Canada's Submission to the UNFCCC's Standing Committee on Finance on Ways to Achieve Article 2.1c of the Paris Agreement

May 2022

Canada is pleased to make a submission on ways to achieve Article 2, paragraph 1(c), of the Paris Agreement, including options for approaches and guidelines for implementation. We note the critical importance of this work, and the urgent need to deepen our understanding of this issue, the third long-term goal of the Paris Agreement. We are grateful to the Standing Committee on Finance (SCF) and the co-facilitators for requesting input and are eager to read the synthesis report they produce incorporating these submissions. We look forward to continuing to follow the discussion closely and to consider the final report at the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) at its fourth session later this year.

Introduction

Article 2, paragraph 1(c), the third and final long-term goal of the Agreement, sets out the goal of 'making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development'. It is the least understood of the goals, yet is just as critical as its purpose is to help achieve the long-term goals on mitigation and adaptation. In fact, Article 2.1c offers transformational potential because its implementation is a necessary prerequisite to meeting the Paris Agreement temperature target to hold the increase in the global average temperature to well below 2 degrees Celsius above pre-industrial levels and pursue efforts to limit the increase to 1.5 degrees Celsius. This underscores the need to implement Article 2.1c urgently and at a global scale.

Scope

There are few existing parameters to interpret and guide Article 2.1c, and outline what is needed to reach the goal. As a result, consistency remains a challenge for Parties and stakeholders. For example, Multilateral Development Banks (MDBs) do not yet have a unified approach to align portfolios with Article 2.1c, which makes comparing efforts a challenge, as there is no real benchmark for progress.

Similarly, while Article 2.1c refers to all public and private finance, there is also no explicit link between Article 2.1c and Article 9 (on climate finance) of the Paris Agreement. Canada views Article 2.1c as broader than Article 9, with the ability to have a much greater impact on climate change, thus separate but complementary to climate finance commitments. In this way, conversations on Article 2.1c can be held alongside those related to climate finance, without undermining those processes.

Finally, Article 2.1c, given its breadth in nature and its transformational potential, requires actions by countries at all stages of development and different national circumstances, with the active participation of both public and private sector actors, with inputs from civil society actors and the academic community. As with all climate efforts and actions, Indigenous Peoples should be engaged in partnership as rights holders in line with the *United Nations Declaration on the Rights of Indigenous Peoples*.

Existing work

Assessing concrete progress on Article 2.1c has been a challenge. Under the Paris Agreement, there are no indicators, guides, or targets that help to demonstrate progress. Indeed, unlike the other objectives of the Paris Agreement, which are explicitly linked to other Articles, outputs, and therefore agenda items, with the exception of the Global Stocktake, Article 2.1c is discussed primarily through the SCF. This could lead to an unbalanced outcome across the three long-term goals in the context of the Global Stocktake, which will assess progress on Article 2.1a, Article 2.1b and Article 2.1c.

Canada recognizes that efforts and headway have been made but are not yet well captured. There are a number of sustainable finance initiatives to which countries and/or the private sector can and have signed on, such as the Glasgow Financial Alliance for Net Zero and the Principles for Responsible Banking, as well as separate channels for corporations to report risks such as the international Task Force on Climate-related Financial Disclosures (TCFD), the International Sustainability Standards Board, and the Sustainability Accounting Standards Board. There are also a variety of regulatory actors such as the G20 Sustainable Finance Working Group and the Marrakech Pledge, and of voluntary commitments on specific activities such as the phasing out of international fossil fuel finance and the phasing out of inefficient fossil fuel subsidies. Additionally, the Powering Past Coal Alliance (PPCA), which Canada co-leads with the UK, is driving progress by seeking to end public and private finance for unabated coal power. The PPCA has drafted a set of Finance Principles, which interpret phase out timelines into commitments for the finance sector. The PPCA is currently updating the Finance Principles and developing sector level guidance to help firms align with Paris Agreement goals. These initiatives have taken place largely outside the UNFCCC and CMA context and may therefore be difficult to track, underscoring the importance of taking steps to avoid overlap and duplication of efforts.

Although a unified approach is lacking national governments have also taken concrete steps to implement the Article. Many efforts taken by Canada can be found in its 2020 Article 9.5 submission, to be updated by the end of 2022. For example, in May 2021, the Government of Canada launched the Sustainable Finance Action Council (SFAC), which aims to support the growth of a strong, well-functioning, sustainable finance market. Similarly, in 2021 Export Development Canada, Canada's official export credit agency, committed to net-zero emissions by 2050. Despite the progress, few national governments explicitly frame their actions in the context of the Article, which again can pose challenges for tracking results on implementation.

