RACING TO ZERO?

Canadian Banks' Dubious Net Zero Commitments

GREENPEACE

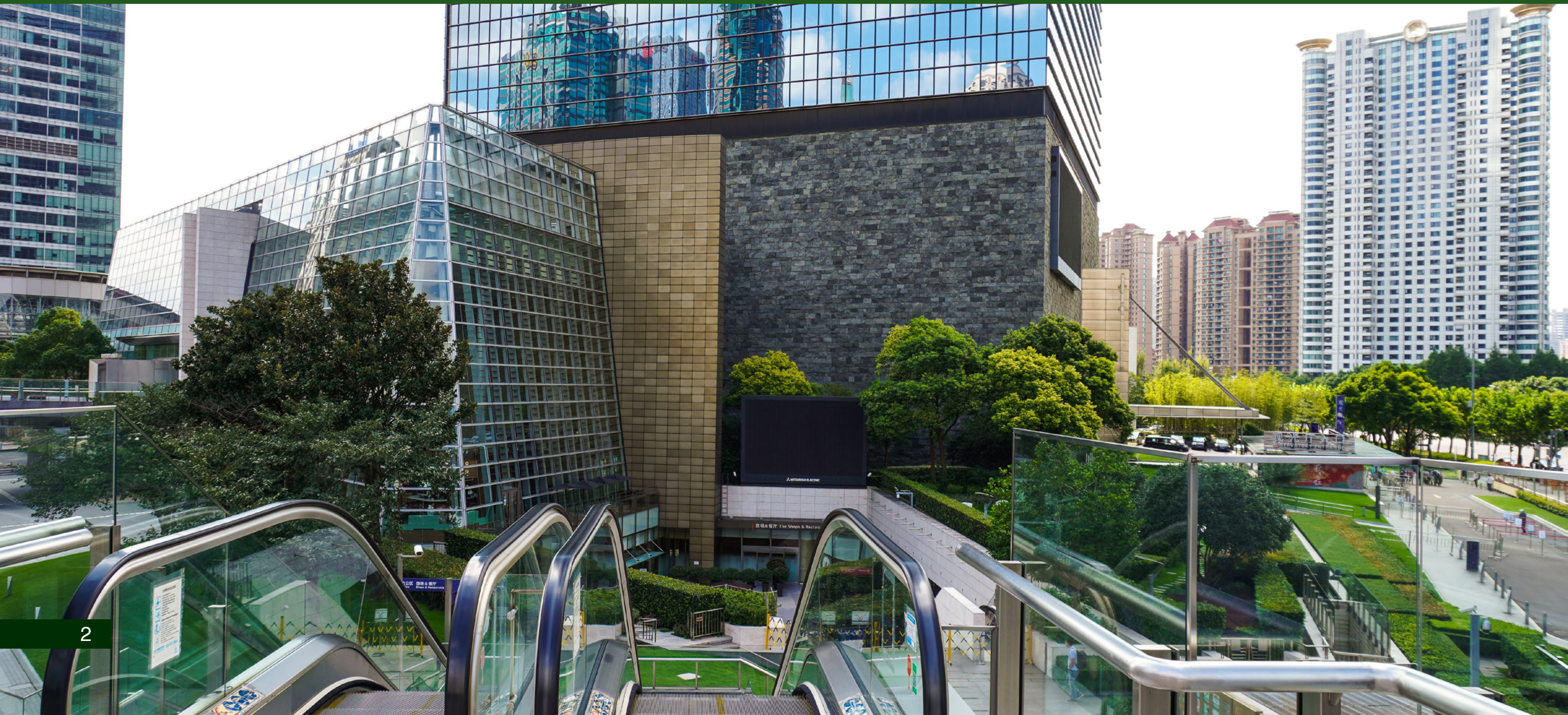
EXECUTIVE SUMMARY

Canada's big five banks signed up to a UN-backed net zero pledge in October 2021 with big promises about funding green projects, but a strategic silence on their role as some of the largest financiers of fossil fuels in the world. That contradiction is now in the spotlight as the UN has given them until June 15, 2023 to get serious about phasing out fossil fuels or be kicked out of the net zero club.

These Canadian banks are all members of the Glasgow Financial Alliance for Net Zero (GFANZ), which was established under the auspices of — and using membership criteria set by — the United Nations Race to Zero initiative. In June 2022, Race to Zero clarified those criteria to make it explicit that members are expected to "phase down and out unabated fossil fuels" as part of their net zero by 2050 commitment and cut financed emissions in half by 2030.

Based on their current commitments, these clarified criteria pose a major challenge for Canada's big five banks because:

- They are all amongst the top 20 global banks funding fossil fuels and their fossil finance has been growing.
- None of them have fossil fuel exclusion policies consistent with a science-based net zero pathway and the fossil fuel companies that they are funding don't have credible transition plans.
- The interim 2030 targets set by BMO, CIBC, Scotiabank and TD fall woefully short of what the UN says is necessary and RBC has yet to announce its 2030 targets.
- Their policy advocacy is not aligned with net zero.



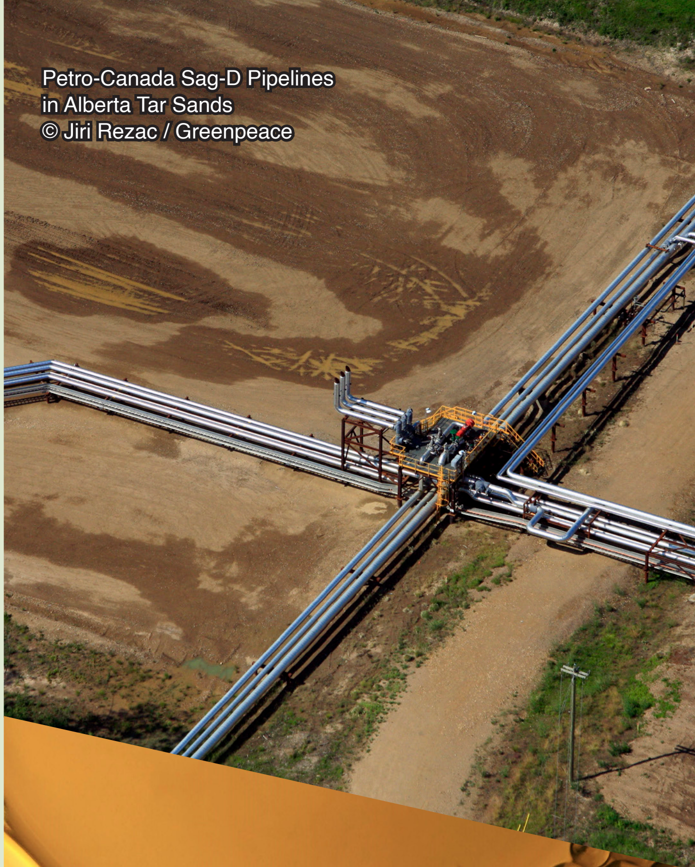
	UN Race to Zero criteria for membership in the Glasgow Financial Alliance for Net Zero	Canadian bank policies
Fossil fuel finance	Recognize that the net zero pledge requires halting deforestation and phasing down and out all unabated fossil fuels as part of a global, just transition. In practice, this means corporations and investors must restrict the development, financing, and facilitation of new fossil fuel assets, which includes no new coal projects.	Canada's big five banks are amongst the largest funders of unabated fossil fuels in the world. Their fossil fuel finance has been growing since the Paris climate agreement was signed, and grew by 70% in 2021. They don't have policies relating to fossil fuels that are consistent with a net zero scenario. Weak policies on coal and no significant oil and gas exclusions. The major oil and gas companies that they are financing don't have credible net zero transition plans.
Interim targets	Set an interim target that would achieve a fair share of the 50% global reduction in CO_2 by 2030. Targets should be based on absolute GHG emissions reduction targets (which can be complemented by intensity-based targets as appropriate). Targets should include scopes 1, 2 and 3 emissions for all businesses and all portfolio / financed / facilitated / insured emissions for financial entities (like banks).	Canadian bank targets for 2030 are currently in the 24-35% reduction range. All but one of the targets (BMO's scope 3 target) are intensity-based. Only some of the bank targets include scope 3 emissions.
Policy advocacy	Align all external engagement activities (e.g. lobbying, public relations campaigns, membership in associations that engage in public policy advocacy, etc.) with the goal of halving emissions by 2030 and reaching global (net) zero by 2050.	Have lobbied for expansion of oil and gas production and against mandatory climate risk reporting. Opposed shareholder resolutions on climate change. Scotiabank dropped their membership in the Canadian Association of Petroleum Producers.

