

US DIPLOMAT'S MEMO URGED 'GREENING' OF 'SHOCKING' OIL SANDS¹

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Alberta's largest buyer of oil appeared internally conflicted, torn between the need for a large secure oil supply and its desire to control carbon emissions. In the end, though, its support for energy supply won out. That was the conclusion of a top American diplomat writing to the U.S. State Department headquarters in Washington D.C. in Feb. 2008, nearly a year before Barack Obama succeeded George W. Bush as president. The *memo* was signed by *Tom Huffaker*, a lawyer who has been U.S. consul general for Alberta, Saskatchewan and the Northwest Territories since Aug. 2006. In March 2009 he became vice president, policy and environment for the Canadian Association of Petroleum Producers (CAPP) in Calgary. "In our view, our goal should be to encourage, where we can, a process that is already making fitful progress, the 'greening' of the oil sands," the memo concluded. "Should we opt instead to support policies that damage the market for the oil sands and raise the cost of capital here, we should at least do so knowingly, well aware that, while this may seem to advance our environmental interests, it will harm our energy security."



Suncor mining tailings in the Alberta oil sands. Photo David Dodge, Canadian Parks and Wilderness Society.

The memo was obtained under the American freedom of information law (after a one year delay), and marked "sensitive but unclassified," and "not for distribution outside USG [U.S. government] channels." A copy was forwarded to the U.S. embassy in Moscow, where Huffaker had worked in the mid-1990s. Speaking to The Tyee from CAPP's office in Calgary this week, Huffaker first emphasized that he is speaking only for CAPP today and not the American government. "I'm more sophisticated now. That memo was based on the facts on technology and the economy as I knew it then." He said that if he was writing today, revisions, if any, would be

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only very minor ones. "There remain the three factors -- energy, the environment and the economy. We don't argue that one is most important." Although the memo originated in the Bush era, Huffaker says "there is more continuity than change" between Bush and Obama regarding Alberta oil, and "there is much less difference than you would expect on policy." He added that Bush made some environmental progress that is not well recognized today.

Visions of Vast Reserves, Pipelines

To begin, in the memo, the Americans contemplated the below-ground reserves and future extractable amounts of oil in Alberta. Huffaker opined that oil sands output of some 1.2 million barrels per day should rise sharply in significance as output expands to 3-4.5 million bpd in 2015-2020. By 2015 Canada will trail only Saudi Arabia, the U.S. and Russia as an oil producer, and yet, "Escalating production costs and calls for carbon constraints and concern about localized environmental impacts could slow growth."

Alberta oil sands reserves are now generally rated at about 174 billion commercially recoverable barrels, yet Huffaker wrote, "Bluntly put, we do not know, but we are convinced, as are our contacts, that it will ultimately be far above 174 billion barrels, most likely over 250 billion barrels and on a par with Saudi Arabia, but perhaps far higher." Beyond 2020, the uncertainty is huge, he wrote. Various estimates have put oil sands output at or above 5 million bpd by 2030. Some, including former Alberta energy minister Greg Melchin, have argued that Alberta can eventually be the world's top oil producer at over 10 million bpd, Huffaker noted, "but this is a generational project subject to all the variables of technology (including some unknowable energy revolution) price, costs, environmental and regulatory policy. With the strain of rapid growth already showing in Alberta, such grand over-the-horizon talk is not very popular here today."

"Rising production will require new pipeline capacity, primarily to the U.S., and has engendered a lively debate over where the gummy output should be upgraded... These pipeline proposals are part of a complex dance in which the pipeliners want to stay up with but not too far ahead of production and in which producers and refiners have to match capacity as well."

The Americans noted that the basic choice is between upgrading the oil sands raw product (bitumen) in Alberta to ship as syncrude (synthetic crude oil) to the U.S., or whether to merely blend it with diluent (making a blend called dilbit) for shipping and upgrading in the U.S. In 2008, Huffaker noted, massive upgrading capacity was being built in "Upgrader Alley" near Edmonton and "it is expected that a fairly steady state of upgrading some 60-70 per cent in Alberta will be maintained for some time... The labor shortage here is a hard reality for the 'keep the jobs at home' crowd as is the cost logic of 'refining only once.'" He added that "Nuclear energy is also being seriously considered as an oil sands industry heat source."

