THE HONOURABLE ROSA GALVEZ, PH.D., P.ENG., FEC, FCSCE
SENATOR – QUEBEC

L'HONORABLE ROSA GALVEZ, PH.D., ING., FIC, FSCGC
SÉNATRICE – QUÉBEC

SENATE | SÉNAT
CANADA

Submission to the Government of Canada

Consultation on the Canadian Sustainable Finance Taxonomy

A Climate-Aligned Finance Framework for Canada's Prosperity, Competitiveness and Net-Zero Future

Submission by

The Honourable Rosa Galvez
Independent Senator
Parliament of Canada

Civil-Environmental Engineer
Retired P. Eng., Professor and Researcher
Sponsor of the Climate-Aligned Finance Act (Bill S-238)
Sponsor of the Net Zero Accountability Act (Bill C-12)

Executive Summary

Canada has a historic opportunity to establish one of the world's most credible sustainable finance taxonomies. **Done well, the Canadian taxonomy will become much more than a classification system for financial products**. It will serve as a strategic instrument to redirect private capital toward the investments required for a resilient, competitive and net-zero economy while strengthening Canada's long-term productivity and financial stability.

As sponsor of the Climate-Aligned Finance Act (CAFA), I have consistently argued that Canada's financial system must be aligned with Canada's legally binding climate commitments, rather than simply improving climate-related disclosure. Finance shapes the economy of tomorrow. The role of public policy is therefore to ensure that capital markets reward activities that genuinely contribute to climate mitigation, biodiversity protection, economic resilience and social well-being while avoiding investments that create long-term environmental, financial and systemic risks.

A credible taxonomy must therefore satisfy four fundamental principles.

First, it **must be firmly grounded in the best available science**, including the Paris Agreement, the Intergovernmental Panel on Climate Change (IPCC), the International Energy Agency (IEA), and evolving international scientific understanding of planetary boundaries.

Second, it **must maintain international credibility and interoperability with leading jurisdictions** such as the European Union and Australia. Canadian businesses increasingly compete for international investment, and investors require confidence that Canada's taxonomy reflects globally recognized standards rather than political compromise.

Third, the **taxonomy must accelerate, not delay the transition toward a net-zero economy.** Sustainable finance should mobilize new investment toward renewable energy, zero-emission technologies, resilient infrastructure, ecosystem restoration, circular economy solutions and industrial decarbonization. It should not create preferential labels for activities that prolong dependence on fossil fuels or increase the risk of carbon lock-in.

Finally, the **taxonomy should reflect a modern understanding of sustainable finance by recognizing that environmental sustainability, biodiversity protection, Indigenous rights, human rights, economic resilience and financial stability are mutually reinforcing.** This requires adopting the principle of double materiality and recognizing that long-term prosperity depends upon maintaining the natural systems upon which economic activity ultimately depends.

The following responses are guided by these principles.

Section I – Taxonomy Foundations

Question 1a

The first phase of taxonomy development will focus on climate mitigation. In subsequent phases of the Canadian taxonomy, which objectives should be prioritized?

✓ Climate change adaptation and resilience

✓ Protection of biodiversity and healthy ecosystems

✓ Circular economy

✓ Pollution prevention and control

✓ Water and marine resource conservation

Additional objectives (Other):

Parliament Buildings | Édifices du Parlement, Ottawa, Ontario K1A 0A4
613-996-2210 1-800-267-7362 613-996-2208 Rosa.Galvez@sen.parl.gc.ca @SenRosaGalvez

- ✓ Planetary Health
- ✓ Climate Change Mitigation

Arguments

Climate adaptation and resilience are essential starting points, but they are not sufficient to ensure long-term economic prosperity, environmental sustainability, or climate stability. Humans cannot adapt to 3°C+ or even more, nor can ecosystems that sustain all human life's basic aspects (clean air, water and soils) or socio-economic aspects (urban infrastructure and economic sectors as we know them). Climate change, biodiversity loss, freshwater degradation, pollution, and unsustainable resource use are interconnected challenges that cannot be addressed independently. A modern, efficient, sustainable finance taxonomy should therefore evolve toward a comprehensive framework that recognizes these interdependencies.

Canada should progressively align its taxonomy with the concept of Planetary Health, recognizing that economic activity ultimately depends upon healthy ecosystems and the stability of Earth's life-support systems. Investments that reduce greenhouse gas emissions while simultaneously degrading biodiversity, freshwater resources or ecosystem resilience should not qualify as environmentally sustainable.

