

Sustainable Finance Taxonomy: Methodology Report Draft for Public Comment

Submission

August 7, 2026



environmental
defence

Environmental Defence Canada's submission to Business Future Pathways' consultation on the Methodology Report for Canada's Sustainable Finance Taxonomy.

Taxonomy Foundations

1a. The first phase of taxonomy development will focus on climate mitigation. In subsequent phases of the Canadian taxonomy, which objectives should be prioritized? Please select your top choices [limit of 3 choices].

- ☒ Climate change adaptation / resilience
- ☒ Protection of biodiversity and healthy ecosystems
- ☐ Water and marine resource conservation
- ☐ Pollution prevention and control
- ☒ Circular economy
- ☐ Other (please specify)

It is proposed that the design and implementation of the Canadian taxonomy be informed by the following six principles: Credible; usable; interoperable; dynamic; regionally specific; and prioritized.

2a. Do you agree or disagree with these proposed principles as the foundation for the taxonomy?

- ☐ Strongly agree
- ☐ Agree
- ☒ Neutral
- ☐ Disagree
- ☐ Strongly disagree

2b. Please share the reason for your answer in the space provide

The proposed principles have merit. However, by attempting to accommodate the fossil fuel sector through the abatement measures category, the taxonomy may fail to meet its own standards for credibility and usability.

The credibility principle is particularly important to the core mandate of the taxonomy. The Government of Canada describes the taxonomy as “an important tool for investors, lenders, and other stakeholders, by credibly identifying “green” and “transition” investments.” Canada set out to create a taxonomy in order to “categorize investments based on scientifically determined eligibility criteria that are consistent with the goal of reaching net-zero emissions by 2050 and limiting global temperature rise to 1.5°C above pre-industrial levels.” Adding an abatement measures category is mission drift for the taxonomy, falling outside of this core mandate.

Furthermore, the ‘Regionally specific’ principle aims to reflect the varying economic and technical realities across Canada’s geography, including for northern, rural, remote, and Indigenous communities. It states that low-carbon technologies that are economically and technically viable in southern Canada may not be viable in these regions.

While it is valuable that the unique needs of these communities are considered during the taxonomy process, lowering the taxonomy’s standards regarding low-carbon technologies does not translate to benefits for these regions. Fossil fuel dependencies in these communities create negative disparities, including high energy costs, environmental damage, and unreliable services (Gharali et al, 2026). These communities stand to benefit greatly from increased investment in electrification and transmission (Hermann, 2017). If flexibility is allowed in how climate and environmental criteria are achieved for these communities, this must not translate into weaker sustainability performance requirements, lower technical screening assessments, or reduced minimum social safeguards. Furthermore, it should not be used to extend the life of fossil fuel infrastructure or delay an energy transition, as advancing the energy transition as quickly as is technically possible is what will improve outcomes for communities.

In particular, economic or technical constraints unique to northern, rural, remote, and Indigenous communities should never justify a reduced threshold for respecting Indigenous rights or enable projects that fail to uphold those rights to qualify as taxonomy-aligned. Any alternative pathways must remain fully subject to the taxonomy’s minimum social safeguards with regard to Indigenous rights, including the free, prior and informed consent (FPIC) standard where applicable.

Department of Finance Canada (2024). Government advances Made-in-Canada sustainable investment guidelines to accelerate progress to net-zero emissions by 2050.

<https://www.canada.ca/en/department-finance/news/2024/10/government-advances-made-in-canada-sustainable-investment-guidelines-to-accelerate-progress-to-net-zero-emissions-by-2050.html>

Department of Finance Canada (2025). Government announces next steps toward made-in-Canada sustainable investment guidelines.

<https://www.canada.ca/en/department-finance/news/2025/12/government-announces-next-steps-toward-made-in-canada-sustainable-investment-guidelines.html>

Gharali, K., Sarshar, S., Rafiei, B., Bahreinian, S., Fraser, R., Dusseault, M.B., Nathwani, J., Soltani, M. (2026). Renewable energy impacts on Canada's remote areas: A review study. *Energy Strategy Reviews*, 63, <https://doi.org/10.1016/j.esr.2025.102006>.

Hermann, V. (2017). The Geographies of Energy Poverty: Where North and South Intersect. *The Arctic Institute*. <https://www.thearcticinstitute.org/geographies-energy-poverty-north-south-intersect/>

3. Please rate each of the principles below on a scale from “very important” to “not at all important.”

Category	Very important	Important	Not that important	Not at all important
Credible	X			
Usable	X			
Interoperable		X		
Dynamic	X			
Regionally Specific			X	
Prioritized		X		

Do No Significant Harm and Minimum Social Safeguards

The proposed taxonomy framework for Canada includes a set of Do No Significant Harm (DNSH) criteria and Minimum Social Safeguards (MSS), which will be designed to ensure that climate mitigation objectives do not adversely impact other environmental and social values, or legal rights. It is proposed that issuers must disclose the extent to which they meet specific criteria for both DNSH and MSS in order to claim taxonomy alignment.

