

# THE TAXONOMY FOSSIL FUEL CONFLICT

## Why Oil and Gas Inclusion Would Be Counterproductive



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## INTRODUCTION

The Canadian federal government is developing a sustainable finance taxonomy to define what counts as an investment aligned with “the goal of reaching net-zero emissions by 2050 and limiting global temperature rise to 1.5°C above pre-industrial levels.”<sup>1</sup> It is meant to prevent greenwashing in the financial sector and encourage international capital to flow more readily to climate-aligned projects.<sup>2</sup> The taxonomy forms part of the government’s plan to fulfill its net zero and international Paris Treaty Agreement commitments.

Since efforts to develop a Canadian taxonomy began in 2019, there has been pressure from the fossil fuel sector to include fossil fuel activities in ways that do not align with scientific conclusions. Fossil fuel-related activities represent a significant business for parts of the Canadian financial sector.<sup>3</sup> Environmental experts have warned that inclusion of any oil or gas in the taxonomy would void its credibility. This disconnect has led to the failure of Canada’s previous attempts to develop a taxonomy.

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1 Government of Canada, [Government advances Made-in-Canada sustainable investment guidelines to accelerate progress to net-zero emissions by 2050](#) (2024); Government of Canada, [Government announces next steps toward made-in-Canada sustainable investment guidelines](#) (2025).

2 Climate Bonds Initiative, [Transition in Taxonomies](#) (2025); World Federation of Exchanges, [Classifying Capital - Part 2: Taxonomies built to support transition finance](#) (2026).

3 Influence Map, [Canada’s Big Five Banks: Fueling Fossil Risk? A Climate Risk Assessment of Canada’s Largest Banks’ Lending and Underwriting Deals](#) (2025).

In brief, a common argument made for fossil fuel inclusion in the taxonomy is that the emissions from producing oil and gas in Canada are significant and should be reduced.<sup>4</sup> However, the downstream emissions from combusting oil and gas are by far the larger share of the sector's emissions. Those emissions are the single largest cause of climate change. Both the production and combustion of oil and gas must decline to ensure a liveable future. Endorsing investments in reducing the emissions marginally from production without associated production declines creates carbon lock-in and further sunk costs into oil and gas infrastructure, slowing the required transition. This risk applies to all types of oil and gas, including LNG.

To date, any investments in reduced oil and gas operational emissions have de facto been investments in locking in unsustainable downstream oil and gas sector emissions. Incumbent interests in Canada's fossil fuel industry continue to push back on any form of climate policy.<sup>5</sup> No oil and gas company has acknowledged the need for a managed decline; all are planning for continued or growing production.

While marginally reducing emissions from the production of oil and gas might be possible, this report outlines why the taxonomy is not the appropriate tool to advance this goal. Any inclusion of oil and gas-related activities in the taxonomy would (1) invite manipulation and greenwashing from industry (be 'gameable'), (2) be unworkable in practice, and (3) be misguided. A fossil fuel free taxonomy, as has been developed in Australia, is the right direction to achieve climate progress in Canada. By contrast, the EU's taxonomy has been subject to multiple instances of litigation, since it included natural gas after lobbying from the oil and gas and financial sectors. Despite the EU taxonomy's strict criteria and best efforts to align with the Paris Agreement, the inclusion of any natural gas in the EU taxonomy remains a source of controversy and legal challenge from environmental groups and countries.<sup>6</sup> In sum, the risks outweigh the perceived benefits when it comes to the inclusion of oil or gas-related activities in the taxonomy. This paper explains why.

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4 See for example: Canadian Climate Institute, [Fueling the oil and gas transition with Canada's climate investment taxonomy](#) (2024); Sustainable Finance Action Council, [Taxonomy Roadmap Report](#) (2023).

5 Influence Map, [The Oil and Gas Industry's Capture of Canada's Energy and Climate Policy](#) (2026); Carroll, W.K.; Daub, S., Gunster, S. Chapter 11: Regime of obstruction: fossil capitalism and the many facets of climate denial in Canada. [Handbook of Anti-Environmentalism](#) (2022).

6 See for example: WWF, [EU Taxonomy: Environmental groups take EU to court over 'green' gas label](#) (2023); Greenpeace, [Greenwashing in the EU Taxonomy, Why fossil gas and nuclear power should not be classified as green investments](#) (2024).