Future phases of the taxonomy should of course promote investments that strengthen climate adaptation and resilience. As climate impacts become increasingly severe across Canada, including floods, droughts, wildfires and permafrost degradation; financial markets must help mobilize capital toward infrastructure and natural systems capable of reducing future economic losses.

Finally, circular economy principles should become a central pillar of the Canadian taxonomy. Improving resource productivity, reducing waste and increasing material recovery will strengthen Canada's competitiveness while reducing environmental pressures and enhancing supply-chain resilience.

Question 2a

Do you agree with the proposed principles as the foundation for the taxonomy?

Agree with the additions proposed above

Question 2b

Please explain your answer.

The proposed principles provide a strong foundation for Canada's sustainable finance taxonomy. In particular, credibility, interoperability, usability and scientific integrity are

Parliament Buildings | Édifices du Parlement, Ottawa, Ontario K1A 0A4
613-996-2210 1-800-267-7362 613-996-2208 Rosa.Galvez@sen.parl.gc.ca @SenRosaGalvez

essential if the taxonomy is to earn investor confidence and facilitate capital allocation toward Canada's transition to a net-zero economy.

However, these principles should be strengthened by making explicit that the overarching objective of the taxonomy is to align Canada's financial system with Canada's climate commitments under the Paris Agreement and the Canadian Net-Zero Emissions Accountability Act. **A taxonomy should not simply classify investments; it should guide financial markets toward activities that improve long-term environmental sustainability, economic resilience and national competitiveness.**

Credibility must remain the governing principle. Scientific integrity should never be compromised to accommodate incumbent industries or existing investment patterns that remain profitable because of massive subsidies. The role of the government as per all of the political parties' platforms is to protect the safety, security, long-term prosperity of all citizens of our nation while maintaining the rule of law and managing the economy. Sustainable finance[1] is a policy tool for the use of politicians in their role as government authorities that is in alignment with their roles in governing. Within sustainable finance, taxonomy serves to accelerate the needed economic transformation, not to preserve the *status quo*. Introducing categories that recognize activities fundamentally inconsistent with a 1.5°C pathway risks weakening market confidence, increasing transition risk and undermining Canada's international reputation. We can't expect to solve 21st-century problems with 20th-century technologies.

Humanity has seen several previous industrial revolutions that have brought cheaper, safer, more efficient technologies. History shows that past industrial revolutions created major changes and brought long-term benefits to society. Early adopters often gained a strong edge by using new and efficient tools first and profiting from market creation. While it is also true that early adopters may face some social stress and job loss, in the case of electrification using renewable energy, the risks associated with the transition are well understood and easily managed. Canada is not among early adopters; quite the opposite, the opportunity is being missed. Today, this taxonomy exercise should quickly address the mitigation of the economic damage caused by not transitioning fast enough.

[1] The European Commission (EC) defines the concept of sustainable finance as follows1: "Sustainable finance refers to the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects. Environmental considerations might include climate change mitigation and adaptation, as well as the environment more broadly, for instance the preservation of biodiversity, pollution prevention and the circular economy. Social considerations could refer to issues of inequality, inclusiveness, labour relations, investment in human capital and communities, as well as human rights issues. The governance of public and private institutions — including management structures, employee relations and executive remuneration — plays a fundamental role in ensuring the inclusion of social and environmental considerations in the decision-making process."

Parliament Buildings | Édifices du Parlement, Ottawa, Ontario K1A 0A4
613-996-2210 1-800-267-7362 613-996-2208 Rosa.Galvez@sen.parl.gc.ca @SenRosaGalvez

The principle of regional specificity also deserves clarification. Canada's geographic diversity presents legitimate technological and economic challenges, particularly in Northern, remote and Indigenous communities. Nevertheless, regional flexibility should facilitate implementation, not weaken environmental ambition. Alternative pathways may be appropriate where technological constraints exist, but they must continue to satisfy equivalent environmental outcomes and robust social safeguards. **Regional specificity should never justify extending dependence on fossil fuel infrastructure or lowering scientific thresholds.**

Finally, the principles should explicitly recognize the concept of **double materiality**. Financial institutions increasingly require information not only about how environmental risks affect investments, but also about how investments affect climate, biodiversity, water resources and communities. Integrating double materiality would better align Canada's taxonomy with emerging international best practice and reinforce its long-term credibility.

Question 3

Please rate each principle.

