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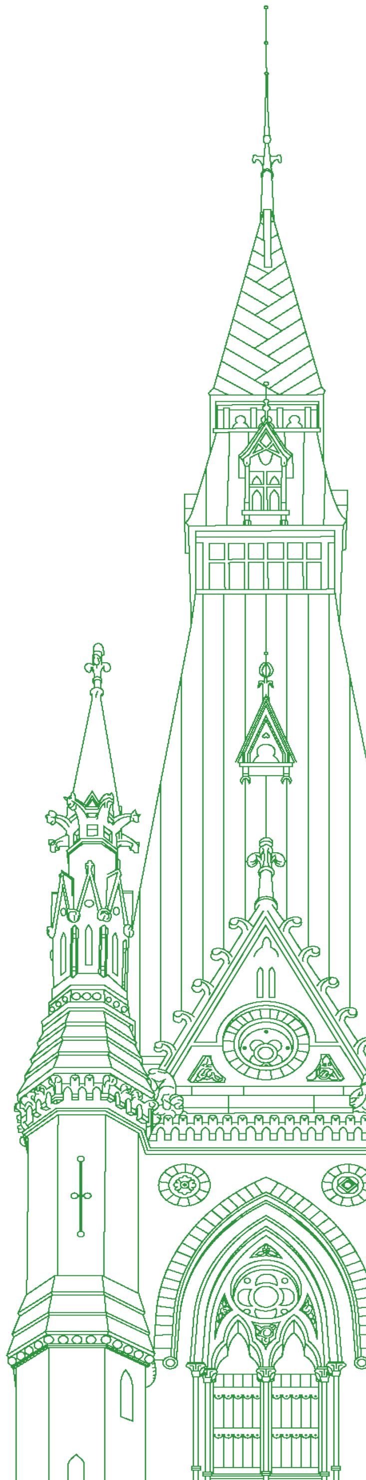

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● (1105)

[*English*]

The Chair (Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.)): I call this meeting to order.

Welcome to meeting number 80 of the House of Commons Standing Committee on Finance.

Pursuant to Standing Order 108(2) and the motion adopted on Tuesday, March 7, 2023, the committee is meeting to discuss the current state of play on green finance.

Today's meeting is taking place in a hybrid format pursuant to the House order of June 23, 2022. Members are attending in person in the room and remotely using the Zoom application.

I would like to make a few comments for the benefit of the witnesses and members.

Please wait until I recognize you by name before speaking. If you are participating by video conference, click on the microphone icon to activate your mike, and please mute yourself when you are not speaking.

For interpretation, those on Zoom have the choice, at the bottom of their screen, of the floor, English or French. Those in the room can use the earpiece and select the desired channel.

I remind you that all comments should be addressed through the chair. To members in the room who wish to speak, please raise your hand. To members on Zoom, please use the “raise hand” function. The clerk and I will manage the speaking order as best we can, and we appreciate your patience and understanding in this regard.

I'd now like to welcome our witnesses. We have, as an individual, Eric Usher, head of UNEP Finance Initiative. He's coming to us from Stockholm. From the Organisation for Economic Co-operation and Development, we have Robert Youngman, team leader, green finance and investment. Mr. Youngman is coming to us from Paris, France.

You now have an opportunity for opening remarks before we move to members' questions.

We'll start with Mr. Usher.

Mr. Eric Usher (Head, UNEP Finance Initiative, As an Individual): Thank you very much, dear Chair and committee members.

I'd like to thank you for the opportunity to share observations on sustainable finance policy and regulation globally and to help inform the study under way in Canada.

Please note that my remarks are made on a voluntary basis in my individual capacity and should not be understood to be a waiver of the privileges and immunities of the United Nations.

Canada has expressed its commitment to transition to a carbon-neutral economy and society. The Canadian Net-Zero Emissions Accountability Act is foundational for further policy action, and I want to congratulate the Canadian government on this important step.

Equally, I welcome Canada's recognition that the private sector, particularly the finance industry, has a key role to play in achieving the overall net-zero policy agenda. The establishment in 2018 of the Canadian expert panel on sustainable finance and in 2021 of the sustainable finance action council, the SFAC, are important steps in this regard.

Many financial institutions, including leading banks, insurers and investors in Canada, have already begun integrating sustainability considerations into their operations. For example, their identifying sustainability is a key priority within their business strategy, and they reflect this in their governance and compensation policies. They establish systems to analyze the climate-related risks and impact of their financing, and they have begun making sustainability disclosures. Most of this is done on a voluntary basis, at least so far.

Now, we believe, is the time, really, to step up action to implement conducive and effective regulatory framework conditions to drive Canada's transition to a more sustainable economy and society. When we think of effective financial regulation, we think of needing as little as possible but as much as is necessary.

The private sector needs room to innovate, but I believe that voluntary leadership from industry and regulatory action from government really need to work hand in hand. Each needs to signal the other towards market uptake and towards learning and ever-increasing ambition and innovation. There are a number of trends and developments in sustainable finance policy globally that countries can look to in driving this ambition.

First, mandatory corporate sustainability disclosure frameworks are being implemented across many jurisdictions, with increased attention to covering not only the short-term risks of environmental and social externalities on business value, but also the impact of the business on people and the planet. Significant negative impacts on society eventually become material risks to the business itself, and they need to be properly understood, managed and disclosed.

Second, central banks and supervisors are issuing supervisory expectations for how financial institutions should manage and disclose climate and broader environmental risks. Many are carrying out exploratory scenario analyses and climate-risk stress tests. Some are grappling with their wider role in encouraging the overall transition of the real economy.

Beyond the focus on climate, I do observe increased regulatory attention to supply chains—for example, due diligence requirements around human rights and child labour practice.

Also, of course, an increasing number of classification systems and taxonomies are being developed across many jurisdictions.

In line with these trends, I want to end by sharing some thoughts on what regulatory action might be conducive to driving Canada's sustainability transition forward. Canada has begun to put in place some of the foundational regulatory elements in support of becoming a leader in sustainable finance. I believe that these early initiatives should now be duly executed and expanded.

First of all, mandatory sustainability disclosure is needed across the economy. I highly welcome the ambition and direction of the Office of the Superintendent of Financial Institutions' recent guideline on climate risk management for financial institutions. At the same time, I encourage regulators to expand such requirements also to the broader economy and to non-financial corporates as this is the only way to ensure a sound transparency across the economy. My understanding is that the Canadian Securities Administrators, CSA, is actively considering such disclosure obligations, and I highly encourage rules to be adopted as soon as possible, in line with international best practice, such as the framework developed under the International Sustainability Standards Board, the ISSB. Over time, companies should be required to set clear climate targets and to publicly disclose their transition plans.

Second, we need to broaden regulatory action beyond climate. It would be an important step to step up regulatory consideration of the risk and stability implications of broader environmental risks, such as biodiversity loss, soil erosion, pollution and other factors. I really encourage Canada—as host where the landmark Kunming-Montreal global biodiversity framework was adopted at the end of last year—to become a front-runner in this space.

● (1110)

Third is the taxonomy on how to enable the transition.

Canada is a resource-rich economy, and the ability of its sectors to attract the capital needed to transition to sustainable business models will be key. Canada's transition taxonomy, helping corporates and financial institutions identify sustainable economic activities, will be crucial.

I welcome the taxonomy technical expert group's recent road map report and highly recommend prioritizing the finalization of the taxonomy in close collaboration with industry. Building on this taxonomy, I commend the 2030 emissions reduction plan announced last year to develop sector-by-sector pathways for Canada to reach its emissions reduction targets.

The last point is, underpinning all of this, Canada should continue to actively engage in relevant international fora, working toward the alignment of sustainability measures and for the improved interoperability of frameworks.

Thank you for your attention.

The Chair: Thank you, Mr. Usher.

We will now hear from the OECD.

Go ahead, Mr. Youngman, please.

Mr. Robert Youngman (Team Leader, Green Finance and Investment, Organisation for Economic Co-operation and Development): Thank you very much, Mr. Chair.

Thank you, committee members.

Today, my remarks will focus on transition finance, and we'll dive into that topic.

To achieve the Paris Agreement goals, all sectors of the global economy—in particular, hard-to-abate industries—must rapidly decarbonize. This has given rise to several tools and initiatives in sustainable finance and, more recently, in transition finance.

Defining what is already sustainable has traditionally been—

The Chair: I'm sorry to interrupt you. I think the paper that you may be reading from is in front of the camera, so we can't see you. We are televising this session, so I think people will want to see you and hear you.

If it is possible to lower it, that would be great.

Thank you.

Mr. Robert Youngman: It is absolutely possible.

Thank you.

Defining what is already sustainable has traditionally been the focus of sustainable finance initiatives. This approach is criticized by some corporates and financial market participants as being insufficient to facilitate the whole-of-economy greenhouse gas emission reductions necessary to achieve the temperature goal of the Paris Agreement.

Transition finance focuses on the dynamic process of becoming sustainable rather than providing a point-in-time assessment of what is already sustainable today. This inclusive approach creates room for financing to decarbonize the most polluting and hard-to-abate industries today. On the other hand, transition finance can run the risk of sacrificing environmental integrity for inclusiveness and enabling greenwashing, a topic that is attracting increasing attention from stakeholders and regulators.

The "OECD Guidance on Transition Finance" provides a comprehensive analysis and mapping of existing initiatives. It identifies key challenges to scaling up transition finance currently faced by market actors and policy-makers. In the context of the guidance, transition finance is understood as finance deployed or raised by corporates to implement their net-zero transition in line with the temperature goal of the Paris Agreement and based on credible corporate climate transition plans. The guidance presents 10 elements of credible corporate plans, and highlights areas where more transparency is needed. In doing so, it can support market actors in conducting transition finance transactions with environmental integrity; corporates in developing their transition plans; and policy-makers in developing robust policy frameworks for transition plans.

