

No Canadian Taxonomy Unless It Excludes Fossil Fuels:

A guide to a taxonomy from Climate Experts

Thursday 18th April 2024

Attention of:

Chrystia Freeland, Minister of Finance and Deputy Prime Minister
Steven Guilbeault, Minister of Environment and Climate Change
Jonathan Wilkinson, Minister of Energy and Natural Resources

Dear Deputy Prime Minister Freeland, Minister Guilbeault, and Minister Wilkinson,

Climate experts support the creation of a sustainable finance labelling system (a taxonomy), but not if it includes fossil fuel related investments as eligible for the sustainability label. Over 55 climate groups from across Canada share this view.

We encourage the government to quickly deliver a taxonomy to define sustainable investments. Yet there are key criteria which are necessary for it to be credible, and for it to receive support from environmental and climate experts. As we outline below, a Canadian taxonomy must: be consistent with keeping warming below 1.5 degrees; exclude fossil-fuel related projects; respect a just transition and Indigenous rights; and formally include balanced expertise in the next stages of governance and decision making, including independent climate representatives.

In this brief, climate expert organizations from across Canada outline the parameters for a taxonomy that would credibly align with the Paris Agreement commitments of keeping global warming below 1.5-degrees.¹

A sustainable finance taxonomy is a labelling guide, or a “classification system”,ⁱ to define which projects and investments align with achieving net-zero emissions by 2050. The Sustainable Finance Action Council recommended two categories of green and transition finance investments. This can be summarized as a “sustainable investment label”, and the key criteria apply regardless of the categories.

Investments not included within the sustainable finance framework can still access investment capital, but these investments should not be labelled as sustainable. A taxonomy does not make a judgement call about

¹ Throughout this brief, when using ‘Canada’ and ‘Canadian’, the authors acknowledge the presence and history of Indigenous peoples and communities across Turtle Island, and the violence to these peoples and communities through the creation of ‘Canada’.

whether an investment is good or bad, but rather whether or not it is aligned with Canada's commitments under the Paris Agreement.

Canada is behind other regions on policy to align the financial sector with the country's climate commitments.ⁱⁱ Canada can only succeed on its climate commitments if the financial sector aligns. But in the absence of clear rules, financial flows are not yet moving in the right direction.ⁱⁱⁱ The majority of people in Canada support new regulations to clear up greenwashing in the financial sector.^{iv} Yet Canadian financial institutions face regulatory complaints for making untrue sustainability and net zero claims.^v New policy is needed to hold the financial sector accountable for its climate claims. A taxonomy would define which projects and investments are 'sustainable' and which are 'not' - but only if it is credibly aligned with ambitious climate action.

Climate experts' concerns about the Taxonomy process to date: In 2021, the Government of Canada tasked a Sustainable Finance Action Council (SFAC) to recommend parameters for a taxonomy that would define sustainable finance activities. SFAC's members included 25 of Canada's largest institutions in the banking, pension and insurance industries. Civil society groups previously raised concerns to the Government about this taxonomy process, noting that the SFAC membership did not have sufficient independent climate-related expertise to define which investments align with Canada's 2030 and 2050 emissions reduction targets, and that the process should have followed transparent and democratic consultation.^{vi} The government has not yet addressed these concerns about transparency and expertise.

The SFAC recommended to the government that subsequent stages of governance over this sustainability label include independent climate expert organizations, with formal representation for an environmental nonprofit representative. Pursuing this recommendation in the next stages of decision making, for more balanced representation, is essential for a climate-aligned and broadly supported outcome.

Climate experts' concerns about the Taxonomy content to date: There should only be a Canadian taxonomy if it credibly aligns with the overarching goals of the Paris Agreement. To align with the global scientific consensus of what is required from Canada on climate action, Canada's taxonomy must exclude any expansion of oil or gas production, as well as any carbon capture related to these sectors. Below are key principles which should determine eligibility for a project or investment under a sustainable finance labelling system in Canada.

Principles for Eligibility under a Sustainable Finance Taxonomy:

To be eligible under a sustainable finance taxonomy, a project or investment must:

1. Exclude any expansion of oil, gas or coal (fossil fuel) production, whether through new projects or expansion of existing projects, as recommended by leading climate scientists and energy economists;^{vii viii}
2. Exclude any carbon capture, utilization and storage (CCUS) related to oil, gas and coal^{ix x};
3. Align with limiting global warming to 1.5-degrees, which was defined as a global target in the Paris Agreement on Climate Change^{xi}, and be consistent with Canada's legally enshrined 'Nationally Determined Contribution' to the Paris Agreement at a minimum;^{xii}
4. Require company-based alignment, not only project-based alignment, whereby the company has a science-based and credible climate transition plan^{xiii};
5. Meet key quantitative thresholds for emissions-related performance across a project's lifetime, as is the case in other global taxonomies^{xiv};
6. Respect the Free, Prior and Informed Consent of impacted Indigenous communities and the United Nations Declaration of the Rights of Indigenous Peoples (UNDRIP);
7. Do no significant harm to other social and environmental outcomes (e.g., a just transition, social justice, nature and biodiversity);
8. Advance sustainable labour practices and a just transition in alignment with the guidelines of the International Labour Organization (ILO),^{xv} and advance decent work and quality jobs including through social dialogue, social protection and the recognition of labour rights;^{xvi}

