Recovery Through Reform: Export Development Canada’s role in fossil fuel subsidy reform

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This brief is one of three International Institute for Sustainable Development (IISD) policy briefs in its Recovery Through Reform series, which assesses how efforts to achieve a green recovery from COVID-19 in Canada rely on—and can contribute to—fossil fuel subsidy reform.

1.0 Introduction

Canada’s export credit agency, Export Development Canada (EDC), has been a primary vehicle for supports to businesses in the wake of the COVID-19 pandemic. As the federal government continues to plan for economic recovery and provision of stimulus, EDC’s role will be key. However, EDC also has a troubling history of providing public finance for fossil fuels, both domestically and abroad. This brief explores EDC’s history in providing fossil fuel subsidies and support,1 examines its current role in the COVID-19 response, and proposes concrete actions to ensure future spending is aligned with the low-carbon transition Canadians need and expect.

To meet Canada’s fossil fuel subsidy phase-out and net-zero commitments, it is imperative that EDC be brought fully on board. Recent announcements by other governments, including the United Kingdom’s commitment to end support for overseas fossil fuel projects, illustrate progress on improving public finance flows that Canada must meet or exceed. Subsidies and public finance for fossil fuels are inconsistent with Canada’s commitment to net-zero emissions by 2050.

1 IISD uses the word “subsidy” in line with the World Trade Organization’s definition of subsidies (WTO, n.d.). All of IISD’s subsidy inventories align with this definition. A full methodology of how IISD applies the definition can be seen in Corkal et al., (2020). However, governments also support the consumption and production of fossil fuels through other fiscal measures beyond traditional subsidies. Total levels of fossil fuel support among G20 countries, along with a full methodology, can be found in Geddes et al. (2020).
2.0 EDC and Public Finance for Fossil Fuels

In a recent scorecard ranking G20 levels of support provided to fossil fuels, Canada ranked last among Organisation for Economic Co-operation and Development (OECD) countries for scale of support for oil and gas exploration, production, refining, and transportation (Geddes et al., 2020). In other words, Canada provided the highest amount of support for these activities among G20 OECD countries. The vast majority of this support comes from EDC, a Crown corporation that provides an average of over CAD 13.2 billion in support for oil and gas every year, representing over 12% of finance committed by the institution. Around 30% of this finance goes toward domestic operations of Canadian oil and gas companies (Doukas & Scott, 2018).

EDC’s support for fossil fuels significantly outpaces its support for cleaner options. For example, EDC provided at least seven times more support for oil and gas than what they reported for “cleantech” from 2016 to 2019 (Tucker et al., 2020). Due to lack of transparency, it is not possible to identify in full detail what EDC means by “cleantech” or what types of sectors or businesses are supported in this category, although the majority of recipients are small to medium-sized companies (EDC, 2020a).

Transparency on EDC transactions is a significant concern. A 2018 report by Global Affairs Canada—prepared for a still-incomplete federal review—noted that EDC’s disclosure practices do not match standards set by other leading institutions and export credit agencies (Global Affairs Canada, 2018). Overall, there is a lack of transparency regarding how EDC screens potential clients for social and environmental risks, including those related to human rights (McClearn, 2019). The Export Development Act mandates a once-in-10 years federal review of EDC, but the one begun in 2018 has yet to go before a parliamentary committee to act on the recommendations made.

Because of these challenges, it is difficult to assess details of support provided for fossil fuels and what portion would qualify as fossil fuel subsidies. EDC has the ability to provide financing on better terms than would be available commercially, and its government-backed credit rating helps de-risk large projects for other investors (Doukas & Scott, 2018). However, EDC’s lack of detailed transaction-level data makes it impossible to assess subsidy levels. Yet, as a government institution, it is ultimately Canadian taxpayers who bear EDC’s risks and liabilities. A significant issue is the lack of transparency regarding when EDC writes off loans, as was illustrated in the wake of the 2008 auto sector bailout (Beeby, 2018).

