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• (1100)

[*Translation*]

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

A good week to you all.

I wish to inform you that the sound checks have been done for everyone except one witness, and that's being done now. We will obviously begin with the other witnesses.

[*English*]

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

I can't understand a word you're saying.

The Chair: I'm sorry about that, but it is 11 o'clock.

Mr. Dan Mazier: What are you talking on?

[*Translation*]

The Chair: I just said that the sound checks had been done.

I also wished everyone a good Monday and a good week.

[*English*]

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

The Chair: Already?

Mr. Dan Mazier: Yes.

The Chair: We also have Mr. Longfield.

Go ahead.

Mr. Dan Mazier: I am just wondering if we can have an update on Minister Boissonnault.

The Chair: I'd love to give you one, actually.

He says probably in December.

Mr. Dan Mazier: He says "probably". It's been over 20 days. He was supposed to be here last week when the order came through. Why December?

The Chair: I don't know.

Mr. Dan Mazier: I think the people in Jasper—

The Chair: They say that he's not available until December, so we're working on it. We want to get him here.

Mr. Dan Mazier: He's going to leave the people of Jasper just hanging for that long on what he's going to do.

The Chair: No, I don't think that's the intention.

Mr. Adam van Koevorden (Milton, Lib.): I have a point of order, Mr. Chair.

This kind of language about a minister's availability and presupposing that the minister is leaving people hanging is not appropriate and is unbecoming of this committee.

The Chair: We don't want to attribute motive—

Mr. Dan Mazier: There are 2,000 people sitting homeless right now. I think it's a bit of a priority, and some kind of language should be used.

The Chair: I don't think we want to attribute motive or impugn.... We're working on it for December. That's the fact of the matter.

Mr. Longfield, do you still need to...?

Mr. Lloyd Longfield (Guelph, Lib.): I'm looking forward to the testimony once we get there.

The Chair: I would like to do about 10 minutes of housekeeping updates at the end of the meeting. That is one thing I wanted to mention, so I'm glad you brought it up.

We will start. We're resuming our finance study. Witnesses appearing online, please stay on mute if you're not answering a question or delivering your opening statements.

We're ready to roll. We'll start with Mr. de Arriba-Sellier, director, Erasmus Platform for Sustainable Value Creation, Rotterdam School of Management, Erasmus University.

Mr. de Arriba-Sellier, you have five minutes for your opening statement. At five minutes, I will have to stop you, but it's not out of rudeness; it's just that those are the rules. You will still be able to get some of your points in later on in answering questions.

Thank you. Go ahead.

[*Translation*]

Dr. Nathan de Arriba-Sellier (Director, Erasmus Platform for Sustainable Value Creation, Rotterdam School of Management, Erasmus University, As an Individual): Thank you, Mr. Chair.

Thanks to the committee for inviting me to appear and to contribute to its study. I can only express the hope that other parliaments around the world will follow your example and tackle this subject.

[English]

My name is Nathan de Arriba-Sellier. I work as the director of the Erasmus Platform for Sustainable Value Creation, as noted by the chair, in the Netherlands, from where I join you today.

I have a Ph.D. from Leiden University and Erasmus University Rotterdam. Before my current position, I was the research director of the Yale initiative on sustainable finance and a lecturer in financial law and policy at Yale University, just somewhere south of where you stand.

To introduce this testimony, I would like to recall a few facts.

Since 2005, Canada has reduced its greenhouse gas emissions by 7%, performing well below other countries in Canada's peer group. Furthermore, Canada is not yet on track to uphold its legal commitments under the Canadian Net-Zero Emissions Accountability Act. In fact, Yale's environmental performance index—the EPI—ranks Canada 166th in the world when it comes to projections of reaching net zero by 2050.

In the meantime, climate change continues unabated, and the window for limiting global warming to 1.5° Celsius is closing, as mentioned by the United Nations no later than this weekend.

Partly as a result, the Canadian financial system is highly exposed to climate risks, both physical and transition risks. I don't need to remind you of the examples of physical risks that regularly and increasingly in a most exponential way threaten your constituents.

Transition risks are also on the rise, regardless of what Canada decides to do or not. The Canadian economy and financial system is and will be influenced by external initiatives, such as the U.S. Inflation Reduction Act, the European Green Deal and the policies of the People's Republic of China, which have rapidly made it the world's largest producer of renewable energy and electric vehicles.

Solutions will not come from the market. Already in 2007, as Lord Nicholas Stern, professor at the London School of Economics, rightly pointed out, "Climate change is a result of the greatest market failure the world has seen." ESG hype or not, the market has been incapable, so far, of addressing its own failure. This fact has been most recently evidenced by the so-called "Big Five" Canadian banks who, in spite of their net-zero commitments, have increased their financing of fossil energies, unlike their European or American counterparts.

• (1105)

[Translation]

Solutions must therefore be dictated by public authority, all the more so as the Government of Canada, not corporations, is bound by the Paris Agreement.

Timid prudential supervision initiatives such as guideline B-15 of the Office of the Superintendent of Financial Institutions, or OS-FI, have been established in the financial sector.

I would like to review with you several of the initiatives now under way.

First, let's discuss the sustainability disclosure standards proposed by the Canadian Sustainability Standards Board, the CSSB.

It is vital that there be accountability for greenhouse gas emissions, including scope 3 emissions, because failure to do so would be tantamount to distorting the true carbon footprint of the companies concerned. There's a strong consensus on this.

As a result, the International Sustainability Standards Board, the ISSB, has unanimously adopted that standard. Are those standards alone enough? The answer is no, but they are a necessary first step because you can't manage what you haven't measured.

We must also ensure that financial and sustainability disclosures made by companies are consistent.

Then there's the Canadian taxonomy.

First, I encourage you to take advantage of the reform of the Canadian Business Corporations Act to ensure that the taxonomy is included in the publication obligations for enhancing transparency. This does not mean that all companies must comply with the taxonomy, but rather that they must publicize the degree to which they invest in taxonomy-aligned activities.

Second, I draw your attention to the fact that it's important to exclude fossil energy activities, whatever they may be. Why? Because a taxonomy sends a signal to investors and businesses regarding economic activities that support the transition to carbon neutrality. Including fossil fuels undermines the credibility of the Canadian taxonomy, as was the case of the European taxonomy with regard to gas. I refer you to the scientific conclusions of the International Panel on Climate Change. Every year counts, and fossil fuels are not part of the solution.

Lastly, Senator Rosa Galvez introduced Bill S-243, An Act to enact the Climate-Aligned Finance Act. I support that bill, and I encourage the committee and the House of Commons to take it up as soon as parliamentary procedure permits. Once passed, it will advance Canada toward carbon neutrality and significantly reduce the transition risks to which the Canadian economy and financial system are exposed.

In conclusion, I wish to draw your attention to monetary policy, which is often a blind spot in these debates. Monetary policy has a role to play in the strategic framework of government as a whole. Acting within its mandate, the Bank of Canada can assist in preventing and reducing climate risks while supporting the transition to carbon neutrality.

I will be pleased to provide you with further details on these various aspects and to answer any other questions you see fit to ask.

Thank you.

The Chair: Thank you, Mr. de Arriba-Sellier.

We'll now go to Keith Stewart, senior energy strategist for Greenpeace Canada.

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

Mr. Keith Stewart (Senior Energy Strategist, Greenpeace Canada): Thank you, Mr. Chair.

Thank you for the opportunity to address you today.

[English]

My name is Keith Stewart. I am the senior energy strategist for Greenpeace Canada and a sessional lecturer at the University of Toronto, where I teach a course on energy and environmental policy.

I've been meeting with Canadian banks about their funding of fossil fuels since 2008, so if I seem a trifle impatient, it's because after the first decade or so of delay, a certain amount of frustration does set in.

It's also been nine years since Mark Carney gave his "tragedy of the horizon" speech on how the financial sector has a short-term focus built into how it operates, wherein three years is considered long term.

This structural myopia makes bankers largely blind to climate risks or, worse, they can see the risks and have even begun to measure them, but their incentive structure doesn't allow them to respond appropriately, so we stumble towards disaster. This myopia can be overcome, but it will require elected officials to step in. This is not new terrain for governments, as we've been regulating banks to protect them from themselves since 1929.

On climate change, the banks have been very clear: They are not going to be leaders. They are not going to do this on their own. We see it in their balance sheets. Canada's big five banks are still among the largest funders of fossil fuels in the world. According to a recent international report, they funnelled more than \$130 billion to fossil fuel companies in 2023 and have put over \$1 trillion into oil, gas and coal companies since the Paris Agreement was signed. That's a trillion dollars dedicated to making the climate crisis worse, which dwarfs what the federal government has been spending to try to put out the climate fire.

We also see their unwillingness to lead in their backing away from their net-zero commitments in the face of an assault on ESG investing in the United States. They can claim to have the courage of their convictions, but those convictions seem to change, depending on whether they are writing to a Republican state treasurer in Texas about how much they support funding fossil fuels or testifying before this committee last spring about how much they care about stopping climate change.

We also see a lack of leadership in their lobbying efforts, which have sought to slow down the energy transition. They say they want an orderly transition even if the greatest source of disorder is climate-fuelled extreme weather that results in fires, floods, roads washed away, homes destroyed and drought-stricken fields.

Whether it was Jasper in July or Florida last month, the costs of inaction are all around us, and we should not look away.

A wise woman once said that when someone tells you who they are, believe them. Banks are telling us that they are committed to follow, not lead, on climate change, yet financial regulation is still a missing piece in Canada's climate strategy.

We are here today asking you to once again save the bankers from themselves, and thereby help save the rest of us from climate chaos, by using all of the regulatory and legislative tools at your disposal to align Canada's financial system with the Paris climate agreement.

To this end, I join with my colleagues in the environmental movement to express our hope that your report will include recommendations to, first, keep fossil fuels out of any sustainable finance taxonomy; second, develop regulations under existing law to require all federally regulated financial institutions and large federally regulated corporations to implement climate transition plans that align with the 1.5-degree goal of the Paris Agreement; and, third, support the adoption of comprehensive legislation such as Bill S-243, which is the climate-aligned finance act.

We recently saw some movement on the taxonomy that's under development. The taxonomy and disclosure rules are important, but as planned, they will only provide information that others can use to hopefully do the right thing.

We need to stop hoping big money will do the right thing and make it mandatory for them to stop being a part of the problem and start becoming a big part of the climate solution.

Thank you for your time and consideration.

• (1110)

[Translation]

The Chair: Thank you, Mr. Stewart.

We'll now go to Julien Beaulieu, who is a lawyer and researcher at the Québec Environmental Law Centre.

Mr. Beaulieu, go ahead.

Mr. Julien Beaulieu: Good morning and thank you for inviting me here today.

I represent the Québec Environmental Law Centre, or QELC, the only non-profit organization in Quebec that provides independent environmental law expertise.

Today I'm going to discuss the risks associated with greenwashing, specifically the dissemination of false, deceptive and unproven information on environmental characteristics. Greenwashing is a major problem because it prevents investors from making informed decisions; it also slows down the transition and erodes market confidence. Greenwashing can also destabilize the financial system, particularly by causing the premature sale of financial assets.

Greenwashing has unfortunately introduced significant risks into Canada's financial sector. For example, many emerging financial instruments, such as green bonds, sustainability bonds and voluntary carbon credits, are not subject to any minimum content or procedural requirements.

As you are no doubt aware, Bill C-59, which was adopted this past June, constitutes one step toward combatting greenwashing. Organizations are now required to back up environmental allegations with evidence. In other words, if you say that something is "green", you must be able to prove it, which is a good thing. However, these measures apply solely to voluntary disclosures regarding environmental benefits. Consequently, they may not be applicable to certain allegations, such as those concerning environmental risks as opposed to impacts.

These measures obviously require no disclosure of information to investors and impose no common language on how to communicate that information. Lastly, although organizations are required under the act to provide evidence in support of their allegations, that evidence need not be disclosed to the public, which complicates the task of identifying greenwashing cases.

A few days ago, the government announced two measures that could help improve the situation. First, it stated that it would require large federally regulated businesses to publicly disclose information concerning climate change, which could well include a certain form of disclosure of GHG emissions by those businesses.