Over the next six months, GFANZ will be developing more detailed direction on how to operationalize the Race to Zero's updated membership criteria. Based on their past behavior, Canadian banks - and other GFANZ members - will likely push for loopholes that weaken the application of the criteria.

GFANZ organizers, including Mark Carney, should not allow this to happen. Greenpeace Canada reiterates its support for strong, science-based criteria that require banks to:

1. Integrate the findings of the IEA Net Zero scenario into their climate strategies, including a prohibition on the financing of new fossil fuel projects as well as new corporate level financing of companies expanding fossil fuel production and transportation.
2. Present absolute emission reduction targets, including fossil fuel financing reduction targets and implementation plans covering all of their financial services, with a goal of halving financed emissions by 2030. These targets must be aligned with the goal of keeping warming to 1.5˚C.
3. Uphold, affirm and respect Indigenous rights, including through a commitment to adhere to policies and practices that ensure the Free, Prior and Informed Consent (FPIC) of Indigenous peoples as defined in the United Nations Declaration of The Rights of Indigenous Peoples (UNDRIP) under Article 32.
4. Commit to protect and restore biodiversity in all financing activities. These strategies should be created in deep partnership with Indigenous Peoples, whose rights and knowledge are key to the regeneration and responsible stewardship of stolen lands.

GFANZ itself has warned that in the absence of clear criteria, transparency and vigorous scrutiny, it could be used as cover for the greenwashing of business-as-usual financing of fossil fuels. This report is a contribution toward that necessary transparency and scrutiny. To contribute to a culture of transparency, a draft of this report was shared with all five banks. Only Scotiabank responded with comments, which have been incorporated into the report.



Petro-Canada Sag-D Pipelines in Alberta Tar Sands
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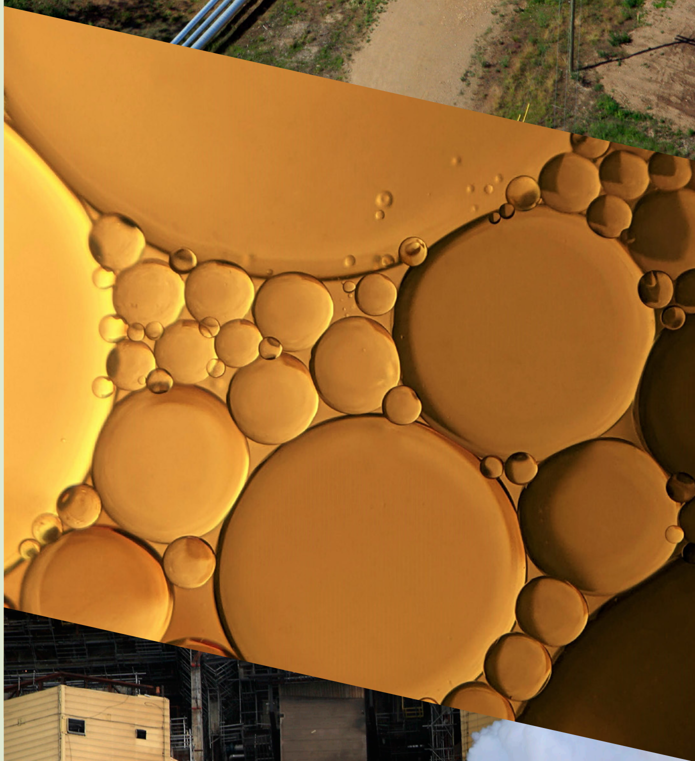

Syncrude Plant in Alberta Tar Sands
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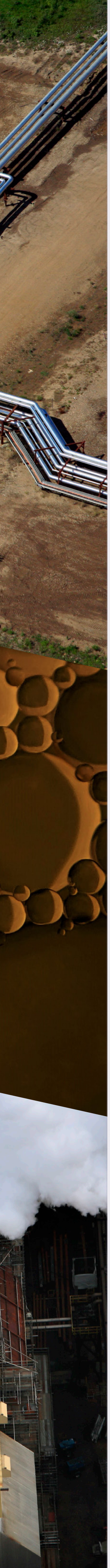


WHY CANADIAN BANKS MUST RESPECT RACE TO ZERO CRITERIA

As a consequence of their outsized contribution to climate change (and related exposure to climate risks), Canada's big five banks have come under increasing pressure from investors, clients and social movements to show a commitment to climate action.[1]

At least partially in response to this pressure, RBC, Scotiabank, TD, BMO and CIBC all joined the Glasgow Financial Alliance for Net-Zero (GFANZ) in October 2021.[2] GFANZ was launched in April 2021 by United Nations Special Envoy for Climate Action and Finance Mark Carney (a former Governor of both the Bank of Canada and the Bank of England) in the lead-up to the 2021 Glasgow Conference of the Parties to the United Nations Framework Convention on Climate Change (COP26). It was established "to unite net-zero financial sector-specific alliances from across the globe into one industry-wide strategic alliance [in order to] accelerate the transition to a net-zero global economy." Its members include more than 450 member firms from across the global financial sector, representing more than $130 trillion in assets under management and advice.[3]

Membership in GFANZ is "predicated on science-based commitments to net zero."[4] The criteria for what a science-based commitment to net zero means is not set by GFANZ, but by Race to Zero, which is a "UN-backed global campaign rallying non-state actors – including companies, cities, regions, financial and educational institutions – to take rigorous and immediate action to halve global emissions by 2030 and deliver a healthier, fairer zero carbon world."[5]