Principle	My Rating
Credible	**Very Important**
Usable	**Very Important**
Interoperable	**Very Important**
Dynamic	**Very Important**
Regionally Specific	**Important**
Prioritized	**Very Important**

Explanation of Ratings

All six principles contribute to an effective taxonomy, but credibility must remain paramount. **Without scientific credibility, no taxonomy can effectively influence investment decisions or command international confidence.** Investors increasingly seek certainty that sustainable finance labels correspond to genuine environmental performance rather than political compromise.

Usability and interoperability are equally important. Canadian businesses operate within global capital markets, and Canada's taxonomy should remain compatible with leading international frameworks such as those of the European Union and Australia. Harmonization reduces

reporting burdens, facilitates cross-border investment and strengthens Canada's competitiveness.

The taxonomy should also remain dynamic. Scientific understanding, technological innovation and international standards continue to evolve rapidly. Regular review mechanisms should therefore be embedded within the governance framework to ensure that technical screening criteria remain consistent with the latest climate science and Canada's evolving environmental commitments.

Regional specificity is valuable only insofar as it supports effective implementation across Canada's diverse geography. It should recognize differing technological circumstances while maintaining equivalent environmental performance standards and respecting Indigenous rights. Scientific thresholds should remain consistent across the country.

Today, this taxonomy exercise should quickly address the mitigation of [the economic damage caused by not transitioning fast enough]." — the Hormuz supply crisis and the emergency release of 400 million barrels is the live, concrete illustration of what fossil-fuel dependence costs an economy, coming from the IEA itself.

Finally, prioritization is essential. Canada's economy requires substantial capital mobilization over the coming decades. The taxonomy should therefore focus first on sectors capable of delivering the greatest contribution to emissions reductions, climate resilience, biodiversity conservation and long-term economic transformation, while remaining sufficiently flexible to incorporate additional environmental objectives as scientific knowledge and policy evolve.

Section II – Do No Significant Harm (DNSH) and Minimum Social Safeguards (MSS)

This section reflects the principles underpinning the Climate-Aligned Finance Act (CAFA): climate alignment, scientific integrity, double materiality, accountability, respect for Indigenous rights, and long-term economic resilience.

Question 4a

Do you agree or disagree with the proposed partial alignment approach, which would require entities to disclose the extent to which DNSH/MSS criteria are or are not met rather than requiring full alignment?

Answer:

Strongly Disagree

Question 4b

Please explain your answer.

A Canadian sustainable finance taxonomy should identify economic activities that are genuinely aligned with Canada's climate and environmental objectives; not simply those that disclose where they fall short. **Requiring only partial alignment with the *Do No Significant Harm* (DNSH) and *Minimum Social Safeguards* (MSS) criteria risks transforming the taxonomy into a disclosure exercise rather than a credible framework for directing capital toward sustainable economic activities.**

The credibility of any taxonomy depends upon investor confidence that an activity labelled as environmentally sustainable actually satisfies minimum environmental and social performance standards. Allowing activities to qualify despite failing DNSH or MSS criteria creates uncertainty, weakens market confidence, and increases the risk of greenwashing and capital misallocation.

The Climate-Aligned Finance Act is founded on the principle that financial markets should allocate capital consistently with Canada's climate commitments. That objective cannot be achieved if projects causing significant biodiversity loss, pollution, human rights violations or infringements of Indigenous rights continue to receive taxonomy recognition simply because those impacts are disclosed.

Canada should instead adopt a binary approach similar to the European Union taxonomy, whereby compliance with DNSH and MSS criteria constitutes a condition for taxonomy alignment. A short implementation period may be appropriate to allow companies to establish due diligence processes and remedy identified deficiencies. However, disclosure alone cannot substitute for performance. Sustainable finance labels must reflect measurable outcomes, not aspirations.

Question 5a

Do you agree with the proposed scope of objectives covered under the DNSH and MSS frameworks?

Answer

Agree

Question 5b

Please explain your answer.

The proposed objectives represent the essential foundations of a credible sustainable finance framework. Climate mitigation or adaptation cannot be considered independently from biodiversity protection, water conservation, pollution prevention, labour rights, Indigenous

rights, human rights, governance and anti-corruption measures. Sustainable development requires progress across all these dimensions simultaneously.

However, **Canada's taxonomy should recognize that these objectives are interconnected rather than independent.** Scientific evidence increasingly demonstrates that climate change, biodiversity loss, freshwater degradation and pollution are mutually reinforcing pressures on the Earth's life-support systems. Similarly, strong governance, social inclusion and respect for Indigenous rights improve environmental outcomes and reduce long-term project risk.