This is a positive measure, but, to ensure that it's effective, it must concern the disclosure of both environmental risks and impacts. Citizens, consumers and investors want to know the environmental impacts of businesses' activities and want that information to be disclosed in a clear and standardized format. General disclosure rules that enable businesses to omit or conceal unfavourable information must absolutely be avoided. Disclosures must also go beyond climate issues and include, for example, biodiversity, pollution, natural resource extraction and so on.

The second measure that the government announced a few days ago is that an independent consulting group will be created and will be responsible for developing a financial taxonomy. That taxonomy, which won't be made public for a year, will establish a classification system and official criteria for projects characterized as "green" or "transitional". That measure has considerable potential as well. However, for this taxonomy to meet its objectives, three elements, some of which have already been mentioned by my colleagues, will be essential: first, it must include credible, science-based criteria that would prevent the greenlighting of environmentally harmful projects; second, it must be mandatory that it prevent the emergence of weaker rival taxonomies—to date, only one voluntary taxonomy has been announced, which I don't think is

enough; third, it must have a governance structure that guarantees that its criteria remain resistant to future political pressure.

Once the taxonomy has been adopted, and taking for granted that it's a proper taxonomy, it will quickly have to be incorporated in the regulatory ecosystem, by requiring, for example, that organizations disclose their degree of alignment, standardize the labelling of financial products, require Crown corporations to establish objectives based on the taxonomy, and so on.

To supplement those two measures, we suggest that the disclosure requirements of federal financial institutions be made more binding, more specific and more comprehensive, in particular, by converting current prudential obligations to regulatory obligations and by compelling disclosure of climate impacts, not solely of risks, but also of information on other environmental aspects such as biodiversity.

Lastly—and we can discuss this further during the meeting—we recommend that the sustainable finance activities of the Financial Consumer Agency of Canada be expanded and that the distribution and use of voluntary carbon credits, those credits that some of us use to offset the impact of our air travel, for example, be regulated. We believe that this field should also be regulated.

I'll stop there. Thank you.

● (1115)

The Chair: Thank you very much, Mr. Beaulieu.

Now it's the turn of Aswath Damodaran, professor at the Stern School of Business.

[*English*]

Professor, you have five minutes for an opening statement.

Thank you for being with us today.

Mr. Aswath Damodaran (Professor, Stern School of Business, New York University, As an Individual): Thank you for having me.

I'm going to start from the perspective of what I'm not: I'm not a climate scientist. I'm not an expert on banking. I'm not a macro-economist. I'm not an academic researcher. I'm a dabbler. I dabble in lots of different things, and I've spent 40-plus years observing how businesses and investors behave. What I've discovered is that psychology and perception have a lot more effect on that behaviour than economic models.

As an outsider, I'm going to give you my perspective on what I've seen happen around climate change. This might not be diplomatic, but I might as well cut to the chase.

Here's what I've seen over the last 20 years: Climate change is the most publicized, the most warned about and the most discussed existential crisis that I've ever seen. You're saying that this is merited; that's fine.

Second, governments all over the world claim to care about climate change. In fact, every year they gather together, as in the most recent meeting, COP28. Hypocrisy runs rampant in this space, as in what was said in Dubai. They talk about how they're going to change the world. They set targets that everybody knows will not be met. I'll guarantee you that there'll be a COP29, perhaps in Riyadh, where we will repeat the whole process again.

Companies and businesses all claim to be green. They claim to care about the climate. I'm going to gag the next time I see the words "net zero" in a company's financial statement or an airline asks me to pay an extra \$40 if I want to reduce my carbon footprint.

In this process, they've been aided and abetted by consultants and experts who fed them the buzzwords. Let's face it: ESG is an acronym. It doesn't even merit the notion of an idea or a concept—it's an acronym.

Sustainability is just as much of an acronym. These consultants have told these companies that they can have their cake and eat it too, that they can be green and be more valuable.

There's the same phenomenon with investors. They've pumped in trillions of dollars. Don't tell me enough money hasn't been invested in green spaces. There have been trillions of dollars, again with the promise that they can deliver higher returns while being good.

Consumers have been given lots of different ways in which they can show how wonderful they are. They can buy green products. They can invest in green funds. They can misbehave all day, come back home, buy an ESG fund and say, "I'm okay again."

Here's, I think, the most sobering reality. After 20 years, trillions of dollars and all of this talk, if you look at how much of our energy comes from fossil fuels, it's barely budged. In fact, you know that our dependence on fossil fuels decreased more between 1975 and 1995 than it has in the last 20 years. The reason for that was the one alternative energy source that most green energy people claim to hate, which is nuclear energy.

Over the last 20 years, our dependence on fossil fuels has gone from 85% to 81.5%. We've reduced dependence by 3.5%, and we paid \$10 trillion for that amazing fact. I'll let you do the math on that. If you really want to get the fossil fuel dependence down to 50%, you work out how much it'll cost. This notion that you can get good without sacrifice is the heart of why all of this space is in trouble.

I'm not in any position to give you advice on what you should do with your bank and your pension funds, but I'll tell you what I think. I think you've got to stop with this apocalyptic stuff. Do you really think that telling people that the world will end in 35 years is going to make them behave better? That's like telling somebody that they have 60 days to live and saying, "Behave healthfully." It's not going to happen. Even if you believe that the world will end if climate change is not met, telling people that is the worst possible strategy psychologically.

Second, remove virtue from this discussion. This notion that if you believe that climate change is important, you're a good person, and if you don't, you're a bad person is contaminating the discussion. It's making perfect the enemy of good.

Let's face it: Much of the research on ESG and sustainability is not worth the paper it's written on, but the research that takes a closer look has concluded that shades of grey are better than black and white, that investing in brown innovation is better than investing in green innovation and that accepting shades of grey, incremental change, is going to be much more effective than this: "Hey, if you don't do this, we'll die."

• (1120)

The Chair: Professor Damodaran, this is a fascinating statement, and I think we're going to have a really good discussion today, but I have to stop you there so that we can go to questions and answers and explore these ideas in greater detail.

We start with Mr. Mazier for six minutes.

Mr. Dan Mazier: Thank you, Chair.

Professor Damodaran, my questions are for you today.

Are Canadian depositors at risk if the government mandates ESG ratings or climate-related disclosure statements on financial institutions?

Mr. Aswath Damodaran: It goes back to the heart of what I said, which is that sacrifice is at the heart of being good. If you're going to ask banks to do something, you have to ask, "Who's paying for it?" Bankers are. It's not coming from bankers' personal wealth. The market cap of the five biggest Canadian banks, collectively, would be a drop in the ocean of the cost of meeting climate change.

If you ask banks to bear this cost—and what I hear when I hear that is that you have to lend to green energy companies at below market rates, because if it's at market rates, you don't need any of this stuff—guess who's going to bear the cost. It's going to be depositors. Is that really what you want of this process?

Acting like banks are like big tech companies with hundreds of billions of dollars to throw around is delusional, so ultimately, if you put strictures on banks, the people who will pay this—and I can almost guarantee you this outcome—will not be bank shareholders and managers; it will be bank depositors, and I thought your role was to protect them.

• (1125)

Mr. Dan Mazier: Thank you.

That goes into my next question. What will be the impact to retirement savings if government forces climate-related disclosures on Canadian pension funds in an attempt to meet the Paris climate targets?

Mr. Aswath Damodaran: I'll be quite honest: I call this "disclosure diarrhea". It's happening across the board—companies, pension funds.

Do you know what the net effect of all of this disclosure is? We get immune to it. We'll have 150 pages.... In fact, if you want truly ineffective legislation, pass more disclosure legislation. It will actually make people even more immune to debate about climate change, because you're going to throw the big stuff and the small stuff into that disclosure. If in fact pension funds are required to bear a cost, there again you have to ask, "Is this the right group to be bearing that cost?"

Mr. Dan Mazier: Will government regulation of ESG scores and climate change disclosure statements on financial institutions have any impact in reducing emissions?

Mr. Aswath Damodaran: Well, even the ESG services have no idea what ESG measures. ESG is the most diffuse, undefined.... It's like nailing Jell-O to a wall. If ESG services have no idea what they're measuring, how the heck are governments going to require companies to follow ESG rules? It's a recipe for disaster again.

Mr. Dan Mazier: There would basically be no way to measure how many emissions are even being reduced.

Mr. Aswath Damodaran: Well, they can disclose whatever they want, but if you look at the net effect, it doesn't seem to match up. In fact, if you collect what companies claim they've done and then you look at the output, you'll say, "Why isn't it showing up in the results?" There's many a slip between the cup and the lip. Disclosing this doesn't seem to show up in the final numbers.

I think that's a question we have to ask: Why, after 20 years of forcing companies to disclose this, and more so in the last few years, is nothing changing on the ground?

Mr. Dan Mazier: Thank you.

You referred to an "ESG gravy train" in one of your presentations. Can you explain this term and explain how banks and consultants benefit the most from ESG scores and climate-related disclosures?

Mr. Aswath Damodaran: BlackRock was very much up in front during this ESG train, early on. In fact, Larry Fink said that the world will not be safe if we don't have ESG. I took BlackRock's sustainability fund, which is a fund built around ESG, and I compared it to their regular fund. Out of the 500 stocks in the regular fund, 497 showed up in the sustainability fund. The difference was that BlackRock charged five times more for the sustainability fund than for the regular fund.

When you look at fund managers, bankers and consultants, you see that every one of them has an ESG arm, and the ESG arm makes money by selling this notion to people, again with the idea that you can be good and be more valuable at the same time.

Mr. Dan Mazier: Thank you.

Does improving ESG ratings or climate-related disclosures increase value or decrease risk in any proven way?

Mr. Aswath Damodaran: None that I can see. As I said, I've looked at every single research paper in this space. The papers that do show it are advocacy papers masquerading as research papers.

I mean, I live in the value space. That's what I do. I value companies. I have yet to value a company that ESG has made more valuable. It can make it less valuable, but when ESG makes a company more valuable, it's because it's PR. It's marketing. At that point, you're gaming the system. You're encouraging what you call greenwashing by pushing that idea on companies.

Mr. Dan Mazier: Thank you.

You stated the following in the Financial Times:

It serves ESG advocates to keep the definition amorphous, since, like the socialists of the 20th century whose response to every socialist failure was that their ideas had never been properly implemented, the defence against every ESG critic is that it is incorrectly defined or implemented.

What did you mean by this?

• (1130)

The Chair: You have 30 seconds, Professor.

Mr. Aswath Damodaran: Thank you.

I've had a lot of blowback on that one. The truth is that in terms of what ESG measures, if you put 100 ESG people in a room, they'd come up with 100 different definitions. Whatever your critique, they would say that it wasn't their ESG you were critiquing. It's very convenient, but it's not very honest.

The Chair: Thank you.

We'll go now to Mr. Ali for six minutes.

Mr. Shafqat Ali (Brampton Centre, Lib.): Thank you, Chair. I will be sharing my time with my colleague Mr. van Koeverden.

Thank you to the witnesses for being here today.

Mr. de Arriba-Sellier, what are some global best policy practices that you can share for ensuring that the private sector does business in a way that supports climate and environmental goals?

Dr. Nathan de Arriba-Sellier: Thank you very much. This is a very interesting question. Of course, I don't think we have the time to go through all of them or much of them in five minutes.

What I would say is that I share some of the comments that were just made about the fact that ESG is a melting pot of anything and everything, but climate is a real risk. In this respect, you can see policies that actually can move the needle. For instance, the European Union just adopted the corporate sustainability due diligence directive, which obliges every large company to have a net-zero transition plan. That can be powerful.

As I alluded to in my opening statements, I do believe that the move towards disclosure regulation is welcome as long as sustainable disclosures are aligned on financial disclosures. For instance, companies cannot trumpet net-zero commitments without actually reflecting them in their financial statements, which I think is analogous to what Professor Damodaran was saying.

Another policy that could be useful, for instance, is EU banking policy. EU banking regulation has recently been amended to require that banking directors have sufficient expertise on climate risks and climate change as well as a transition plan, etc. Again, that can also be important and impactful.

Mr. Shafqat Ali: Thank you.

My next question is for Mr. Keith Stewart.

