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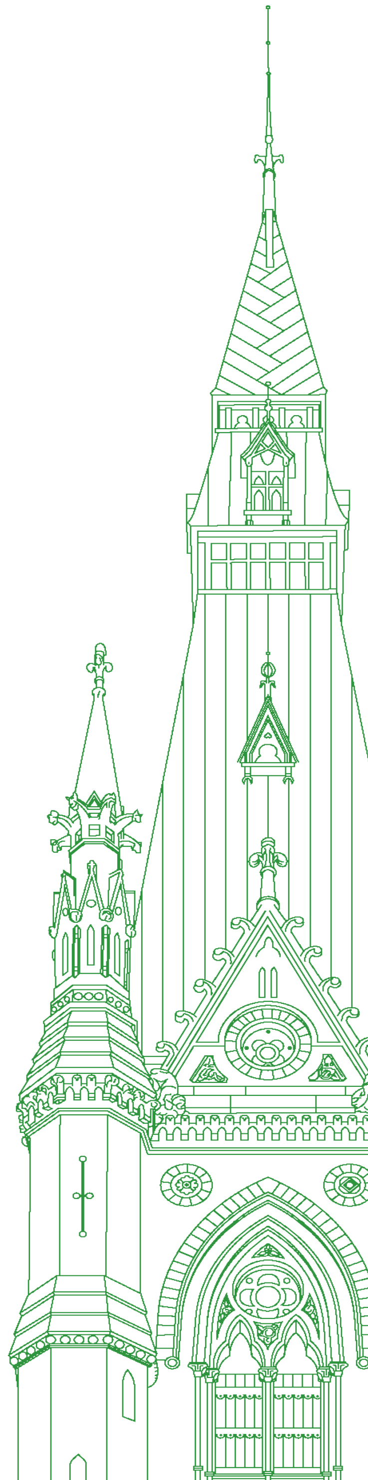

Chair: Mr. Francis Scarpaleggia

Standing Committee on Environment and Sustainable Development

Thursday, May 23, 2024

● (1530)

[*English*]

The Chair (Mr. Francis Scarpaleggia (Lac-Saint-Louis, Lib.)): Good afternoon, everyone.

Before we get started, I have a couple of housekeeping items.

Number one is probably more for the benefit of the witnesses, since the members have heard this many times before.

In order to protect the hearing of the interpreters, please only use an approved earpiece, which is the black one. If you have a grey one, it's not an approved type. Keep your earpiece a good distance from the microphone, so don't get up too close to the microphone with your earpiece on. If your earpiece is off, please put it face down on the coaster-like sticker that you see there on the desk. That's basically it.

There's also a little card in front of you that explains a little further some of the procedures we should keep in mind to protect the hearing of our wonderful interpreters, who work so very hard to make sure we can all understand each other. Please don't hit your microphone with your finger, because that creates a pretty loud noise for the interpreters.

I have more housekeeping business, and this is for the members. At the last meeting, we had the minister, and it turned out we had many votes while the minister was here. There was unanimous consent that we would continue the meeting and pause briefly for a minute or two every time there was a vote. In fact, even the minister voted with us on his phone app, and it worked very well. I was going to do that today, because we are expecting 11 votes, and I didn't want to cancel the meeting. All the parties agreed that we could proceed the same way, voting as we went along.

There are no votes this afternoon, but apparently there could be a number of votes Tuesday. I would like the consent of the committee for this coming Tuesday, when the minister will appear again, that if there are votes, we do as we did the last time. When there's a vote, we will pause for a couple of minutes, vote on our phones and keep going. That way we don't have to cancel or prolong meetings. I see there's consent around that, and I'll go with it. That's perfect.

In the first hour, we have with us today four witness groups who will be speaking to us. Each witness group will have five minutes for opening statements, and then we'll go to two rounds of questioning.

From AlphaFixe Capital, we have Sébastien Rhéaume, managing director, and Simon Senécal, portfolio manager responsible for investment.

[*Translation*]

We also have two Canadian Chamber of Commerce representatives, Ms. Jessica Brandon-Jepp, senior director, fiscal and financial services policy, and Mr. Bryan Detchou, senior director, natural resources, environment and sustainability.

Also with us is Terrence Keeley, chairman of Impact Evaluation Lab.

Finally, we have two representatives from the Insurance Bureau of Canada, Jason Clark, national director, climate change advocacy, and Rachel Barry, manager, government relations.

We'll begin with AlphaFixe Capital. I believe Mr. Rhéaume will be giving the opening address.

Welcome to the committee, Mr. Rhéaume. You have the floor for five minutes.

● (1535)

Mr. Sébastien Rhéaume (Managing Director, AlphaFixe Capital): Thank you, Mr. Chair.

I'm the co-founder of AlphaFixe Capital, a portfolio management company that specializes in bond markets. We are headquartered in Montreal, Quebec. We are accordingly regulated by the Autorité des marchés financiers.

[*English*]

In 2017, we launched Canada's first green bond fund. The main objective of that fund was to facilitate the financing of projects that would have a positive impact in terms of the environment, such as renewable energy, public transportation or green buildings.

I'm very proud that, since 2017, we have financed more than $10 billion of such projects; however, we have had very limited success in terms of helping to decarbonize the energy infrastructure industry, which is the reason we're here today. If, all together, Canada doesn't rise to this challenge, there's a good chance part of this industry might appear to disappear. When we look at the success we've had with our green bond fund, we're here to express some ideas in terms of how we could recreate that success and help the oil and gas industry decarbonize to meet Canada's objectives.

I'm joined here with Simon Senécal, who's going to walk you through some ideas in terms of what the missing pieces are that might be helpful to decarbonize the energy infrastructure sector.

Simon.

[*Translation*]

Mr. Simon Senécal (Portfolio Manager, Responsible Investment, Partner, AlphaFixe Capital): Thank you, Mr. Rhéaume.

Good afternoon.

We have been focusing on the International Energy Agency's net-zero scenario. According to the agency, 23% of the energy mix in 2050 will still be fossil fuels.

In Canada, 31% of decarbonization efforts would have to come from the oil and gas industry for us to achieve the net-zero emissions objective by 2050.

For electricity production, the figure is 16%. Effort is therefore also required from that standpoint. I'm not going to say any more about it now, but you're welcome to ask us questions later if you'd like to know more about electricity production.

But it's important not to forget that the challenge is enormous. In order to provide guidance, the federal government prepared a road map for the transition. I was about to say that this was recent, but the truth is that it's been around for quite a while. The road map includes strict requirements for emitters, and that's fine as far as it goes. What we really want is to decarbonize the industry. The road map also includes guidelines for projects for which companies want funding to decarbonize their activities. However, there's no clear and ironclad list of eligible projects. The road map helps companies to adopt a transition or decarbonization strategy. Here, the emphasis should probably be on decarbonization to avoid getting lost in a multitude of definitions, failing to agree on what is meant by a transition, and getting bogged down in minor details. It's best to remain pragmatic.

At AlphaFixe Capital, we have a list of exclusions, and the list includes extraction companies. Moreover, by signing the net-zero asset managers initiative, we committed ourselves to ensuring that by 2030, 100% of our portfolio assets would be aligned with a science-based net-zero plan in order to comply with the 1.5°C climate warming limit. What we have now are middle-market and extraction fossil energy companies. These include Enbridge and Suncor. I have specifically mentioned these two, but they're no worse than the others. Some companies are making considerable effort. If nothing changes, all these companies would have to be removed from our portfolios by 2030. The important thing to remember is that we are not alone in thinking that way. But if everyone tried to leave by the same door at the same time, it would represent a serious financial market stability risk for Canada.

Not only that, but we think the taxonomy would not only help companies understand what types of projects are consistent with a science-based transition or decarbonization strategy, but also help investors dialogue with these emitters by using concrete examples of the kinds of behaviour they should adopt as socially responsible companies.

I'm now going to return more specifically to our own activities.

While 23% of companies listed in the Canadian corporate bond index are directly linked to fossil fuels, these same companies account for 84% of the carbon intensity of this index. It's therefore obvious where the leverage lies in our market in terms of dialoguing with and influencing these companies.

One of our recommendations is to establish a clear and strict taxonomy to help fossil energy sector companies to adopt a credible and science-based net-zero or transition policy. We also suggest introducing regulations requiring a minimum percentage of Canadian pension fund assets to be invested in Canada. As Canadians, we are all concerned about this challenge and we all need this capital to decarbonize our economy.

● (1540)

The Chair: Thank you very much.

I am now going to go to Ms. Brandon-Jepp. Am I right in assuming that she is going to give the opening address?

[*English*]

Mr. Bryan Detchou (Senior Director, Natural Resources, Environment and Sustainability, Canadian Chamber of Commerce): We will share our time.

The Chair: Go ahead.

Mr. Bryan Detchou: Thank you, Mr. Chair and honourable members.

[*Translation*]

Thank you, on behalf of the Canadian Chamber of Commerce, for this opportunity to take part in today's discussion about the impacts of the environment and climate on Canada's financial system.

[*English*]

It's a pleasure to appear before you on behalf of 400 chambers of commerce and boards of trade and more than 200,000 businesses of all sizes from all sectors of the economy and from every part of our country.

[*Translation*]

I'd like to begin by pointing out that the Canadian Chamber of Commerce and its members across Canada recognize the crucial importance of achieving Canada's net-zero objectives and are committed to contributing to the collective effort to combat climate change.

It's important for our members to make a successful transition to clean energy because we represent not only those sectors and companies that are most closely involved in this transformation, but also the communities they support across the country.

[*English*]

It is broadly acknowledged that climate change poses a significant challenge to business, from the high cost of disruptive events to increased uncertainty for companies in what and how they should invest. Our financial system is, of course, also exposed to these risks. According to the SFAC secretariat, Canada faces an annual investment gap of $115 billion to achieve its net-zero transition goals. Even with federal investment in decarbonization, a significant gap persists. With the federal government nearing its fiscal capacity, provinces and municipalities will also face increased climate-related expenses.

Business capital investments in climate and clean tech reached $14 billion Canadian last year, as reported by RBC. However, business capital investments need to increase, as do contributions from public markets, private equity and venture capital. To fund, scale and support innovative green technologies, a collaborative effort between government, industry and investors is essential. This co-operation will equip the Canadian economy with the necessary tools and support to realize its net-zero ambitions.

Ms. Jessica Brandon-Jepp (Senior Director, Fiscal and Financial Services Policy, Canadian Chamber of Commerce): However, before we can talk about Canada's broad investment in net zero across government and the private sector, we first need to ensure that Canada is a competitive environment for investment writ large. New tax increases that foster uncertainty and phase-outs of incentives that stifle investment and signal to the world's innovators to look elsewhere are not helping to attract or retain the kinds of entrepreneurs and investors that are going to advance bleeding-edge, made-in-Canada net-zero solutions.

Additionally, investors require clarity, guidance and data about opportunities to invest in Canada's net-zero transition in order to accelerate capital flows, create the jobs of tomorrow and grow our economy. Without access to this information and these tools, Canada cannot be globally competitive in fuelling net-zero investment.

Canada should adopt a common definition for what constitutes investment that supports net zero. Greater transparency on Canada's transition plans would help track progress, help facilitate accountability and help the private sector plan investment strategies. In addition, the development and standardization of climate-related transition and physical risk disclosures—ideally with as much harmonization as possible while accounting for Canada's unique challenges and opportunities—will enable organizations to track and accelerate their progress and provide information and confidence to investors. Initial guidance issued by the OSFI is a positive step.

It is worth noting that many of Canada's largest federally regulated financial institutions participated on the government's sustainable finance action council, which has made a variety of recommendations to advance progress towards developing and building a strong and successful sustainable finance marketplace. These recommendations have not yet advanced. In the absence of standardized Canadian-specific guidance, a patchwork of various standards and guidance has emerged within Canada and around the world, leaving businesses and investors frustrated and confused as they plan and navigate their net-zero ambitions.