Additionally, when implementing a taxonomy, the federal and provincial governments must

9. Consult beyond the financial sector, in particular by developing the taxonomy guidelines and framework with independent climate expertise, including balanced representation on any subsequent advisory or decision-making committees; and
10. Link the Taxonomy to other regulations, such as fund naming and securities regulations, to ensure the guidance from the Taxonomy can be enforced and is effective at mitigating greenwashing.

Conclusion

Excluding an activity or project from the taxonomy would not deprive it of funding – but the definition of ‘sustainable’ investments must truly align with the name. There should not be a Canadian taxonomy unless it credibly aligns with the overarching goals of the Paris Agreement, as detailed through the key principles above.

We thank you for working with us to advance a financial system that aligns with climate action.

Sincerely,

Environmental Defence Canada

Climate Action Network Canada (CANRAC)

Re•generation

Investors for Paris Compliance

Shift: Action for Pension Wealth & Planet Health

Stand.earth

Ecojustice

Canada Climate Law Initiative (Initiative canadienne de droit climatique)

David Suzuki Foundation

Canadian Association of Physicians for the Environment (CAPE)

Oil Change International

Protect Our Winters Canada

Équiterre

The Atmospheric Fund

Wilderness Committee

LeadNow

Climate Reality Canada

Grandmothers Act to Save the Planet (GASP)

Council of Canadians - Le Conseil des Canadies

Just Earth

Climate Action for Lifelong Learners (CALL)

Citizens Climate Lobby, Montreal Chapter

Climate Justice Thunder Bay

Etobicoke Climate Action

Parkdale HighPark 4 Climate Action
Canadian Association of the Club of Rome
Canadian Health Association for Sustainability and Equity (CHASE)
For Our Kids Toronto
ClimateFast
Alberta Wilderness Association
Seniors for Climate Action Now!
Citizens Climate Lobby
TDSB
Green 13
Say No to LNG
Youth Climate Lab
World Animal Protection Canada
East Kootenay Climate Hub
Okanagan Climate Hub
Chase Environmental Action Society
Sue Big Oil Comox Valley Team
Council of Canadians Terrace Chapter
Shuswap Climate Action Society
Wildsight Invermere
Kelowna Tree Protectors
Force of Nature (North Shore Team)
View Royal Climate Coalition
My Sea to Sky
First Things First Okanagan
Climate Justice Edmonton
West Kootenay Climate Hub
Citizens for Public Justice
Force of Nature Alliance
Canadian Interfaith Fast For the Climate
RBC Off Screen
Okanagan Transit Alliance

Endnotes

ⁱ OECD, *Developing Sustainable Finance Definitions and Taxonomies*, Green Finance and Investment (OECD, 2020), <https://doi.org/10.1787/134a2dbe-en>.

ⁱⁱ Both the European Union and United Kingdom have sustainable finance policies integrated into their 'Green New Deal' and net-zero policies. The progress of these two regions should be instructive, as they are both notable trade and political partners of Canada.

ⁱⁱⁱ InfluenceMap, "Canada's Big Five Banks: Heading to Net Zero?," March 2024, <https://influencemap.org/report/Canada-s-Big-Five-Banks-26501>.

^{iv} Pollara Strategic Insights, "Sustainable Finance Research" (Ecojustice, November 2023), <https://environmentaldefence.ca/wp-content/uploads/2023/11/Ecojustice-Sustainable-Finance-Media-Deck-1.pdf>.

^v Ecojustice, "Application for Inquiry Regarding the Royal Bank of Canada's Apparent False and Misleading Representations about Action on Climate Change While Continuing to Finance Fossil Fuel Development," June 10, 2022, https://ecojustice.ca/wp-content/uploads/2022/07/2022-06-10-Complaint-to-Competition-Bureau-re_-RBC-climate-representations-Final.pdf; Christine Dobby, "Competition Bureau Probes RBC over 'Greenwashing' Allegations," *Toronto Star*, October 12, 2022, https://www.thestar.com/business/competition-bureau-probes-rbc-over-greenwashing-allegations/article_123399d5-4cbc-5045-90d8-5a6d50f3a090.html; Investors For Paris Compliance, "Securities Complaint Asks for Investigation into Sustainable Finance Disclosures of Canadian Banks," *Investors For Paris Compliance* (blog), January 9, 2024, <https://www.investorsforparis.com/esg-securities-complaint/>.

