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Chair: Mr. Francis Scarpaleggia





# Standing Committee on Environment and Sustainable Development

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• (1105)

[*English*]

**The Chair (Mr. Francis Scarpaleggia (Lac-Saint-Louis, Lib.)):** Good morning, colleagues. It's nice to see you all this morning.

Welcome to our witnesses. All the witnesses are online for this first panel.

To the witnesses, if you are not speaking, would you keep your mics on mute.

We have with us this morning—

**Mr. Dan Mazier (Dauphin—Swan River—Neepawa, CPC):** Chair, I have a point of order.

There have been multiple requests from the parties to get Mark Carney here to be a witness at this study. I was wondering if you have heard back from him at all.

**The Chair:** I haven't personally, but maybe our team here has.

He's available in October, apparently.

**Mr. Dan Mazier:** Does he plan on coming?

**The Chair:** I believe so. We're going to have a steering committee at 3:30. We can discuss all of these potential witnesses.

**Mr. Adam van Koeverden (Milton, Lib.):** I apologize, Mr. Chair, but that's not a point of order. That's in-committee work. I think that's where we should discuss that, in camera.

**The Chair:** Yes, that's why I said we'll discuss that in the steering committee. Thank you, Mr. van Koeverden.

We have with us Peter Dietsch, professor at the University of Victoria, who's testifying as an individual. We have from the Canadian Climate Institute, Jonathan Arnold, acting director, clean growth. From the Carbon Tracker Initiative, we have Mr. Michael Coffin, head of oil, gas and mining.

We'll start with Professor Dietsch for five minutes, please.

**Dr. Peter Dietsch (Professor, University of Victoria, As an Individual):** Thank you for inviting me as a witness to your committee.

I'd like to start by acknowledging the Lekwungen people from whose territories I'm zooming in today.

[*Translation*]

I will make my presentation in English, but then I will be happy to answer questions in French.

[*English*]

In a nutshell, here's what I'm going to show in the next five minutes. I will argue that our current financial infrastructure throws a wrench in the green transition. I'll proceed in four main steps. I will look at the main policy approach today, explain where that approach goes wrong and why, and I will look at the situation here in Canada in particular. Finally, I will finish with a concrete policy recommendation.

**The Chair:** Professor, we're having trouble with interpretation.

[*Translation*]

**Ms. Monique Pauzé (Repentigny, BQ):** I couldn't hear the interpretation, but think it's fine now.

[*English*]

**The Chair:** Everything's good now. Please continue.

**Dr. Peter Dietsch:** Okay. You've just heard the four steps.

Step number one is the main policy approach today.

There are many different ideas out there about how to facilitate the green transition. However, here's something that policy-makers globally seem to agree on today. They agree that relying on government spending alone will not be enough for a successful green transition and that private investment will be needed too.

This is why different policy frameworks try to incentivize private investment in green energy. Think of the Biden administration's Inflation Reduction Act, or here in Canada, the clean fuels fund. Now, what all these initiatives are betting on is that investing in green energy will be sufficient to bring emissions down and to meet our climate goals. This, I will argue, is a mistake because it's based on a misunderstanding of how our financial system actually works.

To see why that's the case, consider two features of contemporary economies. The first feature is money creation. Many people think of commercial banks as intermediaries. Robin needs to put in some money before Chris can take out a loan. It's true that banks are intermediaries, but they're not just intermediaries. Their banking licence enables them to create money out of thin air, and they will do so if they think the borrower will pay the money back. There are some regulatory constraints on this, but they're not very restrictive.

What this means is that if a bank thinks that a fossil fuel project will be profitable, it will provide a loan. The other important thing to realize here is that no licensed bank in an economy such as Canada's can extend any loans without the support of the central bank, and in our case, it's the Bank of Canada. This support takes many forms, including clearing the money the commercial bank has lent through the national payment system. In other words, it would be misleading to call money created by commercial banks "private finance". Instead, this is public money creation outsourced to private institutions.

Let's move on to the second feature of contemporary economies: negative externalities from greenhouse gas emissions.

We know that market prices don't incorporate the social and environmental costs of climate change, which are huge. Various forms of carbon pricing, including carbon taxes, try to correct for this inefficiency and raise the price of carbon-intensive activities to a sustainable level. However, economic models tell us that today's carbon prices are nowhere near where they would need to be. Notice what this means. Many fossil fuel projects that are unsustainable and inefficient will still be profitable.

Now step back and ask yourself what happens when these two features of contemporary economies that I've just described occur at the same time. In short, commercial banks will keep lending to the fossil fuel sector. They can keep lending to the fossil fuel sector because there's no firm limit on their lending. They will keep lending because they deem that sector to be profitable. As long as carbon prices remain inefficiently low due to political choices, this will indeed be the case.

In other words, all the green investments our current policies are encouraging will not stop commercial banks from lending to fossil fuel projects; they'll simply do both. We will end up with more and cheaper energy, but we won't bring emissions down.

If you saw the early estimate for 2023 emissions published by the Canadian Climate Institute last week, we're at 702 megatonnes. That's only slightly down from the year before, and the subcategory of emissions from oil and gas is actually up.

This brings me to my third point: the situation here in Canada.

Since the adoption of the Paris Agreement in 2015, the world's 60 largest banks have provided \$6.9 trillion in financing to fossil fuel projects, with \$705 billion U.S. coming in 2023 alone. Five Canadian banks are among the top 21 banks lending to fossil fuels worldwide, and they have provided a total of \$911 billion U.S. to the sector since 2015. What I want to re-emphasize here is that this is not private lending. This is lending that happens under the auspices of central banks, including the Bank of Canada, and this lending is therefore a political choice.

If you talk to representatives of the Bank of Canada, they're likely to contest part of what I've said. They will say that climate considerations are not part of their mandate, and this is true. However, notice that this is entirely compatible with their policies having significant side effects on climate and on climate policy.

Finally, this is point four: policy recommendations.

In light of this analysis, what could be done? How could we stop our financial architecture from putting a wrench in the green transition and instead mobilize it for effective climate mitigation?

What we've seen is that it's not enough to turn the financial capital—

● (1110)

**The Chair:** Excuse me, Professor. I've allocated a little extra time because of the interruption around interpretation, but if you could wrap it up in about 10 seconds, there will be time in the question and answer period for you to raise a lot of the points.

**Dr. Peter Dietsch:** Okay.

What we need is a credit policy. We need to attach conditions to the capacity of commercial banks to create money through credit.

[*Translation*]

Let me just summarize in French what I said. I said that current policy to mitigate climate change contains a major gap. Encouraging investment in green energy is not enough to achieve the green transition. We need a credit policy.

**The Chair:** Thank you very much.

We'll now go to Mr. Arnold, from the Canadian Climate Institute.

Mr. Arnold, you have the floor for five minutes.

[*English*]

**Mr. Jonathan Arnold (Acting Director, Clean Growth, Canadian Climate Institute):** Thank you for the opportunity to meet with the committee this morning.

My remarks today focus on four policy insights from the Canadian Climate Institute's research and our work with the sustainable finance action council on developing a green transition taxonomy in Canada.

The first insight is that climate change and the global response to it is quickly transforming the fundamentals of economic competitiveness. The costs of climate change are increasing rapidly and already costing Canadian households billions of dollars. These costs will continue to rise as extreme weather events become more frequent and will be a drag on the financial system and economic growth.

At the same time, a combination of markets, technology and policy is accelerating the energy transition faster than what most experts thought possible even just a few years ago. Renewables such as wind and solar are being deployed faster and cheaper than any other source of electricity in history. Over 70 countries have now committed to net zero by mid-century, which covers over 90% of global GDP, 80% of global oil demand and 75% of global natural gas demand. All of these trends are reshaping what competitiveness means in the global economy.

The second insight is that the architecture of the global financial system is aligning with this new economic future through standards for climate-related disclosure, taxonomies and transition plans. On climate-related disclosures, countries representing more than half of global GDP have either adopted or are in the process of adopting the ISSB's standards. This includes the European Union, the United Kingdom, Japan, Australia and Brazil. Thirty countries have either adopted or are developing their own sustainable taxonomies. This list includes most of the G7 and G20 countries, plus many developing economies.

Efforts to standardize corporate transition plans for businesses and financial institutions are also well under way. The U.K.'s transition plan task force has set a gold standard for what credible transition plans look like, while the IFRS—the body responsible for setting global accounting standards—is now adopting this work in full. These developments are standardizing and improving information in capital markets, ensuring transition and physical risks from climate change get priced into how capital gets allocated. This helps reduce greenwashing and drives investments that are genuinely aligned with global climate goals, both of which help reduce systemic risk in Canada's financial system.

The third insight is that falling behind on these emerging global standards will compromise Canada's ability to attract capital. Transitioning Canada's economy to compete in the global energy transition requires an additional \$80 billion to \$115 billion annually. Most of this capital will need to come from the private sector and foreign investors in particular, given the relatively small size of Canada's economy. The U.S. Inflation Reduction Act is amplifying the competition for attracting these investment dollars.

These facts stress why it's imperative that Canada keep up with global standards in climate-related disclosure, transition plans and taxonomy. On one hand, investors and lenders looking for opportunities within Canada will expect the same level of high-quality and consistent rules set internationally. Without complete and comparable data, investors and lenders will underinvest due to this higher risk. On the other hand, Canadian multinationals are increasingly exposed to more stringent reporting and disclosure standards in other jurisdictions. A 2024 report by the Institute for Sustainable Finance found that over 1,300 Canada-based companies will be subject to the EU's new sustainability reporting standards.

The fourth and final insight is that strengthening Canada's financial architecture coupled with strong climate policy can improve the country's long-term competitiveness. So far, Canada has been slow to adopt global standards in all three areas and should accelerate these efforts. On disclosure, the Canadian sustainability standards board is in the process of adopting globally aligned disclosure standards, but it's facing pressure to weaken them. Canada has also

been slow to develop a green transition taxonomy. The sustainable finance action council's 2023 "Taxonomy Roadmap Report" was supported by the country's 25 largest financial institutions. However, efforts to establish a national standardized taxonomy have yet to get under way.

Overall, maintaining and growing Canada's market share in the energy transition will hinge on its ability to attract capital. Matching or surpassing international standards will help the country get there. In fact, Canada is well positioned to take a global leadership role in these areas. The SFAC taxonomy road map provides the first sophisticated framework for labelling transition investments, designed to help Canada transition its existing emissions-intensive engines of growth. Done well, Canada could play an outsized role in promoting the adoption of this framework in other emissions-intensive economies. Having one of the ISSB offices located in Montreal also gives Canada a unique leadership platform and responsibility.

In addition to accelerating these foundational pieces of financial architecture, other key policies are important complements to improving Canada's long-term competitiveness. Among these, Canada's industrial carbon-pricing system is driving the bulk of emissions reductions in the Canadian economy, while also protecting the competitiveness of individual sectors and helping to attract low-carbon investment.

• (1115)

Thanks for the opportunity to discuss these important issues, and I look forward to your questions.

**The Chair:** Thank you very much

We'll go straight to questions.

We'll start with Mr. Kram for six minutes.

**Mr. Michael Kram (Regina—Wascana, CPC):** Thank you very much, Mr. Chair.

Professor Dietsch from the University of Victoria, I read with interest the book that you co-authored, entitled *Do Central Banks Serve the People?* I suppose now might be a good time for a spoiler alert for anyone watching at home, but, Professor, do central banks serve the people?

