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## Investment fund raises questions about Alberta tar sands

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By SolveClimate([solveclimate.com/](http://solveclimate.com/))

By Matthew Berger

Alberta's sprawling tar sands region holds the second largest oil reserve in the world after Saudi Arabia, but investors lured by the promise of black gold should think twice about the environmental risks, a Canadian investment fund warns.

In a new report, Northwest & Ethical Investments LP describes how companies operating in the tar sands — including global giants BP, Shell and Total — are exposed to "litigious, regulatory, policy and social license risks," and it says some of those companies are doing a poor job of disclosing that risk exposure to shareholders.

"As more companies enter the oil sands, and the contribution of oil sands to company reserves increases, more investors are becoming exposed to these risks, and the level of their exposure is increasing," the report says.

Shareholders are uniquely positioned to influence the decision these corporations make, and it would be a smart business decision to do so, Northwest & Ethical Investments writes.

The report, *Lines in the Sands: Oil Sands Sector Benchmarking*, is part of dialogue that institutional investors are having with about a dozen companies involved in the tar sands, report author Michelle de Cordova told SolveClimate on Tuesday.

"You're not invested in the oil sands as a specific project; you're invested in the companies," she explained, emphasizing the need for investors to communicate their concerns to the companies they own. "We have had quite an intensive dialogue with the companies over the last year or so."

The value in the tar sands is bitumen, a thick, heavy form of petroleum with a tar-like consistency that requires energy-intensive processing to separate from the clay and sand. In recent years, its production has spread across more than 140,000 square kilometers of Alberta, with producers razing boreal forest and fouling water supplies as they work.

A large amount of the risk to shareholders comes from the huge capital commitments that developing this type of oil source requires, according to de Cordova. Producing bitumen from oil sands deposits results in "mega-projects" with long investment horizons, so uncertainty over the cost of carbon emissions 40 years from now and the possibility of lawsuits are serious risks to the future financial success of such projects, she says.

"Tar sands are not a good place to put your money," concurs Greenpeace Canada climate campaigner Mike Hudema. "When it comes to investment in tar sands, the companies are greatly underestimating the liabilities."

The authors of the report sent questionnaires to 13 companies with oil sands interests.

Not all of the information that they requested — information considered necessary for informed investment decision-making — was made as available, the report says. But based on the information that was obtained, the authors were able to outline key liabilities for investors.

Lawsuit Risks

One risk is aboriginal rights litigation since oils sands producers operate in areas overlapping Aboriginal traditional territories.

The Beaver Lake Cree Nation has already filed a lawsuit, citing a treaty written into the Constitution that ensured they would be able to continue hunting, trapping and fishing on their ancestral lands. The Cree are seeking an injunction to end the tar sands operations' destruction of those lands, damage to the wildlife, and fouling of the rivers.

#### Policy Risks

There is also uncertainty regarding the future of carbon emissions regulations.

When bitumen's energy-intensive extraction process is factored in, tar sands oil results in 20 to 30 percent more greenhouse gas emissions than conventional oil. In fact, the tar sands operations are the single largest contributor to greenhouse gas emissions growth in Canada, according to the Pembina Institute.

The expectation of that growth continuing is evident in Alberta's greenhouse gas reduction plan. While neighboring provinces have proposed significant cuts by 2020, Alberta wants to wait until 2020 before its emissions peak — at a level expected to be more than 50 percent above its 1990s emissions levels.

According to the report, Shell is the only major tar sands company with targets for reducing its absolute global emissions.

The oil giant explained its interest in the tar sands in a Sustainability Report for 2007 by saying "scenarios indicate that a supply crunch for conventional sources could appear around 2015. Greater efficiency, biofuels and other renewables will help, but won't be enough on their own." Shell also acknowledged that government policy will strongly influence future resource use.

#### Social License Risks

The main liability from tar sands operations may be its impact on water supplies. It takes two to three barrels of freshwater to extract one barrel of bitumen, and about 90 percent of that oily water ends up in the 80 square miles of tailings ponds. Those toxic ponds are a danger to migrating birds. In addition, the region's Athabasca-Peace-Mackenzie watershed sees about a sixth of Canada's freshwater supply.

The authors of the report said they had trouble obtaining data from several of the companies regarding their water management.

The detriments of the tar sands operations have been getting more attention globally in recent months, due in part to a controversial pipeline agreement between the U.S. and Canada. Canada is the United States' largest oil supplier, and it is considered a rare friendly source of oil.

The UK-based Co-operative Financial Services also drew attention to the impact of the tar sands on indigenous people when it launched a legal fund earlier this year to assist the Beaver Lake Cree in their lawsuit. On Monday, activist and author George Monbiot, writing in the Guardian, add his condemnation of Canada as a "thuggish petro-state" that he said poses the biggest threat to the possibility of a global climate change agreement, mainly due to their support for the oils sands industry.

"We're encouraged that people around the world are becoming aware of how destructive tar sands are," Hudema told SolveClimate.

The government of Prime Minister Stephen Harper, who backed away from Canada's commitments under the Kyoto Protocol soon after taking office in 2006, is sticking with its meager greenhouse gas reduction target of 20 percent below 2006 levels by 2020. It's a promise similar to the United States' and well below the 25-45 percent cut from 1990 levels called for by the Intergovernmental Panel on Climate Change.

"Most of the investment decisions on oil sands have been focusing on climate aspects," said de Cordova, "but there is a complex of other risk that maybe haven't been addressed in other investment research."

Asked if actions like introducing shareholder resolutions involving the tar sands would be a possibility, de Cordova said they might be "if we're not making progress; somewhere down the road."

"You often don't need to file a shareholder resolution — if you come to with a good case, they'll do it. They don't want risk," she said.

De Cordova emphasized that the report is not focused on "the risks of today but the risks that the companies face down the road." Its goal is to help "prevent these risks from manifesting themselves in the long-run," she said.

After a spike in 2008, oil sands development stalled in the midst of 2009's recession, but projects have begun to pick up again. Hudema warns,

"Any company thinking about tar sands needs to get a better picture of just how impactful tar sands operations really are."

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