This focus on transition plans in the guidance is also reflected elsewhere, including the G20 sustainable finance working group's transition finance framework, the International Platform on Sustainable Finance's transition finance principles, and the U.K. transition plan task force disclosure framework. Existing frameworks share several common elements, which they cover with varying degrees of detail, prescriptiveness and stringency. These elements include setting of net-zero and interim targets, use of metrics and key performance indicators, use of carbon credits and offsets, internal coherence with a company's business plan, guidance on governance and accountability, as well as issues surrounding transparency and verification. The guidance draws on all these existing frameworks and initiatives when presenting elements of credible corporate climate transition plans.

I will skip a little bit just to stay within the five minutes, Chair. I'm sorry for the initial “coverage”.

It is worth highlighting that the journey toward credible transition plans has only just begun. In a recent report, CDP found that in 2022, 22% of the organizations disclosing through the climate change questionnaire disclosed that they had already developed a climate-aligned transition plan. However, of those organizations, only 81—that's less than 1% of the full sample—reported sufficient detail on key indicators. Moreover, only 9% of the full sample reported that their transition plan was publicly available. We're very early on in the process.

The guidance was developed in consultation with an informal reflection group of interested policy-makers that included the Bank of Canada, the U.S. Department of the Treasury and representatives from several other countries. In addition to being reviewed by relevant policy committees at the OECD, it was also submitted as an input to the G20 sustainable finance working group. It also informed the development of other relevant transition finance initiatives and frameworks.

Thanks very much for the opportunity to share this information to help inform the study on the current state of play. I'll be happy to answer any questions.

● (1115)

The Chair: Thank you, Mr. Youngman and Mr. Usher. You will have a lot of opportunity in question time with the members to elaborate on your comments.

We have about an hour and 45 minutes. We'll get through a number of rounds of questions. In our first round of questions, each party will have up to six minutes to ask questions of our witnesses. We'll start with the Conservatives.

MP Lawrence, you have six minutes, please.

Mr. Philip Lawrence (Northumberland—Peterborough South, CPC): Thank you very much.

Thank you to the witnesses for appearing. We very much appreciate their time here today.

Although we didn't like the excessive coverage, it's much better than an excess of “uncoverage”, which we have also seen on Zoom.

Voices: Oh, oh!

Mr. Philip Lawrence: That's a bit of humour to get us started.

Hopefully, Mr. Youngman—Mr. Usher, you might want to enter into this discussion, as well—we'll see a transition to net zero that will, perhaps, take many different forms.

One thing I am very bullish on is clean Canadian energy. We saw the European Union recognize natural gas as a green fuel in their taxonomy. They recognize—which, I think, is only factual—that natural gas will put less than half of the amount of carbon into the atmosphere than coal or some other technologies. Natural gas is also often necessary in an energy mix, in order to pump energy. When the wind isn't blowing for windmills or the sun isn't shining for solar, natural gas often goes hand in glove with renewables such as solar and wind.

When we're creating financial instruments, are we taking into consideration that natural gas can be part of the solution, especially given the geopolitical pressures Europe has felt, being as dependent as they are on natural gas? I hope we will support clean Canadian energy and not actively defund it.

Mr. Robert Youngman: Thank you for the question.

The question of gas has been raised in the context of the European Union. It's certainly relevant in today's geopolitical context.

The question of whether it is compatible with 1.5° pathways is relevant here, perhaps. What we've seen from the IEA and the IPCC is that, in order to reach net zero by 2050, there can be no additional fossil fuel exploration. Existing and planned fossil fuel infrastructure, without additional abatement, would exceed 1.5° if it's used to the end of its lifetime. Continuing to install unabated fossil fuel infrastructure will lead to emissions lock-in. By “unabated”, I mean.... “Abatement” essentially means interventions that substantially reduce GHG-capturing by 90% or more.

In that context, transition plans that rely on investments in new fossil fuel explorations, sale or distribution are likely not compatible with the Paris Agreement temperature goal and could lead to lock-in. However, in the context of developing transition plans, there's consideration about whether, over the course of its lifetime, infrastructure can be used for greener substitutes—that is, natural gas pipelines being used, in the future, for ammonia or green hydrogen.

These are some considerations. For example, in the the “OECD Guidance on Transition Finance”, transparency on future plans to help avoid emissions lock-in is important, in order to give confidence to the finance community, which is looking to stay consistent, on their side, with the 1.5° pathway, so—

● (1120)

Mr. Philip Lawrence: Thank you very much.

I'm sorry. My time is short.

It's clear where you stand on that. I would have some disagreement. I think the European Union would as well with respect to natural gas being part of the solution, not part of the problem.

My other question is almost the exact same one, but with respect to nuclear. Would your organizations and reports be in support of financing and providing financial instruments to support the growth of the nuclear industry?

Mr. Robert Youngman: The topic of nuclear energy, with respect to transition, was a relatively unemphasized area. With respect to greenhouse gas emissions, it's widely recognized that nuclear energy would need to play a major role, moving forward. This is the choice of individual countries.

I would say the relevant question is this: Can the use of nuclear energy be done in a way that does no significant harm relative to other environmental goals?

Mr. Philip Lawrence: Thank you for that. My apologies; my time is short.

I have one final question for you.

In energy, the measure of its contribution to productivity per worker is about $500—more like $600 now or even more—of GDP per worker. That is in contrast with the average worker, who contributes in Canada about $55 to GDP. What is the contribution of a green worker to GDP per hour?

Mr. Robert Youngman: I'm afraid I don't have that answer. I'd be happy to look it up, however.

The Chair: Thank you, MP Lawrence and Mr. Youngman.

We're moving over to the Liberals and MP Chatel for six minutes, please.

Mrs. Sophie Chatel (Pontiac, Lib.): Thank you very much.

Thank you, Mr. Usher and Mr. Youngman, for being here with us today.

Mr. Youngman, one of the reasons I joined the OECD during my career is their value statement of "better policies for better lives". I'm sure it has inspired you. In fairly concrete ways, would you be able to describe how the work you do for the OECD and your team on green finance could create better policies and better lives for Canadians and all OECD members?

Mr. Robert Youngman: Our work on the green finance team focuses on policies, institutions and instruments to help accelerate investments towards a low-carbon economy. Governments are all faced with this enormous challenge to speed up the transition to a low-carbon economy. We feel that sharing best practices with all of our member countries and other partner countries is a good way to help inform domestic policy-making to choose the specific approaches that will work best, in this case for Canada.

We try to provide that best practice and also go into new areas such as transition finance, where there's an important gap. In this case, if high-emitting sectors do not rapidly secure financing to take ambitious action, then we're likely to continue with inadequate emission reductions to meet our climate goals.

● (1125)

Mrs. Sophie Chatel: Thank you so much, Mr. Youngman.

When we talk about green finance, at the core, we first of all need to know what we are talking about. As Canadians, we need to invest—and we all share the values that we want to live in a clean country, breathe clean air and be safe in our communities. We want to invest where our values are, but we need to know what green finance is. What is transition finance?

The OECD guidelines on transition finance highlight that there's a "growing risk of greenwashing in transition finance". Can you explain how the work you published on developing a sustainable finance definition and taxonomy can help Canadians and investors around the world invest where their values are?

Mr. Robert Youngman: Our work on transition finance has found that there is a mushrooming of different approaches by governments and market actors on transition finance. The absence of universally accepted criteria raises questions about the environmental and market integrity of transition finance approaches and potential risks of greenwashing.

It's early in the development of this market, but it's important to provide maximum transparency and guidance to companies that wish to be seen as serious in their efforts to transition to low carbon. The guidance considers transition finance to be finance intended for emissions-intensive economic activities, those that currently have no viable green substitute but are on their way to becoming sustainable or reaching net zero.

The key distinction between green and transition finance is that green finance focuses on activities that are already green. It's a point-in-time assessment, and today you can say that renewable energy is consistent with meeting Paris goals, whereas transition finance is directed at entities' entity-wide efforts to become green—a corporation that's looking to move to net zero from where it is today, particularly in emissions in sensitive sectors.

Mrs. Sophie Chatel: This is the last question from me.

We hear so many initiatives on how to define green transition finance, how to develop standards and how to ensure there is disclosure of the companies' activities in that area. There are lots of international initiatives right now.

What is the OECD's role in mutualizing all of those initiatives and using best practices to develop international standards, as you mentioned? Where is the OECD's work on that?

Mr. Robert Youngman: Sure. Thank you.

The guidance on transition finance takes a look at different approaches, and there is a wide range across countries. Some governments use taxonomies; others provide technology road maps.

It's true that in the last year there has been a lot of activity on transition finance. I would like to reassure you that in this process, first of all, the OECD has been feeding into relevant processes like in the G20 sustainable finance working group. They came up with transition finance principles. We have fed into the international platform on sustainable finance, organized by the European Commission. They came up with principles. We see significant convergence across these instruments. In addition, it's worth noting the U.K.'s transition plan task force.

What the guidance does is recognize a common factor across all of these elements, whether it's corporate sustainability reporting standards, taxonomies or other approaches. This is the centrality of a credible corporate transition plan. It provides 10 different elements for what constitutes a credible transition plan that, when you are making comparisons, you will find is very much in line with many other recommendations.

● (1130)

The Chair: Thank you, Mr. Youngman.

[*Translation*]

Thank you, Ms. Chatel.

Mr. Garon, you have the floor for six minutes.

Mr. Jean-Denis Garon (Mirabel, BQ): Thank you, Mr. Chair.

