Submission to the Public Consultation
on Canada's Sustainable Finance Taxonomy

to

the Canadian Taxonomy and Transition Planning Council

by

Seniors for Climate Action Now!

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Introduction

Seniors for Climate Action NOW! (SCAN!) appreciates the opportunity to comment on the proposed Canadian Sustainable Finance Taxonomy.

SCAN! supports the development of a scientifically credible and internationally interoperable taxonomy that is aligned with Canada's 2030 emissions-reduction target, its commitments under the Paris Agreement, and a global pathway consistent with limiting warming to 1.5°C [1(pp6, 14, 17),2]. Done well, the taxonomy can strengthen the integrity of Canada's sustainable finance system by improving transparency, reducing greenwashing, directing capital toward activities genuinely aligned with climate goals, and enabling investors to distinguish between activities that contribute to the transition and those that do not [1(pp9-11)].

The integrity of the taxonomy depends on maintaining that distinction. Activities that merely reduce some emissions while remaining fundamentally incompatible with a 1.5°C-aligned future should not be presented to investors as climate-aligned. If the eligibility criteria are not sufficiently stringent, the taxonomy could instead legitimize continued investment in fossil fuel activities under the banner of Transition or Abatement. This is a matter of sound financial governance as well as climate policy.

SCAN! supports the proposed **Green** category and a clearly defined **Transition** category restricted to activities that are not yet climate-aligned but have a credible and demonstrable pathway to becoming so. This restriction is essential. Activities that can reduce some operational emissions but cannot themselves become compatible with a 1.5°C future should not qualify as Transition activities [1(pp28-36)].

For this reason, SCAN! does not support the proposed third **Abatement** category. It would recognize as taxonomy-aligned certain investments within activities – particularly fossil fuel production – that are expected to decline and cannot ultimately become climate-aligned.

SCAN! agrees that emissions from existing fossil fuel operations should be reduced as part of a managed and orderly phase-out of the industry, with production declining at a pace consistent with the Paris agreement and with meeting Canada's emissions-reduction targets. These reductions should be pursued through appropriate regulatory and public-policy instruments, not by classifying investments in fundamentally misaligned activities as climate-aligned.

Our submission therefore advances three central recommendations: retain the Green and Transition categories; remove the proposed Abatement category; and ensure that the Canadian taxonomy protects the integrity of Canada's sustainable finance system by remaining scientifically credible and interoperable with leading international frameworks.

SCAN! supports Green and Transition categories

SCAN! supports the inclusion of the proposed **Green** and **Transition** categories.

These categories are consistent with the broad architecture of leading international sustainable finance taxonomies, including those of Australia and Singapore [1(p34)].

Green activities are already compatible with a 1.5°C pathway.

SCAN! also supports the proposed definition of Transition activities, to the extent that it limits this category to activities that are not yet fully aligned with a 1.5°C pathway but have a credible and demonstrable path to becoming climate-aligned.

This restriction must be preserved. The Transition category should not be broadened to include fossil fuel activities, such as fossil gas, that may reduce some operational emissions but cannot themselves become compatible with a 1.5°C future.

The distinction between activities that can transition to climate alignment and activities that can only reduce some of their emissions provides a coherent and scientifically credible basis for classifying climate-aligned investments.

The proposed Abatement category should not be adopted

SCAN! respectfully disagrees with the proposal to introduce a third **Abatement** category.

We recognize that reducing emissions from existing high-emitting activities in sectors whose demand is expected to decline is desirable. Methane controls, operational

improvements and other measures may produce real emissions reductions and should form part of the managed and orderly phase-out of fossil fuel production.

However, the desirability of reducing emissions from an activity does not establish that investments in that activity should be classified as climate-aligned.

The relevant test is whether the financed activity is consistent with a pathway that limits warming to 1.5°C and supports the achievement of Canada's 2030 emissions-reduction target and its commitments under the Paris Agreement – not simply whether the investment produces some reduction in emissions relative to current operations.

The purpose of a sustainable finance taxonomy is to identify activities that are already compatible with a 1.5°C pathway, or that have a credible path to becoming so. The proposed Abatement category would depart from this principle by recognizing investments in activities that, by the methodology's own account, are unable to achieve significant decarbonization over the long term [1(p39)].

This is our fundamental objection. The proposed category would blur the distinction between an activity that is transitioning toward climate alignment and an activity that remains fundamentally misaligned but produces fewer operational emissions than before.

The methodology argues that investments in emissions reductions within demand-decline sectors could help Canada meet its short-term climate targets, provided they do not slow the deployment of zero- or near-zero-carbon alternatives or prevent demand from declining at the rate required by a Paris-aligned pathway.

