

April 24, 2007

Oil Sands Consultation  
Alberta Department of Energy  
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Via email: [oilsandsconsultations@gov.ab.ca](mailto:oilsandsconsultations@gov.ab.ca)

Dear Sir/Madam,

**The Ethical Funds Company**® is Canada's leading manager of socially responsible mutual funds, with \$2.2 billion in assets under management. **The Ethical Funds Company** has significant investments in oil and gas companies operating in the oil sands and a large number of our unitholders are residents of Alberta.

Socially responsible investing is growing rapidly and now represents almost 20% of the Canadian investment market. Broadly defined, socially responsible investing incorporates an active consideration of environmental, social and governance factors in investment decision making. In addition to traditional financial measures, socially responsible investors evaluate factors such as the effectiveness of environmental risk management systems, employee health and safety procedures, capacity to attract and retain talent at all levels of the organization, corporate governance, and stakeholder engagement practices. Socially responsible investors believe that environmental, social and governance factors can be material to investment performance, particularly in terms of helping companies avoid and mitigate risk.

This document represents a formal submission to Phase II of the Alberta Oil Sands Consultation process. The comments and recommendations provided relate largely to strategies and actions contained in *Vision 3: Ensures Healthy Environment*. There are three reasons for this focus: (1) environmental issues associated with oil sands development present a readily identifiable and quantifiable set of investment risks; (2) our unitholders place highest priority on environmental protection; (3) *Vision 3: Ensures Healthy Environment* indicates there is a significant level of disagreement within the Multi-stakeholder Committee on environmental priorities.

This submission follows our first letter dated September 29, 2006. In that submission we asked that:



“the Government of Alberta slow the pace of oil sands development until such time that a integrated land use plan can be developed and implemented. This plan should acknowledge the need to maintain and restore functioning ecosystems while providing for the economic needs of local communities and respecting the rights of impacted First Nations. We urge the development of an integrated land use plan that protects the ecosystem while allowing for appropriate forms of economic development.”

Our second submission is guided by the same perspective. Specifically, we offer the following set of recommendations:

### 1. Encourage Sound Environmental Practices

According to a recent report from the National Roundtable on the Environment & the Economy (NRTEE), Canada could achieve a 60% reduction in greenhouse gas (GHG) emissions by 2050 using only existing and near-term technology.<sup>1</sup> In other words, society currently possesses the technological capacity to make significant environmental improvements; industry, however, lacks meaningful incentives to adopt the best available technology.

We support the consensus achieved by the MSC that the enhancement of research and development credits is required to improve environmental practices. However, more aggressive action is needed to stimulate the necessary changes. **Employing a form of emission taxes** would be one way to provide economic impetus to adopt best practice technology as companies would be driven to reduce emissions once a price was attached to carbon or other problematic emissions.

Other economic incentives to encourage R&D and innovation should also be considered. **Royalty incentives or tax reductions should be offered for those companies or projects employing best practice environmental technologies.** This would ensure that those investing in environmental technologies are rewarded in the marketplace.

In addition, **a natural capital assessment of the oil sands region** can inform decision-making and allow for the value of ecosystem services to be considered within the context of industrial development. An example of natural capital assessment can be found in a recent study commissioned by the Canadian Boreal Initiative (CBI) entitled *The Real Wealth of the Mackenzie Region*. In this study, the authors construct a natural capital account for the Mackenzie Valley watershed. They estimate this region's market value at \$41.9 billion per year, largely the result of resource extraction. Its non-market value is estimated at \$448.3 billion per year. This latter figure is based on the ecosystem services provided by the

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<sup>1</sup> See [http://www.nrtee-trnee.ca/eng/programs/Current\\_Programs/Energy-Climate-Change/EEC-Wedge-Advisory-Note/ECC-Wedge-advisory-note\\_e.pdf](http://www.nrtee-trnee.ca/eng/programs/Current_Programs/Energy-Climate-Change/EEC-Wedge-Advisory-Note/ECC-Wedge-advisory-note_e.pdf)

region. In sum, these ecological goods and services contribute over ten times more overall value than the GDP generated by extraction industries.<sup>2</sup>

The Ethical Funds Company believes that a prudent government will manage the environment for both market and non-market values. This may mean balancing the goals of economic development with protecting and sustaining ecological goods and services through wise stewardship and conservation.

