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Environmental Defence Canada

Comments on
Export Development Canada's Environmental and Social Risk Management Framework

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About Environmental Defence Canada
Environmental Defence Canada is Canada's leading environmental action organization, working to defend clean water, a safe climate and healthy communities. Environmental Defence challenges and inspires change in government, business and people to ensure a healthier and prosperous life for all.

Thank you for this opportunity to submit feedback on Export Development Canada's (EDC's) Environmental and Social Risk Management (ESRM) Framework. Environmental Defence is working to ensure the Government of Canada fulfills its commitment to phase out fossil fuel subsidies by 2025 and reduces greenhouse gas emissions in line with the Paris Agreement to limit global warming to two degrees Celsius or less. We are also advocating for the Government of Canada to end all non-tax measures that support the production and use of fossil fuels domestically and abroad. This includes the billions of dollars annually from Export Development Canada that finances oil, gas and coal activities. As an environmental organization that works on climate and energy policy, Environmental Defence's comments will focus on EDC's climate change policy and Disclosure Policy.

EDC's climate change policy

Oil and gas finance

EDC's May 2018 Discussion Paper on the Review of Environmental and Social Risk Management makes reference to the Paris Agreement as a development that might inform the update of EDC's climate change policy.

One of the Paris Agreement's three main objectives, in Article 2.1(c), is "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development." Recent analysis indicates that burning already-developed reserves of oil, gas and coal would far exceed the carbon budgets needed to keep global temperature increases below two degrees Celsius.[1]

Nearly every country in the world, including Canada, is formally committed to the Paris Agreement. EDC's ESRM policy includes a commitment to "take into account relevant environmental agreements signed by Canada."[2] This would include the Paris Agreement, and the explicit objective of keeping global temperatures below two degrees Celsius. Nowhere in EDC's ESRM policy does EDC commit to protecting the environment, nor does the policy place absolute restrictions on the level of environmental risk EDC is willing to accept.

Yet despite the evidence that further expansion of fossil fuel production is incompatible with ambitious climate action, EDC continues to provide extremely high levels of finance to oil and gas projects and activities while financing relatively small volumes of clean energy. Exact volumes of energy finance are difficult to determine due to EDC's lack of precision in disclosing amounts per transaction. But according to Oil Change International's analysis[3] of EDC transaction records, EDC support for fossil fuels in fiscal years 2016 and 2017 appeared to be more than 20 times greater than EDC support for sustainable, renewable energy projects over the same period. EDC continues to support companies that mine coal or rely on coal-fired power in their operations and has made no commitment to reduce support for the oil and gas sector. EDC financing of oil and gas projects puts Canada among the top four credit export agency financiers of fossil fuels in the G20.[4]

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EDC should end its financing of all fossil fuels, and its climate change policy should contain an explicit signal that EDC will phase out financing for oil and gas activities not later than 2020. EDC financing of fossil fuels is inconsistent with the Paris Agreement and the Government of Canada's commitment to do its part to limit global temperature increases to two degrees Celsius or lower. It is also inconsistent with the Government of Canada's longstanding commitment to end "inefficient" fossil fuel subsidies by 2025.[5] While EDC financing of oil and gas activities is not a public subsidy per se, it is a non-tax measure designed to support the fossil fuel industry that makes the Paris Agreement more difficult to achieve.

The May 2018 Discussion Paper on the Review of Environmental and Social Risk Management Policies published by EDC indicates that revisions to the policy could communicate how EDC "utilizes the International Finance Corporation (IFC) Performance Standards to inform our approach to managing environmental and social risks and impacts." IFC precedent and World Bank Group precedent more broadly is important for EDC to consider in revising its climate change policy. In late 2017, the World Bank Group—including the IFC—committed to end financing for oil and gas extraction after 2019, in support of the Paris Agreement's goals.[6]

EDC should build on this important precedent, and immediately adopt a policy of no longer financing oil and gas extraction, while committing to phase out financing for all fossil fuel activity by 2020 (except for very rare circumstances where no other option is available to support energy access for the poor, given that FinDev Canada, which has a development mandate, is a subsidiary of EDC).

