A submission to Export Development Canada's policy review
September 7, 2018

Please find below a submission from Oil Change International on Export Development Canada's climate change policies and disclosure policy, submitted to inform Export Development Canada's review of its Environmental and Social Risk Management Framework.

Regarding 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 may inform the update of EDC's climate change policy.

One of the Paris Agreement's three main objectives, enshrined 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.[1]

Despite this internationally-agreed objective, to which the Government of Canada is formally committed, and despite the evidence that further expansion of fossil fuel production is incompatible with ambitious climate action, EDC continues to provide extremely high levels of fossil fuel finance while financing relatively small volumes in clean energy.

While exact volumes are difficult to determine due to EDC's lack of precision in disclosing amounts per transaction, according to our analysis 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's own reporting indicates that its total volume of oil and gas finance in 2017 was nearly $10.5 billion,[2] and in 2016 nearly $12 billion.[3] This compares to less than $1 billion per year on average since 2012 in all "cleantech" sectors.[4]

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.

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[1] http://priceofoil.org/2016/09/22/the-skys-limit-report
[2] https://www.edc.ca/EN/About-Us/Disclosure/Reporting-on-Transactions/Pages/industry-sub-sector-2017.aspx
[3] https://www.edc.ca/EN/About-Us/Disclosure/Reporting-on-Transactions/Pages/industry-sub-sector-2016.aspx
[4] https://www.edc.ca/en/blog/seizing-cleantech-opportunities.html

The May 2018 Discussion Paper on the Review of Environmental and Social Risk Management Policies published by EDC indicates that revisions to policy could communicate how EDC "[u]tilizes the International Finance Corporation (IFC) Performance Standards to inform our approach to managing environmental and social risks and impacts." Indeed, IFC precedent and World Bank Group precedent more broadly is important for EDC to consider in revising its climate change policy: in late 2017, at the One Planet Summit, 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.[5]

Other major financial institutions have also made commitments to move away from oil and gas finance. For example, in 2017, BNP Paribas Group announced it will no longer do business with companies whose principal business activity is the exploration, production, distribution, marketing or trading of oil and gas from shale and/or oil from tar sands, and will also stop providing project finance for certain kinds of oil and gas activity.[6]

EDC should build on these important precedents, 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).

Regarding coal finance:

EDC's 2017 coal policy should be made more stringent regarding financing of infrastructure associated with thermal coal and entities where 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, and that it would phase out lending to any utility with more than 5 percent of its power coming from coal, and that they would "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]

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[5] http://www.worldbank.org/en/news/press-release/2017/12/12/world-bank-group-announcements-at-one-planet-summit

[6] http://www.bnpparibas.com.cn/en/2017/10/11/bnp-paribas-takes-further-measures-to-accelerate-its-support-of-the-energy-transition/

[7] https://www.lloydsbankinggroup.com/Media/Press-Releases/2018-press-releases/lloyds-banking-group/lloyds-banking-group-strengthens-support-for-low-carbon-economy-with-new-policy-on-coal/

[8] https://www.ing.com/Newsroom/All-news/ING-further-sharpens-coal-policy-to-support-transition-to-low-carbon-economy.htm

EDC should expand its coal policy to make clear that it will not finance new coal-fired power plants nor new thermal coal mines, nor associated thermal coal-focused infrastructure such as ports and rail links that are intended to substantially increase the transportation of thermal coal.

Regarding 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, and to be adequate to inform decision-making, they must include consideration of scope 3 emissions. There are precedents from some large public finance institutions that could help guide EDC's approach in consideration of greenhouse gases. For example, in France, AFD has been considering scope 3 emissions in relevant projects for several years.

EDC should also apply an internal carbon price based on its GHG 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, chaired by Joseph Stiglitz and Nicholas Stern.

Recommendations:

- EDC should commit to no longer supporting
  - Coal, oil and gas projects, including those to develop or expand infrastructure for the transport or consumption of coal, oil or gas;
  - Companies significantly reliant on coal; and
  - Companies whose primary business is in coal, oil or gas.
- EDC should commit to achieving a sharp reduction in GHG emissions across its business portfolio, by shifting its support from high-emission sectors, companies and projects to those associated with low emissions, and by applying an internal carbon price with comprehensive greenhouse gas analysis that includes scope 3 emissions to help inform investment decision-making.

Regarding EDC’s Disclosure Policy:

EDC should provide more specific and detailed information regarding individual transactions, as some other export credit agencies do (for example, the US Export Import Bank). 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.

Recommendations:

In line with the ECA Watch requests for better transparency from export credit agencies, EDC should disclose:

EDC should publish the following information about all of its transactions online in an easily accessible, downloadable format:

- Name and more detailed description of the transaction, including:
    - The country in which the financing or guarantee will be used;
    - Its intended purpose;
    - Its precise dollar value.

EDC should also strive, wherever possible, to disclose to the fullest extent possible the following information.

- A detailed description of EDC’s assessment of human rights, environmental and corruption risks associated with the transaction;
- Reports and other information reviewed by EDC to inform its risk assessment;
- A detailed description of any mitigation measures included in the contract and relevant monitoring procedures;
- The results of monitoring, including reports on site visits, any compliance issues identified, and resulting corrective or disciplinary measures.

Any information that can be disclosed ex-ante should be disclosed at least 120 days prior to a decision being taken on a transaction.

Thank you for your consideration of this submission in your review of Export Development Canada’s Environmental and Social Risk Management Framework.