Accordingly, Canada's taxonomy should progressively evolve toward a Planetary Health framework that recognizes these interdependencies and reflects the principle of double materiality. Financial institutions increasingly need information both on how environmental change affects financial performance and how financial decisions affect society and nature.

The proposed DNSH and MSS objectives therefore represent an appropriate minimum foundation. Future iterations of the taxonomy should continue strengthening these objectives to reflect advances in climate science, biodiversity science and international sustainable finance standards.

Question 6a

Do you agree with the proposed approach to grounding the DNSH/MSS frameworks in Canadian legislation while going beyond existing laws where necessary?

Answer

Strongly Agree

Question 6b

Please explain your answer.

Existing Canadian legislation establishes an essential baseline but should not define the ceiling for sustainable finance. One purpose of a taxonomy is precisely to identify investments that meet higher standards of environmental and social performance than those required under minimum legal compliance.

Financial markets increasingly operate internationally. Investors compare Canada's framework with leading jurisdictions and expect consistency with internationally recognized scientific and human rights standards. Restricting the taxonomy to existing domestic legislation would limit Canada's competitiveness while reducing investor confidence in the taxonomy's environmental integrity.

Canada has already endorsed ambitious international commitments, including the Paris Agreement, the Kunming-Montreal Global Biodiversity Framework, the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), and numerous international human rights instruments. These commitments should inform the evolution of Canada's taxonomy.

This approach is fully consistent with the logic underlying the Climate-Aligned Finance Act, which recognizes that financial markets should contribute to achieving Canada's long-term social, economic and environmental commitments rather than merely reflecting current regulatory requirements. As science evolves and international best practices improve, the taxonomy should likewise evolve to ensure that sustainable finance continues supporting innovation, resilience and long-term prosperity.

Question 7

In which areas is it necessary to go beyond existing laws and standards?

Canada's sustainable finance taxonomy should exceed existing legislation wherever scientific evidence demonstrates that current regulatory frameworks are insufficient to achieve Canada's long-term environmental and climate objectives.

One priority area is biodiversity. Existing legislation often evaluates projects individually, while ecosystem degradation frequently results from cumulative impacts across landscapes and watersheds. DNSH criteria should therefore incorporate ecosystem connectivity, cumulative effects, restoration potential and alignment with Canada's Nature Strategy and the Kunming-Montreal Global Biodiversity Framework.

A second priority concerns climate resilience. Canada's infrastructure and investment decisions should increasingly account for future climate risks rather than historical climate conditions. **Taxonomy criteria should encourage investments capable of reducing future economic losses associated with floods, wildfires, droughts, coastal erosion and permafrost degradation.**

Finally, Canada's MSS framework should fully reflect the principles of the United Nations Declaration on the Rights of Indigenous Peoples. Respect for Indigenous rights, including Free, Prior and Informed Consent (FPIC) where applicable, should not depend solely upon minimum domestic legal requirements but should reflect Canada's broader constitutional and international commitments to reconciliation.

Question 8a

Should different DNSH/MSS standards apply to projects or entities of different sizes?

Answer

Agree

Parliament Buildings | Édifices du Parlement, Ottawa, Ontario K1A 0A4
613-996-2210 1-800-267-7362 613-996-2208 Rosa.Galvez@sen.parl.gc.ca @SenRosaGalvez

Question 8b

Please explain your answer.

Reporting requirements should be proportionate to an organization's size and administrative capacity. Small and medium-sized enterprises should not face unnecessary reporting burdens that discourage participation in sustainable finance markets.

However, proportional reporting should never translate into weaker environmental or social performance standards. Environmental sustainability is determined by impacts rather than organizational size. A small project can create significant environmental damage, while large organizations may implement exemplary environmental management systems.

Canada's taxonomy should therefore distinguish between reporting requirements and substantive eligibility criteria. Reporting obligations may be simplified for smaller organizations through standardized templates, technical assistance and phased implementation. Nevertheless, all entities seeking taxonomy alignment should satisfy the same environmental thresholds and minimum social safeguards appropriate to the activities they undertake.

A risk-based approach may provide additional flexibility. Activities associated with greater environmental impacts, biodiversity risks or Indigenous rights implications should require more comprehensive evidence regardless of company size. This approach improves proportionality while maintaining the scientific credibility and integrity of Canada's sustainable finance framework.

Question 9

Are there any gaps in the proposed DNSH/MSS framework that could result in unintended environmental or social harms?