Project assessments at EDC are not currently based on Canada’s domestic climate change targets or Nationally Determined Contribution (NDC) under the Paris Agreement. While Canada has recently forged ahead with an updated and expanded federal climate plan (Environment and Climate Change Canada, 2020a), EDC’s climate change policy is comparatively lacklustre. The institution’s first climate change policy was released only in 2019 and does not reference

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2 This figure is based on a 2016–2018 average as reported in Tucker et al. (2020), with the addition of 2019 data.
Canada’s NDC target. Although the announcement of a climate policy is a positive development, current targets are weak (Oil Change International et al., 2020).

The policy formalized the agency’s exclusion of support for thermal coal both domestically and internationally, but no similar commitments were made for oil and gas (EDC, 2019). EDC has pledged to reduce lending levels to its six most carbon-intensive sectors by 15% by 2023 compared to a 2018 baseline, which includes upstream oil and gas (EDC, 2019). If EDC met this commitment, it would prompt a decrease to CAD 18.9 billion from 2018 levels of CAD 22.2 billion (Oil Change International et al., 2020). However, it does not introduce concrete emission reduction targets for its portfolio, nor does it restrict funding for mid- or downstream oil and gas.

Encouragingly, EDC’s climate change policy also includes the integration of climate risks and opportunities into the agency’s risk assessment processes, along with a promise to work toward implementation of the recommendations of the Task Force on Climate-Related Financial Disclosures (EDC, 2019). However, few details are provided as to how, or whether, this will influence decision-making (Oil Change International et al., 2020). Canada’s recently introduced Canadian Net-Zero Emissions Accountability Act could improve this, as it would require government reporting on how ministries and Crown corporations are considering climate risk (Environment and Climate Change Canada, 2020b). Still, there is clearly much more work to be done to ensure EDC’s spending is in line with the government’s climate policies and Canada’s commitments under the Paris Agreement (Doukas, 2020).

3.0 EDC’s Role in the COVID-19 Response

EDC has played a significant role in Canada’s fiscal response to the COVID-19 pandemic and is slated to continue doing so. Its position in providing finance for domestic activities was established in response to a previous economic crisis in 2008. In March 2009, the federal government opted to expand EDC’s mandate to support not only international activities but also domestic businesses to provide credit and insurance when other international lenders were unlikely to. Though some of these changes were initially planned for a two-year period, provisions to allow EDC to provide domestic financing and insurance were extended and ultimately made permanent in 2014 (Global Affairs Canada, 2018). These changes are a key reason why EDC continues to provide such high levels of public finance for domestic fossil fuel production (Oil Change International et al., 2020).

In response to the pandemic, the Government of Canada made additional changes to EDC through the COVID-19 Emergency Response Act in 2020. These legislative changes further expanded EDC’s domestic mandate in order to provide liquidity to a wider range of domestic companies. Significantly, the Act increased the level of liability that EDC can incur and increased limits for liability on EDC’s Canada Account (Government of Canada, 2020a).3 Some of the

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3 EDC’s liability limits are now CAD 115 billion, up from CAD 45 billion previously. Limits on the Canada Account are now CAD 75 billion, up from CAD 20 billion (Government of Canada, 2020b, 2020c).
legislative changes are permanent, including the increases to accountability limits. Others had sunset clauses that were intended to be reviewed in September 2020. So far, these clauses have not sunsetted, and if the 2008 precedent stands, they could become permanent.

Several financing programs were created in the wake of the pandemic to provide support to Canadian businesses, delivered by numerous federal public finance institutions. Of these, the Business Credit Availability Program (BCAP) and the Reserve-Based Lending for Small and Medium-sized Oil and Gas Firms both provide support to the fossil fuel sector (Business Development Bank of Canada, 2020; EDC, 2020b, 2020c). Total levels of support provided for oil and gas are not available, but it appears that no climate-related conditionality has been applied to funding under these programs.

**Box 1. EDC’s role in oil and gas pipelines in Canada**

EDC has played a key role in financing for both the Trans Mountain Pipeline and Coastal GasLink pipeline. Early on in the pandemic, EDC confirmed it would provide up to CAD 500 million in finance for the Coastal GasLink pipeline (Ballingall, 2020).