**Dr. Peter Dietsch:** Yes, they do, but we can always do better.

This is a very good question to reframe what I said earlier. Central banks' main mandate today in most countries is the narrow mandate of price stability. For a long time, I would say for most of the postwar period, that was a good mandate, because what central banks did to promote price stability did not have too many unintended side effects on other policy objectives.

Now, with the financial crisis, with the COVID crisis and with the new instruments that central banks have been employing, there have been more unintended side effects of these policies on other policy fields, including wealth inequality and the climate. That's why we're in a position where we have to rethink the interaction between what central banks do and what other parts of government do.

What I tried to show earlier is that something that happens under the supervision of the Bank of Canada, namely bank lending, throws a wrench in the green transition. I think that's something that we need to realize and act upon.

**Mr. Michael Kram:** Professor, in your book, you talk about a lack of transparency at central banks and the lack of response to the criticism that central banks take.

Can you elaborate on these points a little bit?

**Dr. Peter Dietsch:** It's tricky, because what central banks do today is watched by financial markets and every word is put on the scale, so the official communication of central banks is relatively restricted.

They have become more transparent, but one of the aspects that we criticize in the book is that there is no open political debate about the substantive issues concerning what central banks do and what the unintended side effects are. If you look again at the concrete point that I made earlier, the fact that the Bank of Canada, in our case, implicitly accepts all the lending by commercial banks in Canada is not something that is widely discussed as a political issue.

**Mr. Michael Kram:** If the Bank of Canada were to adopt this taxonomy system, and after some time there are problems with the system that need to be corrected, how do we avoid some of the problems that you identified in your book, with the lack of response to criticisms and the lack of willingness of central banks to correct their past mistakes?

**Dr. Peter Dietsch:** I think there are good models in the past and in the present for how to do these things. For instance, in Asian countries, there's much more coordination between governments and central banks. In the past, in countries such as Canada or in European countries, there was much more coordination between what the government does and what the central bank does.

Today we have a very strong independence framework, and there are justifications for that. We have to be careful in tinkering with the system that we have, but at the same time the unintended side effects, in this case on the climate, are becoming too important to ignore.

• (1120)

**Mr. Michael Kram:** There has been an idea debated in this Parliament that central banks and the Bank of Canada should be subject to audits by the Auditor General's office

In your opinion, Professor, would this offer a greater degree of transparency for the Bank of Canada if it moves forward with this taxonomy system?

**Dr. Peter Dietsch:** The devil's in the details. There are many ways to implement this coordination that I talked about. I'm not going to endorse one over the other at this point. What I'm arguing is that we need this coordination so that the right hand of the government doesn't undermine what the left hand does.

Right now we have a commitment to climate goals. What I've tried to show is that central bank action, or what happens under the supervision of central bank action, throws a wrench in the green transition. That's what needs to be addressed. There are many ways to do it.

**Mr. Michael Kram:** Okay. Thank you.

Maybe I'll switch gears to Mr. Arnold from the Canadian Climate Institute.

Mr. Arnold, what would happen to the rates of return on pension funds and mutual funds if chartered banks focused less on rates of return and more on complying with the taxonomy system provided by the Bank of Canada?

**Mr. Jonathan Arnold:** Some of the research we've done in this area suggests that financial institutions may be investing in green and transition assets at a lower level than what they would otherwise because of the lack of standardized information.

This is actually not about changing or modifying the mandate of financial institutions, like pension plans, which are still going to have a fiduciary duty to the customers they represent.

**The Chair:** Thank you. We'll have to stop there.

Mr. van Koeverden, go ahead.

**Mr. Adam van Koeverden:** Thank you very much, Mr. Chair.

Thank you to the witnesses for joining us. We're always so grateful for expertise and for people who do this research for a living and come to our committee to provide us with wisdom and insight.

My first question will be for Professor Dietsch.

Professor Dietsch, earlier this year, our government brought forth Bill C-59, which contains a truth in advertising amendment that requires corporations to provide evidence to support their environmental claims. Subsequent to that, the Pathways Alliance, a group of oil sands companies, removed all of their website and social media content from the Internet.

The Competition Bureau defines greenwashing as false or misleading environmental ads or claims, or environmental claims that seem vague, exaggerated or not accompanied by supporting statements. It's fairly clear that we've seen that type of behaviour or conduct from the oil and gas sector in Canada, but in your view, are there financial institutions in Canada that are also greenwashing when they use broad terms like "sustainable finance" without backing them up with data?

**Dr. Peter Dietsch:** I think I would agree that there is—

**Ms. Laurel Collins (Victoria, NDP):** Mr. Chair, I have a point of order.

I'm sorry to interrupt. Did we miss one of the witnesses?

**The Chair:** Yes, we did. I was going to bring that up after Mr. van Koeverden.

I apologize, Mr. Coffin.

**Ms. Laurel Collins:** I just think, to give all of the MPs the opportunity to ask questions of all of the witnesses, maybe we could allow him to have his five minutes before Mr. van Koeverden.

**The Chair:** Okay.

I apologize, Mr. Coffin. I'm really sorry about that. Go ahead for your five minutes and we'll pick up after. It's a tough one. Sometimes you don't see somebody in front of you. Anyway, I apologize.

Go ahead, please, Mr. Coffin.

**Mr. Michael Coffin (Head of Oil, Gas and Mining, Carbon Tracker Initiative):** Good morning, and thank you for the opportunity to speak.

Climate change is absolutely the defining challenge of the century and will give rise to increasingly severe financial risks unless we accelerate climate action. Risks include not only the cost of adapting to physical impacts, for example, increased fire and hurricane intensity, but also those related to transitioning businesses as policy-makers act to attempt to avert the worst physical aspects. Transition risks include both policy and regulatory-related transition risks, predominantly focused on decarbonizing activities, and technology-related transition risks related to changing demand patterns and consumer preferences.

Individual sectors are impacted differently by these climate-related financial risks. They are, however, all interrelated. Policy action to reduce the physical impacts on sectors such as agriculture drives policy action to decarbonize others, such as transport—for example, mandates to shift to electric vehicles. In turn, this reduces demand for oil products for transport fuels via substitution. Coal and gas are similarly impacted as electricity is increasingly generated from renewables.

Climate risks are felt by businesses across all sectors and, by extension, their investors. This is particularly so for investors with long-term liabilities invested across a broad cross-section of the market—universal owners—including defined benefit pension schemes. Given many such schemes—including four of the five largest Canadian funds by assets under management—are state-backed, climate risk is ultimately held by governments and taxpayers. Climate change must be viewed as a systemic financial risk to

markets, and politicians who dismiss climate risk as a woke concern do so at their own peril.

From the Canadian economic perspective, agriculture is a big sector, highly exposed to physical impacts, while also a major fossil fuel extractor and exporting economy. As European banks increasingly turn away from fossil fuel lending, these risks are becoming concentrated within the Canadian financial system. Lower long-term demand for oil and gas exports will also impact our system.

Investors must consider the impacts of these climate-related financial risks on portfolios and use appropriate climate models and scenario analyses to do so. Pension funds should keep the methods they use to assess risks current and keep members informed on how they are managed.

Current practices in the investment industry have major shortcomings, however. A range of key players, from investment consultants to pension funds and banks, rely on economists' flawed research to map warming to future GDP damages, informing investment decisions as well as supervisory stress tests. Such economists' work is generally self-referential, generally ignoring critical feedback from climate science.

Invalid assumptions within one such model, the DICE integrated assessment model from William Nordhaus, include, one, that industries not exposed to weather will be unaffected by global warming, which also ignores the two types of transition risks I described earlier, and two, a quadratic function is appropriate to extrapolate damages, despite other functions—for example, an exponential function—equally fitting our historical data but projecting far greater climate impacts.

Such damages are likely greater for a given temperature and occur sooner in time. They will likely have a greater cost in present value terms—i.e., the financial costs are less discounted—so the benefit of climate action is underestimated within the financial system.

Carbon Tracker's report "Loading the DICE" warned that, "Following the advice of investment consultants, pension funds have informed their members that global warming of 2-4.3°C will have only a minimal impact upon their portfolios." Another study looking at economists' projections suggested a 5°C world would lower GDP by 10% and a 7°C world by just 20%, which cannot conceivably be reconciled with climate scientists' warnings that such temperature rises will be an "existential threat" to human civilization.

Ultimately, financial institutions, central banks, regulators and governments have all been misled by such models, underestimating the dangerous and likely economic damages of climate change.

While that report was focused on U.K. pensions, it featured in the Canadian press and findings were applied to a number of Canadian pension funds including AIMCo, PSP, IMCO and others, where a "lack of disclosure leaves plan members [ultimately] in the dark about the pension risks of climate change".

Furthermore, a review of 2023 Task Force on Climate-related Financial Disclosures reports of leading pension funds found many others were lacking in terms of their climate disclosures, particularly around client choice of scenarios and climate risks being presented.

• (1125)

We see a number of areas for potential regulatory interventions. These focus on investors, investment consultants, the economist community and a consideration to require corporates to publish transition plans—as, for example, the U.K.'s transition plan task force and the EFRAG guidance in the European Union.

**The Chair:** Thank you, Mr. Coffin. We have to stop there. Again, my apologies for missing you before.

We'll pick it up again at Mr. van Koeverden.

**Mr. Adam van Koeverden:** Thanks, Mr. Chair.

I'd like to thank all our witnesses, including Mr. Coffin, for coming today to share their insights.

Professor Dietsch, do you need me to repeat any part of the question I asked earlier?

**Dr. Peter Dietsch:** No, that's fine. I've had some time to think about it now. The question was on whether or not greenwashing is more widely spread than the fossil fuel sector.

I'd say two things. I'd say that there is greenwashing going on in the financial sector too, but there's an explanation for this. As Mark Carney, who you want to invite, I think rightly, to your committee, keeps repeating, financial institutions are very bad at evaluating climate risk. They might actually believe that something is sustainable when it isn't.

That leads me to the second point, which is that we need a paradigm shift about what's going on. Blaming commercial banks alone would be short-sighted. It's the Bank of Canada that supervises what they do. They lend to fossil fuels. Who gives the Bank of Canada the mandate? The government does. Who elects the government? We do. In a way, we're all in this together. We have to realize that these are political choices that we're making. What's happening in the financial sector is in a way a huge implicit subsidy to

the fossil fuel sector. That is not discussed as such. That's what we need to focus on.

• (1130)

**Mr. Adam van Koeverden:** Thank you. I couldn't agree more with the notion that we're all in this together. Climate change doesn't care what colour your lawn signs are. It affects us all—but I won't say equally. It certainly does affect already more vulnerable people more than it does others.

This question is for all three of you, with perhaps Professor Dietsch going first. Most people agree with the notion that runaway carbon emissions are largely responsible for climate change and extreme weather, and understand that oil and gas producing nations like Canada need to reduce our emissions. All industries in Canada have demonstrated some progress except Canada's oil and gas sector. Higher emissions are being driven primarily by oil sands and bitumen production in Alberta. Despite that, Conservatives seem to be of the opinion that Canadian emissions are somehow exceptional, more ethical or less damaging to our environment.

Is that compatible with the science? Do you believe pricing pollution is one way to reduce our emissions?

Professor Dietsch, I'll start with you.

**Dr. Peter Dietsch:** To answer the simple part of the question first, yes, that is what the science shows. Carbon emissions are causing harms, from health outcomes to premature deaths in Canada, etc., and climate events. The economics show that this is already more costly than profitable. It's just a question of who bears the costs.

I agree with you that a first best solution would be to internalize those externalities and have higher prices on carbon-emitting activities, but I think we also need to work on the financial system. That's why I tried to outline what's going on there in terms of the bank lending.