^{vi} Katy Allen and Christine Dobby, "Why Are Canada's Big Banks Writing the Country's New Green Investment Guidelines?," *Toronto Star*, July 19, 2023, https://www.thestar.com/news/canada/why-are-canada-s-big-banks-writing-the-country-s-new-green-investment-guidelines/article_21c0361b-cc00-55f7-8c9c-e24ea3115706.html; Joe Lo and Isabella Kaminsky, "Canada Sets out Green Investments Guide amid Credibility Concerns," *Climate Home News*, March 3, 2023, <https://www.climatechangenews.com/2023/03/03/canada-sets-out-green-investments-guide-amid-complaints-of-industry-capture/>.

^{vii} Stéphanie Bouckaert et al., "Net Zero by 2050 - A Roadmap for the Global Energy Sector," Net Zero Emissions (International Energy Agency, October 2021), https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroby2050-ARoadmapfortheGlobalEnergySector_CORR.pdf; Araceli Fernández and Thomas Spencer, "Net Zero Roadmap: A Global Pathway to Keep the 1.5 °C Goal in Reach - 2023 Update," Net Zero Emissions (International Energy Agency, September 2023), https://iea.blob.core.windows.net/assets/9a698da4-4002-4e53-8ef3-631d8971bf84/NetZeroRoadmap_AGlobalPathwaytoKeepthe1.5CGoalinReach-

2023Update.pdf; Hoesung Lee et al., “IPCC, 2023: Climate Change 2023: Synthesis Report. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change,” First (Geneva, Switzerland: Intergovernmental Panel on Climate Change (IPCC), July 25, 2023), 58, <https://doi.org/10.59327/IPCC/AR6-9789291691647>.

^{viii} Note the IPCC AR6 Synthesis Report details that “Projected cumulative future CO₂ emissions over the lifetime of existing fossil fuel infrastructure without additional abatement exceed the total cumulative net CO₂ emissions in pathways that limit warming to 1.5°C (>50%) with no or limited overshoot.” (p58). In other words, our current fossil fuel infrastructure is already inconsistent with the Paris Agreement and our climate commitments.

^{ix}As of 2021, more than 80 per cent of the CCS projects attempted in the U.S. have ended in failure. One of Canada’s flagship CCS projects, Boundary Dam 3, initially promised a capture rate of 90%. It never reached that rate, so SaskPower eventually lowered its expectations to 65%—a target the facility still regularly fails to meet. CCUS diverts significant financial resources from proven - and cheaper - climate solutions back to fossil fuels. See Ahmed Abdulla et al., “Explaining Successful and Failed Investments in U.S. Carbon Capture and Storage Using Empirical and Expert Assessments,” *Environmental Research Letters* 16, no. 1 (January 1, 2021): 014036, <https://doi.org/10.1088/1748-9326/abd19e>; David Schlissel, “Boundary Dam 3 Coal Plant Achieves Goal of Capturing 4 Million Metric Tons of CO₂ But Reaches the Goal Two Years Late” (Institute for Energy Economics and Financial Analysis, April 20, 2021), https://ieefa.org/wp-content/uploads/2021/04/Boundary-Dam-3-Coal-Plant-Achieves-CO2-Capture-Goal-Two-Years-Late_April-2021.pdf.

^x IPCC notes CCUS as the most expensive and least effective mitigation technology. See the CCUS bar under ‘Industry’ bracket on IPCC AR6 WGIII, Figure SPM.7 in Priyadarshi R. Shukla et al., eds., *Climate Change 2022: Impacts, Adaptation and Vulnerability. Contribution of Working Group III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change*. (IPCC, 2022), <https://doi.org/10.1017/9781009157926>.

^{xi} UNFCCC, “Paris Agreement.”, December 2015, online: https://unfccc.int/sites/default/files/resource/parisagreement_publication.pdf

^{xii} Government of Canada, “Canada’s 2021 Nationally Determined Contribution under the Paris Agreement” (Canada: UNFCCC, July 12, 2021), https://unfccc.int/sites/default/files/NDC/2022-06/Canada%27s%20Enhanced%20NDC%20Submission1_FINAL%20EN.pdf.

^{xiii} SFAC recommends that any company issuing taxonomy aligned finance must set net-zero targets, engage in climate disclosure and transition planning. This step is vital to ensure projects accepted by the taxonomy are supported by credible transition plans. These net-zero targets must be informed by science, and supported by credible transition plans which are approved by the relevant regulators and reported on annually. For details on what a

credible climate transition plan should include please see details: Andrews et al., “Roadmap to a Sustainable Financial System in Canada: Achieving Alignment Through Credible Climate Plans.”

^{xiv} Cohesion with the best practices in other global taxonomies is important. For example, China and Russia set thresholds for the inclusion of new power generation projects in the taxonomy, whereby only projects which have emissions below 100g CO₂e/kwh are counted as sustainable.

^{xv} International Labour Organization, “Guidelines for a Just Transition towards Environmentally Sustainable Economies and Societies for All” (International Labour Organization, 2015), https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_432859.pdf.

^{xvi} UNFCCC, “UAE Just Transition Work Programme.”, 13 December 2023, online: https://unfccc.int/sites/default/files/resource/cma5_auv_5_JTWP.pdf