Mr. Youngman, I would not want you to judge the way I spend my leisure time, but last night I looked at the website of the Canadian Bankers Association. I tried to find the most recent initiatives implemented by our large financial institutions with regard to transition finance. I have to admit that it was very hard to find anything on their website. It doesn't seem to be one of their priorities.

I then visited the website of the Insurance Bureau of Canada. The green transition initiatives were easy to find, stood out and were well presented. It implies that, in terms of transition, insurers are ahead of other financial institutions.

The way I see it, insurers today are dealing with the direct and immediate financial consequences of climate change, as are their shareholders. Conversely, banks, including Canadian ones, which are deeply involved in the oil sector, will only be feeling those effects in the long term. This leads me to believe that in certain sectors, such as banking, we need government policy that includes financial incentives linked to prices. This might nudge our banking sector into starting the transition so that these incentives are as effective as they were on the insurance sector.

What do you think about that?

[*English*]

Mr. Robert Youngman: Yes. Thank you.

What you're touching on, I think, has broader links to incentives for climate policy and to helping accelerate investment and action. The portfolios of insurance companies are being affected by the physical climate impacts, so they have, as you are saying, this natural incentive to begin to take into account risks.

In addition, many countries are requiring disclosure on climate-related risks.

I'm glad you brought up incentives, because we see globally, in our work on carbon pricing at the OECD, that generally the level of carbon pricing needed to meet greenhouse gas emission reduction targets is insufficient. Of course, countries use many different policies to get there, but generally there needs to be increased ambition.

In the area of transition finance, that would be completely new. The question of what incentives exist for companies in emissions-intensive sectors to develop credible transition plans and to actually make these investments and secure financing is, I think, a very relevant question for policy-makers and a gap that currently exists.

[*Translation*]

Mr. Jean-Denis Garon: I understand that, in most countries, these policies are still being developed. Very few incentives have been put in place, except for the carbon tax, which might increase over time.

Of the models you've studied and which you are familiar with, including in countries or regions rich in natural resources, such as in western Canada, are there any examples Canada should follow to accelerate the transition?

[*English*]

Mr. Robert Youngman: That's an excellent question. The challenge, in this case, relates to just transition. It relates to shifting out of emissions-intensive activities and making sure that communities are not left behind. I would say that, in developing countries, this is already an enormous challenge, and it's a different story. Earlier today, in an event with Indonesia, they are planning to have a planned phase-out of existing coal plants, and there are financial mechanisms being developed to do so responsibly. Similar questions could be raised for resource-intensive economies and how best to achieve this in a way that is not disruptive and that involves all stakeholders. There's a partial answer.

● (1135)

[*Translation*]

Mr. Jean-Denis Garon: I have about a minute left. I will try to be quick because my next question is one of substance.

You often hear that Canada is a small country in economic terms, that it has a small, open economy and that, as long as China and India do not significantly move towards green finance and climate change, it won't be worth doing those things here because they'll just cause problems for us.

Do you think that even a country with a small economy like Canada can play an important leadership role on the world stage in terms of advancing standards, green finance, transition finance, taxonomy and other such things?

Do we have a role to play or should we wait for bigger actors to lead the way?

[*English*]

Mr. Robert Youngman: Canada is in a unique position, given its natural resources, and can play a leading role. Also, pointing to other resource-intensive and resource-rich economies in OECD countries, Canadian institutional investors already play a leading role in investing in sustainable infrastructure around the world. There's a need for leadership from the countries that precisely have the resources. This is going to be an enormous challenge. The expectation is that developing countries need to give up their resource-rich economies. It's very hard for the world to secure their participation if there's no leadership amongst, let's say, OECD countries for facing that sort of challenge domestically as well.

[*Translation*]

The Chair: Thank you, Mr. Garon.

[*English*]

Now we go to the NDP.

MP Blaikie, you have six minutes, please.

Mr. Daniel Blaikie (Elmwood—Transcona, NDP): Thank you very much.

Maybe I'll just start with a few comments.

It seems to me that—and we were just talking about this—in the insurance industry, for instance, they're starting to feel the financial effects of climate change. They're motivated to try to protect their profits from the potential harms of climate change, and I think many insurance companies that are large enough are going to get the information they feel they need from companies they're considering investing in in order to be able to make their own decisions about what makes sense for them and what doesn't.

I think the trick here is figuring out how that's done in a transparent way, how that's done in a way that marshalls those financial institutions' investment toward a credible climate plan, and I think also ultimately in a way that Canadians can digest. I think a lot of Canadians, when they're thinking about their own personal savings for retirement, want to be able to have some stewardship over their own money and resources and feel like they're contributing to what they see as being the solution.

I want to start from that point of view. If I'm your typical Canadian with a little bit of savings and I'm thinking about my retirement, I want to invest in a way that I see as contributing towards part of the climate solution. What are the things that have to be in place that are not currently in place to give me confidence that I'm not being had by some greenwashing venture and that, when I think I'm investing in something that is part of ultimately reducing our carbon emissions and meeting our climate targets that I really am?

What would you say are the components missing, either in the Canadian-specific context or internationally, for me to have a regime that I can trust in the way that a lot of Canadians trust the Canadian Food Inspection Agency, for instance? Canadians don't usually do their own research when they go to the grocery store to ensure that their food is safe, because there's a regime in place that they have confidence in, and they can say, “Okay, when I'm buying this product, I can take it at face value because the regulator has done the homework behind the scenes to ensure that I'm getting the product that the company I'm buying it from says I'm getting.”

What do we need in place in order for Canadians to be able to invest their money in climate solutions?

Mr. Robert Youngman: Mr. Chair, I'm just checking if this is a question for me or for Mr. Usher.

Mr. Daniel Blaikie: I'm happy to have either panellist answer, or both.

Whoever wants to jump in is more than welcome to do that.

Mr. Robert Youngman: I'll just say something quickly and leave some time for Mr. Usher, if he wishes.

An interesting model is the EU. They have Paris-aligned indices and rules around developing such indices.

Given that a very significant portion of pension savings is in passive indices that track broader market indices, the development of rules around climate and Paris-aligned indices from a Canadian perspective could be very helpful if the regulator seeks to do this, given the trillions globally in savings that can be used.

That's a short answer.

● (1140)

Mr. Daniel Blaikie: Mr. Usher, do you have anything to add?

Mr. Eric Usher: I think what you frame out is obviously what we need in all jurisdictions. Beneficiaries, customers and clients need to know, when they buy a service and when they invest in an activity, that they're doing it credibly.

I think the financial markets that have been in development.... It was 500 years ago when there was a monk in Italy who sat in a cave and drew up essentially what became the accounting profession. It took 500 years, and we still have to admit every so often that they get it wrong.

I think the world of sustainability, climate and ESG is much younger, and it certainly doesn't have it right today. I think it's done a lot of work. It needs to have a lot of improvements, and I think, as we heard earlier from MP Chatel, there are a lot of competing frameworks.

I think that having the ISSB and, as I understand in Canada, the CSSB to implement...is an important way to merge together frameworks. The important thing is that when someone provides financing, whether it's a bank or an investor, they should start to be able to disclose what that financing is used for and what the impacts of that financing are on emissions and otherwise.

Once they get a better grasp on that, they disclose that to the markets, and we have market functionality. As long as the markets are credible, then the information gets to the investors, to the decision-makers and to the clients so they know essentially what they're investing in or what they're buying. It's not that different in the financial markets from textiles, to all aspects of.... Consumers want to know what they're buying. When you buy a can of soup, you want to know what's in the soup, so you need the ingredient levels.

They are still being perfected. They are not perfect, but we are seeing a large influx of effort to try to work that out. There will be some misses, and there will be some of this notion of greenwashing, but overall, done right with a good, proper oversight from market regulators, we believe that there's good potential that the financial sector be a large part of driving this needed solution.

Mr. Daniel Blaikie: I think I have about 30 seconds left, so I'm going to throw out a question that maybe we can circle back to.

I'm wondering how important a carbon budget is to give certainty to larger investors. How important is it for a country to be working backward from a goal in order to give investors some certainty when they are trying to site an investment, particularly something that's very resource intensive and they want to know that the goalposts aren't going to change on them? They can really only get that from a government plan for emissions targets for a country.

How important a role does something like a carbon budget play in giving larger, institutional investors certainty about siting investments in a particular place?

The Chair: Just hold on to that, member. You'll get an opportunity in this next round as we get into it to get to that question.

This is our second round, members. We're starting with the Conservatives.

Thank you, MP Blaikie, for that round.

We're starting with MP Morantz.

Mr. Marty Morantz (Charleswood—St. James—Assiniboia—Headingley, CPC): Thank you, Mr. Chair.

Thank you to the witnesses for being here. It's been a very interesting discussion.

Mr. Youngman, I want to first follow up on a question that my colleague, Mr. Lawrence, was talking to you about, which is the inclusion of investments in nuclear. You said in that round that nuclear needs to play a role in energy transition.

Do you think the Canadian government made a mistake by excluding nuclear from their green bond program while other jurisdictions like the U.K. are including nuclear in their similar programs?

Mr. Robert Youngman: That's a tricky question from an OECD standpoint given that we work with a number of governments. On the point of nuclear, to date my understanding is that we point out its importance in meeting climate objectives, but recognize that governments may have different views and concerns about long-term impacts versus the trade-offs of meeting climate targets.

I'm afraid I have to leave it there.

● (1145)

Mr. Marty Morantz: Mr. Usher, in your role as head of the finance initiative for the UN Environment Programme, have you conducted or are you aware of any economic impact studies about the effects of implementing green finance or sustainable finance regimes in Canada or any other countries?

Mr. Eric Usher: Do you mean in terms of the economic outcomes of such policies?