**Mr. Adam van Koeverden:** Thanks.

Mr. Arnold.

**Mr. Jonathan Arnold:** Thanks for the question.



To start with the last part first, yes, carbon pricing is fundamental. The research of the institute has shown that the industrial carbon pricing system in Canada has driven the bulk of emissions reductions in the country. That would include emissions reductions from such industrial sectors as oil and gas, although, as you mentioned, emissions continue to go up. Carbon pricing plays a role there, certainly, but there are other complementary policies as well that we've looked at. Those include more stringent methane regulations, a cap on oil and gas emissions and other market-based policies.

I think this gets back to the idea of a taxonomy. We've laid out a framework for how investments in oil and gas might meet the label of transition under very stringent requirements. We put out a paper on that last year. Essentially, it would require commitments at a corporate level to net zero with clear, credible transition plans as well as having, at the asset level, an emissions curve that aligns with net zero. It's a high bar but not impossible. That's the type of policy that we see as necessary to bend the curve.

**Mr. Adam van Koeverden:** Mr. Coffin, if you'd like me to repeat the question, I'd be happy to.

**Mr. Michael Coffin:** I missed the first part. The audio cut out. I'd be happy to hear the question.

**Mr. Adam van Koeverden:** The preface of the question was about how most industries in Canada have demonstrated progress in lowering their emissions. I gather from your intervention that you would agree that carbon emissions are driving climate change and extreme weather.

My question was about whether or not Canadian emissions from Canadian industry are somehow exceptional or more ethical or less damaging, thereby leading to the very common Conservative notion that we ought to drive industry oil and gas in Canada because our emissions are somehow better than those of other countries. Does science back that up?

**Mr. Michael Coffin:** I'd support the comments of the other two witnesses. No, Canadian emissions are in no way exceptional in that regard.

I think I'd make another point. Ultimately, the energy transition is about moving away from oil and gas. In some ways, decarbonizing it doesn't really make sense. It's about reducing the volume of production and the consumption over time.

You need to decarbonize consumption sectors, but the energy supply sector needs to move away from oil and gas.

• (1135)

**The Chair:** Thank you.

[*Translation*]

Ms. Pauzé, you have the floor.

**Ms. Monique Pauzé:** Thank you, Mr. Chair.

I'd like to thank the witnesses. Their presentations were very interesting, but I didn't have their notes. I would like them to send them to us.

I'll start with you, Mr. Arnold, from the Canadian Climate Institute.

We often talk about clean growth. It irritates me to see these two words used together. Mr. Coffin has just touched on this point, saying that we must first move towards reduction. Growth in a decarbonized economy means prioritizing carbon-neutral energy sources—

**The Chair:** I apologize for interrupting, Ms. Pauzé, but I'm told there's no interpretation.

[*English*]

Are we back to normal?

[*Translation*]

All right, everything's working now.

You may continue, Ms. Pauzé.

**Ms. Monique Pauzé:** I imagine you're going to reset the clock to zero, Mr. Chair.

As I was saying, the words “growth” and “clean” are often lumped together, and that really upsets me. Mr. Coffin just mentioned it. We must first move towards reduction. Growth in a decarbonized economy means prioritizing energy sources that are carbon-neutral and those that are the least harmful to the environment and human health.

When the financial system, faced with a lack of regulation, fails to adjust, it's the whole of society that pays for the damage caused by the climate crisis. Just think of the enormous damage in Montreal this summer, in August.

Mr. Arnold, your organization has a lot of credibility, and I think the federal government is listening carefully. Will you unambiguously support the climate-aligned finance bill? I imagine you're very familiar with Bill S-243, which is being considered by the Senate. I'd love to hear your comments on it.

[*English*]

**Mr. Jonathan Arnold:** Thank you for the question.

I think there are many elements of that legislation that align with the research we've done related to taxonomy and disclosure. I think that, broadly, there's a lot more effort that needs to be made in that regard.

To your to your earlier point, we released a report two years ago now called “Sink or Swim”, which really tried to divide up the the types of activities and the types of change that we need to see in the economy. We stress-tested the Canadian economy based on different global low-carbon scenarios. From that, we were able to see different impacts in what we call “demand-decline sectors”, which are fossil fuels. There, what really needs to happen is that those sectors—those businesses—need to transform into new business lines that align with net zero.

There's a second bucket of sectors we call "carbon cost sectors". These are the sectors that are emissions-intensive, that need to reduce their emissions and will have demand through the transition.

[*Translation*]

**Ms. Monique Pauzé:** I'll stop you there, Mr. Arnold.

What I understand from your answer to my question is that you support Bill S-243. You even think we could go further. Indeed, this bill also deals with taxonomy.

Mr. Coffin, it was music to my ears when you said we had to move towards a reduction. We welcomed the CEOs of the five biggest banks and they explained how they were contributing to the fight against climate change. You mentioned pension funds, but there's also insurance and all the other financial sectors.

Can you tell us how their actions affect climate change? That's my first question.

Secondly, I'd like to know how successful the establishment of a serious and predictable regulatory framework for insurance, pension funds and all other sectors of finance could be.

[*English*]

**Mr. Michael Coffin:** There's an awful lot in there.

For me, there's a real need, from the taxonomy question, to think about things that are genuinely transition and sustainable activities or transition finance. I think it's really important that oil and gas companies ultimately don't receive transition finance because they don't have to become anything. It's critical they move away from what they currently do, but they don't have to become anything. I think there's a real risk that companies will get financing through transitional green bonds to do potentially green things, but it actually helps to continue the financing for what they're doing.

Driving that stronger regulation is really important. That's particularly the case for things like carbon capture and storage and for things like natural gas and LNG. If you have regulations, the financial systems and the pension funds being, in some ways, hoodwinked by the industry that carbon capture and storage is a solution and that it's a climate-positive piece, that is actually one example of when the investment sector and investment community must really challenge what they are being told by industry—critically challenge it—and must not fall for, ultimately, these false solutions by industries that are perpetuating business as usual.

Crucially, government frameworks and regulation...and I've seen this through my work on a number of—

• (1140)

**The Chair:** Excuse me, but I think Madame Pauzé wants to ask another question.

[*Translation*]

**Ms. Monique Pauzé:** I didn't hear the interpretation of the last sentences. Maybe it's because the microphone was open. I don't know.

[*English*]

**The Chair:** Could you repeat your last couple of sentences, Mr. Coffin?

[*Translation*]

**Ms. Monique Pauzé:** In fact, I'm going to ask Mr. Coffin another question that's just about along the same lines.

Mr. Coffin, you started to give us some examples. Can you mention any countries, not companies, where the implementation of strict regulations, for banks for example, has really helped to keep investment away from the oil sector?

[*English*]

**Mr. Michael Coffin:** I think I can draw examples of the U.K., where I'm based, and we have the transition plan task force, which is looking at transition plans. That's for corporates of many natures. You have the corporates involved in the real economy, but you have the financial institutions as corporates themselves. That has clear guidance for banks and other financial institutions about how they should act to decarbonize their portfolios, including scope-3 financed and facilitated emissions, responding to climate-related risks and opportunities and then contributing to an economy-wide transition. You see that reflected in the banks.

Thinking more broadly, in Europe, an example would be BNP Paribas and how they have reduced and very rapidly declined their financing of fossil fuels. There are a number of other examples in Europe.

I think there are other regulatory things. I draw an example of the Advertising Standards Authority in the United Kingdom.

**The Chair:** Thank you. We'll have to stop there.

We'll go to Ms Collins.

**Ms. Laurel Collins:** Thank you, Mr. Chair.

I'll start with Professor Dietsch.

First of all, thanks so much to all the witnesses.

If I understand your argument correctly, the green transition is unlikely to succeed in the way that we're currently approaching it. Really, fossil fuel investment has continued and will continue to remain strong. We've heard from previous witnesses during this study that one in five bank directors have an explicit connection to a fossil fuel company. We know there's a lot of overlap between the interests of the big banks and the interests of the large oil and gas companies in Canada.

Can you talk a little about how your suggestion—this credit policy—might impact that?

**Dr. Peter Dietsch:** Thank you.

The bottom line of my intervention is to say that it's not enough, and this is what current policies in both Canada and elsewhere are focused on. It's not enough to turn the tap on for green finance investment, because we have a financial system that is malleable and that is flexible. When we do that, we just get more and cheaper energy.

What we need to do is to actively turn the tap off for fossil fuel financing. Whatever the landscape of interests—the cross-holdings between companies, say, between the financial sector and the oil and gas sector—might be, I think effective regulation would prevent some of this investment from happening.

This allows me maybe to say something that I was going to say at the end, namely about what a credit policy could look like. For instance, you could charge banks that have a higher exposure to fossil fuels. You could charge them higher interest rates as the central bank, or you could require higher capital requirements. At the extreme, you could even tell them that if you get into financial trouble due to your fossil fuel holdings, we aren't going to bail you out. All of these are measures that would effectively incentivize those banks to reduce their lending to the sector.

**Ms. Laurel Collins:** Thank you.

My next question is for Mr. Arnold. You outlined the devastating costs of the climate crisis and how that's already having an impact on Canadian households, costing them billions, and said that this is going to increasingly be a drag on our economy.

Can you talk a little bit more about those two pieces, the disclosures, where we are now and what steps we need to take in order to be in line with our global peers? Then also, maybe I'll follow up with a question about the taxonomy.

• (1145)

**Mr. Jonathan Arnold:** Thank you.

Broadly, I think this just comes down to a big question of information not being standardized in a way that participants in capital markets can really use it such that you would see those risks starting to get priced into decision-making.

Right now, we do not have a good, full grasp of the physical risks of climate change or the physical costs of climate change. As a result, those are not getting priced into decisions. We still see housing developments, for example, being developed in areas that are at extreme risk of flooding, sea level rise or wildfires, so our adaptation team at the institute is doing work in this area to study that in more detail.

The same goes for transition risks. We don't have a standardized definition of what is “green” or “transition”. As a result, there are lots of different interpretations, and that creates ambiguity. The lack of standardized, credible information causes many investors to underinvest in the energy transition and to over-invest in things like oil and gas, which carry a higher transition risk.

**Ms. Laurel Collins:** On the taxonomy piece, we have heard concerning rumours about the government's potential intention to include LNG, a fossil fuel, in the sustainable finance taxonomy and to label that fossil fuel as sustainable finance.

Can you tell us your thoughts or reflect on that?

**Mr. Jonathan Arnold:** Yes. This is a concern that we take very seriously in the work we do and have done at the institute. As I referenced earlier, we published a paper earlier this year looking at what types of requirements might need to be true in order for an oil and gas asset to meet that transition label, and it is an extremely high bar. As I said, it would require commitments at the corporate level to have net-zero targets that include scope 3 emissions, which none currently do. At the asset level, it would require significant investments in new technologies to drive down emissions to get on a net-zero pathway.

We see that it is possible, but the framework that we have laid out would make that an extremely high bar, and there would need to be significant change within the industry, at the corporate level and at the asset level, for that to happen.

**The Chair:** You have about 15 seconds for a comment.

**Ms. Laurel Collins:** Maybe I'll just ask the other two witnesses a yes or no question around including LNG as sustainable finance within a taxonomy.

**Mr. Michael Coffin:** It would be a clear no for me.

**Dr. Peter Dietsch:** No for me.

**The Chair:** That's clear and succinct. Thank you for that.

We will go now to the second round, but I'm going to reduce each person's time by 40% so that we can finish this panel on time.

