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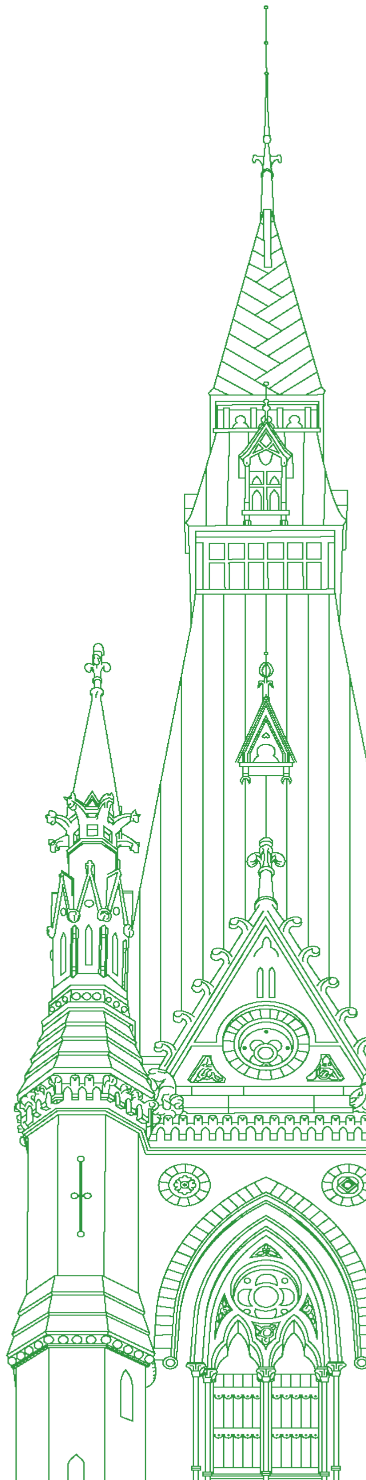

Chair: Mr. Francis Scarpaleggia

Standing Committee on Environment and Sustainable Development

Thursday, May 30, 2024

● (1530)

[*Translation*]

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

Fortunately, there are no votes scheduled in the House this afternoon, so we won't be obliged to cancel or interrupt the meeting.

Before we begin, I would like to share some information, especially for the witnesses who are here in person, about how to handle—

[*English*]

Mr. Lloyd Longfield (Guelph, Lib.): I have a point of order.

We need interpretation. I'm sorry, Mr. Chair.

A voice: It's not on Zoom. It's only on the [*Inaudible—Editor*], so I'm not sure what's wrong.

The Chair: We'll get back to that in a second.

Mr. Lloyd Longfield: I think we have it back.

Thank you.

The Chair: Is it back? Do we have it?

[*Translation*]

Mr. Longfield is nodding, so that's good.

These are just some instructions for handling the microphones and the earpieces. If people aren't careful, it can injure the interpreters, so I'm going to read a few guidelines.

Please keep in mind the preventive measures in place to protect the health and safety of all participants, including interpreters.

Use only an approved black earpiece, like the one I have on my ear. The old grey earpieces should no longer be used. That said, I don't see any around here.

Always keep your earpiece away from all microphones. When you're not using your earpiece, put it face down on the round sticker on the table. This will help protect our interpreters' health.

Without further ado, let's welcome our first panel of witnesses.

We have Céline Bak from Deloitte, Faith Goodman from the Goodman Sustainability Group, Daan Van Acker from InfluenceMap, and Renaud Brossard and Krystle Wittevrongel from the Montreal Economic Institute.

[*English*]

We'll start with Madam Bak.

You have five minutes for an opening statement.

[*Translation*]

Ms. Céline Bak (Partner, Risk Advisory, Financial Services, ESG & Impact, Deloitte): Thank you, Mr. Chair.

I thank the committee members for the opportunity to appear today.

Before I begin, I would like to acknowledge that this meeting is taking place on the traditional and unceded territory of the Algonquin Anishinabe people, and I am grateful for their thousands of years of stewardship on this land.

[*English*]

On behalf of the team at Deloitte Canada, we are proud to share our perspectives on how we work with organizations across the public and private sectors as they navigate evolving expectations and develop relevant, innovative and sustainable solutions.

Our reputation is built on our credibility, and with more than 175 years of experience as a Canadian firm owned by Canadians, we have grown into who we are today because of the trust that our clients offer us in our people and in our values.

As Canada moves toward achieving a net-zero economy, we work with financial institutions to identify sustainable business opportunities and to establish disclosures that inform capital markets in consistent and comparable ways. We're also beginning to work with financial institutions to assist their clients with transition planning.

Through our work at Deloitte, we believe that collaboration within the financial services industry is key to growing trade and increasing productivity. Many organizations are trying to understand how best to operationalize sustainable finance, and we're here to support them.

I would like to take a moment to present findings from recent original research conducted by Deloitte Canada on how companies making disclosures of their scope 1 and 2 greenhouse gas emissions are investing in sustainable capital expenditures and generating sustainable revenues from these investments. These findings establish a positive correlation between disclosures of scope 1 and 2 greenhouse gas emissions and greater sustainable investment.

● (1535)

Second, I would like to report findings from another stream of research by Deloitte Canada on how global capital markets are valuing the strongest performing companies in terms of GHG intensity compared to their sector peers.

We define GHG intensity simply as company scope 1 and 2 emissions divided by revenue. This stems from a perspective that comparable disclosures and a consensus around the inevitable transition are informing investors' decisions, resulting in greater investment flowing to the most GHG-productive companies globally in several sectors of economic activity.

I'd like to relate two points from this research.

First, our research has found that Canadian companies that are disclosing their GHG emissions are making sustainable capital investments that are six times greater than those made by companies that do not disclose GHG emissions. We also found that these capital investments are followed three years later with the achievement of sustainable revenues close to six times higher than companies that did not disclose GHG emissions. While these findings reflect correlation and not causation, they do tell us that disclosures are associated with much higher sustainable investments that also appear to be productive.

In our second stream of research, when considering how public company valuations are explained by financial and non-financial performance, where GHG intensity is the indicator of non-financial performance, GHG intensity explains more than 5% of company value in close to 60% of North American, 46% of European, and 24% of rest-of-the-world publicly traded firms. The relationship between better GHG intensity, intra-sector performance and higher valuation of public companies is not yet present in all sectors, but it is the case in one-third of sectors in North America and one-quarter of sectors in Europe.

I'd now like to turn my attention to a potential opportunity. As Deloitte works with public sector and industry associations, we see that these groups are actively considering how shared information platforms might be created to lessen the burden of disclosure and increase comparability to enhance more productive and efficient investments. A one-and-done approach to disclosures, particularly for small and medium-sized enterprises, is being discussed.

Recognizing the significant role of the financial industry as a trusted adviser to Canadian businesses, our research points to immense value from enabling the market transparency that permits benchmarking of GHG intensity, as well as sustainable investment, as part of transition planning. Canadian financial institutions have an opportunity, therefore, to engage with publicly traded companies, as well as small and medium-sized enterprises to make disclosures as easy and as efficient as possible. This, in turn, will shape macroeconomic outcomes and improve public outcomes, to the benefit of all Canadians.

Thank you, Mr. Chair and members of the committee, for having me here today.

The Chair: Thank you very much.

We'll go now to Ms. Goodman for five minutes.

Ms. Faith Goodman (Chief Executive Officer, Goodman Sustainability Group Inc.): Mr. Chair and honourable committee members, thank you for the opportunity to provide additional perspectives regarding the upcoming government study on environment and climate policy impacts related to the Canadian financial system.

We all agree that addressing Canada's net zero climate targets will require an economy-wide systems approach that duly expedites action and impact. There is broad consensus that decarbonization investments can be mobilized more effectively if we can unlock a recalibrated approach, one that is risk-balanced for all sizes of businesses and sectors, enabling access to lower cost of capital. This is the engine for growth and competitiveness.

In order to drive the next phase of climate and competitiveness progress, we know from leading sustainability thinkers that there are three pillars of transition policy: to invest strategically, solve market failures and make or incent smarter choices. At issue, then, is how.

Addressing these financial system issues represents only one of the many puzzle pieces. We would liken it, then, to considering or offering the opportunity to consider a triple systems challenge, with both policy and business implications at the core.

One is an opportunity to expand the range and access pathways for financing tool kits, looking at blended financing innovations—that is, engineer solutions that are fit for purpose for all sizes of firms.

Two is to fast-track a digitized AI and democratized enabled set of solutions that keep pace with or exceed global best practices.

Third, reimagine institutional structures, enabling frameworks that can play a key role in how institutions manoeuvre to ably innovate, and provide an expanded agenda for this opportunity, looking at environment, economy and society.

In the global race to net zero, we note that the spotlight has largely been on large multinational corporations and how they engineer sustainability and competitiveness. While that is important and while this federal study will focus on readying the Canadian financial system, let me also suggest the imperative to include a wider lens.

We need to open up specific access to decarbonization funding and tool kits that gives due consideration to materially disadvantaged segments of the economy, like small and medium-sized enterprises and their entrepreneurs. They represent the backbone of supply chains and the engines of growth and competitiveness.

In aggregate, their footprint matters. Canada's 1.2 million SMEs represent about 50% of GDP and about 50% of greenhouse gas business emissions. A recent CME study indicated that only 11% of smaller manufacturers have a decarbonization plan. There is no net zero without SME action. SMEs also are increasingly aware that global rules for sustainability are bearing down on all businesses and that everyone needs to get ready.

What do we do about this triple challenge? We would say that it needs to be considered all at once via a whole-of-government approach. For example, if we focus in on the SME challenge for a minute, there are immediate experimental opportunities that can be garnered from leading jurisdictions, building in clarity, certainty, a level playing field and a principled approach.

To go back to the three-part model I just highlighted, on the issue of financial tool kits, several countries, both in Europe and in Asia, have moved forward over the last several years to implement hugely innovative risk-adjusted tools that are applicable for small and medium-sized business and for entrepreneurs.

Many countries have digitized ID and digitized credentials, and certain countries are more advanced in positioning their small businesses for global trade. We have ample examples from the OECD and the SME Finance Forum, which is part of the World Bank.

● (1540)

Third is reimagining institutional collaborations with lots of work globally on NFPs, enterprise foundations, benefit corporations and recalibrated public-private partnerships, all with a view to beginning to think about fit-for-purpose transition solutions and tool kits that are ready-made for all sizes of business and sectors.

The Chair: Thank you very much. We have to stop there, but there will be ample opportunity to share your perspective through answers to questions.

We'll go now to Mr. Van Acker for five minutes.

Mr. Daan Van Acker (Program Manager, InfluenceMap): Good afternoon, and thank you for the opportunity to address the committee.

I'm the program manager for financial research at InfluenceMap, which is a global climate-change think tank conducting research into how corporations and financial institutions are affecting climate change.

The past few years have seen a significant growth in companies' recognition of the importance of climate change and the risks it poses. Most notably, companies are making top-line climate pledges supporting the Paris Agreement. They're publishing climate-related disclosures, and they're setting net zero by 2050 targets.