The banking strand of GFANZ is called the Net Zero Banking Alliance, or NZBA (there are also strands for asset managers, asset owners, insurers, financial service providers and investment consultants). At the time the Canadian banks joined GFANZ/NZBA (and hence agreed to abide by the criteria set by Race to Zero), NZBA described membership criteria as a commitment to:

- Transition the operational and attributable GHG emissions from their lending and investment portfolios to align with pathways to net-zero by 2050 or sooner.
- Within 18 months of joining, set 2030 targets (or sooner) and a 2050 target, with intermediary targets to be set every 5 years from 2030 onwards.
- Banks' first 2030 targets will focus on priority sectors where the bank can have the most significant impact, ie. the most GHG-intensive sectors within their portfolios, with further sector targets to be set within 36 months.
- Annually publish absolute emissions and emissions intensity in line with best practice and within a year of setting targets, disclose progress against a board-level reviewed transition strategy setting out proposed actions and climate-related sectoral policies.
- Take a robust approach to the role of offsets in transition plans.[6]

BANKS TRIED TO EXPLOIT LOOPHOLES, BUT WERE CALLED OUT

For climate justice advocates and some investors, transitioning investment and loan portfolios to align with a net zero pathway clearly meant reducing and ultimately eliminating fossil fuel finance.

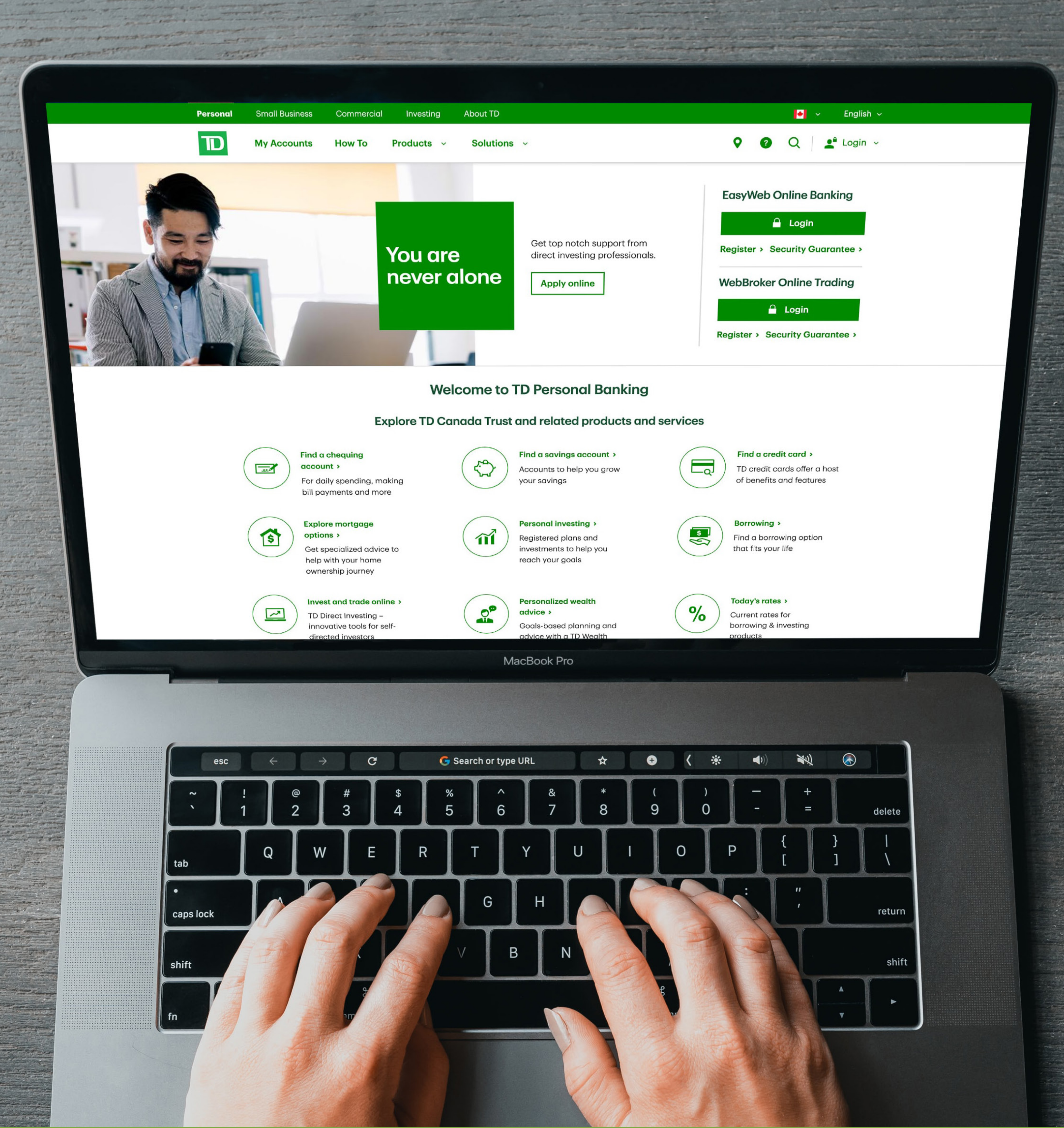
Canadian banks, on the other hand, argued that they needed to continue funding fossil fuel companies through the transition (although the banks attached no conditions regarding the energy transition to their financing of the fossil fuel industry).[7] Amongst GFANZ member banks, fossil fuel finance grew significantly in 2021 with Canadian banks having the largest year-over-year increases.[8]

The differing perspectives with respect to what it means to "align with pathways to net zero" led more than 90 environmental and Indigenous organizations (including Greenpeace Canada) to write an open letter to Mark Carney and GFANZ in October 2021. That letter argued that the banks were interpreting the requirements so loosely that GFANZ could become a way for banks to greenwash ongoing investments in fossil fuels. To prevent this, the groups called on GFANZ to require member banks to:

- Immediately present fossil fuel financing reduction targets and implementation plans covering all of their financial services with a goal of halving financed emissions by 2030.
- Integrate the findings of the IEA Net Zero scenario into their climate strategies, including a prohibition on the financing of new fossil fuel projects as well as new corporate level financing of companies expanding fossil fuel production and transportation.
- Immediately phase out all financing of thermal coal companies including utilities without short term plans to shutter thermal coal power and make a plan to phase out financing of oil and gas.
- Ensure the free, prior, and informed consent of Indigenous communities and commit to protect and restore biodiversity in all financing activities.[9]

As detailed below, a number of these concerns were addressed in the June 2022 updated Interpretation Guide published by the Race to Zero Expert Peer Review Group[10] and GFANZ itself ultimately acknowledged that greenwashing concerns were legitimate. In their June 2022 *Financial Institution Net-zero Transition Plans:* Recommendations and Guidance report (which was released for consultation at the same time as the updated Race to Zero criteria discussed below), GFANZ wrote:

> **"The four approaches to net zero mentioned above, particularly the third and fourth on financing related to 'transition' and 'managed phaseout', while essential approaches to the transition, have the possibility of leading to the greenwashing of business-as-usual financing activities. Without clearer guardrails in place that enable transparency and accountability, financing for high-emitting companies and assets should be vigorously scrutinized to ensure net-zero alignment."[11]**