The principal weakness of the proposed framework is its reliance on partial alignment rather than full compliance. Sustainable finance labels should communicate confidence that minimum environmental and social safeguards have been satisfied. Partial compliance risks creating ambiguity that undermines investor confidence and public trust.

A second gap concerns cumulative environmental impacts. Individual projects may satisfy project-specific environmental assessments while collectively contributing to biodiversity loss, watershed degradation or ecosystem fragmentation. DNSH criteria should therefore explicitly consider cumulative impacts alongside project-level performance.

Third, climate mitigation should not be evaluated independently from climate adaptation and resilience. Investments that reduce emissions but increase exposure to future climate risks cannot be considered sustainable over the long term.

Parliament Buildings | Édifices du Parlement, Ottawa, Ontario K1A 0A4
613-996-2210 1-800-267-7362 613-996-2208 Rosa.Galvez@sen.parl.gc.ca @SenRosaGalvez

Finally, stronger integration of Indigenous knowledge and governance would improve both environmental outcomes and investment certainty. Indigenous stewardship contributes substantially to biodiversity conservation and ecosystem resilience across Canada. Incorporating Indigenous rights and knowledge systems within the MSS framework strengthens both environmental sustainability and reconciliation while reducing long-term project risk.

Question 10

How should the taxonomy operationalize the principles of UNDRIP and Free, Prior and Informed Consent?

Canada's sustainable finance taxonomy should recognize that respect for Indigenous rights is not merely a social safeguard but an essential component of environmental sustainability and responsible investment.

Economic activities should only receive taxonomy alignment where they demonstrate consistency with the principles of the United Nations Declaration on the Rights of Indigenous Peoples, including Free, Prior and Informed Consent (FPIC) where applicable. Evidence should demonstrate meaningful participation by affected Indigenous Peoples throughout project planning, implementation and monitoring, according to their own governance institutions and decision-making processes.

The taxonomy should require independent verification rather than relying exclusively on company self-reporting. Rights holders should have accessible mechanisms to challenge claims of compliance where disagreements arise.

Activities that proceed in violation of constitutionally protected Aboriginal or Treaty rights, disregard Indigenous governance processes, or fail to respect FPIC where required should not qualify as taxonomy-aligned investments.

This approach protects both investors and Indigenous communities. It reduces legal uncertainty, improves project durability, supports reconciliation and reinforces Canada's international credibility as a leader in sustainable finance grounded in environmental integrity, human rights and responsible governance.

Question 11

Is there any other feedback you would like to provide on the proposed DNSH/MSS framework?

The DNSH and MSS frameworks should be viewed as integral components of Canada's broader sustainable finance architecture rather than supplementary safeguards. Their purpose extends beyond avoiding harm; they help ensure that capital allocation contributes to long-term environmental resilience, financial stability and social well-being.

Parliament Buildings | Édifices du Parlement, Ottawa, Ontario K1A 0A4
613-996-2210 1-800-267-7362 613-996-2208 Rosa.Galvez@sen.parl.gc.ca @SenRosaGalvez

As Canada's taxonomy evolves, its governance framework should include regular scientific review, transparent stakeholder engagement and independent expert oversight to ensure that eligibility criteria remain aligned with advances in climate science, biodiversity conservation and international sustainable finance standards.

Finally, DNSH and MSS should be understood through the lens of **double materiality**. Activities that harm ecosystems, biodiversity or Indigenous rights ultimately create financial risks for investors and the broader economy. Conversely, investments that respect ecological limits, strengthen community resilience and uphold human rights are more likely to generate durable economic value. Canada's taxonomy should therefore become a cornerstone of a financial system that is fully aligned with the country's climate commitments, biodiversity objectives and long-term prosperity.

Section III – Activity Classification Framework

Question 12a

Do you agree that the green category should be limited to activities with zero or near-zero emissions that make a substantial contribution to climate mitigation?

Answer

Strongly Agree

Question 12b

Please explain your answer.

The integrity of Canada's sustainable finance taxonomy depends fundamentally on preserving the credibility of its "green" category. Investors, financial institutions and Canadians must be confident that activities designated as green are genuinely consistent with achieving a net-zero economy and limiting global warming to 1.5°C.

The green category should therefore remain reserved for activities that demonstrably contribute to a zero or near-zero emission economy or directly enable such activities. This definition should remain firmly grounded in the best available climate science, including the findings of the Intergovernmental Panel on Climate Change (IPCC), the International Energy Agency (IEA), and Canada's Net-Zero Emissions Accountability Act.

