DIRTY DEALS

How trade talks threaten to undermine EU climate policies and bring tar sands to Europe

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Since its inception in 2009, the Fuel Quality Directive (FQD), a European Union regulation aimed at reducing the climate impact of transport fuels, has been attacked by powerful lobby interests that do not want the EU to take action to curtail the use of particularly greenhouse gas intensive fossil fuels.

While the FQD aims to reduce the climate impact of fossil fuels by addressing all sources of high carbon oil (for example oil shale, coal-to-liquid or tar sands), the oil industry has waged an extensive lobby campaign to portray the FQD as unfairly discriminating against one specific oil source: tar sands.

The Canadian government has been acting as dirty oil’s advocate since 2009, putting pressure on the EU through trade negotiations and threatening to file a complaint at the World Trade Organisation (WTO). But recently the pressure on the EU to weaken the Fuel Quality Directive has increased notably, with oil industry groups taking the lead on lobbying efforts.

And oil companies and refiners have found a new lobby vehicle to attack the FQD: the ongoing negotiations for the Transatlantic Trade and Investment Partnership (TTIP).

The EU and the US are currently the world’s largest trading blocs and, if agreed, the TTIP would be the world’s largest free-trade agreement. EU and US negotiators have repeatedly stated that they aim to make the TTIP a “gold standard” agreement, or a blueprint for future trade agreements. It is therefore of critical importance that the agreement does not undermine social or environmental objectives or the ability of governments to tackle climate change.

In this context, the FQD, the European Union’s key policy to tackle greenhouse gas emissions from transport fuels, can be seen as a showcase example of how big business and their lobby groups are using the TTIP negotiations to weaken and delay environmental regulation. While the US officially claims that it is merely interested in transparent decision-making, letters and emails obtained through access to documents reveal that the US has acted in concert with fossil fuel interests and has pushed behind the scenes against effective regulations to reduce the climate footprint of the Europe’s transport fuels. More specifically, US government officials have objected to the treatment of tar sands in the FQD, as this briefing reveals.

“Sticking your head in the sand might make you feel safer, but it’s not going to protect you from the coming storm.”

US President Barack Obama
And these attempts to weaken this landmark climate policy seem to have been successful. If recent media reports are correct, the European Commission has decided to significantly weaken the FQD and align its regulatory standards with the wishes of the oil industry, the US trade negotiators and the Canadian government. Compared to a previous proposal from 2011, it would be considerably less effective in cleaning up Europe’s transport fuels and preventing the most climate polluting fuels, including tar sands, from entering Europe.

Concerns about the negative impact of the TTIP on environmental standards have already been raised in relation to corporate lobby attacks on existing rights (such as the EU precautionary principle on environmental legislation). They are amplified by proposals on the table that would give corporations excessive rights in shaping and challenging environmental regulations, for example through the inclusion of an investor-to-state dispute settlement mechanism, a regulatory cooperation council and provisions limiting the ability of governments to set the terms of energy policy.

This briefing, however, adds another dimension. Trade agreements don’t only threaten environmental policy-making upon completion. Environmental regulations currently in the making, such as the FQD, are already being delayed and potentially weakened in the negotiation process.

“Climate change is a moral issue in an inter-generational context as well. We simply have no right to impose the pain and cost of climate change on future generations. Such selfishness would be doubly immoral, because we know it will cost more to sort out the problem, the longer we leave it unsolved.”

European Commission President José Manuel Barroso

A truly ambitious transatlantic partnership would promote the transition towards clean renewable energy sources and the phasing-out of dangerous and carbon-intensive fossil fuels. However, it appears that for the TTIP the opposite holds true and it is more likely to undermine current climate-friendly initiatives and deter necessary actions to address the climate crisis.
PART 1: BEFORE THE TTIP

A brief history of trade threats to the Fuel Quality Directive

1.1 The Fuel Quality Directive...

To fulfil its global climate commitments and reduce emissions from transport fuels used in Europe, in 2009 the European Union adopted a revised version of its Fuel Quality Directive. The revised Directive is part of Europe’s commitment to keep average global temperature increase below 2 degrees Celsius. Its article 7a sets the target of reducing the greenhouse gas (GHG) intensity of transport fuels by 6% between 2010 and 2020. To finalise the implementation of the FQD, the European Commission is obliged to provide guidance to Member States on which methodology should be used to calculate the greenhouse gas intensity of fossil fuels.

A first proposal of these so-called implementing measures was published in 2011, but, due to fierce lobbying by Canada and the oil industry, did not achieve the necessary approval among the EU Member States. Until now, more than five years after the adoption of the FQD, no new proposal has been put forward by the Commission. This massive delay has blocked the implementation of the revised Directive and is threatening its core objectives.