[*Translation*]

Mr. Deltell, you have the floor for three minutes.

**Mr. Gérard Deltell (Louis-Saint-Laurent, CPC):** Thank you very much, Mr. Chair.

I would like to thank all the witnesses for coming to take part in our consultation today. They are welcome in their House of Commons and their Canadian parliament.

Climate change is real, we all know that, and we need to adapt to its effects. As Mr. Poilievre said in his speech to a gathering of 2,500 Conservative activists in Quebec City a year ago, we need to offer tax incentives to reduce emissions using new technologies. Secondly, we need to speed up the process of giving green energy the green light. Canada has every advantage in terms of natural resources and energy, and we need to develop this potential to the full. Canada will be very well served by itself, first and foremost. We must also work hand in hand with first nations to develop all this potential, if this is to be done on a first nation's ancestral lands. These four elements have always been repeated by our party, and they were well defined by our leader, Mr. Poilievre, a year ago.

Mr. Arnold, earlier you said you were very happy to see the solar and wind energy sectors developing. In your opinion, if we put a lot of effort into accelerating the green process, whether it's solar energy, wind energy, hydroelectric energy, geothermal energy or even nuclear energy, will Canada come out on top?

As we've said before and we'll say it again, we need to speed up the process of giving green energy the green light.

• (1150)

[English]

**Mr. Jonathan Arnold:** Absolutely, yes, but speeding that up requires a stringent policy in multiple different ways.

I referenced the industrial carbon pricing system. The consumer carbon tax also plays a role. Clean fuel standards will play a role. All of the other policy initiatives that I mentioned in my opening statement around disclosure, taxonomy and transition plans will all play a role. This will not happen without a significant lift from policy and a ramping-up of the different types of policies we have today. We also need to introduce new policies to keep bending the emissions curve down.

[Translation]

**Mr. Gérard Deltell:** Professor Dietsch, you said earlier that investments had to be made. Last year, the federal government decided to announce nearly \$18 billion in direct subsidies to Volkswagen. So that's \$18 billion for a single project.

In your opinion, could these funds have been used for other purposes, with the aim of making our economy greener?

[English]

**The Chair:** You have 15 seconds.

[Translation]

**Dr. Peter Dietsch:** I didn't really say we should make investments; I said we should divest from the fossil fuel sector. There are many ways to do this, but, as I only have 15 seconds, I'll stop here.

**The Chair:** That's a good answer. It's hard to say more in 15 seconds.

[English]

Ms. Taylor Roy, it's your turn now, for three minutes.

**Ms. Leah Taylor Roy (Aurora—Oak Ridges—Richmond Hill, Lib.):** Thank you very much.

Thank you to the witnesses.

I could ask you so many questions. I could sit and listen to you all day, but I have a few pointed questions. We just heard from Mr. Deltell that the issue is about increasing investments in technology. The Conservative Party likes to say that this is the problem, that we're not investing sufficiently in technology and that this will solve our problems.

Could you comment on this? Do you think that investing in technology will, in fact, on its own, meet our net-zero targets?

Perhaps we can start with Mr. Arnold.

**Mr. Jonathan Arnold:** Yes, technology will certainly play a role, but policy is a huge foundational piece to driving the incentives toward more innovation, research and deployment, frankly, in those technologies.

Canada has a swath of extremely innovative, small clean-tech companies, but we have a very hard time commercializing because we are a small market. There are very well-targeted policies to help those small technology companies deploy and commercialize, things like the Canada growth fund, for example, to really help keep businesses in Canada.

If you look at the most successful technologies out there in terms of climate change—

**Ms. Leah Taylor Roy:** I'm sorry, Mr. Arnold. I don't have much time, so I just want to ask one follow-up question on that.

Do you think that, without carbon pricing or a price on pollution, these investments are going to be attractive to investors in this technology, or do you think that internalizing the externalities is necessary in order to get sufficient investments in actually transitioning to a green economy?

**Mr. Jonathan Arnold:** Yes, internalizing the externalities of greenhouse gas emissions is fundamental to solving the problem. There are also a range of other complementary policies that we've talked about, but carbon pricing is and should be the foundation of a credible strong approach on climate policy.

**Ms. Leah Taylor Roy:** Thank you very much. I have another question.

When the five major bank CEOs were at committee recently, I asked each of them directly... They talked about their transition plans and about how they were invested in reaching net-zero targets. I asked if any of them were willing to commit to only financing oil and gas company projects that either reduced or were neutral in terms of adding to greenhouse gases. None of them were willing to commit.

Could you comment on that? Do you think it's possible to reach our net-zero goals if oil and gas companies continue to increase production, and Canadian banks continue to finance this increase in production?

• (1155)

**The Chair:** You have about 15 seconds, so if you could be succinct, that would be great.

**Mr. Jonathan Arnold:** Just by arithmetic, no, that is not possible. Oil and gas emissions represent about 25% of Canada's total emissions, and that's just the upstream of scope 1 and 2 emissions, so, no.

**Ms. Leah Taylor Roy:** Thank you.

[Translation]

**The Chair:** Thank you.

Ms. Paupé, you have the floor for a minute and a half.

**Ms. Monique Paupé:** So I'll proceed quickly.

Professor Dietsch, you said we needed a credit policy. As we know, the big banks are part of the zero-net-emission banking alliance, but at the same time they continue to make major investments in the oil sector. I don't know about you, but we call this greenwashing. It's not the best way to turn off the fossil fuel tap, especially when you know that bank CEOs sit on oil company boards.

Are you optimistic that Canada will change course?

**Dr. Peter Dietsch:** The first thing I have to say is that I'm skeptical about voluntary agreements or alliances that focus on corporate responsibility. There have to be regulations, and within the framework of these regulations, these companies are going to pursue their profits. They're not going to leave profits on the table when they can make profits. We really need to focus on regulation of the financial sector, among other things. If we did that, I'd be more optimistic. Under the current regulatory framework, I'm pessimistic.

**Ms. Monique Pauzé:** What do you think of the current political will?

**Dr. Peter Dietsch:** As I said earlier, I feel we need a paradigm shift. I don't think we have the right paradigm to analyze all this. It's not just Canada. Look around the world. People think that investing in green energy will solve the problem. It's Economics 101 that has a substitution effect. In the financial architecture we have, there is no substitution effect, or at least it's very compromised. It's on this aspect that we need to act.

**The Chair:** Thank you.

Ms. Collins, you have the floor.

[English]

**Ms. Laurel Collins:** Thank you, Mr. Chair.

My question is for Mr. Coffin.

In your initial comments, you talked about the peril of labelling climate action as “woke”. I was hoping you could talk a bit more about that. We've seen Conservative politicians label climate action as “woke”.

What risks to the Canadian economy and financial system do we face if we engage in that kind of culture war?

**Mr. Michael Coffin:** The first point was to say that the risks of climate change can very much be financial as well as physical. As I outlined, there are transition risks that impact, for example, the oil and gas sector, particularly in Canada.

As global demand falls for oil and gas, particularly for transport fuels, that creates a big problem. By ignoring that transition risk, you're ultimately ignoring the financial headwinds facing that industry and the potential to significantly over-invest in new projects and new production that ultimately fail to deliver a financial return to investors and stakeholders. The use of those fossil fuels continues to take the world beyond climate limits and thus produces a cost through the externality associated with the carbon emissions.

By failing to take account of that, it ultimately fails to take account of the financial risks. Ultimately, that is bad for all. Crucially, it's failing to recognize the systemic nature of climate change and the fact that it will impact all sectors.

**The Chair:** Thank you.

Mr. Kram, you have three minutes.

**Mr. Michael Kram:** Thank you, Mr. Chair.

Professor Dietsch, a few minutes ago you said we need “to actively turn the tap off for [oil and gas] financing”. Would it be correct to say this is the whole goal and whole purpose of the taxonomy system of the central bank?

**Dr. Peter Dietsch:** This is an important point.

There are two ways central banks think about climate. One is, to what extent does climate impact finance? The other is, to what extent does finance impact climate?

Central banks across the world have come a long way in thinking about how climate impacts finance. They are encouraging commercial banks to look at their exposure to risks. When climate considerations undermine price stability or financial stability, the central banks are on it.

In the other direction, it's not the case. As I laid out earlier, when the financial sector acts in a way that slows down climate mitigation, central banks are not very proactive about that part of the equation. I think that's an important part of the equation.

• (1200)

**Mr. Michael Kram:** I was asking for a yes or no.

**Dr. Peter Dietsch:** I'm sorry. I did not hear the follow-up.

**Mr. Michael Kram:** Was that a yes or a no? Why does the central bank have to do the taxonomy if not to cut off financing to oil and gas companies?

**Dr. Peter Dietsch:** It is acting to the extent that it poses a risk to price stability and financial stability, but not further than that. It would be a yes and a no. There's no binary answer to that.

**Mr. Michael Kram:** Okay. Let me move on to Mr. Coffin.

Mr. Coffin, you spoke quite negatively earlier about carbon capture and storage. Say you have a public utility with a coal-burning power plant, and that public utility wants to put a carbon capture and storage system at the coal plant so the CO<sub>2</sub> doesn't go off into the atmosphere. It goes under the ground.

Why would that be a bad thing? Why would that be something you would not support?

**Mr. Michael Coffin:** I think there are a number of reasons. First, carbon capture and storage has been around for a while, but it's not been proven to be commercially viable at scale and actually this total sum of CO2 captured and fully sequestered on geological time frames is very limited.

The second part is this. What is the cost of doing that? Would it actually be cheaper to substitute that coal power generation with renewables, whether that's wind, solar or other forms of generation, particularly if then that CCS is being subsidized through state or public funds? Actually, by either economic diversification or helping support the transition towards a greener system, that money would be better spent rather than just in CCS.

**The Chair:** We have Mr. Ali for three minutes.

**Mr. Shafqat Ali (Brampton Centre, Lib.):** Thank you, Chair.

Thank you to the witnesses for appearing before the committee.

My question is for Mr. Arnold. What measures should be taken to prevent greenwashing in the financial sector?

**Mr. Jonathan Arnold:** That's a very big question. However, I think the three main initiatives that I laid out in my opening would cover that well, from taxonomy to climate-related disclosures and transition plans. The combination of those essentially helps shine a light on the physical and transition risks to the financial system. Doing all of those things and levelling up Canada to where these standards are going internationally is essential to reducing greenwashing and that misinformation in capital markets.

**Mr. Shafqat Ali:** Could a green and transition finance taxonomy provide clarity and consistency for investors so that they can easily compare the environmental performance and impact of institutions and investment funds to inform their financial decisions?

**Mr. Jonathan Arnold:** Absolutely...and you don't have to ask me that question. The 25 biggest financial institutions in Canada are asking for this for exactly that reason. Lots of financial institutions both in Canada and in other parts of the world have their own internal taxonomies that they use, but they're all different and that leads to this alphabet soup of how we track environmental, social and governance issues, or ESG. Taxonomies are really a way of standardizing that language to reduce greenwashing in capital markets.

**Mr. Shafqat Ali:** In the absence of finalized green and transition taxonomy, how have Canadian financial institutions been assuring potential investors that green financial products are what they appear to be?

**Mr. Jonathan Arnold:** I'd say that's difficult. There are some financial institutions that are a little bit further advanced than others in terms of developing their own internal frameworks and publishing those in a public-facing way. However, it is challenging, and especially when we speak to these financial institutions, it requires so much due diligence on their part and a lot of technical knowledge to do this work themselves.