Canada's taxonomy should not become a mechanism for recognizing incremental improvements within activities that remain fundamentally dependent upon fossil fuels. Doing

so would blur the distinction between truly sustainable investments and transitional activities, weaken investor confidence, and reduce Canada's international competitiveness as sustainable finance markets continue to mature.

The Climate-Aligned Finance Act recognizes that financial markets should accelerate structural transformation of the economy. Every dollar of preferential capital should support activities that move Canada toward a resilient, low-carbon future rather than extending dependence on technologies whose long-term viability is inconsistent with Canada's climate commitments.

The taxonomy should also recognize lifecycle emissions, avoid carbon lock-in, and encourage investments that simultaneously improve biodiversity, resource efficiency and climate resilience. Sustainable investments should contribute to multiple environmental objectives wherever possible, reflecting the interconnected nature of planetary systems and long-term economic prosperity.

Question 13a

Do you agree that the transition category should include activities that are emissions-intensive today but can realistically achieve near-zero emissions by 2050?

Answer

Agree

Question 13b

Please explain your answer.

A credible transition category is essential for sectors that are indispensable to modern economies but currently have limited technological alternatives, including steel, cement, chemicals and certain heavy industries. These sectors must decarbonize if Canada is to achieve net-zero emissions while maintaining industrial competitiveness and economic resilience.

However, transition finance should remain precisely defined. Eligibility should depend not on the sector itself but on whether the activity can credibly achieve near-zero emissions within scientifically consistent timelines and without creating long-term dependence on fossil fuel infrastructure.

Transition finance should therefore support technological transformation; not incremental efficiency improvements that merely delay inevitable structural change. Eligible activities should demonstrate measurable emissions reductions, adopt best available technologies, establish science-based transition plans, and remain fully aligned with Canada's national climate objectives.

Importantly, the transition category should exclude activities associated with expanding fossil fuel production or infrastructure. Scientific assessments by the IPCC and IEA consistently conclude that achieving the objectives of the Paris Agreement requires a rapid decline in global fossil fuel use. **Sustainable finance should therefore facilitate industrial decarbonization where demand will persist in a net-zero economy, rather than subsidizing sectors whose long-term business models depend upon continued fossil fuel expansion.**

A well-designed transition category will accelerate innovation, strengthen Canada's industrial competitiveness, reduce transition risk, and facilitate orderly economic transformation.

Question 14a

Do you agree that the proposed guardrails for the transition category are sufficient?

Answer

Disagree

Question 14b

Please explain your answer.

The proposed guardrails represent an important starting point but require significant strengthening if the transition category is to maintain scientific credibility and investor confidence.

Most importantly, eligibility should extend beyond activity-level emissions reductions to include company-level transition credibility. **Financial markets increasingly recognize that isolated investments cannot be evaluated independently from an organization's overall strategic direction.** A company simultaneously expanding fossil fuel production while investing in emissions reductions within one facility should not automatically qualify for preferential sustainable finance.

For this reason, Canada should require science-based corporate transition plans as a condition of continued taxonomy alignment. Transition plans should include interim emissions targets, capital expenditure alignment, governance arrangements, climate risk management and transparent reporting. This approach is increasingly becoming international best practice and aligns closely with the logic and philosophy underlying the Climate-Aligned Finance Act.

The need for company-level credibility is not theoretical. To date, no Canadian oil and gas producer has acknowledged the need for a managed decline in production consistent with limiting global temperature rise. Guardrails that assess activities in isolation from corporate strategy will therefore certify investments made by companies whose overall trajectory remains incompatible with Canada's climate commitments.

The need for company-level credibility is not theoretical. Canada is among the producers planning significant production increases through 2050, and no major producer is curbing production in line with the managed decline required to limit global temperature rise. Guardrails that assess activities in isolation from corporate strategy will therefore certify investments made by companies whose overall trajectory remains incompatible with Canada's climate commitments.

Additional guardrails should explicitly prevent carbon lock-in by ensuring that eligible investments do not prolong the operational lifetime of fossil fuel assets or create new dependencies on carbon-intensive infrastructure. Fuel switching should prioritize renewable electricity, green hydrogen and genuinely sustainable bioenergy rather than lower-carbon fossil fuels that continue to generate substantial lifecycle emissions. Australia's approach — attaching sunset dates to transition criteria, after which activities must meet green thresholds to remain taxonomy-aligned — offers a proven model for preventing transition classifications from becoming permanent**.**

Particular caution is warranted regarding carbon capture and storage. CCS has been shown to extend the operational life of fossil fuel infrastructure, and projects to date have frequently underperformed their predicted capture levels while being deployed primarily for enhanced oil recovery. The IEA has recommended that advanced economies prioritize early retirement of older high-emitting assets over CCUS retrofits, and the IPCC identifies CCUS among the least feasible and most costly mitigation options for the energy system. Guardrails that treat such technologies as presumptively credible transition measures would weaken, not protect, the scientific integrity of the category.