Assuming that our shared goal is to ensure that the financial sector practises climate and environmental goals, what do you see as the government's role in enabling this alignment?

Mr. Keith Stewart: I would share some of the frustration that has been expressed about voluntary programs that are asking people to do the right thing because it's the right thing to do. What companies respond to is profit, motivation and regulations—obeying the rules.

What we really need to do is have rules that shape the financial terrain in a way that we are actually investing in climate solutions. Is there a cost to taking action on climate change? Yes. Is there a cost to not taking action on climate change? Absolutely.

There are a variety of things that can be done under existing regulations. Some of my colleagues have put forward detailed proposals on ways in which requiring net-zero transition plans or climate transition plans for companies would help shape that. We have also suggested things like changing capital risk requirements and imposing double materiality.

There are a variety of tools that can be used by governments. We have examples in the EU and other places that we can look to, but we really have to align where the money is going with where we need to be to protect people. That's not happening right now, because of an obsession with short-term interests. It's government's job to take that longer-term perspective and help shape the field so that we're all pulling in the same direction, rather than pouring all of the money over here into things that are going to make the problem worse—fossil fuels—while the government is trying to offset it with its own spending.

We actually need to align private and public finance and things like the climate-aligned finance act or the climate transition plans that have been proposed. These are tools that can be used to bring those two together, move in the same direction and accelerate the energy transition that's going to protect us from those climate risks,

and also protect our economy from what Professor de Arriba-Sellier said were the transition risks, one of which is the risk of falling oil demand in the world when oil's our number one export. If we don't surf that wave properly, we will get crushed.

Thank you.

• (1135)

Mr. Shafqat Ali: Thank you.

How much time do I have, Chair?

The Chair: You have about 45 seconds.

Mr. Shafqat Ali: Can I pass it to Adam, please?

Mr. Adam van Koeverden: Thanks, Mr. Ali.

I have two really quick questions.

Dr. de Arriba-Sellier, to the best of your knowledge, is there currently a Canadian law or regulation mandating that big banks say they are net zero?

Dr. Nathan de Arriba-Sellier: No.

Mr. Adam van Koeverden: Okay, thank you.

RBC and TD—all the big banks—say that they will be and would like to be net zero.

Mr. Stewart, RBC is currently funding the oil sands to the tune of about \$13.4 billion, and they have about \$42 billion or \$43 billion in fossil fuels financing. Is that compatible with a net-zero goal?

The Chair: You have 10 seconds.

Mr. Keith Stewart: The short answer is no. Canadian banks are among the highest funders of fossil fuels in terms of their ratios, and we need to turn that around.

[*Translation*]

The Chair: All right.

[*English*]

Mr. Adam van Koeverden: If they are saying one thing—

[*Translation*]

The Chair: Mr. van Koeverden, your time is up.

Ms. Pauzé, go ahead.

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

Thanks very much to all the witnesses for being here.

Mr. Stewart, my colleagues have already asked many questions that I would have liked to ask you.

So I'm going to ask you another question.

We know that Canadian banks have refused to divest from fossil fuels and that the Liberal government continues to provide them with billions of dollars in subsidies. We can't prevent the government from making promises about climate change, but can we prevent banks from continuing to invest in the sector that's responsible for the climate failure?

I would appreciate a brief answer because I have a lot of questions for Mr. Beaulieu.

[*English*]

Mr. Keith Stewart: I would just reiterate some of the points I made earlier. If we bring in rules that will shift that, that's the only way it's really going to shift.

We also have a cultural issue in Canada. The CIBC CEO likes to say that oil is the “family business” in Canada, and Canadian banks are really tightly aligned with our oil industry because it's a major export industry, and that also makes us uniquely vulnerable to the energy transition.

I'll stop there.

[*Translation*]

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

Mr. Beaulieu, I believe you're a greenwashing expert. We've discussed that at great length at previous meetings.

Could a taxonomy prevent oil and gas projects from being financed?

Mr. Julien Beaulieu: No. Not at all.

You may wonder why there's so much reluctance to adopt and incorporate it in regulatory obligations. It will prevent no one from investing in any economic sector whatever. Since a taxonomy is just a label, this just creates a label. Then you let the market decide where capital should be invested.

Do you want to invest capital in transition projects or green projects, or do you want to continue investing in conventional assets?

You have to stop thinking that a taxonomy—

Ms. Monique Pauzé: You mustn't think it's going to solve everything.

Mr. Julien Beaulieu: Yes. This has potential, and it has positive impacts because it clarifies the ground rules.

It actually solves two problems, one of which is a coordination issue. Professor Damodaran discussed it. This causes people to use the same words and definitions, which isn't currently the case. As a result, when you refer to a green project, you understand what that means, and the same is true when you refer to a taxonomy. This can solve disclosure-related information problems by requiring people to disclose the degree to which they're aligned with the taxonomy's objectives.

However, that doesn't prevent the financing of certain activities.

Ms. Monique Pauzé: Can it even encourage greenwashing?

Mr. Julien Beaulieu: It can encourage greenwashing if the Canadian government adopts an official definition stating that a certain project is green when the science says it's something else. That would cause credibility issues for any taxonomy that would endorse certain activities that aren't green or subject to a consensus.

You can afford to err on the side of caution in this field, even knowing that you won't be preventing financing for activities that are neither green nor transitional. At least you won't be labelling them as such or affording businesses the additional benefit of a “green bonus” associated with a green bond, for example.

Ms. Monique Pauzé: In other meetings that we've held on this subject, many people have told us that Canada doesn't yet have a taxonomy, whereas there are taxonomies virtually all around the world—I'm exaggerating slightly—and Canada is therefore a real laggard in that regard.

Since they exist elsewhere, my colleague Mr. van Koevorden suggested that we do the same to save time, but we've decided to create a committee that won't be struck for another year, even though it seems to me we're facing a climate emergency.

Is there some way we can ensure this frame of reference is put into practice soon?

• (1140)

Mr. Julien Beaulieu: Yes. As one of my colleagues said, if we create a committee to strike a committee that ultimately adopts something, that could take time, and the framework might not see the light of day or might not be used. That's the problem. We can't create a dictionary that winds up on a shelf, but want a dictionary that will be used by people, investors and financial institutions. A taxonomy that isn't used is utterly useless.

One way to make it useful is to include it in the accountabilities and targets. Many Crown corporations have responsible investment objectives and are required to invest a certain portion of their capital in certain activities. Let's include that in their accountabilities and investment mandate.

There will be accountabilities for federally regulated corporations. Consequently, let's ensure they also disclose the percentage of their assets that meets the taxonomy's criteria. That'll give the taxonomy more teeth.

Ms. Monique Pauzé: So that'll be the case across government.

Bill C-59 concerning the Competition Act was passed in June. Do you think it's strong enough to combat greenwashing?

Mr. Julien Beaulieu: No, it isn't, for two reasons.

First, it applies solely to voluntary disclosures. If a company voluntarily decides to state that it's green or sustainable or that it meets environmental, social and governance criteria, or whatever, it will have to prove that. However, if a business decides to report nothing, then it provides no information that the market can rely on to make a decision. Consequently, that doesn't solve the information asymmetry problem.

Second, companies are required to provide evidence whenever they state something, such as when they claim that they're green, but they aren't required to disclose evidence to that effect. Imagine if my financial adviser told me tomorrow morning to invest in a product that met environmental, social and governance criteria, or in a sustainable product, and assured me I could do so confidently because those businesses were required under the act to prove that the products in question were green. If I asked him to show me proof of that, he might tell me he couldn't do it.

Ms. Monique Pauzé: I see.

Why are the voluntary disclosure initiatives not enough?

The Chair: The six minutes are up, but perhaps you can answer that question during another intervention, Mr. Beaulieu.

Ms. Collins, go ahead.

[English]

Ms. Laurel Collins (Victoria, NDP): Thank you, Mr. Chair, and thanks to all our witnesses for being here today.

In particular, I was appreciating Mr. Stewart's and Mr. de Arriba-Sellier's comments around the inclusion of fossil fuels in the taxonomy and what kind of danger that poses.

This is really maybe for the two of you, starting with you, Mr. Stewart.

The government recently announced its framework for this much-anticipated taxonomy. It definitely left the door open to the inclusion of fossil fuels.

Can you talk a little bit about these dangers? Do you believe, as many others have said, that no taxonomy is better than one that includes fossil fuels?

Mr. Keith Stewart: Yes, the devil is always in the details.

As Mr. Damodaran said, if you get to make up your own definition of what's green, you're going to get a million definitions. With the taxonomy, it's important to remember that this is not like saying that you're not allowed to invest in fossil fuels, ever; it's saying that if you're going to declare that something is green, then we should have a high bar for that. It's pretty clear that there's a strong debate within government and outside government over whether or not to include fossil fuels in that.

The Canadian Association of Petroleum Producers argues that natural gas exports should be qualified as green because you might reduce coal emissions somewhere else. What we're saying is to keep that bar high and have it aligned with the 1.5° science-based opinion. The IEA and the UN have both put out guidelines on how to manifest that. The UN high-level expert group on the net-zero commitments of non-state entities has an Excel sheet that you can

download. It's a checklist of things that are compatible and things that are not.

A lot of that work has been done, but there's a political push to get fossil fuels in because fossil fuels are a very powerful force in our politics. If you're going to be science-based, you should keep that out. The government has punted this to a committee, so a lot will depend on the makeup of that committee.

We're looking to that, but I would say that I would rather have no taxonomy than a bad one.

• (1145)

Ms. Laurel Collins: Thanks so much.

Mr. de Arriba-Sellier, similarly, you talked about how we need to exclude fossil fuels from this taxonomy and some of the dangers we've seen from international examples. Can you speak a little bit more about that?

Dr. Nathan de Arriba-Sellier: There is a case I know very well, the EU taxonomy. It was supposed to be the early mover, the gold standard of taxonomies, as they said at the time. The inclusion of gas in taxonomy, which has been political, and was necessitated perhaps in the wake of the Russian invasion of Ukraine, led to this taxonomy losing a lot of credibility in the investment community.

It's very important that if you set a taxonomy, you respect a certain number of criteria. The EU taxonomy has some criteria that should be included, and maybe they should be respected a bit more. There is challenge before courts in the EU, for instance, and this taxonomy has set criteria that are science-based, including that there is a "do no significant harm" principle—i.e., any of the activities that are covered by the taxonomy cannot lead to significant harm to environmental objectives like climate change mitigation. Inclusion of fossil fuels will, of course, lead to significant harm to climate-change mitigation, and there's also the precautionary principle.

I'm not sure whether the precautionary principle is a principle under Canadian law. I know that in many jurisdictions and in international law, it's a principle of law. It is an important principle, because there are some things that we can't really foresee. For instance, the effect of methane flaring has been documented for years, but it's come to light relatively recently how devastating it was in terms of CO₂ equivalence.

It's important that these three principles—being science-based, doing no significant harm and adhering to the precautionary principle—be respected in a future Canadian taxonomy, if taxonomy varies.

Ms. Laurel Collins: Given the recent research showing increased emissions from gas, especially methane and its detrimental impact on our atmosphere and rising temperatures, can you speak a little bit more about that kind of new research on whether gas will displace coal and whether the claim that this is going to somehow reduce our greenhouse gases is based on science? Why do you think the government is continuing to leave the door open to this?

Dr. Nathan de Arriba-Sellier: I'm not a climate scientist, so I can't really speak on the science itself. Like you, I've read scientific studies supported in *Nature* and in *Science* and supported by the IPCC that indeed show that gas may not be a transition activity in the way that it was considered to be before. Even in the EU taxonomy, you have relatively strict criteria.

To answer your question more directly, I would go back to one of the points made by Professor Damodaran about psychology. If we set a taxonomy, as I think Mr. Beaulieu said, it's a sort of a green label. If we set a green label, everybody would want to have it, especially those who are undertaking greenwashing.

[Translation]

The Chair: We unfortunately have to stop you there.

We'll now go to the second round, which will be shortened as a result of the time at our disposal. Each speaker will have three minutes, whereas the Bloc Québécois and NDP members will have a minute and a half each.

I now give the floor to Mr. Kram for three minutes.

[English]

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

Thank you to all the witnesses for joining us today.