Having a standardized national taxonomy is a way of simplifying all of that. If you think of the Energy Star label, for example, if you were to go out and buy a new refrigerator, you as a consumer don't have the time to look into the environmental credentials of that one

particular refrigerator, so that Energy Star label plays a big role in that.

• (1205)

[Translation]

**The Chair:** Thank you very much. We'll have to leave it at that.

I'd like to thank the witnesses for sharing their knowledge with us. It's been quite a stimulating discussion, I must say. They have contributed a great deal to our thinking. I wish them a good day.

We'll take a short break to get ready to welcome the next group of witnesses.

• (1205)

(Pause)

• (1205)

[English]

**The Chair:** We're back with our second panel.

We have with us Mr. Richard Dias, who's appearing as an individual. He is a global macro strategist. We have from Environmental Defence Canada, in person with us, the senior manager of climate finance, Ms. Julie Segal, and from Re-generation, we have the co-executive director, Gareth Gransaul, who is also by video conference, as is Mr. Dias.

You have five minutes for opening statements.

We'll start with Mr. Dias.

**Mr. Richard Dias (Global Macro Strategist, As an Individual):** Good afternoon, ladies and gentlemen. Thank you.

As a proud Quebecker and Canadian, I'm honoured to speak with you today and I want to express my gratitude to the committee members for the opportunity to provide testimony.

First, I'll tell you a little bit about myself. I graduated from McGill in finance and economics. I am a CFA charter holder, with over 18 years of experience as a global macro strategist. In this capacity, I've worked for large institutional asset managers and hedge funds in the city of London, United Kingdom. I'm now back in Canada as a portfolio manager, helping families preserve and grow their wealth.

I'm one of the co-hosts of *The Loonie Hour*, Canada's most popular economic and financial market podcast, which is committed to demystifying capital markets for Canadians. I love what I do, and I'm committed to a dispassionate analysis of macroeconomic phenomena. I've earned my reputation as someone who can articulate cogent and pressing analysis without fear or favour.

In my role as a global macro strategist, I've researched more topics than I can remember—productivity, housing, monetary policy, energy, etc. Having worked for a large financial institution, I've also been exposed to green finance, ESG and other sustainable investment initiatives, as well as the corporate apparatus that has mushroomed to exploit society's concerns over the environment.

Having reviewed some of the witness testimony in preparation for today, I want to highlight that several speakers are engaged by firms that would stand to directly benefit financially from the types of regulations that are likely to result from the study in question. As loyal employees, they are responsible for telling this committee that green finance, sustainable investing and the regulations proposed will benefit Canada and the environment writ large. However, their firms' revenues are tied not to lowering global emissions or hitting Canada's Paris Agreement commitments but rather to the billable hours or extra fees they can amass to help navigate the increasing regulatory burden that these regulations would necessarily result in.

I bring this up to cast a spotlight on something that is a critical pillar in the investment world, which is fiduciary duty—the obligation to act in the best interests of clients or employers. Put simply, who do you ultimately work for? Investment managers, for example, have the solemn duty to maximize financial returns for investors or pensioners. It is not to use their position of incredible power to prioritize one social or environmental goal over another, no matter how noble that goal is. Using regulations to coerce financial institutions to subordinate their clients' interests in favour of political goals is on its face unethical, as it would be for a bank manager to direct a bank's considerable financial power to achieve a political aim rather than to act as a sober custodian for its shareholders.

Furthermore, it is not even clear that this would work, resulting in both unethical action and a net loss of returns to its clients and profits to its shareholders—and there are plenty of examples. The consultants, however, will get very rich.

In effect, this is legislation through the back door. Given that reporting of this nature is onerous and the negative impact on a country suffering—and I quote the Bank of Canada here—a productivity emergency, it is clearly ill-advised.

Another angle for your consideration is the law of unintended consequences. On this I submit the following testimony. Green energy policy, as it is constituted, is the greatest thing to happen to fossil-fuel companies since the transatlantic flight. I'll repeat that: Green energy policy has been a gift for the industry you're trying to neuter.

Humans consume 101 million barrels of oil a day. This number is rising; it is not falling. Even in a world of hyper EV adoption, it is likely to stay well above 100 million barrels for at least a generation or two. The issue with this is that recent green energy policy has been focused on starving public oil companies of capital in order to constrain or constrict the supply of oil, but that is doing nothing for demand. This situation has, predictably, lifted the floor on oil prices. As a result, normally spendthrift oil companies are now reluctant to deploy capital to procure fresh reserves.

Cash flows, on the other hand, are at record levels because demand is rising and prices are high. This has lifted cash flows, along with the falling capex. There has been an explosion of free cash flow yields. Profits are at a record level, and cash is being returned to shareholders by dividends and share buybacks, and these companies are paying down debt. Green energy policy has instilled a fiscal discipline in the CEOs of these oil companies for which shareholders have been begging for 40 years. The industry has never been healthier.

• (1210)

Surely—

**The Chair:** Mr. Dias, we're going to have to stop there. I'm sure we're going to have a lively debate today, and there will be opportunities to deliver your ideas.

Ms. Segal, go ahead for five minutes, please.

• (1215)

**Ms. Julie Segal (Senior Manager, Climate Finance, Environmental Defence Canada):** Good morning.

My name is Julie Segal. Thank you for inviting me to appear.

I lead a program on climate finance policy at Environmental Defence. I managed a portfolio of investments before working on policy. I'm a member of the Quebec government's advisory committee for its road map to a sustainable financial system.

This study about the environmental and climate impacts from Canada's financial institutions is important. Canada needs policy to align its financial system with climate action and Canadians want it. I'm glad to detail solutions today.

Globally, Canada is still recognized as a low-regulation jurisdiction on sustainable finance. The lack of climate-aligned finance policy in Canada harms our environment and people living across the country. The lack of climate-aligned financial policy also damages our competitiveness for business and investment. For the benefit of this environment committee, I will focus on the environmental impacts.

To start, Canadian financial institutions provide among the largest sums of money to oil, gas and coal. The harms from oil, gas and coal are irrefutable when it comes to climate change, with fossil fuels being the leading cause, and are likewise obvious for other environmental harms like water pollution.

Where our banks and pension managers place money today determines these real-world impacts. Their climate ambitions do not match the urgency required to limit global warming, and they are not investing sustainably enough. Nearly all of Canada's financial institutions have committed to reducing their climate-harming emissions, but very few have plans or have started to act. Data shows that financial institutions' targets and plans improve when they are regulated to deliver on them.

People across Canada understand this. This is a very important point I'd like to underline. In recent polling, people across Canada said they do not trust their finance institution to take meaningful action on climate change without regulation. Over 90% of people do not trust voluntary action from their financial institution. The majority of people surveyed want rules to ensure the financial system invests more sustainably. When this is framed as directly countering greenwashing, just about 80% of people want the government to implement sustainability rules for the financial sector.

We have ready-made policies in Canada that can be executed. The climate-aligned finance act introduced by Senator Rosa Galvez is currently being studied in the Senate. I had the pleasure of being an adviser for this bill. It outlines a set of policies that would align our financial system with Canada's climate commitments of limiting global warming to 1.5°C.

More broadly, requiring plans from financial institutions—known as climate transition plans—is key. This is something nearly all participants mentioned today. This ensures that banks, pension plans, insurers and large companies detail plans for climate action, including short-term actions.

Modernizing the mandates of financial regulators is another key point for ensuring accountability, as is clarifying that leaders of financial institutions should aim to help mitigate climate damages. Public opinion supports these policies. Over 120 groups have specifically endorsed the climate-aligned finance act. Elected officials from four political parties, including members from this committee, endorsed a motion to align our financial system with safe climate action.

People understand that climate change is expensive. People understand that financial institutions should serve their interests, as the clients of banks and the beneficiaries of pension funds. Right now, the financial sector is under-regulated on climate and environmental impacts.

Canadians are waiting for outcomes on climate-related financial policy. This is the missing piece of Canadian climate policy.

In your committee report, I very much encourage you to urge the federal government to prioritize using all tools at its disposal to align Canada's financial system with the Paris Agreement. Canadians want mandatory policies that ensure that finance is sustainable and resilient to climate change.

Thank you very much for inviting me to testify today. I look forward to questions.

**The Chair:** Thank you, Ms. Segal.

We'll go now to Mr. Gransaul for five minutes.

**Mr. Gareth Gransaul (Co-Executive Director, re•genera•tion):** Thank you so much for your time. It is an honour to speak to you today.

My name is Gareth Gransaul. I'm a researcher at the Institute for Integrated Energy Systems at the University of Victoria. I am also presenting as the co-executive director of Re-generation, a non-partisan coalition of business and economic students at 23 campuses across the country.

I want to begin my remarks by observing that the people around the world most concerned about climate change are not actually environmentalists. They're military experts. The Pentagon calls climate change an "existential threat" and is preparing for a world of heightened national security risks due to conflict, displacement and natural disasters. However, when you look at the climate stress tests of major financial institutions in Canada, in the fine print you'll notice something strange. Many of them say that climate change is not a material risk to their asset values.

How is this possible? Nobel Prize-winning economist Joseph Stiglitz and Nicholas Stern have publicly said that the mainstream models we use to quantify climate risk, which central banks and prudential supervisors then use to create the guidelines they give to financial institutions, are deeply flawed. As a result, the data on which the so-called risk experts rely is often very wrong.

Let's give an example. We know that the world is warming faster than predicted, which means more days of extreme heat. At temperatures higher than 35°C, photosynthesis begins to shut down. Therefore, scientists predict that by 2030, the frequency of crop failures in the world's breadbaskets could increase by 450%. The most prominent model that purports to account for the impacts of climate change on the economy, the DICE model, as Mr. Coffin mentioned earlier, literally assumes that the systemic failure of global food production wouldn't matter that much, because agriculture is only 3% of GDP. Let that sink in for a second.



In other words, we're living in a reality gap. There's the real world, where 26 million people were displaced by natural disasters last year alone, and then there's the alternate reality that the banks and regulators are living in, where three or four degrees of warming apparently won't affect asset prices. That is actually what the CFA Institute is currently teaching their certificate students. Conversely, if you look at the recent report by the U.K. Institute and Faculty of Actuaries, you see that they predict a possible destruction of global GDP by as much as 50% by 2070.

The world is currently on track for 3°C of warming. At 1°C, the town of Jasper, Alberta, burnt to a crisp overnight. Because the climate system behaves in non-linear ways, 3°C is not three times worse than 1°C. It's exponentially worse.

There are nine globally significant tipping points that could all cascade simultaneously. The Institute for Economics & Peace predicts that at current rates, there could be 1.2 billion climate migrants by 2050. This is why the 1.5°C temperature threshold is so important. The good news is that the International Energy Agency has developed a net-zero pathway that would allow us to preserve a livable climate without relying on unrealistic levels of reverse combustion. This is coming from the world's top energy economists, but they're very clear about what this means—no new fossil fuel projects after 2021.

The largest five Canadian banks are not aligned with this science-based pathway. They have given over \$1 trillion to the fossil fuel industry since the signing of the Paris Agreement, including \$26 billion to fossil fuel expansion in 2022 alone. Climate change is a systemic risk to the financial system, but it's one that the financial system itself causes by funding fossil fuel expansion. This self-reinforcing cycle is not going to end without greater policy ambition. Canada's current approach is a “choose your own adventure” that allows financial institutions to disclose risks without actually requiring actions to limit those risks.

