Minister
of Natural Resources

Ministre
des Ressources naturelles

Ottawa, Canada K1A 0E4

APR 2 1 2009

The Honorable Arnold Schwarzenegger
Governor of California
State Capitol Building
Sacramento, CA 95814
U.S.A.

Dear Governor Schwarzenegger:

I am writing to convey the Government of Canada's views regarding the proposed Low Carbon Fuel Standard (LCFS) regulation currently before the California Air Resources Board (CARB). The Government views this regulation as being very important as California has long been regarded as an environmental leader around the world. While your LCFS regulation will be for the State of California alone, we realize that it could serve as a model for other states and perhaps the United States (U.S.) federal government.

From our understanding, the main goals of the LCFS are to achieve a 10-percent reduction in the average fuel carbon intensity (CI) by 2020, by encouraging the use of lower greenhouse gas (GHG) emitting alternatives to crude oil in transportation. This aims to provide a dual role of reducing the GHG intensity of transport fuels while encouraging reduced oil dependence.

Government officials, along with officials from the Alberta Government, have actively engaged Californian officials to ensure that California's innovative LCFS uses the best science and policy to treat all fuels in a fair and transparent way. We appreciate the complexity of this task and are grateful for the openness and cooperation that your Government has shown us in the process to date.

Despite these productive contacts, the Government still has some significant concerns about energy security for California, the fairness of the proposed LCFS regulation and its overall effectiveness. I wanted to bring these concerns to your attention before the CARB Board Hearing on Thursday, April 23, 2009, that will consider the proposed LCFS regulation. I have enclosed a document that provides further information on these concerns.

Briefly stated, we are concerned that the proposed LCFS regulation could lead to unfavourable treatment of Canadian crude oil, contributing to greater reliance on overseas crude to meet California's energy needs and resulting in lower long-term energy security for California. In addition, we believe that the principle of favouring certain sources of crude oil is not practical and may not lead to any reductions in global GHG emissions. Finally, we are concerned that crude oil derived from Canada's oil sands may be discriminated against as a high CI crude oil, while other crude oils with similar upstream emissions are not singled out. This could be perceived as creating an unfair trade barrier between our two countries. Given that some of these concerns go beyond CARB's mandate, we would urge your Government to take a broader view including these concerns and reflect this in the final regulation.

The Canadian government is concerned about the treatment of the oil sands as it comprises a significant portion of Canadian crude oil production and represents 97 percent of Canada's crude oil reserves. The oil sands resource places Canada second only to Saudi Arabia in terms of oil reserves and makes Canada the only country among the top seven in terms of oil reserves that has not nationalized oil production and is not a member of the Organization of the Petroleum Exporting Countries cartel. The oil sands currently produce more than one million barrels per day. Since oil sands production first began in 1967, its development has been driven by the private sector, and U.S. oil companies are among the largest investors in the oil sands, including California's Chevron Corporation, based in San Ramon.

Based on these considerations and our concerns, **the Government recommends that the LCFS regulation should assign all mainstream crude oil fuel pathways the same CI rather than distinguish among different sources of crude oil.** Mainstream crude oil would include the spectrum of currently available light to heavy crudes, including oil sands crude. These mainstream crudes all have similar life-cycle CI, within a narrow and continuous range, with most of their life-cycle emissions occurring during the end-use or combustion stage. Mainstream crudes would not include other crude alternatives, such as coal-to-liquids or oil shale, which are not being produced commercially in any significant quantity and would have much higher upstream GHG emissions.

While the Government is concerned about the treatment of oil sands crude in the proposed LCFS regulation, we also recognize the need to reduce the upstream emissions associated with oil sands production. The Government has committed to reduce our total GHG emissions by 20 percent by 2020, and 60–70 percent by 2050. Meeting this target will include mandating emission reductions from industrial sources, including oil sands facilities. Between 1990 and 2006, oil sands GHG emissions per barrel were reduced, on average, by 32 percent. Under the federal climate change plan, GHG emissions will continue to decline and life-cycle emissions from oil sands production will be reduced to levels comparable to lighter crudes.

As the LCFS is a complex regulation, we are concerned about the possible difficulties this will create for implementation. For example, the GHG emissions associated with oil sands production vary by facility and crude oil is often blended throughout the North American pipeline system, mixing crude oils derived from different sources. This makes tracking crude oil blends used by refiners to their source a particular challenge. As the implementation of the LCFS is developed, our Government looks forward to continued cooperation with your Government in an open and transparent manner.