InfluenceMap's research seeks to hold companies accountable to these commitments, in line with the UN's guidance on the net zero commitments of non-state entities. The financial sector is no exception to the net-zero target trend, with a wide range of climate alliances being created with significant membership within the sector. Among these is the Net-Zero Banking Alliance, a group of leading global banks committed to financing ambitious climate action to transition the real economy to net-zero greenhouse gas emissions by 2050.

Canada's five largest banks—RBC, TD Bank, Scotiabank, BMO and CIBC—are all members of this alliance. As such, they have committed explicitly to transition the attributable greenhouse gas emissions from their lending and investment activities to align with a net-zero target by 2050 pathway.

InfluenceMap published research in March of this year that assessed the climate-relevant activities of the big five and to what extent these are aligned with our own climate commitments. We found that Canada's largest banks are substantially off track to meet their own net-zero targets. This is primarily explained by their lack of science-aligned transition policies, their increased financing of fossil fuel companies and low financing of green companies, and their opposition to climate-related policy.

While the “big five” banks have all set policies to reduce the emissions linked to their financing activities, we found these to be severely lacking in ambition to be credibly aligned with net zero by 2050. In practice, the banks' policies continue to allow financing to drive increased emissions in climate-critical sectors such as the energy and power sectors.

Meanwhile, Canadian banks far underperformed the largest European and U.S. banks when it comes to setting policies to phase out the financing of coal, oil and gas in alignment with the U.N. intergovernmental panel on climate change's science-based pathways. As a result of these policies, or rather the lack thereof, in 2022, the proportion of fossil fuel companies in the big five's financing deal value was almost three times that of leading U.S. and European banks. In fact, from 2020 to 2022, the big five banks increased their average lending exposure to fossil fuel companies, while their largest U.S. and European counterparts decreased their financing to the sector.

The big five also provided 3.9 times less deal flow to green companies than to fossil fuel companies over this 2020 to 2022 period. This ratio is again significantly higher than the largest U.S. and European banks, which on average respectively financed 2.8 and 2.0 times less to green companies than fossil fuels.

As part of their Net-Zero Banking Alliance membership, the banks have emphasized the importance of a public policy framework to guide the transition. Each of the big five banks has committed to, “engaging on...public policies, to help support a net-zero transition of economic sectors in line with science”.

Our analysis finds that none of the banks have publicly advocated for ambitious climate-related policy in Canada. In fact, the banks are primarily represented in financial policy matters by the Canadian Bankers Association, which emphasizes that Canada does not require climate-related financial regulation and that the transition should be dictated by the real economy.

Meanwhile, all five banks are members of industry associations blocking climate policy in the real economy, both in Canada and globally. These include the Canadian Chamber of Commerce and the Business Council of Canada, which have also advocated the expansion of Canadian fossil fuel production.

In closing, despite claiming to recognize the importance of banks' roles in the transition, it is clear that Canada's big five banks have taken little voluntary action to achieve their own climate commitments in the absence of climate-related financial regulation.

Thank you.

● (1545)

[*Translation*]

The Chair: Thank you, Mr. Van Acker.

For the Montreal Economic Institute, will Mr. Brossard be speaking or will the two of you share the time?

Mr. Renaud Brossard (Vice-President, Communications, Montreal Economic Institute): I will do the presentation, and then Ms. Wittevrongel and I will take turns answering questions.

The Chair: Perfect.

Go ahead. You have five minutes.

Mr. Renaud Brossard: Thank you, Mr. Chair.

Good afternoon, everyone.

I would like to start by thanking you for inviting us to discuss such an important topic.

At the Montreal Economic Institute, we are great admirers of a French intellectual named Frédéric Bastiat. He said that what distinguishes a good economist from a bad economist—

[*English*]

Mr. Shafqat Ali (Brampton Centre, Lib.): I have a point of order.

The Chair: Did somebody raise a point of order?

Mr. Shafqat Ali: There's no translation in English.

[*Translation*]

The Chair: We'll try again.

Can you hear the English interpretation of what I'm saying, Mr. Ali?

[*English*]

Mr. Shafqat Ali: Yes. I do now. Thank you.

[*Translation*]

The Chair: Please continue, Mr. Brossard.

Mr. Renaud Brossard: Thank you.

According to Frédéric Bastiat, the difference between a good economist and a bad economist is that the latter considers only the visible impacts of public policies, while the former also considers the foreseeable impacts. In the current conversation about climate and the financial sector, the visible things are major financial institutions, such as banks and insurance companies, and large publicly traded companies. Small and medium-sized businesses are less visible, but they will nevertheless experience impacts in a foreseeable way. We are here today to ensure that you, as legislators, do not forget to consider them as you're making your decisions.

Regulatory bodies and consultants are putting a lot of pressure on the financial sector to disclose environmental, social and governance information in the annual reports of publicly traded companies. These are known as ESG reports.

Today we'll focus on one component of these reports, the environmental component, which always includes calculations of scope 1, 2 and 3 emissions. To understand what that means, let's look at an aerospace parts manufacturer at Mirabel. That manufacturer has to start by measuring the direct emissions from their manufacturing process. Those are scope 1 emissions. Then, it has to account for the emissions generated by operating its facilities: heating, cooling, electricity and so on. Basically, what that means is that the manufacturer has to ask Hydro-Québec what the carbon intensity of its electricity production is. Those are scope 2 emissions. Finally, the manufacturer must calculate and report emissions associated with its products for their entire life cycle, from supplier to consumer, until they reach the end of their useful life. That includes all emissions, from the mine where the bauxite was extracted to the use of the plane, to the recycler where the plane ultimately ends up at the end of its useful life. Those are called scope 3 emissions.

We're interested in the fact that scope 2 and 3 emissions are obviously counted twice because they refer to another company's scope 1 emissions, as well as the cost and complexity of the calculations.

Although the Office of the Superintendent of Financial Institutions, OSFI, did not see fit to estimate what this would cost Canadian SMEs, the U.S. Securities and Exchange Commission estimated that it would cost between $490,000 and $640,000 U.S. to implement these processes in SMEs in the first year. I don't know if you know a lot of small business owners, but I can tell you that the ones we talk to don't have that kind of money sitting in their bank accounts to pay an army of ESG consultants.

Some people say that small businesses would not be affected, because these requirements would only apply to publicly traded companies. The thing is, hundreds of SMEs are listed on the Toronto Stock Exchange, so they would be affected, and a number of other businesses would be indirectly affected.

To fully understand how these companies would be affected, let's revisit our aerospace parts manufacturer. This company might be an SME, but it's more likely to be a large manufacturer, such as Bombardier. The company's business relationships depend on the price, quality and reliability of its products. That's how it stays competitive. However, when Bombardier has to report on its scope 3 emissions, it will have to obtain that data from its suppliers, who will then have to request it from their own suppliers. As a result, even if SMEs are not directly targeted by these regulatory requirements, they may still have to pay the price and comply in order to keep their corporate customers.

As you study the relationship between finance and climate, we encourage you to keep in mind how many of the restrictions meant for big business end up having an indirect and disproportionate impact on SMEs, despite your best intentions as legislators.

Thank you.

● (1550)

The Chair: Thank you very much.

Mr. Deltell, you're going to start us off today. You have the floor for six minutes.

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

Colleagues, it's always good to see you.

Ladies and gentlemen, welcome to your Canadian Parliament.

We all know climate change has real consequences that we have to deal with. Our common goal is to reduce pollution and emissions to ensure a better future for our children. We each have our own ideas about how to achieve that objective.

I want to start with Ms. Bak.

You delivered the first words of your speech in impeccable French, so allow me to speak to you in French.

You said that companies that disclose their information are six times more efficient and generate six times more sustainable revenue than those that do not. I would just like to know how you came up with that figure.

Do you look at all industries and all companies of all kinds, or do you categorize them? I would imagine that a high-tech company is likely to have a much lighter environmental footprint than a company that produces, say, iron for very specific parts. Did you distinguish between those types of companies?

Ms. Céline Bak: We use a database that includes data on sustainable investments from all sectors of the economy. What we see across all sectors is that the sustainable investments made by companies that disclose their scope 1 and 2 emissions are six times greater than the sustainable investments made by companies that don't disclose their scope 1 and 2 emissions.

● (1555)

Mr. Gérard Deltell: So you're comparing apples to apples. You don't have a separate category for high-tech companies.

Ms. Céline Bak: Absolutely, we're comparing apples to apples, internationally and domestically.

Mr. Gérard Deltell: How do you calculate emissions?

Let me clarify. As we all know, this is, in a way, a productivity issue. If a company increases its productivity, it can increase its efficiency while lowering its carbon footprint. Let's say it normally takes a company four hours to produce something. If it can boost its efficiency and reduce production time to two hours, it can double its daily production.

Do you calculate the carbon footprint per unit produced or for everything produced in a day?

Obviously, if a company doubles its output, its total footprint will be larger. However, if its doubles its production rate, it will be much more efficient.

As such, how do you calculate a company's efficiency and carbon footprint?

Ms. Céline Bak: In the second part of our research, we simply looked at emissions divided by revenue. It's standardized by sector.

I think that answers your question. Carbon emission efficiency is calculated on the basis of a firm's total economic activity.

Mr. Gérard Deltell: My next questions are for Mr. Brossard, from the Montreal Economic Institute.

Good afternoon, Mr. Brossard.

The Montreal Economic Institute is located in Quebec. Every year, HEC Montréal publishes figures about energy in Quebec. According to figures published early this year, Quebec consumed 19 billion litres of fossil fuel over the course of the previous year, which was a 7% increase. As long as we need fossil fuel, it will have to be produced somewhere.

To your knowledge, if banks are ever asked to stop supporting the Canadian energy sector, what will happen to our producers, who help supply the 19 billion litres of fossil fuel consumed annually by eight million Quebeckers? As I mentioned, consumption is on the rise. What could happen to those companies if banks are no longer allowed or invited to finance them?

Mr. Renaud Brossard: For starters, financing costs for these Canadian companies may increase, because they'll lose access to stable funding from a good source that wants to finance them.

Such a measure will likely change absolutely nothing for Canadian fossil fuel consumption, because people still need to get to work and put gas in their vehicles regardless of whether that gas is produced here or elsewhere.

This kind of measure would bring a lot of economic pain and very few environmental gains, as we like to say.

Mr. Gérard Deltell: Let's remember that, in Quebec, demand rose by 7% in one year. People need fossil fuels all year, every year.

Mr. Brossard, there's mandatory disclosure and voluntary disclosure. What is your opinion on that?

Mr. Renaud Brossard: We have absolutely no opinion on voluntary disclosure. In fact, we think companies that are prepared to disclose their numbers on their own to do so because they think it will benefit them. If they decide to disclose, so much the better.

In our view, mandatory disclosure is problematic, because it would impose significant costs on businesses. The main problem, as we explained in our presentation, is that these costs would be passed on to the companies' suppliers.

