IMPERIAL OIL LIMITED

PROPRIETARY

Detailed Issue Summary
GLOBAL WARMING / CLIMATE CHANGE

Overview of Issue

- Canada contributes only about 2% to global CO_2 emissions from energy use but critics point to Canada's very energy intensive economy (#2 in terms of CO_2/capita; #6 in terms of CO_2/U.S. $ of GDP).

- Canada continues to be viewed as a "hawk" on this issue. Federal government made an early commitment to stabilize greenhouse gas emissions -- measures to achieve remain incomplete.

- Canada committed to stabilizing CO_2 and other greenhouse gas emissions at 1990 levels by the year 2000 at a U.N. conference in Bergen, Norway in May, 1990 / *at recent Council of Canadian Ministers conference, overall agreement to test achievement of Liberal Platform objective of 20% reduction over 1988 by 2005.*

- Canada signed the Climate Change Convention at the UNCED "Earth Summit" in Rio DeJaneiro in June, 1992:
  - Also reconfirmed target and timetable per the Bergen commitment even though Climate Change Convention less firm *(Bergen commitment aimed at stabilizing emissions while Convention aims at stabilizing concentrations in the atmosphere -- a much more serious/difficult objective requiring potentially as high as 60% reductions in CO2 emissions levels over 1990)*

  - Tabled a "Quick Start Agenda" with commitments to quickly ratify the convention by year end 1992 and to prepare a national report on emissions and reduction measures planned by June, 1993 -- *Draft National Report issued in October 1993 identifying significant gaps to close on stabilization.*

- Canada's plans to achieve the stabilization target not yet firm:
  - Federal government's "National Action Strategy on Global Warming" of 1990 proposed a phased, progressive approach, with first steps being those that make sense in their own right (e.g. energy efficiency).

  - Federal government's projections (1990) show CO_2 growth rate of 1.6%/year over 1990 to 2000 period in a "Business as Usual" case:

  - *Most recent forecasts in Draft national Report are for ~ 1.0%/year growth to 2000 reconfirming earlier forecasts on potential gaps.*

CO_2 EMISSIONS STABILIZATION

	1990	2000	"GAP"	COMMENTS
• "Business as Usual"	*461*	*562*	*90-100*	- GDP growth 2.2%/yr - WTI $23U.S./B in 2000 (1989$)
• "Economic" Energy Efficiency Steps applied	*461*	*510*	*45-50*	- Only ~ 50% of gap closed

- *Key recommendations of Draft National Report include:*
  - o *Transportation (32% CO_2)*
    - *transportation demand management practices*
    - *alternatives*
    - *ride sharing / routing efficiencies*
    - *driver education*
  - o *Energy Supply (20% CO_2)*
    - *demand-side management*
    - *co-generation*
    - *nuclear & hydro*
  - o *Res/Comm Use (15-18% CO_2)*
    - *improved energy efficiency*
  - o *Industrial Use (22-25% CO_2)*
    - *large equipment efficiency*
    - *voluntary energy conservation*

  (measures very similar to proposed U.S. programs)
- *New National process has been struck to address* CO_2 and other greenhouse gas projections, possible reduction measures and macro-economic consequences -- *National Air Issues Coordinating Committee Taskgroup on Global Climate Change (Significant that of all air issues, only climate change taskgroup formed and active at this time)*
- *Concern over talk of potentail use of energy tax as replacement for GST in Canada within the Liberal Caucus*

Potential Impact on Imperial/Exxon

- ❑ From a national standpoint, an IOL commissioned macro-economic study by DRI/McGraw Hill showed that very high levels of tax would be required to achieve a CO_2 stabilization target:
  - A carbon tax building up to $200/tonne of carbon by 2005 could stabilize CO_2 emissions (1/3 reduced economic activity, 1/3 efficiency, 1/3 fuel switching).
  - Reduces Canada's GDP by $100 billion (real) over 1990 - 2005 period (or 1.1%).
- ❑ Translating the DRI carbon tax impacts to Imperial, for example, might result in a 12% reduction in downstream revenue, equivalent to 940M$. This ignores any second order effect on margins.

- Imposition of increased taxes to dampen demand and influence supply mix could increase the relative supply costs of energy intensive/higher carbon content fossil fuels such as oil sands. The DRI tax applied to natural gas fuel would increase bitumen production costs by about $5/B.

Corporate Position

- IOL has lobbied for a cautious and flexible response with two major public discussion papers in 1990 and 1991 and extensive discussions with government, thought leaders and the media:
  - Many uncertainties, doesn't warrant drastic steps at this time.
  - Makes little sense to act unilaterally to respond to a global issue.
  - Focus should shift to all greenhouse gases, sources and sinks, not just CO_2 production from energy use.

Basic Strategy/Action Plan

- Continue to press IOL's well developed and broadly communicated position aimed at limiting non market-driven response steps at this time:
  - Stress relative certainty of the debits to Canada's precarious economy and international competitiveness versus the uncertainty in environmental benefits.
  - Share energy supply/demand outlooks with Energy Mines and Resources.
  - Participate in voluntary industry initiatives to foster economic energy efficiency steps as a best defensive strategy (support revitalization of Canadian Industrial Program for Energy Conservation which was created after the oil price shocks in the 1970's - now called Minister's Advisory Council on Energy Efficiency in Industry)
  - *Direct participation in Energy Industry Taskforce on Climate Change as input to broader national process -- in partnership with industry associations.*

Inter-regional Coordination

- Continue to co-ordinate outlooks and positions through Exxon's Environment and Safety and Corporate Planning networks.

- Could benefit from Exxon corporate-wide view on the appropriate emphasis for energy efficiency in business planning and in competition for capital funds.

Environment & Safety Dept.

File: GOV
General
Issues Overview