Ultimately, the objective of transition finance is not to improve today's industrial processes in isolation but to transform tomorrow's economy.

Question 15a

Do you agree that the taxonomy should include a third "abatement" category covering demand-decline activities?

Answer

Strongly Disagree

Question 15b

Please explain your answer.

I do not support creating a third "abatement" category within Canada's sustainable finance taxonomy because it fundamentally departs from the purpose of a taxonomy and risks undermining its credibility, effectiveness and international standing.

A sustainable finance taxonomy exists to identify economic activities that are compatible with a net-zero, climate-resilient economy and to guide capital toward those activities. It is not intended to provide preferential sustainability labels for sectors whose long-term business models remain fundamentally incompatible with achieving the objectives of the Paris Agreement.

The proposed abatement category would blur this distinction by recognizing investments that marginally reduce emissions within activities expected to decline over time, particularly upstream oil and gas production. **While reducing emissions from existing operations is desirable, these activities should be addressed through environmental regulation, carbon pricing, methane regulations, emissions standards and industrial policy; not through sustainable finance labels.**

This concern is confirmed by the Methodology Report itself, which acknowledges that the activities contemplated under the abatement category carry "high risks of carbon lock-in and stranding of assets." A taxonomy cannot credibly label as sustainable the very investments its own methodology identifies as high-risk. The Government of Canada set out to create sustainable investment guidelines "consistent with the goal of reaching net-zero emissions by 2050 and limiting global temperature rise to 1.5°C above pre-industrial levels." A category designed to accommodate oil and gas production is a departure from that founding mandate.

Creating an abatement category would also increase transition risk by directing scarce investment capital toward assets that may become stranded as global markets accelerate decarbonization. Because the taxonomy is initially structured as a voluntary framework, it contains no enforcement mechanism to ensure that promised abatement is ever delivered. Recent Canadian experience illustrates the risk: the Oil Sands Alliance originally committed to reduce emissions by 22 Mt by 2030 through its carbon capture project and to reach net-zero from oil sands production by 2050. After receiving tax credits and commitments of operational subsidies, that target was revised down to 6 Mt by 2035, with a further 10 Mt only by 2045. Under the proposed category, companies could similarly secure taxonomy-aligned capital on the strength of future commitments and then fail to deliver, with no mechanism for oversight or consequence. Sustainable finance should encourage forward-looking investment in renewable energy, electrification, energy storage, zero-emission transportation, circular manufacturing, ecosystem restoration and climate-resilient infrastructure; sectors that will define Canada's future competitiveness.

Furthermore, the proposed guardrails cannot adequately address the fundamental contradiction of supporting emissions reductions while permitting continued expansion of fossil fuel production. Activity-level criteria cannot compensate for the absence of company-wide transition strategies or for downstream emissions associated with fossil fuel combustion. Scientific evidence consistently demonstrates that achieving global climate objectives requires both emissions reductions and a managed decline in fossil fuel production.

Parliament Buildings | Édifices du Parlement, Ottawa, Ontario K1A 0A4
613-996-2210 1-800-267-7362 613-996-2208 Rosa.Galvez@sen.parl.gc.ca @SenRosaGalvez

Canada has an opportunity to become an international leader in sustainable finance. That leadership will not be achieved by creating increasingly complex categories to accommodate incumbent industries. Rather, it will be achieved by establishing a taxonomy that is scientifically rigorous, internationally interoperable and firmly aligned with Canada's climate commitments.

The Climate-Aligned Finance Act was founded on a simple principle: **finance should be aligned with Canada's climate commitments because financial markets shape the economy of the future.** A taxonomy that rewards activities fundamentally inconsistent with that future risks delaying the very transition it is intended to accelerate.

Concluding Statement for Section III

Canada's sustainable finance taxonomy should not be viewed as a technical classification exercise. It is a strategic economic policy instrument capable of shaping investment decisions for decades to come. If designed with scientific integrity, robust governance and clear climate ambition, it can help mobilize the capital necessary to build a more competitive, resilient and prosperous Canadian economy.