Two distinctions are important.

First, an investment may contribute to reducing Canada's reported short-term territorial emissions without making the financed activity itself compatible with a Paris-aligned global pathway.

Second, inclusion on a whitelist can establish that a particular technology or measure is permitted, but it cannot establish that the investment will not extend production, prolong an asset, increase downstream emissions or displace cleaner alternatives.

Reducing operational emissions and determining whether an investment is climate-aligned are different questions. The first should be addressed through effective climate policy. The second is the distinct purpose of the taxonomy.

Even if an Abatement category were accepted, the proposed approach would be difficult to implement credibly

In the alternative, even if it were accepted that certain abatement measures could properly receive a taxonomy label, the proposed framework raises serious questions of proof, attribution, verification and enforcement.

The methodology states that abatement investments could qualify only if they do not slow the deployment of zero- or near-zero-carbon alternatives, create barriers to those alternatives, or prevent demand for the underlying activity from declining at the rate required by a Paris-aligned pathway [1(p39)].

However, the report does not explain how compliance could be demonstrated reliably.

A reduction in emissions at a particular facility does not, by itself, establish that the investment contributes to an economy-wide decline in emissions. To justify taxonomy alignment, an issuer would need to demonstrate a credible counterfactual: what would have occurred without the investment; whether the measure enables additional production; whether it prolongs the operation of the asset; and whether the capital could otherwise have supported a zero- or near-zero-emission alternative [1(pp39-40)].

Several practical problems follow.

First, the distinction between existing and new or expanded assets may be difficult to apply.

Fossil fuel operations can expand incrementally through new wells, processing capacity, gathering infrastructure, upgrades and related facilities. A rule formally restricted to an "existing asset" could still support increased output or infrastructure expansion unless the boundaries of the asset and the financed project are defined comprehensively.

Second, ring-fencing an investment does not ring-fence its consequences.

Financing a carbon-capture system, methane-reduction equipment or another retrofit may be legally restricted to that measure, but its economic effect may be to lower operating costs, extend the useful life of the facility, preserve production or support further investment in associated infrastructure.

A narrow project boundary could therefore obscure the effect of the investment on the larger operation.

Third, the proposed test would require evidence extending across the full lifecycle of the activity.

The illustrative guardrails refer to Scope 1 and Scope 2 emissions and upstream Scope 3 emissions, but they do not resolve the much larger downstream emissions that arise when oil and gas products are ultimately used. For oil, these downstream combustion emissions can account for approximately 70 to 90 per cent of total lifecycle emissions, depending on the product and production method [3(p477)].

A facility-level reduction in operational emissions therefore addresses only a limited portion of the activity's overall climate impact. Nor does it demonstrate that the investment is consistent with the necessary decline in fossil fuel production and consumption.

Fourth, it would be difficult to prove that an investment does not displace cleaner alternatives.

Capital is finite. Preferential financing for abatement within a fossil fuel operation may be additional to investment in clean technologies, but it may instead compete with or defer investment in renewable energy, electrification, efficiency or other zero- and near-zero-emission solutions.

The methodology provides no clear test for determining which effect has occurred.

Fifth, many of the proposed guardrails depend on future conduct.

Requirements involving asset retirement, sunset dates, accompanying investment in low-carbon alternatives and entity-level transition plans would rely on promises extending over many years.

The report does not yet explain how these commitments would be monitored, what would happen if market conditions changed, or whether a taxonomy designation could be withdrawn and financing consequences imposed if commitments were not fulfilled.

Sixth, the standards themselves remain undefined.

Terms such as "significant reduction," "existing asset," "does not extend the lifetime," and a sunset date "consistent with credible scenarios" would require precise and potentially contestable technical definitions.

The Council indicates that the detailed guardrails would be developed only at a later phase [1(pp40-41)]. The public is therefore being asked to endorse the category before the safeguards necessary to assess its credibility have been established.

Seventh, eligibility could change after capital has been committed.

The Council proposes that eligibility may change as technologies and global pathways evolve [1(p41)]. Periodic revision is appropriate for any taxonomy, but it introduces additional uncertainty where long-lived assets and financing commitments are involved.

An investment could receive taxonomy-aligned financing on the basis of assumptions that later prove incorrect, after the capital has been committed and the infrastructure constructed.

An unworkable burden of proof

Taken together, these problems are not readily resolved by adding more guardrails. They arise from the attempt to classify a limited emissions-reduction measure within a fundamentally misaligned activity as climate-aligned, while excluding the wider economic and emissions consequences of that activity from the classification.