## 2. Become a Leader in Reducing Greenhouse Gas Emissions

The Ethical Funds Company supports a regulatory framework that aims to **achieve carbon neutrality in the oil sands by 2020**. Carbon neutrality can be achieved through a **combination of greenhouse gas (GHG) emissions reductions, the use of carbon capture and storage (CCS), and the selective purchase of offsets**. A recent report by The Pembina Institute illustrates how the target of carbon neutrality is achievable for as little as \$2.50 US per barrel.<sup>3</sup>

Carbon capture and storage (CCS) represents a major opportunity for Canada's oil and gas sector given the presence of a major, largely underdeveloped resource (the oil sands) in close proximity to a large and relatively depleted reservoir (the Western Canada Sedimentary Basin). Given this proximity, as well as the prevalence of existing pipeline rights of way, the geography of Canada's oil and gas sector means that these CCS opportunities have the potential to make major contributions to carbon neutrality for the sector.

According to recent research from PricewaterhouseCoopers, CCS can reduce global carbon emissions by as much as 20%. Similarly, projections from the Intergovernmental Panel on Climate Change (IPCC) provide a range of 15-50% in reductions provided by CCS, although they do warn of current barriers that need to be addressed. These include risk of leakage, stakeholder concerns, fiscal regimes, lack of a clear legal framework, and public acceptance.<sup>4</sup>

As you may be aware, many companies are already using CCS both to reduce their total greenhouse gas emissions and to assist in enhanced oil recovery. According to our research, of the 48 publicly traded companies in the Canadian oil and gas sector, thirteen were either

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<sup>2</sup> This study is available on the Canadian Boreal Initiative website at

[http://borealcanada.ca/pdf/Embargoed\\_CBI\\_Mackenzie\\_Report\\_ENG.pdf](http://borealcanada.ca/pdf/Embargoed_CBI_Mackenzie_Report_ENG.pdf)

<sup>3</sup> The full report is available at [http://pembina.org/pdf/publications/CarbonNeutral2020\\_FinalDraft.pdf](http://pembina.org/pdf/publications/CarbonNeutral2020_FinalDraft.pdf)

<sup>4</sup> The IPCC report can be accessed at [http://arch.rivm.nl/env/int/ipcc/pages\\_media/SRCCS-](http://arch.rivm.nl/env/int/ipcc/pages_media/SRCCS-)

[final/SRCCS\\_WholeReport.pdf](http://www.pwc.com/extweb/pwcpublishings.nsf/docid/DFB54C8AAD6742DB852571F5006DD532/$file/world2050_carbon.pdf) and the PricewaterhouseCoopers report is available at

[http://www.pwc.com/extweb/pwcpublishings.nsf/docid/DFB54C8AAD6742DB852571F5006DD532/\\$file/world2050\\_carbon.pdf](http://www.pwc.com/extweb/pwcpublishings.nsf/docid/DFB54C8AAD6742DB852571F5006DD532/$file/world2050_carbon.pdf)

actively involved in or researching CCS for the purposes of climate risk mitigation as well as enhanced oil recovery (EOR).<sup>5</sup> While more research and development is needed, wide application of CCS is critical to the sustainable development of this global resource.

Alberta has the unique opportunity to be seen as a global leader on CSS and drive innovation in this area. The Multi-stakeholder Committee should give serious consideration in its final recommendations to the benefits this opportunity presents.

### 3. Minimize Impacts on Boreal Forests and Biodiversity

Healthy ecosystems provide vital services including water purification, food, fiber, fuel, nutrient recycling, pest and disease regulation, sediment retention, climate regulation, carbon sequestration, flood protection, and erosion control. Once these systems are damaged it is costly and difficult to repair or replace what nature has created.