I'll start with Professor Damodaran.

Professor, in your opening statement, you talked about how our dependence on fossil fuels decreased more from 1975 to 1995 than at any other time because of the adoption of nuclear energy. You also, I believe, used the term the “hypocrisy” of environmental activists in their bias against nuclear energy.

Can you explain why this bias may be there in the first place and what some of the benefits of adopting nuclear energy may be?

• (1150)

Mr. Aswath Damodaran: Our dependence decreased because of nuclear energy.

I think part of it is, again, this idea of black and white. If you don't accept shades of grey, you are going to put things on one side of the line or the other. For whatever reason, perhaps because of safety—mostly—nuclear energy ended up on the wrong side of the line. Once you get on the wrong side of the line, there is no way back.

[Translation]

Ms. Monique Pauzé: Pardon me for interrupting.

The Chair: Go ahead.

Ms. Monique Pauzé: I beg your pardon, Mr. Chair, but the subject of our meeting today is sustainable finance. We've already had four meetings on nuclear energy, and we have a report on the subject. I don't understand why we're discussing nuclear energy again.

The Chair: Yes, but I think the subject is broad enough that we can include a discussion of nuclear energy.

We will continue. There are two minutes left.

[English]

Mr. Aswath Damodaran: As I said, in a world of black and white, once you're on the wrong side of the line, there's no way back.

That, I think, is part of my problem. Purists end up putting one type of energy or the other on one side of the line, and we cut off any chance of compromise.

Mr. Michael Kram: Thank you, Professor.

Professor, do companies that adopt ESG policies see higher rates of return compared to companies that do not?

Mr. Aswath Damodaran: No. In fact, the higher rates of return that high-ESG companies have derived has come mostly from big tech companies early in the process, after being classified as good companies in the ESG space.

It has nothing to do with ESG. It's accidental by-product, as I call it.

Mr. Michael Kram: Would it be the case that if companies that did adopt ESG policies did see higher rates of return, then all of these companies would do it and there would be no need for this committee meeting today? Is that a fair assessment, Professor?

Mr. Aswath Damodaran: That's exactly right.

If ESG and sustainability were so good for your bottom line, why the heck would you need it in the first place? They'd do it anyway.

Mr. Michael Kram: Also, Professor, in your opening statement, you used the example of being asked to pay \$40 to reduce your carbon footprint on a commercial airline ticket. What advice would you have for people the next time they're asked to pay that \$40 to reduce their carbon footprint the next time they buy a commercial airline ticket?

The Chair: You have 30 seconds, Professor.

Mr. Aswath Damodaran: You'd be out of your mind to pay it. I would not.

Mr. Michael Kram: Can you elaborate on why that is, Professor?

Mr. Aswath Damodaran: That money might go into planting a tree in Oregon or it might go into somebody's pocket. I think that this is part of the gravy train that I talked about, with all of that money being collected with very little to show for it.

[*Translation*]

The Chair: Thank you.

Ms. Chatel, go ahead.

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

Welcome to the witnesses.

The committee has been fortunate to hear from economists from the OECD and Canada as well, all of whom have said that Canada should definitely take action on sustainable finance because it's a matter of international competitiveness. We're seeing foreign capital flowing into countries that have adopted the taxonomy and mandatory disclosure for large businesses.

I would really like us to discuss in greater depth the importance of the announcement that the government made in October, on October 9 to be more precise, on the two major pillars of green finance. There's obviously the taxonomy of green finance, transition finance and mandatory disclosure.

Mr. de Arriba-Sellier, I'll go to you first. Would you please describe for us the benefits of such a taxonomy in Europe for the economies of those countries and the competitiveness of European companies seeking to attract foreign capital?

Dr. Nathan de Arriba-Sellier: Thank you very much.

I think that taxonomies, in both Europe and elsewhere, give companies a sense of the direction public policies are taking. The taxonomies themselves are a support, particularly for public policies. In Europe, other regulations on the disclosure of information, the duty of care and the obligations of banks and so on have been developed based on a taxonomy.

In the case of developing countries such as China and Brazil, which have adopted taxonomies too, we also see monetary policies, credit policies, economic investment policies and fiscal policies that could even support the taxonomy, and that could indeed be conducive to a positive investment dynamic. Ultimately, it could support both the fight against climate change and economic development as well.

• (1155)

Mrs. Sophie Chatel: Thank you very much.

So it would help us meet our global warming targets and would also be a benefit for our economy. It's really beneficial for both our economy and the environment.

That's good. Thank you very much.

The Chair: You are at three minutes of speaking time.

Mrs. Sophie Chatel: In that case, I'd like to ask Mr. Beaulieu a brief—

The Chair: You have no time left.

Mrs. Sophie Chatel: All right.

Thank you all the same.

The Chair: I'm sorry.

Ms. Pauzé, you have the floor for one and a half minutes. That leaves you enough time for a good question.

Ms. Monique Pauzé: Thank you.

Mr. Beaulieu, I'm thinking about voluntary carbon offset credits. Can everything related to voluntary disclosure entail greenwashing risks?

Mr. Julien Beaulieu: It's interesting that Professor Damodaran discussed that, and he seems to have an answer.

As far as I'm concerned, I think we should be able to buy those offset credits but they should be of high quality. Proper information on what they are would be necessary. No one should be led to believe that buying those credits will resolve the climate crisis or that every business can offset anything.

The problem isn't the fact that credits exist. It's a good thing that they do. They can help ensure that money is invested in reforestation or conservation projects. These credits have a role to play.

However, they pose two problems. In some instances, they're of very poor quality and they're used for all kinds of things that make no sense—

Ms. Monique Pauzé: I'll stop you there. Thank you.

I have a question for Mr. Stewart.

What should we do to ensure that Canadian banks are held accountable for the role they play in fuelling the climate crisis? Can something be done?

The Chair: A brief answer, please.

[*English*]

Mr. Keith Stewart: We need to require them to have climate transition plans that are aligned with 1.5°. There are a variety of ways to do that, but that is key, because otherwise, they're going to continue with business as usual. We've seen that since they announced their net-zero commitments in 2021. We haven't seen major changes in how they behave.

The Chair: Thank you.

Next we have Ms. Collins for a minute and a half.

Ms. Laurel Collins: Mr. Stewart, earlier this month, it was reported that if Bay Street were a country, it would be the fifth-biggest climate polluter in the world. These are shocking numbers, embarrassing for Canada, given that our banks are investing in fossil fuels at such high rates.

Can you talk a little bit about the economic risks, the risks that you generally see in this news?

Mr. Keith Stewart: Yes, Canadian banks and pension funds are major investors in fossil fuels.

I think the risk is twofold. There's the risk that involves making climate change worse and the physical impacts that come with that. We've seen that risk when we look at all the destroyed infrastructure from these more extreme storms, etc.

Then there is what we call the transition risk. If we keep making the heavy investments in Canada and abroad with Canadian banks, insurers, etc., in fossil fuels, and the world successfully makes a turn away from fossil fuels—which is, for instance, what the IEA is going to do—even with no new climate policies, we'll see a reduction in the market for fossil fuels and we'll be left with a bunch of white elephants.

We're going to end up paying the cost for that. We're going to end up having to clean up all of the old wells on the public's dime, because the companies will go bankrupt. They're already very good at transferring those costs to us. That's a huge risk to the rest of us as well.

The Chair: Thanks very much.

We'll now go to Mr. Deltell for three minutes.

[*Translation*]

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

Thank you very much to the witnesses for this relevant information.

Mr. Beaulieu, you've spoken at length, and rightly so, about greenwashing. Some people say they have good intentions or project a good image, but that ultimately isn't really true of certain companies and individuals.

I'd like you to tell us about the approach that many companies, organizations and even individuals have adopted in this matter. They take planes, travel, attend conferences around the world, in deserts, and, when they come home, they buy trees or carbon credits to ease their conscience.

I'd like to hear your opinion of greenwashing in those situations.

• (1200)

Mr. Julien Beaulieu: That's a very interesting question because we increasingly see greenwashing around us. I recently noticed it at a truckers' festival, where all those GHG emissions were offset and people claimed to be eco-friendly. You can be glad they offset their GHG emissions, but, in the end, it was still a major polluting event that shouldn't have been considered eco-friendly or sustainable.

You can introduce very specific measures to restrict both the cases in which people can use these credits and the kinds of allegations that can be made when using the credits. For example, minimum conditions for distributing or using credits can be defined. You can state all the minimum criteria that must be met to be certain that credits are of high quality. You can also restrict the circumstances in which they may be used. For example, should we allow an airline to offer carbon-neutral flights? Perhaps we shouldn't allow that. Perhaps we should permit the use of credits as a good measure by ensuring that we clearly explain that credits don't make flights car-

bon neutral, that aviation is still a polluting industry and that a transition is necessary. The use of carbon credits should be clearly delineated.

What California has done is very interesting. It has passed legislation requiring all businesses that distribute or use carbon credits or offsets to disclose information on their quality. This then provides the government with information on criteria and quality, and they determine the purposes for which those credits can be used. Canada should do the same thing by amending the Competition Act, for example. Amendments have recently been made to that act and others should follow. We should also make regulations or pass a separate act, as California has done, to determine clearly how those credits are to be used.

I agree that significant risks are involved in the use of carbon credits and offsets. Everyone around this table seems to feel that credits can present quite significant greenwashing risks. We should clearly determine how they are to be used.

Mr. Gérard Deltell: When the Minister of the Environment appears here, he always says he buys carbon credits right away when he attends a conference outside Canada. Do you think we should encourage virtual participation instead? For example, I attend the COP international meetings virtually. It costs the taxpayers nothing and has no impact on the environment, especially since I drive to Ottawa in an electric car.

Do you think the government should have somewhat stricter rules when it comes to participating in events outside Canada, given how they present us with high-minded principles, but the environmental cost is much higher than if we were to participate virtually?

The Chair: Please be very quick, Mr. Beaulieu.

Mr. Julien Beaulieu: I think we should all cut back on flights as much as we can. That is why I am talking to you about governance right now.

The Chair: That's good.

[*English*]

Mr. van Koeverden, you have three minutes.

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

I'd like to start where I finished off with Mr. Beaulieu, if I could.

There has been some confusion on this committee today, I feel, with respect to whether a taxonomy would make it mandatory or obligatory for all companies to adopt environmental, social and governance frameworks, or if they would simply have to be honest and forthcoming about the feasibility of their stated goals, as we've seen them take these on as marketing. Could you clarify that?

Mr. Damodaran implied that the adoption of a taxonomy would make some of these commitments mandatory. Is that the case?

Mr. Julien Beaulieu: It's not the case. A taxonomy just creates a label.

If you want to issue a green bond, everybody knows what should be in a green bond. If you want to issue a transition bond, everybody knows what's in a transition bond. You might still want to issue a regular bond or a brown bond—call it whatever you like—but at least for these specific criteria, we know what it means. Everybody agrees on the criteria that must be met. This allows us to avoid this “disclosure diarrhea” that Mr. Damodaran mentioned.

This way, we're sure we're all playing by the same rules. We know what the words mean. If some people then want to invest in green, good for them. If some people want to keep traditional investment strategies, well, we won't say, “Good for them”, but they still have the opportunity to do it.

Anyway, it would be provincial regulators regulating these bonds at the end of the day. The taxonomy cannot achieve that in its current framework.

Mr. Adam van Koeverden: To be clear, they are currently saying that they're net zero, green or very environmentally sustainable, but there's no ledger or... The taxonomy is the definition of those things. In the absence of that definition, they can be as dishonest as they'd like.

• (1205)

Mr. Julien Beaulieu: They might be making \$200 billion of commitments to invest in sustainable projects, but it's up to them to define what “sustainable” means. That's why you might be interested in defining “sustainable” as well, and coming up with other words or at least requiring them to provide very specific information on what they mean when they say “sustainable”.

That brings me back to what I was saying about the Competition Act. Now, if you say that you're investing in sustainable projects, you need to have proof, but you're not required to disclose this proof. If you require banks that say that they're sustainable to explain how and to provide all the evidence, then you're providing an additional layer of transparency.

Mr. Adam van Koeverden: Thank you.