The burden of proof should rest with those seeking taxonomy status. At minimum, they would need to demonstrate, with independently verifiable evidence, that the investment:

- produces substantial absolute emissions reductions rather than only an improvement in emissions intensity;
- accounts for full lifecycle emissions, including downstream Scope 3 emissions;
- does not enable increased production or associated infrastructure;
- does not extend the operational life of the asset;
- is accompanied by a binding and enforceable retirement schedule;
- does not materially displace or delay capital investment in available zero- or near-zero-emission alternatives;
- is consistent with a sector-wide decline pathway aligned with 1.5°C; and
- is subject to transparent monitoring, reassessment and automatic loss of taxonomy status if the conditions are not met.

In practice, establishing and independently verifying these conditions would be exceptionally difficult. The evidentiary, methodological, monitoring and enforcement challenges are so substantial that SCAN! does not believe the proposed Abatement category provides a viable or credible basis for taxonomy classification.

This reinforces SCAN!'s primary conclusion: emissions from activities in demand-decline sectors – particularly existing fossil fuel operations – should be reduced as part of a managed and orderly phase-out, with production declining at a pace consistent with a

1.5°C pathway. Those reductions should be secured through regulation, methane standards, emissions limits and other appropriate public-policy instruments.

The taxonomy should remain focused on its distinct purpose – providing investors with a credible classification of activities that are, or can credibly become, climate-aligned.

Maintaining international interoperability

Another important consideration is interoperability.

One of the strengths of sustainable finance taxonomies is the development of broadly comparable international frameworks. Interoperability helps investors allocate capital across jurisdictions and reduces transaction costs, reporting complexity and uncertainty [1(pp10, 15-16)].

Interoperability does not require Canada to reproduce every provision of another jurisdiction's taxonomy. It does, however, require that core classifications carry a broadly comparable meaning.

The Green and Transition categories are increasingly recognized internationally. Introducing a uniquely Canadian Abatement category would create a classification for investments within activities that cannot themselves become Paris-aligned.

Canadian classifications might therefore not be readily comparable with those used by leading international frameworks.

The result could be parallel reporting systems, increased transaction and compliance costs, reduced comparability for investors and diminished confidence in Canadian taxonomy labels.

The methodology itself acknowledges that the proposed Abatement category is novel relative to international taxonomies [1(pp28, 39)]. That novelty should be treated as a significant risk to the usefulness and credibility of the Canadian framework, not simply as a design innovation.

Maintaining interoperability should therefore be an important objective of Canada's final taxonomy.

Recommendations

SCAN! respectfully recommends that the Government of Canada:

- retain the Green and Transition categories, with Transition restricted to activities that have a credible and demonstrable pathway to alignment with a 1.5°C future;

- not adopt the proposed Abatement category or recognize as taxonomy-aligned investments within activities that cannot ultimately become climate-aligned;
- pursue emissions reductions in demand-decline sectors through regulation and other appropriate public-policy instruments, as part of a managed and orderly phase-out consistent with a 1.5°C pathway, Canada's 2030 emissions-reduction target and its commitments under the Paris Agreement; and
- maintain interoperability with leading international sustainable finance taxonomies.

Canada has an opportunity to establish a sustainable finance taxonomy that is scientifically credible, internationally respected and capable of directing investment toward the low-carbon economy of the future.

We encourage the Government to protect the integrity of Canada's sustainable finance system by preserving a clear distinction between activities that are, or can credibly become, aligned with a 1.5°C pathway and activities that remain fundamentally misaligned, even when some of their operational emissions can be reduced.

SCAN! is pleased to submit these comments for your consideration. SCAN! asks to be proactively included in future consultations on this and other climate action issues.

Notes

1. Canadian Taxonomy and Transition Planning Council. Canadian Sustainable Finance Taxonomy: Methodology Report - Draft for Public Comment. Business Future Pathways Canada. July 2026. https://www.businessfuturepathways.ca/reports/canadian-sustainable-finance-taxonomy-methodology-report-draft-for-public-comment/

2. Canada. *Canadian Net-Zero Emissions Accountability Act*. 2021. https://www.canada.ca/en/services/environment/weather/climatechange/climate-plan/net-zero-emissions-2050/canadian-net-zero-emissions-accountability-act.html

3. International Energy Agency. *World Energy Outlook 2018*. 2018. https://www.iea.org/reports/world-energy-outlook-2018/oil-and-gas-innovation

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Seniors for Climate Action Now! *(SCAN!) is building a pan-Canadian seniors' climate action movement for the benefit of generations to come. We are working with youth and other climate activists to create a democratic, just, and transformative movement to address the climate crisis.*

https://seniorsforclimateactionnow.org/