The case of the woodland caribou is illustrative of the devastating impacts of oil sands development. Woodland caribou populations have declined by 50% in some ranges in northeastern Alberta as a result of cumulative developments (including deep oil sands developments) within their range. Numerous scientific studies predict that caribou will be wiped out in northeastern Alberta under proposed deep oil sands development plans.

In 2005, the Alberta Woodland Caribou Recovery Plan recommended a moratorium on oil and gas leases within the Little Smoky and Salve Lake caribou herds habitat in particular, as these herds are so critically endangered. Despite this recommendation, the Alberta Department of Energy has not acted on it to date.

The Ethical Funds Company supports **the re-introduction of integrated land use planning in Alberta** to identify both contiguous areas for protection as well as areas for oil sands development using best available technologies. Contiguous protected areas are needed to sustain healthy wildlife habitats and maintain healthy levels of biodiversity. Integrated land use planning will also identify areas of traditional land use for Aboriginal communities.

And where we do not have the opportunity to avoid negative ecosystem impacts, we encourage the MSC to consider stronger measures to mitigate existing impacts. In particular we highlight growing concern around the limited extent of land reclamation and the growing expanse of tailings ponds. The Ethical Funds Company supports the **recommendation that reclamation rates should reflect the pace of development of new oil sands projects.**

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<sup>5</sup> *Head in the Oil Sands? Climate Change Risks in Canada's Oil and Gas Sector*, The Ethical Funds Company, March 2007 available at [http://www.ethicalfunds.com/pdf2/newsroom/Head\\_in\\_the\\_Oil\\_Sands\\_Final.pdf](http://www.ethicalfunds.com/pdf2/newsroom/Head_in_the_Oil_Sands_Final.pdf)

#### 4. Protect Water Resources

The Oil Sands Ministerial Strategy Committee that states Alberta Environment should assign 'urgent priority' to defining the water supply (both surface and groundwater) available for use in the Industrial Heartland area.

In support of this urgent priority, we recommend the **establishment of in-stream flow needs for the Athabasca** and other rivers in the oil sands areas to ensure healthy aquatic ecosystems. We also **recommend strengthening the Federal/Provincial interim in-stream flow needs framework to prohibit water withdrawals when river flows are in the "red zone"**. Allowing water withdrawals when river flows are at their lowest threatens fish populations and other aquatic life, negatively impacting the ecological sustainability of the river.

To reduce demand on river systems we also agree with the **recommendation promoting future technological developments to improve water recycling systems within oil sands developments**.

#### Conclusion

The Ethical Funds Company is a shareholder in a number of corporations with oil sands interests. We remain supportive of future oil sands development based on sustainable business practices and a precautionary approach. This vision of development is achievable through the implementation of the following set of recommendations:

- a carbon emissions tax;
- royalty incentives or tax reductions to stimulate the use of best practice environmental technologies;
- a natural capital assessment of the region;
- capital investments in CCS and purchase of carbon offsets with the aim of carbon neutrality in the oil sands by 2020;
- integrated land-use planning;
- reclamation rates that reflect the pace of development of new oil sands projects;
- technological improvements to water recycling systems;
- establishing in-stream flow needs for the Athabasca and other rivers in the oil sands area; and,
- strengthening the Federal/Provincial interim in-stream flow needs framework to prohibit water withdrawals when the river flows are in the "red zone".



**There's good money to be made™**

Today, stakeholders have sufficient knowledge about the environmental and social impacts of oil sands development. We also have available technologies and strategies to address these impacts. We must act on this knowledge to ensure future oil sands development that balances economic needs with the environmental and social needs of all impacted stakeholders.

We are supportive of the work of the Multi-stakeholder Committee and the Oil Sands Consultation and encourage the MSC to consider our recommendations.

With Best Regards,

Robert Walker  
Vice President, Sustainability