A credible taxonomy should provide certainty to investors, reduce systemic financial risk, accelerate innovation and strengthen Canada's position in rapidly evolving global markets. To achieve these objectives, the taxonomy must remain firmly anchored in climate science; recognize the interconnected nature of environmental and social systems, and direct capital toward activities that are genuinely compatible with a net-zero and nature-positive future.

The opportunity before Canada is not simply to create another sustainable finance framework, but to establish one of the world's leading examples of climate-aligned finance. By maintaining high scientific standards, ensuring accountability and resisting pressures to dilute environmental ambition, Canada can demonstrate that long-term economic prosperity, financial stability and environmental stewardship are mutually reinforcing objectives. A taxonomy built on these principles will help ensure that Canada's financial system supports the transition to an economy that is not only net zero, but also more innovative, more competitive and more resilient for future generations.

Parliament Buildings | Édifices du Parlement, Ottawa, Ontario K1A 0A4
613-996-2210 1-800-267-7362 613-996-2208 Rosa.Galvez@sen.parl.gc.ca @SenRosaGalvez

APPENDIX

The Australian Sustainable Finance Taxonomy: Key Features and Lessons for Canada

Australia has developed one of the world's most scientifically robust sustainable finance taxonomies. **Released in 2025 by the Australian Sustainable Finance Institute (ASFI)**, it is designed to mobilize private capital toward achieving Australia's net-zero emissions target by 2050 while strengthening economic competitiveness, reducing financial risks, and ensuring alignment with international sustainable finance standards. The Australian taxonomy is built upon several fundamental principles that distinguish it as a global best practice.

1. Science-based and Paris-aligned

The taxonomy is explicitly aligned with the Paris Agreement and the objective of limiting global warming to 1.5°C. Technical screening criteria are based on the best available scientific evidence and sector-specific decarbonization pathways, ensuring that activities receiving sustainable finance labels are genuinely compatible with a net-zero economy.

2. Clear distinction between Green and Transition activities

Australia establishes only two principal categories:

- **Green activities**, which are already consistent with a zero or near-zero emissions economy.
- **Transition activities**, which currently generate emissions but can credibly achieve near-zero emissions through technological transformation within scientifically defined timeframes.

This distinction provides clarity for investors while maintaining the environmental integrity of the taxonomy.

3. No sustainable finance category for fossil fuel production

A defining feature of the Australian taxonomy is the exclusion of fossil fuel extraction and expansion from both the Green and Transition categories. Oil and gas production are not considered transition activities because they are incompatible with long-term Paris-aligned pathways. Limited use of fossil fuels is permitted only in narrowly defined circumstances (e.g., emergency backup power) where no technically feasible alternative currently exists and where clear plans exist for complete phase-out.

4. Strong technical screening criteria

Each eligible activity must satisfy detailed, science-based technical criteria demonstrating substantial contributions to climate mitigation while simultaneously meeting **Do No Significant Harm (DNSH)** requirements. Activities must also comply with **Minimum Social Safeguards**, including respect for human rights, labour standards, Indigenous rights, and good governance.

5. Avoidance of carbon lock-in

The taxonomy explicitly seeks to prevent investments that prolong dependence on high-emitting infrastructure. Eligible transition investments must accelerate structural decarbonization rather than extend the operational life of carbon-intensive assets or create new fossil fuel dependencies.

6. Whole-economy transition

The framework recognizes that sectors such as steel, cement, aluminium, chemicals and heavy manufacturing remain essential to the economy but require deep decarbonization. Transition finance therefore supports investments that enable these industries to remain competitive while achieving near-zero emissions.

7. Dynamic governance

Recognizing that technologies and scientific knowledge continue to evolve, the taxonomy incorporates regular review and updating of technical screening criteria. This ensures that investment classifications remain consistent with evolving climate science, technological innovation and international best practices.

Key Lessons for Canada

Australia demonstrates that a major resource-producing economy can develop a **credible, science-based taxonomy without creating a separate sustainable finance category for any fossil fuel production**. Its framework reinforces investor confidence by maintaining clear environmental thresholds, strong technical criteria, robust social safeguards, and close alignment with international taxonomies. For Canada, the Australian experience illustrates that climate ambition; economic competitiveness and sustainable finance are mutually reinforcing objectives. A similarly rigorous approach would strengthen Canada's international credibility, improve capital allocation, reduce transition risks, and accelerate investment toward a resilient, innovative and net-zero economy.