Toronto Dominion Centre, Toronto, ON, Canada

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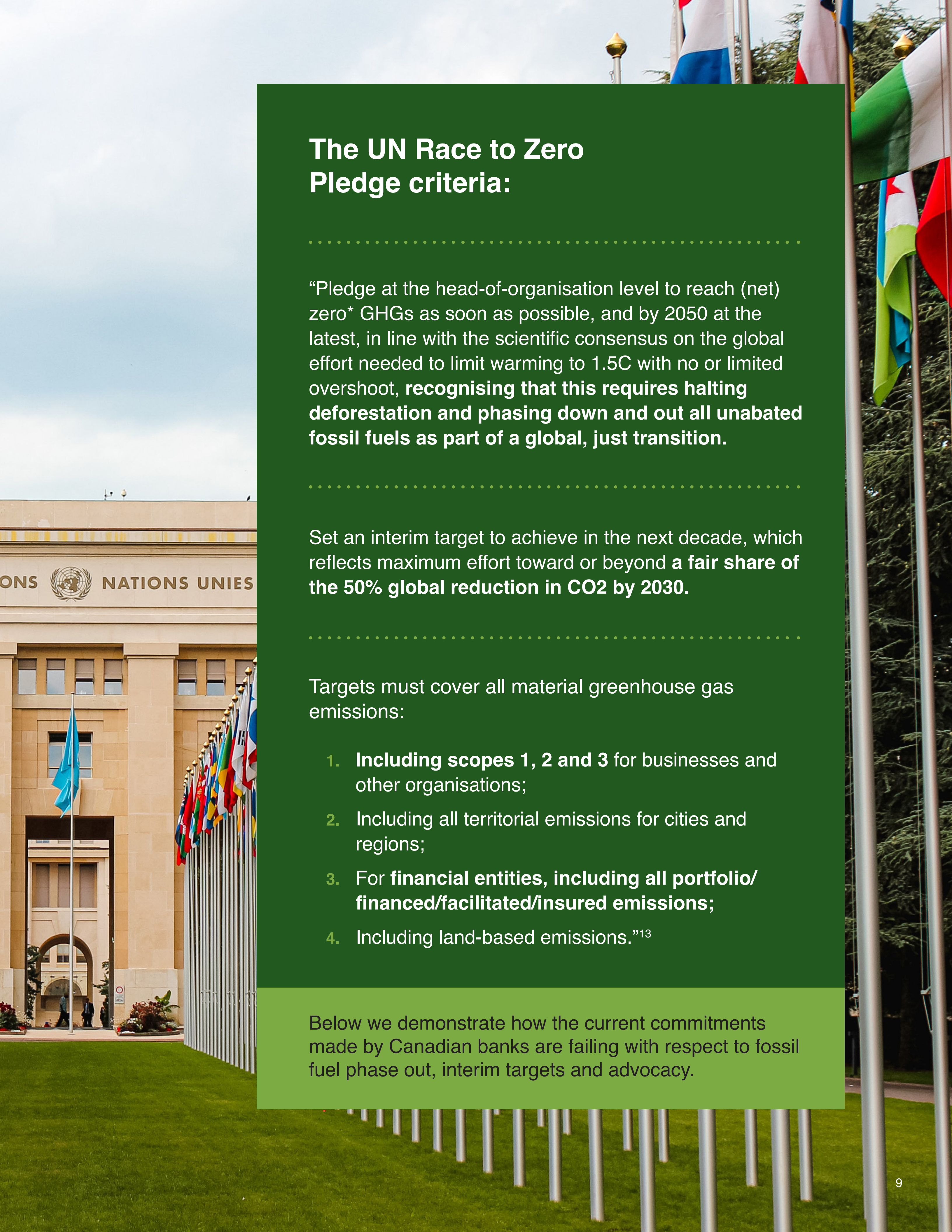
RACE TO ZERO'S UPDATED CRITERIA

The June 2022 "Version 2.0" of the Interpretation Guide states that its goal is to provide "additional guidance regarding how the Expert Peer Review Group interprets the Race to Zero criteria, and how Partners and their members can expect to implement these criteria."[12] Despite the diplomatic language, it is a direct rebuke to banks who were treating the transition to net zero as a public relations exercise rather than a fundamental transformation of how they do business.

The "starting line" criteria for membership are broken into 5 categories: Pledge, Plan, Proceed, Publish and Persuade. The most immediate concern for Canadian banks is the "Pledge" criteria, as it is the first action they must take (Plan, Proceed and Publish are all about implementing the Pledge commitments). All follow upon those commitments. Pledge is also the criteria where they face significant challenges, relating to the bolded sections of new criteria below (emphasis added).



The UN Race to Zero Pledge criteria:

“Pledge at the head-of-organisation level to reach (net) zero* GHGs as soon as possible, and by 2050 at the latest, in line with the scientific consensus on the global effort needed to limit warming to 1.5C with no or limited overshoot, **recognising that this requires halting deforestation and phasing down and out all unabated fossil fuels as part of a global, just transition.**

Set an interim target to achieve in the next decade, which reflects maximum effort toward or beyond **a fair share of the 50% global reduction in CO_2 by 2030.**

Targets must cover all material greenhouse gas emissions:

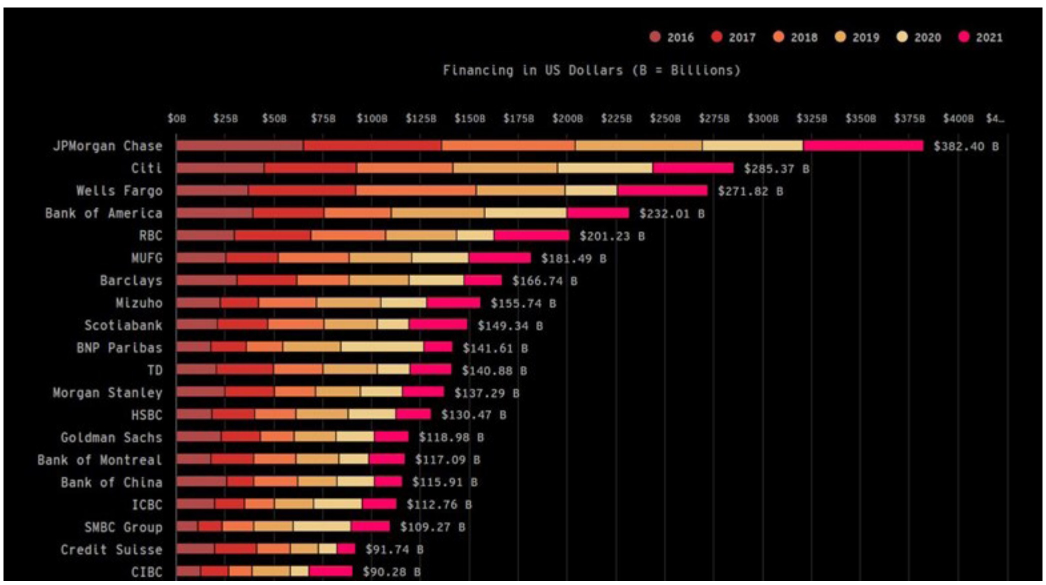
1. **Including scopes 1, 2 and 3** for businesses and other organisations;
2. Including all territorial emissions for cities and regions;
3. For **financial entities, including all portfolio/ financed/facilitated/insured emissions;**
4. Including land-based emissions.”[13]

Below we demonstrate how the current commitments made by Canadian banks are failing with respect to fossil fuel phase out, interim targets and advocacy.