The central element in the 2011 FQD implementation proposal was to differentiate the GHG intensity of oil-based fossil fuels depending on whether the fuels are made of conventional or different types of unconventional sources of oil. The listed unconventional sources (such as coal-to-liquid, tar sands or oil shale) all received higher average GHG intensity values than conventional sources, reflecting the additional energy required to extract and process them. A peer-reviewed study undertaken for the European Commission found emissions from tar sands extraction and processing to be 23% higher than the average fuels used in the EU. Importing large amounts of unconventional fossil fuels, such as tar sands, would therefore be incompatible with the goals of the FQD.

“Unconventional fuels - of course - need to account for their considerably higher emissions through separate values.”

European Commissioner for Climate Action Connie Hedegaard
1.2 ... and its opponents

Since the adoption of the revised Fuel Quality Directive in 2009, the International Oil Companies (IOCs - such as Shell, BP, ExxonMobil and Chevron), petroleum refiners, the Canadian government and the Albertan provincial government have spent enormous resources and used aggressive lobbying tactics to delay and weaken the implementation proposal. Canadian and Albertan opposition to any proposal that would classify tar sands as a higher GHG emission fuel compared to conventional fossil fuels has been particularly strong since Canada’s oil resources, estimated to be the second largest in the world, are almost entirely located in the Albertan tar sand deposits.

The oil industry and the Canadian government have been looking for new export markets for their oil since demand in the US – at present, its only export market – began to decrease due to lower consumption and a surge in oil production in the continental US. Both are afraid that the FQD could set a precedent by recognising and labelling tar sands as highly polluting and inspire similar legislation elsewhere, potentially closing markets for tar sands oil and therefore endangering its plans for a rapid expansion of tar sands production.

The IOCs are nervous about losing the potential to export oil from the tar sands to the large European market. They have lost their grip on the oil reserves of many countries and now control only about 6% of the global reserves, compared to 85% in the 1960s. Canada’s tar sands are one of the very few large oil resources to which these companies enjoy unfettered access. Accordingly, the share of tar sands in their reserves is increasing rapidly. Overall, 160 billion C$ (112 billion €, 150 billion US$) were invested in the Canadian tar sands between 2001 and 2012 and investments are expected to increase to 207 billion C$ (145 billion €, 193 billion US$) for the period 2013-2022.

The seven largest private oil companies in the world (Shell, ExxonMobil, BP, Sinopec, Chevron, ConocoPhillips and Total) all have significant stakes in the Canadian tar sands. Among them, Shell, ExxonMobil and Total have enormous investments in tar sands lined up for the next 10 years, as a recent analysis has shown. The same companies and large refiners have invested US $25 billion to retool their refineries in the US Gulf Coast as a preparation to process tar sands oil, some of which would be destined for export to the EU. And in Canada the pipeline project Energy East, which is currently being considered, aims explicitly to enable tar sands exports to the European market. With part of these huge investments at risk if the EU becomes less available as an export market, it comes as no surprise that IOCs, refiners and their trade associations have jumped on the TTIP negotiations as an opportunity to shield their risky investments in the tar sands at the expense of EU climate legislation.
Business lobby groups promoting fossil fuels

Refiners and oil producers with high commercial stakes in the Canadian tar sands have used their influence on powerful lobby groups such as BusinessEurope, the US Chamber of Commerce, the US Council for International Business and the Transatlantic Business Council to undermine the FQD. These lobby groups - fierce promoters of a transatlantic trade pact - have echoed Big Oil’s demands to weaken the FQD through the US-EU trade talks.

But even before the trade talks started, the same groups were already putting the Commission under pressure on the FQD, arguing that the regulation might harm industry competitiveness and increase administrative burdens and questioning the overall goal of the initiative. For instance, BusinessEurope, Europe’s main industry lobby group, has argued that: “the Commission proposal to effectively ban fuels produced with Canadian oil sands oil as a raw material under the Fuel Quality Directive (FQD) will generate additional costs for industry for almost no environmental benefit [...] the anticipated trade dispute with a major supplier of energy and raw materials - Canada - will have very harmful effects on an otherwise positive economic partnership. Under the guise of sustainability, the Commission is proposing increased costs for industry and worse relations with our suppliers of raw materials.”

In 2012, BusinessEurope launched another attack by including the FQD in its top priority list of legislative proposals, for which it recommends the European Commission to complete so-called “competitiveness proofings” - extra checks on how they would impact industry competitiveness - before going ahead.
1.3 Environmental legislation as a “trade barrier”

In the ongoing negotiations on the EU-Canada and EU-US free-trade agreements, officials from all sides have gone to great lengths to claim that trade negotiations do not pose a threat to regulatory measures that protect the environment. Yet the use of trade agreements to undermine environmental regulation is nothing new; the FQD-related controversy is just one addition to a long list. WTO threats have been used in the past to delay and deter much needed action on climate change – for instance in relation to fuel efficiency schemes and green subsidies.

