

02

Part 2: Aligning the Federal public administration and crown corporations with Canada's climate commitments.

Roadmap to a Sustainable Financial System in Canada

ecojustice

shift
ACTION FOR
PENSION WEALTH
AND PLANET HEALTH



environmental
defence

An aerial photograph of a rugged, rocky landscape. A river flows through the center, surrounded by dark, craggy rocks. Patches of green moss or small plants are scattered across the rocks. In the upper right, a body of water is visible, and in the lower right, a large, dense green area, possibly a forest or a large rock covered in moss, is seen. The overall scene is dramatic and emphasizes the raw power of nature.

“Climate commitments to net zero are worth zero without the plans, policies and actions to back it up. Our world cannot afford any more greenwashing, fake movers or late movers.”

— António Guterres, UN Secretary General

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Introduction

When it comes to Canada's climate policies, there is a widely overlooked frontier: finance. In a series of policy briefings, Ecojustice, Shift: Action, and Environmental Defence lay out an actionable pathway to address how Canada should regulate our financial system to align it with its climate goals.

This second briefing focuses on the federal public administration: the departments, agencies and crown corporations that have a crucial role to play. The federal government has already made public commitments to align Canada's financial flows with its climate commitments, including to:

- Publish an annual report on managing climate-related financial risks and opportunities.
- Phase out public subsidies for fossil fuels, including by Crown corporations; and
- Require federally regulated government agencies to issue climate-related financial disclosures and net-zero plans.

This briefing proposes a series of steps that the federal government can take to deliver on these promises and lead the way towards a Pan-Canadian approach to sustainable financial regulation.

Canada's existing legal obligations

We are facing an accelerating global climate emergency. Our inaction has already locked-in significant warming, creating harm and climate disruption all over the globe. Without immediate and unprecedented action to stop greenhouse gas (GHG) emissions, primarily by eliminating global dependency on fossil fuels, the

climate emergency will have unthinkable consequences for our economies, our ecosystems, and our society.

Canada has committed to climate action in both international law and domestic legislation. As a party to the 2015 Paris Agreement, Canada pledged to cut emissions by at least 40–45% below 2005 levels by 2030. As part of a commitment to achieve net-zero GHG emissions by 2050, this pledge has been cemented into Canadian law through the Canadian Net Zero Emissions Accountability Act (CNZEAA).

Canada's current Nationally Determined Contribution (NDC) of a 40–45 per cent reduction is inadequate considering the best available climate science and the principles of equity and “common but differentiated responsibility” enshrined in the Paris Agreement. Canada's historic responsibility for emissions, continuing high emissions per capita, and status as a wealthy and economically advanced nation obligate it to advance further and faster than its current NDC.

CNZEAA bolsters a net-zero target for 2050 with shorter-term interim targets for every five years, detailed planning, regular reporting, and oversight by third-party expert bodies (the Net-Zero Advisory Body and the Commissioner for Environment and Sustainable Development). These measures foster rigour, accountability, and transparency in climate policy. Given the importance of the financial sector to Canada meeting its targets, financial regulation should adopt the same features.

Without enforceable rules to ensure alignment of financial flows with Canada's climate goals, we will risk exposing our financial system to unmanageable levels of risk, and repeating a long history of missed climate targets.

Canada is also a signatory to the UN Declaration on the Rights of Indigenous Peoples (UNDRIP) and has enacted legislation that implements its obligations under it. While detailed recommendations as to how to implement those obligations in the context of financial regulation are beyond the scope of this Roadmap, the federal government should ensure that financial regulation to meet climate obligations is aligned with its commitments to UNDRIP, including the principle of Free, Prior and Informed Consent (FPIC).

Recommendations

From disclosure to alignment

Canada has a global reputation for sound financial regulation. But without robust standards, independent oversight, and rigorous enforcement to align the financial sector with its climate commitments, this reputation hangs in the balance. The federal government can no longer focus only on managing exposure to external climate-related risks. Rather, to achieve relative climate safety, it must proactively align financial flows with its climate objectives.

Canada's role in financing the climate crisis

Canada ranks highest among all G20 countries for providing public financing for fossil fuels. Despite its commitments to end fossil fuel subsidies and phase out all public financing of the fossil fuel sector, the federal government and its agencies continue to subsidize or provide support for fossil fuel expansion. This works against Canada's obligations under the Paris Agreement to try to limit global warming to 1.5°C and align finance flows with a low carbon pathway. As a wealthier and industrialized country, Canada should be a leader in aligning public financing with 1.5°C.

All federal departments, agencies, and Crown corporations must work to deliver on Canada's legislated targets and its international treaty commitments under the Paris Agreement.

