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

July 2023

Introduction

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 Article 2.1c in addressing climate change, and the urgent need to make progress towards its implementation under the Paris Agreement process. We are grateful to the Standing Committee on Finance (SCF) and the co-facilitators for consolidating input into the report and look forward to upcoming discussions on the topic.

Context

Article 2.1c sets out the goal of 'making finance flows consistent with a pathway towards low greenhouse gas (GHG) emissions and climate resilient development'. The three long-term goals of the Paris Agreement are inextricably linked, as aligning financial flows is a necessary condition for achieving both the temperature and adaptation goals outlined in Articles 2.1a and 2.1b, respectively. As Canada emphasized in its previous submission on the topic in 2022, Article 2.1c offers transformational potential towards achieving the Paris Agreement and addressing the root causes of climate change, but it remains the one long-term goal of the Paris Agreement without a formalized process to ensure its implementation.

Canada's submission aims to reiterate the views shared in its previous submission, as well as provide additional views on options for approaches and guidelines for implementation. In its previous submission, Canada stressed that, while many countries and organizations are making independent progress on Article 2.1c, there is an absence of guidance under the CMA process. Despite these existing efforts, progress to-date is insufficient for reaching the long-term goals of the Paris Agreement, which further underscores the need to scale up both action and ambition.

Canada's ongoing efforts

Canada continues to make efforts to align financial flows towards low GHG emissions and sustainable development, many of which are detailed in its 2022 submission.

More recent examples include Canada's policy guidelines, launched in December 2022, to implement its commitment to the Statement on International Public Support for the Clean Energy Transition. This effectively ended new direct public support for the international unabated fossil fuel energy sector, except in limited and clearly defined circumstances consistent with the 1.5°C warming limit and the goals of the Paris Agreement.

In 2022, the Government of Canada launched its Net Zero Challenge, an initiative that encourages businesses to develop and implement credible and effective plans to transition their facilities and operations to net-zero emissions by 2050. The Challenge has a stream dedicated to financial institutions and encourages cross-sectoral collaboration.

Canada continues to make important progress in meeting its commitment to move towards mandatory reporting of climate-related financial risks across a broad spectrum of the Canadian economy, including through domestic guidelines. Better disclosure of climate exposures by businesses and financial institutions can facilitate the assessment of risks and the adequate pricing of assets and help accelerate the movement of private capital in support of climate goals.

Ways to achieve Article 2.1c

Given its breadth and transformational potential, Article 2.1c requires various levels of action, by all countries at all levels. Approaches to operationalizing Article 2.1c must promote human rights, including the rights of Indigenous Peoples, gender equality, and intergenerational equity. Effective implementation must also include the active participation of both public and private sector actors, and the meaningful engagement of Indigenous Peoples as rights holders, civil society, academia and youth. It goes without saying that implementation requires sustained mainstreaming of climate change considerations within the financial sector, which underscores the importance of horizontal collaboration among these many actors.

As detailed in Canada's previous submission, some public and private sectors are already utilizing a variety of approaches to implement Article 2.1c, but progress on these efforts is difficult to assess under the CMA given the lack of indicators, guidelines or targets. Furthermore, it is difficult to assess progress because existing commitments often occur through voluntary global coalitions, which operate without tracking under domestic activities and regulation; this is why it is encouraged that Parties engage their domestic financial sectors on Paris Alignment.

For instance, many private sector initiatives which support Article 2.1c implementation operate outside the UNFCCC and CMA, making them difficult to track. The work of Parties, through the CMA, is needed to provide a unifying voice that will ultimately lead to more coherence and a better means to track progress on Article 2.1c for both the public and private sectors.

A sample of potential approaches for the SCF, public and private sectors are outlined below. These are not comprehensive, but offer suggestions for further consideration.

<u>The role of the SCF</u>

Canada suggests the SCF consider using the 2023 submissions on Article 2.1c to draft guidance for Parties on implementing Article 2.1c. This could include a list of potential strategies and initiatives from which Parties could tailor their own approaches. Beyond its utility for Parties, guidelines could also help promote coherence across institutions such as multilateral development banks, development finance institutions (DFIs) and export credit agencies (ECAs). Increased coordination among these organizations would support alignment of portfolios with the Paris Agreement and allow them to more accurately assess and promote progress towards achieving these goals.

Moreover, Canada recognizes the opportunity to leverage synergies between the Article 2.1c implementation and the New Collective Quantified Goal (NCQG) process and deliberations. Canada believes that Article 2.1c should be included in the NCQG but that it is essential that

Article 2.1c and the NCQG are treated as separate but complementary so as not to undermine either process.

<u>Role of public sector</u>

Governments at all levels must support the implementation of Article 2.1c by establishing the necessary enabling conditions required for actors to align financial flows with low carbon, climate-resilient development. This includes supporting Paris Alignment of financial flows within and across state-owned organizations such as Crown Corporations. These enabling conditions include government-led incentives, market signals and policy instruments such as green bonds, mandatory climate-related financial disclosures, carbon pricing and the phasing-out of inefficient fossil fuel subsidies.

Such enabling conditions would encourage private sector entities to develop credible transition plans for their financial flows which phase-out high emitting assets and free up capital for clean investments. In particular, transition plans would ensure entities disclose emissions, set targets to reduce those emissions in line with the CMA temperature goal, and report on their progress against their targets.

In line with this, the Government of Canada in its 2023 Federal Budget announced new Clean Investment Tax Credits. Totaling over $60 billion over the next ten years, these tax credits will help support green innovation in the private sector, as well as produce, manufacture and transition to clean energy technology in Canada. In addition, Parties can continue to advocate for enhanced ambition at MDBs as a means to support Article 2.1c implementation. Canada is supportive of ongoing reform initiatives at Multilateral Development Banks (MDB) and is actively advocating for increased climate ambition, including complete alignment of operations with the Paris Agreement. Canada is working with Bank management and like-minded partners to ensure progress and implementation to respond to calls for reform.

<u>Role of private sector</u>

Private sector institutions must also continue to engage in Paris Alignment. A key means to support Paris Alignment involves developing internal policies and building Environment, Social and Governance (ESG) capacity, including through the development of net-zero transition plans. As noted in Canada’s previous submission, a number of sustainable finance initiatives, including the Glasgow Financial Alliance for Net-Zero (GFANZ) and the United Nations Environment Programme Finance Initiative (UNEPFI) are already making headway to support the financial sectors’ transition to net-zero. Other means to promote Paris Alignment include proactively disclosing climate-related financial risk and opportunities, set out by recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Finally, given that private financing towards adaptation and resilience is not at scale with mitigation finance, the private sector has an important role in filling the adaptation finance gap. Establishing adaptation finance targets to support climate-resilient development within private sector institutions long-term climate strategies is crucial to implementing Article 2.1c.

Conclusion

Parties and non-Party stakeholders must continue to work together under the CMA to urgently make progress to meet Article 2.1c. Open, transparent, and ongoing discussions are needed under the CMA to maximize collective action on this issue. Canada expects that Parties will work together to establish an agenda item on Article 2.1c at CMA5. Establishing a permanent space for discussion at CMA5 would allow Parties to make inclusive and bottom-up decisions, in line with the Paris Agreement. This would also help to ensure progress on Article 2.1c is better captured and assessed under future Global Stocktake assessments.

Canada reiterates its appreciation to the SCF for taking on this work, both as part of the Biennial Assessment and through these separate reports, and looks forward to continuing discussions in the upcoming 2023 dialogues and in the UAE. Canada is eager to participate in discussions on the topic and offer support where needed.