All the while, Canada gets farther from achieving its goals and attracting the kind of investment that will grow and sustain our economy for generations to come. The Canadian Chamber's green transition finance council and net-zero council are ready and willing to support.

My colleague, Bryan, and I will be pleased to answer your questions. Thank you.

● (1545)

The Chair: Thank you very much.

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

Mr. Terrence Keeley (Chairman, Impact Evaluation Lab): Thank you, Mr. Chairman.

Thank you all for the opportunity to speak today.

Business and finance have crucial roles to play in forging national and transnational outcomes, including greater social inclusivity and environmental sustainability, but their most appropriate roles are increasingly maligned and misunderstood as climate hysterics have become commonplace. Understanding the optimal role of business and finance in forging the social, environmental and economic outcomes we all desire requires a sober analysis of the challenge of climate change itself, as well as a deeper appreciation of essential fiduciary rules, the determinant roles of consumers and regulators, and the ancillary role of commerce.

Financiers and businesses have no special powers nor any innate responsibility to right others' wrongs or turn the carbon clock backwards. Achieving a more inclusive and sustainable economic growth model requires that regulators, public policies, civic society and individuals coalesce, along with corporations, around very specific patterns of behaviour.

Let me state this more plainly. If consumers continue to demand ever-rising quantities of fossil fuels, it is the responsibility of fossil fuel producers to provide those resources as cleanly and as cheaply as possible—full stop.

The challenge of climate change is daunting. It consists of two intractable problems wrapped into one.

The first is a collective action problem. Today, three countries—China, India and Russia—account for more than twice the greenhouse gas emissions generated by the European Union and the North American continent combined. Unless and until China, India and Russia adopt equally ambitious targets for emissions, as this body and much of the rest of the western world already have, the prospects for achieving the goals of the Paris accord—namely, net zero by 2050—are zero.

Aligning one's financial system to an outcome that is highly unlikely to be achieved guarantees financial and macroeconomic underperformance. If I have one piece of advice for this committee, it is this: Avoid a great deal of economic and financial sacrifice for no apparent gain. Imposing a wrongly conceived paradigm upon your financial system would serve no useful purpose.

Given that ESG investment strategies have underperformed broader, more diversified strategies by more than 250 basis points per annum over just the last five years, the cost to individual Canadian pensioners over time would almost certainly amount to tens of billions of dollars of lost income.

The second dimension of our climate challenge is a multivariable optimization problem. Canada, like every other country, is duty-bound to have a national energy policy that is clean, affordable, reliable and, ideally, abundant. After all, energy security is part of national security. Canada is blessed with abundant choices between oil and gas, nuclear, hydro, wind and, to a lesser extent, solar. Exploit your advantages. Most other nations are not as fortunately situated.

China and India continue to rely upon coal for more than half of their electricity supply. Given their needs for economic growth, it is wholly unreasonable to expect that India, Nigeria, Indonesia and dozens of other countries, which collectively account for two-thirds of the global population, will dramatically alter their production and use of fossil fuels in manners consistent with Paris-mandated objectives.

Pope Francis wrote in his encyclical *Laudato Si'* that we are not faced with separate crises—one environmental and another economic—but, rather, one complex crisis with multiple challenges. Solutions demand an integrated approach. We must combat poverty, restore dignity to the excluded and protect nature all at the same time.

I am not a climate-denier. The evidence for anthropomorphic impacts on our land, air and water is in plain sight, available for everyone to see. Given our collective action failures and multivariable needs, however, global temperatures are heading higher. This means, in the mitigation versus adaptation debate, that public policy should lean more heavily toward adaptation. The globe has never had to sustain 10 billion souls simultaneously. It will soon have no choice. How 10 billion souls sustainably occupy our planet in the centuries to come remains among humanity's most significant challenges, and climate risk certainly portends significant economic and financial risk, as everyone on this panel will say.

All this said, government regulations that force Canadian pension plans to restrict their investments into climate-aligned indices or strategies will not help create a climate-aligned world. Canadians can divest their way to a green portfolio, but they cannot divest their way to a green globe. Decarbonizing industrial production requires massive amounts of investment, not divestment.

Moreover, divestiture does not stop companies from making unwanted decisions. It merely impacts their cost of capital and transfers ownership from those who don't support a given management team and strategic direction to those who more broadly do.

● (1550)

Responsible investors allocate capital most wisely when they properly anticipate the world that will be, not some imagined, hopeful world that has a very low probability of bearing out. In practice, this requires investing in a very broad range of companies, industries and real assets, including many brown ones with significant prospects of becoming more green.

It also involves the provision of patient capital to the most promising technologies that lower what Microsoft founder Bill Gates has called the “green premium”, which is the difference between existing practice and less carbon—

The Chair: Unfortunately, we're going to have to stop there. I'm sure there will be many questions, so whatever points were upcoming—

Mr. Terrence Keeley: I was just going to say something nice about green bonds.

The Chair: That's good. We're a nice committee and we like to hear nice stuff like that.

We'll go now to Mr. Clark.

Go ahead, Mr. Clark.

Mr. Jason Clark (National Director, Climate Change Advocacy, Insurance Bureau of Canada): Thank you, Chair.

I'm pleased to be here today on behalf of the Insurance Bureau of Canada and its members to speak about our advocacy on climate change as it relates to the impacts on the Canadian financial system.

IBC is the national industry association representing home, auto and business insurers. Our members make up the vast majority of the property and casualty insurance market in the country. For 60 years, IBC has worked with governments and insurance regulators across the country to help make home, auto and business insurance available and affordable for Canadians.

The reality is that Canada is becoming a riskier place to live, work and insure due to the level of risk we face from extreme weather events as a result of climate change. To date, regulatory discussions concerning climate risk disclosure, and ongoing work to establish a green taxonomy, inadequately consider physical risk and have overemphasized transition risk in relative terms. For a country where natural disasters have consistently disrupted economic activity, this emphasis should be reversed.

Last summer, as wildfire smoke from Quebec blanketed Ottawa and parts of the eastern seaboard, I walked outside with my four-and-a-half-year-old son, who said, “Dada, it smells like camping.” In 2023, Canada faced the worst wildfire season in its history, with over 6,600 fires that burned more than 18.5 million hectares, forcing the evacuation of at least 155,000 people from their homes, all at a cost of more than $1.4 billion just to fight these fires. These wildfires led to the cumulative release of CO2 equivalent to the global airline industry's emissions in a year. The challenge we are faced with right now is that 2024 could be even worse.

We are also seeing that flooding events are becoming more severe. As of today, 1.5 million households in Canada are built in areas with a high risk of coastal, riverfront or urban flooding. These households lack affordable and adequate home insurance. Over the past eight years, IBC has advocated, in partnership with our industry, for a low-cost national flood insurance program for high-risk households in order to close this protection gap. Budget 2024 confirmed that the government intends to launch such a program in 2025.

Last year, severe weather events in communities across Canada cost $3.5 billion in insured damage alone, one of the highest annual totals in the previous four decades. However, unlike in 2016, when a huge wildfire ravaged Fort McMurray and caused a quarterly contraction in national GDP, the losses last year weren't attributed primarily to a single catastrophe. Instead, climate-related disasters affected almost every part of Canada.

Because of the threat of more frequent and intense natural disasters in all parts of the country, we support the federal government's commitment in budget 2024 to develop a green taxonomy, which represents an opportunity to catalyze new investments. However, our industry believes the greatest challenges in this country are the physical risks we face from climate change, and that greater efforts are needed to focus on driving capital to enhance resilience.

Canada's P and C insurers have been at the front lines of climate change for many years, sounding the alarm with governments and regulators, proposing policy solutions, and pricing and managing climate risks. In fact, OSFI recently highlighted the industry's leadership in the “what we heard” report following their survey of financial institutions' readiness to implement guideline B-15 on climate risk management.

The report notes that P and C insurers are further ahead than other financial institutions in establishing climate-related risk reporting and metrics, and it recognizes P and C insurers' experience in managing physical risks, such as weather-related and natural catastrophe risks. The report also found that P and C insurers are further ahead than others on formalizing climate-related roles and responsibilities for board members and senior management.

As we reduce our emissions, Canada must also urgently improve its climate defences. This includes investing in new infrastructure to protect communities from floods and fires, improving building codes, ensuring better land-use planning and increasingly creating incentives to shift the development of homes and businesses away from high-risk areas.

Further, to rapidly advance resilience measures, IBC co-founded Climate Proof Canada, a national coalition that I am fortunate enough to chair, which has played an important advisory role in helping establish the country's first national adaptation strategy.

For more than a decade, IBC has been warning governments about the need to be better prepared for severe weather events as a result of climate change. We believe Canada must play both offence and defence when it comes to climate change and take action today to protect Canadians from the growing threats to their homes and well-being.

We look forward to this committee's continuing study of the environment and climate-related impacts on the Canadian financial sector, and the role that property and casualty insurers are already playing.

Thank you for the invitation to speak, and we look forward to your questions.

● (1555)

[*Translation*]

The Chair: Thank you very much.

We will now begin the first round of questions. As usual, Mr. Mazier will get the ball rolling.

[*English*]

Mr. Dan Mazier (Dauphin—Swan River—Neepawa, CPC): Thank you, Mr. Chair.

Thank you to the witnesses who have come out this afternoon.

Mr. Keeley, my questions will be for you. Can a government meet their environmental targets by regulating the financial system or mandating climate risk disclosures?

Mr. Terrence Keeley: I think, as I said in my opening remarks, for us to achieve the net-zero world we want to see, it's going to take individuals, public policies and a wide range of other forms of taxes. Businesses are in an ancillary position, not in a leading position, so to say that we can actually regulate business and finance to a greener world is, I think, misguided.

Mr. Dan Mazier: The Office of the Superintendent of Financial Institutions has introduced mandatory climate-related financial disclosure expectations for financial institutions in Canada. What are the risks associated with climate-related disclosures or ESG scores?

Mr. Terrence Keeley: Any good financier will tell you that having more information is better and having more disclosures is better, but it's a question of how that information would be utilized. The best example would be that there would be a requirement to report scope 1, scope 2 and ideally scope 3 emissions.

However, what would be done with that information is particularly dangerous. To the extent that the result would be a situation in which we'd be merely divesting from brown companies and from brown buildings and starving them of capital, we would have exactly the wrong answer to our climate problems. We actually need to invest in those industries and not divest.

Mr. Dan Mazier: Is there a financial risk to the retirement savings of individual Canadians if a government attempts to meet environmental targets through pension and investment funds?

Mr. Terrence Keeley: That particular risk is huge and daunting and would almost certainly result in the loss of hundreds of billions of dollars of income to Canadian pensioners over many years. We need to invest in the world that will be and not some imagined world.

As we all know, there is $45 trillion in ESG strategies. It's not that these strategies are underfunded, dear friends; it's that they simply don't work. They have been underperforming markets by 250 basis points for the last five years. That's going to result, if we continue along that path, in underfunded pensions and people who cannot support themselves in their old age.

Mr. Dan Mazier: I forgot to actually expand on the divestment part of this. Will divestment achieve environmental objectives, and should Canadians be concerned with this approach?

Mr. Terrence Keeley: I think everyone should be concerned and not just Canadians. There was a recent episode with ExxonMobil, in which we all saw a number of investors vote that they would remain shareholders and put in new board members. Right now, ExxonMobil is one of the leading investors in carbon capture. Thank god investors stayed engaged with ExxonMobil to help move them in the right direction.

Divestiture is almost certainly the exact opposite of what we require right now to create the world we want.

● (1600)

Mr. Dan Mazier: How do you turn that tide? What else can you advise this committee? A common theme in this talk is that, if you get out them, the businesses will die. Is there anything else we can think about divestment and actually maybe something else we should consider there?

Mr. Terrence Keeley: I think that debate is now raging on college campuses across the United States. As we all know, everybody's calling for the divestiture of Amazon and of companies, which they think will somehow end fighting in Gaza. We have to understand how limited divestiture is as a tool for solving our problems. Divestiture is not the way to go if you're actually trying to influence a corporation's behaviour or effect an economic outcome.