4a. Do you agree or disagree with the proposed partial alignment approach, which would require entities to disclose the extent to which DNSH/MSS criteria are or are not met rather than requiring full alignment with all DNSH/MSS criteria?

- ☐ Strongly agree
- ☐ Agree
- ☐ Neutral
- ☒ Disagree
- ☐ Strongly disagree

4b. Please explain your answer in the space below

Environmental Defence recommends that full alignment with the DNSH/ MSS criteria is required, in keeping with the binary approach taken by the European Union (EU) taxonomy. Under this approach, failure to meet any DNSH and MSS criteria precludes an activity from achieving taxonomy-aligned status (according to the Methodology Report). This is the same approach to the DNSH/ MSS criteria that was originally proposed for Canada in the 2022 Taxonomy Roadmap Report.

In taking the binary approach, companies seeking taxonomy-aligned finance can be allowed a short grace period to comply with the DNSH/ MSS criteria, as recommended by Sarra-Davis and Sarra

(2026). DNSH/ MSS criteria would be considered as part of the eligibility assessment for the taxonomy, and then companies could develop the due diligence processes and remedy the non-compliance or harm as a condition of eligibility during the short grace period (Ibid).

The proposed partial alignment approach would mean that projects may be considered taxonomy-aligned that fail to meet DNSH or MSS criteria related to critical factors such as biodiversity protection or Indigenous rights. Voluntary self-assessment and disclosure often fails to drive meaningful changes in corporate behaviour, especially without enforcement mechanisms (Roebuck and Alonso, 2025). Without stronger requirements to meet MSS criteria, there is a high risk of projects receiving a sustainability designation that are fundamentally incompatible with the MSS framework's stated commitment to Indigenous rights. Partial alignment risks sending the message that respect for Indigenous rights is aspirational rather than mandatory, while leaving the burden of addressing rights violations to Indigenous communities who already bear the disproportionate impacts of these failures.

Sarra-Davis, A., Sarra, J. (2026). "Trip the Light Fantastic" - Canada Must Be Principled, Practical, And Timely As It Develops Its Sustainable Finance Taxonomy. *Canadian Business Law Journal*, 72:1. <http://dx.doi.org/10.2139/ssrn.7086562>

Roebuck, K., Alonso, G. (2025). Voluntary corporate accountability doesn't work. Canada needs to mandate it. *Policy Options*. <https://policyoptions.irpp.org/2025/10/corporate-accountability-mandate/>

5a. Do you agree or disagree with the proposed scope of objectives to be covered under the DNSH and MSS frameworks?

- ☒ Strongly agree
- ☐ Agree
- ☐ Neutral
- ☐ Disagree
- ☐ Strongly disagree

5b. Please explain your answer in the space below

The proposed objectives covered in Canada's DNSH framework include climate change adaptation, protection of biodiversity and healthy ecosystems, water conservation, pollution prevention and control, and circular economy. It is proposed that the objectives covered in Canada's MSS framework include Indigenous rights, human rights, labour standards, corruption and bribery controls, and taxation integrity. All of these objectives are important to the taxonomy's integrity.

6a. Do you agree or disagree with the proposed approach to grounding the DNSH/MSS frameworks in Canadian legislation and going beyond existing laws and standards where necessary?

- ☐ Strongly agree
- ☒ Agree
- ☐ Neutral
- ☐ Disagree

☐ Strongly disagree

6b. Please explain your answer in the space below

Canadian companies should already be complying with domestic environmental and human rights law. Going beyond these in the DNSH/ MSS framework will encourage both companies and investors to meet international standards for best practice. The goal of the taxonomy has always been to set a “high standard” for what counts as sustainable, going beyond current practice to achieve the goal of reaching net-zero emissions by 2050 (Department of Finance Canada, 2024).

Adoption of international criteria should reflect Canada’s strong historical involvement in developing international declarations and principles (Sarra-Davis & Sarra, 2026). To align with the Paris Agreement, the Canadian taxonomy should recognize the importance of climate justice, human rights and equality, intergenerational equity, just transition, and food security. It is also recommended that Canada’s taxonomy align with other taxonomies, like the EU & Australian taxonomies, in their use of international standards in the DNSH/MSS frameworks.

In particular, grounding the MSS framework in Canadian legislation, including the Constitution Act, 1982, the UNDRIP Act, and DRIPA, while also recognizing the need to go beyond existing laws and standards where they fall short of meeting the minimum standards established by the UN Declaration will be necessary.

Department of Finance Canada (2024). Government advances Made-in-Canada sustainable investment guidelines to accelerate progress to net-zero emissions by 2050.

