 | 25 |
| 30-Jun-21 | Canada | InPlay Oil Corp. | Financing | 15 | 25 |
| 02-Jul-21 | United States | Canoco Energy Ltd. | Guarantee | 0 | 1 |
| 03-Aug-21 | Canada | STEP Energy Services Ltd. | Financing Renewals / Amendment | 25 | 50 |
| 04-Aug-21 | Mexico | Elevate Export Finance Corp./Vista Oil & gas, S.A.B. de C.V. | Guarantee | 5 | 15 |
| 12-Aug-21 | United States | Lumenate Technologies Inc. | Guarantee | 0 | 1 |
| 18-Aug-21 | Canada | Surge Energy Inc. | Project Financing Renewals / Amendment | 15 | 25 |
| 07-Sep-21 | Canada | Innovative Pipeline Crossings Inc. | Guarantee | 1 | 5 |
| 27-Oct-21 | Canada | Whitecap Resources Inc. | Financing Renewals / Amendment | 50 | 75 |
| 09-Dec-21 | Canada | Surge Energy Inc. | Project Financing | 15 | 25 |
| | | | Total | 311 | 513 |

Sources

[1] This brief does not address the question of whether Canada's public finance is a subsidy. It is Above Ground's position that the federal government should cease all public financial support for the fossil fuel sector, whether or not it considers that support a subsidy.
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