We know that Canada has a productivity problem. Productivity is declining, and that has a direct impact on our standard of living. We also know that we're having trouble attracting the investment we need to boost productivity.

Let's contrast that with our neighbours to the south. The U.S. Securities and Exchange Commission examined scope 1, scope 2 and scope 3 emissions disclosure and determined that scope 1 and scope 2 emissions should be disclosed, but it wasn't prepared to require scope 3 disclosure, which is the most expensive.

The Chair: Thank you.

Mrs. Chatel, you have the floor.

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

Thank you to the witnesses. I welcome them to this very important study on green finance. The committee has already held a few meetings on the subject, and we understand that Canada is lagging behind. As such, we need to do more if we want Canada to remain competitive in all sectors.

Ms. Bak, your study is very interesting. It shows that Canadian companies that invest in disclosure and transparency to their investors earn more revenue than other companies.

Can you elaborate on that? Is that true for all sectors?

I'm really interested in that data.

● (1600)

Ms. Céline Bak: Our analysis looked at all the companies in Canada that we could identify that have made sustainable capital investments.

In 2019, the sustainable capital investments made by companies that, coincidentally, disclosed their emissions were, on average, six times higher than those made by companies that did not.

We also found that, three years after those investments were made, those same companies had sustainable revenues that were almost six times higher than those of companies that had not disclosed scope 1 and scope 2 emissions.

Mrs. Sophie Chatel: That's impressive, Ms. Bak.

It means that if the Canadian government moves forward on taxonomy and disclosure for businesses, the economy will keep growing. Actually, we're going to stimulate growth in our businesses.

Ms. Céline Bak: The past is no indication of the future. Obviously, that's a political decision. The government must take a stand.

Our research nevertheless gives us a perspective suggesting that companies that publish disclosures have the opportunity to compare themselves to their peers in terms of their carbon intensity and, potentially, the proportion of their capital investments aimed at growing the sustainable qualities of the company.

One of the witnesses talked about the fact that Canadian SMEs are part of global production and value chains. By publishing these disclosures, they can understand how they compare to their peers in terms of carbon intensity. In other words, we're comparing apples to apples. The management teams then decide on the investments they want to make to try to find markets that would be profitable for them.

So it's circular: After disclosure, investment decision-making leads to new business and, as a result, it can lead to more investment.

Mrs. Sophie Chatel: Thank you very much.

I note that disclosure does come at a cost to businesses. However, there is a cost to inaction as well, and that is lost investment and opportunity. So it's very important to analyze the issue as a whole.

Speaking of small and medium-sized businesses, I will now turn to Ms. Goodman.

Earlier, you and another witness talked about the importance of considering small and medium-sized businesses. You cited OECD data and examples. We're not the only ones making the green transition. Several countries are also moving forward and achieving excellent results. I think we need to adopt best practices.

Can you tell us about best practices for supporting SMEs in the transition, so that they don't miss the opportunities we were talking about earlier?

[*English*]

Ms. Faith Goodman: Thank you for the question.

As I think some of the other panellists mentioned, the global rules for sustainability are bearing down on supply chains.

As everyone knows, the EU has tabled its frameworks and models. For SMEs that are part of global supply chains, the idea of disclosures, of sustainable investing and getting ready, is a *fait accompli*. It's here. As was mentioned by some of the other panellists, it's about scope 1, scope 2 and scope 3.

The point I was making was that SMEs make up such a very significant, material portion of Canada's GDP in their in-aggregate contribution to greenhouse gases. It's close to 50% of business greenhouse gases. We have to find solutions that are fit for purpose for all sizes of firms.

● (1605)

The Chair: We'll have to stop there.

Madame Pauzé is next.

[*Translation*]

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

I'd like to thank all the witnesses for being with us, both in person and remotely.

Ms. Bak, since we don't have a lot of time, can you give us a quick overview of the best policies put in place internationally from which Canada could draw inspiration? It could be legislation, it could be regulation. According to what Mr. Van Acker said earlier, we don't seem to have such measures.

Ms. Céline Bak: I will stick to the results of our research, which provide a certain perspective.

On the one hand, disclosures are associated with a greater tendency to invest. On the other hand, carbon intensity performance in a number of sectors is now associated with better value added by the capital markets. Different countries have policies that can support these two conditions. I will leave it to the government to take note of those policies.

Ms. Monique Pauzé: What can you tell us about the importance of predictable regulations? I think that, for a business, that's very important. Can you speak to the positive impact that predictability can have when economic actors implement ESG policies?

Ms. Céline Bak: Predictability is an important concept in this environment, which is evolving and complex.

In our research, we've observed that it's often in sectors where regulations have already been in place for some time that businesses with the best carbon intensity performance also find the best value. So those two things go hand in hand.

Ms. Monique Pauzé: Thank you.

Mr. Van Acker, earlier you painted a rather bleak picture of what Canada isn't doing. You talked about what Canadian banks aren't doing compared to what's happening internationally.

I understand that your organization, InfluenceMap, is very credible and that it conducts major studies. In your 2024 report, “Canada's Big Five Banks: Heading to Net Zero?”, you note that Canadian banks are failing to put in place credible climate strategies. That's like saying we're unable to do it in Canada, but other countries are able to do it.

Can you please describe the various ways Canadian banks choose to present the action they are taking in relation to their products and policies?

[*English*]

Mr. Daan Van Acker: Sure. Thank you.

We've seen some level of integration of climate factors into the banks' disclosure and their top-line processes. This is in parallel with these top-line net-zero commitments that they've set. However, this seems to be relatively limited to setting high-level board and management oversight and disclosing some risk management practices. We're not really seeing this carrying through when it comes to having concrete metrics and transition plans that would credibly align the banks' activities with net zero.

Then, going even further into the actual financial activities, while I think I described those in detail earlier, there we see a big level of misalignment with how the banks are financing the economy and a potential net zero by 2050 pathway. The Canadian banks really underperform their U.S. and European peers in this regard.

● (1610)

[*Translation*]

Ms. Monique Pauzé: I'm sorry, Mr. Van Acker, but I couldn't hear the last bit of your answer. Could you say it again?

[*English*]

Mr. Daan Van Acker: Sure.

I said that in terms of looking at the actual financing activities—truly, the lending and investment activities of the banks—no, we are not seeing the level of climate ambition we would expect, compared with their own top-line commitments. They're really underperforming compared with international counterparts who have set similar commitments.

[*Translation*]

Ms. Monique Pauzé: If I understand what you're saying correctly, the banks have climate commitments, but they're not credible because they are unable to meet their commitments.

Is there a lack of transparency? What's the reason behind all this?

[*English*]

Mr. Daan Van Acker: There's a transparency question here. Certainly, having increased transparency within the economy on the corporate side can aid in driving green and transition financing. However, there also seems to be traditional or continued action by the banks regarding their existing relationships with problematic industries and financing polluting companies.

In that sense, we're seeing other banks, even in regions where we have similar levels of transparency in the economy, financing more green companies and transitionary companies alongside their continued activities.

The Chair: Thank you.

We'll go now to Ms. Collins.

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

My first question is for Ms. Bak. I'm following up on a question from my colleague from the Bloc.

You talked a little about consistency and predictability. Can you talk about how legislative and regulatory measures can help companies that might be hesitant to pull the trigger when it comes to ESG policies?

Ms. Céline Bak: This is an evolving space, and I think it is a complex one for companies to navigate. There is, I believe, an important consideration for any company: what their competitors and peers are doing. Once the CEO, board or management team of a company sees a certain practice being adopted by peers, it is relevant. That may happen by region, by sector or by other types of dimensions as well.

Ms. Laurel Collins: Thank you.

My next question is for Mr. Van Acker.

You painted a bleak picture of the gap between the net-zero pledges of Canada's biggest banks and their progress towards meeting their goals.

When we think about what elected officials and governments can do to get the biggest banks on track, what's the role of climate transition plans, and what steps would we need to take to make sure those kinds of strategies or others are implemented?

Mr. Daan Van Acker: That's a great question and obviously a critical one for governments.

I'll preface this by saying that our expertise is mainly on the financial research side. I'm not as much a policy expert.

However, based on what we're seeing globally, obviously transition plans are key and governments can play a critical role in helping guide the financial sector—which includes banks—in aligning their financing with net zero and, as such, facilitate that activity in the real economy. A key part of that is increased transparency and disclosure, defining what sustainable activities are and aren't, and how corporations and the financial sector are aiding in financing that activity.

That can be a key role governments can play in aiding transition plans.

Ms. Laurel Collins: Thanks.

I was also interested in some of what you were talking about when you were discussing the lobbying of the biggest banks—what organizations they're taking part in and what lobbying they are or aren't doing.

Can you expand a bit more on the lobbying that's taking place, the political advocacy from Canada's biggest banks and how this behaviour might undermine those pledges for net zero?

● (1615)

Mr. Daan Van Acker: Yes, absolutely.

In general, within the financial sector, we see less direct lobbying by financial institutions. What I mean by that is that they are not, themselves interacting as much with policy. Rather, they seem to rely on industry associations, more and more, to do this on their behalf.

The Canadian banks are no exception to this in both the financial and real economy industry associations I mentioned. While the banks themselves state that they would support a public policy framework to guide the transition and that this is essential, the lobbying seems to undermine that. Blocking and diluting climate policy, both in the real economy and when it comes to financial regulation, are obviously not aligned with the pathway to net zero by 2050.

Ms. Laurel Collins: It seems that the things you just said about the biggest banks could also be said about the biggest oil and gas companies in Canada. We're seeing those organizations lobby themselves, but they really rely on industry organizations to do a lot of their lobbying for them. They publicly might say they support a transition to a sustainable economy, but then actively engage their industry organizations in lobbying against those kinds of policies.

We also see that the people involved at the top of these organizations—the biggest banks and the biggest oil and gas companies—are often interchangeable. They move from company to company.

Can you talk about the interaction between the biggest oil companies and the biggest banks in Canada?

Mr. Daan Van Acker: This is a particularly relevant question in Canada.

Based on our report, the figures I cited show that Canadian banks' exposure to fossil fuels in their lending activities is so much higher than in many of the other economies that we analyzed. Obviously, Canada has a significant fossil fuel sector. A significant portion of that lending we're seeing, this high proportion going to fossil fuel companies, is specifically to domestic Canadian oil and gas companies. It does seem that there are significant links between the Canadian banking sector and the fossil fuel sector.

Ms. Laurel Collins: I wonder about the conflict of interest if the folks at the top of the biggest banks in Canada are using industry organizations—

How many seconds do I have left?

The Chair: You have about 30.

Ms. Laurel Collins: Okay.

If they are using industry organizations to undermine climate policy and have these deep interconnected ties to oil and gas, what kind of advice might you give to policy-makers to address this issue?

The Chair: It would have to be brief advice.

Mr. Daan Van Acker: My advice would be for increased transparency and disclosure around lobbying in general, connections to industry associations and alignment with positions.

[*Translation*]

The Chair: Thank you.

