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Minister for Employment Relations, Consumer and Postal Affairs

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Yard 2
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Our ref:258716
Your ref:Adam032/8/ag

6 September 2011

Dear Tim,

Thank you for your letter of 27 July to Chris Huhne, regarding your concerns over the EU-Canada Comprehensive Economic Trade Agreement (CETA) and Canadian oil sands. I am replying as this matter falls within my portfolio.

First, let me say that the EU-Canada CETA negotiations are still ongoing. We strongly support the negotiations and expect the agreement to conclude in the first half of 2012. The CETA is expected to bring benefits in the region of £423 million a year to UK GDP and will cover a range of areas, including but not limited to, trade in goods and services, competition, trade facilitation, public procurement, sustainable development and intellectual property rights.

We do recognise that the available data does show that oil sands are greenhouse gas intensive. Let me reassure you though that as the EU does not apply tariffs to petroleum the tariff on oil imported from Canada will not be affected by liberalisation under the CETA. For this reason, conclusion of the CETA is unlikely to have any impact on the amount of oil sands petroleum the EU imports from Canada. It's worth noting that the EU currently imports a negligible (if any) amount of oil derived from oil sands.

On the investment protection chapter and potential investor-state clause, whilst we cannot prejudge the outcome of ongoing negotiations between the Canadian government and the EU, investment protection agreements need not be at odds with environmental protection. Investment agreements should not prevent governments from legislating or acting in the public interest, so long as the regulatory process is fair and transparent, does not discriminate against foreign investors and investors are adequately compensated where their investment has been expropriated.

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Turning to the Fuel Quality Directive (FQD), we do not see that there is any way the CETA negotiations will mean the EU cannot implement the directive; they are entirely separate. The European Commission has recently been assessing options for the accounting of greenhouse gas emmissions from fossil fuels under this directive but has yet to come forward with firm proposals on which the UK can take a position.

There are a number of different crude sources that are associated with high lifecycle greenhouse gas emissions. We believe that any methodology should account for greenhouse gas emissions from all crude sources, including oil sands. Clearly those sources where extraction leads to higher greenhouse gas emissions are less attractive than those which do not.

I hope this response addresses your concerns and reassures you that the UK government continues to follow this and other key issues as negotiations on the CETA progress.

Yours,

Edward.

EDWARD DAVEY