

March 28, 2024

To: The Right Honourable Justin Trudeau, Prime Minister of Canada

CC: Chrystia Freeland, Deputy Prime Minister, Minister of Finance
Steven Guilbeault, Minister of Environment and Climate Change

Re: Phasing out public financing of the fossil fuel and petrochemical sectors

Dear Prime Minister Trudeau and Honourable Ministers,

We, the undersigned organizations, call on the Government of Canada to fulfill the commitment to phase out public financing of the fossil fuel sector, including derivative petrochemicals and plastics.

Many of our organizations applauded the Government of Canada's decision to end financing of the international fossil fuel sector in 2022, as well as the government's new rules eliminating inefficient fossil fuel subsidies. The new rules commit the government to aligning the provision of financial support with a pathway consistent with limiting global heating to 1.5°C and the development of a robust renewable energy sector and are therefore important steps towards aligning Canada's economic policy with its climate goals.

Despite these new policies, in 2023 the federal administration still provided over \$15 billion to oil and gas companies.¹ While these new policies have set an important precedent, they have failed to significantly reduce the level of financial support being provided to the fossil fuel industry. In large part, this is due to ongoing provision of financing to the domestic oil and gas sector by Export Development Canada (EDC). Research from the Parliamentary Budget Office shows that around 80 per cent of EDC's recent fossil fuel support flows domestically rather than internationally.²

Therefore it is critical that the Government of Canada makes urgent progress on the commitment to phase out all public financing of the fossil fuel sector by Fall 2024. Little progress has been made since the federal government first made the commitment in 2021. We are concerned that the government is not prioritizing the development of this critical policy. **Canada cannot claim to have ended support for fossil fuels until domestic public finance has been eliminated.**

¹ Environmental Defence (2023) The Running List of Federal Fossil Fuel Subsidies in Canada in 2023. Available:

<https://environmentaldefence.ca/the-running-list-of-federal-fossil-fuel-subsidies-in-canada-in-2023/>

² Parliamentary Budget Office (2023) Update on the energy sector and agriculture: federal revenue forgone from tax provisions. Available:

<https://www.pbo-dpb.ca/en/publications/RP-2324-007-S--update-energy-sector-agriculture-federal-revenue-forgone-from-tax-provisions--mise-jour-secteur-energie-agriculture-recettes-federales-auxquelles-renonce-gouvernement-federal-tit>

The Government of Canada does not need to recreate the wheel with this policy. Canada's *Guidelines for Canada's International Support for the Clean Energy Transition* are already robust in its scope and requirements for due diligence. The strongest approach would be to expand the existing policy for international public financing of fossil fuels to include domestic direct and indirect (i.e., insurance, bonding, guarantees) public financing. This would ensure a consistent approach between Canada's international and domestic financing.

However, it is still unclear how the international rules will be implemented, monitored and enforced. For both current and future policies, this must be done in a rigorous way, standardized across all departments and agencies and with full public transparency. Though EDC and other relevant crown corporations should be responsible for implementing the policy and providing regular updates, the Government of Canada, and ideally Environment and Climate Change Canada, should approve any exemptions, provide oversight and enforcement of the policy, as well as full public reporting on any fossil financing that is approved, alongside a rationale for approval.

Our recommendations for fulfilling the government's commitment to eliminate public financing include:

- By Budget 2024, communicate the government's approach to phasing out public financing of the oil and gas sector, including the scope of activities and sources of financing that will be covered.
- By fall 2024, release a new policy expanding the *Guidelines for Canada's International Support for the Clean Energy Transition* to include domestic direct and indirect (i.e., insurance, bonding, guarantees) public financing. This new policy must ensure that all public financing aligns with a 1.5°C pathway and supports the transition off of fossil fuels to renewable energy. Public financing that leads to carbon lock-in, stranded assets or continued production of oil and gas must be phased out.
- Establish clear mechanisms for the implementation, monitoring and enforcement of the public financing rules to ensure standardized implementation across relevant agencies. This must include regular and transparent reporting on all exemptions to the policy.
- Cover a wide scope of public finance. The policy should include the full range of direct and indirect financial instruments, including loans, guarantees, equity, and insurance.
- Cover the range of crown corporations and federal agencies that provide funding and loans across sectors. However, a staged approach targeting the biggest providers of fossil financing might be the most effective approach. In this case, the policy should initially include Export Development Canada (including the Canada Account), Canada Infrastructure Bank, Canada Development Investment Corporation, the Canada Growth Fund and the Business Development Bank of Canada.
- Uphold the Polluter Pays principle. The oil and gas sector should bear the responsibility to reduce emissions itself, rather than passing these costs on to the public. Furthermore, the Government of Canada is in the process of developing a regulatory framework to achieve these emissions reductions. Subsidizing regulatory compliance is an inefficient use of public funds.

- Rule out ineffective investments into carbon capture and storage (CCS) and fossil-derived hydrogen, which are being used to prolong the extraction of and reliance on fossil fuels.
- Redirect financing toward renewable energy. The policy should not only include robust conditions for phasing out domestic public financing for fossil fuels; it should also provide details on how the financing will be redirected toward renewable energy projects consistent with human rights. It should also include information on how this financing can be targeted to specific equity-deserving communities (including Indigenous, black, immigrant and low-income communities) who are already currently dealing with disproportionate rates of energy poverty.