I'm going to ask Mr. Kram to start the second round of questions. It's going to be a four-minute round. I will give Ms. Pauzé and Ms. Collins two minutes.

[*English*]

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

Thank you to all the witnesses for joining us today.

Let's start with you, Ms. Goodman, because I believe you were the first one to bring up small and medium-sized businesses.

Is there currently a federal government program to provide rebates on the carbon tax to incentivize small businesses to make their businesses less emissions-intensive?

Ms. Faith Goodman: There's a whole range of federal government programs and certainly a range of tools that exist. Also, as everyone knows, for SMEs, there are Crown corporations like EDC and BDC that also have a range of programs.

The point that I was really raising at the heart of the matter, as we think about transition financing, climate policy and this balanced approach for economy, environment and society, is that SMEs don't get left behind. In aggregate, their footprint matters. In aggregate, from a GDP standpoint, they really matter.

As we look at what other countries are doing, in particular for SMEs—their institutions, their tool kits, their digitization—we see that these are important considerations for us. We think about policy, policy development, policy implementation, and I was homing in on experimenting. What are other countries doing? What lessons learned are there for Canada? We don't need to wait. There's a lot that we can do.

Tangentially, I also mentioned the SME Finance Forum, which is part of the World Bank. They've done tremendous global studies on access to finance, access to markets, access to skills, and enabling environments. There are very concrete ideas on what can be done now.

There's an opportunity for the federal government and for provincial governments to work cohesively on this SME challenge, and it is material.

● (1620)

Mr. Michael Kram: Do you have any specific recommendations for changes to existing federal government programs with respect to the carbon tax and green initiatives for SMEs?

Ms. Faith Goodman: One of the big opportunities for all governments is looking at what jurisdictional best practices are relating to access to financing. As we talk about transition policy, we look at this huge cohort of SMEs and entrepreneurs who need to think about the global rules bearing down on them, such as supply chain sustainability rules.

Competitiveness matters. To be competitive, you're going to look at your peers and you're going to need financing. As we all know, access to low-cost financing is a competitive advantage. That is a very important area for us to think about.

As SMEs over the last few years have moved more into the sustainability agenda, as I said, they cite problems with resources, such as access to talent, access to time, access to funding, as a big impediment. That would be a spotlight area I would recommend.

Mr. Michael Kram: Thank you.

Let's go to Mr. Van Acker now.

Mr. Van Acker, you talked about how the big five banks in Canada are still financing coal companies and oil and gas companies, presumably because these are profitable ventures. I am wondering, if the big five banks were to stop financing oil and gas and coal companies, what impact that would have on them in terms of lost profits and lost revenue.

The Chair: You have 10 seconds.

Mr. Daan Van Acker: It's a great question. We don't recommend that they stop financing immediately. We simply recommend that they align their phase-out, as many banks are doing, with science-based pathways.

The Chair: Mr. Longfield, go ahead for four minutes.

Mr. Lloyd Longfield: Thank you, Mr. Chair.

Thank you to the witnesses.

In the brief amount of time we have, I want to start with Ms. Goodman.

I was formerly part of an SME, and I had to report environmental information back to my board of directors. I was managing director of a Canadian division of a U.K. company. We had to report on energy conservation that we were doing, as well as on water treatment and waste stream management, in order to make us more competitive globally, but also, as you said, to be part of a supply chain that needed us to show that we were doing these activities.

I'm wondering how, in terms of policy, we could enact something such that SMEs would have to do surveys similar to the ones I was doing for my U.K. head office. Would that be through Stats Canada?

Ms. Faith Goodman: One of the jurisdictional lessons learned is that in leading countries, there are opportunities for SME frameworks that can guide SMEs with respect to what they need to report on. Again, these are voluntary. However, if an SME is not part of a supply chain, there are voluntary opportunities.

I think what's important and what maybe also underpins the theme of your question is that as global rules do become clear—and even in the case of Canada, we have the ISSB and the Canadian Sustainability Standards Board rules unfolding—scope 3 is in front of us. As SMEs look at what they need to do, getting ahead of this and planning their investment horizon and accessing capital will be very important considerations.

Mr. Lloyd Longfield: Thank you.

You talked about certainty. When we see, politically speaking, the Conservatives saying they want to axe the carbon tax and we look at what impact that could have on businesses that are trying to compete globally in a market that's asking for evidence of going towards net zero, there's a conflict there. Could you comment on that?

Ms. Faith Goodman: I think, as I alluded to in my original comments, that when SMEs think about competitiveness, it's often global competitiveness and the linkages to the supply chains in which they operate. I think the way I would really look at this issue is to ask what the road map is for access to financing, access to markets and access to skills and knowledge and an enabling environment, a digitized environment.

I think all those levers together roll up with respect to how SMEs are eventually going to have to participate in moving this agenda forward. I think it's a complicated issue, but my preliminary comments really homed in on how we can't forget about SMEs; they're an important cohort.

● (1625)

Mr. Lloyd Longfield: Absolutely. Thank you for that.

Ms. Bak, I'll turn it over to you.

I think of quality management systems. When the ISO 9000 was introduced, and then ISO 9001 and ISO 14000, businesses looked at those as costs, but ultimately they saw that there were financial benefits as well as supply chain benefits. Is there a parallel situation here in terms of accountability and transparency in carbon markets?

The Chair: You have 20 seconds.

Ms. Céline Bak: Our research suggests that there is, and that the number of sectors in which the capital markets are rewarding greater GHG productivity is already substantial, and it could grow over time.

[*Translation*]

The Chair: Thank you.

Ms. Pauzé, you have the floor for two minutes.

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

I have a question I'd like to put to the three witnesses who are here. We have two minutes for everything.

When we started this study, I talked about how Canada is lagging behind other countries. Things picked up in Europe shortly after the Paris Agreement; it's Europe and it's a federated exercise.

In your opinion, what are the obstacles on Canadian ground? What's at stake for Canada if we delay putting in place a robust regime that aligns the financial system with our national objectives?

I would ask Mr. Van Acker, Ms. Bak and Ms. Goodman, in that order, to answer the question.

[*English*]

Mr. Daan Van Acker: Climate change risk has significant financial risk, be it transition or physical, for the financial sector. If the Canadian system does not adjust and falls behind other economies in adjusting to this transition risk, we could certainly see significant financial costs associated with that.

Ms. Céline Bak: Our research suggests that the cost of capital for companies that are performing better than their peers is lower because their valuations are higher. Therefore, if further delays occur, it's possible that the cost of capital for Canadian companies that are not leaders will increase.

Ms. Faith Goodman: Certainty and clarity for the cohort I was talking about earlier, SMEs, are important, as are a level playing field and a fit-for-purpose set of solutions. However, I also referenced that it's more than that: It's also the institutions that govern the policies and the implementation, how we experiment and how we leverage global jurisdictional best practices and bring them here.

Competitiveness matters and access to low-cost capital matters, but it's a lot more than just financing.

[*Translation*]

The Chair: Thank you.

[*English*]

Ms. Faith Goodman: I also mentioned digitization and AI. They're huge enablers.

The Chair: Thank you.

Ms. Collins, you have two minutes.

Ms. Laurel Collins: Ms. Goodman, if you want to take another 15 seconds to finish your thought on certification and AI, you can.

Ms. Faith Goodman: I mentioned the work of an entity called the SME Finance Forum, which is part of the World Bank, as just one of many. It's done some really great work on understanding globally which jurisdictions are ahead and how they've helped key segments of the economy, like SMES, for example. It's looked at countries that have moved quickly on digitization and certification.

There really is a link between smart policy, the digital environment and the institutions—the public-private partnerships—that also enable it. I mentioned the puzzle piece in my earlier remarks. It really is a lot more than just the financing piece. It's all of the above.

Ms. Laurel Collins: I'm curious about the difference between certifications by non-profits, like a B Corp certification, compared to rules and standards set by the government.

I'll go to Ms. Bak first and then to Ms. Goodman, if you have answers about either of those things.

● (1630)

Ms. Céline Bak: Certification isn't an area that I'm an expert on, so I'm going to pass on that one. Thank you.

Ms. Faith Goodman: In the earlier question you asked me, we were talking about digital certification, in other words, as distinct and apart from a benchmark. Are benchmarks important? Ultimately, absolutely, because they enable any SME or any company to know how it fares against its competitors.

You asked about B Corp and other models. There are a plethora of models globally. When I referenced “fit for purpose”, what I was really drilling down to is that for a variety of benchmarks, accreditations—

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

Ms. Faith Goodman: —and certifications, it depends on the sector and the size of the firm.

The Chair: We're going to have to go to Mr. Leslie for four minutes.

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

I'll start with Mr. Brossard.

A paper written by your institute stated that if businesses have to disclose ESG information or sustainability reports, it will “artificially create winners and losers”. It went on to say that “Many entities lack sufficient resources to be able to fully comply, especially small and medium-sized enterprises.” In your opening remarks, you also mentioned that the U.S. Securities and Exchange Commission estimates that a similar disclosure proposal in the United States would cost between $490,000 U.S. and $643,000 U.S. for the first year of compliance, although some believe those costs may actually be substantially higher.

Could you please outline for us, with as much precision as possible, what these costs actually are, how they are downloaded to the business and whether they will stay with that business or be passed on to customers and consumers?

Mr. Renaud Brossard: Absolutely. Thank you for the question.

In terms of what those costs are, a lot of it them will be for consultants and a lot of them will be for time. Because not a lot of small businesses have the expertise in house to be able to do that sort of accounting, they will need to hire some consultants to be able to walk them through those different steps. They'll then need to have some proper measuring of their processes put in place so that in the future, they will know roughly what every activity emits in terms of emissions. Essentially, it's consulting fees.

I'm sorry. I don't remember the second part of your question. Can you remind me?

Mr. Branden Leslie: Sure. It was just on whether or not that business will eat the entirety of those costs or if you can anticipate that they would be passed on to their customers further down the supply chain and/or directly to consumers.

Mr. Renaud Brossard: Quite simply, a significant part of any cost that's imposed on the business gets passed on to consumers. Part of it gets passed on, of course, to the owners of the business, who get a little bit less profit, but usually they find a way to jack up prices so that it can then be passed on to consumers.

Mr. Branden Leslie: You mentioned consultants. I've heard the conversation around the table today regarding SMEs, many of which do operate on a global scale or at least North American scale, and many of which also might make the thing that's sitting in front of me here. It might be entirely domestic. They may be a very legitimately small enterprise.

You mentioned the capacity limitations, but it seems as though this is largely just a cottage industry of consultants who are putting together ways to audit things when ultimately, to me, it's very nebulous as to whether or not it will reduce emissions.

Do you feel that this is a pathway to actually reducing emissions in any significant way?

Mr. Renaud Brossard: I don't think it's a pathway to actually reducing emissions in any significant way, other than by imposing undue costs on small businesses and having enough of them shut down.

The fact is that when businesses were consulted about this, a lot of small businesses said this was not something that should apply to them. Of course, the consultants who would be in charge of making those reports are typically very much in favour of getting extra business.