US government documents reveal that environmental policies of governments across the globe are seen as potential trade barriers for US industry. For instance, the United States Trade Representative’s (USTR) 2014 report on technical barriers to trade highlights several EU environmental policies as potential barrier to US trade. They range from the EU regulation on fluorinated greenhouse gases to the proposal for regulation of endocrine disruptors, the Renewable Energy Directive because of its sustainability criteria for biofuels and, revealingly, the Fuel Quality Directive.

The impacts of climate change and extreme resource extraction are exacerbating conflicts and environmental destruction around the world. The extraction of unconventional fuels – such as oil sands and oil shale – is having a particularly devastating impact on climate change.

Letter to European Commissioners and EU environment ministers by 21 Nobel peace and science laureates
World Trade Organisation threats

The extensive lobby campaign conducted by the Canadian government has included numerous threats to challenge the FQD at the World Trade Organisation (WTO). Most recently, Canadian Natural Resource Minister Joe Oliver reiterated that “we could have recourse to the WTO and we will consider that.”

The WTO threats have been amplified by others, most notably lobby groups linked to the oil industry. The US Chamber of Commerce and its European counterpart BusinessEurope complained that the FQD was an “obstacle to international trade” and warned of potential WTO procedures against the proposal.

The American Fuel & Petroleum Manufacturers (AFPM), a trade association of refiners and oil companies, went further and directly lobbied the US government on the issue. In a letter to the interim US Trade Representative Demetrios Marantis the AFPM wrote: “[s]hould article 7a of the FQD be implemented, we may have no choice but to request the U.S. and Canada seek redress at the WTO.”

The efforts were not in vain: a letter by the American Ambassador to the EU demanded bluntly: “my government requests that any proposed implementing regulations for the Directive be notified to the World Trade Organization for comment, and that any comments received be taken into account in the final measure.” At the same time, Canada and the US have already started to use WTO mechanisms to pressure the EU to weaken the FQD, raising the Directive at the WTO Technical Barriers to Trade Committee.

These threats notwithstanding, a legal analysis suggests that the “European Union has a strong likelihood of success on the merits in a WTO challenge.” An assessment by the EU’s legal service came to the same conclusion.
1.4 The EU-Canada Free Trade Agreement

While the Canadian government was heavily lobbying the EU institutions and threatening to file a complaint at the WTO, both sides were also negotiating a new free trade agreement called the Comprehensive Economic and Trade Agreement (CETA). Canada and the EU strenuously denied any link between the Fuel Quality Directive and the trade negotiations, but evidence points the other way.

Alongside the WTO threats there also is credible evidence that Canada went further and used the CETA negotiations to increase pressure on the European Commission. Media reports indicate that Canada raised the FQD in the CETA negotiations. They quote an anonymous source saying that Canada had threatened “to void the free trade deal” if the FQD was implemented with a higher greenhouse gas value for tar sands.

More recently, the foreign policy think tank The Polish Institute for International Affairs reported that the FQD had been raised in the CETA negotiations and there have been calls in Canada to suspend the negotiations until the high GHG value for tar sands has been resolved to Canadian satisfaction. In February 2014 the FQD was highlighted as one of the outstanding issues blocking the completion of the negotiations. An implementation of the CETA bears significant climate risks since it would limit the ability of governments to regulate dangerous emissions sources like tar sands even further. But despite the political announcement of the completion of the CETA negotiations by Commission President Barroso and Canadian PM Harper in October 2013, the negotiations have continued and at the time of writing the agreement had not been fully finalised.
PART 2: THE TTIP

A renewed assault on the Fuel Quality Directive

2.1 TTIP – the new lobby vehicle

Meanwhile, the FQD has featured prominently in the discussion on the TTIP. American refiners and the oil industry have heavily lobbied the USTR to include the FQD as part of the TTIP negotiations and prevent differentiated greenhouse gas values for unconventional fossil fuels. In fact, it seems that the TTIP has been used by oil industry lobbyists as a new vehicle to press the EU to further delay and weaken the implementation of the FQD. The American Fuel & Petroleum Manufacturers (AFPM), which represents oil extraction companies and refiners, has been the most active lobby group in pushing for the inclusion of the FQD in the TTIP negotiations and a weakening of the implementing measure.

As early as February 2012, the AFPM sent a letter to the former USTR Ron Kirk requesting the inclusion of the FQD in the discussion of the US-EU High Level Working Group on Jobs and Growth – an advisory group that set the framework for the TTIP negotiations. The AFPM states: “AFPM recommends the Working Group focus on preventing the FQD from using discriminatory GHG default values for fuels derived from oil sands and oil shale feedstocks.”