As Canada and California set policies and regulations in place based on our respective climate change goals, we should ensure that our respective measures best meet our common objectives of reducing GHG emissions, while maintaining our energy security and economic well-being.

Yours sincerely,

Lisa Raitt

The Honourable Lisa Raitt, P.C., M.P.

Enclosure: (1)

c.c.: Mr. David Crane, Special Advisor for Jobs and Economic Growth
Office of Governor Schwarzenegger
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Mr. Daniel Sperling, Board Member, California Air Resources Board
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Ms. Lydia H. Kennard, Board Member, California Air Resources Board
Ms. Sandra Berg, Board Member, California Air Resources Board
Mr. Ron Roberts, Board Member, California Air Resources Board
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Mr. Ronald O. Loveridge, Board Member, California Air Resources Board
Ms. Charlyn Frazier, Board Member Liaison, California Air Resources Board
Ms. Linda S. Adams, Secretary for Environmental Protection, State of California
Mr. Dale Bonner, Secretary for Business Transportation and Housing, State of California
Mr. Mike Chrisman, Secretary for Resources, State of California
Ms. Jackalyne Pfannenstiel, Chairman, California Energy Commission

Ms. Lisa Jackson, Administrator, Environmental Protection Agency
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Honourable Rob Renner, Alberta Minister of Environment
Honourable Ron Stevens, Alberta Deputy Premier and Minister of International and Intergovernmental Relations

Enclosure

Government of Canada's Concern about California's Proposed LCFS Regulation

The Government has some significant concerns regarding the treatment of oil sands crude under the proposed Low Carbon Fuel Standard (LCFS) regulation. This is based on the following considerations:

- **The proposed LCFS regulation does not consider energy security.** Canada is a stable and secure energy provider which currently supplies approximately 20 percent of the natural gas and one percent of the crude oil used in California. If the LCFS regulation effectively discourages the use of oil sands crude, this could limit California's ability to use Canadian crude in the future. Over the last 20 years, the California Energy Commission reports that the State's dependence on imports for its oil supplies has grown from five percent to 45 percent, with more than 80 percent of these imports coming from the Organization of the Petroleum Exporting Countries cartel. California has come to rely increasingly on crude from less stable countries around the world, often with their own significant social and environmental issues related to oil production. In some cases, revenues from the exploitation of overseas crude can be used to help fund foreign elements which threaten our security;

- **Favouring different crudes under the LCFS may not lead to any decrease in global GHG emissions.** Favouring different crude oil sources could lead to a shuffling of crude oil supply, where lighter crudes are sent to California and heavier crudes are sent to other jurisdictions, leading to no change or possibly higher GHG emissions on a global level. In addition, when considering the life-cycle emissions of fossil fuels, the difference among crudes is marginal as approximately 75–80 percent of emissions come from the fuels' use in the vehicle.

- **The LCFS regulation may unfairly target oil sands crude.** Under the proposed regulation, a "2006 California baseline crude mix" will be formed with crudes representing at least two percent of the 2006 crude oil mix. Crude oil not in this baseline and with a production and transport carbon intensity greater than 15 grams of carbon dioxide (CO_2) equivalent per megajoule (CO_2e/MJ) would be considered a "high carbon–intensity" crude oil and be treated less favourably. Since oil sands crude represented less than 2% of California's crude mix in 2006, it will be tested against this threshold. While this threshold is set at 15 grams CO_2e/MJ, there are crude sources in the baseline crude mix that exceed this threshold. For example, California's own heavy crude oil is estimated to have recovery emissions of approximately 19 grams of CO_2e/MJ[1]; this is similar to or higher than the range of emissions associated with extracting oil sands crude. Such an approach may lead to discrimination against Canadian crude oil while favouring crudes that have similar upstream GHG emissions. Any unjustifiable discrimination against Canadian crude oil could be contrary to the international trade obligations of the United States.

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[1] California Air Resources Board, Proposed Regulation to Implement the Low Carbon Fuel Standard, March 5, 2009, Appendix C, page 59.

These concerns would be addressed by assigning all mainstream crude oil fuel pathways the same carbon intensity rather than distinguishing among different sources of crude oil.