HOW THE BANKS ARE FAILING ON THE FOSSIL FUEL PHASE OUT

1. Canadian banks are major funders of fossil fuels

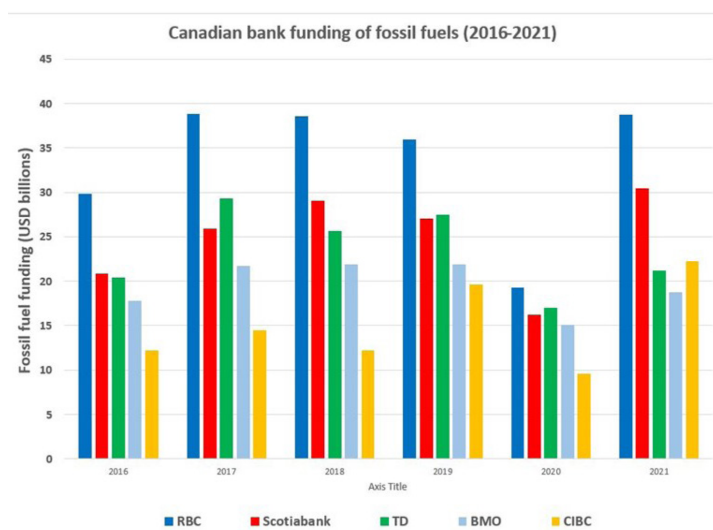
Canadian banks are not only not committed to phasing out fossil fuels, but are instead amongst the largest funders of fossil fuels in the world. According to the 2022 *Banking on Climate Chaos* report, RBC is the 5th largest financier of fossil fuels in the world, followed by Scotiabank (9th), TD (11th), BMO (15th) and CIBC (20th).[14]



Source: Graphic from 2022 Banking on Climate Chaos report

Following a pandemic-driven drop in fossil fuel lending in 2020, Canada's major banks' support for the fossil sector grew by 70% in 2021 and accounted for the largest increase in financed emissions globally.[15]

They continue to fund the expansion of fossil fuel infrastructure in 2022. Six months after signing up to GFANZ, all of the big 5 Canadian banks (as well as the National Bank of Canada) provided a $10 billion line of credit to the controversial Trans Mountain Expansion pipeline.[16]



Source: Data from 2022 Banking on Climate Chaos report

To justify their ongoing funding of fossil fuels, Canadian banks argue that an orderly transition to a net-zero economy could take years and that the oil and gas industry needs ongoing support to meet continued demand as energy alternatives such as wind and solar are developed.[17]

The press release accompanying the release of the new Race to Zero criteria makes it clear that this kind of business-as-usual discourse is not acceptable, by making explicit that fossil fuels must be phased out, including via restrictions on funding new fossil fuels or high-emitting assets:

> "Major outcomes for strengthening the criteria include:
> Making explicit the requirement for members to phase down and out all unabated fossil fuels as part of a just transition, something which was previously implic it. In practice, this means corporations and investors must restrict the development, financing, and facilitation of new fossil fuel assets, which includes no new coal projects. The exact pathways and timelines naturally differ across regions and sectors."[18]

The Interpretation Guide highlights the IEA's Net Zero scenario, but also references Intergovernmental Panel on Climate Change scenarios with little or no overshoot:

> "Race to Zero notes that 'fossil fuel phase down and out' does not refer to a single universal date for all entities and sectors, but should instead be aligned to a global, science-based, just transition. For example, the IEA 2021 Net Zero scenario envisions an immediate halt on building new coal plants and a phaseout of coal-fired electricity generation by 2030 in OECD countries and 2040 in non-OECD countries, as well as no new oil and gas fields."[19]

In their respective reports on climate actions and ambitions, BMO[20], CIBC[21], Scotiabank[22] and TD[23] all cited the IEA Net Zero pathway as one of the key benchmarks they were using to inform their targets and strategies (RBC has not yet published its GFANZ-related targets). CIBC even argues that its current funding of oil and gas companies is aligned with the IEA's Net Zero pathway:

> "In supporting low-carbon innovation and offering sustainable financing solutions to oil and gas companies looking to transition, we can have a measurable impact on emission reductions in one of the most carbon-intensive sectors in the economy and accelerate low-carbon energy transition pathways in alignment with the International Energy Agency's IEA Net-Zero Emissions by 2050 scenario (NZE scenario)."[24]

Yet as will be shown below, the oil and gas companies they are funding are not "looking to transition." And none of the banks citing the IEA's Net Zero pathway acknowledge the scenario's exclusion of financing new coal plants or oil and gas fields, nor do they propose fossil fuel exclusion policies aligned with the IEA's Net Zero pathway.

2. Banks have inadequate exclusion policies

One common way for banks to align their funding with low carbon scenarios is to put in place policies against financing specific types of activities. With respect to coal, Race to Zero's Interpretation Guide notes that all credible net zero pathways (not just the IEA's Net Zero pathway) call for an immediate end to new coal projects. As detailed in Table 1, Canadian banks have coal-related policies, but with the exception of Desjardins they are relatively weak.[25]

Table 1: Reclaim Finance's assessment of Canadian bank coal policies (each criteria is assessed on a scale of 0–10 where 10 is the best). Source: coalpolicytool.org

Financial institution	Exclusion of coal mines, plants or infrastructure projects	Exclusion of coal companies developing new projects	Exclusion of coal companies based share of coal revenue/ generation	Exclusion of coal companies based on absolute coal production/ capacity	Quality of coal phase-out commitment
BMO	3	0	1	0	0
CIBC	0	0	0	0	0
Desjardins	10	9	10	10	10
RBC	3	0	1	0	0
Scotiabank	?	0	0	0	0
TD	1	0	0	0	0

In response to a draft of this report, Scotiabank noted that it "does not currently, and will not, finance any standalone projects for thermal coal mining or coal power generation. We will continue to support our existing mining and utility clients who have thermal coal or coal generation assets in their portfolios with their transition to lower carbon emissions. Scotiabank will track and monitor our credit exposure to these sectors as we support our clients in their GHG reduction strategies."[26] Reclaim Finance's Coal Policy Tool acknowledges this policy, but argues "it is highly insufficient to meet the climate objectives set by the Paris

Agreement. The policy only covers the direct financing of coal projects, but all the other elements of a good policy are missing. The Canadian bank must urgently exclude all coal developers, adopt stringent exclusion thresholds at the corporate level, and a comprehensive coal phase-out strategy by 2030 in Europe/OECD and 2040 worldwide."[27]

Amongst Canadian banks, only Desjardins has a policy that meets the emerging international consensus on coal phase out. Desjardins' policy includes a prohibition on investing in, or providing financial products (including corporate financing, financial intermediation, loans and insurance) to companies that operate or develop coal mines, have greater than 10%, or 5 GW, installed coal power generation capacity, or are building, extending or renovating coal mines, power plants or infrastructure.[28]

When it comes to oil and gas, Canada's big five banks have policies limiting finance for Arctic oil and gas development,[29] but they don't have broader exclusion policies for oil and gas that would be consistent with the IEA's Net Zero pathway.[30]

3. Oil and gas companies financed by Canadian banks don't have transition plans

Even if a bank were to claim that they were using a non-IEA net zero-aligned scenario, the Canadian banks' current fossil fuel finance operations are incompatible with the updated Race to Zero guidance.