Mr. Marty Morantz: The economic impact.

Mr. Eric Usher: It's a fairly wide challenge, so I think there is a lot of detailed analysis. Yesterday we saw the Intergovernmental Panel on Climate Change, the IPCC, put out their AR6 Synthesis Report and a range of messages, including that we're not arresting climate change. Part of the message is that the solutions are available and, in many cases, are financially viable. Particularly in the energy sector, there are enough solutions to help decarbonize through a transition the range of technologies that will be needed.

There are different assessments, and often it's going down to a sectoral basis about what the impact will be on the sector.

One of the big wake-up calls is that there's an electric vehicle manufacturer south of the border that is worth more than the rest of the industry. There are various reasons for that, but that has been a wake-up call to many industries, which is that there's a realization that industries are changing and need keep abreast and be on top of those changes.

On how you interpret that, there are many thoughts behind it. What we generally see is that large industries particularly are very aware of these issues and are paying very close attention and, therefore, so are their financiers.

Mr. Marty Morantz: There are no specific studies that you could point us to, though?

Mr. Eric Usher: No. The ILO has certainly done a lot of studies on green jobs and how many jobs are created through different industries. That's basically the reference point. More widely, it would have to be broken down. I don't have specific studies to reference.

Mr. Marty Morantz: Thank you.

Mr. Usher, you said in the past that we need to leverage private-public partnerships for tackling climate change and that public finance would not be sufficient.

Are you concerned that utilization of public financing would result in de-risking of financial institutions and could lead to bad lending decisions in the private sector? Doesn't this additional risk shift to the taxpayer in that event?

Mr. Eric Usher: We are seeing an uptick in fiscal approaches with more public funding, including in the United States and Europe. One thing that's clear is this: Finance regulations are not going to solve policy gaps. If we look in the real economy, improving access and risk management within the financial sector is part of the solution. To help transition, there often needs to be a policy impetus within different sectors.

Part of that impetus can be fiscal. It's about managing risks and innovation. I referred to an electric vehicle manufacturer. It was started with public funding 15 years ago. We believe well-invested public finance can help de-risk. It can partner with the private sector in bringing innovation forward. Of course, it has to be properly overseen and managed.

The Chair: Thank you, MP Morantz.

We'll now go to the Liberals and MP Dzerowicz.

Ms. Julie Dzerowicz (Davenport, Lib.): Thank you so much, Mr. Chair.

I want to thank our two speakers for their excellent presentations today, and for being part of this important discussion.

Mr. Usher, I'm going to begin with you.

You ended your presentation to us with four recommendations on where we can go next. Could you go through the last two? You went through those very quickly. I think one was around becoming a leader in protecting biodiversity and ecosystems, and your last one was around creating a taxonomy for enabling the transition.

If you could clarify both of those for me, that would be helpful.

● (1150)

Mr. Eric Usher: Okay.

Very briefly, climate change is a critical crisis, but we have to acknowledge that there are other crises, often interlinked. One aspect of addressing climate change is.... It's estimated that one-third of the ways to mitigate emissions will be through what we call “nature-based solutions”. That's, essentially, better management of biodiversity. The Kunming-Montreal global biodiversity framework—we call it “the Paris moment”—provides for biodiversity in nature. It's an important starting point. There's a lot of work to be done.

Within the finance industry, we're seeing increasing awareness. There's a new disclosure framework called the “taskforce on nature-related financial disclosures”, which will be providing information and feeding into the ISSB with respect to how corporates—including banks and other financial actors—start to disclose the nature risks in their portfolios.

That can take a wide set of issues. We have to acknowledge that nature is a very complicated issue. When you start to break it down, you have to understand what the impact is on, let's say, the die-off of pollinators, if you're doing a lot of lending to agricultural businesses. Does that impact your borrowers? Would they have a hard time paying you back? You need to start to understand these nature-loss issues.

That's one critical recommendation.

It terms of taxonomy, I would mostly refer to what Robert Youngman mentioned. Within the Canadian context, it's not so much a question of “What is green?” but “What is greening?" or “What is transitioning?”. It's a critical issue for a resource-intensive economy like Canada's. We have to acknowledge that there won't be one transition taxonomy, globally. It will have to be region-specific and heavily reliant on.... The financial sector will want to see transition pathways for each sector and understand how taxonomies help them allocate capital to an industry that is not green today but has the potential to green over time, through certain types of investment allocations. The taxonomy will be key to that.

Ms. Julie Dzerowicz: Thank you. That's very helpful and clear.

We know the International Sustainability Standards Board was stood up. Do you see that as a helpful body, in terms of creating some of that harmony of standards across the different jurisdictions?

Mr. Eric Usher: Absolutely. The IFRS is the set of financial accounting standards used by most jurisdictions in the world. The fact that they stood the ISSB up means most corporates, globally, will be looking to this body to establish the new standards and...how to disclose on these sustainability risks. That isn't to say they're going to be more ambitious or detailed, but they will drive convergence, which—as we heard earlier in the discussion—is going to be quite important.

Yes, there are high expectations for uptake being driven through the ISSB.

Ms. Julie Dzerowicz: Thank you so much.

My last question is for Mr. Youngman.

In March of this year, the OECD put out a report, “OECD Economic Survey of Canada”. There is a chapter on decarbonizing Canada's economy. In it, there is a statement that “Canada's serious ambition to reduce emissions by 2030 and hit net zero by 2050 are backed up by an increasingly complex suite of mitigation policies.”

When we talk about Canada's climate emissions plan, our discussion typically centres on a price on pollution. Would you be able to elaborate a bit on the other measures that help make this package complete?

Mr. Robert Youngman: That's a good question. Not having authored that study, I will be a bit imprecise.

Carbon pricing and the minimum carbon price set at federal level would seem to be very important. Measures to encourage investment, perhaps through tax credits, can be very helpful. There are emissions trading schemes in some jurisdictions. I'm sure that there's promotion of EVs and many other measures. I would think that measures tied to timelines, achieving these targets and checking on progress on a regular basis are very important.

I recall 20 years ago, when Alberta started working on emissions trading based on an emissions intensity approach. At the time, it was brand new and seen as not quite that ambitious, but times have changed and it's got more ambitious. I think early action and building on that are a good recipe for success.

● (1155)

The Chair: Thank you, MP Dzerowicz.

Now it's over to the Bloc and MP Garon, please, for two and a half minutes.

[*Translation*]

Mr. Jean-Denis Garon: Thank you, Mr. Chair.

Mr. Youngman, I share your concern and that of others here today about projects which will undermine the goals of the Paris Agreement under the guise of greenwashing.

I can think of several Canadian projects, including the expansion of the Trans Mountain pipeline, which was paid for out of the pockets of Canadian taxpayers to the tune of $30 billion.

I can also think of investments made in new oil sands wells, as well as in the Bay du Nord extraction project, which was approved, if not encouraged, by the current government and which will allow for the production of one billion new barrels of oil.

We're talking about green finance, but I have some questions.

What investor will want to make the effort and take Canadian standards seriously if the Canadian government itself is the worst example with regard to its own taxonomy or the taxonomy suggested by the sustainable finance action council, a committee which the government itself struck? Don't you think there is a lack of credibility?

[*English*]

Mr. Robert Youngman: What I might say is that governments as a whole, across the OECD and elsewhere, have a challenge about defining eligible activities for funding, including in the wake of recovery efforts from COVID. The objective is trying to steer investments in areas that are consistent with the Paris Agreement and social objectives.

Many governments have not developed these taxonomies. The EU is one that is a pioneer in this area and is trying to apply a taxonomy—

[*Translation*]

Mr. Jean-Denis Garon: I'll have to interrupt you, as I don't have much time left.

Regardless of the taxonomy, to reach the goal of decarbonization or a net-zero emissions economy by 2050, is authorizing one billion new barrels of oil compatible with the transition, with decarbonization?

[*English*]

Mr. Robert Youngman: I would go back to previous comments about what the IEA and UNFCCC have said about new investments in fossil fuel exploration and development. Overall, the broad case is that they're not compatible with 1.5°. There are a number of governments that have done this, nevertheless.

It is a challenge moving forward. We are currently quite behind on addressing this issue.

The Chair: Thank you.

Thank you, MP Garon.

Now it's over to MP Blaikie. You may want to get back to that last question that you posed.

Mr. Daniel Blaikie: Indeed, so I'm going to pose it again more briefly. Then I'm going to add a second question.

The first question is, what role does having a carbon budget play in terms of investor certainty and attracting investors to a particular jurisdiction?

To go on to my second question, sometimes at this table and sometimes at other tables that I sit at around this place, what we've heard a lot about from a number of industries—whether it's auto manufacturing, the aerospace industry or the electricity industry and generation, transmission and distribution—is that Canada doesn't do any industrial planning and that there doesn't seem to be a cohesive sense of direction in respect to government investment, government regulation and where an industry is at, and also that industry requires more of a framework in order to be able to attract private investment.

I'm wondering about the extent to which you think planning around decarbonization and meeting our Paris commitments could create tables, not only where we talk about decarbonization and how to meet emission goals, but to bring a more generally cohesive strategic approach to certain industries that will make it easier to attract more investment, rather than the narrative we sometimes hear, which is that any level of government involvement will simply dissuade private sector investors from participating.

I leave it to either panellist to address either question.

I see that Mr. Usher has his hand up.

● (1200)

Mr. Eric Usher: Thank you.

I would say that carbon budget is kind of what you get at the end of the exam. On the investors or the financial actors, for them the carbon budget is...I don't want to call it the “pass/fail grade”, but it's an aggregate number. What they really look for at a sectoral level are credible transition plans. They understand that the aviation industry is going to be more challenging than, let's say, the power sector, and the steel industry is going to be different from the cement industry.