## GAMEABLE: Inclusion of fossil fuels risks would reduce credibility and invite misuse

The Government of Canada intends for the taxonomy to “categorize investments based on scientifically determined eligibility criteria.”<sup>7</sup> The inclusion of any oil or gas activities in the taxonomy would make it open to misuse and risk its international credibility. This would run counter to the taxonomy’s aim to identify sustainable activities, attract low-carbon investment, and prevent greenwashing.<sup>8</sup>

Applying any ‘sustainable taxonomy’ label to Canadian oil and gas-related activities would diverge from scientific and modelling baselines for reaching net-zero emissions. First and foremost, the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC) are unambiguous in their assertions that there is no room for new fossil fuel supply investment in a pathway consistent with less than 2°C of warming, and that existing production must be rapidly phased down.<sup>9</sup> In that context, the IEA and IPCC also provide clear guidance about what investments in oil and gas operational emissions reductions technologies align with that scenario.

Two major oil and gas operational emissions reduction technologies have previously been proposed for inclusion in the Canadian taxonomy: methane capture technology for existing natural gas facilities and carbon capture, utilization, and storage (CCUS) for existing oilsands facilities.<sup>10</sup> In its recommendations for the implementation of CCUS, the IEA suggests that it should be considered only in emerging economies that tend to have younger assets, meaning power plants that are up to 20-years old. In advanced economies like Canada, industrial capacity tends to be older – much of Canada’s oil and gas power plants are over 20-years old.<sup>11</sup> For advanced economies with older plants, the IEA recommends early retirement of plants and assets as the economic losses involved are typically lower.<sup>12</sup> Similarly, the IPCC AR6 Synthesis Report makes clear that carbon dioxide removal, including CCUS, is one of the least feasible climate solutions for the energy system, with one of the highest price tags and lowest emissions reductions.<sup>13</sup>

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7 Government of Canada, [Government advances Made-in-Canada sustainable investment guidelines to accelerate progress to net-zero emissions by 2050](#) (2024).

8 Climate Bonds Initiative, [Transition in Taxonomies](#) (2025); World Federation of Exchanges, [Classifying Capital - Part 2: Taxonomies built to support transition finance](#) (2026).

9 IEA, [Net Zero by 2050 - A Roadmap for the Global Energy Sector](#) (2021); IPCC, [Sixth Assessment Report](#) (2023).

10 Canadian Climate Institute, [Fueling the oil and gas transition with Canada’s climate investment taxonomy](#) (2024); Sustainable Finance Action Council, [Taxonomy Roadmap Report](#) (2023).

11 Global Energy Monitor, [Global Oil and Gas Plant Tracker \(GOGPT\)](#) (2026).

12 IEA, [CCUS in the transition to net-zero emissions](#) (2020).

13 IPCC, [Climate Change 2023: Synthesis Report](#) (2023) at 86, FN 136, and at 103.

Methane emissions reductions technologies are considered necessary by the IEA for developed oil and gas production facilities, like Canada's, so long as they are associated with a rapid phase-down of production.<sup>14</sup> The IEA suggests that companies in high-income countries are generally well-placed to self-finance abatement from existing profits, since the spending required is less than 2% of the net income received by the industry in 2022. However, direct regulations and policies on methane abatement are essential to drive down methane emissions. As elaborated on in the final section of this report, it is recommended that methane reduction investments are facilitated by direct regulation and policy rather than through inclusion in a sustainable finance taxonomy, to avoid any confusion of gas-related activities being partially included under the taxonomy label.

Including any sectors in the taxonomy that diverge from a science-based pathway to a well below 2°C future carries major risks for Canada's economy. Permitting activities under the taxonomy that deliver only marginal emissions reductions and that are not aligned with net-zero trajectories risks:

- **Undermining the taxonomy's global credibility.** If the taxonomy is not considered credible, it will fail in its goal of attracting investment. Research shows that jurisdictions (e.g. China, Japan, Thailand) with taxonomies that permit fossil fuels face a multitude of issues: they lack both interoperability and credibility, which undermines reliance on the labels and deters capital allocation.<sup>15</sup> For international transition-bond investors, incremental efficiency improvements at power plants do not meet the threshold for a credible transition investment - they are looking for projects with sustained reductions in absolute emissions.<sup>16</sup> Similarly, Canadian investors surveyed on taxonomy design in 2026 showed a clear preference for credible transition tools and emphasized the need for science-based transition pathways, especially in hard-to-abate sectors.<sup>17</sup>
- **Eroding interoperability.** Interoperability between taxonomies means that they generally share and use the same classification of economic activities. It helps investors allocate capital across jurisdictions and reduces transaction costs and reporting complexity. If Canada includes oil and gas in its taxonomy, it would align with the minority of taxonomies that allow fossil fuels that are not likely in Canada's interest (e.g. China, Russia, Indonesia). It would not align with key trading partners' taxonomies, like the European Union and Australia, under which gas is either not included or included under conditions so strict that they "[render] the creation of a new power plant economically unviable."<sup>18</sup> Placing oil and gas under any category in Canada's taxonomy would compromise its interoperability with global frameworks and, in doing so, diminish the value of the rigorous work behind the taxonomy's accurate elements.

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14 IEA, [Financing Reductions in Oil and Gas Methane Emissions](#) (a World Energy Outlook special report tied to COP28, 2023).

15 Energy Shift Institute, [Decoding Asia's Transition Taxonomies: Why 1.5°C remains an elusive goal](#) (2025).

16 Green Central Banking, [Japan's transition bond market finances gas projects that barely cut emissions: report](#) (2026).

17 Institute for Sustainable Finance, [Building Canada's Taxonomy the Right Way: Insights from a Survey of Investors](#) (2026).

18 Climate Bonds Initiative, [Fossil Gas in Taxonomies: What Lies Beneath](#) (2023) at 2.

- **Entrenching carbon lock-in.** Carbon lock-in occurs when fossil fuel-intensive systems perpetuate, delay or prevent the transition to low-carbon alternatives.<sup>19</sup> The taxonomy is meant to help sustainable activities gain preferential access to capital and lower borrowing rates. The Canadian Government intends to issue federal bonds based on the taxonomy categories.<sup>20</sup> If oil and gas is included in the taxonomy, it will gain access to this capital that would otherwise have been allocated for credible, net-zero-aligned investments. Research has shown that, problematically, investment aimed at energy efficiency and decarbonization activities at oil and gas companies ends up enhancing oil and gas operations.<sup>21</sup> This creates carbon lock-in, and risks slowing the transition to renewable forms of energy.
- **Enabling greenwashing.** Including oil and gas in the taxonomy risks misleading investors and the public by blurring the distinction between genuine low-carbon investments and activities that prolong fossil fuel dependence. Rather than resolving greenwashing, it would perpetuate it: presenting high-emitting activities as climate-aligned despite scientific evidence to the contrary. As mentioned, the IEA and the IPCC are clear that oil and gas production must be phased out in order to stick to a net-zero pathway consistent with less than 2°C of warming.<sup>22</sup> No Canadian oil or gas companies have planned for a strategic and managed decline of production. Labeling oil and gas-related activities as net-zero-aligned would therefore misrepresent their climate compatibility and create the false impression that continued production could be consistent with Canada's climate targets. If the taxonomy includes oil or gas activities, it could permit companies to market themselves as 'taxonomy-aligned' despite this being overall untrue.
- **Allowing strategic misuse.** Because the taxonomy is voluntary, there is no oversight or enforcement mechanism to prevent companies from misusing the label. If oil and gas activities are not simply excluded, firms can make promises to reduce emissions in the future, secure preferential capital, and then fail to deliver. Strategic misuse of taxonomy labels has already been seen in the European Union (EU), where industry actors routinely overstate the scope of eligibility for gas, treating it as broadly taxonomy-aligned.<sup>23</sup> This in spite of the EU taxonomy's strict conditions for the inclusion of gas, conditions that no gas-fired power plants have met thus far.<sup>24</sup> Furthermore, British Petroleum's recent retreat from its transition commitments illustrates this risk that oil and gas companies access preferential capital or public goodwill on the basis of promised future emissions reductions or wind-down strategies, only to reverse course when market conditions shift.<sup>25</sup> Once oil and gas is included in the taxonomy, any thresholds are likely to be lobbied for flexibility.

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19 World Resources Institute, [What Is Carbon Lock-in and How Can We Avoid It?](#) (2021).