Mr. Chair, I'd like to table my motion that I brought to the committee's attention just recently on Bill C-73, which is an act respecting transparency and accountability in relation to certain commitments that Canada has made under the Convention on Biological Diversity.

I'll read it again for the committee: “That to this end, the committee hold a minimum of five meetings, invite the Minister of Environment and Climate Change and officials; and that the study begin within seven days of the adoption of this motion.”

The Chair: On that, I will thank the witnesses for their time. It was a very interesting and dynamic discussion. It will help us greatly in the report that we produce. Thank you again. You may disconnect and leave the meeting.

Now, is there agreement on this motion or do we need to debate this?

Go ahead, Mr. Kram.

Mr. Michael Kram: Mr. Chair, I believe Mr. van Koeverden said he was just tabling the motion but not moving it. Is that correct?

Mr. Adam van Koeverden: No, to be clear—sorry, Mr. Kram and Mr. Chair—I meant to say that I had tabled it before and I was moving it today.

The Chair: You're moving the motion.

Is there anything more to say, Mr. van Koeverden?

We'll go to Madam Pausé and Ms. Collins.

[*Translation*]

Ms. Monique Pausé: I would like to move a friendly amendment, Mr. Chair.

The Chair: Yes, Ms. Pausé.

Ms. Monique Pausé: At the end of Mr. van Koeverden's motion, it says: “That this study begin within 7 days of the adoption of this motion.” Personally, I suggest that the study begin once we have completed the meetings on sustainable finance.

The Chair: If I understand correctly, that would be the case. It seems to be written in such a way as to allow us to complete the testimony; we have two meetings left for that, next week... In fact, you're correct, it might interrupt the meetings on finance.

Ms. Monique Pausé: I would like to propose something, Mr. Chair.

There are three meetings left, in principle. The original motion on sustainable finance that was introduced by the Bloc Québécois talks about the Minister of Finance and the Minister of the Environment.

Would it be possible for the clerk to prepare a table showing what is in the motion and the witnesses we have heard from?

I think that if there are only the Minister of Finance and the Minister of the Environment left, we could hold one last meeting with them next week.

Is that possible?

The Chair: I think it is in principle, but it is not that simple. I was actually going to discuss this at the end of the meeting, but I will take the opportunity to do it now.

We could invite the ministers to both meetings next week, but we can't be sure they will be able to accept. If they can't, we will have to postpone the next meetings on finance so we can try to find dates when the ministers can be here, or we will have to invite only their officials.

That is a whole discussion. I think that if we want to finish the study on the financial system next week, Mr. van Koeverden will have to agree that we not start the pre-study before the week of November 18, given that the week of November 11 is a break week. So we would have to agree that we will try our luck with the two ministers for next week. If that doesn't work, we will forget about it or invite the officials.

Ms. Collins, I know you want to speak to the motion, but the discussion is about the amendment.

Mr. van Koeverden, would you accept a friendly amendment so we can finish the study on finance next week?

• (1210)

[*English*]

Mr. Adam van Koeverden: I think that's totally fine. That's the intention. I was just curious about the number of meetings left on sustainable finance prior to going over any of the testimony. Presumably, we have one meeting on October 30 and another one on November 4. Did you say there's a third on November 6?

The Chair: All of this week and all of next week are on sustainable finance, and then the hearings are over.

Mr. Adam van Koeverden: That's great.

Can we all agree that when we return, we're going to study Bill C-73?

The Chair: Yes. We could even take out paragraph (b) altogether, I guess. We agree we should start it, but we want to let sustainable finance finish before we start it.

Mr. Adam van Koeverden: If it requires an amendment, that would be fine.

The Chair: Here's some additional information. If we do that, we would start with this pre-study on November 18; however, we would not be able to hear from the commissioner, who is scheduled for November 18.

I'm sorry; it's ISED that is scheduled for November 18.

Mr. Dan Mazier: You have to get to Ms. Collins.

The Chair: She's talking to the main motion. I'll get back to her. We're dealing with the amendment.

Ms. Laurel Collins: I also have my hand up for the amendment.

The Chair: That's okay.

I don't know if we're going to finish our second panel today, but go ahead on the amendment, Ms. Collins.

Ms. Laurel Collins: We just had a full session of committee business when Mr. van Koeverden could have brought this motion, since he tabled it in advance of that full day of committee business. I wish we could do that so that so we don't displace any of our really important witness testimony for today.

From my perspective, I very much want to make sure the nations from Fort Chipewyan have a study that—

The Chair: I can come to that too. The transport committee has gotten back to us, saying it will have a future business meeting. Correct me if I'm wrong, Madam Clerk, but it recognizes the im-

portance of doing a study. It's going to look at the possibility of doing a study, so we don't have an answer on that right now.

Ms. Laurel Collins: According to the motion we passed, if they didn't get back to us by today saying that they were going to do a study, we are planning on doing a study.

If there is an amendment being put forward to this pre-study on Bill C-73, I very much support looking at Bill C-73, tackling the big gaps in the legislation and strengthening the legislation on biodiversity accountability, but I want to make sure that doesn't displace the important study on the contamination in Fort Chipewyan, so I would suggest that it come afterward.

The Chair: Who's next on the amendment?

Mr. Mazier, go ahead.

Mr. Dan Mazier: Ms. Collins brings up some really good points. We have lots on the docket. We have a minister who is not showing up on Jasper. We have to finish up the net-zero accelerator. To Ms. Collins' point as well, we had a whole meeting during which we could have brought this up, and I think we're just a little too busy.

I move the adjournment of debate.

• (1215)

The Chair: We will vote on the motion to adjourn debate.

(Motion agreed to: yeas 6; nays 5)

[*Translation*]

Ms. Monique Pauzé: Mr. Chair, I'm not sure I follow.

I would like debate to be adjourned so we can resume the discussion with the witnesses who are here to discuss sustainable finance. Otherwise, we will have to postpone the study on sustainable finance again. I no longer know whether we needed to—

The Chair: Debate is not suspended, it is over.

[*English*]

Mr. Dan Mazier: We adjourned debate.

The Chair: We adjourned debate.

[*Translation*]

It's over, we are not going to talk about it any more today.

We are continuing the meeting with the second panel.

[English]

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

The Chair: Go ahead.

Ms. Laurel Collins: If one of us moved it at the very end, after we've heard from the witnesses—

The Chair: It's done now. It's done for the whole meeting, I think. It's adjourned for the whole meeting. I don't think we can discuss it today. Is that correct?

Let me just check with the clerk.

Ms. Laurel Collins: I think Ms. Pauzé and I were hoping that it could be talked about later on in the meeting after the witnesses leave us.

The Chair: Because we're changing subjects now and we're going to the witnesses, theoretically it could be reintroduced. Somebody could move a motion to resume debate on this after our next panel. That will take us to 1:20. I've asked for extra time so that we can go to 1:30, but we don't know yet, so right now we only have until 1:15. Why don't we bring in the panel and see what happens at 1:15 or 1:20? If we have more time, then somebody could move that.

We'll have to wait and see, I guess. That's what we'll have to do.

Shall we proceed with the next panel? They're waiting. They have to be onboarded, so we're going to have to break for a couple of minutes.

• (1215) _____ (Pause) _____

• (1220)

The Chair: We'll resume with our second panel.

Thank you to the panellists for your patience. We just had a little diversion there for a short period.

[Translation]

With us is associate professor François Delorme, testifying as an individual.

[English]

Also appearing as an individual, we have Professor Alex Edmans.

From the Canadian Bankers Association, I believe Bryan Radecky will be delivering the opening statement. He is the director of financial stability.

We'll start with Professor Delorme for five minutes.

[Translation]

Mr. François Delorme (Associate Professor, As an Individual): Thank you for the invitation to appear before you today, Mr. Chair.

I would like to start with a brief description of my background, which will help to understand my testimony better.

I spent five years working at the OECD, the Organisation for Economic Co-operation and Development, and then almost

15 years at the Department of Finance in Ottawa. I also held the position of chief economist at Industry Canada. So I can say that I have seen and observed how the system works from the inside, since I have personally contributed to making the system work, the system in which private short-term objectives take precedence over longer-term objectives that focus on the common good, such as climate or population aging. I have gained a bit of perspective since then and I have concluded that public policies that are more impactful, when it comes to economic policies or finance, are necessary. I will come back to this a little later.

From a more personal perspective, I am teaching students in their twenties this fall, four times a week, most of them suffering from eco-anxiety because of the growing harmful effects of climate change. Last week, I gave a presentation to the students at a CEGEP, young people about 17 years old, who have virtually no voice on this in our institutions. They want to know why too few people in previous generations, including my own, mobilized and did something about it. The baby boomers owe young people an enormous debt. They privatized wealth and socialized costs.

In a more personal context, I know the committee is also aware of the fact that greenhouse gases rose by 1.3% in 2023. We went down the wrong path, and this is making things even worse, in my opinion, based on what I said earlier.

The other thing I would also like to say is that I think the countdown starts in 2030, and that is the most important thing. We have to change our public policies and get on the right course in the fight against climate change by 2030. This is extremely important. The IPCC, the Intergovernmental Panel on Climate Change, keeps telling us this and hammering it into us. Personally, I always highlight this aspect in my public speaking and in my climate research.

Anyone with an understanding of economics or finance knows that economics and finance are closely related. One person's savings fuel another person's investments. And yet sustainable development and sustainable finance are nothing but oxymorons for the time being. Maximizing returns in the short term is actually and quite simply not compatible with a climate strategy. This has been clearly demonstrated in the work done by Alain Grandjean, Julien Lefournier or Gaël Giraud in Europe, for example, on green finance.

In a free market, we can compare a company adopting environmental rules that are stricter than other companies' to handicapping itself when it comes to competitiveness and costs. Given the existing rules, that would be fatal.

The government therefore has to do what it is here to do: secure the common good by legislating. Countries that are ahead of the curve in this regard are going to protect what they have gained. That is why, for example, Europe has deployed the first phase of its carbon tax at the borders, to correct for discrepancies in regulatory stringency. The United Kingdom will be doing this in 2027. As you know, this means imposing tariffs on carbon, which means on carbon-intensive imported goods.

The Government of Canada has put a robust carbon pricing scheme in place in addition to an ambitious path that is set to reach \$170 per tonne of CO₂ in 2030. That price is lower than what most economic cost analysis models show. It should be much higher. Given that Canada already has a robust carbon pricing system, Canadian businesses might not incur the tariff adjustment that will be implemented in the European Union. This would give our businesses an advantage over competitors who do not already have a carbon pricing system similar to the European Union's.

The other thing I want to say was raised by the previous panel—

• (1225)

The Chair: Wrap it up very quickly, please, Mr. Delorme. The five minutes are already up.

I will give you another 15 seconds.

Mr. François Delorme: I would like to conclude by saying that we need to have verifiable ESG criteria: environmental, social and governance criteria. At the Université de Sherbrooke's taxation and public finance chair, we did a study to show that ESG criteria are not real criteria, and are not verifiable, at present. They cannot be tracked over time.

The Chair: Okay, thank you.

Ms. Pausé, the floor is yours.

Ms. Monique Pausé: Yes, I'm sorry. Obviously, I was hearing Mr. Delorme speaking in French, but at the same time I was hearing the interpretation in English. Even as I am speaking to you right now, I am actually hearing the interpretation in English.

The Chair: What does that mean?

Apparently it is fixed now.

Ms. Monique Pausé: Thank you.

The Chair: Mr. Delorme, you will have an opportunity to share your ideas with us when we move on to the second Q&A period.

[*English*]

Professor Edmans, go ahead, please. You have five minutes.

Prof. Alex Edmans (Professor, As an Individual): Great. Thank you very much for the invitation for me to contribute to this very important topic.

From the outset, I should say that I'm a strong ESG advocate. I understand the importance of taking ESG factors into account for both society and long-term financial value. However, my views on this topic will be somewhat more nuanced. I hope these nuances will be of help to this committee.