As for what they will expect, they'll say for the steel industry, for example, “We want to see a plan that's going to decarbonize it, is globally competitive but credible and will include policy incentives and include technology innovation, and we want to know what role we can play in driving that pathway, increasing the risk of those who are falling behind and driving capital towards those who are leading ahead.” That's what they really look for in governments: to create these credible pathways.

To your question in terms of an industrial policy for transition planning, we believe that is important. Now, of course, every country goes around planning in different ways, but this is a new type of policy, certainly, that they're looking for, because they're fearful that if there's not a credible plan, what they invest in today, next year or next decade might be outmoded, because of changes in innovation or changes in policy frameworks.

The Chair: Thank you.

Thank you, MP Blaikie.

We are now going to the Conservatives and MP Lawrence for five minutes, please.

Mr. Philip Lawrence: Thank you very much.

I do want to follow up on the question from my Bloc colleague with respect to Canada taking leadership.

Let me be clear. It's not that I don't believe that Canada should take a leadership position—I do. I just find some of the logic a little bit difficult to stomach or to follow.

The logic goes something like this, I believe. If Canada, as a resource-rich country, decides that it's going to hit the brakes hard, make the transition very difficult for our economy and get to net zero at a breakneck speed, these other countries around the world will look at that and go: “Okay, wow. Canada has done it, so we will too.”

Let's look at some of the countries that are at the top of the emissions list, the ones that will really make the list. China is number one at 27% or 30% of the total global emissions. Are you telling Canadians that the People's Republic of China is going to look at Canada and go, “Oh, wow, they destroyed their economy at a breakneck speed to get net zero and we're going to follow”?

Better yet, another top one of the worst emitters in the world is the Russian Federation. Are you honestly telling me that Vladimir Putin, who has an unprovoked, unnecessary, illegal war against Ukraine and has absolutely no respect for international norms, is going to say, “Hey, wow, Canada has reduced their emissions by 5% this year so we're cutting ours and we're getting to net zero”?

In what world does that make sense, guys? Is that what you're honestly telling Canadians?

Mr. Robert Youngman: If that question was directed at me, I'll give it a try.

Canada is one of 195 countries that signed on to the Paris Agreement. Globally, in order to avoid the worst impacts of climate change, including on Canadians, we need to get to 1.5°, and countries have adopted their targets to reach that. Every country is going to struggle with that. Canada, in addition, has rich resources, as do Norway, the U.S. and others. We do see exceptions out there. As I mentioned earlier, it's going to be very challenging to see which governments will not be willing to pump the last barrel of oil. This is part of the overall challenge of the just transition. I'm not saying that this is easy at all, but the overall calculus is still the same. So then the question is how we work together globally and—

Mr. Philip Lawrence: I'm just going to jump in there, if I may. As I said, my time is short. I do appreciate your being here.

The reality is that if we don't get some of the major polluters in the world on board, we will not be able to achieve the 1.5°. If we do not get the People's Republic of China, the United States of America and India on board, it's not happening. Would you agree with me on that?

● (1205)

Mr. Robert Youngman: There's a recent Financial Times article questioning whether the 1.5° target is still within range. It will be quite challenging, and all countries every year at the UNFCCC and at the COP event will receive this question: Can we achieve it? Unfortunately, there's no choice for us other than to try.

Mr. Philip Lawrence: No, I agree, but in terms of focusing our resources, what I'm trying to say is should Canada's pressure not be as much outward as it is inward? In terms of taking leadership, yes, we should definitely do our part in the transition, but the reality is that if we are going to truly fight climate change, we need to have an impact internationally.

We need to get countries that are large polluters.... Canada is at less than 3%. You said that the People's Republic of China is at 27% plus. If they were to convert, for example, their coal-fired plants to natural gas, that would be equivalent to Canada's entire emissions several times over.

And instead of getting to the point where we are shutting down our industrial economy, should we not be focusing on helping other countries reduce their emissions?

The Chair: Please give a very short answer.

Mr. Robert Youngman: I think everybody would.

The Chair: Thank you, MP Lawrence.

We are now moving over to the Liberals.

Welcome, MP Turnbull, to our committee. You have five minutes. Please go ahead.

Mr. Ryan Turnbull (Whitby, Lib.): Thank you, Mr. Chair.

Thank you to our witnesses today.

I really appreciate your being here and the expertise you bring to this very important discussion and study that we're doing. I'm happy to be a visiting member of Parliament on this committee and to participate in the discussion with you. I think you've already offered some really great testimony.

One thing that comes up in these conversations a lot is Canada's ability to remain globally competitive in this fast-changing environment in which we can see many jurisdictions around the world moving quite quickly to mainstream sustainable finance. I think that, for good reason, we can all agree that our ambitions need to increase in this area, and I know you believe in that.

But I think one of the challenges is how we, as policy-makers, can offer a predictable regulatory environment that all market actors can participate in and have confidence in, right down to the Canadian public.

I want to ask a couple of questions. I know that one of the things that the sustainable finance action council, which has developed our green and transition taxonomy and the road map, has offered is a three-tiered governance model that ensures that the taxonomy continues to evolve.

I wonder if I could ask you, Mr. Youngman, whether you see other international examples of governance models in which taxonomies are anticipated to evolve and whether that's a best practice.

Mr. Robert Youngman: Thanks for the question.

The ASEAN countries are developing a taxonomy framework with a traffic light system. The lower tier is principles-based, recognizing that some of the economies have much lower GDP per capita than others, and so it's going to be a stretch for them. Then there is a middle range, where there are some thresholds for activities that are introduced. Finally, there are some stringent thresholds at the top. That seems to be a useful context in the ASEAN setting.

The EU has set its sustainable finance taxonomy. It has put forward a proposal on transition finance; however, if that were to be put in place, it wouldn't be for several years. Nonetheless, there is quite a substantive difference between what the proposal put forward on the recognition of transition activities, and what is allowed under the existing....

Those are two examples I'd put forward.

Mr. Ryan Turnbull: That's great.

One concern that comes up often in these conversations around the difference between green and transition investments is if the transition investments will take finance away from full market actors into these higher emitting industries where we're trying to mitigate risk.

Mr. Usher, maybe I'll go to you first for a comment on that.

Then, Mr. Youngman, I'm interested in what you have to say on whether this is the case or whether we can ensure that the green investments are actually getting primacy and preference.

● (1210)

Mr. Eric Usher: Obviously this is discussed about industrial policy, and these are the things you're taking into consideration. Certainly there will be some economic impacts.

This is why there is this term, the “just transition”. We are trying to understand what the job impacts will be. How do we retool industries and communities?

One of the wider considerations—and this is why the finance industry is stepping up in many ways—is the reality that most parts of the transition, in terms of climate mitigation at least, do require more upfront investment typically. If you talk about a wind farm or a solar plant, you have to do capex, capital expenditure, to build the farm. Once it's built, it costs less to operate, so in terms of economic output it can actually be quite positive. But the finance industry has to be onboard. I think that's why it's so critical in your discussions here. If you don't have the environment for them to allocate capital to this significant capex requirement, then you will fall short and not be able to deliver on this strategy.

Mr. Ryan Turnbull: Thanks, Mr. Usher. I appreciate that.

Maybe we can leave it there, and I'll ask Mr. Youngman to weigh in as well.

Mr. Youngman, the way I heard your opening remarks was that we're really working toward a whole-of-economy approach and that these high-emitting industries have to make the transition as well. They're not just going to immediately disappear. How do we help them make that transition, while not compromising investments and capital flows to much better investments that would rate higher on any scale for ESG?

The Chair: Thank you, MP Turnbull.

That is the time, Mr. Youngman. We do have to move over to the Conservative members. Maybe in a further question you'll be able to answer that, Mr. Youngman.

We're moving into our third round of questions.

With the Conservatives, I have MP Morantz for five minutes, please.

Mr. Marty Morantz: Thank you, Mr. Chair.

Mr. Youngman, I just want to follow up on the last question I was discussing with Mr. Usher about economic impact statements. You're part of the Organisation for Economic Cooperation and Development. Surely that organization would have knowledge of economic impact studies that would have taken place on the implementation of sustainable finance regimes in different countries.

Mr. Robert Youngman: Okay, your question is this: What is the economic impact of implementation of sustainable finance regimes?

Mr. Marty Morantz: It's more whether there are any economic impact studies. For example, the Liberal government recently implemented a luxury tax in Canada on automobiles, boats and airplanes. The Department of Finance here recently produced an economic impact study talking about things, for example, like the effect on GDP, losses in sales across those industries, job losses across those industries.

I'm just thinking that this is much bigger than that. You're talking essentially about a wholesale restructuring of financial markets around the world. Surely your organization would be aware or would have conducted an economic impact study. No?

Mr. Robert Youngman: Yes. There's economic modelling of what the cost of the transition will be. I think that is the broader...and maybe even more relevant than a narrower question of sustainable finance initiatives, which are only a part of achieving the transition.

I will be happy to follow up, send you relevant studies and look into your specific question.

Mr. Marty Morantz: Okay, it's just surprising this wouldn't be at the top of your heads, given the massive size of this plan. I will leave it for you to table that with the committee. That would be great.

I also want to follow up on a question that Mr. Lawrence was asking. He asked you about whether or not LNG would qualify for green financing or whether nuclear would.

I wanted to ask you also about mining operations, which can be GHG intensive. Many of those mining operations produce precious minerals that are necessary for green technologies. I'm just wondering how you would square that circle.

● (1215)

Mr. Robert Youngman: Governments now are beginning to look into the question of so-called brown taxonomies or emissions-intensive taxonomies. This is to come in the EU. Part of that discussion will focus on minerals.