In and of itself, voluntary disclosure of the different scopes of emission is not a bad thing at all. It can be a good thing, and that's why some businesses choose to do it, but mandatory disclosure would be very, very costly for the many small businesses that would be subject to it or that would be in the supply chains of other businesses that are subject to it.

Mr. Branden Leslie: Is it fair to state that voluntary disclosure is a good thing for perhaps a competitive advantage, but mandating it across the board for all SMEs and large companies is more of a cost than it is a benefit to Canada?

The Chair: Please give a very brief answer.

● (1635)

Mr. Renaud Brossard: Absolutely.

The Chair: Ms. Taylor Roy, take us to the end of this panel.

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

The Chair: I caught myself there.

Ms. Leah Taylor Roy: There's been a lot of discussion about the necessity of disclosures and whether companies should disclose or not, but it seems to me that the horse has left the barn. It's necessary to have disclosures, to have the clarity and the certainty that our companies need, for many reasons.

Every one of the witnesses has alluded to different things: The cost of capital increases if you don't have disclosures; markets might disappear, especially if it's part of your supply chain; on profitability, returns might be lower. It seems to me that the conversation is really about how we help companies to efficiently, in a way that doesn't overburden them, actually meet these requirements.

Ms. Goodman, you talked about some of the best practices that come from one of the World Bank forums on small and medium-sized enterprises. Do you have any examples of tool kits or the use of AI or digitization that will help these small and medium-sized enterprises to disclose their emissions and go in the right direction?

Ms. Faith Goodman: As global rules unfold, as I said, supply chains increasingly will need to deliver on sustainability—the E, the S, the G. It's already here. Certainly the EU is leading that agenda.

I'll use the SME example. There is a key piece of their mindset that we need to think about as we think about policy.

First, absolutely, are they aware that it's a competitive advantage for them to participate? Then do they have the skills, the knowledge and the expertise to begin the journey? How do they carbon count? How do they carbon count remotely? How do they build their ESG road map that would fulfill the obligation of the supply chain globally that they're in? Once they've built their ESG road map, how do they build their pro forma and decide on what the decarbonization technology is?

Then, where do they get the capital? What is the price of that capital? If they don't have a good asset base or a historical revenue stream, the bank might not give it to them. What are the mechanisms?

When I talked about the work of the OECD and the SME Finance Forum, what I was really talking about was the opening up of options and tool kits around that entire spectrum. We were talking earlier about benchmarks—

Ms. Leah Taylor Roy: Ms. Goodman, I have only a couple of minutes, I know. I don't want to interrupt, but that's really great advice, and I know where we can go with that. Perhaps we can follow up on that.

The second part I wanted to talk about was a comment that a member opposite, Mr. Deltell, made regarding the use of fossil fuels in Quebec, and the fact that it's increasing and that if our banks don't fund the fossil fuel companies, we're going to have to import more fossil fuels from other countries.

I'm wondering, with the border adjustments that are happening now and the obvious need for a decline in the use of fossil fuels as financing is restricted globally, whether the price on pollution program that we have in Canada is not necessary to have in conjunction with sustainable finance, so that at the same time that capital is restricted, demand is also going down for the fossil fuels, so we don't have this kind of disconnect at the end as was described.

Can anyone comment on what you think of that, of how those work together?

Ms. Faith Goodman: I'm not going to comment specifically on that as it's not my area of expertise, but I think all of us alluded to the idea of clarity, certainty and a level playing field. It is a globally competitive environment for all sizes of firms, and so the idea is that whatever the forward policies are, they do provide all sizes of business with certainty, clarity, transparency—

The Chair: Thank you.

Ms. Faith Goodman: —and a level playing field that's fit for purpose.

[*Translation*]

The Chair: That brings us to the end of our first panel.

I want to thank the witnesses for being with us today to share their point of view.

Thank you to the members of the committee for their excellent questions.

We'll take a short break to welcome the second panel of witnesses.

● (1635)

_____________________(Pause)_____________________

● (1640)

The Chair: I'd like to welcome our witnesses for the second half of the meeting.

We're pleased to have Senator Rosa Galvez with us. She has a bill before the Senate that relates to the subject of our study.

Senator, the floor is yours for five minutes.

Hon. Rosa Galvez (Senator, Quebec (Bedford), ISG): Thank you very much.

Mr. Chair, members of the committee, it's an honour for me to have the opportunity to discuss with you climate and environmental impacts related to the Canadian financial system.

As you know, climate change is accelerating at an alarming rate, and it's already having a devastating impact on Canada's economy and financial stability.

As funders of economic activity, financial institutions are on the front lines of climate risk. The insurance sector is particularly vulnerable and yet it continues to finance fossil fuels. Canadian pension plans have increased their investments abroad, particularly in clean energy, while investments here in Canada have stagnated.

Between 2020 and 2022, Canada's big five banks increased their exposure to fossil fuel financing from 15.5% to 18.4%, more than twice that of their European and U.S. counterparts.

Risky fossil fuel investments by our financial institutions are a clear risk to the climate and they are fuelling the climate crisis. Consideration of both the impacts of climate change on our financial institutions and the impacts of financial institutions on climate change is called double materiality. I encourage the committee to explore this concept as part of its study.

While Canadian banks have committed to net zero by 2050, a recent report shows that the big five banks favour fossil fuel investment over clean energy 3.9 to 1. In contrast, global energy investment favoured clean energy over fossil fuels by a ratio of 1.7 to 1. Canada is at odds with global trends.

The Canadian government provided over $18.55 billion in public financial support to fossil fuel companies in 2023 alone, in direct contradiction to its climate commitments and against healthy and free markets.

Despite their net-zero commitments, Canada's public and private financial institutions are increasing their support for fossil fuels. Relying on voluntary measures won't help us achieve our objectives. In fact, these companies are unreliable and are constantly at risk of backsliding, as demonstrated by BMO, which recently revoked its anti-coal lending policies to satisfy the political ideology of the state of West Virginia.

We need to use our parliamentary responsibility to design a financial system that aligns with the public interest and, through legislation, provide a level playing field for all financial institutions in the transition to a low-carbon economy.

● (1645)

[*English*]

I made such a proposition with Bill S-243, the climate-aligned finance act, or CAFA for short, introduced in the Senate in 2022 and currently being studied by the Senate committee on banking. Some actions proposed in CAFA might help inspire your committee study.

CAFA would establish a duty for directors of financial institutions and major Crown corporations to align with climate commitments. In 2019, the expert panel on sustainable finance recommended that the Canadian government clarify that fiduciary duty does not preclude the consideration of relevant climate change factors and that international best practices increasingly require such considerations.

Through annual reporting requirements, CAFA would compel federally regulated corporations, financial institutions and major Crown corporations to develop much-needed action plans, transition plans and progress reports.

CAFA would align market supervision by the Office of the Superintendent of Financial Institutions with climate commitments. It would consider the need for capital adequacy requirements that are proportional to the macroprudential climate risks generated by financial institutions.

It would require the appointment of at least one individual with climate expertise to the boards of Crown corporations, as well as prevent conflict of interest associated with the appointment of individuals who have private interests linked to fossil fuel companies. Today, seven out of Canada's 11 largest pension funds have at least one board member who simultaneously serves as a director or executive of a fossil fuel company.

CAFA would require the publication of a government action plan to help align financial products with climate commitments.

Mr. Chair—

The Chair: I'm sorry, Senator, but we're going to have to stop there.

Hon. Rosa Galvez: Thank you. *Merci*. *Meegwetch*.

The Chair: Thank you.

There will be opportunities to elaborate.

We now have Professor Bruce Pardy, from Queen's University.

Professor Pardy, you have five minutes for your opening statement.

Mr. Bruce Pardy (Professor of Law, Queen's University, As an Individual): Thank you, Mr. Chair.

If your objective were to prevent Canadian businesses from succeeding in the global economy, how would you do it? Here are some ideas.

You could impose taxes on your businesses and consumers of a type that other nations do not have. You could create regulatory barriers that prevent projects from being built, while other countries with rich natural resources and terrible environmental records beat us to the punch. While you're at it, you could sign on to international obligations that these other countries do not share. Finally, you could find a way to starve your primary industries of capital. That's the idea that you are exploring here.

You seem to be studying how to turn banks and other financial institutions, pensions and, ultimately, Canadian businesses themselves into climate agencies; to require them to disclose climate risks, like OSFI wants them to; to make banks impose climate standards on their customers; to have pensions divest their funds from climate laggards; and to limit or deny credit to companies based upon their compliance with government priorities. These are terrible ideas.

If you really wanted to reduce global carbon emissions, here are the first two things you could do.

First, unleash Canadian natural gas. Permit it to be developed, produced and exported without onerous regulation, red tape, carbon taxes and endless environmental assessment. Canadian natural gas could displace massive amounts of coal in China, India and numerous other countries that produce most of the carbon emissions on this planet.

Second, you could unleash nuclear energy. Unlike solar power and wind power, nuclear power is an actual substitute for fossil fuels, for generating electricity. It can produce base load, which solar and wind cannot do. You could do these things while enhancing Canadian prosperity. Instead, you seek to control and direct financial markets and the economy itself.

Free market economies are not managed. We don't really have free markets in this country. Instead, bureaucracies insert themselves into every facet of economic activity. Managerial governments seek to compel their preferred outcomes. That doesn't work.

Businesses don't need to be told to pay attention to risk; that's what business does. Competing in a commercial marketplace is the definition of risk. Publicly listed companies already have obligations to disclose material risks to their business. For most businesses, the biggest climate risk is not physical or environmental but governmental. It is the risk from changing regulatory demands that shift the legal ground beneath their feet. You represent their biggest risk.

Other natural resource countries are eating our lunch. Foreign investment is leaving. Per capita GDP is falling. Productivity is in the tank.

● (1650)

Canadians are becoming poor. Canadian prosperity is easily lost. We are seeing just how easy it can be.

Thank you.

The Chair: Thank you, Professor. You were right on time at five minutes.

We'll go now to research professor Ellen Quigley at the University of Cambridge.

You have five minutes.

Dr. Ellen Quigley (Research Professor, University of Cambridge, As an Individual): Thank you.

Hello. My name is Ellen Quigley and I am a research professor and special adviser to the chief financial officer at the University of Cambridge. However, I speak in a private capacity as an academic today.

It is after 10 p.m. my time, but it is well worth working late to have a chance to speak with you. I have one central message to share with you today, which is that we are behind, but we have the opportunity to lead.

I'll start with how we're behind. As a country, our emissions are still rising, while wealthy country peers, including the U.S., have seen significant decreases in recent years. Our major banks are substantially more exposed to fossil fuel financing compared with international peers, as has been mentioned, with figures ranging from 14% to 23% of total balance sheet exposure. These are eye-popping figures that regulators should already be concerned about. These numbers may be so high precisely because global banks and investors have already pulled out of Canada's oil and gas sector—Barclays and HSBC being two of the most salient examples—rendering it increasingly a provincial industry, quite literally, that is heavily concentrated in our own domestic financial institutions.