Mr. Dan Mazier: You've stated:

> Committing to a net-zero portfolio target today is somewhat like agreeing to a gluten-free diet before knowing which foods contain gluten or what nutrients one might be sacrificing in the process.

Can you explain what you mean by this?

Mr. Terrence Keeley: Thank you for reading my book. At least somebody has.

It's very clear that we don't know what these divestiture movements will actually create. That $45 trillion I spoke about is largely based upon divestiture, and many individuals have adopted these ESG indices that MSCI and others are coming out with.

They're basically signing up for investing in less than one-half of the investable market. Of the 500 corporations in the S&P 500, only 230 are currently fully aligned with net-zero 2050. Why would anybody decide that they're going to invest in only those companies when in fact it is the browner ones that have the chance of becoming better corporations and outperforming over time?

Mr. Dan Mazier: If pension investment funds adopt net-zero portfolios, would this do anything to achieve a net-zero world?

Mr. Terrence Keeley: Clearly not—a green portfolio does not create a green world. If it did, we would have gotten rid of smoking, gambling, alcohol, tobacco and firearms. All of these have been divested from over decades, yet you can still grab a pack of cigarettes and have a beer. Divestiture has not worked to solve the underlying problems.

Mr. Dan Mazier: Bill Gates has said, and I quote, that ESG investing so far has probably not removed one ton of carbon out of the air.

Do you agree with this statement? If so, what are the implications of allocating trillions of dollars in capital to ESG portfolios that do not reduce a quantifiable amount of emissions?

Mr. Terrence Keeley: I think Bill Gates just summarized, as we have been discussing, the limited efficacy of divestiture as a tool for changing the world and changing industry. That's what Bill Gates was referring to in that quote. I obviously agree with him. I quoted him in my book.

The Chair: Thank you.

We'll go to Mr. van Koeverden now.

Mr. Adam van Koeverden (Milton, Lib.): Thank you very much, Mr. Chair.

Thanks to all the witnesses for being here and sharing your vast expertise with us.

Many of us, including me, are just learning about terms. We've googled what a “sustainable finance taxonomy” is in the last couple of weeks, and we're just getting off the ground here. I say that about myself. There are people here who know more about this than I do, but these meetings have been really helpful in learning more about it.

My first question is for you, Mr. Clark.

I've read that Canada's insured losses over the last couple of years due to wildfires and other natural disaster events that are fuelled by climate change—not always caused by climate change, which causes a little bit of consternation sometimes in this committee—have increased markedly and so have the insured losses. Can you talk a bit about why that's the case and, if it is, the degree to which it's true?

Mr. Jason Clark: Sure. Thank you for the question.

I think the trend line in Canada is pretty clear. We're seeing an increase in frequency and severity of extreme weather events as a result of climate change.

We're seeing.... I mentioned in my remarks the comparison to 2016 and the Fort McMurray fires, also noting that it's a community that has had evacuation orders to neighbourhoods just days ago, actually. What we've seen over the past number of years, and in particular, whether it's 2022 or 2023, is $3.4 billion in insured losses alone. That doesn't capture the full loss we're seeing as a result of these events or these activities. There's also infrastructure loss. There are losses to productivity, and there's business loss, not to mention homeowner loss.

A big part of our work has been to work with the federal government on a low-cost national flood insurance program to help ensure Canadians are better protected.

● (1605)

Mr. Adam van Koeverden: Thank you for that.

I have a follow-up question. I've read recently that upwards of half of the world's people displaced last year due to wildfires were Canadian. Canada has 0.5% of the world's population but accounted for almost half of the world's displaced people due to wildfires. Do you think it stands to say that Canada actually has more to lose with respect to the impacts of climate change? I've heard that Canada is warming more quickly than other countries.

Would you say that's the case?

Mr. Jason Clark: We are exceptionally concerned about this trend line. We are exceptionally concerned about the conditions we're seeing. Even just today, the Canadian hurricane centre released its expectations of the forthcoming hurricane season, which they noted would be “significant” or “very active”, and that aligns with what we've seen out of the U.S., as announced just days ago.

Whether it's multiperil—wildfire, flooding or extreme heat, another very significant threat to Canadian communities across the country—we are exceptionally concerned. Currently, the Canadian property and casualty insurance industry is very well placed, and we are seeing full coverage, with the exception of high-risk flooding. However, there's an opportunity to work together on that.

Mr. Adam van Koeverden: Thank you very much.

Given that Canada seems to be more vulnerable because we're a large country and sometimes it takes more time for emergency services, because we have a lot of forests so we're vulnerable to things like forest fires, and because we tend to have seasons and with that comes seasonal weather, this is a bit personal, perhaps, but do you think it would be irresponsible, given our vulnerability, to not be one of the leaders lowering our emissions and demonstrating a commitment to fighting climate change globally?

Mr. Jason Clark: If I look at what we have worked on with respect to the green taxonomy, as an example, we think it's important both to reduce emissions and to ensure we are adapting to climate change. The way we put it is that, because the country is becoming riskier, we need to play offence and we need to play defence.

We think the work that was done to establish the country's first national adaptation strategy was incredibly important. We've seen $1.6 billion invested so far. I would suggest that more needs to be done there. There are additional opportunities. We need to make sure that we're doing things like ensuring we're not building homes in high-risk zones, that we're building in the right way so that they're low-carbon homes but also that we're not putting them in, say, high-risk flood or wildfire zones.

Mr. Adam van Koeverden: Very briefly, does disclosure equal divestment?

It seems like there's been a little bit of a direct line drawn on this at the committee today.

Mr. Jason Clark: I couldn't speak to divestment on behalf of our members. The property and casualty insurance industry has worked very closely with OSFI, our federal regulator, on B-15 guidelines to ensure that we are appropriately prepared for climate-related risks, in particular, physical risks. Our concern is very much to ensure the soundness of our industry as it relates to this increasing trend line, which we've talked about.

Mr. Adam van Koeverden: Thank you very much.

Mr. Keeley, with the remaining time I have available, I have a question for you, and it begins with a quote:

> We have a grave responsibility: to ensure that [children] not be denied their future.
>
> ...The climate, run amok, is crying out to us to halt this illusion of omnipotence....
>
> [We need] a turning point, demonstrating a clear and tangible political will that can lead to a decisive acceleration of ecological transition....

Do you know who said that?

Mr. Terrence Keeley: I do not know who said it. Disclosure is a good thing. I think that was directed towards me. Disclosures are a good thing. They're not equated with divestment. I wanted to make that point.

Mr. Adam van Koeverden: I'm glad to hear that. Thank you.

The person who said that was the Pope. It seemed as though in your opening statement, you characterized some of the Pope's positioning as not being a climate activist. He is actually quite a climate activist.

Mr. Terrence Keeley: He's very much so. He endorsed my book, by the way, on the cover.

Mr. Adam van Koeverden: That's fabulous. Congratulations.

The Chair: Unfortunately, we're going to have to—

Mr. Adam van Koeverden: I have one last question.

The Chair: Go ahead, very quickly.

Mr. Adam van Koeverden: Mr. Keeley, do you feel that emissions ought to be measured per capita, per person or by flag?

Mr. Terrence Keeley: I don't know what good any of those would do, but we should all be examining our carbon footprints, individually, if that's the question.

The Chair: That's perfect.

Thanks.

[*Translation*]

Go ahead, Ms. Pauzé.

Ms. Monique Pauzé (Repentigny, BQ): Thank you very much, Mr. Chair.

I'd also like to thank all the witnesses.

My questions are for Mr. Senécal and Mr. Rhéaume.

It's undeniable that your company stood out from the crowd by launching the first managed green bond fund in Canada. The investments you select have to meet very strict criteria, based among other things on compliance with the Climate Bonds Taxonomy.

My first question is: Are you familiar with Bill S-243, An Act to enact the Climate-Aligned Finance Act and to make related amendments to other Acts, sponsored by Senator Rosa Galvez?

You're indicating that you are.

Given the market you work in, do you think this bill would have a positive impact on the stability of Canadian financial markets?

● (1610)

Mr. Simon Senécal: The Climate-Aligned Finance Act sponsored by the senator provides a legislative framework for disclosure that would go beyond the Office of the Superintendent of Financial Institutions' guideline B-15, and even farther beyond what is coming from the International Sustainability Standards Board.

If the banks are required to provide a higher level of disclosure about their investment and loan portfolios in terms of financial risks resulting from climate change, then of course they would be required to disclose their investments in, and loans to, the fossil energy industry.

Here again, connections were made between disclosure and disinvestment. I believe that disclosure is to be commended because it offers investors a choice.

As for pressure being applied to achieve our goals, whether through disinvestment, commitment or personal decisions, we need all of these tools to make a change in an economy that has numerous stakeholders.

When all is said and done, AlphaFixe Capital supports the bill to enact the Climate-Aligned Finance Act, because we believe in more disclosure.

Ms. Monique Pauzé: So it's better to have more transparency.

Do you feel that the Canadian financial system is ready at this time to face the risks involved in climate change?

Mr. Simon Senécal: With respect to the risks related to climate change, it's like seeing the Canadian market as—

Mr. Sébastien Rhéaume: Basically, I think the Canadian financial system is healthy and adequately capitalized. It's difficult to accurately quantify the risks you're alluding to. But a lot of work still needs to be done, including in terms of disclosure, as you mentioned. We, the investors, are continually monitoring and assessing risks. The more information we have, the better prepared we are to quantify risks and achieve sound performance.

As to whether the Canadian system has the tools it needs now, I'd say yes, but—

Ms. Monique Pauzé: Well, at our first meeting on the topic, another witness said that the Canadian economy wouldn't do as well as we would like, and that our GDP and productivity were either at a standstill or tanking, with no improvement in sight. Clearly, you don't read the situation that way.

Mr. Sébastien Rhéaume: I wouldn't necessarily link that to climate change. There are challenges in Canada, including productivity issues, but our financial system is very robust. On that side of things, we're not particularly worried.

Ms. Monique Pauzé: I'd like to hear more about your green bond fund, which helped to finance renewable energy projects. Which approach do you think would decarbonize electricity production in Canada most quickly?

Mr. Simon Senécal: While it's true that green commitments can help fund renewable energy projects, there are places in Canada where the price of electricity can't be set in advance because it's determined by the market, and that increases the risk level for funding such projects. There are mechanisms like power purchase agreements that can establish the price in advance and make projects economically viable, with the capital allocated afterwards.

For example, in those parts of Canada with the greatest potential for solar energy production, provincial regulations disallow funding for such projects for the time being, because they are not economically viable in comparison to other projects that do not promote clean energy.

In these instances, regulating the price of electricity would be incredibly beneficial.

Ms. Monique Pauzé: I'd like to return to the issue of financing. You were saying that the financial system appeared to be relatively sound. And yet OECD documents on biodiversity point to poor capital allocation. We all know that climate change is harmful to biodiversity. The OECD also mentions the exposure of the financial sector to biodiversity-related risks, and harmful impacts on nature that can also negatively affect social well-being.

When I asked you earlier whether the system was ready to cope with climate change, I was thinking of what the OECD was saying.

● (1615)

Mr. Simon Senécal: For biodiversity-related risks, I'll refer to what the insurance industry has to say about them, because they know all about physical risks. Climate risks are more readily quantifiable than the potential domino effect of these events on biodiversity, not to mention the impact of human and corporate behaviour on the environment. The domino effect on biodiversity is infinite. I believe these risks are much more difficult for scientists to quantify than climate risks—

The Chair: I'm sorry, but Ms. Pauzé's speaking time has run out.

It's over to Ms. Collins now.

[*English*]

Ms. Laurel Collins (Victoria, NDP): Thank you, Mr. Chair.

I guess I want to start off by addressing one of the comments that was made by the witnesses around climate hysterics.

Hysteria refers to something that is wildly emotional. It comes from the Greek word for womb—of the womb. It is used in ancient Greek to refer to things associated with women. I hope you'll forgive me if I get emotional. Climate emergencies are not gender-neutral. The degradation of ecosystems disproportionally impacts women and girls, and I am wildly emotional. This is the existential crisis of our time. To hear that asking for high ambition is climate hysteria makes we wildly emotional—absolutely.