In Indonesia, as I mentioned earlier, they're quite focused on how to move away from coal, but mining is very important there, so they're asking the same questions. It's new. It's a new topic of providing taxonomies for existing emissions-intensive topics.

Mr. Marty Morantz: Thank you.

Mr. Usher, you might be best positioned to answer this question, which is on another matter.

It's unclear to me how this would work in terms of governments partnering with financial institutions. A basic principle that banks, or really any publicly traded company, have is that they need to operate with a fiduciary duty to their shareholders. They need to prioritize investments, essentially, with the best financial returns. I see this as coming into conflict with sustainable finance investments that may not be as profitable as conventional investments.

Do you see it that way?

Mr. Eric Usher: No, I would not. This is all about doing business, looking for opportunities and prudent risk management. Therefore, I don't think there's any expectation that commercial banks, investors and others are expected to take a loss in the investments they are making.

However, of course we know about these gaps in innovation. Great developments in the lab don't always make it to the market and there is a role, potentially, for the public sector to help finance incubation and innovation to share risks. Often the benefits of innovation do not accrue to the specific company or the specific investor. Often they accrue to the sector at large and therefore there's a good rationale to align public and private interest.

Certainly this is not about asking the financial sector to be making bad investment decisions to be losing money.

Mr. Marty Morantz: That's my round.

The Chair: Thank you, MP Morantz. Time does go fast.

Now we're moving to the Liberals with MP MacDonald, please, for five minutes.

Mr. Heath MacDonald (Malpeque, Lib.): Thank you, Chair.

I want to go back to Mr. Youngman and his opening remarks. I'm just going to read something quickly. It's in relation to an industry in my area—or across the country, actually.

You said, “Transition finance focuses on the dynamic process of becoming sustainable rather than providing a point-in-time assessment of what is already sustainable today. This inclusive approach creates room for financing to decarbonize the most polluting and hard-to-abate industries today."

What I'm concerned about to some extent, Mr. Youngman, is this. For example the Canadian Dairy Farmers were in Ottawa this week. They have reduced the carbon footprint of milk by 25% over the past 20 years. I guess my fear is that they're not going to receive credit for that.

Is that what your statement in your second paragraph is referring to somewhat?

Mr. Robert Youngman: The second paragraph tries to make a distinction between green finance and transition finance.

The idea is that high-emitting companies and high-emitting sectors need to get on a pathway that is consistent with climate objectives. They can't flip a switch to be able to do that, so there needs to be a process.

We believe that process is by developing a credible corporate transition plan that includes how they are going to get from where they are today to where they need to go. It doesn't speak specifically about what they have achieved to date, but presumably that progress will be helpful in getting to where they need to go, based on government policy and targets.

Mr. Heath MacDonald: Thank you.

My and their concern was that their starting point is quite different than for some other industries. I guess their starting point began a long time ago on some of the actions they have taken.

I will move on to.... Markets play a critical role, obviously—we had a good discussion on this—in supporting orderly transition to low-carbon economies, but there are challenges that remain. We talked about best practices from other countries, the promulgation of frameworks, data inconsistencies and lack of comparability.

The Canadian government today is fully behind the OECD and the Paris Agreement, without a doubt. We're learning much as we move forward, and we're learning quickly. I'm just wondering how we overcome some of those challenges.

● (1220)

Mr. Robert Youngman: With respect to lack of comparability, Mr. Usher mentioned earlier the ISSB, which is a baseline disclosure requirement on sustainability that governments can then implement. Having comparable sustainability and disclosure will help significantly to provide transparency to the market so that it can better know what is consistent with Paris targets.

There's one example of addressing lack of comparability.

Mr. Heath MacDonald: Okay.

Another concept that has been utilized to develop a strong economy and clean environment is carbon credits. Some of the industries that were mentioned previously today obviously could take advantage of carbon credits.

What is your opinion on carbon credits and how quickly we are moving towards them?

Mr. Robert Youngman: With regard to carbon credits, the guidance does talk about what role carbon credits and offsets can play in a credible transition plan. There is a risk today that the market is at a key point in trying to address concerns about greenwashing while also recognizing the need to use offsets to achieve global climate ambition.

For now, our recommendation is that you provide clarity in your transition plan on how you use carbon credits and offsets and on what type of carbon credits are used. Generally, their use should be limited and carefully explained to provide transparency to the finance community that is considering how credible your plan is.

The Chair: Thank you.

Thank you, MP MacDonald.

Now we are moving to the Bloc.

MP Garon, you have two and a half minutes, please.

[*Translation*]

Mr. Jean-Denis Garon: Thank you very much.

Mr. Youngman, a little earlier I referenced extremely polluting projects that are financed by the Government of Canada, including the expansion of a pipeline which will cost taxpayers—of course—$30 billion. You told us that Canada had made efforts to develop a green finance taxonomy and that the pandemic had delayed some efforts made by Canada.

All right, but the European Union, in the middle of the pandemic, deployed a program: the European green deal. By the end of 2022, $4.11 billion euros had been invested in projects in eight member countries.

Are you familiar with this initiative?

[*English*]

Mr. Robert Youngman: The EU green deal is a very important initiative, and—

[*Translation*]

Mr. Jean-Denis Garon: So you are familiar with it.

[*English*]

Mr. Robert Youngman: Of course.

[*Translation*]

Mr. Jean-Denis Garon: I wanted to make sure to ask you a question about something you are familiar with.

As far as you know, is there a new pipeline among the projects that have received funding?

[*English*]

Mr. Robert Youngman: I'm afraid I have to go back. I'm not aware of that detail. I'm sorry.

[*Translation*]

Mr. Jean-Denis Garon: All right. I can confirm that there is no new pipeline. There is no new project to extract one billion barrels of oil. That kind of project is not in there. In the middle of the pandemic, the European Union was able to move forward. What is interesting about this type of initiative is that government initiative allows for investment in the transition of member states that are lagging or need to do more work. In Canada, that would apply to western Canada and oil.

The Bloc Québécois suggested the idea of green equalization. Do you think that financing structural projects, like those under Europe's green deal, represents the type of effort the government should engage in to support the transition?

● (1225)

[*English*]

Mr. Robert Youngman: I think countries will be looking to address just transition considerations at the regional level. It makes sense politically to address which regions will have economic losses and to try to provide a buffer to make the transition easier. I think these mechanisms are relevant, certainly, to Canada and other countries.

[*Translation*]

The Chair: Thank you, Mr. Garon.

[*English*]

Now we go to MP Blaikie and the NDP for two and a half minutes.

Mr. Daniel Blaikie: Thank you very much.

I want to circle back to the comments by Mr. Lawrence and Mr. Morantz. Listening to them, it seems like it's a pretty simple picture. On the one hand, if other big international players aren't making good on their own climate commitments, there's no point in Canada doing it. In the meantime, if you listen to them, it sounds like we're going to shut off all sorts of past investments that have already been made and where work has already been done.

Of course, that's not what most people are talking about. What most people are talking about is future investments and the future of the Canadian economy. There are two conversations happening at the same time that are obviously related.

We see this already in the insurance world, where they are realizing the very real financial and economic impacts of climate change on their business, and they want to mitigate those. They're not doing that out of altruism. They're doing it out of self-interest—fair enough—but they want to do that. They're looking for investments, and other financial actors are beginning to look for investments that are going to help mitigate the financial and economic consequences of climate change.

What that means is that what we're talking about is creating the conditions for Canada to compete for international investment on the kinds of investments that those big market players are looking to make. In fact, this is a way of diversifying Canada's foreign direct investment and going where the puck is headed.

Do you think that is also a credible story, about the economic moment that we're in, versus the story that says, "This is about destroying the Canadian economy for no good reason, because we're never going to meet our goals anyway?" Which do you think is the more credible economic story?

Mr. Robert Youngman: I'll leave some time for Mr. Usher if he wishes.

If you look at the number of financial institutions that have taken on net-zero targets, you know that they are very focused on what they are expecting has to be the case, which is that you need to take into account future physical climate risks. This is because we see the impacts today of climate change—this is not off in the future—but also that economies are going to be transitioning, so there is regulatory transition risk and they need to address that.

They will be changing their finance and investments moving forward. They will be looking for the companies that are serious about transitioning and meeting their targets. There's a tremendous opportunity, as well, for technologies that are going to be needed to meet these global emissions reduction objectives. There's enormous economic opportunity there.

Thank you.

The Chair: Mr. Usher, if you want to weigh in, you have about 15 seconds or so.

Mr. Eric Usher: Very briefly, yes, I believe what you described is a good pathway forward.

As a comment on the banking sector, all major Canadian banks have set net-zero targets and have issued 2030 interim targets across key sectors. They are stepping up. However, they cannot do it on their own, so they are looking for policy frameworks. They are looking to work together with industry, with government and with other parts of society.

It's an "all hands on deck" type of challenge, but properly mapped out, it is a route to prosperity.

Thank you.

The Chair: Thank you.

Thank you, MP Blaikie.

Now we go to the Conservatives and MP Lawrence for five minutes, please.

Mr. Philip Lawrence: Thank you very much.

Getting back to the economics of the transition or the goals to get to net zero, at the end of one of my rounds, I asked what the productivity per worker in the green sector was. I understand, of course, that's probably a pretty finite question and why you may not know the answer.

Would you be willing to provide me with either a study or, perhaps, a direct response to the committee on that?

Mr. Robert Youngman: I'll be happy to look for studies. You're asking for productivity per worker in the green sector versus....

● (1230)

Mr. Philip Lawrence: It's just that. It's the number. It's how we normally measure productivity. They said the average in Canada is around $55 per hour. In the energy sector in Canada, it's in excess of $500 or $600.