We should be asking ourselves why investors from other countries consider our reserves too risky and what level of concentrated risk we're willing to be left with.

On top of that, we face serious reputational harm on the international stage. I have to say that I am now embarrassed to be a Canadian working abroad, where we are increasingly—and, I'm afraid, justifiably—seen as a global pariah in climate terms.

Our negative climate impact is disproportionate and rising, but so is the financial risk to our country as a result. Our most significant increases in emissions come from oil and gas, and our oil and gas are relatively expensive, emissions-intensive and largely for export. That makes us vulnerable. Two peer-reviewed academic papers by former Cambridge colleague Mercure and co-authors find that Canada is particularly exposed to stranded asset risk by global standards, especially on a per capita basis.

However, as someone who was born and raised on the Prairies, I also worry about stranded workers and communities if we continue with fossil fuel expansion at this stage. These risks continue to rise without our ability to even account for them, because we don't yet have the necessary legislation and regulation in place to do so.

However, we have before us CAFA, which would allow us to leapfrog other jurisdictions and become the global leader in climate finance. CAFA is consistent with other jurisdictions' requirements—which will increasingly be necessary anyway, especially as EU regulation extends to a border adjustment mechanism—and interjurisdictional measures, while also going a step further to maintain and enhance Canada's reputation as a steady hand in this area. We're known for being a particularly skilled regulator of the banking system, and we are also the envy of the world when it comes to pension fund governance. CAFA would simply add to the perception that the world should look to Canada for financial sector legislation and regulation.

Yes, that's right: This legislation is going to make us look prescient to global observers in future years, because it recognizes climate as a systemic risk that must be attended to at a macro-prudential level. I say we will look smart if we do this now, but the flip side is also true: We will look like idiots if we fail to do this, as one of the most exposed economies in the world. I personally would love to see Canada leading again, and CAFA would make that happen.

Finally, here's a word about transition plans. I know the federal government is currently considering how to regulate disclosure, as noted in the recent fall economic statement, and anticipates presenting options on this. Defining and regulating credible transition plans should be a key part of this.

One of my own research strands involves analyzing the credibility of banks' and fund managers' climate targets and transition plans. In that work, I find so many loopholes and evasions that I've written a paper, soon to be published, that includes bingo cards to help people identify the most common ones. Transition plans are not worth the paper they're printed on unless they are regulated and standardized. Currently, the quality is simply not high enough to be usable by investors. CAFA would address this issue too, and is therefore likely to be imitated the world over.

As I said, we are currently behind, but CAFA gives us the opportunity to leapfrog to the forefront. In doing so, we would have a more robust framework in which to understand and prevent the systemic risks from climate change we currently face.

Thank you.

● (1655)

The Chair: Thank you.

I think we're going to have a lively and stimulating discussion this afternoon.

Last but not least, we have the superintendent of financial institutions, Mr. Peter Routledge.

Could you raise the boom on your mic a bit? Mr. Tardif, could you raise your boom, as well, please?

Go ahead. You have five minutes, Mr. Routledge.

Mr. Peter Routledge (Superintendent, Office of the Superintendent of Financial Institutions): Mr. Chair and members of the committee, thank you for inviting us to contribute to your study on environment and climate impacts related to the Canadian financial system. I'm joined by my colleague Stéphane Tardif, managing director of OSFI's climate risk division.

Parliament has assigned to OSFI a mandate composed of two basic principles: It asks OSFI to ensure financial institutions are in sound financial condition and to ensure they adequately protect themselves against threats to their integrity or security, including foreign interference. When institutions are at risk of falling short of these principles, we oblige management and boards of directors to take prompt corrective measures.

OSFI operates a principles-based regulatory model in which we articulate broad prudential principles to which we ask financial institutions to adhere. In contrast to many global peers, we do not impose rules on regulated constituents, preferring instead to issue guidelines that articulate sound principles aimed at protecting the creditors, depositors and policyholders. We believe our principles-based model produces better institutional resilience at a lower cost to our regulated constituents.

At OSFI, we see the risks posed by climate change on our regulated constituents as an emerging financial risk with uncertain and non-linear downside costs. As economies adapt to climate change, we also recognize that financial institutions will have opportunities to fund that adaptation and profit from that activity.

In pursuing our mandate, Parliament instructs OSFI to protect the rights of creditors, depositors and policyholders, having due regard to allow financial institutions to compete and take reasonable risks. To support sound management of the financial risks posed by climate change without unduly impairing pathways to profitable investments in adaptation, OSFI has undertaken a number of initiatives to encourage financial institutions to advance their capabilities in measuring and managing climate risk. Through in-depth empirical analysis, Canadian financial institutions can become early beneficiaries of sound climate risk management.

In closing, OSFI has an explicit mandate to contribute to public confidence in the Canadian financial system. This includes ensuring that the financial institutions we regulate are managing appropriately the risks that could impact their safety and soundness. Among these are the physical and transition risks associated with climate change. While OSFI does not have an explicit mandate to advance climate change objectives, our current mandate provides us with ample scope to take action to ensure the financial institutions respond to the opportunities and threats of climate change effectively.

Thank you.

● (1700)

[*Translation*]

The Chair: Thank you, Superintendent.

Mr. Leslie, you will begin the first round of questions. You have the floor for six minutes.

[*English*]

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

Mr. Pardy, in your opening remarks, you mentioned something along the lines of business leaders not needing to be told to pay attention to risk because, as any good business leader would, they are already doing that.

In your assessment, is there any evidence to suggest that pension funds or financial institutions aren't paying attention to those market dynamics and market risks, and that it is important that the government institute and impose new regulations on them?

Mr. Bruce Pardy: Not that I'm aware—

Mr. Shafqat Ali: I have a point of order, Chair. I can't hear anyone.

A voice: Neither can I.

The Chair: Are you saying that nobody can hear anything in either language, or is it the translation?

Dr. Ellen Quigley: The floor audio is muted.

The Chair: The floor audio is muted.

Is it on now?

A voice: No.

The Chair: Okay, we're going to start from the top.

Let's go. Mr. Leslie, it's your turn.

Mr. Branden Leslie: Thank you.

Mr. Pardy, in your opening remarks you alluded to the fact that good business leaders are already paying attention to what is going on in terms of market dynamics and in terms of risk.

Have you found any evidence that pension funds and financial institutions aren't paying attention to that risk or those market dynamics and that the government should or needs to impose new regulations on them?

Mr. Bruce Pardy: There are none that I'm aware of, no. The test of risk for a pension fund or a company is whether or not they're succeeding in the marketplace. If you are a pension fund and not paying attention to risk and your investments decline in value, then you're not doing very well. You didn't need government regulations to demonstrate that.

I think we're in danger of conflating two different kinds of risk. One is the risk to a company. That is the risk the company is in the business to manage. The other risk is the one you want to impose upon them, which is the risk of global climate change.

I'm not saying that's not a risk; I'm saying that you're trying to internalize it onto the companies instead of being governmental about it and establishing your own rules about it instead of trying to make them do it for you.

● (1705)

Mr. Branden Leslie: Do you think it's a risk when you have politicians playing around and meddling with CPP, which is our major pension fund and the biggest safety net that Canadians rely on across this country? Is that also a risk that we should be considering—the fact we are intentionally trying to starve out the financing of energy projects that have major implications for our country?

Mr. Bruce Pardy: I do, yes.

You're splitting the loyalties of the pension. You're trying to say that you want to provide returns to the people you're going to support in their old age, but you also want it to pay attention to something else. That, as often as not, is going to diminish the returns you produce for that first group of people.

The best policy is a straightforward one, which is that the pension should be able to pursue the best returns available. Those companies they're investing in are acting within the law. Government meddling just messes the whole thing up.

Mr. Branden Leslie: We've heard in previous testimony that these ESG investment strategies have broadly underperformed typical portfolios with more diversified strategies by more than about 250 basis points per annum over the past five years.

If this Liberal-NDP coalition decided to impose an ESG mandate on the CPP or any other pension funds in this country, it would cost Canadians potentially tens of billions of dollars in lost income and lost security for their retirement and their futures. In your assessment, is that an accurate portrayal?

Mr. Bruce Pardy: I don't have those numbers at my fingertips, but let me say this: I am not here to argue against a company deciding to take on certain kinds of priorities, to get certification or to adopt guidelines. I'm not suggesting that at all. As long as they decide to do that in the interest of the company, that's great.

What we're talking about is the government imposing mandatory rules. You're not allowing the company to make the judgment about the risk, about the investment, about the productivity or about the profit. You are making those decisions for them. The division is between voluntary and mandatory.

Mr. Branden Leslie: We've heard in previous testimony that rather than divestment, investment is the more prudent approach, particularly given the other nations that will provide these fuel or energy sources if Canada does not.

Is it fair to say that this approach is actually the exact opposite? Should we be investing in new, clean technologies to reduce our emissions of our particular energy sources, while simultaneously keeping that investment in Canada?

Mr. Bruce Pardy: As I alluded to, Canadian energy is actually a tremendous source of solutions for reducing global carbon emissions. It's not the main source of the problem; it could be a great source of the solution.

The fact is that we are knee-jerk about this and we think we shouldn't develop anything in this country. That is not what other countries are doing. Other countries that have natural resources are digging up lots of coal. In China and India....

I'm sure you've been told this. It's China in particular. China is far and away the largest carbon producer on the planet. Their obligations under the Paris Agreement are essentially non-existent. If we exported natural gas to China, the bang for the buck would be far greater than any of the provisions you are contemplating putting in place.

Mr. Branden Leslie: A number of years ago, there was a Supreme Court decision that stated, “directors owe a fiduciary duty to the corporation and only to the corporation”. Could a government-imposed ESG mandate on private companies conflict with their fiduciary duties?

Mr. Bruce Pardy: Absolutely. What you get are split loyalties, as I alluded to earlier. The way investors are protected in our economy is that the directors and officers—as you allude to—owe a fiduciary duty to the corporation. What the courts have said is that this fiduciary duty means that they must try to maximize the profit of the company for the sake of the shareholders.

The Chair: Thank you.

Mr. Bruce Pardy: If instead the government mandates a split loyalty and makes those directors and officers serve another master, then the—

The Chair: We have to stop—

Mr. Bruce Pardy: —fortunes of those investors will decline.

The Chair: We have stop there to go to Mr. van Koeverden.

● (1710)

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

Professor Pardy, I have a couple of quotes that are attributed to you here. I quote, “there is no rationale for Canada to have any emissions reductions targets of any kind.” Here is another quote: “Anthropogenic climate change theory is like a zombie. It won't die no matter the evidence.” Are those your quotes?

Mr. Bruce Pardy: I don't recall the second one, but the first one is definitely so, yes.

Mr. Adam van Koeverden: Do you believe that climate change is caused by greenhouse gas emissions from human activities?

Mr. Bruce Pardy: I'm not a scientist, sir. I'm a lawyer.

Mr. Adam van Koeverden: That's good; that was my next question.