Our cornerstone recommendation is to require the adoption of a Credible Climate Plan by financial crown corporations, based on standards set by the Minister of Finance that reflect emerging global best practice. This would set the gold standard for climate aligned financial planning and reporting that can serve as a model for the private sector and provincial governments.

| Recommendation | Implementation | Regulation |
|---|--|-------------|
| 1. Minister of Finance to publish annual report on climate risks and opportunities for the federal public administration that sets the gold standard for Credible Climate Plans. | Regulations under CNZEAA | |
| 2. Require federal financial Crown corporations and government departments to develop, publish and report on Credible Climate Plans, subject to review and approval by the Finance Minister with input from the Net Zero Advisory Board (NZAB). | Step 1: Cabinet Directive | Guidance |
| | Step 2: Regulations under the Federal Administration Act | Regulation |
| | Step 3: Amendment to Federal Administration Act. | Legislation |

The essential elements of the Credible Climate Plan mirror those required by CNZEAA namely:

- Long-term targets;
- Interim five-year targets;
- Detailed planning;
- Regular reporting; and
- Third party oversight.

Essential Elements of a Credible Climate Plan



1. Target

Set targets that align the financial institution's activities with limiting warming to 1.5°C

- 1.1 Long-term target of net zero by 2050 at the latest
- 1.2 Interim targets set in five year intervals starting with 2025 and 2030
- 1.3 Long-term and interim targets to set trajectory consistent with:
 - The global carbon budget of available emissions to keep global warming to 1.5°C with no/low overshoot.
 - Emissions to peak by 2025.
 - Maximum effort toward or beyond a fair share of the 50% global reduction in CO₂ emissions by 2030.
 - Beating Canada's NDC and legislated GHG targets in view of principles of equity and global fair share.
 - Mitigation pathways from credible sources e.a., IPPC, IEA.
- 1.4 All targets to encompass scope 1–3 emissions
- 1.5 All targets to encompass all greenhouse gases, including short-lived climate pollutants*
- 1.6 All targets to be expressed as absolute emissions reductions (as opposed to other metrics such as emissions intensity)

*To include all those greenhouse gases accounted for in Canada's national greenhouse gas emissions inventory: including carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), perfluorocarbons (PFCs), hydrofluorocarbon (HFC), sulphur hexafluoride (SF₆), nitrogen trifluoride (NF₃).

2. Plan

Implement policies and procedures to deliver on targets

- 2.1 Commit to immediate action (within a timeframe of months) to align with currently available science, including the IEA's conclusions that fossil fuel expansion and thermal coal are incompatible with its 1.5°C pathway.
- 2.2 Set out key policies and procedures, including:
 - Scaling up investments in green and nature-positive investment areas
 - Prioritising emissions reductions ahead of removals and offsets
 - Policy for managed phase out of high emitting assets.
 - An engagement Escalation Policy
 - Aligning executive compensation schemes with objectives of the plan
 - Aligning lobbying activities with the objectives of the plan
- 2.3 Explain how policies and procedures will achieve targets, using quantitative and qualitative analysis, and explaining key assumptions and methodologies
- 2.4 Include a timeline for implementation or key actions, policies and procedures
- 2.5 Explain how plan is aligned with organization's overall strategy, including financial plans
- 2.6 Explain how the targets and plan integrate UNDRIP and specifically the principle of Free, Prior and Informed Consent
- 2.7 Actions to address data limitations.

3. Report

Report to regulators annually on progress against targets

- Annually report (through statutory disclosures e.g., annual reports or financial statements) on:
 - 3.1 Climate-related risks and opportunities
 - 3.2 Progress towards interim and long-term targets in terms of quantified, absolute emissions reductions.
 - 3.3 Key challenges experienced and positive action to address them (e.g., data gaps, implementation delays, non-aligned investments)

1. Annual climate reporting by the Minister of Finance

The Canadian Net Zero Emissions Accountability Act (CNZEAA) requires the Minister of Finance to publish an annual report on the key measures taken by the federal public administration to manage “financial risks and opportunities related to climate change.” The Minister of Finance must fulfil this obligation “in cooperation with” the Minister of Environment and Climate Change Canada. This whole of government approach is essential in addressing the climate crisis.

The annual report is an opportunity for the federal government to lead the way by setting the gold standard for high quality climate-related financial disclosure. This must accurately assess, fully disclose, and set out concrete measures to manage, both the risk that climate change poses to the Canadian financial system, and the risk that continued non-alignment of public finance poses to the achievement of Canada’s legislated targets and wider obligations under the Paris Agreement.

Crucially, the report should go further than merely disclosing risk, by aiming to positively align public finance with Canada’s legislated climate targets and Canada’s wider obligations under the Paris Agreement.

To standardize high quality planning and reporting, the Minister should lay down the requirements for Credible Climate Plans, and require their adoption by government departments and financial crown corporations.

2. Mandatory Credible Climate Plans from financial Crown Corporations

Crown corporations are government organisations that have a mixture of commercial and public policy objectives but operate

at arm's length following a private sector model. They are directly owned by the Government of Canada and are usually established through legislation which sets their mandate, powers, and objectives. They are a significant portion of Canada's economy; – annual revenues for Crown Corporations (federal, provincial, and municipal) are equivalent to more than seven percent of Canada's GDP – more than all of Atlantic Canada, or Saskatchewan and Manitoba combined.