'No Doubt That the Environmental Costs Are High'

Huffaker was well aware of the oil sands' environmental concerns, writing, "Those of us, including many of our readers, who have seen the projects in Northern Alberta, have no doubt that the environmental costs are high. And while mining operations, with their vast, over-the-horizon scale are the most shocking at first viewing, even *in situ* projects with their dense drilling, massive above ground steam plumbing and upgrading facilities, have a far more visible footprint than conventional fields. "Over time, the major players are committed to spend billions, perhaps tens of billions, of dollars on reclamation, but the land will never look like it did

before. Paradoxically, when the soil is returned and replanted, as has been done on a limited scale, the land lacks the roughness of the native taiga forest and is unnaturally fertile."

Still, he added, it is important to keep in mind that while the oil sands are spread over an area "the size of Switzerland," perhaps only 20 per cent of this area will be mined versus 80 per cent being developed in *in situ*, all with a much higher recovery rate than from conventional fields. Huffaker also suggested that fears over water usage might be overestimated: "Just how much can be drawn from the Athabasca River without significant damage is beyond our technical knowledge, but we would note that even with all the projects on the drawing board are completed, the take will be well below 10 per cent of average flow."

US Security Balanced Against Climate Damage

The Americans next turned their attention to carbon emissions and climate change. "No one can question that Alberta's CO₂ emissions are rising rapidly as a result of booming oil sands development and will rise for years, maybe decades to come," wrote Huffaker. "Industry and provincial leaders acknowledge this, but ask that all of us pay more attention to the energy intensity progress that is being made and to the supply security benefits of the oil sands."

In their defense, Alberta leaders emphasized that the province, the federal government and the industries were on the verge of trying to control CO₂ emissions by building huge carbon capture and storage (CCS) infrastructure. Huffaker concluded, "We are among those waiting to see this rather serious discussion make the leap to serious construction." He noted that Albertans have for some time been growing nervous over the sense that they have "a target on their back" over rising CO₂ output, feeling this both from Canadians and Americans. "Discussion of low carbon fuel standards (LCFS) in California began to worry them but recent U.S. legislation that would contemplate LCFS for government procurement, whether it would ultimately apply to oil sands for not, has them alarmed. On the positive side, this does seem likely to accelerate CCS efforts here... LCFS discussions have also lit a fire under the Albertans to get people to look at CO₂ output more holistically, or at least more their way."

Fear of BANANAs

Finally, security of oil supply to the U.S. was the primary interest. As Huffaker noted, senior Albertans had been asking the Americans for some time where energy security fits into U.S. policy and how they were balancing it with concerns over CO₂ levels. "Senior business leaders, such as Enbridge CEO Pat Daniel, for some time have been asking why can't both federal governments provide a greater balance to what he refers to as BANANA (build absolutely nothing anywhere at any time) localism and assert the national and even continental interest in energy security." "LCFS discussions have dramatically heightened this concern and today regional leaders, including new Saskatchewan Premier Brad Wall are asking us when the U.S. (and Canada, in fairness), are going to start looking at the hard and real trade-offs that must be considered between energy security (which the oil sands provide in abundance and which the U.S. has long welcomed) and our climate change goals."

Huffaker concluded by saying that as with coal at home, U.S. interests are best served by creating a context that facilitates the "greening" rather than the suppression of oil sands output. "There is no doubt our climate change objectives are complicated by rising oil sands output. At the same time, we have no doubt that in a tough world our energy security interests are very well served by that same rise in output. Both countries need more serious internal discussions of the trade-offs between energy security and climate change." "What we call for is, thus, rather

simple. and perhaps too glib: as the U.S. grapples with climate change policy, in particular such measures as LCFS, we should never forget that we have profound energy security (and investment) interests in the game in Alberta and Saskatchewan."