To address this, we need mandatory 1.5°C-aligned transition plans that align with international best practices, including the UN guidelines for net-zero commitments. One way would be to introduce the climate-aligned finance act put forward by Senator Galvez, which would substantially improve corporate governance on this issue. We also need to make sure that new fossil fuel projects are not given a green label under any voluntary or regulated system and that natural gas stays out of Canada's transition taxonomy.

Thank you so much for your time. I'd be happy to answer any questions.

• (1220)

**The Chair:** Thank you, Mr. Gransauil.

We'll go to the six-minute round.

It's Mr. Mazier who's batting leadoff.

**Mr. Dan Mazier:** Thank you, Chair.

Thank you to the witnesses for coming today.

Mr. Dias, my questions will be for you today. Can the Canadian government help meet the targets of the Paris Agreement by inter-

fering in the financial system and by imposing mandatory climate-related disclosures?

**Mr. Richard Dias:** I just think it's interesting that the gentleman previous said that we should not expand on natural gas, because the way that the U.S. has absolutely crushed its emissions goals is by shifting from coal to natural gas. It has done so by financing projects at certainly the bank level and definitely a pension fund level. Obviously, there was some private money in there too. Is the goal to end the fossil fuel industry or is the goal to end emissions? That's the first thing.

The second thing is that, yes, that would be an important consideration. When you think about reducing emissions, probably the most important example of using fossil fuels to drastically do so—we're not talking about a little bit here, we're talking about 20% over maybe a 10- or 12-year period—was through a transition to natural gas.

• (1225)

**Mr. Dan Mazier:** You mentioned the principle of fiduciary duty. Should average Canadians be worried if the government is undermining this principle by trying to achieve a global environmental objective through financial institutions?

**Mr. Richard Dias:** Having worked for large financial institutions, I think it's important to understand how, why and when these people get paid, and it is absolutely not to meet global or country-wide green energy goals.

I'm not sure if I'm allowed to give specific names of ETFs as examples that claim to be designed to support climate initiatives or whatever, but what they do is exploit people's good intentions or noble view that emissions should be lower or what have you.

The consultants you've heard are the exact same way. If tomorrow someone invented a machine that immediately fixed climate change at the snap of a finger, those consultants would all be out of business, and I'm sure they would be reluctant to suggest that as a means to deal with this obviously very big problem.

It's very important that we keep those people's incentives front of mind and hold that fiduciary duty as a sacred totem. Those investors should be representing the financial interests of those clients, first and foremost and above all else, and allowing for legislation. If you want to ban oil and gas, bring it to Parliament and let's vote on it rather than going through the back door, which is the way I see it, and subverting the fiduciary duties these investors have on behalf of their clients.

**Mr. Dan Mazier:** Can you explain how consultants in financial institutions will benefit financially from climate-related disclosures or ESG ratings at the expense of returns for Canadians?

**Mr. Richard Dias:** Absolutely. Let's be honest. For some of the companies that are supposed to be leaders in this ESG stuff, it's basically just a box-ticking exercise. It's really important because, through the advent of ETFs, the brokerage fees—the fees that these large asset managers have been able to charge—have basically been destroyed.

You used to be able to, through all kinds of either research dollars or soft dollars, charge hundreds of basis points to your clients for the assets that you were managing. ETFs basically allowed individuals to buy pieces of, let's say, the S&P 500 for a de minimis amount of money. It absolutely destroyed that part of the business.

Financial businesses have been so readily willing to sign up for sustainable investment stuff, green energy policies and ESG, because if they say, “Oh, it's expensive to do the due diligence around this business,” of course, that expense means you're adding value. You're doing your job as the financial guy or girl to see if this business is really meeting their climate objectives.

What you end up doing is you supposedly add value, and then you're allowed to charge a lot of money for that value and, therefore, your margins go up because instead of charging five basis points on a S&P 500 ETF, you're now allowed to charge 60 basis points for a product that basically does the exactly the same with scarcely any reporting.

That's not to mention it's not at all clear they even meet these objectives that they set. For example, there's a vegan climate ETF that charges 60 basis points of management expense ratio that basically just tracks the S&P 500, which you can buy for five basis points. The company is happy. The regulators are happy. The consultants are happy. The only person who seems to lose out is the individual who genuinely cares about either being vegan or about the climate or what have you.

**Mr. Dan Mazier:** Do you think the end goal of the concept we are studying today is an attempt to starve capital from Canadian natural resource companies?

**Mr. Richard Dias:** Yes, I do, and that's why I put in my opening statement that green energy policy is the greatest gift to the oil industry and their shareholders.

You're starving companies of capital that are notorious for badly allocating capital. That's why, from a CFA perspective, you look at free cash flow yields. It is about your cash flow relative to your capital expenditure, and the entire apparatus is about constraining the capital expenditure for a product—

• (1230)

**The Chair:** We'll have to stop there and go to Mr. Longfield.

**Mr. Dan Mazier:** Thank you.

**Mr. Lloyd Longfield (Guelph, Lib.):** Thank you, Chair.

Thank you to our witnesses.

Based on this discussion we've been having this morning, I have some questions around the changes we might consider recommending to the Bank of Canada or to the Bank of Canada Act.

I'm going to start with Ms. Segal.

It's very interesting to see how Senator Galvez's Bills-243 is progressing through the Senate. They passed second reading over a year ago, looking at measures like the reporting requirements, the enforcement of targets with respect to commitments on climate, the additional capital adequacy requirements for banks, the appointment of persons with climate expertise on the boards of reporting entities and the establishment of climate alignment as a superseding duty for directors, officers or administrators of reporting entities. It's definitely not a status quo bill.

Could you comment on how we could possibly include the climate change taxonomy in the Bank of Canada's mandate to promote the economic and financial welfare of Canada, knowing that climate change is a real risk to our economic and financial welfare?

**Ms. Julie Segal:** Thank you, MP Longfield.

I'll start off by saying that I appreciate the end framing of taxonomy and the Bank of Canada. I think it's very important to look much broader. The taxonomy is one piece of policy that has gotten quite a bit of discussion, and the Bank of Canada is one financial regulator. I think, when looking at all of the pieces within the package of CAFA, including many that you mentioned, including transition plans and updating the mandates of regulators so that they can hold accountability and can evaluate risk on climate change, that much broader package of policies for coherent progress on climate-aligned finances is what I would encourage the committee to consider.

Regulators in Canada, including the main federal financial regulator, OSFI, and the Bank of Canada, have studied the significant risks of moving too slowly on climate transition. They've highlighted that billions of dollars are at risk of vanishing, essentially, of being lost in the financial institution if they move too slowly on climate change and if the policy environment moves too slowly on climate change.

In moving forward with climate-related financial policies, like transition plans, like all of those mentioned and the other ones mentioned in CAFA, it's very important to create lines of accountability. To ensure the effectiveness of policy and regulation, you need oversight on those, just like in any other policy. That's why modernizing the mandates of financial regulators is such an important piece.

I'll highlight that other jurisdictions have moved forward with that as a core part of not just their climate strategy but also their financial strategy. The European Union, as part of their green deal, introduced a package of climate-related financial policies, including clarifying the roles of regulators to oversee the new climate-related policies they're putting forward.

**Mr. Lloyd Longfield:** Right. I was the Canadian managing director of a European company. This was back in the 1990s, when we had to report, at that time, on our sustainability efforts. We had to show and had to track our movement of waste and how we were recycling, how we were reducing water. Europe seems to have been at this game a lot longer than us. By our delaying, we could actually be at a financial risk if they start back-charging us. If, for instance, we remove the price on pollution, they're going to say, "That's fine, but we are going to put that into a levy, and you will be paying a price on pollution either before or after you're shipping goods."

Could you comment on how important it is for us to make sure that our taxonomy is to the global standard but that our implementation is at the global speed?

**Ms. Julie Segal:** From a business perspective, investors want certainty. Canada being recognized as a low-regulation jurisdiction on sustainable finance creates a competitive risk. It's not attractive for international investment to have policy waffling or policy being behind where other jurisdictions are.

• (1235)

**Mr. Lloyd Longfield:** If I could hold on to that thought half a second, businesses in Canada are having to conform to the European standards already, and government is not keeping up with the pace of business. That's a concern to me as a former business person; the government is going too slow. It would be putting my business at risk because we are going too slow when we're competing in a global market. Do you have any comments on that?

**Ms. Julie Segal:** Over 1,300 Canadian companies are already subject to European disclosure regulations on sustainability. This creates unnecessary asymmetry in the market so that it's only the larger companies that are subject to those EU regulations and, in fact, have the benefit of thinking, in terms of their business strategy, about what global investors are expecting to see. Canada should be stepping forward to meet that global standard.

Similarly, California has policies that will likely affect a number of Canadian companies. Having that asymmetry doesn't make sense. Canada should move forward with policies on its own.

**The Chair:** Thank you very much.

[Translation]

Ms. Pauzé, it's your turn for six minutes

**Ms. Monique Pauzé:** Thank you, Mr. Chair.

Mr. Gransaul, your organization defines itself as an NPO run by young Canadians. You aim to contribute to the leadership development of the next generation. I think that's a fine mission, and I applaud it. In particular, you are training these people to design the economy in a way that better serves human and ecological well-being.

Last June, we hosted CEOs from major banks and oil companies. On that occasion, Mr. Kruger, from the oil sector, told us that the idea that "the prosperity of the oil and gas industry comes at the expense of the planet" was a myth. According to him, "it's not true".

I'd like to reiterate one of the problems that was mentioned, and it kind of ties in with a question posed by my colleague Mr. Longfield. When there is no scientific expertise on boards of directors, for example those of financial organizations, there is a lack of data when it comes to finding suitable solutions for investments supporting the transition. In fact, you gave a few examples of misinformation earlier on.

Given the mission that your organization pursues, what do you think of the statement made by Mr. Kruger, CEO of the Suncor company?

[English]

**Mr. Gareth Gransaul:** Thank you so much, Madame Pauzé, for the question.

I believe the statement by Rich Kruger is an intentionally misleading one. To the extent that oil and gas companies are misaligned with the recommendations of the International Energy Agency on science-aligned 1.5°C pathways in which no fossil fuel developments are to be sanctioned after 2021, it is very obvious that they are pursuing short-term profit at the expense of the health of the environment.

The interesting thing is that this exact kind of trade-off is something that oil and gas executives are very aware of. Imperial Oil did modelling in the 1990s in documents, which have now been made public, regarding the economy-wide effects of a national carbon price. This information is available in reporting by Geoff Dembicki in his recent book, *The Petroleum Papers*.

The results of the modelling that Imperial Oil did found that, while a national carbon price would raise the overall national GDP in the long term by stimulating the development of new sectors, it would actually reduce Imperial Oil's profits directly for the business lines it was currently in business for. It then decided to spend the next few decades lobbying against robust climate policy, which is why we're in the situation we're in now—in addition to the behaviour of many other companies in that regard.

[Translation]

**Ms. Monique Pauzé:** I'll stop you there. Indeed, you did a study on this subject, entitled "Re-thinking Climate Economics". What I gather from your answer is that, for these people, profit is the only thing that counts. They care very little about the environment. Basically, they don't care about the costs of climate change. It would therefore be important for the boards of these companies to include people with a deeper understanding of environmental issues.

Ms. Segal, the European Union directive on corporate sustainability reporting requires companies to report not only on the risks they face from climate change, but also on the material impact they have on environmental and social factors.

How would you characterize the gap between Canada's position and this European Union directive?

What effect could the establishment of a rigorous framework have on the follow-up to Canada's commitments in the context of the Paris Agreement?

