

February 13, 2012

UNCLASSIFIED

ACTION MEMO FOR THE SECRETARY

FROM: Harvey J. Student

SUBJECT: Meeting with Prime Minister Harper

Recommendation

That you meet with Canadian Prime Minister Harper to discuss possible proposals for ameliorating the environmental impact of the Alberta oil sands and address recent bilateral tensions over the Keystone XL pipeline project.

Approve _____ Disapprove _____

Background

The Alberta oil sands are located in western Canada under 54,000 square miles of predominantly uninhabited boreal forest. Even though the oil sands were originally discovered in the 18th Century, it was not until 1967 that commercial oil extraction began. Capital investment remained limited thereafter, however, as the low price of oil did not justify the relatively high costs of production. This all changed in 2003 when the price of crude oil began its current significant increase.

Oil sands, such as those in Alberta, represent a rather unconventional source of crude oil in that one cannot simply extract the substance by pumping it out of a well or other reservoir. Instead, the oil is extracted from a mineral called bitumen, which has to be separated from the sand, clay and water it is naturally blended with. This makes the extraction process more energy intensive. A report by the Department of Energy found that from the point of extraction to end usage, the so-called well-to-wheels, oil-sands-sourced crude emitted 17 percent more greenhouse gasses than conventionally sourced crude. The Albertan government in 2007 began regulating CO2 emissions, but the fines were relatively small and failed to inhibit polluters. New technologies such as carbon capture have been cited as possible solutions, but they are perceived to be too costly.

Canada does not have the necessary infrastructure to refine heavy crude it extracts from the oil sands. Thus, the crude is sent through the Keystone pipeline to Texan refineries. With ever increasing production, this pipeline will fail to meet increased demand in the next decade. A \$7 billion extension called the Keystone

XL was proposed in 2008. Even though the Department found that the project would pose “no significant environmental impact,” a number of environmental groups oppose the project. In January 2012 the President rejected the Keystone XL proposal citing the need for additional of time to asses the environmental impacts, especially its routing across an important aquifer. Nevertheless, we have indicated to Keystone’s backer we would welcome a new proposal that addresses the environmental issues.

Current Situation

With 175 trillion barrels of proven oil reserves (3rd in the world), Canada is a key energy partner to the United States. It exports 99 percent of its crude oil to the US, which represents 25 percent of total US crude oil imports. During a recent visit to China after the rejection of the Keystone XL project, Canadian Prime Minister Harper stated that his government will look to export to other countries. Nevertheless, Canada currently lacks the necessary infrastructure to do so. The proposed Northern Gateway pipeline would allow crude oil from Alberta to be exported to Asian markets, but the project is mired in controversy.

Even though both the United States and Canada have expressed the need to develop cleaner renewable energy sources, a clear viable alternative is still not available. This was underscored in December of 2011 when the Canadian government announced its withdrawal from the Kyoto Protocol because it could not feasibly meet the agreement’s demands. The US never ratified the agreement.

Conclusion

Since 2003, the US has become increasingly more dependent on Canadian crude imports. Yet, the recent rejection of the Keystone XL proposal by the President has seemingly strained this relationship. With no viable alternative energy source in plain sight, the US is expected to continue to rely on Canadian crude imports. We believe you can use your meeting with Prime Minister Harper to stress our desire to strengthen our energy relationship, as well as find ways to reduce the environmental impact of fossil fuels. You should also reassure him that the Department would expedite a new proposal for the Keystone XL pipeline that addresses the environmental issues.

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