<https://www.canada.ca/en/department-finance/news/2024/10/government-advances-made-in-canada-sustainable-investment-guidelines-to-accelerate-progress-to-net-zero-emissions-by-2050.html>

Sarra-Davis, A., Sarra, J. (2026). “Trip the Light Fantastic” - Canada Must Be Principled, Practical, And Timely As It Develops Its Sustainable Finance Taxonomy. *Canadian Business Law Journal*, 72:1. <http://dx.doi.org/10.2139/ssrn.7086562>

7. In which areas, if any, is it necessary to go beyond existing laws and standards for the DNSH/MSS framework?

Canada has endorsed the United Nations Declaration on the Rights of Indigenous Peoples Act. For the MSS framework to meaningfully uphold Indigenous rights, it must go beyond existing national laws and standards where necessary to meet the minimum protections and principles affirmed in the UN Declaration. The UNDRIP represents a minimum standard and is appropriate as a MSS benchmark. Canadian legislation, including the UNDRIP Act and DRIPA, establishes a framework for bringing Canadian laws into alignment with the UN Declaration. These laws reflect Canada’s ongoing responsibility to undertake this work and acknowledge that existing laws and standards do not yet fully meet the standards set out in the UN Declaration.

Regarding nature and biodiversity, Canadian laws do not always fully reflect evolving scientific evidence or international commitments, including findings from the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services, the Kunming-Montreal Global Biodiversity Framework, Canada’s Nature Strategy, and Quebec’s Nature Plan. DNSH criteria should

help address these gaps by considering cumulative impacts, ecosystem connectivity, and alignment with internationally recognized frameworks such as the TNFD.

8a. Do you agree or disagree that different DNSH/MSS standards should apply to projects or entities of different sizes? E.g. more comprehensive disclosures required for larger projects and/or entities, with more streamlined disclosures for smaller projects and/or entities?

- ☐ Strongly agree
- ☒ Agree
- ☐ Neutral
- ☐ Disagree
- ☐ Strongly disagree

8b. Please explain your answer in the space below

While differentiating disclosure requirements for entities of different sizes makes sense to reflect an entity's operating context, it may also be necessary to differentiate by the degree and extent of an activity, entity or sector's social and environmental impacts. Smaller entities may face different capacity, resource, or reporting challenges and it is therefore appropriate that they receive guidance, support, and flexibility in how compliance is demonstrated. However, differentiated disclosure pathways must not create a lower standard that enables smaller projects or entities to bypass relevant DNSH/ MSS criteria to the activity or sector.

Canada has a high number of small and medium-sized enterprises (SMEs): As of December 2024, Canada had 1.10 million employer businesses of which 98.2% were small businesses, 1.5% were medium-sized businesses, and 0.3% were large businesses (Government of Canada, 2025). The DNSH/ MSS criteria are relevant beyond just Canada's large businesses, so differentiation by activity and industry may be necessary to streamline reporting, as well as differentiation by size. In particular, activities with a greater potential to affect Indigenous territories, resources, self-determination, or other rights may warrant more comprehensive requirements. Any simplified reporting requirements should be temporary and accompanied by a clear timeline toward full compliance. Smaller entities should be provided with simpler reporting tools, not exemptions from environmental responsibility.

Government of Canada, Key Small Business Statistics 2025.

<https://ised-isde.canada.ca/site/sme-research-statistics/en/key-small-business-statistics/key-small-business-statistics-2025>

9. Are there any gaps in the proposed DNSH/MSS framework that could result in unintended environmental or social harms?

The framework will be better structured to avoid unintended environmental or social harms if it follows a binary approach with a grace period for compliance (see response to question 4b). Under the proposed framework, an activity can achieve taxonomy-alignment status even if it fails to meet

some DNSH or MSS criteria, provided the entity discloses which criteria are not met. This could result in unintended environmental or social harms. For example, a project that is categorized as green but also causes significant environmental damage could be eligible for taxonomy financing.

Operationalizing Indigenous rights, including UNDRIP principles and FPIC where applicable, is essential to ensuring that activities designated as “environmentally sustainable” reflect genuine ecological sustainability rather than sustainability assessed in isolation from the rights, laws, and knowledge systems of the Indigenous Peoples who have longstanding relationships with those lands and waters. A taxonomy that designates activities as “environmentally sustainable” while failing to account for impacts on Indigenous rights could have significant consequences, including directing capital toward projects that may undermine Indigenous Peoples’ rights, relationships with their territories, and ongoing efforts to resolve title and jurisdictional questions.

10. How should the taxonomy operationalize the principles of the UN Declaration on the Rights of Indigenous Peoples and, in particular, the principle of Free, Prior, and Informed Consent, in the MSS framework?

The taxonomy should not mobilize the allocation of capital toward activities designated as “environmentally sustainable” without including, within its MSS framework, specific and mandatory criteria that ensure activities violating Indigenous rights cannot receive taxonomy-aligned status. Criteria should be grounded in the UN Declaration, and should exclude activities that negatively impact Aboriginal rights and title, proceed without FPIC, and undermine Indigenous Peoples’ right to self-determination. Otherwise, it risks directing capital toward projects that are environmentally sustainable in name only, while facilitating or incentivizing violations of Indigenous rights that are often not separate from environmental sustainability, but can often serve as indicators that a project is fundamentally incompatible with long-term ecological and social sustainability. In doing so, the taxonomy could inadvertently channel investment toward activities that cause, perpetuate, or exacerbate significant environmental and Indigenous rights harms. Accordingly, operationalizing UNDRIP principles - including FPIC - within the MSS framework is essential to ensuring the credibility and integrity of Canada’s sustainable finance taxonomy.