Mr. Bruce Pardy: I am not here to debate science—

Mr. Adam van Koeverden: Okay, that's good; I'm glad.

Mr. Bruce Pardy: —or the scientific—

Hold on. Let me—

Mr. Adam van Koeverden: No, that's fine.

Mr. Bruce Pardy: Okay, that's fair enough.

Mr. Adam van Koeverden: My next question was whether or not you had any academic training in climatology or environmental science. You answered that question.

Gratefully, we have many experts here, so I'll go over to Dr. Ellen Quigley.

Dr. Ellen Quigley, do you believe that climate change is caused by greenhouse gas emissions from human activities?

Dr. Ellen Quigley: It's not a belief; it's an established scientific fact.

Mr. Adam van Koeverden: Thank you very much. I agree with that, and I appreciate that.

We have a lot of work to do in Canada, as you very rightly pointed out.

Dr. Quigley, do you believe that greenhouse gas emissions should be measured by flag, per capita or by GDP when we're looking at how a country is performing in terms of their emissions reductions targets?

Dr. Ellen Quigley: That was exactly my thought when I heard about China. Our per capita emissions are significantly higher than China's, and that is a source of reputational harm to Canada as a country that is otherwise respected.

Mr. Adam van Koeverden: Thank you for that.

Could you point to the reasons that Canada tends to have the highest per capita emissions in the world?

Dr. Ellen Quigley: It's in expansion mode when all of the other wealthy countries are expanding to nowhere near the same degree as we are. The main source of growing emissions for us comes from expanding oil and gas. Even though many other countries are, of course, still extracting, the growth is nowhere near the levels we're experiencing.

Mr. Adam van Koeverden: Thank you, Dr. Quigley.

I recently read that the most recent year on record with respect to the production of natural gas in Canada was a record year for its production, yet witnesses on this committee and others have pointed to an inability of Canada to extract things like natural gas.

Do you feel that Canada has an inability to extract things like natural gas from our natural resources economy?

Dr. Ellen Quigley: No. Clearly, Canada is very good at that, but I will just point out that the methane emissions associated with natural gas need to be incorporated into our analyses. They can be worse than coal, depending on the level of leakage of methane, which is an extremely potent greenhouse gas.

Mr. Adam van Koeverden: Indeed it is. I remember that from grade 9 science.

Thank you very much.

Mr. Chair, with the remaining time I have available here, I would like to table a motion, if I could. Is that all right? Do I have enough time?

The Chair: You have three minutes.

Mr. Adam van Koeverden: Okay, great. Maybe I'll have a little bit of time towards the end.

The Parliamentary Budget Officer published a short update under “additional analyses” on the PBO's website on the day after the 2024 federal budget. That was April 17, 2024. It relates to their often-cited report, “A distributional analysis of federal carbon pricing under A Healthy Environment and a Healthy Economy”.

PBO staff discovered that both the fuel charge and the OBPS—the output-based pricing system—had been removed in the counterfactual scenario. Consequently, estimates of household net costs incorporated fiscal and economic impacts. That was published in their March 2022 and 2023 reports. They reflect the broader economic impact of federal-equivalent carbon pricing.

In essence, it seems that the PBO may have inadvertently exaggerated the impact that carbon pricing would have on household budgets. Despite that, their report still indicated that at least eight out of 10 Canadian families get more money back with the Canada carbon rebate than the price on pollution costs.

I move:

> that the committee invite the Parliamentary Budget Officer for one hour to discuss his recent findings in his report and how he plans to correct the record in his fall report.

The Chair: Are you tabling that?

Mr. Adam van Koeverden: Yes.

The Chair: Okay. You still have some time for questions.

Mr. Adam van Koeverden: I'll relinquish that time to the chair.

Thank you, Mr. Chair.

The Chair: Thank you.

[*Translation*]

Ms. Pauzé, you have the floor.

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

I want to thank all the witnesses.

Before I ask a question, I'm going to go back to what you said in your opening remarks, Mr. Pardy. I've never heard so much climate denial. Above all, I was almost insulted when you said that the subject of our study was a threat to the country's economic prosperity. I'm here in a professional setting and, on the contrary, I want the constituents my riding and my nation to have a healthy environment and not see their health affected by climate change, even though that's already happening.

That said, my question is for you, Ms. Quigley.

Canadians are increasingly concerned about greenwashing, and rightly so. In a November 2023 poll, 78% of Canadians polled—I repeat, 78%—said they were in favour of greenwashing regulations in the financial sector, 76% said they supported their bank's sustainable finance efforts and 65% said they were in favour of their pension fund doing the same thing.

In your opinion, Ms. Quigley, are Canadians right not to trust voluntary climate disclosure initiatives?

● (1715)

[*English*]

Dr. Ellen Quigley: I'm afraid I switched the interpretation on partway because of a term I didn't understand in French, so I hope I have the right question.

I think what the public is saying is that they want something that the evidence actually lines up with. I've reviewed 118 years' worth of studies looking at the cost of divestment to investment portfolios and found basically no effect. You can time it poorly or well. Certainly, if that percentage of the population is in favour of this, I would personally not be concerned about the effects on financial returns, depending on the timing of the divestment.

I'm sorry. Was that your question?

[*Translation*]

Ms. Monique Pauzé: My question was more about whether Canadians are right to be wary of greenwashing by oil and gas companies, banks and all businesses. Are they not right to mistrust voluntary disclosure initiatives?

Currently, some are advocating a voluntary disclosure framework. Wouldn't it be better to have a more regulatory framework?

[*English*]

Dr. Ellen Quigley: That is an extremely important question.

Yes, we see systematic under-reporting when we have voluntary disclosure. In fact, academics I know even looked at disclosures from the CDP, the carbon disclosure project —they are some of the best ones we have—and found that there were basic addition errors and so on. We can't trust the information we get from voluntary disclosures.

Frankly, referring back to the comments about costs earlier, because there's no world in which we don't have disclosure, we're increasingly required to do that because of interactions with other parts of the world that already have it. It is actually, in my view, likely to be less costly if we have mandatory disclosure that aligns with what other countries are doing.

Voluntary disclosure regimes that don't agree with one another are a really good way to run up costs and make sure that you get information you can't trust, act on or use as a basis for investment.

[*Translation*]

Ms. Monique Pauzé: Thank you for that.

I would now like to turn to you, hon. Senator.

It is well known that a number of boards of directors, banks, pension funds and insurance companies have board members from the oil and gas industry. You mentioned it in your opening remarks.

Do you think this reality has the effect of slowing down or even preventing the effective implementation of the regulatory mechanisms that countries should establish?

Hon. Rosa Galvez: It certainly doesn't help the cause. When management wears two or three hats at once, it becomes very difficult to be loyal to all of them.

Several reports describe this situation. In fact, during a confidential meeting, I was informed that members from the oil and gas companies, banks, pension funds and insurance companies could fill a 500-seat room on their own. It's very common to see these same people rotate.

The Chair: Thank you.

Ms. Collins, you have the floor.

● (1720)

Ms. Monique Pauzé: My time is not up, Mr. Chair.

The Chair: You're right. I apologize.

Ms. Monique Pauzé: I have to keep an eye on you, Mr. Chair.

The Chair: I got ahead of myself. My apologies.

Please continue, Ms. Pauzé.

Ms. Monique Pauzé: Thank you.

Senator Galvez, you didn't have time to finish your remarks. I'd like to give you a chance to do that. You were talking about what's happening elsewhere.

Hon. Rosa Galvez: I wanted to say that we're lagging behind Europe, the United States and even China. Each country has its own approach: China issues orders, Europe is using a lot of regulations and the U.S. is injecting a lot of money. Those are three different approaches, but they achieve the same result, which is that those countries are beginning the transition to a low-carbon economy. We, as Canadians, are waiting to see what happens, and that really hurts our competitiveness.

The Chair: You have just enough time for a brief comment, Ms. Pauzé.

Ms. Monique Pauzé: In that case, I'll ask you my next question right away, and you can answer it later.

What mechanisms are in place elsewhere in the world to remove conflicts of interest from the boardroom table?

We can come back to this the next time I have two minutes of speaking time.

The Chair: That's fine, thank you.

Ms. Collins, you have the floor.

[*English*]

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

This is the second week in a row that Conservatives have brought witnesses to committee who argue against ambitious climate action.

Mr. Pardy published an article criticizing the Supreme Court for stating that climate change is an existential threat to Canada. He posted on the platform X that, “Even if you believe in anthropogenic climate change, there is no rationale for this country to have emission reduction targets of any kind.” The fact that my Conservative colleague Mr. Leslie spent his entire questioning time giving this person space to add their testimony into our report is I think appalling, to be honest.

I'll focus my questions on Senator Galvez.

First of all, I want to say thank you. Thank you for putting forward the climate-aligned finance act. It is an important piece of legislation.

We have OSFI here with us. They brought in their guideline, B-15, that requires financial institutions to improve their governance and risk management practices, but it falls short of requiring them to align with Canada's climate commitments. Can you talk a little bit about why it doesn't go far enough?

Hon. Rosa Galvez: I recognize and I thank OSFI for putting out this guideline, but unfortunately, it's the minimum. It doesn't make us move. Transparency is equivalent to a diagnostic. It's like telling a patient, “You have cancer. Bye-bye. See you later.” They have to mitigate, they have to manage and they have to reduce the emissions.

This is the way we manage risk. We have to control it, we have to mitigate it and at the end we really have to stop it. To stop it, we have to reduce emissions. To reduce emissions, we need the financial sector. The financial sector needs to be aligned with our climate commitments—maximum 1.5° and net zero 2050.

Ms. Laurel Collins: Thank you.

Turning to our colleague at OSFI, can you talk a little bit about or explain why you didn't go further to meet this important benchmark?

Mr. Peter Routledge: Thank you for the question.

Parliament, as I mentioned in my opening statement, assigns a specific mandate. It basically says to ensure and contribute to public confidence in the Canadian financial system. It does not tell us to advance a climate-related agenda.

As a GIC appointee, I'm duty bound to implement the instructions from Parliament, and that's it. However, our mandate does require us to ensure that financial institutions remain in sound financial conditions. We put in B-15. It does do risk management and governance, but it also will oblige climate risk disclosures and scenario testing, among other features.

Because of the long-term threat of climate change to the sound financial conditions of financial institutions, we put in place B-15. We intend to continue to move the progress of financial institutions forward in managing climate risk as a financial risk and a threat to their sound financial conditions.

Ms. Laurel Collins: Turning to Senator Galvez, on hearing that, can you talk about your response and about why the climate-aligned finance act is so important?

● (1725)

Hon. Rosa Galvez: OSFI is right. He does what his mandate tells them to do.

That's why we need government. We need the act telling him that he has to take care more deeply in the questions of climate-related risk.

Also, we need climate expertise in the modelling. Climate-related stress in modelling is good, but it doesn't make us attain the goal of reducing emissions. For that, we need transition plans and a progress report telling us that the emissions are being reduced.

Ms. Laurel Collins: Thanks so much.