The text of the motion refers to alignment with the Paris Agreement and promoting "the reduction of inherent risks". It's important

to be clear on what these risks are. These could be risks to society, which we often call impact, or risks to the portfolio of a financial institution, which is often called dependency. Obviously, in many cases these overlap. A lot of my own research is on the overlap between what's good for society and what's good for shareholders, but they don't always overlap, and it's important to be mindful of these trade-offs. For example, if there's limited government action, then investing in fossil fuels poses limited risk to your portfolio. In fact, boycotting fossil fuels could lead to more risk, even though this is a risk to wider society.

I also recognize that it mentions alignment with the Paris Agreement. However, there is evidence suggesting that we might be going for 2.7°C rather than 1.5°C. It's not actually clear whether it's prudent to have a portfolio that will do well in a 1.5°C scenario. The question then is, what should the objective be? Should we only take into account risks to the portfolio, or do we think financial institutions have a moral or societal obligation to take into account risks to wider society? It's not clear.

It's clearly not for me to say what the objective should be, but let me give some guidance as to what might be the implications of different objectives.

In terms of banks—part of the motion mentions "banking institutions"—they do need to be solvent for their depositors and also for wider society. Otherwise, losses could be leading to some pain in bailing out the banks. It may well be that the investment lending decisions that are good for climate change might not actually be good for the portfolio. If they were good for the portfolio, then, as Professor Damodaran was saying in the early session, why do we need regulation to encourage banks to take this into account? They would do this anyway. As well, why climate risk and why not the risk of a cyber-attack or a pandemic? There are lots of other material risks for banks.

For pension funds, which are also mentioned, again it's not clear what the objective should be. The objective might be to maximize retirement income for pensioners. Now, for me as a pensioner, I actually don't have that as my objective. I invest in climate-conscious funds, but I can choose to sacrifice my return. I am able to afford it. Other people might not be able to, so it may be that their objectives are purely financial.

Now, let's say we do care about impact and that we do want the objective to be more than just financial returns but impact on wider society. It's not clear how we achieve this. One view is divestment. Indeed, net-zero alignment, or Paris alignment, often refers to a portfolio that divests fossil fuels, but there's a lot of academic evidence suggesting that divestment, particularly in equity markets, has limited impact. If you sell and somebody else buys, given the fluidity and the liquidity of capital markets, the actual cost of capital impact is pretty small.

Another view is engagement. Engagement many times can be micromanagement. It might be that investors who could be uninformed are imposing more one-size-fits-all rules on companies, whereas a company might be better placed to understand the risks that are most material to it.

Finally, let's say we do care about the impact on wider society. The impact on wider society is more than just the impact on the environment. I agree again with Professor Damodaran about the concerns of black and white thinking.

I just got back from the World Economic Forum in Dubai, where we were facing the just transition. One woman from Africa got up and said that in Africa, 600 million people do not have access to electricity. We were talking about a just transition when 600 million of her citizens have nothing to transition from. Another person referred to a doctor in Sierra Leone. There was a power cut, and babies died in a neonatal unit. These are issues that maybe we in the west don't acknowledge. Given that the committee is in Canada, maybe the focus is on Canada, but we often view the west versus Africa in black and white terms. There might be people in Canada who have energy poverty.

Now, this is absolutely not to say that climate change is not a serious issue; it is absolutely a serious issue. I've devoted a large part of my career to addressing this issue, but I'm hopefully highlighting some of the concerns and some of the difficult trade-offs that might come about from pursuing this.

• (1230)

The Chair: Thank you very much.

We'll go now to the Canadian Bankers Association with Mr. Bryan Radecky.

Go ahead, please.

Mr. Bryan Radecky (Director, Financial Stability, Canadian Bankers Association): Thank you for inviting the Canadian Bankers Association to appear this afternoon to participate in the committee study of the environment and climate impacts related to the Canadian financial system.

My name is Bryan Radecky, and I am director of financial stability with the CBA. I'm joined today by Darren Hannah, senior vice president, financial stability and banking policy.

The CBA represents more than 60 domestic and foreign banks employing over 280,000 Canadians who help drive Canada's economic growth and prosperity. We advocate public policies that contribute to a sound, thriving banking system to ensure that Canadians can succeed in their financial goals.

Climate change is a critical issue of our time, and banks in Canada are committed to doing their part to address it. Banks understand that the financial sector is central to securing an orderly transition to a low-carbon economy while also ensuring the continued resilience of our country's financial system. This includes working with clients across industries to help them decarbonize and pursue energy transition opportunities.

By financing the climate transition, banks are helping Canada meet its net-zero ambitions while also helping society meet interim energy demands in a volatile global context. Our six largest banks participated on the federal government's sustainable finance action council. We acknowledge the updates provided by the government earlier this month on plans for developing a Canadian taxonomy, and we look forward to further progress in this area.

A taxonomy should provide greater clarity and certainty for businesses investing in new technologies and projects for the energy transition and for the financial institutions supporting them. Notably, even in the absence of a Canadian taxonomy, our largest banks have made commitments in the hundreds of billions of dollars. This is reinforced by the commitments made by our six largest Canadian banks as members of the Net-Zero Banking Alliance.

Our banks prepare and issue climate and sustainability reports on an annual basis, with details on their missions, targets and progress towards achieving targets, along with information on their sustainable finance activities. Our banks are also engaged with regulators and standard setters, both domestically and internationally.

Following the release of the Basel Committee on Banking Supervision's climate principles in June of 2022, our Canadian banking regulator, the Office of the Superintendent of Financial Institutions, finalized its guideline B-15, on climate risk management, in March 2023. OSFI went a step further than the Basel committee at the time by including a set of minimum mandatory climate-related financial disclosure expectations spanning governance, strategy, risk management, and metrics and targets.

These disclosures are based on the Financial Stability Board's task force on climate-related financial disclosures, which our largest banks have been voluntarily implementing for a number of years. Our largest banks are now mandated to meet OSFI's disclosure expectations starting as of their 2024 fiscal year-end, with our small and medium-sized banks being similarly obligated starting as of their 2025 fiscal year-ends.

At a broader level, the International Sustainability Standards Board set about developing standards that would create a global baseline of sustainability disclosures. The ISSB built on the work of the task force on climate-related financial disclosures and published their inaugural standards in June 2023, including a climate-related disclosure standard. OSFI had already incorporated this standard into guideline B-15 in March of this year. Importantly, the ISSB standards are intended for broader application across industry systems, should they be adopted by national jurisdictions.

While OSFI has already taken steps in this regard, it is also notable that a new Canadian Sustainability Standards Board was established and consulted earlier this year on their inaugural standards that closely mirror the ISSB standards. We look forward to the CSSB finalizing its standards, which we hope will be adopted by other regulators and sectors across Canada.

To this end, we also acknowledge the government's interest in mandating climate-related financial disclosures for large federally incorporated private companies and in considering ways for small and medium-sized businesses to voluntarily release climate disclosures as well.

Investors and analysts are looking for harmonized international disclosures that facilitate comparability. We are encouraged that Canadian regulators and standard setters are engaging with their peers internationally and are already in the process of adopting global baseline standards in Canada.

A Canadian taxonomy will also be important in incentivizing greater levels of sustainable finance. Governments, regulators, standard setters, banks and the private sector all have a role to play in taking concrete actions that support the energy transition in Canada. We believe it is important to recognize the progress that has been made to date, but we acknowledge that more work remains to be done.

Thank you, and we look forward to your questions.

● (1235)

The Chair: Thank you very much, Mr. Radecky.

For the first round, we'll go to Mr. Kram for six minutes.

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

Thank you to all of the witnesses for being here.

Mr. Radecky, I would like to follow up on what you said about the OSFI disclosures. Is it your understanding that climate reporting is already mandatory through the OSFI process? Is that correct?

Mr. Bryan Radecky: Under OSFI's guideline, climate disclosures will become mandatory for our largest banks effective over their 2024 fiscal year-ends and for our small and medium-sized banks starting with their 2025 fiscal year-ends. However, our largest banks have certainly been voluntarily providing their disclosures under the TCFD framework—the task force on climate-related financial disclosures framework—for a number of years as well.

Mr. Michael Kram: Okay. Thank you for the clarification.

I'd like to circle back to Professor Edmans.

Professor, you talked about the overlap between what is good for society and what is good for a company's shareholders. What advice could you offer policy-makers so that governments are working in co-operation with the private sector to achieve both of these goals, which, as you indicated, may or may not overlap at any given time?

Prof. Alex Edmans: I think it's to forget about this ESG label.

Here's the problem with ESG: It bundles everything under the ESG umbrella in the same way. However, some of these things overlap and some of them don't, so it's important to consider them separately.

What is one thing where the impact on society comes back and benefits the company's profits? It's human capital. Some of my early work is on how treating your worker well ultimately leads to greater profits down the line. That is something I call an internality. Even in the absence of government regulation, a company bears the consequences of its human capital investments.

Something like climate change is an externality through which you benefit wider society and might benefit other companies, but if you're a fossil fuel company, it is costly to reduce production significantly.

Those are the cases in which, if you are to tell a company to produce less or do this, it may well be at the expense of financial returns, and remember that financial returns don't just go to nameless, faceless capitalists: They could go to pensioners and they could go to depositors, if you're a bank, so we do need to consider financial returns, and when there are trade-offs, we need to acknowledge them rather than think that everything is going to be a win-win.

● (1240)

Mr. Michael Kram: Given that there can be so many positive and negative externalities and internalities—as you use those terms—it would seem to me that it would be extremely complicated for a government to come up with a taxonomy system that could incorporate all of these different facets. Could you elaborate on whether that could even be done and, if so, how?

Prof. Alex Edmans: I think it would be extremely difficult to come up with a taxonomy. I'm not sure who is the supreme being to decide which things are material and which are not, and which ones to weight and which ones to not.

This is how ESG has become such a problem. Certain industries—let's say defence—were said to be bad, and now they're said to be good. This is because our weight on the different criteria will change over time.

Most recently, I've joined the sustainability advisory council of Novo Nordisk, which has come up with these weight-loss drugs. We've decided to send some of these drugs to developing countries, even though this leads to less revenue for us. Now, that is bad for our carbon footprint, because it means shipping these drugs to developing countries, yet there's a huge benefit in terms of reducing obesity. Actually, if you reduce obesity, then you can reduce climate change down the line, because if people don't develop diabetes, then they don't need to go to a hospital for dialysis three times a week.

Any taxonomy is typically going to ignore many of these criteria. It's really difficult to know where the bright line is to say what's good or what's bad. I would not like to be the regulator that claims that it has all of the knowledge to rule on these complicated issues.

Mr. Michael Kram: Perhaps, Professor, if you were the regulator, you would have a considerable amount of power and a considerable amount of job security. Would you agree that this may very well become the case?

Prof. Alex Edmans: It would be, and then I'd have a lot of power to decide which companies succeed and which do not.

In the earlier session, somebody said, "Well, it's a taxonomy. It's just a description. It's value-neutral." It is not value-neutral.

I understand that the EU taxonomy in articles 6, 8 and 9 was supposed to just be descriptive in using blue, green and red—you want to invest in blue, green and red funds. This is not how things have gone. If you're an article 9 fund, you're much more likely to get capital than if you're an article 8 fund, so if we classify certain activities as green, those will get more capital than the ones that don't have that classification, and it may well be that companies will spend a lot of effort in ticking the box and getting the classification rather than doing the right thing.

Actually, in some of my own research on a different topic—diversity, equity and inclusion—what I find is that when demographic diversity, which often comes into taxonomies, has no relation to true equity and inclusion within the workforce—to inclusiveness in corporate culture—we can focus on the things that hit the taxonomy without actually creating value for wider society.

Mr. Michael Kram: Professor, in your opening statement you had some pretty stark examples of Africa's and Sri Lanka's climate change and global warming initiatives.

What is the best way for developed countries, like Canada and the U.K., to work with these underdeveloped countries, given that global warming is a global problem? In particular, can you offer some suggestions of technologies that could be shared with the developing world?

The Chair: We have only about five seconds left, so it might have to be an answer to a question later on.

Madame—

Prof. Alex Edmans: I'll just say understand these issues.

The Chair: You can also write to us and send us an answer in writing. It will be incorporated into the crafting of our report.

Madame Chatel is next.

[*Translation*]

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

Mr. Delorme, I smiled when you talked about your career at the Department of Finance and at the OECD, the Organisation for Economic Co-operation and Development, since it is very similar to my own.