The taxonomy should operationalize UNDRIP principles (including FPIC and the right to self-determination) in the MSS framework by including specific requirements such as:

1. An economic activity shall not qualify/cannot be designated as environmentally sustainable unless it demonstrates compliance/ adherence with Indigenous rights. The taxonomy user must provide credible evidence of adherence/ compliance with Indigenous rights. Furthermore, an activity should not qualify if there is rights-holder opposition to the taxonomy user’s evidence/claim of Indigenous rights-adherence/compliance.
2. Ensure that FPIC obligations are met (not just consultation + wherever they are required by the UN Declaration, including where Indigenous rights are engaged/impacted) by requiring users to provide evidence of clear criteria/indicators, such as:
 - a. Evidence that the user recognizes the process, content and form of FPIC may vary between Indigenous Peoples and will highly depend on a rights-holder’s unique system of governance and legal order and adapted the following requirements to align with that as needed

- b. Evidence of correct identification of all affected/impacted Indigenous Peoples (recognizing that appropriate rightsholders will vary depending on the impacted Indigenous Peoples' systems of governance and legal orders (This includes recognizing that the appropriate rights-holders may be Indian Act band councils, hereditary or traditional leadership structures, or other Indigenous governance bodies, depending on the specific context).
 - c. Evidence that all necessary and relevant information was provided to the affected Indigenous Peoples in culturally appropriate and accessible formats (at the earliest possible planning stage)
 - d. Evidence that sufficient time was given for community deliberation / decision-making processes
 - e. Evidence that decisions were made through Indigenous Peoples' own representative institutions
 - f. Evidence that the community provided free/voluntary consent where required under UNDRIP (not just domestic law)
 - g. Evidence that consent was given prior to the proponent finalizing plans for carrying out activities (early on - were Indigenous governments involved at the earliest planning stage?)
 - h. Documentation that consent can be withdrawn or renegotiated if project circumstances materially change (requirement to maintain consent, not just obtain it once)
 - i. Requiring rights-holder verification and a meaningful and accessible avenue to identify, challenge, and seek review where a company's assessment incorrectly concludes that they have obtained (and maintained) FPIC) not just relying on company self-reporting/disclosure
3. Red flag exclusions for infringement of Indigenous rights should automatically disqualify an activity from receiving the designation, including if an activity proceeds without FPIC where FPIC is required under UNDRIP, infringes Aboriginal or treaty rights (as recognized under UNDRIP + s. 35/common law), proceeds over unresolved Indigenous objections, is subject to ongoing Indigenous rights litigation alleging serious violations, ignores Indigenous legal orders or governance processes, has resulted in findings of human rights violations by courts or human rights bodies, or creates cumulative impacts on Aboriginal rights.

Section 3: Activity Classification Framework

The activity classification framework proposes that the green category should be limited to activities with zero or near-zero emissions that make a substantial contribution to climate change mitigation or to activities that directly enable zero to near-zero emissions climate solutions (e.g., electric vehicle manufacturing facilities)

12a. Do you agree or disagree with this approach?

- ☐ Strongly agree
- ☐ Agree
- ☒ ~~Neutral~~
- ☐ Disagree

☐ Strongly disagree

12b. Please explain your answer in the space below

The Methodology Report states that, to align with the green category, an activity must either be (1) a zero to near-zero emissions climate solution (e.g., renewable energy and electric vehicles); or (2) an enabling activity whose direct output is a zero to near-zero climate solution (e.g., electric vehicle manufacturing facilities). It is also stated that enabling activities require some additional guardrails to ensure they align with the ambition of the green category.

While the methodology presents a strong definition for green activities, the label's value is at risk if it is not supported by a strict fossil-fuel-free framework. The Methodology Report notes that “natural gas use will be considered where relevant in prioritized sectors, such as electricity, manufacturing, and transportation sector guidance.” This suggests that methane ‘natural gas’ use is being considered under the green or transition category for certain sectors.

Environmental Defence recommends that both the green and transition categories exclude any fossil fuels. Inclusion of oil and gas-related activities in the green and transition categories conflicts with scientific baselines from the IEA and IPCC, which state there is no room for new fossil fuel supply in a 1.5°C-aligned pathway (Credible Taxonomy Canada, 2026). In the IEA’s NZE Scenario, “gas-fired generation peaks in the mid-2020s before starting a long-term decline” (IEA, 2023, p.82). Inclusion of oil and gas in the green or transition categories would invite manipulation and greenwashing from the oil and gas industry, as has been seen in other jurisdictions (Credible Taxonomy Canada, 2026). It also risks perpetuating carbon lock-in by diverting preferential capital that would have gone towards truly green and transition activities towards the oil and gas sector (Ibid).

