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Financial Post

Canada's oilsands weigh next moves on climate

Following Trump on green agenda might not help the industry: study

The gutting by Donald Trump of his predecessor's climate-change initiatives is stirring debate about whether Canadian governments should decelerate their own green agendas, particularly if they make oil and gas less competitive.

JIM WATSON/AFP/GETTY IMAGES

Surrounded by miners, U.S. President Donald Trump applauds after signing the executive order rolling back climate protections enacted by Barack Obama. Canada's oilsands sector is focusing on innovations that reduce emissions because they help reduce costs.

As promised, Trump signed an executive order Tuesday to suspend, rescind or flag for review more than a half-dozen measures in an effort to boost domestic fossil fuel production, which environmental groups are planning to challenge in court, and which they hope Canada won't follow.

Truth is, Canada's oilsands sector, until recently the most vilified of fossil fuels, is too far down the road of de-carbonization to back up. Indeed, it's pushing hard on innovations that reduce greenhouse

gas emissions because in many cases they also make the deposits more resilient by reducing costs.

As a recent study by CIBC World Markets put it, there is "considerable impetus" by the industry to improve its emissions intensity.

"The goal for oilsands producers today is to lower supply costs and improve environmental stewardship while supporting oilsands development," according to the study by Arthur Grayfer, Mark Zalucky and Trevor Bryan.

The efforts reflect broader acceptance by the oil and gas community that it needs to up its game because society's goals have changed, and if it doesn't do it, it will be replaced by greener energy sources. As Darren Woods, the new CEO of Exxon Mobil Corp., said during IHS CERAWeek in Houston earlier this month: "We understand the risks associated with fossil fuels, and we think we can help mitigate those risks through technology."

In the oilsands industry, decarbonization can be achieved by a spectrum of applications, from doing things better with less steel and fewer energy inputs, to radical new recovery schemes, according to the CIBC report.

"Our analysis suggests that in the next five years, greenfield oilsands development will be able to earn a 15 per cent rate of return in a US$50 a barrel oil world, and that Alberta's emission cap may not hinder development in the next decade as conventional thinking believes, both of which point to the belief that oilsands (and not just higher quality oilsands) will not necessarily be a stranded resource."

Among the technologies under implementation, Imperial Oil Ltd. will likely be the first to use a combination of steam and solvent at its Aspen project, with a final investment decision anticipated this year, the report says. Suncor Energy Inc. is working on other innovations, including re-engineering SAGD from the ground up to do it more simply and cheaper, and testing driverless trucks in its mining operations, resulting in efficiency gains by improving safety, minimizing downtime, lowering maintenance work and reducing kilometres driven.

Another study by the Canadian Energy Research Institute highlights six emerging technologies that can be used in the next five to seven years to significantly reduce costs and GHG emissions in the oilsands, enabling the sector to beat Alberta's new emissions cap of 100 megatonnes a year.

Without the technologies — which use various combinations of solvent, CO2, and steam injection — CERI estimates the cap would be reached by 2028. Instead, the institute estimates the technologies have the potential to reduce bitumen supply cost by 34 to 40 per cent, reduce fuel-derived emissions from in situ oilsands production by more than 80 per cent and delay the time until the emissions cap is reached by several decades.

"Emissions and cost-reduction objectives are not adversely related," the study finds. "For example, by choosing to implement the minimum cost objective configuration, dramatic emissions cuts are made as a result."

In conventional oil and gas, Canadian operators are implementing their own strategies to stay competitive, by pushing down costs and being innovative.

While prepared to do the work, the Canadian sector's greater concerns are around government initiatives that are more about appeasing fossil fuel opponents than results — such as increasing the regulatory burden for project reviews, and carbon taxes. Instead, Trump has promised to cut red tape, corporate taxes and could introduce a border adjustment tax that could increase the cost of Canadian oil and gas exported to the U.S.

In a report to clients based on meetings with several major Canadian oil and gas companies this week, Citi analysts said industry executives seem confident the Canadian government will step in if Trump implements a border adjustment tax. And as far as a carbon tax, "there is hope the government could look to revenue-neutral options for the tax to mitigate potential impacts on industry activity and the Canadian economy."

It's hard to say which climatechange approach — Trump's contrarian, or Canada's conformist — will prevail. The good news is that climate-change outrage is moving south.

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