A number of other bodies have conducted research on Article 2.1c, including for example the Organisation for Economic Co-operation and Development (OECD) and the Climate Finance Advisory Service, who published a report considering the Article's opportunities and challenges at the end of 2021. Under the UNFCCC, the Standing Committee on Finance's Fourth (2020) Biennial Assessment and Overview of Climate Finance Flows, which was welcomed at COP26, contained a chapter mapping information relevant to Article 2.1c. This formative chapter provides an excellent resource on existing work specifically as it relates to public and private finance, regulatory authorities and market operations.

Ways to achieve, options for approaches, and guidelines to implement Article 2.1c

Given the all-encompassing breadth of Article 2.1c and its transformative potential, a unified global effort and dedicated high-level engagement is needed to make real, rapid and substantial progress. This section considers the ways to achieve the Article through its framing, public incentives, and tracking and reporting.

Framing

In order to achieve Article 2.1c, it would be useful to establish a framework or frameworks to guide actions on the operationalization of Article 2.1c with some consistency.

First, the CMA could establish a guide that would assist Parties and private sector when developing approaches and strategies on implementation. This guide could be based on the SCF's work on this initiative, including through the submissions received as part of this call, and could be informed by science, including IPCC reports.

Second, it is essential to increase coordination and participation within and across governments, to align actions between Departments and Ministries, and at the various levels of government. Currently, many governments separate environment from finance and it can be challenging to ensure coherence. Encouraging the development of strategic plans for increased multi-ministerial coordination is one means of ensuring that financial policies and incentives are designed with climate change as a focus, such that fiscal and environmental policies are mainstreamed.

A consistent approach across institutions, such as MDBs, Development Finance Institutions (DFIs) and Export Credit Agencies (ECAs), is also needed to ensure the work of these institutions is responsive to the long-term goals of the Paris Agreement. In order to do so, these organisations must increase coordination and leadership. For example, MDBs would benefit from a unified overarching approach and vision towards aligning their portfolio with the Paris Agreement, to make comparisons and assess and promote progress towards achieving the goal.

Finally, any guidance must also contribute to increasing resilience, respect and protect the rights of Indigenous Peoples and be mindful of a just transition, in order to ensure that efforts to achieve Article 2.1c strive towards promoting a healthy planet while protecting human rights and dignity.

Incentives

The successful implementation and achievement of Article 2.1c will require the use of government led incentives, where incentives are policy instruments used to shift consumption or production habits. Specifically, national governments need to develop strong and inclusive economic incentives to enable a shift in financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development, and work with key stakeholders to implement these financial instruments or regulations. These incentives include fiscal policy levers, financial instruments, regulations, and voluntary standards.

Broadly, these polices are needed to establish enabling environments in all countries, developed and developing, particularly to provide pricing incentives, address a lack of transparency, and shrink regulatory gaps.

In terms of instruments, sustainable finance initiatives such as sovereign green bonds can help to achieve 2.1c associated approaches and guidelines related to existing sustainable finance initiatives. For example, strategies such as Canada's issuance of a green bond in 2022 could be used as a model for development of further approaches and guidelines towards implementation.

Mandatory climate-related financial disclosures provide investors and other stakeholders with accurate, high-quality and comparable information on how companies are exposed to climate change and how they are addressing climate-related risks and opportunities. As both companies and investors increase their understanding of the financial implications of climate change, markets will be better able to channel investment to sustainable and resilient solutions, opportunities and business models. In Canada for example, the Office of the Superintendent of Financial Institutions (OSFI)—an independent agency of the Government of Canada—will consult federally regulated financial institutions on climate disclosure guidelines in 2022 and will require financial institutions to publish climate disclosures aligned with the TCFD framework using a phased approach, starting in 2024.

Regulatory frameworks are also useful tool in achieving Article 2.1c. Carbon pricing is an excellent example of this, and is one of the most efficient means to reduce greenhouse gas emissions while driving innovation. As one of only a few countries to have set a carbon price to 2030, Canada is a leader in this space. Canada's carbon price is currently CAD$50/tonne, and will rise by $15 per year until it reaches $170 in 2030. Canada's approach on carbon pricing provides flexibility for subnational provinces and territories to implement their own pricing systems, as long as they meet minimum national stringency standards. A federal backstop pricing system applies in any province or territory that requests it or that does not implement its own system that meets these standards. Under the federal system, the vast majority of proceeds from the federal fuel charge are used to support individuals and households through direct payments, in order to focus on affordability and fairness. At COP26, Prime Minister Trudeau issued a challenge for countries around the world to triple the coverage of carbon pricing, from about 20% of global GHG emissions today to 60% by 2030. Putting a price on carbon pollution creates a financial incentive for consumers and businesses to use and produce less carbon intensive products.