To compare against the Australian taxonomy, green activities exclude fossil fuels with some limited exceptions for back-up power. For the electricity sector, systems running on 90% or more renewable energy are permitted to use fossil fuels for back-up purposes - but evidence must be provided of planned/ actual replacement of fossil fuels by January 2030 (Australian Sustainable Finance Institute, 2025, page 95). Similarly, for the buildings sector, all combustion of fossil fuels for normal on-site operations, including buildings, plant and equipment, is excluded. Buildings that meet all technical screening criteria (e.g. energy intensity criteria, energy efficiency requirements, use of renewable energy) but use on-site fossil fuel combustion for standby power are permitted (Ibid, page 98). The main decarbonisation levers for the building sector include removing dependency on the use of fossil fuels as an energy source (Ibid, page 97). This level of precision of fossil fuel exclusion in line with net-zero is recommended for the development of the technical screening criteria for green activities.

Additionally, Environmental Defence recommends that, at minimum, the taxonomy requires transition plans from companies within a certain timeframe after receiving taxonomy financing. The Methodology Report states that entity-level transition plans will not be required for taxonomy alignment under the green and transition categories. This is intended to enable broader uptake of the taxonomy so as to accelerate decarbonization investment. This is a departure from the recommendations in the 2022 Taxonomy Roadmap Report. It was originally recommended that issuing companies “develop a preliminary net-zero transition plan within 12 months of the issuance

and a comprehensive, science-based net-zero transition plan within 24 months thereof” (Sustainable Finance Action Council, 2022, page 34). By requiring transition plans within a certain timeframe, companies can rapidly access taxonomy financing while still producing credible transition plans.

Canadian sustainable finance policy will need to address transition plans or risk falling behind. Other jurisdictions with taxonomies, including Australia and the EU, are already advancing on transition plans (The Treasury, 2025; Cattani, 2026). In the United Kingdom, transition plans have been selected as a policy priority over a taxonomy (HM Treasury, 2025). Given that Canada lags behind on mandating climate-related financial disclosure, both the taxonomy and transition planning should be priorities to keep up with key trading partners (Segal, 2025). To deliver cohesive policy, reduce friction, and follow best practice, Environmental Defence recommends that the taxonomy maintain entity-level transition plan requirements. This would facilitate market adoption of transition plans in Canada, contributing to the taxonomy’s mandate of advancing sustainable finance and net-zero in Canada.

Australian Sustainable Finance Institute, (2025). Australian Sustainable Finance Taxonomy.
<https://www.asfi.org.au/australian-taxonomy>

Cattani, D. (2026). Omnibus or not, Climate Transition Plans remain a critical instrument for Banks where risk-based compliance meets value creation. *University of Oslo Faculty of Law*.
<https://www.jus.uio.no/english/research/groups/sustainabilitylaw/blog/2026/climate-transition-plans.html>

Credible Taxonomy Canada (2026). The Taxonomy Fossil Fuel Conflict: Why Oil and Gas Inclusion Would be Counterproductive. <https://www.credibletaxonomy.ca/research/>

HM Treasury (2025). UK Green Taxonomy Consultation Response.
<https://www.gov.uk/government/consultations/uk-green-taxonomy/outcome/uk-green-taxonomy-consultation-response>

International Energy Agency (2023). Net Zero Roadmap: A Global Pathway to Keep the 1.5°C Goal in Reach: 2023 update.
<https://www.iea.org/reports/net-zero-roadmap-a-global-pathway-to-keep-the-15-c-goal-in-reach>

Segal, J. (2025). Comparing sustainable finance policies across jurisdictions: to what degree are they cohesive with climate policy? *Grantham Research Institute on Climate Change and the Environment*.
<https://www.lse.ac.uk/granthaminstitute/news/comparing-sustainable-finance-policies-across-jurisdictions-to-what-degree-are-they-cohesive-with-climate-policy/>

Sustainable Finance Action Council (2022). Taxonomy Roadmap Report.
<https://www.canada.ca/en/department-finance/programs/financial-sector-policy/sustainable-finance/sustainable-finance-action-council/taxonomy-roadmap-report.html>

The Treasury (2025). Climate-related Transition Planning Guidance: Consultation paper. *Australian Government*.
<https://consult.treasury.gov.au/c2025-683229>

The framework proposes that the transition category should include activities that have materially high emissions today but have the potential to decarbonize sufficiently to align with the green definition (i.e., zero to near-zero emissions) by 2050. These activities are likely to experience stable or growing demand in Paris-aligned representative pathways due to a lack of technically feasible low-carbon substitutes

(e.g., major decarbonization investments in steel, cement, and chemicals manufacturing).