The committee has had the pleasure of hearing from Mr. Miller, a representative of the OECD who spoke to us about the progress made by the OECD, and from Mr. Usher, from the United Nations.

If I may, I would like to address the issue of the competitiveness of the Canadian economy on the international stage. I think this is an important issue. My Conservative colleagues often talk about abandoning the carbon pricing system, which would, as you said, expose us to European tariffs on our exports. There are others who question sustainable finance, and this could make Canada less attractive to foreign investors.

Can you tell us more about the possible consequences of doing nothing on these two subjects?

• (1245)

Mr. François Delorme: The arbitrage takes place in the short term, not the medium or long term. Canada may decide to eliminate eco-tax measures in order not to hamper its competitiveness, but that will catch up with it at some point. The road not taken in the next three to five years will have to be taken. Talking is all very well, but the climate does not really care what we do or don't decide. Global warming is going to continue, and the costs of adapting and mitigating are going to continue rising. We can procrastinate and try to temporarily avoid problems or weaknesses when it comes to competitiveness, but it is only going to hit us harder later on.

Mrs. Sophie Chatel: Can you tell us about Canada's recent announcement regarding green, sustainable finance and how they are going to impact small and medium-sized businesses? Our economy is largely based on small and medium-sized businesses.

I see that these businesses will not be covered by mandatory disclosure. Personally, I am worried about the competitiveness of our small and medium-sized businesses as finance is transitioned to green finance. I want these businesses to be competitive and be able to find medium-term investments.

Can you tell us more about this?

Mr. François Delorme: I think that if big corporations are required to comply with stricter disclosure rules, there is going to be peer pressure. In any event, there will be pressure on small and medium-sized businesses to take measures that the big companies have adopted. I think this will be a win-win situation. I also think this shows that there have to be coordination efforts and mechanisms, not just in the business community, but also between countries and with our competitors.

Mrs. Sophie Chatel: You talked about Europe's competitiveness as compared to Canada's. Canada is already two years behind Europe, and we are going to be adding another year to that.

What risk is there in having waited so long for sustainable finance?

Mr. François Delorme: The risk is what I mentioned earlier. We are gaining time, but there is going to have to be an adjustment. The longer we wait, the more impactful it will have to be. Taking a short-term view, that is defensible, but from a medium or long-term perspective, it is not a good decision.

Mrs. Sophie Chatel: So we are going to suffer a bit over the next few years, but it will be so we can reap the benefits of our efforts. Is that it?

Mr. François Delorme: That is what I believe, and I think the sooner we start, the better it will be.

Mrs. Sophie Chatel: Great.

There has been a lot of talk about harmonizing the various taxonomies. In relation to finance, there is going to be a guide to the Canadian taxonomy, and that is a good thing, because I think we need to have our own taxonomy. That being said, there is going to be an exercise to coordinate the various taxonomies: the European, Australian and Canadian ones.

What recommendations are you making to the international organizations that will be looking at this?

• (1250)

Mr. François Delorme: I think we absolutely have to speed up the efforts being made for harmonization. In any event, as we have seen, the G20 has adopted a minimum 15% tax on big corporations and multinationals, precisely to level the playing field and avoid international tax optimization strategies. I think we have to do exactly the same thing when it comes to the green taxonomy.

Mrs. Sophie Chatel: That is an excellent project.

The Chair: Unfortunately, I'm sorry.

Ms. Pauzé, the floor is yours.

Ms. Monique Pauzé: I would again like to thank all our witnesses for participating in this exercise, in which we are trying to better understand why Canada has is lagging behind when it comes to sustainable finance.

Mr. Delorme, you are an insider, as you told us. You have made your home at both the Department of Finance and the OECD. You have seen how short-term the objectives are, when what we need are long-term objectives.

Do you think a paradigm shift is needed in economics and finance? If so, what change should be made, and why?

Mr. François Delorme: I absolutely believe it is, because it is plain to see that the dynamic we are in right now emphasizes short-term returns or short-term profits, which makes logical sense from a short-term perspective. However, climate and climate change are not short-term processes. They take place over a medium term.

I stress this because we are aiming for maximum warming of 1.5°C by 2100, but the IPCC, the Intergovernmental Panel on Climate Change, is calling for impactful measures to be taken by 2030. That is why I mentioned the countdown effect in my preliminary remarks. So I believe it is all very well to talk about net zero and carbon neutrality by 2050, but this is not useful for deciding the public policies that we need to adopt in order to change course when it comes to climate change.

Ms. Monique Pauzé: We have people here who represent the Canadian Bankers Association, but we have also heard from the CEOs of the banks.

Why do you think we cannot leave the financial sector to make these decisions on its own?

Mr. François Delorme: The motivation of big corporations and the banking sector—and again, this makes sense—is not to address climate change, or, in any event, that is not their main objective. Nor are they addressing homelessness. So private enterprise has to be made to bite the bullet and focus on a much more distant horizon.

I was not able to say this earlier, but I will be very brief. We did a study on the ESG criteria last year, and we found, first of all, that there are inadequate ESG criteria in all companies. There is very high potential for greenwashing. And that is the economist speaking. Are we really able to measure progress on the environmental, social and governance levels? Mr. Edmans talked about this in his testimony earlier, that we have to combine these three points of the triangle.

Second, are we able to monitor progress quantitatively? When we apply this grid, we see that for the ordinary person, it is impossible, with what we have right now, in the financial reports, to really give big corporations or the banking sector their assurances that ESG criteria are robust criteria. That is extremely important, because we talk about ESG criteria a lot. We wrap ourselves up in these criteria, but they are not robust enough yet. Mr. Edmans talked about this earlier as well.

Ms. Monique Pauzé: So you are in favour of having more constraints. There was actually a witness on the previous panel who said that companies do not know what to measure in the ESG criteria. As well, like disclosure as it stands now, it has changed nothing on the ground. So do you—

Mr. François Delorme: Yes, we often don't know what to measure, but even when we do know what to measure, we don't know how to measure it properly so it is comparable from one company to another and so we are able to know whether one company has a better record than another as regards environmental, social and governance criteria. That is quite important.

Ms. Monique Pauzé: You said it was important to impose additional constraints on financial institutions. What measures should be given preference?

• (1255)

Mr. François Delorme: Transparency needs to be properly documented and increased. To that end, passing Bill S-243 on climate-aligned finance would be an excellent thing when it comes to disclosure, which would be voluntary, but with robust guideposts regarding the environmental, social and governance criteria for the financial sector.

Ms. Monique Pauzé: You are referring to Senator Rosa Galvez's bill. Can you tell us in more detail why we really need that bill? Is it sufficient? Could it go further?

Mr. François Delorme: We are all on the side of the angels. That is certainly a step in the right direction.

Ms. Monique Pauzé: Earlier, there was also reference to one of the objectives of the Paris Agreement, the agreement to limit global average temperature rise to 1.5°C.

How can we make sure that the banks shift their funding of the fossil fuel industry to renewable energy? Is there a way to ensure that?

Mr. François Delorme: There is a way to ensure it. We have to find a way to make green investments more profitable than brown investments. We have to find a way to make sure that the banks, acting on the basis of market logic, are able to benefit from it.

Should there be tax credits for green assets? Should access to brown assets be restricted? I think the transition has to be facilitated. We might think the finance sector could do it on its own, but that would take too long.

The Chair: Thank you.

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

The Chair: You have four seconds left.

Ms. Collins, the floor is yours.

[English]

Ms. Laurel Collins: Thank you, Chair, and I want to thank all the witnesses for being here.

I wanted to pick up with some questions for Mr. Delorme and kind of dig in a little bit more to “transition plans”.

You've spoken about how these voluntary pledges that financial institutions are making may not be sufficient. Can you elaborate for the committee on what a climate transition plan is, why climate transition plans are so important and why this goes farther than what's happening right now?

[Translation]

Mr. François Delorme: First, the transition plans have to be more transparent and the disclosure criteria clearer. On that point, I think the new rules adopted by the Office of the Superintendent of Financial Institutions that will be coming into force are going to be positive.

I think we have to speed the transition up, and that can't be done if we have voluntary disclosure. We need to compel companies to adopt more transparent rules, or else we won't get there.

I think it comes down to speed. We can't take baby steps. From now on, we have to take big steps, and having tougher rules will help speed up the transition.

[English]

Ms. Laurel Collins: Thanks.

Can you talk a bit about how other countries are legally requiring these things and a bit more about what risks Canada's financial systems face in terms of international competitiveness when we fail to have these kinds of proper climate-aligned financial regulations in place, and just how we compare generally?

[Translation]

Mr. François Delorme: I am not an expert on green taxonomy, but I can tell you that the initiatives taken by the Office of the Superintendent of Financial Institutions are good ones. However, we may have to go further and create an independent body, like in the United Kingdom, to determine whether the measures adopted for carrying out the transition are useful. On that point, as Ms. Pauzé pointed out, Canada is a few years behind Europe. So the process absolutely has to be sped up.

As I said, the rules adopted by the Office of the Superintendent of Financial Institutions are a step in the right direction, but there needs to be more independence or distance from the financial sector. This could be done by creating an independent body along the lines of what is being done in the United Kingdom.

[English]

Ms. Laurel Collins: One of the things that we heard from other witnesses on other panels in this study was that there are conflicts of interest when fossil fuel directors also serve on the boards of financial institutions.

In your opinion, does this pose a governance problem, especially when we heard that one in five bank directors has an explicit connection to fossil fuel companies?

• (1300)

[Translation]

Mr. François Delorme: I can only give you a one-word answer: yes.

[English]

Ms. Laurel Collins: That's wonderful.

Mr. Chair, how long do I have?

The Chair: You have about two and a half minutes.

Ms. Laurel Collins: That's great.

Mr. Edmans, in a recently published a paper—and you restated this in some of your testimony today—you said that there are very few equity portfolio managers who are willing to sacrifice financial returns for environmental sustainability performance, largely due to fiduciary duty concerns, and that voting and engagement are mainly driven by financial considerations.

Given what you've outlined for the committee today, can you talk a little bit about the package of regulations you'd want to see from government that would incentivize climate-aligned financial decisions instead of those for more polluting sectors?

Prof. Alex Edmans: Certainly.

It's not clear that regulation would address the issue.

You're absolutely right; that's what we found as the current status quo. Asset managers are not going to be taking into account issues they don't believe are material.

However, what can lead them to doing this are constraints from their own clients. If there's a fund mandate saying that you have to invest in sector X and you're not allowed to invest in sector Y, that is something that absolutely can move them to investing in a different way, but that will come from the clients of those funds, not necessarily from regulation.

What might be the issue of having regulation do it is it will go back to the previous discussion of taxonomies. It's very difficult to decide what is good or what is not good. Maybe a client can decide for themselves, but I'd be rather nervous about a regulator deciding on behalf of all clients.

That has happened, actually, for my industry of education. A while ago, you had "no child left behind" in the U.S., where they said, "Let's try to have a taxonomy and let's measure which schools are good and which ones are bad and allocate capital to the well-performing schools and keep it away from the poorly performing schools," just like the idea of allocating capital towards the transition, but this then led to many schools teaching to the test.

When you have such a complex issue and there are so many moving parts, it is quite difficult for regulators to have a taxonomy that takes these all into account. It's incumbent on the clients to express their wishes to fund mandates in order to guide investors on where they should be allocating their capital.

Ms. Laurel Collins: Thanks.

Mr. Chair, do I have any time left?

The Chair: You have 15 seconds.

Ms. Laurel Collins: Okay. I will cede that time and I will pick it up in the next question.

The Chair: The committee thanks you.

Mr. Mazier, go ahead.

We'll make this a three-minute round as well.

Mr. Dan Mazier: Thank you, Chair.

Mr. Edmans, if Canadian pension funds divest themselves of oil and gas, will this have any impact on reducing emissions, or will it only move capital from one beneficiary to the other?

Prof. Alex Edmans: Unfortunately, it will do the latter.

What it will mean is that you can only sell if somebody else buys. We think of it like a customer boycott: If I don't buy products, they're going to stay on the shelves. However, that is not true in capital markets. You can only sell if there's a buyer.

