



Why sensible climate change policy is a no-brainer for the oilsands industry

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The resurgence of vocal opposition in the United States to the proposed Keystone XL pipeline this spring has left many on this side of the border wondering what all the fuss is about.

And it is surprising, considering the approval of pipeline infrastructure that would have been considered routine a decade ago has become a flash-point for public action in support of stronger climate action.

Critics argue that pipeline opponents are misguided, noting that the oilsands industry currently accounts for just over 0.16 per cent of global greenhouse gas emissions and that per-barrel greenhouse gas emissions associated with oilsands production have been reduced by 26 per cent in recent decades. On a global scale, they say, oilsands emissions barely register.

Yet that argument hasn't yet swayed opponents of the project who, over the past few months, have mounted massive demonstrations at the White House and established blockades along the pipeline route in Texas. It's not just a fringe movement either—for the first time in 120 years, one well-established U.S. environmental group has officially authorized members to go beyond "lawful means" to achieve its objectives, citing the increasingly urgent need for a serious course-correction to fight climate change.

So why the disconnect?

It goes beyond the recent spate of high-profile and damaging incidents, such as the Rainbow Lake oil spill in Alberta, the \$800-million Kalamazoo River diluted bitumen spill and the \$40-billion BP p.l.c. Deepwater Horizon disaster in the Gulf of Mexico. The core factors driving the opposition to Keystone XL are governments' failure to demonstrate the necessary leadership on climate change and an industry that insists on growth at a pace that is inconsistent with Canada's climate change commitments.

Getting a handle on oilsands emissions is essential for Canada to have any chance of meeting its international climate change commitments. Reducing oilsands emissions also could substantially resolve many social licence and market access challenges the industry faces today, while positioning Canada to compete better in the energy markets of tomorrow.

Last year, Prime Minister Stephen Harper commented that the Keystone XL pipeline decision was a "no-brainer"—but then the Obama administration sent the project's proponents back to the drawing board. Now that the project is once again up for consideration, Canada's interests likely would be easier to defend if we could demonstrate to a climate-aware Democratic administration how we are meeting our international climate change commitments and providing incentives for lower-carbon solutions in the oilsands and other sectors.

Why Canada's climate change plans fall short

Both the United States and Canada are signatories to the Copenhagen Accord, and both countries have agreed to reduce greenhouse gas emissions by 17 per cent below 2005 levels. But the similarities end there. While many observers believe that the United States will come close to hitting its Copenhagen targets through a combination of vehicle efficiency improvements and a rapid switch from coal power to natural

gas generation, Environment Canada predicts that Canada will miss its target by 113 megatonnes based on current policies—and that the anticipated growth in oilsands emissions will be the primary cause.

Average oilsands production is significantly more greenhouse gas intensive than conventional oil production; as production ramps up from 1.8 million barrels per day today to potentially more than five million barrels per day by 2035, according to National Energy Board projections, the growth of oilsands emissions remains a looming challenge.

Facts, not ideology, driving pipeline opposition

Based on this information, the oilsands and any related infrastructure are in the spotlight—not because they are a scapegoat but rather because ongoing expansion in the absence of adequate climate change policy counters the need to transition to a clean energy future. It's tempting to equate public opposition with "anti-oil" or "anti-development" ideology, but a fairer assessment would recognize that many pipeline opponents are conscientiously objecting the largely unmanaged greenhouse gas emissions of the oilsands sector and the industry's ambitious plans to expand production without adequately addressing those emissions.

Of all the pipeline projects on the table currently, building Keystone XL is the ►

largest proposed enabler to that expansion. Filling Keystone XL with oilsands would cause a 36 per cent increase from current oilsands production, for which the higher upstream emissions alone will be equivalent to the annual emissions from 6.3 coal-fired power plants, or over 4.6 million cars.

Since public opinion is what drives market constraints and the resulting price discounts for oilsands products, securing a social licence for new projects requires asking ourselves what more we could be doing to manage greenhouse gas emissions from oilsands projects.

Specified Gas Emitters Regulation (SGER) as the centrepiece. This regulation requires all facilities emitting more than 100,000 tonnes of CO₂ equivalent per year to reduce their emissions by 12 per cent. Several options exist for operators to meet this requirement in addition to reducing emissions on site; to comply with the regulation, operators are also allowed to purchase emission offsets and/or emissions performance credits, or pay into a technology fund at a rate of \$15 per tonne to offset their emissions.