- ☐ Strongly agree
- ☒ Agree
- ☐ Neutral
- ☐ Disagree
- ☐ Strongly disagree

13b. Please explain your answer in the space below

A key strength of the definition is that it “would not include activities related to oil and gas production” (Methodology Report, page 25). Another strength is that it includes activities that “have the potential to decarbonize sufficiently to align with the green definition (i.e., zero to near-zero emissions) by mid-century” and with stable or growing demand in Paris-aligned pathways, such as steel, cement, and chemicals manufacturing (Methodology Report, page 29).

14a. Do you agree or disagree that the proposed guardrails for the transition category (both for the whole-of-activity and measures pathways) are sufficient to protect the science-based credibility of the category and reduce the risk of carbon lock-in, while supporting usability?

- ☐ Strongly agree
- ☐ Agree
- ☒ Neutral
- ☐ Disagree
- ☐ Strongly disagree

14b. Please explain your answer in the space below

As noted in question 12.b, Environmental Defence recommends the inclusion of entity-level guardrails for both the whole-of-activity and the transition measures pathway. Additionally, it is necessary for both pathways to have guardrails that ensure the eligible activities and facilities do not enable the production of or prolong the use of fossil fuel-based energy, including liquefied natural gas.

Environmental Defence recommends against the inclusion of fuel switching as a transition measure if it relies on lower-carbon fuels derived from waste and plastics. The Methodology Report lists examples of transition measures that include electrification as well as “installing carbon capture equipment or switching to lower-carbon fuels at a cement plant” (page 34). Fuel switching that involves low-carbon fuels derived from waste and plastics can lead to toxic emissions and undermine waste reduction goals. Burning alternative fuels, such as municipal waste or certain plastics, can release toxic substances including mercury, dioxins, cadmium, sulphur, and lead.

Fuel switching should be specified to mean switching from fossil to non-fossil alternatives, as seen in the Australian taxonomy. Non-fossil alternatives should be limited to liquid or gaseous biofuels derived from agricultural residues and wastewater to avoid deforestation and use of feed crops. Corn-based and other virgin crop-based ethanol should be excluded. Sustainable aviation fuel (SAF) may be the one exception if non-waste feedstock is used, as it is the best available technology on the market according to the Corporate Knights Sustainable Economy Taxonomy.

The report proposes that initial research on the abatement measures category should be conducted in 2027 and include select emissions-reduction measures for activities that have high Scope 1 emissions today and are unable to achieve the life cycle emissions reductions necessary to align with Paris-aligned pathways (e.g. major decarbonization investments in the upstream production, refining, and distribution of oil and gas). These are activities that are highly likely to experience declining demand as the world transitions to clean energy and alternative technologies.

15a. Do you agree or disagree that the taxonomy should include a third “abatement” category, as proposed, that covers demand-decline activities?

- ☐ Strongly agree (i.e., agree unconditionally)
- ☐ Agree (i.e., agree in principle, with conditions)
- ☐ Neutral
- ☐ Disagree (i.e., disagree because of how category is designed)
- ☒ ~~Strongly disagree (i.e., disagree on fundamentals)~~
- ☐ Prefer not to answer

15b. Please explain your answer in the space below * (Please note that this is required in order to submit your response to this question).

Environmental Defence recommends strongly against an abatement category that includes any oil and gas activities as eligible under Canada’s taxonomy. We list here 9 different issues we have identified with regards to the abatement category and the proposed guardrails. This list is informed by the Intergovernmental Panel on Climate Change (IPCC), the International Energy Agency (IEA), academic research, government publications, Canadian news, and studies conducted by think tanks and research institutes in Canada. A list of references is included at the end.

1. The proposed guardrails for the abatement measures category face a number of challenges regarding their scientific validity and practicality. First, they do not address downstream (Scope 3) combustion emissions, the vast majority of the oil and gas sector’s climate impact (Suzuki, 2025). Second, the guardrails rely on activity-level criteria but ignore entity-level transition credibility. Fossil fuel companies can invest in abatement while simultaneously expanding production. To date, no Canadian oil and gas companies have acknowledged the need for a managed decline of production. Third, distinguishing between “existing” and “new” infrastructure is nearly impossible because oil and gas operations often expand incrementally. Similarly, it seems impossible that eligible activities could be limited to those that do not extend the lifetime of existing assets - CCUS is shown to prolong the life of fossil fuel infrastructure (Davoodi et al., 2024). The only credible guardrail to protect the

taxonomy's credibility is exclusion of abatement measures for oil and gas production, refinement, and distribution.

2. The abatement measures category is fundamentally misaligned with scientific models for achieving net-zero emissions in line with the goals of the Paris Agreement. Global research from the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC) shows that oil and gas production must be rapidly phased down to limit global warming to well below 2°C (IEA, 2021; IPCC, 2022; IPCC, 2023). The abatement measures category does not contribute to the phase out of oil and gas.