20 Government of Canada, [Spring Economic Update](#) (2026) at 151.

21 Soppe, B. and Schupfer, H. [Making Oil and Gas Smarter, Not Greener: Fossil Fuel Incumbents' Corporate Venture Capital Investments in Digital Entrepreneurs During Sustainability Transitions](#) (2026).

22 IEA, [Net Zero by 2050 - A Roadmap for the Global Energy Sector](#) (2021); IPCC, [Sixth Assessment Report](#) (2023).

23 MSCI, [EU Taxonomy: Is There Sustainable Gas-Fired Power Generation?](#) (2023).

24 Climate Bonds Initiative, [Fossil Gas in Taxonomies: What Lies Beneath](#) (2023).

25 BBC, [BP shuns renewables in return to oil and gas](#) (2025).

## UNWORKABLE: The proposed parameters for including fossil fuels would be difficult, or even impossible, to implement

Frameworks proposed for how oil and gas would be included in Canada's taxonomy are complex to the point of being unworkable. The Canadian Climate Institute, the research organization supporting the Taxonomy Council, has proposed a preview framework for including oil and gas in the taxonomy. The report *Fueling the Transition: Categorizing emissions-reducing oil and gas projects according to Canada's climate investment taxonomy* proposes a framework for including "existing" oil and gas facilities in the transition taxonomy but not new, expansionary projects – a challenging distinction. The exploration of how to fit an activity that is fundamentally misaligned with the energy transition into a transition taxonomy, results in an elaborate and unworkable system of thresholds, definitions, and exceptions that have inherent flaws and contradictions.

To avoid enabling new fossil fuel development, a highly technical, multi-part definition of "existing" facilities would be required. The definition is based on the date of investment decisions and details of whether expansions require new infrastructure such as gathering lines, processing facilities, or upgraders.<sup>26</sup> This unworkable complexity is a direct consequence of trying to draw a line between "existing" and "new" fossil fuel production – which is difficult because conventional operations expand incrementally and oil sands require supporting infrastructure that will be hard to precisely define.<sup>27</sup> Furthermore, it will require facility-level Scope 1 and 2 emissions intensities and upstream suppliers' Scope 3 emissions to be aligned with a 1.5°C pathway. However,

"requiring an issuer to demonstrate that *all* of its upstream suppliers are aligned with 1.5°C pathways is too cumbersome to implement" (emphasis in original).<sup>28</sup>

As a result, only "the upstream suppliers of fossil fuels for a given project" would have to follow the emissions requirements, which is a massive loophole: oil and gas companies do not and cannot distinguish which upstream production streams feed which downstream projects.<sup>29</sup> In sum, the convoluted nature of this framework makes it unworkable in practice.

Applying 'project-level boundaries' to financing via the taxonomy presents another challenge.<sup>30</sup> By narrowing project boundaries, the taxonomy would actually allow financing of equipment or retrofits within a facility whose overall operations are incompatible with limiting global warming to well below 2°C. The taxonomy cannot credibly claim to avoid carbon lock-in while simultaneously financing projects inside facilities whose total emissions trajectory remains misaligned with pathways to well below 2°C. The sheer volume of sector-specific exceptions, thresholds, and definitions proposed suggests an attempt to reverse-engineer oil and gas inclusion, despite general consensus that the taxonomy must remain scientifically credible and aligned with 1.5°C pathways.

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26 Canadian Climate Institute, [Fueling the oil and gas transition with Canada's climate investment taxonomy](#) (2024) at 5.

27 Ibid, at 28.

28 Ibid, at 6.

29 Ibid.

30 Ibid, at 10.

## MISGUIDED: The taxonomy is an inappropriate tool to reduce emissions in the oil and gas sector

The Canadian taxonomy is a classification tool that will be applied voluntarily by market actors. It is complementary to other types of climate policy, not a substitute. Trying to reduce emissions arising from Canada's oil and gas industry is a valid pursuit, however using a voluntary taxonomy to accomplish this goal is misguided.