Canada can build on its track record as an international leader in this area by being the first country to provide clear, stringent, and transparent guidelines for ending domestic public finance. On the other hand, Canada cannot meet its domestic commitments and obligations under the Paris Agreement without ending domestic financial support for fossil fuels.

Strengthen the rules eliminating fossil fuel subsidies and report on new spending measures

In addition to addressing the provision of public financing, we are concerned with remaining gaps in the government's approach to ending fossil fuel subsidies. First of all, the government must close loopholes related to natural gas, blue hydrogen, and CCS technology.

The government claims that it has developed a "rigorous analytical guide to provide clarity and transparency on the type of support it deems to be efficient and allows to continue." However, unless changes are made, this is inaccurate.

It remains unclear how the Inefficient Fossil Fuel Subsidies Guidelines, *including the due diligence criteria*, will be implemented, monitored and enforced in a standardized way across all government departments. Further guidance for departments will be critical so that departments are able to properly assess any potential expenditure related to the fossil fuel sector to ensure alignment with robust and credible 1.5°C pathways and a transition to renewable energy.

We are also concerned with the lack of public accountability, as there is currently no requirement for publicly reporting in a central repository the measures that are deemed to meet the existing criteria (i.e. the fossil fuel subsidies which are deemed to be efficient). A public inventory should be created that new measures must be entered into in a timely manner. We have heard concerns from officials that this would be too onerous. The public has the right to know, in a timely manner, when a new subsidy or support qualifies under the criteria for the different policies and what the rationale is. Furthermore, our expectation is that very few measures are deemed efficient, otherwise the credibility of the new rules is very much at risk. Only in rare, timebound circumstances could a subsidy be considered efficient.

Release the self-inventory of existing tax and non-tax measures

In 2023, the Government of Canada applied the Inefficient Fossil Fuel Subsidy Framework to existing tax Measures and 129 non-tax Measures. We are concerned that despite repeated calls to make this inventory publicly available, the government has still not done so.

The government should not use the G20 peer review with Argentina as an excuse for delay. The peer review was first announced in 2018. This process is not meant to take more than 12-18 months. Given political changes in Argentina, there is no excuse to wait until the end of 2024 to release the inventory.

The pathway to zero emissions and a climate-safe future does not include subsidies or public financing for the oil and gas industry. It's time for Canada to turn off the financial taps to Canada's most polluting industry.

Sincerely,

Environmental Defence Canada
Climate Emergency Unit
Oil Change International
350.org
Équiterre
Citizens' Climate Lobby Canada
Alberta Beyond Fossil Fuels
Windfall Ecology Centre
Kelowna Tree Protectors
Chase Environmental Action Society
Cowichan Climate Hub
GreenFaith
AidWatch Canada
One Cowichan
Climate Reality Canada
Science for Peace
Greenpeace Canada
Alberta Wilderness Association
Canadian Environmental Law Association
Re•generation
Stand.earth
Grandmothers Act to Save the Planet (GASP)
ReCommon
Mind Your Plastic
Ontario Clean Air Alliance
Protect Our Winters Canada
Amnesty International Canada (English speaking)
For Our Kids

Council of Canadians Fredericton Chapter
West Kootenay Climate Hub
Georgia Strait Alliance
For Our Grandchildren
West Coast Environmental Law Association
Council of Canadians, Edmonton Chapter
Climate Action London
Green 13
South Shore Chapter of the Council of Canadians
Parkdale-High Park 4 Climate Action
Canadian Association of Physicians for the Environment (CAPE)
Southern Alberta Group for the Environment (SAGE)
Canada Truth
Amnistie internationale Canada francophone
CineFocus Canada
Climate Action for Lifelong Learners (CALL)
Climate Action Muskoka
2 Mounties Media Inc.
Okanagan Climate Hub
Canadian Engaged Buddhism Association
Comox Valley Sue Big Oil Team
Uplift
West Coast Climate Action Network
Shuswap Climate Action Society
Citizens Environment Alliance
Seniors for Climate Action Now!
Nature Québec
Seniors for Climate Action ! Ottawa
South Durban Community Environmental Alliance
MiningWatch Canada
Canadian Health Association for Sustainability and Equity (CHASE)
Africa Network for Environment and Economic Justice (ANEEJ)
Sectoral Climate Arts Leadership for the Emergency (SCALE)
Sacred Earth Solar
All My Relations Women's Drum Group
Canadian Interfaith Fast For the Climate
Shift Action for Pension Wealth and Planet Health
Climate Action Network-Réseau action climat Canada
Friends of the Earth US
Toronto East End Climate Collective (TEECC)
Asian Peoples. Movement on Debt and Development (APMDD)
Conservation Council of New Brunswick
Office of Religious Congregations for Integral Ecology (ORCIE)
Above Ground (a project of MakeWay)

Denman Island Climate Action Network
Citizens for Public Justice
Oxfam Canada
PEI (Epekwitk) Fridays for Future Climate Action Group
Center for International Environmental Law
Oxfam Québec
The Council of Canadians
KAIROS: Canadian Ecumenical Justice Initiatives
Fundación Ambiente y Recursos Naturales (FARN)
Leadnow
David Suzuki Foundation
PEI Chapter Council of Canadians
Keepers of the Water
Toronto350