Similarly, research from Canada's Energy Regulator shows that the phase out of oil and gas is necessary to achieve net-zero by 2050 in Canada. Even the Methodology report notes "most of the emissions reductions to the natural gas sector...occur as a result of declining demand rather than abatement measures in the sector" in the 2023 net-zero model from the Canada Energy Regulator. The Methodology Report also cites findings from the Canada Energy Regulator's 2026 report which suggests that global demand for oil and gas may not decrease rapidly prior to 2050. Therefore, regardless of demand decline timing, climate science shows that oil and gas production must be rapidly phased down to achieve net-zero. The taxonomy should be based on scientific baselines for achieving net-zero (e.g. Canada Energy Regulator's 2023 net-zero model, IPCC's 2022 Mitigation Pathways Compatible with Long-term Goals, IEA's 2021 Net Zero by 2050), rather than projected supply and demand trends.

3. Under the abatement measures category, listed examples of eligible technologies are not proven to provide high levels of emissions reductions. Carbon capture, utilization, and storage projects are found to be used more commonly for enhanced recovery of oil and gas for commercial purposes than for climate mitigation, and typically underperform predicted capture levels (Fraser Institute, 2026; International Institute for Sustainable Development, 2023). CCUS cannot realistically be expected to sequester more than a small fraction of emissions from Canada's overall energy sector (Ibid). For advanced economies like Canada, the IEA actually recommends early retirement of older plants rather than retrofitting them with CCUS (IEA, 2020). The IPCC notes it is one of the least feasible and most expensive solutions for the energy system (IPCC, 2023 pages 86, FN 136, 103).
4. Given that a voluntary taxonomy has no enforcement mechanism, the abatement measures category may result in capital flowing to oil and gas companies based on commitments to decarbonize that are never upheld. If oil and gas activities are not simply excluded from the taxonomy, firms can make promises to reduce emissions in the future, secure preferential capital, and then fail to deliver. Many of Canada's largest oil and gas producers made net-zero commitments that they never acted on and have since walked away from (Price & Scott, 2025). The Oil Sands Alliance in Canada originally committed to reduce emissions by 22 MT by 2030 with its CCS project, and to achieve net-zero by 2050 from oil sands production (Bulowski & McIntosh, 2026). They have received tax credits and, recently, commitments for operational subsidies, but the emissions reduction target has been revised down to 6 MT by 2035, with only an additional 10 MT by 2045 (Ibid). As there is no enforcement or oversight mechanism built into the taxonomy, there is nothing to prevent the abuse of the abatement measures category by industry.

5. There is no need for the abatement measures category or label under the taxonomy: oil and gas companies can still access funds for marginal emissions reduction measures. The taxonomy should maintain its mandate of only identifying activities that align with the climate transition. The inclusion of the category is not necessary for the oil and gas sector to continue accessing capital - the taxonomy does not prohibit investment in any sector. Canadian oil and gas companies are currently achieving windfall profits for Q1 2026 (Bakx, 2026; Canadian Press, 2026). Significant public subsidies are already available to the sector for CCUS investments (Krugel, 2026). The Government of Canada has provided \$85.2 billion CAD to the industry since 2020 (Environmental Defence Canada, 2026). Private investors can make independent decisions to invest in oil or gas related projects regardless of the taxonomy. Attaining a label under Canada's taxonomy is not necessary. The creation of a new abatement category would, in fact, be mission drift for the taxonomy.
6. Emissions reductions in the oil and gas sector are more likely to be achieved through regulation (e.g. industrial carbon pricing, an oil and gas emissions cap, methane regulations, bans, and moratoriums) than through voluntary frameworks like the taxonomy (Canadian Climate Institute, 2024; International Institute for Sustainable Development, 2024).
7. Completing an accurate net-zero taxonomy is possible - even without the creation of a new abatement category. Canada's taxonomy can maintain its credibility and keep oil and gas out of the transition category as well. The precedent to create a fossil-fuel-free taxonomy in a country that is a large fossil fuel producer has already been set by Australia (Kelly, 2026).
8. The abatement measures category would entrench carbon lock-in by directing capital towards the oil and gas sector that would have otherwise gone towards green and transition-aligned activities. Carbon lock-in occurs when fossil fuel-intensive systems perpetuate, delay or prevent the transition to low-carbon alternatives. The Methodology Report acknowledges that the abatement measures category poses a high risk of carbon lock-in. By including the abatement measures category, capital that would have flown towards green and transition activities may instead flow towards the oil and gas sector - which perpetuates carbon lock-in.
9. It is inherently contradictory to include activities that are "unable to achieve the life cycle emissions reductions necessary to align with Paris-aligned global pathways" while "anchoring the taxonomy in the ambition of the Paris Agreement" (quotes from Methodology Report).

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The report proposes an illustrative list of guardrails for the abatement measures category that, if formally developed and finalized, would be designed to prevent carbon lock-in and ensure the abatement measures category remains credible within a Paris-aligned framework. When thinking about the taxonomy’s credibility and usability, please provide feedback on this illustrative list of guardrails.

16. Should any additional guardrails be considered?

The only guardrail that could protect the taxonomy’s credibility and scientific validity is exclusion of all oil and gas activities.

