the PEMBINA institute
Sustainable Energy Solutions

March 28, 2007

The Honourable Stephen Harper, P.C., M.P.
Prime Minister of Canada
Fax: 613 941 6900

Re: Budget 2007 commitments related to oil sands development

Dear Hon. Prime Minister Harper,

On behalf of the Pembina Institute, I am writing to welcome the government's March 19th budget commitment to phasing out the accelerated capital cost allowance (ACCA) for the oil sands. Fiscal policy adjustments incorporating the "polluter pays" principle are essential to achieving the budget's objective of "preserving and protecting our environment", and ending the ACCA is a step in the right direction.

However, we are disappointed to see that the phase-out will be deferred until 2011. This lengthy delay is simply unnecessary and a waste of taxpayers money. We are also concerned that, as a whole, Canada's regulatory framework remains unable to deal with the unprecedented magnitude of environmental and social challenges arising in the oil sands. These shortcomings are evident in the unchecked growth of greenhouse gas pollution and in the cumulative impacts now threatening ecological limits in Alberta.

We urge your government to recognize that developing the oil sands responsibly, in the long-term interests of Canadians, will require much more – and much bolder – action than a gradual ACCA phase-out. To that end, we would like to draw your attention to three areas in the 2007 budget where bolder action would be possible:

- **ACCA Phase-out:** The current ACCA phase-out schedule, beginning in 2011, means that taxpayers will continue to subsidize Canada's fastest growing sources of greenhouse gas pollution for another eight years. Eleven oil sands projects currently under construction will receive the full 100% ACCA under grandfathering clauses. A further 45 planned projects will receive substantial capital cost allowances because they will be completed before 2015. As a result, over 90% of oil sands projects currently on the books – which will ultimately raise production to over 5 million barrels per day – will receive substantial subsidies. The Pembina Institute recommends that the phase-out period begin immediately and that it apply equally to new projects and to existing projects undergoing expansion.

- **Regulatory Review Processes:** Proposals to streamline regulatory reviews in the tar sands – with $60 million in associated funding – are deeply troubling in light of existing loopholes in the Canadian Environmental Assessment Act (CEAA). So-called 'discretionary opportunities' have already been used by the federal government to minimize its responsibilities with regard to environmental protection. In particular, certain oil sands projects have been artificially isolated and 're-scoped' (as creek destruction projects, for example), significantly limiting the scope of impact assessments. While having an efficient approval process is important, the government's first priority should be to reform the CEAA to increase clarity and eliminate these discretionary provisions. Without effective reform, streamlining will only serve to further jeopardize ecosystems that are already reaching ecological limits.

- **Climate Change Action:** Given the urgency of reducing greenhouse gas pollution, a budget without a comprehensive climate change plan risks losing all environmental credibility. The Pembina Institute has shown that “Kyoto-level” targets[1] – which would require heavy industry sectors to reduce absolute greenhouse gas emissions to 6 per cent below 1990 emission levels for the period 2008-2012 – are affordable and technically feasible. Such regulations are needed to spur technological innovation in areas like carbon capture and sequestration, and to set heavy emitters on a long-term trajectory towards deeper reductions. This is especially important in the oil sands, Canada’s fastest growing source of emissions.

  By contrast, using intensity targets will do little to reduce greenhouse gas pollution. For example, Alberta’s recently announced intensity-based regulations would allow tar sands producers to be in compliance while more than doubling their real emissions over 2003 levels by 2010.

As noted in your March 22 speech to the Americana 2007 conference, strong environmental regulations have served to curb air pollution from automobiles and reduced acid rain, all without the drastic economic consequences that “alarmists” predicted. It should be no different in dealing with Canada’s oil sands. If the government truly wants to make Canada a “clean energy superpower”, it must begin with effective regulations and responsible environmental assessments.

Sincerely,

Marlo Raynolds
Executive Director
Pembina Institute

Cc: Stéphane Dion, Leader of the Official Opposition
Cc: Jack Layton, Leader of the NDP
Cc: Gilles Duceppe, Leader of the Bloc Québecois
Cc: Elizabeth May, Leader of the Green Party of Canada
Cc: Ed Stelmach, Premier of Alberta

[1] Fair Share, Green Share: A Proposal For Regulating Greenhouse Gases From Canadian Industry; http://www.pembina.org/pubs/pub.php?id=1372