When I think about my womb, the two children I bore from that womb and what future we are leaving them, I am wildly emotional. It's not surprising to hear this from someone who has written articles that are pro-life. I think that we need to think about the intersection of gender and the climate crisis. I hope that the people around this table and the people listening will refrain from using language like “climate hysteria”. We are facing a “climate emergency”.

I'm going to start off my questions with Mr. Clark. I appreciated your comments about the existential crisis that we're facing. A handful of insurance companies are already setting net-zero goals and climate transition plans. I'm curious how legislative and regulatory mechanisms support insurance companies already doing this work.

How do we get the ones who aren't—the majority, who haven't committed to net-zero goals—headed in that direction?

Mr. Jason Clark: When we look at our members and we look at, in particular, the work we have been doing with OSFI on climate risk disclosure, which I think is incredibly important.... In March 2023, OSFI finalized its draft guideline on B-15, and it established its expectations for climate-related risk disclosures.

In terms of where we are right now, our members are currently undertaking, and we're finalizing—they'll be conducting it later this year—climate risk analyses on their full operations. It is incredibly important for us in order to ensure the soundness of our business so that we're delivering effectively on that.

The one thing I want to mention is that, when we think about net zero and the investment portfolio of property and casualty insurers, which is slightly different, we have various restrictions in terms of investment concentration. When you look at, let's say, last year, 2023, you'll see that our invested assets equalled $139 billion, and 72% of that was bonds. OSFI puts additional limitations on us to not overly invest in a single company or a single-industry series of companies in order to ensure that we have the reserves available to pay out to policyholders.

I would say that it's incredibly important. We are very seized with climate change, particularly the physical-risk side of things that we're already seeing.

● (1620)

Ms. Laurel Collins: The climate crisis poses an existential threat to our society, but it also poses an existential threat to insurance companies because this is becoming more and more high risk. We're seeing devastating wildfires, flooding and communities impacted so severely by extreme weather. It feels as if those costs are being off-loaded to consumers. It feels as if there are communities that are going to become uninsurable. That really concerns me. At the same time, insurance companies are also investing in and underwriting fossil fuel projects.

At what point does investing in and underwriting fossil fuels violate insurers' fiduciary obligations to their policyholders, especially those who are facing increased risk due to the climate crisis?

Mr. Jason Clark: I'm not able to speak to any specific investment or any specific policy that's been underwritten by our members. That's under the Competition Act. I can't speak to that.

However, when you're talking about the focus on, in particular, the physical risk and the threat and the challenge that we face from a pricing perspective, I think that's very real. We've seen it quite clearly in the last few years. StatsCan has just released updated, new data on the impact that is having directly on insurers. Ultimately, it is also having an impact on consumers in this country.

The rationale for that is what I mentioned in my remarks. The country is becoming a riskier place. Essentially, policies are priced on risk, and as community or household risk rises without corresponding investments to make sure that we're mitigating that risk, which is incredibly important—

The Chair: I have to stop you there.

In the next round, I'm going to have to reduce the time by 20%, so it will be four minutes and two minutes. I'd go longer, but we didn't get an extension of resources today. We did ask.

Mr. Leslie, you have four minutes.

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

Mr. Keeley, in your opening statement, you mentioned that ESG investment strategies have broadly underperformed more diversified strategies by a specific number of 250 basis points per annum over the past five years.

I'm curious. In terms of real dollar values, what does that actually look like? If there were to be a Liberal-NDP-Bloc imposed ESG mandate, how many billions of dollars would you expect the Canada pension plan, the most important safety net for Canadians, to potentially lose in the coming years?

Mr. Terrence Keeley: Right now, the Canada pension plan, if I understand it, is worth about $650 billion Canadian. You can take 2.5% of that per year and subtract it from what it would otherwise be, if you continue in the ESG strategies. That, of course, amounts to tens of billions of dollars in less than a decade. It's quite a meaningful sum of money.

Mr. Branden Leslie: Thank you.

Globally speaking, are there examples of other nations that have tried to achieve environmental targets via financial systems, and what have the results of those been?

Mr. Terrence Keeley: Thankfully, no....

There has been a renewed focus on fiduciary rules. I was asking one of my Canadian friends whether or not Canada has the same fiduciary rule as they do in the United States. Fiduciary rules, largely speaking, preclude investment strategies that are suboptimal—that is to say, achieve poor risk-adjusted returns. I'm not exactly sure what the Canadian equivalent is of a fiduciary rule. However, if you have one, it solves a lot of your problems.

Mr. Branden Leslie: Thank you.

You mentioned in your opening remarks that “energy security is part of national security”. Obviously, we've had many nations come to Canada looking for clean, Canadian liquefied natural gas, for which our government has decided there is no business case, as we've made it so difficult for projects to move forward.

In your view, would imposing an ESG mandate on financial institutions or pension funds make it even more difficult for Canadian energy projects to access funding, potentially?

Mr. Terrence Keeley: It almost certainly would be counterproductive in the extreme. That is to say, if you want to create a greener world—which I do—you need to turn brown companies green. You need to stop consuming fossil fuels and switch to a much cleaner energy mix. In Canada's case, that would be more nuclear.

Climate change is a huge challenge, but describing it as an existential threat is an excellent example—I won't use the word “hysterical”—of gross exaggeration that actually clouds clear thinking on the matter.

● (1625)

Mr. Branden Leslie: Thank you.

I recognize that Canada has some of the most stringent environmental and labour regulations in the world. I'm a believer that we should be exporting our bounty of natural resources around the world, rather than having things produced in countries such as—as you mentioned—Russia, China, India, Iran or Venezuela.

Is it preferable, in your view, to produce more in this country versus the countries I just listed or others around the world?

Mr. Terrence Keeley: I applaud every member of this committee and all Canadians who are trying to do their part to create a greener world. As I tried to state in my opening remarks, I feel it's fairly logical. We should continue to expect that temperatures are going higher. When it comes to prioritizing public assets and public expenditures, the approach of adaptation would be far better than mitigation.

Mr. Branden Leslie: In your view, how should we rank the importance of measuring the outcomes and results of our policies? Would an ESG mandate aid the improvement of environmental outcome results in any way?

The Chair: Answer very briefly, please. You have 10 seconds.

Mr. Terrence Keeley: Do I have time or not?

The Chair: You have 10 seconds. It's basically yes or no.

Mr. Terrence Keeley: The answer is no.

The Chair: Mr. Longfield, you have four minutes.

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

I have one brief question. I'll turn the rest of my time over to Mr. Turnbull.

My question is for Mr. Senécal.

You piqued my interest when you talked about electricity and getting to a cleaner grid. A few summers ago, a group of us visited the nuclear facility at Bruce Power. We were talking about green bonds at the time and the opportunity to have nuclear included in Canada's green bond policy. Since November 21, 2023, certain nuclear energy expenditures have been eligible under the green bond program.

Knowing how important it is to attract international investment into high capital expenditure areas such as nuclear, could you comment on whether we've gone far enough? Is this heading in the right direction?

Mr. Simon Senécal: Thank you for the question.

First of all, nuclear has been part of the climate bonds taxonomy since 2018, from what I remember. It is, as you all know, a controversial topic. Still, in terms of low-carbon solutions to produce electricity, it is up there. It is the lowest type of electricity production.

Yes, some issuers in Canada have revised their green bond framework lately. It is one of the solutions to live in a greener, low-carbon world.

Mr. Lloyd Longfield: Thank you.

I think it's the change we've seen in terms of being able to get medical isotopes, as another example. Bruce Power said that was the missing piece they needed to see us working on.

Mr. Simon Senécal: I'm sorry. I missed it. What did they add?

Mr. Lloyd Longfield: I'm taking up too much time. I will go over to Mr. Turnbull.

Thank you for your answer.

Mr. Ryan Turnbull (Whitby, Lib.): Thanks to my colleague Mr. Longfield.

Ms. Brandon-Jepp and Mr. Detchou, I want to ask you this: The Canadian Chamber of Commerce has a working group on sustainable finance, as I understand it. I've met with them quite a number of times, which is great. I know you've been active advocating for green taxonomy and mandatory climate-related disclosures.

Could you describe why those are so important as enabling conditions to attract additional investment and mobilize capital to fight climate change?

Ms. Jessica Brandon-Jepp: Thank you for the question, and thank you for taking the time to meet with the Canadian Chamber of Commerce and members of our green and transition finance council.

The Canadian chamber believes we require an inclusive, made-in-Canada framework that addresses the unique opportunities and challenges facing Canada in its transition and supports Canadians in that transition. Really, it's about creating a full suite of tools that businesses and investors can feel confident in and rely on as they make investment decisions.

Mr. Ryan Turnbull: My understanding is that credibility and certainty within the market are the enabling conditions for capital to flow. Do you see these two tools...? There's taxonomy, which is a classification system for green and transition products, and disclosure information, which I think truly arms investors with decision-useful data.

Can you speak to just how important those tools are in increasing credibility and transparency in the market?

● (1630)

Ms. Jessica Brandon-Jepp: Certainly, I think businesses have been advocating for these tools for quite some time, and so has SFAC. In order to increase Canada's productivity and grow our economy, these are really essential to attracting investors. We know we—

[*Translation*]

The Chair: Thank you. I apologize for interrupting you, but we have a tight schedule today.

Ms. Pauzé, please go ahead for two minutes.

Ms. Monique Pauzé: Thank you. I'll get straight to the point.

I'm going to begin with the Canadian Chamber of Commerce representatives.

The recently published 2024 InfluenceMap report says on page 32 that the Canadian Chamber of Commerce is promoting high carbon intensity fuel sources like Canada's oil sands. It mentions Michigan's line 5 pipeline as an example. It also says that in 2022, the Canadian Chamber of Commerce was against a ceiling on emissions in this sector.

And yet in your opening address, you said that you acknowledged the crucial importance of combatting climate change.

What's more crucially important: combatting climate change or promoting Canada's oil interests?

Mr. Bryan Detchou: Thank you very much for your question, Ms. Pauzé. If it's all right with you, I'm going to answer in English because I'm more familiar with certain terms in English.

[*English*]

The Canadian Chamber of Commerce and many of its members certainly agree that we have a strong role to play in reducing our emissions. That has always been a focus of many of our members, but one thing we also need to take into consideration is Canada's role in the world and our ability to support one of our strongest-performing sectors. I'm not just focusing on the sector that you mentioned, but also the critical minerals that we have in this country and our ability to help support other nations as they also try to decarbonize their—

[*Translation*]

Ms. Monique Pauzé: Sorry for interrupting, but I only have two minutes.

You don't appear to see a connection between climate change and fossil fuel extraction.

My question could be for you or for the representatives of the Insurance Bureau of Canada. It's about certain boards of directors that have been infiltrated or influenced by fossil fuel industry representatives. Shouldn't something be done about that?

The issue of taxonomy came up, and you talked about it, as did the Canadian Chamber of Commerce. But if we want to come up with a proper taxonomy, and the oil company representatives are still there, it's not going to happen.

The Chair: Unfortunately, we don't have time for an answer, but the question is pretty clear.

It's over to Ms. Collins now.

[*English*]

Ms. Laurel Collins: Again, it's not surprising to me that the Conservatives have spent most of their time asking questions about divestment of someone who is maligning the divestment movement. Young people are using so many tools, whether they are divestment, engagement or activism, and they're trying to use whatever tools they can right now in the face of a climate crisis.

What's also not surprising is the climate neo-denialism. That we don't have to be that ambitious is aligned with folks who don't fully support a woman's right to choose. It's also telling, to me, that the Conservative leader has refused to say whether he would scrap the industrial carbon price.

My question is for Ms. Brandon-Jepp. The federal backstop when it comes to the industrial carbon price is one of the most critical policies that we have. Industrial carbon pricing does the bulk of our emissions reduction. The Pathways Alliance's new head has actually called on the Conservative leader to state his position on the industrial carbon price and whether he'd keep it.

