

EU Oil Sands Policy Likely To Get Ministers' Attention

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BRUSSELS (Dow Jones)--European Union environment ministers will likely have to take a controversial decision on a legislative proposal that would discriminate against crude from oil sands, as national experts might not be able to move forward on an issue that is escalating tensions with Canada.

Thursday, experts from the 27 EU governments will vote on an update, proposed by the European Commission, to the so-called Fuel Quality Directive, a piece of EU law that encourages, as part of a broader EU effort to cut greenhouse gas emissions the use of clean fuels, by setting a specific target and ranking fuels according to their CO2 emissions.

But the experts--technocrats from national capitals meeting in Brussels specifically for the vote--are not expected to reach a large enough majority to back the commission's proposal, effectively pushing the debate up to the ministers' level, people familiar with the discussions told Dow Jones Newswires. Key countries like the U.K. and France are skeptical about the proposal, the people explained. The U.K., the Netherlands and Italy have also put forward alternative plans, they said.

The commission's proposal would penalize the use of oil from sands because it considers that they emit more CO2 than conventional oils. That, in turn, would prompt companies to shift away from oil sands and turn to cleaner fuels to meet the target set in the legislation.

The issue has escalated beyond the technicalities of EU environmental law to reach the highest political levels because it is interfering with the negotiation of a free trade agreement between the EU and Canada, which

is one of the main global producers of oil sands and has threatened to take the bloc to the World Trade Organization if it went ahead with its legislation. The U.S. is also following the debate very closely as it uses oil from sands to refine the fuel that it then exports to Europe.

Canada's Western province of Alberta is estimated to hold around 170 billion barrels of proven oil reserves placing it third in the world behind Saudi Arabia and Venezuela. Buried just below Alberta's boreal forest, the oil is a mixture of quartz sands and bitumen--a thick, tarry form of crude. But turning it into oil is an energy-intensive process that emits large amounts of carbon dioxide, a greenhouse gas that scientists say contributes to climate change.

Canada's objection stems from putting oil-sands crude in a separate category from other fuels. It claims that the distinction is unfair because it doesn't recognize that some of the sources of EU imports produced higher emissions than Canada's oil sands, and are allowed to hide their performance by being lumped into standard fuel categories.

Canada's exports of oil sands crude to Europe are negligible, but Ottawa fears that any EU legislation singling out the fuel could set a precedent, encouraging oil sands critics in other jurisdictions--particularly in the U.S., the Alberta oil industry's main export market--to push for similar measures.