• (1240)

**Ms. Julie Segal:** Thank you very much for the question, Ms. Pauzé. I'll answer in English.

[English]

The European Union has a perspective that considers both the risks and the impacts of the financial sector when it comes to climate change and sustainability. In Canada, we don't yet have a disclosure premise to even just get information to the market, let alone considerations of how investments affect the environment and climate change.

To some of the earlier discussions today, I'll highlight that, in fact, disclosures do not necessarily affect financial flows one way or the other. They provide information. They're in fact quite benign.

What the European Union does further, and what I encourage for consideration in Canada, is to have policies that look at the actions and impacts of financial flows in advancing what you were highlighting, Madame Pauzé, as a concept of the double materiality of financial flows. Finance does have real impacts on the worsening of climate change or resilience to it.

[Translation]

**Ms. Monique Pauzé:** In fact, I think Canada has been talking about sustainable finance for seven or eight years, as well as the taxonomy of finance, from which it is inseparable.

However, the European Union adopted an action plan for sustainable finance in 2018, three years after the Paris Agreement.

Do you have any idea what each of the years Canada fails to act on this issue represents?

**Ms. Julie Segal:** Thank you very much.

Canada is definitely taking too long to advance policies to align finances with climate.

[English]

I'd say that the costs of climate change continue to worsen every year, and the slower we move on implementing climate-aligned financial policy, the more those costs affect people across the country: \$100 billion of just insured damages has been calculated over the past three years in Canada.

That is why I ended my comments by really encouraging not just progress on these policies but for the government to prioritize implementing that progress.

**The Chair:** Thank you.

Ms. Collins.

**Ms. Laurel Collins:** Thank you, Mr. Chair.

Thank you to the witnesses for your testimony.

I want to start with Mr. Gransauil.

In response to something Mr. Dias said, in your comments you noted the importance of keeping LNG out of the taxonomy. Mr. Dias said that was surprising, given the U.S. is using LNG to drive down emissions.

Now, in January of this year, the U.S. announced a pause on LNG export permits, because their analysis is out of date and doesn't account for the greenhouse gas emissions. Can you talk a bit about why it's so important that we do not include fossil fuels—and, in particular, LNG—as part of the taxonomy and particularly why we would not want to label fossil fuels as sustainable?

**Mr. Gareth Gransauil:** Thank you, Ms. Collins, for that question.

First of all, there is a myriad of reasons why this is necessary, to the extent that.... Essentially, natural gas, for many reasons, has fugitive methane emissions that are not measured, so a lot of the claims that have been made—that natural gas is the reason why various jurisdictions have actually seen a significant decline in emissions—are oftentimes not accounting for the role of this other greenhouse gas, which is actually, in the short term, 81 times as powerful as carbon dioxide. That's a very important point.

Also, there is another point that's very important to raise. At this point, because of the long-term trajectory in the decline of prices in renewable energy in ways that have been entirely unpredicted by economists—as a result of rapid learning curves and technology adoption—we now know that renewable energy in a lot of places is cheaper than natural gas at this point, which undermines the long-term investment thesis for new LNG in a way that ultimately means that, a lot of the time, new LNG exports will actually displace demand for new renewable energy, particularly in Asia.

The other point about the cost curve that's necessary to know is that this also causes a risk of stranded assets for new LNG as an asset class in a way that is likely to cause significant financial effects in the future.

• (1245)

**Ms. Laurel Collins:** Ms. Segal, can you comment on the dangers of including LNG and fossil fuels as sustainable in the taxonomy?

**Ms. Julie Segal:** Thank you, MP Collins.

I would highlight the well-put points by colleagues from Carbon Tracker saying that transitioning away from fossil fuels is essential to keep warming to safer levels. Decarbonizing the process of that in fact creates an opportunity cost. As I said, I used to work in finance, and that concept of opportunity cost is fundamental, as is the sunk cost of throwing bad money after bad, which we should not be doing with this taxonomy.

I'll underline again this global perspective and agreement of transitioning away from fossil fuels. The United Nations Framework Convention on Climate Change, which includes just about 200 countries, agreed that we need to transition away from fossil fuels and increase renewable energy and energy efficiency. Just two days ago, the UN Summit of the Future reiterated those points about transitioning away from fossil fuels, scaling up renewable energy and increasing energy efficiency.

That trajectory is quite clear globally and Canada would be entirely remiss to move in a different direction. That's from a climate perspective. From an investment perspective, the credibility of a taxonomy would be incredibly hampered, to put it lightly, if it were to include fossil fuels. For both business and environmental reasons, artificially labelling fossil fuels—oil, gas or coal—as sustainable does not make sense.

**Ms. Laurel Collins:** We've heard from climate experts and environmental advocates that no taxonomy would be better than a taxonomy that includes fossil fuels as sustainable. Is that your opinion?

**Ms. Julie Segal:** A taxonomy that green-lights activities that are considered greenwashing would muddy the waters rather than clarify them—absolutely.

**Ms. Laurel Collins:** Thank you.

You talked a bit about transition plans. Can you tell the committee about how other countries are legally requiring transition plans and about the importance of ensuring that Canada doesn't continue to fall behind these other jurisdictions?

**Ms. Julie Segal:** The principal allies of Canada that have been moving forward with transition plan regulation include the United Kingdom, Australia and the European Union. They have regulated this in the EU through what's known as the corporate sustainability due diligence directive, in the U.K. through a landmark initiative called the transition plan task force and in Australia through a comprehensive sustainable finance road map.

All of these have started with very traditional financial regulation policies by requiring transition plans in disclosure. The new government in the United Kingdom has committed to requiring alignment with 1.5°C from those transition plans, so it's saying that you not only must have one but also need to have a credible one for climate action. That is recognized as the gold standard, the benchmark, of transition planning globally. Standard setters, globally, the ISSB, as it's known, has picked up that U.K. progress for transition plans, and it's only proliferating globally. It is happening through traditional financial policy mechanisms and being continuously strengthened, globally, even though Canada has not yet started and certainly should.

**The Chair:** Thank you.

We'll go to the second round. It will be the same thing as last time: a three-minute round.

Mr. Leslie.

**Mr. Branden Leslie (Portage—Lisgar, CPC):** Thank you.

Mr. Dias, I would like to start with you.

I appreciate the heavy dose of reality regarding how financial markets and companies work in this space.

Do you believe that companies taking a priority focus on ESG initiatives and shifting away from stakeholders is problematic? What are those actual impacts, in real terms?

**Mr. Richard Dias:** I think what will happen is that all of these western countries that ostensibly care about the environment will be left in the dust economically. It is very clear that the panel understands that fossil fuel consumption is rising, not falling.

**Mr. Branden Leslie:** Is this a duty that politicians are better placed with? You mentioned a back door to try to end our natural resource sector. Are we actually just pawning this off on the private sector, the financial sector, to do what is our dirty work if we choose to destroy Canada's natural-wealth economy?

• (1250)

**Mr. Richard Dias:** Yes, I do, but also, what cannot happen will not happen. If it were not for Canada's energy sector, our economy would basically collapse overnight, and our welfare state, as we understand it, would be unsustainable. We would have to have a massive internal devaluation in the form of massive consumption cuts of all kinds—all kinds of consumption—with an external one, which would mean our currency would decline because of our current account balance, our lack of productivity and our massive debt overhangs.

**Mr. Branden Leslie:** Yes. We need to understand the country that we are.

A recent article by Mintz and Tingle, in 2024, raised the point that ESG mandates make our “public markets less attractive to new entrants”. We've heard some differing views on that from other panellists. Do you agree with their statements that these directives are actually a long-term harm to our national economy?

**Mr. Richard Dias:** I think what people just don't understand is how financial markets work. Not to be glib, but what will happen is that these companies will just simply opt out. They will be privately financed, or as I demonstrated earlier, because green energy policy focuses on cutting supply and does nothing about global demand, these companies are minting money. They are making so much money, they do not need bank financing, government financing and the rest of it.

There is going to be consolidation in that sector, and it won't matter how much reporting you have if they don't need your cash. They're just going to do whatever they want. They'll just move to wherever they need to, specifically China, Indonesia and India. They have all made coal—forget natural gas—essential to their next hundred years of economic development.

**Mr. Branden Leslie:** Let's bring this back to the reality of the little guy. What is the impact of that money flowing out of our country due to this overabundance of ESG initiatives? What does that mean for the average person, for their wealth creation and for their pension?

**Mr. Richard Dias:** Canada is in a productivity crisis. Those aren't my words; those are the words of the deputy governor of the Bank of Canada, Carolyn Rogers. We have massive outflows of money. We have not increased our gross fixed capital formation, or capex, in 12 years, in real terms. We do not need more incentives to push capital away.

By the way, it's not foreign capital that's necessarily not coming. It's domestic capital that is leaving. Those pension fund managers you want to regulate just simply say, "We'll sign up for all the green initiatives you want, and we're going to go invest in the U.S." Don't forget Europe, which is just a total joke.

**The Chair:** The time is up.

We have to go to Mr. van Koeverden, please.

**Mr. Adam van Koeverden:** Thanks very much, Mr. Chair.

Ms. Segal, we have heard a lot about this kind of doomsday scenario from Canadian economists, who claim that oil sands production and the contributions to the economy are so vital to Canadian identity and to the Canadian economy, yet we know that oil sands are basically the only sector that is still increasing its emissions. It contributes a large, but less than 2%, quota to our annual GDP.

I don't want to take away from the importance of the energy sector in Canada. It certainly has driven our economy for many years.

Is it your perspective or opinion that without oil sands production in Canada our economy would flatline and stop growing, or would we hit a giant recession, as has been intimated by other witnesses?

**Ms. Julie Segal:** Thank you.

I don't have a personal opinion on this, but my understanding of the research is that the oil sands provide an increasingly small economic contribution to Canada. The oil and gas sector has been shedding job opportunities voluntarily for many years—actually before climate policy even really began at the federal or provincial level.

It has been shedding workers and communities who devoted their lives to the industry in efforts to perhaps consolidate operations. In essence, it has been making an increasingly small contribution to the real benefit of Canada's economy and workforce, etc.

The emissions from the oil and gas sector are obviously quite harmful. The environmental impacts from the oil and gas sector are obviously quite harmful if we consider the toxic waste-water leaks that have happened from large oil and gas companies, which were revealed earlier this year.

I would highlight all of those points and reiterate what I shared before about this sunk-cost fallacy. Yes, that has been part of the economy of Canada for many years, but in fact all of our competitors—many of whom other witnesses mentioned, including Asian economies—are actually moving much faster towards the climate transition. China is the fastest installer of renewable solar energy. It is the fastest innovator in green technologies—to the extent that Canada is already falling behind.

I very much encourage policies that ensure we create job opportunities and economic opportunities in the obvious contemporary green economy rather than the anachronistic one that no longer serves us.

• (1255)

**The Chair:** Thank you.

The time's up.

[*Translation*]

Ms. Pauzé, you have the floor for one minute.

**Ms. Monique Pauzé:** I only have a minute, so this will be fast.

Mr. Dias talks a lot about the economy, capital and cash flow, but I never hear him talk about health. We know that climate change has a major impact on health. That's another high cost. My data is several years old, so I'm not sure, but it looks to me like it was about 6% of GDP.

You touched on this a little bit earlier, but would you like to say anything else to Mr. Dias or approach the subject from another angle?

[*English*]

**Ms. Julie Segal:** Am I correct that this was being directed toward me, Madame Pauzé?

One thing that people don't quite understand is that the financial system is deliberately opaque and often made out to be much more complex than it is.