It's wild to me that we're in a position where oil and gas leaders are more climate-friendly than the leader of a political party in Canada. That's wild.

I'm curious to hear your perspective about creating certainty. What does that kind of uncertainty do?

Ms. Jessica Brandon-Jepp: I think Canada should increase overall net-zero funding and do more to de-risk and address barriers to private sector investment.

We hear from our members all of the time that they very much appreciate partnerships with government and private sector funders to enhance, innovate and find bleeding-edge solutions to our brightest climate challenges.

I think this is really where—

Ms. Laurel Collins: Particularly on the industrial carbon pricing question, is greater certainty better for...?

The Chair: You have 15 seconds, please.

Mr. Bryan Detchou: If I may jump in very quickly, one thing we've been advocating for very consistently is that certainty and predictability. We've seen a number of projects put on hold for a number of different reasons, and I think one of the main reasons for many is that lack of certainty and predictability.

● (1635)

The Chair: Thank you very much.

We have Mr. Kram for four minutes.

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

I would like to introduce the witnesses from AlphaFixe Capital to our witnesses from the Chamber of Commerce. I would like our witnesses from the Chamber of Commerce to meet our witnesses from AlphaFixe Capital.

It seems that AlphaFixe Capital is a very successful green investment firm with billions of dollars in green bonds and green investment funds. It seems that the Canadian Chamber of Commerce has many good green investment opportunities.

I can't help but wonder why you guys are spending your afternoon talking with a room full of politicians instead of talking to each other about all of these investment opportunities that you could work together on, instead of asking for more government regulations. Wouldn't it be better if politicians stepped back and let you guys do your thing, and we could have a greener, better economy as a result?

Mr. Sébastien Rhéaume: We're here to try to advance some of the challenges we are facing. As successful as we were in our green bonds, the transition has been a much tougher challenge, and we are trying to replicate the success factors in the green bond to the transition world.

That's why we're here. It's just to say there's a piece missing, and that piece is the taxonomy for the transition. I'm glad to come here to chat—I do have other things to do—but at the same time, I think it's important. There are some very low-hanging fruits, and that's one of them.

What's holding back the taxonomy? I'm not sure, but it's holding back investments. As long as companies do not know the rules of the game or where the goalposts are, it's very difficult for them to allocate capital.

Mr. Michael Kram: For the Chamber of Commerce, why does the government have to be the one providing the taxonomy? Why can't you guys communicate with each other?

Ms. Jessica Brandon-Jepp: I'm pleased to say that we do regularly communicate with our members. In fact, Bryan and I both have councils that do a great, inordinate amount of work in this area. What our members are telling us is that greater certainty and clarity is required.

That being said, our members are trying to drive forward a number of innovative solutions, and they're excited to do so. They're looking to attract more capital to be able to let business be business and to innovate and come up with those bleeding-edge solutions that are going to drive our net-zero ambitions.

Mr. Michael Kram: Let's come back to Mr. Keeley.

Mr. Keeley, in your opening statement, you said, “If I have one piece of advice for this committee, it is this: Avoid a great deal of economic and financial sacrifice for no apparent gain.”

Could you elaborate on what you meant by that?

Mr. Terrence Keeley: Sure. We got into a lot of it in the course of the discussion, which is divestiture. All of these issues about greater disclosures almost certainly lead back to the divestiture question. People would end up divesting from those dirtier industries, and that's not going to solve things.

I would strongly say that if we're going to decarbonize our industries, if we're going to make the grid greener, if we're going to have an effective carbon tax, I would recommend a carbon border adjustment tax, which has been recommended by Paul Ryan.

Those would be far more sensible approaches than to impose a net-zero portfolio restriction on your pensioners. We're all concerned about the climate. It's a horrible situation, and the world is outliving its resources—there's no question. However, we need to ask this: What can Canadian pensioners actually do about that? I thought that was the question.

The Chair: Thank you—

Mr. Terrence Keeley: Canadian pensioners do not solve the crisis by divesting.

The Chair: We'll have to stop there.

We'll go to Ms. Taylor-Roy, please.

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

I'd like to extend my thanks to all the witnesses for taking their valuable time to speak to our committee. As we know, as representatives, we cannot do our jobs without speaking to the people on the front lines, so your being here is very important to our committee's deliberations on this matter.

Mr. Keeley, you've received a lot of questions today. I will not be asking you one, but I did want to thank you because several times you have emphasized that the most important thing we can do is have consumers stop consuming fossil fuels. That is exactly what the price on pollution program is designed to do. It's to incorporate the environmental costs of consuming fuels into the price signal so that people will in fact consume less. I appreciate your endorsement of those programs.

I would like to talk to the Chamber of Commerce because there seems to be some confusion about the impact of capital flows on businesses and what that does, not only to the businesses and their ability to invest but also to share prices.

I think about the example of Reddit and when they shorted GameStop. It was really interesting. The supply and demand, in terms of people investing in certain stocks or disinvesting from certain stocks, actually has a great impact on the economic performance of that company in the stock market, though perhaps not fundamentally. This idea that somehow we cannot make any difference by directing the flow of capital to those companies that are in green pursuit seems to me to be misguided.

I was wondering, Jessica, if you could talk a little bit about the importance of having investment flows come into companies. You mentioned earlier that it has to be very clear to investors what the parameters are. Obviously, that is so they feel comfortable investing in these companies.

What is the importance to your membership of having investment in these green and transitional companies?

● (1640)

Ms. Jessica Brandon-Jepp: Thank you for the question.

I think we know from SFAC that there is a large gap in investment. I think it's been clear that Canada is struggling with its productivity and its economic growth, so I would go back to that.

We have a $115-billion-a-year investment gap that Canada has to fill in order to deliver on our net-zero and transition commitments. When we speak to our members, what they're asking for is additional partnership with government to promote investment in innovative technologies and for the clarity that investors are seeking to invest in these kinds of technologies.

Bryan.

Mr. Bryan Detchou: If I may jump in very quickly, I just want to note that the large majority of businesses in Canada are small and medium-sized enterprises. They also need a lot of support as they try to green their operations.

We were happy to see in recent months and in the last budget that some of the money that was owed to small and medium-sized businesses through the carbon rebate program actually flowed towards those businesses. That's another key pillar of our advocacy and that of many of our members who are much closer to their communities across Canada.

Ms. Leah Taylor Roy: Closing that $115-billion gap, I think, and having some guidelines of clear taxonomy and disclosure will help direct the flow of capital to companies that are meeting those guidelines.

Thank you for the work you're doing at the chamber.

The Chair: Thank you.

That brings this panel to an end. I really want to thank all the witnesses for an excellent exchange.

We're going to pause briefly to onboard the two witnesses for the second panel, who are both on video conferencing.

Thank you again. It's nice to see everybody. Have a good afternoon.

● (1640)

(Pause)

● (1648)

[*Translation*]

The Chair: Resuming the meeting.

We have two witnesses: Mr. Eric Usher, head of the United Nations Environment Programme, or UNEP, finance initiative, who is appearing as an individual, and Mr. Hugh Miller, who is an analyst at the OECD, the Organization for Economic Co-operation and Development.

We'll begin with you, Mr. Usher. You have five minutes.

[*English*]

Mr. Eric Usher (Head of UNEP Finance Initiative, As an Individual): Thank you very much. It's a pleasure to address the committee.

As presented, I'm with the UN. I'm with the part of the UN that works with the finance sector to develop norms for sustainable finance and responsible investment. Most relevant to this session is that we convene several of the net-zero alliances, including the net-zero banking alliance and the net-zero asset owner alliance, which many Canadian financial institutions have signed on to as a means of setting credible, science-based net-zero targets.

As well documented by the Basel committee on banking supervision and many others, climate change poses risks to the financial system. Just last month, the Basel committee formally incorporated climate risks into its core principles, which set out the overarching standards for regulations to keep the global financial system stable. It's increasingly acknowledged that misalignment of capital flows with the global climate objectives may result in short-, medium- and long-term financial risks for financial institutions individually, as well as affect financial stability overall.

The financial industry is largely aware of these risks. In fact, voluntary industry action has been a key driver of sustainable finance around the world, including in Canada, and that is reflected in many financial institutions integrating sustainability considerations into their operations. For example, they identify sustainability as a key priority within their business strategy and reflect this in their governance and compensation policies. They establish systems to analyze climate risks and the impact of their financing. They're big on making sustainability disclosures, and many are setting net-zero targets on a voluntary basis.

However, the pace of progress is uneven. Therefore, in recent years, regulatory initiatives have increased substantially across jurisdictions. The UN Environment Programme has documented over 750 sustainable and green finance regulations established globally since the Paris Agreement was signed. These aim at, for example, increasing transparency of sustainability information, addressing greenwashing, strengthening climate-related risk management practices and starting to mandate transition planning. These developments are an important prerequisite for intensified net-zero alignment across the financial system and the entire economy.

Now, financial regulation can build on voluntary industry commitments to incentivize financing for Canada's economic transition towards a sound and sustainable economy. For instance, OSFI's new B-15 climate risk management guidance is an important step in this direction. Reporting is needed to enhance the transparency, credibility and effectiveness of net-zero commitments across the economy and, ultimately, to ensure the integrity of the transition. The development of international disclosure standards, including through the ISSB—the international sustainability standards board—should be advanced so as to ensure optimal allocation of capital to the net-zero economy. Work by the Canadian sustainability standards board to develop reporting standards aligned to the ISSB is very welcome in this context. Also, there is potential for a Canadian taxonomy to be used as a forward-looking tool to accelerate the net-zero transition.

Over 40 countries today have developed, or are in the process of developing, sustainability taxonomies. Europe already has two years of company reporting whereby companies must disclose the share of their revenues, their capital expenditures and their operating expenditures that are aligned with the EU taxonomy criteria. Results show that many sectors in the EU are investing heavily in the transition now with capex alignments—capital expenditures—consistently higher than revenues.

Way out front in this are utilities whose revenues are already 40% sustainability-aligned, but they're investing almost two-thirds, 63%, of their capex in sustainability-aligned assets. Real estate is another example. It is investing 27% of its capex in sustainability-aligned building stock.

It's important to highlight that finance cannot in itself fill a policy void. Therefore, financial regulation can only truly incentivize transition finance if mirrored by a whole-of-government approach to meaningful action and commitments in the real economy. In addition, voluntary and regulatory action must work hand in hand, giving financial institutions the necessary room to innovate and, at the same time, signalling towards stronger market uptake, learning and ever-increasing ambition and innovation.

Finally, the potential for regulatory fragmentation is serious, and the Canadian economy risks getting left behind if regulatory developments do not keep up with what's happening today in other regions. Without interoperable regulatory frameworks, sustainable finance can become disjointed and primarily compliance-driven, which is a missed opportunity for financial institutions to play their part in enabling the transition. Banks and investors need globally consistent regulatory standards and definitions in order to focus on the transition challenges ahead.

● (1650)

As described, banks and other financial institutions have gone a long way to commit to and implement voluntary commitments. As far as possible—

The Chair: Thank you, we're going to have to stop there.

Mr. Eric Usher: —regulatory developments should be aligned with voluntary principles for greater consistency.

The Chair: Excuse me, Mr. Usher—

Mr. Eric Usher: Voluntary initiatives can provide leadership and best practice.

Thank you.

The Chair: We're going to have to stop there and go to Mr. Miller now.

Mr. Hugh Miller (Analyst, Organisation for Economic Co-operation and Development): Thank you very much.

Good afternoon, Chair and members. My name is Hugh Miller. I'm a sustainable finance analyst at the Organisation for Economic Co-operation and Development, where I work on climate and broader environmentally related financial risks.

It is well recognized, both internationally and in Canada, that climate change and environmental issues pose risks to the financial system through physical and transition risk channels. Moreover, the financial system will play a crucial role in financing the necessary activities to achieve regional and global decarbonization targets to mitigate future fiscal risks from climate change.