Canadian banks provide mostly corporate-level financing to their fossil fuel clients,[31] which means the companies can use the money for any purpose. Yet the Interpretation Guide makes it clear that ongoing fossil fuel finance is only appropriate if the company receiving the finance has a net zero-aligned transition plan in place (emphasis added):

> "Race to Zero does not wish to disincentivize the financing of companies or assets with fossil fuel-related activity **where the purpose of that finance is to accelerate phaseout or decarbonization of related infrastructure.** However, **where there is no transition plan, divestment may be the only way to drive net zero alignment.**"[32]

In the June 2022 consultation documents shared by GFANZ, it is also clear that investments in high-emitting assets should only be undertaken as part of a strategy to accelerate the retirement (closure) of those assets in line with a net zero pathway (emphasis added):

> "This Report proposes "Managed Phaseout" as a net zero-aligned approach for the operation and financing of a high-emitting asset **with clear commitments around its retirement. This Managed Phaseout approach may also form part of a company's strategy, where it operates high-emitting assets, in support of an orderly and just transition.** Importantly, the development of a Managed Phaseout approach for high-emitting assets provides an alternative to companies and financial institutions to withdrawing finance (i.e., divesting) from these assets.
>
> While withdrawal of finance can encourage decarbonization, it can also potentially have the unintended consequence of prolonging the life of high-emitting assets and even worsen their GHG emissions profile if they are transferred to those with less climate ambition, disclosure, or scrutiny."[33]

In short, the new guidance says that bank finance for fossil fuel companies is only appropriate if the companies or assets they are financing have a credible plan to transition out of fossil fuels ("to phase down and out all unabated fossil fuels as part of a just transition"). Yet according to the IEA's 2022 world energy investment report, oil and gas companies are investing only 5 percent of their capital in greener energy.[34] Systematic reviews of the banks' major global[35] and Canadian[36] fossil fuel clients found that none have a credible plan to transition out of fossil fuels.

Amongst the major Canadian firms, the CEOs of Cenovus and CNRL have both publicly announced that they do not intend to move out of oil and gas production.[37] Suncor recently sold off its investments in wind and solar power to double down on hydrocarbons.[38] Imperial Oil is the Canadian arm of ExxonMobil, which historically has been one of the principal opponents of action on climate change[39] and is currently focused on reducing emissions from its own oil and gas operations rather than transitioning to renewables.[40]

Instead, these companies have launched their own 'net zero' initiative that focuses exclusively on production (i.e. scope 1 and 2 emissions), which is an approach explicitly rejected by the new Race to Zero criteria (see Scope 3 Emissions section below).

HOW THE BANKS ARE FAILING ON INTERIM TARGETS

1. Canadian banks aren't doing their fair share

The updated Race to Zero criteria requires members to "set an interim target to achieve in the next decade, which reflects maximum effort toward or beyond a fair share of the 50% global reduction in CO2 by 2030." The Canadian banks' 2030 targets are in the 24-35% reduction range and intensity-based, with one exception (BMO's scope 3 target for oil and gas production). This allows for actual emissions to increase as intensity-based targets only require emissions per barrel or dollar to decrease, putting the Canadian banks' targets far from "a fair share of the 50% global reduction in CO2 by 2030."

There are a number of ways to interpret what constitutes a "fair share," but within the UN system it means that actors in wealthy, northern countries are expected to go further, faster.[41] As the Interpretation puts it: "Many actors in Race to Zero can and must go beyond 50% of emissions reductions by 2030, and must achieve an end state net zero well before 2050, as part of the requirement for entities in the campaign to contribute their fair share of achieving net zero as soon as possible."[42]

Four of Canada's big five banks have set interim (2030) targets for oil and gas (RBC has not), and three have set targets for the electricity sector (RBC and CIBC have not). The analysis here will focus on the oil and gas targets, as upstream oil and gas production is the largest source (27%) of greenhouse gas emissions in Canada, while refined oil and gas products burned in vehicles, buildings, industrial facilities and power plants account for the majority of remaining emissions.[43] Canada has a relatively low-carbon electricity sector and a legislated phase-out of coal-fired power, so the room for further reductions is limited.

As summarized in the table below, banks have set different types of targets (intensity versus absolute) which apply to different scopes of emissions.

Table 2: Canadian Bank GHG Targets for the Oil and Gas Sector

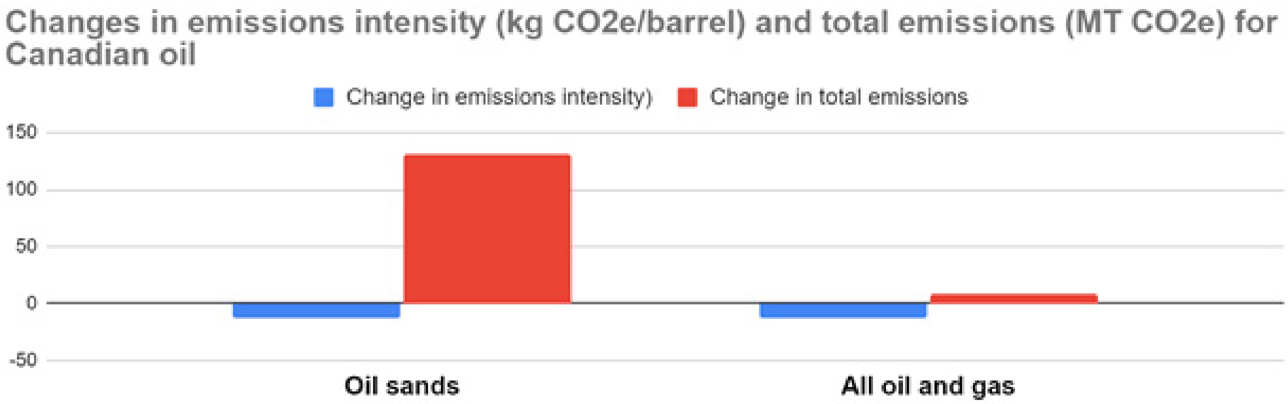
Bank	Oil and gas (Scope 1 &2)	Oil and gas (Scope 3)
UN Race to Zero[44]	Set a 2030 target for absolute reductions from all (i.e. scopes 1-3) portfolio, financed, facilitated and insured emissions that reflects maximum effort toward or beyond a fair share of the 50% global reduction in CO2 by 2030.	
BMO[45]	33% reduction in portfolio emissions intensity (tCO2e/TJ) from 2019 base-line by 2030.	24% in absolute scope 3 emissions from 2019 levels by 2030.
CIBC[46]	35% reduction in emissions intensity (gCO2e/MJ) from 2020 levels by 2030. Includes carbon removal credits.	27% reduction in emissions intensity (gCO2e/MJ) from 2020 levels by 2030. Includes carbon removal credits.
RBC	None (as of June 2022)	None (as of June 2022)
Scotiabank[47]	30% improvement in CO2e emissions intensity (tCO2e/TJ) from 2019 base-line by 2030.	Scope 3 target won't be set until 2023.
TD[48]	29% reduction in emissions intensity (gCO2e/CAD $) for scopes 1-3 from 2019 baseline by 2030. Note: TD is the only bank to use an emissions/dollar metric.	29% reduction in emissions intensity (gCO2e/CAD $) for scopes 1-3 from 2019 baseline by 2030.