Climate experts and previous federal governments in Canada have proposed a number of climate policy tools designed to reduce emissions from the oil and gas industry.<sup>31</sup> The climate policies which Canadian climate policy think tanks consider to be most effective for reducing oil and gas emissions include industrial carbon pricing, an oil and gas emissions cap, methane regulations, bans, and moratoriums.<sup>32</sup> Academic research consistently finds that emissions reductions in fossil fuel production occur when governments enforce regulatory policies rather than rely on voluntary frameworks.<sup>33</sup> While it is beyond the scope of this paper to identify the ideal policy mix for reducing emissions from Canada's oil and gas sector, it is evident that there are other tools to facilitate this real economy transition.

By contrast, the goals of the Canadian sustainable finance taxonomy is to provide clarity for investors. Including oil and gas in the taxonomy – given the concerns that it is overly complex and creates problems of accountability – would only muddy the waters rather than clarify them. As a voluntary tool its sole value is in its accuracy.

## A PATH FORWARD: The case for a fossil-fuel-free taxonomy

In conclusion, including fossil fuel-related activities in Canada's sustainable finance taxonomy undermines the core purpose of a credible framework. It would introduce significant risks to the taxonomy's credibility, its international interoperability, and its ability to prevent greenwashing and carbon lock-in. These risks ultimately go against the goals and purpose of Canada creating its own taxonomy. By relying on overly complex and unworkable implementation loopholes, the proposed frameworks for including fossil fuels in the taxonomy do not align with the scientific modelled pathways to net-zero. Canada must prioritize integrity and scientific alignment. Ultimately, a fossil-fuel-free taxonomy remains the only effective path to ensuring that capital is directed to credible, net-zero-aligned investments.

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31 Government of Canada, *2030 Emissions Reduction Plan: Clean Air, Strong Economy* (2026).

32 Canadian Climate Institute, *440 Megatonnes. Which Canadian climate policies will have the biggest impact by 2030?* (2024); International Institute for Sustainable Development, *Transitioning Away From Oil and Gas: A production phase-out primer* (2024).

33 Le Quéré, C., Korsbakken, J.I., Wilson, C. *et al.* Drivers of declining CO<sub>2</sub> emissions in 18 developed economies. *Nat. Clim. Chang.* 9, 213–217 (2019); Mengesha, I., Roy, D. Carbon pricing drives critical transition to green growth. *Nat Commun* 16, 1321 (2025).

## APPENDIX A.

### Additional context: Learning from key international taxonomies

The first of its kind, the EU Taxonomy set the global benchmark for government-sanctioned sustainable and transition finance taxonomies when it came into force in 2020.<sup>34</sup> It requires transition activities to be 1.5°C-consistent and non-obstructive to technologically and economically feasible clean alternatives.<sup>35</sup> Despite the latter, it technically permits gas-related activities but the lifecycle emissions requirements are incredibly stringent to the point of excluding almost all gas combustion.<sup>36</sup>

The inclusion of gas in the EU taxonomy resulted in well-publicized legal challenges, public conflicts among advisors, increased polarization of scientific positions, and the resignation of key civil society advisors who publicly disagreed.<sup>37</sup>

More recently, Australia's Sustainable Finance Taxonomy clarifies that its transition classification is contingent upon an activity's role in a post-net zero economy, as well as whether all scopes of emissions associated with an activity can be materially reduced.<sup>38</sup>

The technical screening criteria under the Australian taxonomy exclude fossil fuels from all decarbonisation measures and transition activities. The only exception is buildings that use gas to achieve very low emissions. These buildings are eligible until a sunset date in 2031, after which the activity must meet the green criteria to remain taxonomy-aligned.<sup>39</sup>

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34 European Union, Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (Text with EEA relevance) (2020).

35 The European Commission adopted a Delegated Act on 4 July 2025 to amend the taxonomy disclosure and reporting requirements. At the time of publication, this has not resulted in changes to the transition methodology.

36 MSCI, *EU Taxonomy: Is There Sustainable Gas-Fired Power Generation* (2023).

37 The Guardian, *EU faces legal action after including gas and nuclear in 'green' investments guide*, (2023); Esposto, E. and Nupieri, T. *The divide in the EU green taxonomy: how conflict impacts the quality of policy advisory systems*. *Policy and Society* (2025) at 318–334.

38 Australian Sustainable Finance Institute, *Australian Sustainable Finance Taxonomy* (2025).

39 Australian Sustainable Finance Institute, *The Australian Taxonomy* (2025) at 17.

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