However, there is a misalignment between when the majority of climate-related financial risks will materialize and when the necessary financing of low-carbon activities needs to occur. To meet regional and global net-zero targets, significant and urgent upscaling of finance is necessary to fund the energy transition and the shift towards low-carbon technologies, with $125 billion to $140 billion needed per year for Canada to achieve its 2050 target.

Conversely, the financial risks stemming from climate change and other environmental issues are only starting to materialize and may only become significantly material later on in the transition. Hence, there is a potential timing mismatch between the materialization of financial risks and the investment required to mitigate the risks from climate change.

To help overcome the long-time horizon of climate-related financial risks, we need to bring these risks forward into the time frame that impacts the investment decisions of market participants. This will require transitioning from a point-in-time assessment of climate risks towards a forward-looking assessment.

Indeed, the Canadian financial system has already started to embark on a forward-looking assessment of these risks with the joint climate transition scenario analysis pilot project between the Bank of Canada and the Office of the Superintendent of Financial Institutions.

However, there are limitations to the currently available scenarios and their ability to analyze the potential risks from climate change, thereby limiting the ability of financial institutions to account for these risks in their decision-making functions. There are several actions that would advance the ability to assess the materiality of these forward-looking risks and capture them within time frames relevant for financial actors.

First is the development of transition plan standards, akin to those developed under the U.K. Transition Plan Taskforce, UKTPT, as well as others, and the implementation of credible, comparable and transparent transition plans to help financial market participants more accurately identify and manage climate-related financial risks. Financial institutions may incorporate forward-looking information, such as company-level emission targets, into their risk management functions. Moreover, these plans may provide input into the narrative of climate transition scenarios and help develop more realistic assumptions.

Second is a clear classification system to identify both green and transitioning activities for which financing can be clearly earmarked in the form of a taxonomy, which I'm aware that Canada is already in the process of developing. This should clearly outline the economic activities that qualify for financing earmarked by either green or transition labels whilst avoiding carbon lock-in. This should be complemented with clear guidelines on how funds should be classified as green, based on the definitions in the taxonomy.

Finally, environmental risks are broader than just climate change. Recently, we have seen several central banks, including the Dutch, French, Mexican, Brazilian and Malaysian central banks all publish initial impact and dependency studies related to nature-related financial risks. The global economy—and, by extension, the financial system—is dependent upon the ecosystem services provided by biodiversity and broader natural capital.

Currently, we are seeing a rapid decline in biodiversity and natural capital, which may exacerbate the risks presented by climate change. Hence, to assess the potential impacts of climate, a broader scope is required to understand how different environmental risks may interact and magnify one another.

An initial step for the Canadian financial system on this front would be to undertake a similar impacts and dependencies assessment, similar to the work done in other jurisdictions. Here, the OECD can help provide support for this technical analysis with a supervisory framework, which offers a four-step guide to central banks and financial supervisors on how to technically assess nature-related financial risks.

Thank you very much for your time and interest. I look forward to your questions.

● (1655)

The Chair: Thank you, Mr. Miller.

We'll start our first round, the six-minute round, with Mr. Deltell.

[*Translation*]

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

Greetings to all my colleagues.

Mr. Miller and Mr. Usher, welcome to our parliamentary committee.

Before asking my questions, I'd like to pay tribute to the interpreters, who work very hard and very efficiently, particularly today, with two of the witnesses having many important matters to talk about and doing so very briskly. In short, they spoke quickly. The interpreters nevertheless managed remarkably well and I congratulate them. We should really thank them more often. I've wanted to do so for a long time, so I availed myself of this opportunity today.

[*English*]

My first question will go to Mr. Usher.

Mr. Usher, you talked about greenwashing. I would like to have some information from you.

What is your definition of greenwashing? Can you give us some examples of greenwashing and how it can be used by people to dodge their responsibilities?

● (1700)

Mr. Eric Usher: It's a very good question.

There's not a precise definition as of today. I think if you take a consumer awareness view of greenwashing, it's essentially selling a product based on something incorrect in what they are selling.

There have been a number of cases brought against companies, brought against investors, some by financial regulators, some by advertising regulators, which have made accusations around misselling a product. It has typically been products around how green they are, how net zero they are, as a company or as a bank. Coming back to the transparency issue and also the need for a taxonomy, it's quite hard to have a clear definition of a greenwash unless you can have a definition essentially and transparency of what is sustainable versus what isn't.

I hope that provides a partial answer.

Mr. Gérard Deltell: Yes. Obviously, as you said, it's not a very clear situation to address, but the point is that a lot of people are very upset when they see a big meeting in the middle of the desert with a lot of airplanes and especially personal jets going there. People are saying, “They want to save the planet, but they are using personal jets.”

What are your thoughts on that?

Mr. Eric Usher: That's a good question.

I think it requires companies and company leaders to be able to justify the decisions they make and how they spend their company's resources. I think a lot of company executives are getting some pressure in this area.

At the same time, I think air travel is considered a critical form of transport. In some jurisdictions, like in Europe, you are seeing some countries regulating that short-haul flights should be replaced by trains under a couple of hours of distance. I think, overall, the view is that an industry like the air industry needs to continue and it's going to take longer to decarbonize. It's one of the industries where there's talk of the need for carbon offsets because it's hard to totally switch over, but other industries can move more quickly to provide a balance.

Mr. Gérard Deltell: My personal thought on that is that as long as people will use that kind of travel and that kind of event and they have to make their own choice, the industry will work on that, but this is another issue.

Let me be more positive now. You talked about the “room to innovate”. You said that during your testimony a few minutes ago. Talk to us about the room to innovate. How can companies and big emitters reduce their emissions by innovation? Do you have some examples to provide to us?

Mr. Eric Usher: We have a booming industry. We have $1.8 trillion U.S. that was invested in the energy transition last year, investing in new business models, new manufacturing, new uses of technologies. This is a booming market. It's a very sizable part of the economy. I think one of the questions for Canada is how much of that market Canadian companies are going to capture.

Mr. Gérard Deltell: Do you think that to have fiscal incentives and new technologies to reduce emissions is a good road map to follow?

Mr. Eric Usher: That's part of the road map. I think, to my comments, a whole-of-government approach is what's required.

Incentives are certainly useful, particularly for new technologies that are not yet proven. However, incentives on their own probably are not sufficient. We need transparency in the market, and we need a regulatory framework that provides certainty and a sense of direction that the private sector can invest against.

One example is Japan. They have issued transition pathways for their main sectors, their main industries. They give for steel, for cement, for agriculture, for buildings a view to the private sector to say, “This is how we believe this industry is going to decarbonize.” That provides signals of certainty that allow investors to invest.

Mr. Gérard Deltell: What about the green energies like hydroelectricity, wind, solar, geothermal and nuclear?

Do you think we should fast-track those projects giving a green light to green energy?

Mr. Eric Usher: Yes, I think few would question that. Most countries are doing that quite at scale.

I'm not a specialist in the Canadian energy sector. I know there's a lot of hydro, but Canada should be a renewable energy superpower. It's hard to think that Europe has more renewable energy resources than Canada has, but the scale of investment in renewable energy in Europe far outstrips Canada. The U.K., China, India, all of these countries far outstrip Canada on investment.

● (1705)

The Chair: Thank you very much.

We'll now go to Madame Chatel.

[*Translation*]

Mrs. Sophie Chatel (Pontiac, Lib.): Thank you, Mr. Chair.

That's very interesting, particularly the final comments to the effect that Canada could be a world leader in clean energy.

[*English*]

Mr. Usher and Mr. Miller, welcome, and thank you for your good work at the UN and the OECD on this important study of green finance and transition finance.

Canadian companies are facing a growing competition for sustainable investment. We need a robust climate information architecture in Canada. It should be based on data, disclosure and taxonomy. The last panel said that holding on taxonomy is holding on investment opportunities. Mr. Usher, you mentioned that we're already two years behind Europe on that.

You did mention in your introduction that we have taken some initiatives. The OSFI B-15 climate risk guidance is good. The CSSB aligning with the standard of the ISSB is a good thing, but it's not enough. We should go further.

You mentioned that we risk being left behind in terms of capital attraction in Canada. Mr. Usher, when is our last call to take effective action on disclosure and taxonomy?

Mr. Eric Usher: That's a challenging question. Each last call means that there's less of the pie left for the economy to capture.

What is clear is that there is quite a large global universe looking to invest in this transition. If Canada can put the systems in place and the transparency, it's more likely to attract those investors. Let me quote Larry Fink. He's the world's largest investor, the head of BlackRock, and if you read his annual letter this year, he's not preaching. He's not doing climate advocacy. His view is that the world is changing. The energy transition is under way, and it's going to be a winner for the shareholders in delivering on that transition.

We see a lot of that from American investors and banks. They're global organizations. Even in specific jurisdictions, the signals might not all be there, but globally they see that the trend is happening. For the Canadian economy, it must get the systems in place, and that will attract investment.

Mrs. Sophie Chatel: Thank you very much.

I'm turning now to Mr. Miller. First, welcome and congratulations on the “OECD Guidance on Transition Finance.” I know you have been a key contributor to this work, and it's very important for a country like Canada, based on oil and gas. Energy and natural resources provide us the opportunity to contribute to or to attract investment in the transition area.

My question relates to your work in another very interesting area. It pertains to your work on the dependence of the financial system on services provided by biodiversity and natural capital.

How can the OECD help our government to technically assess nature-related financial risks?

Mr. Hugh Miller: On this front, yes, biodiversity and nature-related financial risks—

[*Translation*]

Ms. Monique Pauzé: Mr. Chair—

[*English*]

The Chair: I'm sorry. I must interrupt. The sound quality is not good enough, unfortunately, for you to continue. Mr. Miller, we're going to have to go to Mr. Usher.

In the meantime, I know the technical team here is trying to reach you by phone.

Mr. Hugh Miller: I'm sorry.

The Chair: Perhaps the team could try to solve the problem with you.

Mr. Lloyd Longfield: Could we get that answer in writing, possibly?

The Chair: That's a good idea. If we could get the answer in writing, that would be very helpful.

[*Translation*]

Ms. Chatel, do you have a question for Mr. Usher?

● (1710)

[*English*]

Mrs. Sophie Chatel: I know the UN is also looking at how to factor in, in the transition finance and the green finance, this issue of biodiversity risk, or loss of biodiversity risk, and natural capital.

Mr. Usher.

Mr. Eric Usher: Absolutely. I congratulate Canada for being key and the host of the global biodiversity framework that was agreed to last year.

Several of the elements of that framework require or involve actions from the private sector. Part of it is around disclosure. In the meantime, we have a new framework for finance-related nature disclosures. A framework has been launched this year. We have 300 global companies that are doing their first issuance this year. I'm not sure how many are Canadian, but the systems are building for companies to be able to transparently disclose nature-related risks. It's not as developed as climate. It's more complicated than carbon, but quite a bit of progress is being made.

Mrs. Sophie Chatel: Thank you so much.

Mr. Usher, for Canadians who are listening to us today, can you explain how important transition finance is for a country like Canada?

Mr. Eric Usher: Yes, it's very important.

To follow on from Hugh's comments, transition planning and understanding the notion of transition finance is where we need definitional work, including a taxonomy. It is quite critical, particularly for resource-intensive economies like Canada's.

It's not so much about what is green; it is about what is greening. Part of the understanding is that many actors in the economy, including those who are quite carbon-intensive today, have to be part of the solution and have to drive carbon out of the system within their business models. To do that, they need transition financing. A critical part of the taxonomy will be defining essentially what transitioning is.

[*Translation*]

The Chair: Thank you.

Go ahead, Ms. Pauzé.

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

I'd like to thank the witnesses for coming.

I'll begin with you, Mr. Usher.

When you appeared before the Senate on May 9, you spoke about the importance of more transparency and interoperable disclosure standards to show where the risks lie. You said that disclosure was essential and that for all commercial corporations, including banks and even possibly investors, it was the starting point for understanding risk exposure and where the risks are. You said that without comparable methodologies among countries, Canadian banks would be exposed to risks.