Financial policy is an opportunity, in fact, for government to take accountability for an important sector that is having an impact on the world that we're living in and on the effects of climate change. By not regulating the financial sector, it's missing a very important piece of Canadian climate policy, which needs to be made consistent with other pieces.

I would also highlight again the very significant cost of inaction here. This is relevant to people living across the country. This is relevant to businesses and investors. If we think about the drought in the Prairies in 2021, it cost and harmed farmers living there. The B.C. atmospheric river caused significant devastation and supply chain damages across the country.

Those really show the need for economic policy.

**The Chair:** We'll go to Ms. Collins, please.

**Ms. Laurel Collins:** Maybe I will give you the opportunity to elaborate a little bit more on how failing in this respect and how falling behind our peers—not only in the past few years—not only impacts international competitiveness but also impacts Canadians.

**Ms. Julie Segal:** Thank you very much.

In addition to the economic impacts, which I've just highlighted, we also have to consider the risks to our economic and financial system overall. Over \$100 billion of Canadians' assets are at risk of losing value from investors moving too slowly on the climate transition. Having policy in place to modernize our financial system and our financial regulations creates a natural direction for our financial system to be resilient to the damages from climate change, which affects the people who rely on that, as well as ensure that Canada has a chance of meeting our climate commitments to limit the environmental damages to people across the country.

**Ms. Laurel Collins:** I'll end with thanks to all of our witnesses. It's wonderful especially to have someone from the University of Victoria, and thank you to Ms. Segal from Environmental Defence. We really appreciate your work.

**The Chair:** Thank you.

Mr. Leslie, you have three minutes.

**Mr. Branden Leslie:** Thank you, Mr. Chair.

Mr. Dias, it looked like you were ready to jump in at one of my colleagues' opportunities to clarify something, so feel free to jump in with what you were planning to say.

**Mr. Richard Dias:** The idea that there are no trade-offs is, to me, one of the major fallacies of this kind of analysis and work. What you're seeing in Germany is a perfect example of that. Germany's economy shut down nuclear power plants and is transitioning to renewable energies, and, as a function of that, their industrial production has collapsed and their unemployment rates are rising. Their economy was centred on turning cheap energy into products that we all wanted.

One person outlined that you don't care about people. I would tell you, as a person who grew up in a working-class neighbourhood with working-class parents, that employment and a growing economy are the best ways you can improve the lots in life of underprivileged people and people who don't have fancy degrees and are certainly not consultants.

I think this idea that there are no trade-offs to constraining and basically shuttering the single most important importer of hard currency to our economy in the form of fossil fuels is, to me, very naive and, I would argue, disassociated from the fact.

• (1300)

**Mr. Branden Leslie:** To expand on that, hopefully rather briefly, is there a scenario in which this intensive focus on ESG would not actually slow down growth but could actually induce real growth in our economy, or is it going to be more likely the latter outcome, which you just alluded to?

**Mr. Richard Dias:** Yes, I think so. It's the prisoner's dilemma. If every single country in the world, including China, Indonesia and India, who are expanding their coal...and to the lady who mentioned that they were increasing renewables, I would submit to you

to please look up the actual numbers of new coal-fired power plants that they built in 2023, with 102 gigawatts. That's more than the entire world's coal expansion in one country.

If every single country were to do this at the exact same time, then maybe, I would argue, it would have some benign impact, but we know that's not happening, so as a function of that, capital will simply flow to countries that don't care about the environment.

**Mr. Branden Leslie:** Thank you. I'm going to cede the rest of my time to Mr. Mazier.

**Mr. Dan Mazier:** Mr. Chair, I'd like to speak to that. I'd like to present the following notice of motion. This is just the notice. It reads:

Given that between June 1, 2024, and September 12, 2024, Justin Trudeau:

- a) logged over 92,000 kilometres of jet travel across 58 different trips;
- b) was in the air at least once every two days on average;
- c) travelled enough this summer to circle the globe twice over—

**Mr. Adam van Koeverden:** I have a point of order, Mr. Chair. I'm questioning the relevance to today's meeting of Mr. Mazier's motion. Are we discussing the Prime Minister at all today?

**The Chair:** He's not moving a motion. He's giving notice. I have a question, though, for the clerk. This is within the three minutes. At three minutes, do we stop or does Mr. Mazier get to continue to speak to give a notice of motion?

I think, to be honest, since we're not debating the motion....

**Mr. Dan Mazier:** I had a minute left.

**The Chair:** No, you didn't have a minute. There was about 30 seconds left.

**Mr. Dan Mazier:** You won't let me give the notice of motion.

**The Chair:** Give the notice of motion—

**Mr. Dan Mazier:** It's not that long; it's only five points. It's half done.

**The Chair:** That's eating up a lot of time, so....

**Mr. Dan Mazier:** It's 30 seconds.

**Mr. Adam van Koeverden:** Mr. Chair, I'd like to question why we're doing this at the end of the meeting when a notice of motion can be done electronically.

If it's just for a clip, that's fine. There are, you know, three video cameras here, which is very handy.

**Mr. Dan Mazier:** Chair, the motion is very clear about why we are doing it. If you'll let me finish the motion, it will be very clear.

**The Chair:** The problem, Mr. Mazier, is that this is not to debate a motion, which would open up unlimited time for debate. This is to present a notice of motion, which you can do electronically instead of eating into the committee's time.

Therefore, I would—

**Ms. Laurel Collins:** I have a point of order.

**The Chair:** I think you made some of the points you wanted to make.

I'd like to go on to Ms. Taylor Roy now, and you can send me—

**Mr. Dan Mazier:** There's a point of order.

**Ms. Laurel Collins:** I have a point of order, Mr. Chair.

If Mr. Mazier has 30 seconds of time, is he not allowed to use that time how he wishes and continue?

**The Chair:** He's already used it.

**Ms. Laurel Collins:** I don't know if he used it since we started the point of order. We wasted more time having this conversation.

**The Chair:** When he started speaking, there was 20 seconds left in Mr. Leslie's time. I think we're well over the 20 seconds.

You made your point, Mr. Mazier, in the time I allowed you, but we now have to go on to Ms. Taylor Roy and wrap this up.

**Mr. Branden Leslie:** Are we done that point of order, my colleague's point of order?

**The Chair:** I don't even know if that was a point of order.

Is it a point of order that Ms. Collins raised? I guess it was, because it was about the rules, I suppose, in a way.

Do you have a point of order, Mr. Leslie?

**Mr. Branden Leslie:** I was going to continue on hers.

I will raise one to ask the clerk whether we could look at this precedent, so we know for next time whether or not the member should be allowed to finish his statement once he begins it.

• (1305)

**The Chair:** When he's not moving a motion....

Okay. Let's find out. When you're not moving a motion, can you speak forever? Let's ask the question.

We're going now to Ms. Taylor Roy.

**Ms. Leah Taylor Roy:** Thank you, Mr. Chair.

Thank you again to the witnesses.

There are so many questions I could ask, but I'd like to turn to Gareth Gransauil. I'm interested in Re-generation representing 23 different groups of young people or youth.

I've been listening to the conversation today. What would you say would be the response of young people across Canada to some of the arguments that have been put forward today as to why we should not regulate oil and gas companies or financial institutions when it comes to climate change?

**Mr. Gareth Gransauil:** I'd say there would be numerous responses.

One is that the idea that everything we are asking for is a violation of fiduciary duty is false. There are many legal experts across the country who have issued opinions that the responsibility of corporate directors to understand and mitigate climate risk is a necessary part of fiduciary duty in Canada.

I would add that, in Canada, fiduciary duty is defined as a duty of care for the interests of the corporation, which can include a large variety of concerns, including long-term concerns. Also, we must understand there are companies that have already failed as a

result of climate change. Pacific Gas and Electric in California had a \$30-billion bankruptcy that their corporate directors were not able to foresee as a result of climate change. Now the company doesn't exist.

In terms of fiscal discipline—

**Ms. Leah Taylor Roy:** Can I intervene? I have one other thing to ask about.

We've been told many times that our problem is that we do not understand capital markets, and that's why we're going down this route. I want to say that I am someone who helped raise over \$500 million on Wall Street for a company in the energy sector. Some of us who understand capital markets may still find that what you're saying is not correct. I find that kind of condescending tone regarding our understanding of capital markets offensive.

I want to ask, Mr. Gransauil, whether you feel the problem here is that people don't understand what's going on. Do you believe that, perhaps, people have a different opinion as to what the fiduciary responsibility of these companies should be?

**Mr. Gareth Gransauil:** I believe there are a lot of considerations involved.

One of them is that there are sometimes, unfortunately, trade-offs between the very short-term interests and the long-term interests of companies.

In the way capitalism has evolved over the last 50 years, there has been an increasing trend towards defining fiduciary duty in very short-term ways, particularly as the compensation of corporate directors has been increasingly linked to stock price, which was not always historically the case. As a result, events like the bankruptcy example I gave are more likely to be the case in the future, to the extent that corporate directors are incapable of acting on longer-term time horizons, including the horizons over which climate change materializes.

[*Translation*]

**The Chair:** Thank you very much. We'll stop here.

I thank the witnesses for this informative and lively discussion. It helps us a great deal to clarify the challenges and understand them better, indeed.

We'll take a short two-minute break before moving on to—

[*English*]

**Mr. Dan Mazier:** Chair, I have a point of order.

I guess I want to go back, circle back to my motion. The fact is that it is my right—



**The Chair:** We're going to find out.

**Mr. Adam van Koeverden:** On a point of order, Mr. Chair, I don't think that's a point of order.

**Mr. Dan Mazier:** Find out before this meeting closes, because we're going in camera.

It is my right to give verbal notice during a meeting, and when I gave the notice, the committee was all sitting here. It was my time.

**The Chair:** I don't have an answer for you just this moment, but we'll—

**Mr. Dan Mazier:** Before we go in camera, I would like a decision.

**The Chair:** My decision was that your time was up. You weren't moving the motion. You were giving notice, and I don't.... If the committee disagrees with my decision, we can.... Are we challenging the chair?

**Mr. Dan Mazier:** Sure.

**The Chair:** Okay. Let's have a vote on that.

**Mr. Dan Mazier:** That I cannot give verbal notice, once I started—

• (1310)

**The Chair:** As I understand it, and if I'm wrong I will gladly apologize to Mr. Mazier, but I don't know if I'm wrong yet. We'll find out.

In the meantime, if you'd like to challenge the chair's decision, please do so, and we'll have a vote. If not, I'm going to suspend so we can go in camera.

**Mr. Dan Mazier:** Okay.

**The Chair:** You are challenging the chair, so let's have a vote.

There's no real debate on this, Ms. Collins. Is it a point of clarification?

**Ms. Laurel Collins:** My point of clarification was whether there was any debate on this.

**The Chair:** No.

**Ms. Laurel Collins:** Okay, so if we vote yes, we affirm, we support the chair, and if we vote no—

**Mr. Dan Mazier:** I get to read my motion.

**The Chair:** Do you agree with Mr. Mazier that the chair was wrong?

**Ms. Laurel Collins:** I feel like we're going to find out later what the verdict is.

**The Chair:** A yes is with Mr. Mazier, and a no is—

**Mr. Dan Mazier:** No, it's the other way around.

**The Chair:** Okay. A yes is with the chair; you're sustaining the chair. A no means you're with Mr. Mazier.

(Ruling of the chair sustained: yeas 7; nays 4)

**The Chair:** We're going to suspend for a couple of minutes, so we can do all we have to do to go in camera.

[*Proceedings continue in camera*]





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