EDC’s support for the government-owned Trans Mountain Pipeline occurs through the Canada Account, which EDC administers on behalf of government. Transactions through the Canada Account are discretionary and determined by the Minister of International Trade and by Cabinet, and are not subject to EDC’s usual due diligence processes (EDC, n.d.). So far, EDC has provided over CAD 10 billion in loans for the Trans Mountain Pipeline and expansion via the Canada Development Investment Corporation (Canada Development Investment Corporation, 2020; EDC, 2020d, 2020e).

Critically, it is the federal government, and therefore the public, that assumes risk on loans provided by EDC (EDC, 2018). Assumption of risk can be considered a subsidy, under the WTO definition, whether or not there is a default (WTO, n.d.). In addition, the Export Development Act allows for debt forgiveness by the federal government of these types of loans (Department of Justice, 2010). If this were to occur, it would also represent a subsidy. EDC plays a key role in de-risking fossil fuel projects that would otherwise be beyond the capacity of the private sector to pursue on their own (Billon & Bridge, 2017; Tucker et al., 2020).

**4.0 How EDC Can Support a Green Recovery**

Public financial institutions are key to recovery, and we have already seen the federal government leverage the Canada Infrastructure Bank (CIB) for considerable investments related to climate change (CIB, 2020). As Canada looks to diversify and transition to a low-carbon economy, EDC should be similarly leveraged, and its spending better aligned with the government’s commitment to domestic and international climate action.
4.1 Draw Inspiration From—and Match the Ambition of—Leading Public Finance Institutions

When it comes to fossil fuel support, EDC is one of the worst-performing export credit agencies in the world, as it has provided more oil and gas finance than any other G20 export credit agency (Doukas, 2020). This does not have to be the case: there are numerous international public finance institutions that have implemented more progressive and sustainable finance policies that EDC can look to mirror.

For example, the European Investment Bank has plans to end most support for fossil fuels by the end of 2021, in addition to increased lending for clean energy and strong goals for sustainable finance ("European Investment Bank Drops," 2019). The World Bank stopped financing upstream oil and gas in most countries in 2019⁴ and has targets for climate action-related lending (World Bank, 2017). The Inter-American Development Bank no longer provides finance for upstream fossil fuel activities and has also introduced a strengthened framework to better integrate social and environmental sustainability considerations, exclude certain projects deemed incompatible, and scale up climate-related projects (Inter-American Development Bank, 2020).

The United Kingdom recently announced an end to public support for overseas fossil fuel projects, including export finance (Prime Minister’s Office, 2020). Export credit agencies in France and Sweden, among other European Union export credit agencies, are taking steps to phase out support for oil and gas ("France to Rein in Export Guarantees,” 2020; Shishlov et al., 2020). In the United States, President Biden’s climate plan pledges to end U.S. export finance for fossil fuels and promises to seek a G20 commitment to stop export finance subsidies for high-carbon projects (Biden for President, 2021). Actions to further this pledge have already been made in a January 2021 executive order (The White House, 2021).

4.2 Improve EDC’s Internal Climate Policy and Targets to Align With Net-Zero Goals

There is substantial room to strengthen EDC’s current climate policy to make it a catalyst for climate action, rather than a laggard on fossil fuel subsidies and support. For this to be effective, clear, actionable targets are needed, with an emphasis on short-term action to kickstart a green recovery.

Of paramount importance is a commitment and plan to phase out public finance for fossil fuels both domestically and internationally. Canada must meet or exceed its commitments to phase out inefficient fossil fuel subsidies by 2025 (G7, 2016; G20, 2009), and there is increasing pressure internationally to stop public finance for fossil fuels (Prime Minister’s Office, 2020; United Nations, 2020). True progress on fossil fuel subsidy reform in Canada cannot happen without addressing EDC’s support for fossil fuels.