2. Absolute vs Intensity-based

The bank targets identified in Table 2 are all (with the exception of BMO's scope 3 target) intensity based. BMO, Scotiabank and CIBC have set targets based on GHGs per unit of energy (often described as per barrel of oil equivalent), while TD has set targets based on emissions per dollar.

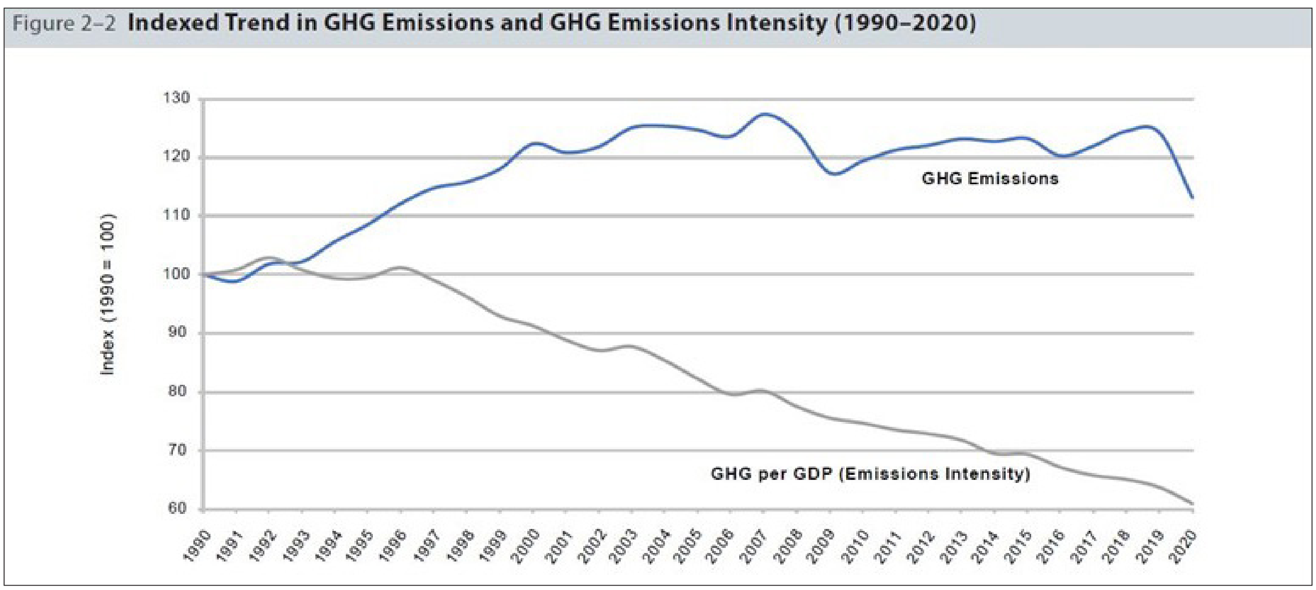
The problem with intensity-based measures is that if the total number of barrels produced or dollars invested rises, then total greenhouse gas emissions can rise even if the intensity is dropping.

This is precisely what has happened historically in Canada's oil and gas sector. According to Environment and Climate Change Canada, emissions intensity (kg CO2e/barrel) in the oil sands fell by 12% over the 2005 - 2020 period (from 91 kg/barrel to 81 kg/barrel), while total emissions rose by 131% (from 35 MT to 81 MT). Over the same period, the emissions intensity of the entire oil and gas sector in Canada fell by 13% (63 kg/barrel to 55 kg/barrel) while total emissions rose 8% (148 MT to 160 MT).[49]



Data source: Environment and Climate Change's 2020 GHG Emission Summary for Canada, (Figure 2-27).

For the Canadian economy as a whole, GHG intensity (measured as CO2e per dollar of GDP) has fallen by 39% since 1990, while total emissions rose by 13%.[50]



Source: Environment and Climate Change's 2020 GHG Emission Summary for Canada.

By setting themselves intensity-based targets, banks are backing business as usual under the guise of climate action. This is why the Race to Zero is requiring absolute emission reduction targets. The Interpretation Guide states that "In most cases, absolute emissions targets are necessary for ensuring real-world reductions. However, there are certain areas in which intensity-based metrics are also appropriate, such as for sectors for which absolute growth is needed to drive decarbonization (e.g. renewable energy).... Including both absolute and intensity targets and metrics provides the most clarity."[51]

3. Scope 3 emissions

The Pledge criteria also requires companies to set targets for all material greenhouse gas emissions, which it defines as including scopes 1, 2 and 3 emissions for businesses, as well as all portfolio, financed, facilitated and insured emission from financial entities.

The concept of emission scopes captures the importance of taking responsibility for the full lifecycle of emissions. Scope 1 emissions are those produced by a company directly (e.g. GHGs resulting from directly extracting, refining and transporting a barrel of oil). Scope 2 emissions are the indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling used to produce a product. Scope 3 includes all other indirect emissions that occur in a company's value chain.

For companies selling fossil fuels, scope 3 emissions from the burning of those fuels are large and largely unavoidable (except by selling less of the product). While it may be theoretically possible to capture 90 percent of GHGs from large, stationary industrial facilities like refineries and coal plants, capture rates have been much lower in practice.[52] In addition, carbon capture is not feasible for transportation fuels (the largest end use for oil) as it is impossible to capture and store emissions from vehicle tailpipes. Nor is it practical for natural gas burned in smaller, scattered facilities like homes and offices.