In lockstep with ending financing of fossil fuels, **EDC should commit to dramatically and rapidly reduce the greenhouse gas emissions associated with its business portfolio. EDC should preferentially support low-emissions sectors, companies and projects, and sharply curtail its support for those associated with high emissions.**

Coal finance

EDC's 2017 coal policy should be made more stringent regarding financing of infrastructure associated with thermal coal and entities for which thermal coal makes up a significant portion of their business. In recent months a number of major financial institutions have taken steps to move away from coal finance. Most recently, this includes Lloyds Banking Group, which on August 2 stated: "Lloyds Banking Group will not fund new coal-fired power stations or thermal coal mines."[7] In late 2017, ING indicated that it intended to have "close to zero" exposure to utility clients involved in coal power by 2025, that it would phase out lending to any utility with more than five per cent of its power coming from coal, and that it would "only support new clients in the utilities sector only when their reliance on coal is 10% or less and they have a strategy to reduce their coal percentage to close to zero by 2025."[8] Similarly, Norway's government pension fund and the insurance companies AXA and Generali will not invest in companies that derive 30 per cent or more of their revenue from coal.[9]

EDC should expand its coal policy to make clear that it will not finance new coal-fired power plants or thermal coal mines, and associated thermal coal-focused infrastructure such as ports and rail links that are intended to substantially increase the transportation of thermal coal. Not only would this increased stringency align with a number of world-leading financial institutions, it would also be consistent with the Government of Canada's plan to phase out traditional coal power domestically[10] and its global leadership on phasing out coal through the Powering Past Coal Alliance.[11] It would also be consistent with Canada's commitment to phase out fossil fuel subsidies by 2025 and review all non-tax measures that support the production and use of fossil fuels.

Greenhouse gas emissions accounting

EDC should carry out comprehensive greenhouse gas analysis when considering new transactions, and the results of these analyses should guide EDC's decision-making in whether to support a given project or entity. It is imperative that such analyses be conducted in a conservative manner. To be adequate to inform decision-making, EDC must include consideration of Scope 3 emissions in addition to Scope 1 and 2 emissions.

There are precedents from some large public finance institutions that could help guide EDC's approach in consideration of greenhouse gases. For example, the French Development Agency has been considering Scope 3 emissions in relevant projects since 2012.[12] There are also precedents from some Canadian energy project regulatory processes for considering Scope 3 emissions, such as the proposal by the National Energy Board panel reviewing the cancelled Energy East pipeline project to consider downstream greenhouse gas emissions.[13] Similarly, Canada's Long-Term Infrastructure Plan applies a climate lens that requires the consideration and evaluation of greenhouse gas emissions when project proponents seek funding through the Investing in Canada Infrastructure Program.[14]

EDC should also apply an internal carbon price based on its greenhouse gas analyses to inform financial decision-making and protect against climate risk (also commonly referred to as a "shadow carbon price.") This shadow carbon price should be aligned with the upper end of the range determined by the High Level Commission on Carbon Prices, which concludes that the explicit carbon-price level consistent with achieving the Paris Agreement is at least US$40-$80 per tonne of carbon dioxide equivalent (tCO2e) by 2020 and US$50-100/tCO2e by 2030.

EDC's Disclosure Policy

EDC should provide more specific and detailed information regarding individual transactions. The financing ranges provided by EDC for each transaction are currently too broad to make an adequately informed assessment of trends in EDC's activities. In line with the ECA Watch requests for better transparency from export credit agencies, EDC should disclose:

- The name and more detailed description of the project;
- The value of financial transactions related to the project;
- All social, environmental and human rights impact assessments;
- Debt impact analyses;
- Construction and off-take agreements; and
- All project-related information that is relevant to the project risks.[15]

All of this should be disclosed at least 120 days prior to an EDC decision on the project. Transparency to this degree would significantly reduce the social, political, environmental and economic risks for investors in the project.

The Canadian public must be able to assess whether EDC is exercising its discretion over funding particular clients wisely and in a manner that is consistent with Canada's international commitments, including Canada's Paris agreement commitment to limit global warming to two degrees Celsius or less and Canada's commitment to phase out fossil fuel subsidies by 2025. Therefore, public oversight of its decisions about particular clients must be possible. EDC should disclose to the fullest extent possible information about how and why it decided to support a given project and demonstrate how its support is consistent with the Paris agreement and other international commitments on the environment.

Conclusion

Environmental Defence looks forward to continuing to work with the Government of Canada and EDC to end all subsidies, fiscal supports, export credit financing, and non-tax measures that support the production and use of fossil fuels domestically and abroad. As a crown corporation, EDC's financing activities must be consistent with the Government of Canada's commitment to the successful implementation of the Paris Agreement to limit global warming to two degrees Celsius, as well as Canada's commitment to phase out fossil fuel subsidies by 2025. In particular, EDC should reform its climate change policy to

- Phase out all EDC financing for oil, gas and coal activities by 2020, including infrastructure that is intended to substantially increase the extraction, production, transportation and use of fossil fuels;
- EDC should commit to dramatically and rapidly reduce the greenhouse gas emissions associated with its business portfolio. EDC should preferentially

support low-emissions sectors, companies and projects, and sharply curtail its support for those associated with high emissions.
- Carry out comprehensive greenhouse gas analyses to guide EDC's decision-making to support a given project or entity, including consideration of Scope 1, 2 and 3 emissions and application of a shadow price on carbon;
- Provide more specific and detailed information regarding individual transactions.

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Endnotes

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