You said that in Europe, a directive on the publication of information about corporate sustainability would soon be introduced and would apply to 1,000 Canadian companies, including the Bay Street banks.

Could you tell us about the repercussions of this directive on the Canadian banking system?

[*English*]

Mr. Eric Usher: It's a very important question and topic because, if Canada does not put its own system in place, it's going to be driven by the European system anyway. Large companies that have activities in Europe are required to report in to the corporate sustainability reporting directive, CSRD. Essentially, the Europeans are defining how they will report.

If Canada comes in with an interoperable form of reporting, it allows Canadian companies to get ready to do it, and, essentially, it'll work more efficiently. We are getting, as I think was mentioned earlier, the carbon border adjustment, which is more an issue between countries about pricing economic activities. This is also being applied to corporations through this type of regulation.

Once again, it calls out for the need for countries to work together in coming up with interoperable systems. As you would know about corporates, the thing they hate most is to operate in multiple jurisdictions that have multiple reporting frameworks. That's why the work of the ISSB is so important. That's why CSSB aligning with ISSB is so critical, but that's only part of the puzzle.

[*Translation*]

Ms. Monique Pauzé: That's absolutely right.

Could you provide us with a brief overview of some of the best international policies on sustainable funding that have been introduced, particularly from the regulatory standpoint?

● (1715)

[*English*]

Mr. Eric Usher: I think this is a global trend. I mentioned that 700 more regulations have been established in the financial system.

Central bank mandates vary. Some central banks have a very explicit sustainability as part of their mandate, and some do not. Canada does not. Some have an implicit mandate. An example of a bank that has a mandate is the Bank of England. It has an explicit mandate, as do a number of others. Within the central banks and supervisors, you have some of them that do have regulatory set-ups that allow them to directly address these issues.

In terms of taxonomy, as I mentioned, the Europeans are most advanced, but there are many taxonomies around the world that are developing. We're currently supporting the Brazilian government and, indeed, many countries. Part of the effort is to make them interoperable. The European one starts, because companies are reporting, and you can can start to see how that transparency allows visibility on an economy in transition.

[*Translation*]

Ms. Monique Pauzé: How much time do I have left, Mr. Chair?

The Chair: You have about two minutes left.

Ms. Monique Pauzé: Okay.

I have another question for you, Mr. Usher.

You just talked about taxonomy and about what was done in Brazil. I think the fossil fuel sector here does an enormous amount of lobbying, particularly with boards of directors and the government. If the taxonomies are developed by stakeholders that continue to be emitters, we'll never get there, of course.

Have you seen things like that internationally? I mean a strong influence by companies that are emitters and that want to delineate the regulatory frameworks and taxonomies.

[*English*]

Mr. Eric Usher: I'm not sure I understood your question, but let me try to answer it.

One of the things that's paramount is that the private sector needs to sense an inevitability of the direction of the government. I mentioned the Japanese example. When they see where the world is going, they will invest in helping to realize that world. In the economies that are most successful today, the signals line up.

The challenge in some economies is that you get confusing signals, and then investors do not want to invest, because the 20- or 30-year investment might not actually be allowed to operate. This can be applied to both high-fossil assets and low-energy, low-carbon assets. What's needed is the sense of inevitability about the transition. The responsibility for that starts with the government, but then, of course, involves corporations and the private sector.

[*Translation*]

The Chair: You have 15 seconds left, just enough time to wrap things up.

Ms. Monique Pauzé: Okay. I'll do that.

You are no doubt aware of Bill S-243, which is being studied in the Senate. Are you in favour of some aspects of this bill?

The Chair: A yes or no answer please.

[*English*]

Mr. Eric Usher: Yes...to certain parts. I think we have questions about the capital adequacy, but we can answer other elements.

[*Translation*]

The Chair: Excellent.

Ms. Collins, please go ahead.

[*English*]

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

To follow up on that, can you talk a bit about the areas you support in that bill and what strengths you see?

Mr. Eric Usher: I think the notion, widely, is that we need to start to understand how we align with the societal objective, essentially, of the net-zero transition. Elements of that proposed bill bring in more of the pieces that are required.

A taxonomy and disclosure are steps, but there also need to be responsibilities within the corporation around governance, expectations and transition planning. Essentially, every company needs to be expected to put forward what it believes it's going to do as part of these changes that are under way. The bill covers more elements, so it is a step forward.

As I mentioned, there are some concerns around capital weighting and adequacy, and we believe there's not enough evidence yet to put that into legislation.

Ms. Laurel Collins: Canada is considering the role of natural gas in the taxonomy. There are a number of organizations and experts who have raised concerns about including natural gas as a transition or something sustainable under the taxonomy.

Do you have concerns with including fossil fuels in the taxonomy?

● (1720)

Mr. Eric Usher: It all depends on context. What is the natural gas replacing, and are there guardrails around that? For the coming years, there's an expectation that fossil fuels will be required, but 30 years from now, will they still be required? Therefore, if you can put guardrails on investment and for how long an investment is expected to operate....

Potentially, natural gas needs to be part of that transition, but every country will be different and it's up to every country to figure out how to make that transition.

Ms. Laurel Collins: If other countries exclude natural gas, is it in Canada's benefit to align more closely with, say, European Union countries that might be headed down that route?

Mr. Eric Usher: A lot of it depends on what becomes a standard. I'm not sure I can clearly answer the question. It really depends. If gas is replacing coal, that's probably a good thing. If, 30 years from now, gas shouldn't be operating because wind is lower cost, the question is why you are putting gas on the grid. In a way, it requires 30 years to pay it back. Maybe you only need 10 years.

These types of discussions are what have come up in Europe because of the Ukraine war. Ultimately, some gas has been brought in, but most of the investment has been in renewables because, at the end of the day, economics have played out and wind and solar are the major sources of new capacity on the continent, even if there have been some gas additions.

Ms. Laurel Collins: It kind of seems like leapfrogging. If we have the opportunity to invest in renewables that will be long lasting, it seems like both a more climate-friendly and a potentially longer-term, sustainable financial option.

You talked a little about progress in global standards and regional practices for climate-related disclosures. I'm wondering if you could give us some more details about recent progress that has happened.

Mr. Eric Usher: Maybe I can talk about China for a bit, because I often hear China being put up as the problem. I think the problem in China is that they're a green superpower, and that should be a concern.

Let me give you an order of magnitude: Canada built 2.3 gigawatts of new wind and solar last year. That's about one smallish nuclear reactor. China built 300 gigawatts of wind and solar last year. China passed.... Fifty per cent of their new automobiles are electric vehicles. China is moving very fast.

I think the question for the Canadian economy is how to keep up and compete with that change. Their coal use is going down. It's not what has been reported. They're down to 40% of the electricity system today. The real challenge with China is how you compete with them, which is something most companies have been dealing with for a long time. It's not an environmental question. It's a competitiveness one.

Ms. Laurel Collins: You have talked in the past about the good progress being made by the private sector, and how that's not necessarily understood or reflected by governments. However, the private sector can't do it on their own. They need enabling frameworks and sound policies.

Can you talk a bit more about how policy-makers and regulators are—or are not—facilitating this integration, and how we can better support the transition to a sustainable economy?

Mr. Eric Usher: You know, we hear a lot about the IRA in the U.S. and how it has mobilized a lot of investment. I think it has. It's been successful as an incentive. In Europe, it's more of a whole-of-government approach. I think the difference is that, in Europe, every corporate is realizing they have to transition. In the U.S., it's only part of the economy—the green part—that's growing. The rest of the economy has a lot of uncertainty.

Therefore, I think—as you say—the best examples we're seeing are where they combine incentives in new technology with transparency and markets investing across the whole economy, where they're incentivized to do so.

The Chair: Thank you.

Mr. Miller, could you tell us a bit about the weather in Paris, where you are? I'm asking because I'm trying to test the sound.

Mr. Hugh Miller: Yes, of course.... I'm sorry. It's quite dark now, because it's quarter to midnight, but it was a very nice sunny, warm day in Paris, with a small amount of showers.

The Chair: We're very happy to hear that. Unfortunately, the sound quality still isn't sufficient. Again, we'll expect a written response to one of the questions.

Thank you again.

We'll go now to our second round, which is a four....

[*Translation*]

Would you like to comment, Ms. Chatel?

● (1725)

Mrs. Sophie Chatel: Mr. Chair, I'd like to point out that all the questions we're asking Mr. Usher could equally be for Mr. Miller, given that they work for two similar organizations. I'm convinced that Mr. Miller might also have some useful things to say to us.

Mr. Miller, if you feel that you could shed some light on a few of the questions that were asked, please give us your point of view.

The Chair: In other words, even if we don't ask Mr. Miller any questions because he can't take part in the discussion, you'd like him to send any answers or comments he might have in writing.

[*English*]

Mr. Miller, even though we can't exchange verbally, if there's anything you want to add in writing based on questions to Mr. Usher or anything you think is valuable to the committee, please send it in.

[*Translation*]

Thank you.

We are now beginning the second round of questions. The speaking times will be four minutes and two minutes respectively, to ensure that we finish on time.

Mr. Kram, please go ahead.

[*English*]

Mr. Michael Kram: Thank you very much, Mr. Chair.

I guess my questions will be for Mr. Usher.

I look forward to Mr. Miller's submissions in writing, assuming the chair doesn't approve a field trip to Paris in the near future.

Mr. Usher, I wasn't quite clear from your opening statement. What specific, particular and tangible public policy asks of the Government of Canada are you looking for?

Mr. Eric Usher: Taxonomy would be one, and another would be an expectation around transition planning. Hugh mentioned that the U.K. Transition Plan Taskforce is considered a best practice. Those would be the two steps.

There would also be an expectation for companies to start to disclose based not only on commonly agreed Canadian relevance but also on interoperability with other taxonomies, such as that of Europe, etc., to provide clarity. Then there would be the expectation around providing a plan for how the company will deal with the changing climate.

Mr. Michael Kram: What does the taxonomy piece look like from your perspective?

Mr. Eric Usher: If we talk about the European one, which many have followed, for each economic sector there are limits set. Essentially, you have to emit below so many tonnes per whatever the measurable is for that sector—let's say per kilowatt hour—to be considered sustainable, but you have to do it with no significant harm. You have to show as well that you are not creating environmental or social harms in other areas, so that we don't run after something that is really green but creates damage in another way.

That's basically the structure the Europeans and most others follow, but, once again, it has to be specific to the local economic context. As we said earlier, defining “transitioning” is a critical role for the Canadian taxonomy.

Mr. Michael Kram: What happens if a company is not considered sustainable?

Mr. Eric Usher: At this point, nothing, because it's a free and open market. It's up to the markets to decide. If the markets start to believe that, with the proper information, an industry is ready for disruption, they will make decisions on that. The best example I have is the Tesla effect. What happened to the value of automotive companies globally when one electric vehicle company, all of a sudden, became what most investors believed was the future of that industry?

Every industry is going to go through or is already going through something like the Tesla effect.

Mr. Michael Kram: Okay, so it's not considered sustainable in environmental terms but it's considered sustainable in economic terms. Is that correct?

Mr. Eric Usher: Yes. As we think of environmental issues in a financially relevant way, if you are polluting the environment, the expectation is that an investor will say, “Well, eventually that's going to be priced and made illegal, and your business is going to be outmoded.” You need to properly monitor the impacts you have, including on the environment, and how they will come back and affect you in a financial way.

● (1730)

Mr. Michael Kram: Okay. The idea of something being made illegal is one I hadn't heard before. It's a way to anticipate the next industry the government will make illegal, and, therefore, investors should not be investing in the company if it's going to be made illegal before the investment is recouped. Is that what you're saying?

The Chair: Please give us a yes or no, Mr. Usher. We're really running out of time.

Mr. Eric Usher: There is a differentiation between physical risks and transition risks. What I'm talking about are transition risks, which include policy change, technological change and consumer change. Any of those can lead—

The Chair: Thank you.

Mr. Eric Usher: —to a devaluation of a business model.

The Chair: Mr. Turnbull, please go ahead.