While Crown corporations act at arm's length from the government, ministers shape the way they operate. Every federal Crown corporation is ultimately accountable to Parliament for the conduct of its affairs, and most are part of the federal public administration. Cabinet can issue directives to the Crown corporation if it is considered in the public interest. A Crown corporation can then be required to report on progress to the relevant minister. Even without specific directives, most Crown corporations must provide an annual corporate plan to the relevant minister, and in some instances to the Minister of Finance, for Cabinet approval.

In view of these features, Crown corporations could be a significant lever for the government to advance climate action and promote climate opportunities. However, they continue to subsidize fossil fuels.

Federal financial Crown corporations – are particularly important for climate change due to the role they currently play in financing fossil fuel extraction or exports, the magnitude of their assets, and/or the opportunity for them to provide leadership. They include:

- Export Development Canada (EDC) (see case study);
- Business Development Bank of Canada;
- The Canada Infrastructure Bank; and
- The Canadian Development Investment Corporation.

Case Study: Export Development in Canada

EDC is Canada's export credit agency. In recent years, it provided almost \$14 billion of annual support to oil and gas companies on average. EDC provides this support through project financing, general corporate loans to fossil fuel companies and with financing through the Canada Account. In July 2021, EDC committed to net-zero emissions by 2050, but the details do not address the key ways that EDC contributes to worsening climate change and is therefore insufficient. EDC set oil and gas targets, but they do "not imply an end to EDC support for Canadian oil and gas producers." They also indicate ongoing support for methane-based natural gas. EDC must stop supporting fossil fuel production to avoid lock-in, fulfil the government's commitment to phasing out fossil fuel subsidies and align with limiting warming below 1.5°C.

The Minister of Finance and Minister of Small Business, Export Promotion and International Trade should make regulations that prevent EDC from entering transactions that would provide financial support to a project or company with plans to expand fossil fuel production or continue production beyond timelines for fossil fuel phase-out in 1.5 degree consistent pathways. EDC must be mandated to develop a Credible Climate Plan, which can be achieved through Cabinet issuing a directive that Crown corporations include a Credible Climate Plan in their annual corporate plan.

The Canada Account is used to support export transactions that the Minister of Small Business, Export Promotion and International Trade determines to be in the national interest, but EDC deems too risky. Canada Account obligations are paid from the Consolidated Revenue Fund, burdening federal taxpayers with the (climate and financial) risks when the Canada Account finances fossil fuel projects. The Ministers of Finance and Small Business, Export Promotion and International Trade should adopt a policy to not authorize any financing through the Canada Account that supports the expansion of fossil fuel production or infrastructure (e.g. pipelines) as these activities are presumptively not in the national interest due to the climate emergency. The Ministers have direct and explicit control over the Canada Account so can easily enforce this requirement.

In 2021, the government mandated that federal Crown corporations would have to report climate-related financial risks using the Task Force on Climate-Related Disclosure (TCFD): by 2022 for large Crown corporations (entities with over \$1 billion in assets) and by 2024 for smaller entities.

Crown corporation's duties under their corporate plan could easily be extended to require Credible Climate Plans. Cabinet should require these financial Crown corporations to present Credible Climate Plans to relevant ministers as part of their annual corporate plan and reporting requirements. The relevant minister(s) must review the Credible Climate Plans to ensure they are compliant and must request amendments where necessary. Progress against delivering Credible Climate Plans should be reported annually and publicly.

3. Independent Oversight by the Net Zero Advisory Body

CNZEAA established the Net-Zero Advisory Body (NZAB), which provides independent advice to the Minister of Environment and Climate Change Canada on achieving net-zero emissions by 2050. This includes advising on emissions targets, emissions reduction plans, and measures and sectoral strategies to reach emissions targets.

The Minister of the Environment and Climate Change Canada should request NZAB to guide and review the initial Credible Climate Plans for federal bodies (like Crown corporations) and advise whether plans meet requirements or need amendments. NZAB should submit those assessments to the Minister of the Environment and Climate Change Canada and the Minister of Finance. These assessments should be made public and conclude whether public financial institutions' plans align with limiting warming below 1.5°C.

Similarly, NZAB should provide input on the Minister of Finance's annual report under CNZEAA, and its advice and recommendations should be incorporated in that report.

Implementation

Recommendation (annual reporting and Credible Climate Plans by the Minister of Finance)

Step 1:

Minister of Finance to publish s. 23 annual report by April 2023.

Step 2:

Adopt regulations under CNZEAA prescribing minimum content of a Credible Climate Plan for the federal public administration, including Crown corporations that, must be included in the Minister's annual report under s. 23.

Recommendation (require Credible Climate Plans in annual corporate plan)

Step 1:

Issue cabinet directive requiring financial Crown corporations to include a Credible Climate Plan in their annual corporate plan.

Step 2:

Cabinet to implement regulations under the Financial Administration Act (FAA) laying down minimum requirements for alignment with climate goals in corporate plans and stating

that the Minister will refuse to approve/require amendment where the corporate plan does not meet minimum standards of a Credible Climate Plan. These regulations should include that the Minister will consult with the Net-Zero Advisory Body established by the CNZEAA when establishing minimum standards of a credible plan and assessing credible climate plans.

Step 3:

Amend s. 122(3) FAA to require corporate plans to include a Credible Climate Plan.