So even if an oil company uses carbon capture and storage (CCS) to reduce scope 1 emissions (as proposed by firms in Canada's oil sands), they are likely capturing less than 10 percent of their full scope 1-3 emissions. As a result, the oil and gas industry has opposed reporting or taking responsibility for scope 3 emissions, and targets for cutting them have remained relatively weak.[53]

Yet promises to reduce scope 1 and 2 emissions are often promoted as aligned with net zero. In Canada, the most prominent example of this type of greenwashing is the Oil Sands Pathways to Net Zero. It is an alliance of six major oil companies representing 95% of oil sands production, whose

Syncrude Oil Operations in Alberta Tar Sands
© Jiri Rezac / Greenpeace

"goal is to achieve net zero greenhouse gas emissions from our operations by 2050, while supplying the energy the world needs."[54]

The caveat "from our operations" is key, as they are only seeking to reduce, capture and/or offset their scope 1 and 2 emissions. The reductions they are pursuing through publicly-subsidized carbon capture and storage represent only a tiny portion of their material greenhouse gas emissions (i.e. scopes 1-3), as disclosed by the companies themselves.

Three of Canada's largest oil companies (who are also members of the Oil Sands Pathways alliance) have begun to report on all three scopes: Imperial Oil, Cenovus, and Suncor.

Individually, each of these firms has scope 1-3 emissions larger than the annual emissions of any Canadian province with the exception of Alberta. The combined scope 1-3 emissions of just these three companies total 498 MT, which is more than the combined emissions of 9 of 10 Canadian provinces (i.e. all except Alberta). Of those emissions, 85% are from end use (scope 3).

Through the Oil Sands Pathways alliance, they are proposing to use carbon capture to reduce scope 1 emissions (this move was premised on a major tax break from the federal government).[58] The six companies that are members of the Pathways alliance claim that they will reduce emissions by 22 MT by 2030,[59] with 10 MT of that from carbon capture.[60] Yet the 22MT target is only 4% of the 498 MT total scope 1-3 emissions of three of the 6 companies (see Table 1 above), so even with CCS oil sands output should be considered "unabated" fossil fuels.

The Oil Sands Pathways alliance has been praised by BMO as an example of the energy transition they want to support.[61] This might be credible if it were framed as a way to reduce emissions from existing operations while phasing out of fossil fuels, yet as discussed above none of the companies involved are planning to transition out of fossil fuels.

Table 3: Reported GHG emissions from three Canadian oil and gas companies

	Scope 1 & 2 (MT)	Scope 3 (MT)	Total (MT)
Imperial[55]	21.5	170	191.5
Cenovus[56]	23.9	132	155.9
Suncor[57]	27.7	123	150.7
Total (MT)	73.1	425	498.1
Share of total emissions	15%	85%	100%

HOW THE BANKS ARE FAILING ON POLICY ADVOCACY:

Undermining net zero

One of the new elements in the UN Race to Zero criteria is the addition of a “Persuade” category. This criteria requires members to “Within 12 months of joining, align external policy and engagement, including membership in associations, to the goal of halving emissions by 2030 and reaching global (net) zero by 2050.”

This is, in effect, a requirement for members to match what they say in public about net zero with what they are advocating for behind closed doors. The Interpretation Guide clarifies that the Persuade commitment means that not only must all lobbying, public relations campaigns and memberships in associations that engage in public policy advocacy be consistent with halving emission by 2030 and reaching global net zero by 2050, but that members are expected to “proactively engage in supporting climate policies” at the national and subnational levels that are consistent with the other Race to Zero criteria.

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On the positive side, Scotiabank recently dropped its membership in the Canadian Association of Petroleum Producers (CAPP).[62] CAPP has been a major opponent of climate action in Canada,[63] so this action is consistent with the Race to Zero criteria.

On the other hand, BMO and TD are affiliate members of the Petroleum Services Association of Canada.[64] Furthermore, BMO, CIBC, Scotiabank and the Canadian Bankers Association (to which all of the big five belong) have opposed mandatory climate risk disclosure in the consultation initiated by securities regulators (TD and RBC did not submit comments directly).[65] In addition, all of the big five banks opposed climate resolutions at their 2022 Annual General Meetings.[66]

They also continue to advocate for (and fund) expansion of fossil fuel infrastructure. As noted above, all of the big five banks agreed to fund the Trans Mountain pipeline after signing up to GFANZ. The big banks have been vocal and long-standing supporters of expanding Canada's oil industry.[67] CIBC's chief executive Victor Dodig has called the oil industry Canada's "family business" and said that the shortage of pipeline capacity represents a "critical threat" to our economy.[68] As recently as April 2022, RBC publicly advocated for expanding oil sands production by 500,000 barrels per day (while arguing that other nations could cut their production by an equivalent amount, but without offering a mechanism for that to be a requirement).[69]

Race to Zero's "Persuade" criteria is relatively new, so it may take time for the banks to align their policy advocacy with net zero.

But that time is not unlimited, as Race to Zero has established a deadline.

WHAT NEXT:

Climate action on a deadline

GFANZ is at a crossroads and the path forward isn't entirely clear as GFANZ hasn't said publicly how it will hold members accountable for meeting the new criteria.

On the same day that the updated Race to Zero criteria were published, GFANZ released a number of documents for consultation, including direction on sectoral pathways to net zero and expectations for transition plans.[70] These would appear to be designed to provide more detailed direction on how to operationalize the Race to Zero's updated membership criteria, but that isn't stated in the documents.

When it comes to implementation of high-level goals like those put forward by the Race to Zero, the devil is always in the detail. It is likely that many GFANZ members - including Canadian banks - will seek to insert loopholes that weaken the application of the UN Race to Zero criteria.

The GFANZ leadership - including Mark Carney - should resist any such efforts. As GFANZ itself has warned, in the absence of clear criteria, transparency and vigorous scrutiny, it could be used as cover for the greenwashing of business-as-usual financing of fossil fuels.
Existing members of Race to Zero initiatives have until June 15, 2023 to comply with the updated criteria. By or before that date, they must publicly disclose a transition plan that outlines how all other Race to Zero criteria will be met, including what actions will be taken within the next 12 months, within 2-3 years, and by 2030.

Greenpeace Canada reiterates its support for strong, science- and equity-based criteria in delivering our fair share. The spirit of the UN Race to Zero criteria needs to be reflected in the direction given by GFANZ to its members. As part of the requirement for supporting a "just transition" to a (net) zero economy, these criteria should explicitly incorporate upholding, affirming and respecting Indigenous rights.

Rather than seeking to weaken the application of Race to Zero criteria, Canadian banks should prepare, publish and then implement transition plans that:

1. Integrate the findings of the IEA Net Zero scenario into their climate strategies, including a prohibition on the financing of new fossil fuel projects as well as new corporate level financing of companies expanding fossil fuel production and transportation.
2. Present absolute emission reduction targets, including fossil fuel financing reduction targets and implementation plans covering all of their financial services, with a goal of halving financed emissions by 2030. These targets must be aligned with the goal of keeping warming to 1.5˚C.
3. Uphold, affirm and respect Indigenous rights, including through a commitment to adhere to policies and practices that ensure the Free, Prior and Informed Consent (FPIC) of Indigenous peoples as defined in the United Nations Declaration of The Rights of Indigenous Peoples (UNDRIP) under Article 32.
4. Commit to protect and restore biodiversity in all financing activities. These strategies should be created in deep partnership with Indigenous Peoples, whose rights and knowledge are key to the regeneration and responsible stewardship of stolen lands.

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