17. Is there any other feedback you would like to provide on the proposed activity classification framework?

The taxonomy’s activity classification framework should serve as a science-based gold standard for defining sustainable economic activities in Canada, as was the mandate for the Canadian taxonomy. The framework should be grounded in scientific baselines for achieving net-zero (e.g. IPCC’s 2022 Mitigation Pathways Compatible with Long-term Goals, IEA’s 2021 Net Zero by 2050) and the taxonomy process should be insulated from market actors’ interests. A third category for oil and gas should not have to be created to protect the green and transition categories from industry pressure. The taxonomy will be more usable, not less, if it excludes the abatement category due to the cumbersome reporting requirements and complex criteria associated with the category.

Section 4: Technical Screening Criteria

18a. Do you agree or disagree with the proposed approach for developing technical screening criteria?

- ☐ Strongly agree
- ☒ Agree
- ☐ Neutral
- ☐ Disagree
- ☐ Strongly disagree

18b. Please explain your answer in the space below

Yes, engagement with Indigenous-led organizations, technical experts, industry representatives, and international advisory groups will be particularly valuable to the process of developing technical screening criteria.

19. Please rate each of the proposed elements for the screening criteria on a scale from “very important” to “not at all important.”

Criterion	Very important	Important	Not that important	Not at all important
Forward-looking wherever possible	X			
Include sunset and/or sunrise dates where relevant	X			
Revise as necessary during regular review periods	X			
Primarily use quantitative metrics	X			
Primarily focus on Scope 1 emissions but address Scope 2 and 3 emissions where feasible and/or material	X			
Informed by a range of robust methods	X			

20. When thinking about the taxonomy’s credibility and usability, how technologically specific or prescriptive should the technical screening criteria be?

The taxonomy should be similarly specific and prescriptive as the Australian taxonomy, which relies on performance-based standards for emissions intensity as well as prescriptive definitions of what does or does not count (e.g. buildings sector exclusion of all combustion of fossil fuels for normal on-site operations, specific list of eligible technologies that count as transition measures). It also relies on external standards for products (e.g. energy labels, buildings ratings).

21. Do you agree or disagree with the proposed approach of focusing primarily on Scope 1 emissions, and addressing Scope 2 and 3 emissions where feasible and/or material?

Environmental Defence would encourage the Council to address Scope 2 and 3 emissions as much and as soon as possible, as these are frequently higher and more material to global emissions than Scope 1 emissions. The Methodology Report notes that taxonomies in other jurisdictions have formulated technical screening criteria to address Scope 2 and 3 emissions for industries where these represent the majority of emissions. The Canadian taxonomy should build on these existing best practices.

22. Overall, how satisfied are you with the proposed sustainable finance taxonomy framework?

- ☐ Very satisfied
- ☐ Satisfied
- ☐ Neutral
- ☒ Unsatisfied
- ☐ Very unsatisfied

23. Is there any other feedback you would like to provide on the methodology report as a whole that has not already been covered?

Environmental Defence recommends that the taxonomy framework uses the framing and criteria of credible transition pathways and emission reduction requirements, rather than demand growth or decline, in its filtering process for sectors. Currently, the methodology takes a demand-centric framing, categorizing certain sectors depending on projected demand growth or decline. However, scientific baselines for achieving net-zero (e.g. Canada Energy Regulator's 2023 net-zero model, IPCC's 2022 Mitigation Pathways Compatible with Long-term Goals, IEA's 2021 Net Zero by 2050) show that certain activities must decline in order to limit global temperature rise to 1.5°C above pre-industrial levels. However, the mandate of the taxonomy is to identify which investments advance Canada to net-zero. The framing of demand, rather than emission reduction transition pathways, is imprecise for the purpose. The taxonomy should identify which economic activities reduce Canada's emissions footprint in line with net-zero directly, rather than base the recommendations on demand speculations.

Additionally, Environmental Defence recommends that nuclear energy is excluded from the taxonomy. In Ontario, building two proposed nuclear plants could cost between \$221-billion and \$294-billion, more than double the cost of expanding renewable energy supply (Power Advisory, 2026). A typical residential customer would pay between \$240 and \$456 more for electricity per year if the nuclear plants were built instead of renewables (Ibid). The Methodology Report does not address the topic of nuclear energy. Based on the cost-benefit analysis for Canadians, and the taxonomy's role in identifying how Canada can achieve net-zero, it is recommended that the taxonomy prioritize renewable energy and not include nuclear energy in the electricity sector.

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Supporting Documents: You can upload up to 5 files

1. ["Trip The Light Fantastic" - Canada Must Be Principled, Practical, And Timely As It Develops Its Sustainable Finance Taxonomy](#)
2. Environmental Defence, [Gas is Not Green WHY GAS DOES NOT BELONG IN A CANADIAN SUSTAINABLE FINANCE TAXONOMY](#)
3. [ENVI Study: IMPACTS OF CANADA'S FINANCIAL SYSTEM RELATED TO THE ENVIRONMENT AND CLIMATE CHANGE](#) Report of the Standing Committee on Environment and Sustainable Development



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