Mr. Ryan Turnbull: Thanks to both of the witnesses. I'm sorry one of them isn't able to participate fully.

Mr. Usher, it's good to see you. Thanks for being here. Thanks for all the work you do globally, which is essential.

Numerous speakers I've heard speak about sustainable finance have said the strongest economies of the future will be the greenest ones. I think Canada is positioned to be a superpower in leading the energy transition, and greening our financial system is part of that. I think Canada is ready because we have put in place legislative and regulatory pieces like the net-zero accountability act, carbon pricing, an oil and gas cap, and regulations on clean electricity and other things. We also have investment tax credits, which are rolling out, and we have embraced blended finance. What we do not yet have in place are mandatory climate-related disclosures or a taxonomy.

Can you speak to how important it is to create the right enabling conditions for those two pieces to be put in place? You've mentioned them, but what's really at stake?

Mr. Eric Usher: To my earlier comment, I think it's about creating the sense of inevitability that this transition is under way and is going to be backed and supported by the government. That's what investors will invest against.

As you mentioned, you have world-leading carbon pricing. You have economic leaders in many areas. Mining for critical minerals is a key new industry that has to develop. You have a lot of the resources, but what you lack is the transparency for investors—particularly international investors—to come in and see that this transition is under way and that it makes sense financially to invest in that transition. Other markets are ahead in that way.

Mr. Ryan Turnbull: I am going to share my time with my colleague, Mr. van Koeverden, but I just want to ask you a quick follow-up.

In other jurisdictions around the world where they have put in place mandatory disclosure and taxonomy, are they able to compete better, from your perspective?

Maybe you could give just a quick answer on that one.

Mr. Eric Usher: Let's take the U.K. In their energy system, 2.3% relies on fossil fuels today. Their largest source of power last year was wind. It bypassed gas. The U.K. economy is similar in some ways. It has a high fossil-fuel sector in terms of gas, yet I think it is outperforming, on a case-by-case basis, the Canadian economy.

Mr. Ryan Turnbull: Thanks.

I will pass it over to you, Adam.

Mr. Adam van Koeverden: Thanks.

Mr. Usher, I have a really brief question.

Is capital divestment in highly carbon-intensive and polluting sectors, when coupled with reallocations of those funds in innovative, green, sustainable companies, an effective tool for lowering emissions?

Mr. Eric Usher: We know that in the fossil fuel sector the price of oil is high, so it's very profitable today. The question is, how are they reinvesting those profits?

Only a few companies.... The ideal that we would like to see is that they invest with their expertise in the transition. They have a lot of capacity to do that. We're not seeing as much of that as we would like, but—

Mr. Adam van Koeverden: May I intervene?

What about when pension funds and large capital investment organizations divest?

Mr. Eric Usher: That's the divestment you're referring to.

I think I would agree with other views that divestment as a vehicle sends a signal, but in liquid capital markets, every divestor normally finds an investor. It makes more sense, at least initially, for an investor to engage with a company, engage with the governance, put directors in who they believe are going to be responsible to manage the company forward and, only as a last resort, consider divesting from the company.

The Chair: Thank you very much.

[*Translation*]

Go ahead, Ms. Pauzé.

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

Mr. Usher, our problem is that organizations are often contaminated by private interests that want to dictate the rules.

Have other countries come up with provisions to prevent boards of directors and committees responsible for setting investment policy from being disproportionately made up of company directors or former executives from the oil and gas industry?

● (1735)

[*English*]

Mr. Eric Usher: There are some movements around responsible lobbying. Expectations are being set from some asset owners and others to basically expect that companies do not lobby against certain developments. It is definitely a concern.

In terms of the governance of the Canadian oil and gas industry, I don't have too much to comment on. I think companies need to be responsibly run and investors in companies need to ensure that they have the boards and the oversight that will allow them to operate. I think it's up to stakeholders to decide whether their investors are doing the right job in steering the companies they own, including in the oil and gas sector.

[*Translation*]

Ms. Monique Pauzé: Who do you think should be making the rules? Who should be at the decision-making table?

[*English*]

Mr. Eric Usher: Coming back to your comments in terms of the bills under consideration, putting expectations on governance in terms of the role and the experience of boards, I think there is certainly some role in regulatory oversight of that. A range of issues are already expected of directors. There are liabilities on directors.

This is an area of concern for directors if they don't perform their functions responsibly, so I think that's an area where it does require further development in responding to this issue.

The Chair: Thank you.

Ms. Collins.

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

I was just wondering. You mentioned China. Are there other countries you would want to highlight that we either can learn lessons from or should be watching? Are there lessons from folks who are doing it right or doing it wrong?

Mr. Eric Usher: This is a very dynamic space.

Australia has a resource-intensive economy. It has a lot of coal, yet they have had a renewable energy revolution in just the last couple of years, partially driven by a very well-run pensions industry and a lot of domestic investment but also by securing outside investment. Actually, Australian banks are global investors in the renewable energy industry. That would be one example.

You can also go to Brazil, South Africa, Japan, which I mentioned, and northern Europe and other parts of Europe—France. There are many examples and, in a global economy, this is not a trend that is situated in any one jurisdiction.

Ms. Laurel Collins: Thanks so much.

I had a few questions for Mr. Miller. Maybe I will say them in case you have time for or an interest in following up in writing.

One of them is that I know the OECD has been working on biodiversity finance for over a decade and, in particular, on incentives for conservation and the sustainable use of biodiversity. Recently, a government think tank published a report on biodiversity loss and ecosystem collapse: that these are the second most likely future threat to Canada and the world in the coming years.

Could you write to the committee and talk a bit about how efforts by Canada's financial institutions to address biodiversity loss connect to efforts to address the climate crisis and climate change, and how these are overlapping and intersecting?

Also, then—

The Chair: No, no. We're done. I'm sorry.

Mr. Kram.

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

Mr. Usher, I wonder if we could revisit the taxonomy and the logistics from a company's perspective.

If you have one factory that makes gas-guzzling SUVs, another factory that makes bicycles and another factory that makes something else, how does each company go about getting its particular classification in the taxonomy system?

Mr. Eric Usher: It's a breakdown based on industry classifications. NACE is one of them. There are some different classification systems, and the taxonomy has to choose which one they use, but they exist. Then, essentially, there is a threshold for each economic activity of what is considered sustainable.

Most taxonomies started with climate, climate mitigation, but some of them are expanding into some other areas. It takes the bicycle manufacturer to go in and look at their activity and ask, “Are our bicycles considered sustainable?” They will be, I think, in most instances.

An auto manufacturer will go in and see that they need to sell autos below a certain percentage of carbon per mile driven to be considered sustainable. They probably have a mix of vehicles. Essentially, they have to consider how they are going to apply the taxonomy based on the mix they have, but they have the expectation, if they want to secure investment, that they probably need to transition their fleet over time to get into what's considered the sustainable form of automotive transport.

● (1740)

Mr. Michael Kram: Okay.

Do the companies have to approach the Bank of Canada to become classified, or is the Bank of Canada going to have inspectors with clipboards coming out to all these companies? How does that work?

Mr. Eric Usher: These companies already report. Essentially, as part of their disclosures, they will be expected—this is what's happening in Europe and this is what's coming to Canadian companies that operate in Europe—to do various disclosures as part of being in the financial markets. There is a cost associated with such disclosures. It depends on the type of company, but it's true that there are activities involved in being able to do this. I'm sorry if I can't give more detail, but essentially that's a rough description.

Mr. Michael Kram: Do you have a high-level estimate of the cost associated with these disclosures?

Mr. Eric Usher: No. Companies already know how much they spend on disclosures, and there's a whole audit industry built up around financial audit. It's going to depend significantly on the type of company.

One of the requirements is.... Someone mentioned that SMEs are an important part of the Canadian economy. You typically have to think about that. If you have initial legislation, you probably don't go for the SMEs to start with. You go with large companies that are more capable of doing this work, but large companies source much of their product from small companies over time. If they are expected to do scope 3 disclosures, which is essentially carbon in the value chain, eventually they need to source that information including from SMEs.

It is a whole-of-economy approach, but disclosures are something that the whole economy already does. This is adding in one more objective.

Mr. Michael Kram: Is this for every company in the country?

The Chair: Give a brief answer, please, Mr. Usher.

Mr. Eric Usher: In Europe, it started with 277 large companies, but now it's growing. It's the larger companies to start with. It now includes 1,100 Canadian companies that have to report to Europe, because they operate there.

The Chair: Thanks very much.

Mr. van Koeverden.

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

I'm also going to try to share my time. Could you signal when I have a minute and a half left or something?

The Chair: Yes.

Mr. Adam van Koeverden: Thank you.

I'd like to follow up on that. What I just heard is that Canadian companies operating in Europe are subject to disclosures and those sorts of things. When they're operating here in Canada—I presume a lot of them probably do business in both places—they have different reporting requirements. That must be frustrating and annoying.

What would there be to lose? Why wouldn't Canada simply adopt the European Union's taxonomy for reporting on these things, incorporating some of our own assurances and priorities with respect to transition, given that we're a resource economy?

Mr. Eric Usher: Yes, in a quick answer, what you described exactly would, I think, be the most logical and efficient way for the private sector to do it.

Mr. Adam van Koeverden: It's over to you, Ryan.

Mr. Ryan Turnbull: I note there are 40 companies, approximately, in Canada that contribute roughly 90% of the emissions. These 40 are listed on the Toronto Stock Exchange.

I note the U.K. phased in disclosures—I think it's the same in the EU—over a number of years.

Mr. Usher, could you speak about carving out SMEs, and what the rationale for that would be? How have other jurisdictions phased in disclosure to ensure companies have some runway in order to adapt to new disclosure requirements?

● (1745)

Mr. Eric Usher: I think the general approach is that you start with large companies. The emphasis is on scope 1 and scope 2. It's essentially what companies can directly measure. Most of the emissions, usually, are scope 3. For an auto manufacturer, let's say, it's mostly people using their cars who create emissions. It's not the building of the cars. The expectation is that they have a longer—several years—on-ramp to get to scope 3, at which time they need to understand the emissions embedded within their value chains. This is the approach that has been taken in Europe and, I believe, in the U.K. It seems to be the logical one.

Of course, you need to be helping parts of the economy get ready for these new regulations. We need to support industries. Audit industries are able to come in and help companies understand how they can disclose effectively.

Mr. Ryan Turnbull: Thank you.

Could you also speak about the difference between disclosures and transition plans? I think there's a significant difference there. You mentioned taxonomy and transition planning in a response to another MP from the Conservative bench. I want to clarify. You talked about disclosures and mixed in transition plans, which I think are both important.

Could you differentiate how transition plans go above and beyond? Thanks.

Mr. Eric Usher: It's very different, because disclosure doesn't require you to do anything. It just requires you to be transparent about your current business. It can also, as in the U.K., be transparency on your capex and how you're investing, which gives you some view on the future.

A transition plan is the expectation of how you plan to transition to a future state. It's a more explicit business plan for change. Once again, it doesn't require you to say that you're going net zero. The expectation is that they want you to be more explicit in saying what the implications are if you aren't going to decarbonize. How do you believe your business is going to be affected? If you're an auto company that stays with just internal combustion engine vehicles, do you believe that, five or 10 years from now, you're still going to be in business?

The Chair: Thank you very much.

Mr. Ryan Turnbull: Thank you.

[*Translation*]

The Chair: I'd like to thank the witnesses.

Thanks also to Mr. Miller for having agreed to send us his answers and comments in writing.

I wish all the committee members an enjoyable weekend. We'll meet again on Tuesday.

Mrs. Sophie Chatel: Mr. Chair, why didn't Mr. Miller do the sound test?

The Chair: The sound test was done, but it didn't work.

Mrs. Sophie Chatel: Can you tell us why the test worked, but that we couldn't hear him during the meeting? I'd like an explanation.

The Chair: The test never worked. At the beginning, the interpreters had his speaking notes, so they didn't really need to hear him.

Mrs. Sophie Chatel: Okay. Thank you.

The Chair: I wish everyone a pleasant weekend.