Because of its design, the SGER falls short of providing a sufficient incentive to cut

For example, implementing an escalating carbon price (starting at \$30 per tonne) that applies to all emissions would send a positive signal to companies that the province is expecting more and a positive signal to customers that the province is serious about doing more. This sort of change would bring Alberta's effort in line with British Columbia's carbon tax (currently set at \$30 per tonne), albeit still behind Norway's carbon tax, which is currently charges their oil and gas sector \$71 per tonne. The Alberta government knew when it prepared its current climate change plan that a much higher carbon price would be needed by 2020, so its time to start moving in that direction.

There is plenty of room within our existing tool box to demonstrate to potential markets that Alberta is serious about limiting greenhouse gas emissions from oilsands production. In fact, the new Government of Alberta envoy to Washington mused about green "concessions" the province could make to secure approval of the Keystone XL project. While a sensible climate change policy should be more than a "concession," it was a glimmer of hope that Alberta is listening.

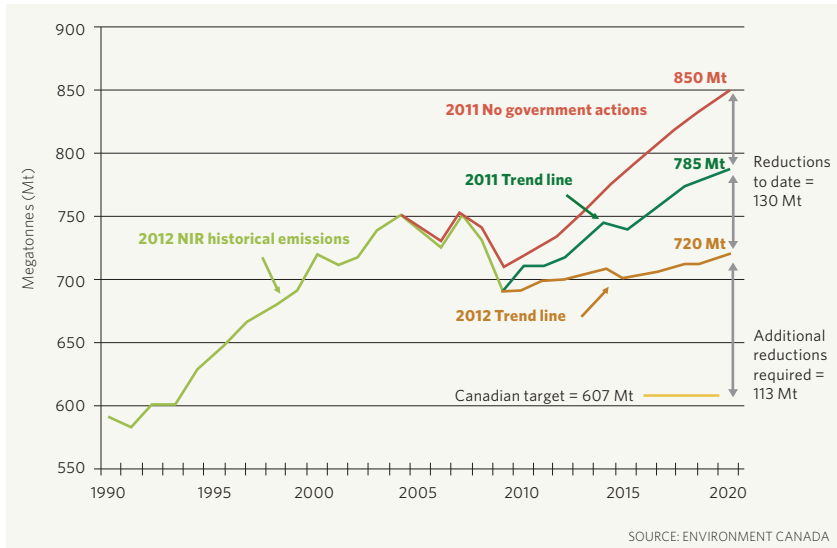
Will the oilsands industry rise to the challenge?

Not surprisingly, oilsands producers have recognized the need for greater regulatory management, certainty regarding greenhouse gas emissions; they know that access to new markets will be a competitive challenge due to the oilsands' higher carbon footprint relative to other fossil fuels. Effective regulations, carbon pricing and incentives for innovation will be key tools to promote better performance in the industry. Whether those changes come from Alberta, the federal government or a combination of the two is less important than getting them in place.

It's time for the oilsands industry to push the provincial and federal governments to implement sensible and effective climate change policy. Without it, we'll continue to experience obstacles in accessing new markets, which in turn will impact operators' bottom lines and share valuations. Ultimately, the question is not so much whether Alberta and Canada can afford to apply stricter climate change regulations, but whether we can afford not to. **OSR**

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GREENHOUSE GAS EMISSIONS TARGETS



Canada is a long way off from meeting its greenhouse gas target of 607 megatonnes by 2020.

Having repeatedly rejected calls to establish an economy-wide carbon price—the most efficient and cost-effective means of reducing greenhouse gas emissions—the federal government instead is implementing sector-by-sector emissions regulations. While these can work to reduce emissions, it will be more costly and cumbersome to achieve the same result as a more efficient approach based on carbon pricing. A draft for the oil and gas regulations is yet to be made available, so it is unclear whether or not the government will rise to the challenge of rising emissions.

More carbon-cutting tools in the provincial tool box

Managing greenhouse gas emissions isn't just a federal responsibility; Alberta was the first in North America to apply a carbon price (a price on greenhouse gas emissions) to almost all large emitters with its

carbon emissions. The policy establishes a carbon price maximum of \$15 per tonne in Alberta, so any emissions reductions that cost more than this ceiling price make less economic sense than paying into the fund. For example, to apply carbon capture and storage as a means to reduce emissions would cost companies a price ranging from \$95 to \$225 per tonne—well above the \$15-per-tonne technology fund option they have access to.

The good news is that there are plenty of tools in the tool box to strengthen our efforts in reducing our emissions in Alberta that will show our customers and others that we can meaningfully act on climate change. Because the hard work of building the initial framework has been done, the existing SGER and other pieces of Alberta's climate change strategy merely need to be strengthened in response to Canada's commitments, public opinion and market conditions.