⁴ Other than “exceptional circumstances” in the world’s poorest countries where a project would contribute to energy access while still aligning with the recipient country’s Paris Agreement targets (World Bank, 2017).
Phasing out public finance for fossil fuels will help accelerate more sustainable investments while reducing related financial risk for the government and taxpayers. EDC can build on its exclusions for thermal coal finance to include oil and gas. Due to the discretionary nature of transactions made through the Canada Account, stronger measures are needed from both government and EDC to ensure that fossil finance is not provided through this account in particular.

Secondly, EDC should set clear targets for climate action-related support. While ending support for fossil fuels, EDC needs to quickly scale up support for sustainable investments to achieve climate action and economic recovery from COVID-19. Finance for renewable energy, energy efficiency, storage and transmission, clean transportation, natural infrastructure, electrification, and more is urgently needed.

Lastly, EDC’s climate change policy must align with both the federal government’s plans to achieve net-zero by 2050 and our Nationally Determined Contribution under the Paris Agreement. A portfolio-wide emissions cap in line with a 1.5°C pathway would bolster the agency’s climate credibility and send a much-needed signal to the private sector about the direction Canada’s public finance is taking to meet necessary climate ambitions. EDC should also provide transparent research and modelling to show that policies, decisions, and investments are consistent with Canada’s climate targets and Paris Agreement commitments.

4.3 Apply “Green Strings” to Finance Provided Through EDC

In addition to the recommendations above, IISD and other leading environmental organizations in Canada have outlined seven key opportunities to attach climate-related conditionalities to economic stimulus in the report Green Strings: Principles and Conditions for a Green Recovery From COVID-19 in Canada (Corkal, Gass, et al., 2020). Canada must apply these recommendations to EDC as we embark on economic recovery. This includes supporting only companies that agree to plan for net-zero emissions by 2050 and restricting support for high-carbon sectors. It also means applying strict financial conditions to ensure finance supports jobs and economic stability while contributing to a just transition that creates green jobs that can thrive in tomorrow’s economy. Finance provided through EDC, as with all government spending, must put people first and leave no one behind (Corkal, Gass, et al., 2020). This includes ensuring that investments respect human and Indigenous rights and create tangible benefits for workers and communities. Although EDC has put financial conditions on some of its loan programs,5 due to lack of transparency it is not possible to know if conditions are being respected.

Given EDC’s history of limited transparency, it also bears emphasizing that EDC must increase its transparency and accountability to Canadians (Corkal, Gass, et al., 2020). Timely reporting is needed on EDC’s supports, with improved transaction-level data to better document what sectors and projects are being supported and on what terms, as well as

5 For example, BCAP is not to be used for dividend payment, shareholder distributions, refinancing or debt repayment (Scotiabank Canada, 2020).
significant implications for greenhouse gas emissions. Improved transparency will also contribute to Canada’s overall transparency on fossil fuel subsidies. Transparency is needed not only for COVID-19-related spending but for all EDC measures.

5.0 Conclusion

Despite EDC’s track record of providing outsized support to the expansion of fossil fuel production, the institution could potentially play a critical role in ensuring Canada’s green recovery from COVID-19. However, if EDC’s current levels of support to fossil fuels continue, along with its low transparency, the institution’s actions will weaken the effectiveness of Canada’s overall climate policies while undermining our international credibility on climate change, especially when compared to other similar financial institutions internationally, which are aggressively moving in the direction of clean energy transition.

The need for climate action to be a whole-of-government approach is being increasingly recognized and implemented by governments worldwide. In particular, the transition to the Biden administration in the United States signals a major shift in climate policy, including for fossil fuel finance. Here in Canada, the federal government’s updated climate plan promises to apply a “climate lens” to ensure that government decisions reflect “climate ambitions in a rigorous, consistent and measurable manner” (Environment and Climate Change Canada, 2020a). Crown corporations and public finance institutions, including EDC, must be part and parcel of this process and fully aligned with net-zero ambition and scaled up short-term action to forge our path there. To have a fighting chance of meeting Paris Agreement targets, we cannot afford any less.
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