



501 Pennsylvania Ave., N.W.
Washington, D.C. 20001-2114

February 22, 2008

The Honorable Robert Gates
Secretary, U.S. Department of Defense
1000 Defense Pentagon
Washington, D.C. 20301

Dear Secretary Gates,

I am writing to convey the Government of Canada's views on the *Energy Independence and Security Act 2007*, Section 526. This provision limits the U.S. Government procurement of alternative fuels to only those alternative fuels from which the lifecycle greenhouse gas (GHG) emissions are equal to or less than such emissions from conventional fuel produced from conventional petroleum sources.

Canada would not want to see an expansive interpretation of Section 526, which would then include commercially-available fuel made in part from oil derived from Canadian oil sands.

Section 526 is entitled "*Procurement and Acquisition of Alternative Fuels*," appearing to address procurement of fuels other than those which are commercially available as part of the stream of petroleum fuels. This would be consistent with previous legislation, including the *2005 Energy Policy Act*, Section 369, which was aimed at having your Department develop a source of U.S.-origin alternative fuels for strategic reasons.

There was no indication when the legislation was considered in Congress that Section 526 was intended to go beyond a limited scope. However, there is no statement of purpose to limit that scope. So some are now suggesting that your Department must interpret Section 526 to cover all U.S. Government fuel procurement, and any petroleum fuel made in part from other than conventional petroleum.

Canada and the United States have an extensive, integrated energy relationship, disciplined by the North American Free Trade Agreement (NAFTA). Canada is by far the largest, as well as the safest and most secure, source of U.S. energy imports – of electricity, natural gas, uranium and oil.

Canadian oil production and Canada's share of U.S. oil supply are increasing, mainly because of oil sands production in Alberta. U.S. firms compete on a level playing-field with Canadian firms, and U.S. firms are among the largest investors, producers, and new-technology developers in the oil sands, to the benefit of both our countries. In 2004, Canada displaced Saudi Arabia as the largest supplier of crude oil to the United States. In

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2006, Canada supplied the United States with 2.3 million barrels/day (mbd); 0.5 mbd of refined oil and 1.8 mbd of crude oil. Roughly half of this crude oil is derived from oil sands. With announced investments, oil sands production is projected to grow from the present 1.4 mbd to 3.0 mbd by 2015. Most of this new production is destined for the U.S. market. Both President Bush and Energy Secretary Bodman have publicly welcomed expanded oil sands production, given the increased contribution to U.S. energy security.

Canada does not consider oil extracted from oil sands as alternative fuel. Oil produced from the oil sands, like oil from other sources, is processed in conventional facilities. Oil sands production is commercial. The U.S. Administration has recognized the reality that oil sands oil is now part of the mainstream. Since 2003, 174 billion barrels of oil sands reserves have been recognized as proved reserves by the U.S. Department of Energy's Energy Information Agency.

There is little fuel on the U.S. market that is 100% petroleum extracted only by conventional methodology. Oil sands-derived petroleum represents approximately 5% of U.S. supply and is not segregated from other petroleum. One alternative fuel is biofuel. Its content in U.S. gasoline is mandated (7.76% in 2008) and is overwhelmingly corn-based ethanol. It is segregated and differs in chemical composition from the oil it is displacing.

Interpreting Section 526 to apply to all commercially-available fuel made in part from non-conventional petroleum could exclude all fuel commercially-available on the U.S. market from being eligible for purchase by the U.S. Government. As such, there would be many other unintended consequences. The U.S. Government would be seen as preferring offshore crude from other countries over fuel made in part from U.S. and Canadian sources. Further, the U.S. Government would be contradicting other stated goals to encourage greater biofuel use and Canadian oil sands production.

Let me reassure you of Canada's commitment to addressing GHG emissions. At present, oil sands production does have somewhat higher GHG emissions on average as compared to conventional light sweet crude. The good news is that technologies continue to improve. Oil sands GHG emissions per barrel have already fallen by 32% as compared to 1990. Both Canada and Alberta are committed to reducing GHG emissions further. In 2007, Canada announced its intent to bring in mandatory GHG emissions reductions targets for our largest emitters, including for oil sands operators.

I would be happy to provide you with any additional information you may require in making your eventual determination on Section 526.

Yours sincerely,



Michael Wilson
Ambassador

cc: Secretary of State, the Honorable Condoleezza Rice
Secretary of Energy, the Honorable Samuel Bodman