

Ottawa fights EU's dirty fuel label on oil sands

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The European Union is preparing to slap a dirty fuel label on Canada's oil sands, a move that would increase political pressure on Europe's major oil companies to curb their investments in the Alberta projects.

The Conservative government has been lobbying furiously to prevent the EU from targeting the oil sands – so much so that one member of the European Parliament has condemned Canada's intervention as “unacceptable.”

After backtracking in the face of Canadian opposition, Europe's environment commission is once again moving forward with its plan to discourage the use of unconventional fuel sources such as the oil sands.

In concert with the oil industry, Ottawa has pursued an aggressive strategy in the United States and Europe to defend the oil sands and attract investment to boost production. While Canada does not export oil to Europe, the government and industry fear the EU's labeling of the oil sands as an undesirable fuel source would provide momentum to similar efforts in U.S. states.

California is currently the only state to have passed such a regulation, though several other states are considering doing so. Congress passed legislation in 2007 that appeared to prohibit federal agencies from using fuel derived from oil sands crude, but the measure has not been enforced. Washington is now debating a low-carbon fuel standard, but environmental concerns are being outweighed by the growing reliance on Canada as a secure source of oil.

Ottawa and the industry also worry the European directive could stoke a political backlash for European-based companies such as Royal Dutch Shell PLC, BP PLC, Total SA and Statoil ASA, all of whom have faced unsuccessful shareholder resolutions urging them to reduce their investment in the oil sands.

“Demonization [of the oil sands] would come at a high cost to Europe’s major companies,” said a federal briefing note which was released under Access to Information.

International Trade Minister Peter Van Loan said the government is “very concerned” about the fuel quality directive.

“We think it’s important to look at these things scientifically and comprehensively, in a fashion that recognizes the value and the importance of the initiatives [to reduce emissions] that have been taken by Canadian producers,” he said in an e-mail.

Based on a recent report, the production and use of crude from the oil sands produce 23 per cent more greenhouse gas emissions than the so-called “lifecycle” emissions from conventional oil.

Environment Commissioner Connie Hedegaard told parliamentarians last week that she will submit to member states for ratification draft regulations that target oil sands and shale oil as high-carbon fuels.

The Canadian Association of Petroleum Producers disputes the findings of the European commission study, saying it compared the extra-heavy oil sands crude with an average of grades from other countries, such as Nigeria.

The industry has its own studies that suggest the oil sands’ emissions are 5 to 15 per cent higher than those from the average barrel used in North America. (Refineries here have more capacity to process heavy crudes, so the oil sands crude may compare less favourably with the

European average. Those studies also suggest the oil sands are roughly comparable in emissions to heavy oil from Nigeria, Venezuela and Mexico.)

The dispute between Ottawa and the European Union has the potential to become a trade dispute, and Ms. Hedegaard said the commission would tailor its regulations to ensure they target all fuels from unconventional sources, including oil sands, oil shale, liquids from coal, and liquids from natural gas.

She said she did not expect the fuel regulations would impede the conclusion of a Canada-EU trade agreement that is now under negotiation.

In statements in the European Parliament last week, several MEPs took Canada to task for its opposition to the fuels directive. "The government of Canada has been lobbying us in a manner that is not acceptable," said Satu Hassi, a Green Party MEP from Finland and vice-chair of the parliament's environment committee.

European activists are elated over Ms. Hedegaard's decision, saying it will put added pressure on companies to rethink their Alberta investments.

"As one market after another closes its doors to tar sands fuels, it's obviously a massive investment risk for these long-term investments," said Colin Baines, a campaigner with the social action arm of Co-operative Group, a U.K.-based co-op corporation.