ABOVE GROUND

January 23, 2023

Mairead Lavery
President and Chief Executive Officer
Export Development Canada

cc:
Martine Irman, Chair of the Board of Directors, Export Development Canada
Mary Ng, Minister of International Trade, Export Promotion, Small Business and Economic Development

Dear Mairead Lavery,

On December 8, the Government of Canada released its long-awaited policy guidelines for implementing the Glasgow Statement signed at the 2021 UN climate conference (COP26). Above Ground greeted the release of the guidelines with cautious optimism. We applaud the apparent breadth of the activities that fall under the scope of the policy, as well as the robustness of the conditions under which exemptions may be granted. We remain concerned, however, about ambiguities in the text that may lend to varying interpretations regarding the potential for EDC to continue financing fossil fuel development overseas.

We are therefore writing to seek clarification regarding EDC's application of the government's Guidelines for Canada's International Support for the Clean Energy Transition.

Direct financing

The policy guidelines do not provide additional precision regarding the definition of "direct" financing as it applies to EDC support. As we have stated in the past, we believe it is critical that EDC end all of its financing for the oil and gas sector, including loans, insurance, and commitments or guarantees.

To highlight the importance of including all of EDC's financial products within the scope of the Glasgow policy, we note that 43% of EDC's overall support in 2021 was provided in the form of insurance and commitments or guarantees (2021 annual report, p. 86). Out-scoping these products from the policy would potentially leave a significant portion of EDC's overseas oil and gas support in place. It would also place Canada offside other signatories to the Glasgow commitment that have published implementation policies. These countries, including the United

Kingdom[1], France[2], Sweden[3], Denmark[4] and New Zealand[5], have barred their export credit agencies from providing all forms of support, including guarantees and insurance, to the overseas oil and gas sector, except in extremely limited circumstances.

We were therefore pleased to read that EDC spokesperson Amy Minsky reportedly [told the Financial Post] that the agency "decided to stop providing both direct and indirect support for fossil fuel projects overseas." We request that EDC:

1. *Confirm that it intends to end all forms of financial support for fossil fuel projects and companies overseas as of January 1, 2023, including insurance, commitments or guarantees, and loans, both for project financing and general corporate purpose loans.*
2. *Provide us with the total volume of support provided to the oil and gas sector in 2022 in the form of insurance, commitments and guarantees, both for domestic and international companies and projects.*

Volumes and timeline

In the media release regarding Canada's Glasgow Statement implementation policy, EDC states that it possesses $2.5 billion in "existing, committed business" that falls under the scope of the Glasgow commitment, and that will not be renewed "as maturity dates are reached." We request that EDC:

3. *Confirm that this figure refers to total, rather than annual financing.*
4. *Provide the complete list of transactions that are included within this $2.5 billion.*
5. *Provide a timeline beyond which date this financing will be entirely eliminated.*

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[1] The UK's policy applies to "all direct and indirect support for which it is deemed possible to specify where funds will ultimately be deployed or how profits will be reinvested." It further states: "For financially intermediated transactions, including indirect equity investments, debt to financial institutions or corporate loans (or other fungible finance) for which it might not be possible to strictly specify where funds will ultimately be deployed or how profits will be reinvested, we will seek credible evidence that the recipients of the investments (e.g. commercial financial institutions, utilities, private or state-owned companies) are working towards aligning future activities and portfolios with the Paris Agreement. Where applicable, support should be restricted to circumstances where the applicant can credibly demonstrate that the funds requested are conducive to the low carbon transition process and the future growth of their 'clean growth' capability, and will be used to that end." See the UK's Glasgow implementation policy, p. 11.
[2] France's implementation policy contained in the 2023 budget bill (Article 152), adopted in December 2022, forbids the French state from providing "la garantie de l'État" for the export of products or services involving the near-totality of fossil fuel activities. The effect is to bar its export credit agency, BPIFrance Assurance Export, from providing loan guarantees or insurance to support the international operations of fossil fuel companies active on its territory. See explanations (in French) from Novethic and Amis de la Terre France.
[3] Sweden's two export credit agencies, SEK and EKN, specialize respectively in loans and guarantees. Their coordinated sustainability policies bar both agencies from supporting the vast majority of fossil fuel projects. See the SEK policy (p. 6) and the EKN policy (p. 7).
[4] See Denmark's implementation policy.
[5] See the New Zealand government's media release about its implementation policy.

Carbon capture

In specifying the scope of the financing to be ended, the Government of Canada defines the "international unabated fossil fuel energy sector" as denoting "the extraction, production, transportation, refining and marketing of crude oil, natural gas or thermal coal, as well as any unabated fossil fuel power generation projects, with the exception of natural gas power generation projects under the conditions set out in these Guidelines." Consistent with the above, the government defines the term "unabated" to refer exclusively to projects in the power generation sector that are equipped with "effective" operational carbon capture or equivalent technologies.

Under the Government of Canada's definitions, it appears evident that there are no projects in the upstream oil and gas sector that can qualify as "abated." A priori, overseas companies and projects outside of the power generation sector – including upstream operations and refineries – are within the scope of the policy, and would thus be barred from receiving public support, whether or not they are equipped with carbon capture technology.

The guidelines contain exemptions under which carbon capture and storage (CCS) or carbon capture, utilization and storage (CCUS) projects in the upstream or downstream oil and gas sector could theoretically be financed: notably, the second exemption for "Mitigation technologies in the oil and gas sector" that are aimed at helping "decarbonize existing facilities." Yet any CCS/CCUS projects supported under this exemption would be required to meet all of the General Exemption Conditions outlined in the policy. We request that EDC:

6. *Confirm that carbon capture projects outside of the power generation sector do indeed fall under the scope of the policy, and that such projects would thus be required to meet all of the General Exemption Conditions in order to qualify for support under one of the policy's exemptions.*

Application of exemption conditions

The government's guidelines set out a series of robust conditions that all projects would be required to meet in order to qualify for an exemption, with the exception of projects falling under the national security and humanitarian and emergency response exemptions.

7. *Can EDC indicate which organization, department or entity will be responsible for assessing the alignment of in-scope project and company financing with the exemption conditions outlined in the policy?*
8. *Does EDC (or another department or agency) commit to publishing sufficient information about this assessment process, the facts and factors considered, and the decisions rendered? If so, by what means and in what location will the public be able to access this information?*

We look forward to your response.

Cordially,

Karen Hamilton
Director, Above Ground