I would be enlightened if you could provide us with that information. It would be great.

Mr. Robert Youngman: I'd be happy to do so.

Mr. Philip Lawrence: Thank you.

Just building on the questions by my colleague Mr. Morantz, I'm a little bit surprised that you don't have at least some rules or guidance you could give us on the economic impact of transition. Do you see the transition being painful for Canadians or not?

Mr. Robert Youngman: Going back to the previous question, I actually did say that the OECD has done economic modelling on the overall transition that will occur, and may well have it at a country level. I would be happy to share that study.

I'm sure it's not expected to be easy. It's important to also note at the same time that not addressing climate has enormous costs as well, of course.

Mr. Philip Lawrence: Yes, 100%. I totally agree, as I think everyone here does, that climate change is a pressing challenge. I want to make that clear. It's just how we address this challenge that I think is at discussion here.

Getting back to some of the economics of the transition and some of the specifics, you mentioned earlier that we had no option but to try. I agree with you, but you seemed a little pessimistic there, Mr. Youngman, if I may, with respect to our chances of getting to net zero in 2050. Can you comment specifically on Canada's ability to get there, given the fact that we have not achieved, in the last eight years, one single environmental climate change target?

Mr. Robert Youngman: That's a very interesting question.

I was referring to a Financial Times article raising the question of whether 1.5° is still within range. The reason is that when you look at global emissions, we have to peak by 2025 in order to get on that target, that path. That said, every 0.1° after 1.5° has significant impacts. We can see in IPCC reports that the difference between 2° and 1.5° is enormous in terms of physical impacts around the world, with the loss of coral reefs and so forth.

I wouldn't say I'm pessimistic on getting to net zero, but I would say there's a broadly recognized need for urgency and for engagement at a national level to think about how it can be done, knowing that it will be challenging, and not to sugar-coat it.

Mr. Philip Lawrence: My apologies if I mischaracterized any of your remarks. It wasn't on purpose.

Do you think Canada will achieve its Paris targets?

Mr. Robert Youngman: There is always a question about what will be done in the future and what current policies are. To the extent that there's a gap, political will can change that calculus. It's easy to point south of your border, to the U.S., where it was thought that policies were not ambitious enough. Then, lo and behold, with the passage of the Inflation Reduction Act, suddenly there was significant hope about the U.S. being able to achieve its target. So it's a matter of—

Mr. Philip Lawrence: Sorry. I'll just—

The Chair: That's time. Thank you, MP Lawrence.

Now we're moving to MP Chatel for five minutes, please.

[*Translation*]

Mrs. Sophie Chatel: Thank you very much, Mr. Chair.

I would like to reassure our witnesses. There is no way Canada will withdraw from the Paris Agreement, as the Conservatives would obviously like us to do.

Canada will not isolate itself from the countries which have signed on to the agreement. We will continue to develop good policies to reach our objectives and sustain a world we can all live in.

I simply want to reassure everyone that this, of course, remains one of the objectives of Canadians.

I would like to hear Mr. Usher and Mr. Youngman speak to the importance of putting a price on pollution as an economic mechanism to achieve the fair green transition.

● (1235)

[*English*]

Mr. Eric Usher: I absolutely agree pricing externalities is going to be one of the most efficient ways to deal with them, whether it's.... In how you apply a price on carbon, obviously the devil is in the details, and we realize there's important progress that Canada has made, and I'm sure there are more areas for improvement. If we go through a price on carbon, and taxation and fiscal stimulus, there are many ways to do it, but one way or another, pricing the externality is going to drive economic growth. So, yes, I would agree.

Mr. Robert Youngman: Briefly adding to that, there is a range of policies that countries adapt and there are political economy challenges sometimes with carbon pricing policies in some jurisdictions, despite the fact that, overall, it's economically a very efficient way to reach targets. For example, you can see in the Inflation Reduction Act that the use of tax credits is by far the predominant approach. That's only one approach. Other countries will take other approaches.

[*Translation*]

Mrs. Sophie Chatel: Thank you very much.

Someone mentioned the Financial Times and I have the article in question in front of me. Canada's carbon emissions have decreased by 6.4% since 2019. We are working hard to reach our goals.

Since I believe I am the last one who has the floor, I would like to give you the final word. Please speak to Canadians to tell them know just how important this issue is to you. Let them know how your efforts and work will support Canadians in making investment choices which align with their values.

[*English*]

Mr. Robert Youngman: One thing I might say is that I believe that in Canada, in terms of values, there's a recognition of stewardship in thinking of future generations and the question of what sort of world we can give to future generations. In that context, it's essential that we redouble efforts globally to reduce emissions and that governments engage with the knotty problems of actually getting there. There's tremendous progress that has been made in terms of cost reduction, and probably unrealized progress that would come from unleashing private sector innovation, the natural ability to innovate. With that, as well as individual behaviour, you will end up with a cleaner economy and a better feeling about how this generation has handled its stewardship responsibilities.

Mr. Eric Usher: Maybe just to add to Mr. Youngman's comments, change is the only constant today in industry. There are very few industries that are protected from disruption.

I think what we're seeing in terms of the climate crisis is that there are a lot of good examples around industry actors and that industries as a whole are embracing this change and moving forward. This is, in many instances, the largest economic investment opportunity the economy has seen in decades, so I think there is a lot of capacity within Canada. We talked about the minerals sector. There's a whole finance industry that is very good at backing investments in the minerals sector, and that's going to be needed as we move into critical minerals and other areas. So there are a lot of benefits and a lot of opportunities.

Thank you.

The Chair: Thank you, MP Chatel.

Members and witnesses, I'm looking at the time. We've got about 20 or so minutes left. As we do, when we don't have time for a full round, we divide the time equally, so that will be about five minutes per party.

We'll start with the Conservatives.

I have MP Chambers for five minutes.

● (1240)

Mr. Adam Chambers (Simcoe North, CPC): Thank you very much, Mr. Chair.

I want to follow up on a previous conversation with my colleague about some of the costs.

There was a report a year ago from McKinsey suggesting that it would cost the global economy $9.2 trillion to move to net zero. Is that a report you're familiar with? I'd ask any of our panellists.

Do you have any comments on whether you think it's higher or lower, and what costs will be borne by governments versus by the private sector? Where do you think the costs should be best placed? Should the private sector pay for this? Should the government pay for it? Should consumers pay for it?

Mr. Usher.

Mr. Eric Usher: Obviously, the economic opportunities are in the trillions of dollars, and we know that, and industries are going to change at that scale. I think it depends on what perspective you look at, and much of the analysis shows that this is not a net drag on the economy. As we build out of a crisis, as was the case in the post-World War II era, significant investments in the economy are good for the economy. In many ways, this is the crisis of our times, and the solutions will create a lot of economic growth and opportunity. Of course, there are changes across sectors and industries, winners and losers, and, therefore, a good industrial strategy will be key.

Mr. Adam Chambers: Thank you, Mr. Usher.

When you say that it won't have costs or that it will be a net benefit, are you relying on a study that shows the other costs associated or the other benefits, or is it more that it's a good idea because we'll create investment opportunities?

As far as I can tell, there are a lot of folks in the ESG space making a lot of money in that completely unregulated space, and there's a ton of greenwashing going on.

Mr. Eric Usher: Yes, I think this is a parallel issue. Greenwashing is a concern, and this is why a good financial regulatory regime is quite important to prevent that.

With regard to the study you referred to, it looks more at the economic costs of making the transition. There will be impacts on specific industries. This is why this term “just transition” is critical, and why the role of government is critical in making sure that job training and retraining enables communities to shift over as required.

That is different from the ESG discussion. We would not see the ESG world as perfect; it has its challenges, as we're seeing. The notion of being in prudent risk management in paying attention to risks, which is part of the ESG, is being shown over and over again to be critical. Look at Pacific Gas and Electric. That was the largest bankruptcy due to climate change, because they weren't paying attention to the costs of forest fires and extreme heating, and we're also seeing this in Canada.

It's all about prudent risk management, and that's where we create economic prosperity, managing that effectively through this transition.

Mr. Adam Chambers: In Canada, RBC's report says that it will cost $2 trillion to get to net zero by 2050. Apparently, governments today spend about $15 billion a year. That number has to go to $60 billion a year.

We could be the best global citizens and do all the work, but if the United States, China, India, Brazil, Russia and others don't follow, we're asking a lot of people to pay a lot of money without necessarily knowing that it will have a significant impact.

I appreciate the dialogue we've had here today. I hope we get really tight on what we mean by benefit and what we mean by cost. I think that's important so that there's transparency around what things cost. I am somewhat skeptical that we're going to get there on a very linear path.

Thank you, Mr. Chair.

● (1245)

The Chair: Thank you, MP Chambers.

Now we'll go to the Liberals and MP Dzerowicz for five minutes, please.

Ms. Julie Dzerowicz: Oh my goodness, I thought I had a lot more time to prepare, Mr. Chair.

I will continue with the line of questioning that Mr. Chambers had started. I'm a little bit surprised—because I have a lot of regard for my colleague—by this line of questioning.

I will say to you that if we do not try to do everything we can to try to get to net zero under a good regulatory regime and with prudent risk management and some of the other key things that we talked about today, we will be far worse off. The costs would be much higher. We're all policy-makers here, so if we put our heads in the sand and say that it sounds like a lot of money, that we're not quite sure if we'll get there because it sounds really complicated, that it's going to be difficult and it won't be linear, so let's not do anything—that's crazy.

Climate change is happening. Have you guys actually seen The Intergovernmental Panel on Climate Change report that just came out yesterday? It raised not one alarm bell, but a massive number of alarm bells. They're saying we are not on a path that is going to limit our climate change to 1.5°C.