We heard from another witness here today that this kind of action would be detrimental to the Canadian economy and that other countries aren't doing this, but actually, Canada is behind 40 other countries when it comes to aligning our financial institutions with our climate commitments.

Can you talk a bit about how this actually could be a benefit to the Canadian economy?

Hon. Rosa Galvez: Absolutely, because it's about opportunities. When risk is there, yes, there is a danger, but there are also the opportunities. When you innovate in order to mitigate the emissions, then you will create new technology, and you will create a different economy. I don't need to tell you that we didn't abandon the Stone Age for lack of stones.

Voices: Oh, oh!

Hon. Rosa Galvez: We abandoned that age because there were better, cleaner, safer and cheaper ways of doing the same thing. That's the idea.

Ms. Laurel Collins: Can you expand on how these kinds of robust regulatory tools—legislative tools—will impact banks, pension funds, jobs and affordability?

The Chair: Take 30 seconds, please, Senator.

Hon. Rosa Galvez: It will enable the sustainable jobs act. Without money, you cannot have your sustainable jobs act.

The Chair: I'm going to have to cut the time in half in the second round because we don't have permission to extend beyond a certain time.

You have two and a half minutes, Mr. Mazier.

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

Mr. Pardy, you're a lawyer. Is that correct?

Mr. Bruce Pardy: Correct.

Mr. Dan Mazier: You mentioned that public companies already have an obligation to consider and declare risks for investors. Can you explain what you mean by that?

Mr. Bruce Pardy: Of course. Sure.

There are some companies that are publicly listed on stock exchanges, and people buy shares. For example, if you're a company subject to the Ontario Securities Commission, it has a whole list of requirements that these public companies have to meet in terms of the disclosure, the material risks and change and so on. If they don't do that, they'll be in breach of those security rules.

More principally, the whole idea of a business enterprise is to be responsible to the people that invest in you. That's the definition of an entrepreneur: someone who takes risk and manages it.

Mr. Dan Mazier: Thank you.

Mr. Routledge, how many megatonnes of emissions will be reduced in Canada by implementing OSFI's climate-related financial disclosure expectations?

Mr. Peter Routledge: When financial institutions begin to measure their counterparties for emissions, they will make pragmatic, empirically driven decisions on whether to continue to expose themselves to those institutions over time. To the extent that the institution decides to lower their exposure to emitters of greenhouse gases, then they'll pull capital.

It is not our job, nor our intent, to measure the reduction of emissions in the broader economy by forcing disclosure. It is our job and intent to measure the risks financial institutions expose themselves to so their boards and senior managers can make sound risk-based judgments.

Mr. Dan Mazier: You're not worried about reducing emissions. It's not one of the wanted outcomes. Okay.

Mr. Routledge, how much does it cost financial institutions to meet OSFI's climate-related financial disclosure expectations?

The Chair: Give a very quick answer, please, if you have the figure. If you don't, you can send it to us.

Mr. Peter Routledge: Yes. There was a study done for a small or a medium-sized bank where the burden would be highest to meet our measurement rules or requirements. It would be about \$50,000 to \$100,000—

Mr. Dan Mazier: Can you please table that?

● (1730)

The Chair: Can you send us something in writing on that, Mr. Routledge?

Mr. Dan Mazier: Thank you.

Mr. Peter Routledge: There's also a study by the—

The Chair: No, I'm sorry. We have to keep going, Mr.—

Mr. Dan Mazier: Send us both studies, please.

[*Translation*]

The Chair: Mrs. Chatel, you have the floor.

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

[*English*]

My question will go to Mr. Routledge.

Thank you for being here with us.

In your view, what is the urgency of getting the taxonomy and disclosure right, and what is the implication if we do not have those policies in place?

Mr. Peter Routledge: Taxonomy and disclosure are two different pieces of the pie.

The taxonomy would help us quantify the opportunity. It would help financial institutions measure and identify the opportunity for adaptation.

The measurement would help financial institutions understand the extent of risk concentration they have with greenhouse gas-emitting energy sources. If they look at the evolution of the world in terms of utilization of energy, they'll be better positioned to measure their exposure and make sound risk management decisions.

Mrs. Sophie Chatel: Thank you very much.

Many are looking at OSFI as a possible oversight authority for the proposed green and transition finance taxonomy and disclosure.

What are your thoughts on this?

Mr. Peter Routledge: It's very preliminary. We're not close to the idea. I think the idea needs to find its way to OSFI formally. Then we need to digest and understand whether we're the appropriate centre for that. Naturally, we would defer to the Minister of Finance, who is the head of the office, with superintendent being the deputy head.

Mrs. Sophie Chatel: Thank you.

What is OSFI's view on the most effective and timely way to ensure we have both taxonomy and disclosure in place, in order to be competitive in the new economy?

Mr. Peter Routledge: On the disclosure side, we're moving forward with our disclosure ask of financial institutions. Later this fall, they'll start. They'll progress throughout the course of the next fiscal year.

We'll do larger institutions that have the capacity first. Smaller institutions will have longer to do it. We need the CSSB to finish their disclosure standards in order to drive that forward. That is on a pretty good pathway.

The taxonomy is very important for helping us—

The Chair: We're going to have to stop there.

Mr. Peter Routledge: —define and uncover the opportunity.

The Chair: I hate to interrupt, Mr. Routledge. I'm very sorry.

[*Translation*]

Ms. Pauzé, you have the floor for a little over a minute. It will have to be fairly quick.

Ms. Monique Pauzé: Okay.

Senator, is there any way to avoid conflicts of interest at the boardroom table?

Hon. Rosa Galvez: Yes, it's a governance issue. There needs to be better governance and transparency. Investors need transparency, predictability and clear and accurate signals.

Ms. Monique Pauzé: Thank you for that very direct answer.

I have one last question for Ms. Quigley.

We hear a lot of talk about analyzing the issue from the perspective of double materiality. We're very sensitive to anything that's harmful to the environment, biodiversity and human health.

Can you tell us about the links between these materialities and the opportunities and risks that come with them?

[*English*]

Dr. Ellen Quigley: I think this is the most exciting part of this bill, arguably, not least because it actually captures the impacts on our real lives and economies, and so on and so forth.

Frankly—referring with all due respect to Professor Pardy's points—we get perverse outcomes sometimes when each bank is making its own decisions about risk, because they are looking at the risk to the bank. The impacts from the banks in aggregate are what we really need to worry about, and that's what banking regulation is for: It's for addressing systemic risks that arise when each institution is making individually rational decisions. The double materiality element here is the way in which we capture that systemic element.

The Chair: Ms. Collins, you have a little more than a minute.

Ms. Laurel Collins: Thanks.

My question is for Ms. Quigley.

First of all, thank you so much for being a voice of science and reason on this panel.

You talked a little about greenwashing. Canadians are concerned about this.

Can you talk a bit about how mandating compliance with specific standards for climate alignment, and using other tools like capital requirements, could help increase public trust?

Dr. Ellen Quigley: That's a great question.

Again, it's essential. You should all be interested in this as parliamentarians, because people are losing trust in our public institutions. They can't trust the information they get, yet that's the basis on which they make their decisions. This is an increasing concern for the public.

Also, we are seeing—again, Canada is behind—other places doing this. Citizens of other countries can actually have greater trust in the information they're getting from companies.

● (1735)

The Chair: Mr. Kram, you have two and a half minutes.

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

Professor Pardy, earlier you were unable to respond fully to a question from Mr. van Koeverden, and Ms. Collins made a statement about one of your Twitter posts that you didn't have the opportunity to respond to.

Would you care to take a minute to say what you would have said in response?

Mr. Bruce Pardy: Yes. Thank you very much.

My analysis assumes that everything Mr. van Koeverden would say about climate change is true. It accepts the proposition that there is anthropomorphic climate change and that the situation is as has been widely suggested. I'm not suggesting anything to the contrary. The point is this: If we think that is true, if this is really an emergency and if the planet is actually burning, then the things you are suggesting are wholly inadequate, which means that maybe you don't believe it yourselves.

I'll use the analogy of a burning house. Your house is burning down and you have no fire department, no hose, no water. You grab your neighbour's cup of coffee and you throw it on the fire because it's wet. You say, “Well, I'm doing something about it.” No, you're not. You're doing nothing about it. All of these will have no effect because Canada is not the source of carbon emissions. Yes, it's 1.5%, but as I alluded to earlier, the main sources of carbon emissions are other countries with big populations and lots of coal and no restrictions in international regimes like the Paris Agreement.

If you're serious about this, then you need to find a different path to find an actual solution to the actual problem you're claiming exists.

Mr. Michael Kram: Professor, you also indicated that we could increase Canadian prosperity and decrease global emissions by increasing natural gas exports to Asia and increasing Canadian exports of nuclear technology.

Could you elaborate on how that would be beneficial?

The Chair: I'm afraid there's only 15 seconds to elaborate.

Mr. Bruce Pardy: Both those things would displace other activities that would produce more carbon emissions.

The Chair: Thank you.

Mr. Ali, you have two and a half minutes.

Mr. Shafqat Ali: Thank you, Chair.

My question is for Mr. Routledge.

In what ways does climate change impact the financial system that governments are not accounting for?

Mr. Peter Routledge: There are two parts to climate change. There's physical risk and there is transition risk.

On physical risk, through the insurance industry we have a sense of what the increase in catastrophes and the cost of the catastrophes are as a result of climate change. The Insurance Bureau of Canada does great work on that.

Where we are less certain is on what the impact of transition risk might be, the impact of stranded assets if they were ever to arrive. The purpose for our climate risk returns is to begin to empirically measure what that risk is so that boards of directors can make informed decisions. That's the gap we're trying to close through guideline B-15.

Mr. Shafqat Ali: Thank you.

Are there additional steps that OSFI is considering to improve rules requiring disclosure of risks related to climate change?

Mr. Peter Routledge: Our first priority is getting the measurement right. Getting to scope 1, scope 2 and scope 3 emissions isn't easy. It's hard. It has implications downstream for their clients.

At the appropriate time, we can oblige banks to disclose. Indeed, if you read our current rule, we do oblige banks to disclose. Even if we didn't have it, bank shareholders and creditors are demanding that. That is why I think we haven't heard too much complaint from the industry that we regulate about the disclosure requirements outlined in guideline B-15.

● (1740)

Mr. Shafqat Ali: Thank you.

As you know, climate finance policies have implications for both investors and insurers. To what extent do you believe Canada should be aligned with other nations in implementing measures to support sustainable finance?

Mr. Peter Routledge: The way I think of that question is I serve as superintendent for a banking system and a financial system that takes in capital from outside the country to invest in it. The people who provide the institutions with that capital look to Canada's standards, including our standards on climate risk. One of the reasons we have focused on B-15 is to show those investors that we take it seriously. Our institutions have policies and procedures in place to manage it effectively.

[*Translation*]

The Chair: That's perfect.

I want to thank all the witnesses. As expected, this has been a rather lively and fascinating discussion.

Thank you for making yourselves available to us.

We'll end it there. I wish all committee members a good weekend.

Thank you.