

The climate conversation continues and has tremendous risk for the Oil Industry. It is worthwhile to gauge this by looking at pieces from the news on the ongoing developments concerning politicians, climate change and the Oil Industry. Sources include the *Daily Oil Bulletin* and *The Economist* from various articles that have been published over the past two months.

The wildest card in the energy sector's outlook is public policy. Opinion polls have repeatedly indicated that climate change will be a pivotal issue in a federal election which is widely expected to occur this year. Unavoidably, oilsands development becomes entangled in any national debate over greenhouse gas emissions. Provincially, oilsands royalty rates are the hottest topic facing Ed Stelmach, Alberta's new premier. Although conventional oil and gas activity lies largely outside of those political arguments, the wrangling only adds to the uncertainty confronting the oilfield services sector over the next couple of quarters. NOTE: Recently Stelmach appointed a panel that some critics feel is too industry-oriented.

B.C. Premier Gordon Campbell said the province would build on its reputation for environmental stewardship by establishing targets, actions and processes aimed at reducing B.C.'s greenhouse gases by at least 33% below current levels by 2020. That target will place emissions 10% below 1990 levels.

"Climate change is real, and British Columbians are telling us we must do more as a government and as individuals," said Campbell. "We will act to stem the growth of global warming and minimize the impacts already unleashed by establishing targets and actions and by working with our national and international neighbours."

Whatever the government has in mind, "there is no question" the new provisions will be an added cost factor in British Columbia where there is already a high cost to doing business in north-eastern B.C., said Alvarez. There has been a large focus in the province towards the non-conventional gas sources and those are even higher cost, he noted.

"We are going to have to sit down with the province and understand what the implications and talk about whether there is going to have to be recognition in the fiscal regime that as industry moves down this road if they don't want to see activity suffer the government may have to be part of the solution."

If the government is eyeing global hard caps on emissions, "the other alternative to meet your targets is you reduce your activity levels," said Alvarez. "You focus on your big wells and you maybe don't do as much on the lower productivity, unconventional side."

Activity in British Columbia has already been declining. In January, 2007 DOB records show the lowest level of wells drilled since 2002.

Concerning Federal Government moves of late – but confronting the issue is one thing, Alvarez added. Dealing with the politics that many industry officials fear will result in government offering up the petroleum industry as fodder for political gain, is quite another. "Where our concern lies is that when you see these issues become as political as they have, when they get used for political purpose, then it gets awkward," he said.

We've been very clear about some of the things we think are important – not buying hot air, not being forced into a domestic

emission trading systems, the need to focus on technology. We've been heard and I guess we'll find out whether and how much our proposals have been picked up by the government," CAPP's Alvarez said.

"Clearly, the industry has to be part of the solution. Whether it should take a disproportionately high hit compared to other parts of industry and the population of Canada may be unfair," he added. "But I think the reality is going to be that the majority of the population and the majority of politicians are going to see the oil and gas industry as very much fair game."

Russum said that those pointing fingers at the petroleum sector should also consider the industry's contribution to the country's overall GHG emissions. To make his point, Russum compared the GHG output of oilsands activities to the overall emissions growth in Canada since 1990. Russum said he utilized data from an Environment Canada study published in 2004 and which looked at trends from 1990 to 2004.

"For example, (Canada's overall) GHG emissions in 2004 were 758 million tonnes compared to 599 million tonnes in 1990—that's a growth of 159 million tonnes in emissions," he explained. "By my calculations, if we were to just say that in 2004 we were producing about one million bbls per day of oil from the tar sands from in situ methods, that looks like it liberates about 75 kilograms of CO₂ per bbl, on average, so one million bbls would amount to 75,000 tonnes of CO₂ per day, which would equate to about 27.5 million tonnes per year."

Given the calculated annual amount, Russum said even if the oilsands were issued a complete cease and desist edict, the resulting reduction in GHG emissions would be a relative drop in the bucket compared to the national increase since 1990. "If we were to shut down all our activity in both mining and in situ extraction, that 27.5 million tonnes per year is only about 17% of the growth of greenhouse gasses in Canada since 1990," he said. "Other things we are doing in Canada are responsible for the other 83% of the growth in GHG emissions in the country."

The UN report on Climate Change was recently released. Its broad conclusion is that something serious is happening and man is very likely to be responsible. Reports to be released later this year will detail the impact of climate change and on what to do about it. These remain the areas where it is difficult to gain consensus. The range of predication for the rise in temperature by 2100 has widened to 1.1 C – 6.4 C. This widening is not surprising given the complexity of climate change. But it does leave plenty of scope for argument about whether it is worth trying to do anything about climate change. **R**

From the Thursday Files:

Never mistake knowledge for wisdom. One helps you make a living; the other helps you make a life.

– Sandra Carey

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