It is urgent that we stop sort of figuring out if it's $2 trillion or however many trillions of dollars. The cost of not doing everything we can in a responsible way with good policy to bring public sector partners under good risk management under a good regulatory regime is unacceptable. That is why we are here doing this study.

I'm trying to see what my question is, Mr. Chair, because right now I'm finding what I just heard a couple of minutes ago a little bit crazy. Again, I have high regard for my colleagues on the other side.

Recently we've been talking in Canada about the importance of green hydrogen. I wouldn't mind getting some thoughts on why Canada should continue to invest in it.

Maybe I'll get both Mr. Youngman and Mr. Usher to speak on that.

Mr. Robert Youngman: Green hydrogen is one of these enormous opportunities that Mr. Usher referred to. It essentially will play a key role in heavy industry and moving it away from current emissions-intensive activities, while still being able to deliver steel and other products that the economies need.

Innovation in that area is essential. The opportunities from innovation and essentially from exporting are also enormous because globally there will be a huge demand for green hydrogen. To the extent that Canada wishes to foster that activity, there could be benefits in terms of exports.

Ms. Julie Dzerowicz: Mr. Usher, do you have thoughts on that? Okay.

I know that a year ago our federal government launched an inaugural green bond program, which sees proceeds earmarked to finance projects with environmental benefits, such as renewable energy or clean transportation.

Can you talk about the importance of green bonds and some of the impacts they have had in other countries?

I will direct that to either one who wants to respond—Mr. Youngman or Mr. Usher.

Mr. Robert Youngman: Mr. Usher, do you want to have a shot?

Mr. Eric Usher: No, other than to say, yes, there has been a lot of growth in green bond markets in recent years and also in sustainability bonds. The financial sector is getting more comfortable with these types of instruments. We do believe they're part of the solution. I know the OECD has done important work on that.

Mr. Robert Youngman: Thank you.

I would just say that the green bond markets have grown significantly. Maybe with respect to Canada's green bonds, the new horizon for green bonds is linking green bond issuances to financing the transition.

I think Japan will have announcements on this by the end of the year on its plan for financing the transition through issuance of these instruments. I think it could provide an important signal about the seriousness of the government to meet its targets.

● (1250)

Ms. Julie Dzerowicz: How much time do I have?

The Chair: You have 30 seconds.

Ms. Julie Dzerowicz: Thank you so much to both of you. It was an excellent discussion. Thank you so much for your contribution today.

The Chair: Thank you, MP Dzerowicz.

Now we'll go over to MP Garon from the Bloc for five minutes, please.

[*Translation*]

Mr. Jean-Denis Garon: Thank you, Mr. Chair.

I will continue in the same vein as my colleague Mr. Chambers and my Liberal colleague.

My question is for Mr. Usher.

We are talking about the cost of the transition. I get the impression that the transition is highly technological, that it will require massive levels of investment, capital and engineering, and that it will bring significant added value. Speaking of green jobs, it was said a little earlier that these are well-paid jobs because they involve a lot of technology.

I have the impression that once in a while people confuse costs and investments.

If a private company puts money into the transition and creates well-paid jobs, it suddenly becomes an investment. However, when a government wants to do the exact same thing, it becomes a cost to the taxpayer. Indeed, if anyone is the least bit familiar with how the economy works, they would know that investment generates capital, makes the transition possible and ultimately leads to economic growth. The green economy will be part of this economic growth.

First, I'd like to know if, in your dealings with business people, they would normally consider an investment as an expense or a cost, as we've been hearing today.

My second question is as follows. In your view, if we are to believe that the transition will be very costly, don't we risk missing out on one of the most important industrial revolutions in the history of humanity?

In other words, don't you think that if we don't move forward with this revolution as quickly as possible, innovation, jobs and technology will happen elsewhere, and that at some point we will have to import them?

[*English*]

Mr. Eric Usher: I would just briefly agree with the comments, but with one add-on. We talked about externalities earlier. One of the problems with measures of economic growth in terms of GDP is that the latter doesn't properly capture externalities. There is a growing body of research and publications around the notion of how you “value in”, essentially, investments in what will address things like carbon emissions in a way that works in the national accounts.

You're absolutely right; the private sector believes in investing, and those same investments, when government makes them, are sometimes described as costs, but they're actually...or certain types of those can be investments in the transition in working with the private sector to move in the right direction.

[*Translation*]

Mr. Jean-Denis Garon: Thank you very much.

My final question is for Mr. Youngman from the OECD.

I looked at what has been done in Europe over the last three or four years. I found the Emissions Trading System Review; the Revision of the Effort-sharing Regulation for sectors not subject to the emissions trading system; and the Land Use, Land Use Change and Forestry Regulation Review. All of these have been done recently. I found a review of the CO2 emission standards for cars and vans; the review of renewable energy standards; the revision of the Energy Efficiency Directive in Europe; the overhaul of energy taxation; the revision of the border carbon adjustment mechanism, an area where Canada lags far behind; the revision of the sustainable fuels standards for aviation; and the revision of the Energy Performance of Buildings Directive. I will stop there, as I will run out of time.

These are the many advances which have been achieved in the last several years and where Canada, it seems to me, is behind. Of course, all is not lost and there might be a way to move forward in this area.

I would like to ask you the following question. Is Europe a model in terms of regulations and standards, and also of the ability to quickly adapt regulations over time when the economic environment changes?

Should we follow their lead?

Should a country like Canada, which often finds it hard to move quickly, be more flexible and act more swiftly?

[*English*]

Mr. Robert Youngman: Europe is an interesting model. It may not be one that can be directly applied to Canada, but their approach in taking a whole-of-government look at how you can accelerate investment for the low-carbon transition is important. They have thought about sustainable finance, as you are doing now, across different government actors, and have thought not only about costs but also incentives and opportunities. That, I think, is an important example that Canada can take. There are examples from around the world, too, about what works. Perhaps the U.S. example might be of interest with tax credits. It all depends on domestic circumstances.

It's certainly not too late. If anything, now is a good time to see how to increase progress, as the IPCC report indicates. So we all need to move faster.

● (1255)

[*Translation*]

The Chair: Thank you, gentlemen.

[*English*]

Now we'll move to the NDP and MP Blaikie. This will be our last five minutes of questions.

Mr. Daniel Blaikie: Thank you very much, Mr. Chair.

I was just contemplating that sometimes listening to certain Conservative colleagues at the table invokes the image of the 19th century shoemaker who objected to the cost of investing in machinery, a strategy the success of which can be evaluated by walking out onto Sparks Street and trying to find a shoemaker.

Mr. Jean-Denis Garon: Oh, oh!

Mr. Daniel Blaikie: I think there's a certain kind of economic reality that we're faced with, and it behooves us as policy-makers to position Canada well for what's coming, whether we would will it or not.

Earlier, Mr. Lawrence asked for some labour productivity numbers in the green economy. Just to ensure that when we get a response back from Mr. Youngman, who pledged to do that, we're comparing apples with apples, I thought it might be useful to provide some reflections on the nature of that measure.

I'm wondering.... I think we need to have a time slice, right? Labour productivity is measured as a function of GDP. Of course, the price of the good factors into that calculation, so I think there's a question about at what point in time we are looking at fossil-fuel energy workers' productivity. It will depend because we know that the price of oil and gas fluctuates wildly, so I think we need to have a sense of the time horizon over which labour productivity is being compared.

I also think it's important to note that, to the extent that this is a function of GDP, it matters that one industry has been present for many, many decades, is well established, has a lot of access to private capital from within the industry and has been the historical beneficiary of massive amounts of public investment, not just in the 1970s but as recently as three years ago—from what is now over $30 billion coming from this federal government for the oil and gas industry. Those numbers all factor into that evaluation of labour productivity. I would hope that any numbers we get back in respect to productivity for so-called “green workers” control for those important historical and industrial differences.

Then I just want to come back to this question of industrial planning. It seems to me that, for many years—certainly since the early nineties—it has been the established kind of conventional wisdom in Canada—a conventional wisdom that the NDP has been happy to defy and that I, myself, gladly do—that less government involvement in the economy is automatically better. That's what private sector actors want. In fact, we often hear around this table how much the private sector, in this moment of uncertainty and change, wants governments to set a framework for them to be able to make investment decisions. When we talk a lot about investor certainty in the environmental evaluation of certain projects, like pipelines—and we hear from Conservatives that it's important that there be certainty—in fact, that's exactly what industry is asking for with respect to being able to invest in this new emerging economy.

How does Canada begin to deliver after 30 years of pretty much closing our eyes, plugging our ears and pretending that our international competitors didn't have industrial strategies? How does Canada now begin to create the infrastructure we need to be able to catch up to where many of our allies and economic competitors are, whether that's in the European Union or now the United States, which is clearly taking a strategic approach to this emerging, new energy economy?

Mr. Robert Youngman: I'll try to provide a quick answer.

The reference to the Inflation Reduction Act in the U.S. is very relevant because the European Union has come up with a sort of proposal to respond to it, and it is triggering international discussions on the role of industrial policy and meeting climate targets. That's an opportunity that Canada may wish to consider for its own policy-making.

● (1300)

Mr. Daniel Blaikie: Mr. Usher, do you have anything you'd like to add?

Okay.

Thank you, Mr. Chair.

The Chair: Thank you, MP Blaikie.

I don't know about the shoemaker, MP Blaikie, but I can tell you that we got a lot of mileage out of today's testimony from our two witnesses.

We want to thank Mr. Youngman and Mr. Usher on behalf of our finance committee, studying the current state of play on green finance. We thank you for the many questions you answered here for us today.

Thank you very much.

This meeting is adjourned.