

Why Canada needn't fear the EU's oilsands politics

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As the parliament of the European Union was getting ready to vote earlier this week on how the EU would treat oil from Canada's oilsands, many Canadians were on tenterhooks. Would Europe blacken Canada's eye by adopting the Fuel Quality Directive, declaring our oil to be "highly polluting"?

But with all due respect to the Canadians lobbying hard in Brussels, the real question is why we should care about yet another example of Europe's penchant for hypocritical moral panics of the green variety.

In the event a typically European non-decision was taken: the directive was neither adopted nor defeated, but passed along to another body made up of ministers from national governments in Europe. So the matter is unresolved and more such votes will be held, whether in the EU or the U.S.

But Canadian hand-wringing about this sort of targeting of our oilsands production can only be based on ignorance of how world oil markets work.

Many, for example, seem to believe that a vote by European governments or, worse still, U.S. states, to stigmatize our oil will damage our ability to sell it. There is virtually no evidence to support this view.

My skepticism is not even based on the fact that the EU doesn't actually buy any crude or refined products from the oilsands (although that lack of skin in the game does have a certain comic relief value). Americans do buy from the oilsands. And yet even if Americans decided they didn't want the oilsands, it still wouldn't matter all that much.

Oil is a globally traded commodity. A decision by Europe not to buy Canadian oil is not a decision to consume less oil, but merely not to buy that oil from Canada. Thus their decision leaves unchanged the total amount of oil consumed in the world. They have to buy from somebody; it just won't be Canada.

The corollary of this is that if we assume that the supply and demand of oil in the world is in reasonably good balance (which over time it is), a country now consuming Canadian oil that wants to buy elsewhere must buy oil now being consumed by someone else. That someone else will therefore be out in the market looking for oil. And Canada will have excess supply because one of its customers just took the exit. More: according to the International Energy Agency, world demand is slated to rise for the foreseeable future, meaning new customers every day.

There is huge diversity of both sellers and buyers in global oil markets. Moreover, even very large suppliers actually produce remarkably small shares of oil supplies; when the Iran-Iraq War took a major share of both countries' considerable production off the market, the loss was less than six per cent of world supply.

Attempts to isolate suppliers, through economic sanctions, for example, are notoriously ineffective unless accompanied by physical coercion. And no one is suggesting that Canada will be subject to a worldwide embargo; if Europe or America don't want our oil, there are lots of other countries that will be glad to buy it at the prevailing world price, including China, Japan, India and more. As long as the infrastructure exists to bring that oil to market, it can and will be sold.

Apparently some Canadian authorities are also worried that European oil companies, such as Shell, Total and Statoil, might be prevented from investing in the oilsands. Because of their expertise and integrated worldwide operations, this would indeed be a pity and a loss to Canada.

Would they be replaced with other knowledgeable investors keen to produce oil in a politically stable country with no corruption, competitive taxes, the rule of law and reasonably sensible courts? Absolutely. Every major oil company has a huge interest in

diversifying its production, in large part to mitigate political risks such as tax grabs and uncompensated nationalizations.

Canada's strengths far outweigh the piffling risk of a few markets being closed to its oil for obtuse political reasons.

And just how credible is it that Americans, in particular, will not want our oil? Every source of oil in the world comes with a unique mix of environmental, economic and strategic costs and benefits attached. For Americans, Canadian oil comes from a reliable ally and trading partner with similar values and who will not spend the money on radical Islam, terrorism-promoting madrassas, Israel-bashing or human rights abuses. The environmental record of the oilsands is entirely defensible and constantly improving. The geo-strategic benefits alone are huge. Despite shortterm wobbles, America will buy our oil.

Sure, we must combat disinformation about the oilsands. But we must keep our nerve and not give comfort to self-styled green campaigners by panicking in the face of their tendentious attacks. In this game Canada has been dealt by far the strongest hand.

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