In fact, it may well mean that the buyer is somebody who cares less about climate change than you do, because they're willing to buy those stocks, so you actually no longer have a seat at the table to engage. Not only do you lose the higher returns from carbon, but unfortunately—and I wish this were not the case—evidence is that emitting firms earn higher returns, perhaps because this is an externality, not an internality. You not only lose those higher returns, but you also lose your ability to engage with these companies.

Mr. Dan Mazier: What would be the impact on retirement savings if the government forced climate-related disclosures on Canadian pension funds in an attempt to meet Paris climate targets?

Prof. Alex Edmans: It's not clear to me what the goal of disclosures is to begin with. It's like saying that the best way to lose weight is to have more accurate scales. No; it's actually to take real action here. It seems we're all about disclosures and taxonomy, but this can lead to taking action in order to beat whatever taxonomy there is in place. It's not clear that it will have any positive impact, and yet you're going to have to put a lot of effort into disclosing.

For example, Unilever, I believe, has to hire 10 people for the next five years to just disclose information—not actually to do anything, but to disclose what they're doing. Here there's a direct cost of disclosure, and then the indirect cost might be that you focus on the measures that are being disclosed rather than actually creating value, as I mentioned in my diversity comment earlier.

Mr. Dan Mazier: Will government regulation of ESG scores and climate change disclosure statements on financial institutions have any impact in reducing emissions?

Prof. Alex Edmans: Before you have a regulation, you need to think about what the problem is to which regulation is a solution. You might think we need to regulate ratings because they disagree with each other, and that's bad. What is another word for disagreement? It's diversity. We can have legitimately different opinions on the ESG of a company, as we've discussed. There are so many complex issues here that it's hard to say what's green or brown. It's actually fine for ratings to disagree, just like Goldman Sachs and Morgan Stanley might disagree as to whether a company is a buy or a sell.

I'm not clear what regulation would achieve in that instance, because it's not clear what the problem is for which regulation is the solution.

• (1305)

Mr. Dan Mazier: There's really no clear answer to reducing emissions.

Prof. Alex Edmans: There is a clear answer, which is that there's not going to be a clear positive effect.

The Chair: Okay. We're pretty much done.

We'll go to Mr. Longfield for three minutes.

Mr. Lloyd Longfield: Thank you, Chair.

I want to start with Mr. Radecky.

In terms of Canada's positioning in the international banking system, Canada has been very respected for its system of regulations in the banking industry, but it's not being as well recognized for its ability to apply externalities to the banking system in terms of sustainable finance.

If we're not able to correct the ship there, what's the impact on the Canadian banking industry?

Mr. Bryan Radecky: I would say that our largest banks were happy to participate in the federal government's Sustainable Finance Action Council. We did a lot of good work collaboratively to produce an initial taxonomy road map report.

The government gave the updates earlier this month that they're looking to make further progress. I think that's one forum in which our banks are active participants in supporting sustainable finance activities in Canada.

Mr. Lloyd Longfield: I think participating on the action council was very important. I think it really sent a clear message in terms of the commitment of the banking industry towards sustainable finance and also in terms of the government's commitment to getting it right.

What's the risk if we get it wrong?

Mr. Bryan Radecky: I think we obviously want to support the energy transition in Canada. We're doing all we can to work closely with our clients and our largest banks. Some of their initial targets were focused on the oil and gas sector. They're continuing to work toward progress in achieving those targets.

It's hard to answer that question. I'm not a climatologist in terms of what could go wrong. Obviously, there could be serious consequences, and our banks are doing everything they can, whether it's through the SFAC or complying with OFSI regulations, to ensure a good energy transition in Canada.

Mr. Lloyd Longfield: In terms of the business of this discussion, I was managing director of a firm in Canada that was U.K.-centred. We were operating in various countries around the world. Canadian banks are also operating in various jurisdictions, including the EU.

What's the pressure on compliance for Canadian banks operating in other countries and then transferring compliance to Canada?

Mr. Bryan Radecky: We definitely are working to be in adherence with the regulations under which our banks operate around the world. Definitely the EU has their own corporate sustainability reporting directive that may impact some of our banks, so we're definitely making sure we're going to be compliant with that directive for those banks to which it will apply.

I would also say that at an international level, the International Sustainability Standards Board that I mentioned in my opening remarks has done a mapping to those European sustainable reporting standards. That will be helpful for our banks that are impacted to understand how they need to comply with them.

Mr. Lloyd Longfield: Trying to close the door on this is an impossible thing, because we are in a global market and we have to react to global winds of change.

Mr. Bryan Radecky: Absolutely.

Mr. Lloyd Longfield: Great. Thank you.

The Chair: Your time is up. Thank you very much.

[*Translation*]

Ms. Pauzé, the floor is yours for a minute and a half.

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

Mr. Delorme, I'm not sure, but I think I heard another witness say that reducing emissions had no clear effects. I'm not sure I understood correctly.

Starting with that, I am going to ask you to talk about the cost of inaction when it comes to climate change.

Mr. François Delorme: That is an extremely important question. All the empirical studies have shown that doing nothing is going to cost more than doing something. We can have a carbon tax that might cut economic activity by 0.1% or 0.2% in the short term. However, since 2006, studies have shown that the costs of doing nothing could amount to 5% to 15% of GDP over the medium term.

To come back to what I said earlier, we can buy time, but time will catch up with us and cost us more. It's like doing preventive medicine versus treating someone to fix a medical problem. We can tell ourselves for a long time that we are not going to go to the doctor, but at some point, we are going to see the doctor and the doctor is going to tell us we should have come in a year ago.

• (1310)

Ms. Monique Pauzé: Is—

The Chair: Your time is up, Ms. Pauzé. You even had an extra ten seconds.

Ms. Collins, the floor is yours.

[*English*]

Ms. Laurel Collins: I'd like to direct my question to Mr. Delorme.

You talked a bit about your support for the climate-aligned finance act. This has had endorsements from hundreds of academics, civil society groups and climate experts. It hits on a lot of the themes you've been talking about when it comes to holding corporate directors to account for climate action, mandating climate action plans at financial institutions and ensuring there are no climate-related conflicts of interest on boards.

Can you talk a bit about why it's important for this bill to go forward with this kind of legislation?

[Translation]

Mr. François Delorme: I think this is important, because we are talking here about a concerted effort to ensure that the fight against climate change succeeds. Isolated initiatives alone are not enough to solve the problem. Given the current situation, from where we are, I will say for a fourth time that 2030 really is the beginning of the countdown for us, so it is important to combine all our initiatives. Everything you have said regarding green finance tells us that we need to take joint aim when it comes to efforts to mitigate global warming.

[English]

The Chair: Thank you. That's the end of your time.

[Translation]

Mr. Deltell, the floor is yours for three minutes.

Mr. Gérard Deltell: Thank you, Mr. Chair.

My question is for Mr. Hannah, from the Canadian Bankers Association.

A little earlier, today at noon, in this committee, Julien Beaulieu, a lawyer from the Centre québécois du droit de l'environnement, questioned the proposal for voluntary reporting. He believed that mandatory reporting would be preferable so it would be possible to determine exactly what efforts were being made from one company to another and whether the targets were being met.

Just now, however, someone said that voluntary reporting was just as effective, and pointed out that people were more committed when they were acting voluntarily rather than being forced to do it.

I would like to know what you think about voluntary reporting of measures taken to reduce emissions and to invest in green businesses, which do not prevent anyone from investing in other businesses.

[English]

Mr. Darren Hannah (Senior Vice-President, Financial Stability and Banking Policy, Canadian Bankers Association): For your question about disclosure, I'm going to pass it over to my colleague Mr. Radecky, who is our lead witness for speaking about that.

Mr. Bryan Radecky: I would answer that the banks are setting net-zero targets and have to track progress against those targets. It has been voluntary up until this point. Our largest banks have adopted the task force and climate-related financial disclosure recommendations, which include that scope. Now they will also be mandated, under OSFI's guideline B-15, to disclose that information.

They're doing it on a voluntary basis already. It will become mandated for all banks in Canada, as I said in my opening remarks, starting at the 2024 fiscal year-end for the largest banks and the 2025 fiscal year-end for the small and medium-sized banks.

[Translation]

Mr. Gérard Deltell: What do you have to say to people who believe exactly the same assessment should be applied to investments? How is it possible to precisely determine whether things are green investments, whether very dark green or lighter green, but

without necessarily keeping an exact count of the reduction in their environmental footprint?

[English]

Mr. Bryan Radecky: That's where I would go back to the Sustainable Finance Action Council. We look forward to the government's further progress in their work. The initial taxonomy road map delineated between green and transitional-eligible investments in Canada. I think it's a bit different in other jurisdictions, such as Europe, which has a green taxonomy.

Obviously, Canada is a resource-based economy, so the addition of a transitional-eligible component is also an important and innovative step it has made as part of its participation on that action council.

The Chair: Thank you. Your time is up.

We'll go to Ms. Taylor Roy.

• (1315)

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

Thank you to all the witnesses for being here.

Professor Edmans, I have a question for you.

You have been repeating, often in response to questions, the need to leave it up to the consumer or client to make choices about where they invest. To that end, a taxonomy or a reporting and disclosure requirement provides information to consumers and investors, as well as some consistency and simplicity, because not all investors can read through the reports and figure this all out.

If people are going to make true and clear choices about what they want to invest in, do you believe this kind of transparency disclosure or taxonomy, which simplifies how an investor can look at these companies' investments, is necessary?

Prof. Alex Edmans: Thanks very much for the question.

Yes, I agree that it simplifies it, but I think it makes it too simplistic. For example, if you're an investor, you'd like to invest with good CEOs and not invest with bad CEOs. Should we have a taxonomy saying which CEOs are good or bad or which companies are good or bad—

Ms. Leah Taylor Roy: Could I just interrupt for a moment?

I realize there are many issues other than simply climate change, but I'm focused on climate change. If I'm an investor and one of my priorities is to ensure that my investments are made in "green", however it's defined by the taxonomy companies, shouldn't we be able to have some way that I and other investors could actually determine if these investments are green?

Prof. Alex Edmans: Yes, I understand the original question. I gave that analogy because, just as it's very difficult to understand whether the CEO is good or bad, it's really difficult to classify a company as green or not green. There are a lot of second- and third-order effects here. It may well be that consumers go with this particular label because they think something is green when actually there are lots of second- and third-order effects which mean that it's not green.

Yes, it does make things simple, and this is why there's a lot of attraction. It means that you can simply—

Ms. Leah Taylor Roy: I'm sorry, but I have only three minutes, because it's the last round. I don't mean to interrupt, but I just wanted to understand.

It is complex. It is difficult to do. Are you suggesting then that we not do anything, that we just let consumers do the best they can to figure it out?

Prof. Alex Edmans: No, we don't. There's already a big incentive for companies and asset managers to disclose information, because these are things that consumers think are relevant. However, what is complicated is that the information that is relevant will vary from company to company. The problem with standards is that they will be generally quite generic, whereas the particular way in which one company impacts on climate change will be different from company to company—

Ms. Leah Taylor Roy: Excuse me again. This is something you've been saying, but I just don't understand. If we're leaving it voluntary and we're letting companies do it the way they want—

Prof. Alex Edmans: It's not the way they want; it's the way that people want companies to disclose, because companies respond—

Ms. Leah Taylor Roy: Oh, I see. Okay.

The Chair: Unfortunately, we're going to have to suspend this debate. The time is up.

Committee members, we will be reaching out to the two ministers, and hopefully we'll have an answer by tomorrow. We'll be able to report back on Wednesday.

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

The Chair: Go ahead. .

Mr. Dan Mazier: Have we heard anything from Mr. Carney about coming as a witness?

The Chair: He won't be able to make it.

Mr. Dan Mazier: At all?

The Chair: No.

I'll tell you the dates we proposed. On May 7, he couldn't because he was chairing a meeting outside Canada. In August 2024, Mr. Carney expressed an interest in appearing in October or November, but a date was not confirmed.

Then we looked at October 30. Mr. Carney is committed to speaking at an event and sends his regrets. For the week of November 4, Mr. Carney will be travelling that week due to his schedule leading up to and following COP29. It seems he will be unavailable to participate this year.

With that, I will adjourn the meeting.

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