Fossil fuel subsidies can incentivize the production and wasteful consumption of fossil fuels, and their elimination can reduce emissions, improve public revenue and macroeconomic performance, and yield other environmental and sustainable development benefits and are thus a key component of delivering on 2.1c. For example, Canada is committed to fulfilling its G20 commitment to phase out and rationalize inefficient fossil fuel subsidies and has accelerated the commitment to complete this work from 2025 to 2023.

International fossil fuel finance can also incentivize the over-production and consumption of fossil fuels. Phasing out direct finance to the fossil fuel sector can be a way to shift support to decarbonization and clean technologies needed to transition the sector into alignment with Paris goals. It can also send a signal to private markets to follow suit. For example, Canada is committed to fulfilling its COP26 commitment to end new direct public support for the international unabated fossil fuel sector by the end of 2022 and prioritize support for clean technology.

Tracking and reporting commitments

While there is a growing number of disparate initiatives, policies and commitments that speak to aspects of Article 2.1c, there are few means to track and report progress on Article 2.1c within the CMA and the Paris Agreement, and the means that are available are ambiguous and lack a unified approach. In particular, unlike Articles 2.1a and b, which have a clear vehicles of reporting (Nationally Determined Contributions and Adaptation Communications, respectively) no dedicated vehicle exists for Article 2.1c. Broadly, the Global Stocktake will assess collective progress towards achieving the Paris Agreement's long-term goals, including Article 2.1c. This assessment will draw from a broad range of sources of information, and while many Parties and non-Party stakeholders are taking action through various international and domestic measures, without clear reporting, tracking, or indicators, providing a full picture of progress made at the global scale will remain challenging.

To address this gap, Parties could consider creating a space to report and track global financial flows, as well as Parties' policies, commitments and initiatives whose purposes are to align financial flows with a pathway towards low greenhouse gas emissions and climate-resilient development. Such a space could be a source of guidance for countries as they develop related policies and commitments. The work of the OECD's Research Collaborative on tracking investments and financing in the context of assessing progress towards Article 2.1c could be a useful basis for this effort. Similarly, the G20 Sustainable Finance Working group is undertaking a study on the credibility of financial institutions' net-zero commitments. Consulting such studies would help to ensure we are building on best practices.

The role of the CMA and recommendations

Considerations with respect to Article 2.1c, including mapping and ways to achieve it, are taking place under the SCF. The SCF plays an essential role in this conversation and in assisting the COP in exercising its functions in relation to the Financial Mechanism of the Convention. Indeed, the members of the SCF have the technical knowledge and experience to create the inputs necessary to advance progress. In this respect, and from this work, Canada encourages the SCF to develop a synthesis of options for approaches and guidelines to implement Article 2.1c.

It may also be useful to broaden the discussion to the CMA, including to have a separate discussion on Article 2.1c under the CMA. This would create space for a more inclusive exchange between Party and non-Party stakeholders, and in doing so would allow for input from the private sector, as they will have the best sense of the feasibility of implementing policies to align financial flows. The discussion could include considerations to track and report progress going forward. This would help to elevate Article 2.1c to the levels of Article 2.1a and b and provide much needed guidance, with the inputs of all those who are part of its implementation.

Finally, given Article 2.1c is a precondition to meet our collective goals for 2030 and 2050, we cannot afford to delay progress. As a result, high-level engagement from all Parties, with the support of relevant non-Party actors during CMA and UNFCCC discussions will be needed and we encourage all to begin considering opportunities to advance implementation domestically and internationally.

Conclusion

Over six years have passed since the adoption of the Paris Agreement, and despite its transformational potential, and fundamental role in achieving the objective of the Paris Agreement, Article 2.1c lacks the guidance, tracking and reporting needed to ensure its successful implementation. Globally, all countries and non-Party stakeholders must work collectively to make progress to meet the goal as urgently as possible, and concrete tools are needed to maximize collective action.

Canada reiterates its gratitude to the SCF for leading this foundational work, both as part of the Biennial Assessment and through this process, and we look forward to considering the products at CMA4 in Egypt. We remain ready to participate in open and inclusive discussions on the topic, and offer our support where needed.