

Oil sands row threatening to spoil Canada-EU trade deal

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Canada has threatened to scrap a trade deal with the European Union if the EU persists with plans that would block imports of Canada's highly polluting tar sands, according to EU documents and sources.

The European Union has told its fuel suppliers to reduce the carbon footprint of fuels by 6 per cent over the next decade, and is now fine-tuning "default values" to help suppliers identify the most carbon-intensive imports.

Canada says the standards would instantly constrict a possible future market for its oil sands – tar-like oil that is trapped in sediment and forms the world's second-largest proven crude reserves after those of Saudi Arabia.

"Canada has been lobbying the Commission and member states intensively to avoid a separate default value for fuel derived from tar sands," said a briefing note prepared by EU officials for climate commissioner Connie Hedegaard.

"It has raised the issue in the context of EU-Canada negotiations on a Free Trade Agreement," adds the note, one of several from last year released last week under freedom-of-information laws.

Sources said Monday that Canada had gone further, threatening to void the free trade deal, which is expected to be agreed later this year.

Canadian officials denied they have threatened to scrap the trade deal, but said they are concerned about how the oil sands oil will be treated

under the EU's fuel directive.

"Canada and the European Union are working to resolve the issue outside of the negotiations towards a free trade deal," International Trade Minister Peter Van Loan said in a statement to Reuters.

Environmentalists oppose the tar sands industry, saying the extra energy needed to extract oil from the site in the western Canadian province of Alberta intensifies the impact on climate, while polluted waste water harms wildlife and pollutes rivers.

HIGHEST LEVEL

The Commission is readying its defences for a legal fight with Canada, EU officials say.

Canada has challenged the EU at the World Trade Organization in various disputes, such as over hormone-treated beef, genetically modified foods and seal products.

Last year, the EU appeared to be backing down on tar sands, but sources say negotiators for the 27-member bloc are becoming bolder as their scientific evidence becomes more robust.

"We are saying 'be careful', because Canada will not hesitate to take us to the WTO, so we have to have something rock-solid," said an EU official.

The Commission had initially proposed that tar sands be ascribed a greenhouse gas value of 107 grams per megajoule of fuel, making it clear to buyers that it had far greater impact than average crude oil at 87.1 grams.

The latest EU research, published this month, backs that up.

A trade deal would open up Canadian public works contracts to European bidders and allow Canada to capture sales – from auto parts and insurance to beef and grain – currently dominated by the United States and Asia.

Numerous briefing notes sent between EU officials last year show the issue has been raised at the highest levels. In May, it was discussed during a meeting between EU President Jose Manuel Barroso and Canadian Prime Minister Stephen Harper.