After the negotiations were announced, the AFPM continued to pressure the Obama administration. A letter sent in May 2013 recommended that “the USTR include article 7a of the FQD in its TTIP negotiations with the EU” and called the FQD “a critically important topic for US-EU trade talks.” At the same time other lobby groups, which had not voiced an opinion on the FQD before, started making demands to the Obama administration. In a submission to the USTR, the Transatlantic Business Council, an EU-US big business lobby organization, recommended including the FQD in the TTIP negotiations and stated that it “opposes the categorization in the EU’s Fuel Quality Directive of oil sands as a separate feedstock.”

The delay in the implementation of the FQD can be in large part credited to the industry’s lobby activities. And while the lobby groups publicly state that they support the European Union’s GHG reduction goals, they simultaneously hail delays in the FQD implementation as a success. The US Chamber of Commerce, for example, lists as one of its “policy accomplishments for 2013” that it “[s]uccessfully advocated for a delay in, and possible reconsideration of, a European Commission proposal on transport fuels.”
2.2 Lack of consultation: A smokescreen?

The industries’ efforts to insert the FQD into the TTIP negotiations have been successful. Despite denials by the European Commission, USTR Michael Froman confirmed that he personally has “raised these issues [of the FQD implementation] with senior Commission officials on several occasions, including in the context of the Transatlantic Trade and Investment Partnership (T-TIP).” US government officials have been careful to avoid supporting the oil industry’s line too openly. In public, they have only criticised the lack of consultation and the transparency of the process, but never openly made more substantive demands to the EU. The US chief negotiator for the TTIP, Dan Mullaney, said during a press conference that the US “share[s] the goal of the fuel quality directive to reduce greenhouse gas emissions” and “is interested in a bit more openness and transparency in public participation.” In a public statement in Brussels, US Trade Representative Froman also repeated the US concerns about the lack of transparency and public consultation in the process.

Yet, alleged lack of consultation does not seem to be a worry for the lobby groups opposed to the FQD. When the US chief negotiator Daniel Mullaney asked an AFPM representative in a public hearing if there were “adequate opportunities for your [AFPM’s] views to be input into the EU regulatory process she answered: “The people that were working on this, I don’t recall them expressing inadequate opportunity for input.” To the contrary: In a letter sent to the European Commission in May 2013, the AFPM, the American Chamber of Commerce and other big business interest groups wrote that they “appreciate your [the European Commission’s] efforts to involve stakeholders potentially impacted by this proposal.”

“Let me be clear on this very important point: we are not lowering standards in TTIP. Our standards on consumer protection, on the environment, on data protection and on food are not up for negotiation.”

Karel de Gucht, European Commissioner for Trade

Dirty Deals: How trade talks threaten to undermine EU climate policies and bring tar sands to Europe
2.3 New information reveals US government pushed for substantive changes

So why was the US government pushing for greater transparency and participation of lobby groups that were not even concerned about it? A first clue comes from a written answer by USTR Michael Froman to the US Congress on his position regarding the FQD: “I share your concerns regarding the European Union’s development of proposals for amendments to the Fuel Quality Directive. [...] We continue to press the Commission to take the views of stakeholders, including US refiners, under consideration as they finalize these amendments.”

As shown above, US refiners (represented through the AFPM) are mostly concerned about a separate GHG intensity value for tar sands oil, and taking their views into account would mean scrapping the differentiated values for unconventional oil and assigning the same value to all oil sources. To seek to have these views reflected in European climate policy clearly undermines the stated policy of the US government to reduce global GHG emissions.

In a reaction to these comments, Members of the US Congress wrote a letter to Froman to raise their concerns that “USTR’s actions could undercut the EU’s commendable goal of reducing greenhouse gas emissions in its transportation sectors” and called Froman’s comments “troubling.” Froman sought to soothe these concerns in his answer to the Members of Congress by asserting that the “USTR is not pressing the European Commission for any particular treatment of crude oil under the FQD.”

“First, let me be clear: There is nothing we seek to do through T-TIP to undermine the determinations that each of our systems has made with regard to the appropriate level of health, safety and environmental protection of our people.”

Michael Froman, US Trade Representative

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But Froman’s assertion that no substantive issues were raised is contradicted by evidence obtained by Friends of the Earth Europe through an access to document request. In an internal European Commission e-mail the policy officer for the United States and Canada in the international relations unit at DG Energy reported on 23 October 2013, several months into the TTIP negotiations, that “[t]he US Mission informed us formally that the US authorities have concerns about the transparency and process, as well as substantive concerns about the existing proposal (the singling out of two crudes – Canada and Venezuela).”

Canada and Venezuela are the two countries with the largest tar sand deposits in the world and the US mission’s arguments follow the same line of (flawed) criticism as levied by Canada and the oil industry. They claim that tar sands oil is singled out and discriminated against, despite the fact that all types of unconventional oil receive separate GHG intensity values and that the tar sands value is applied universally to tar sands, regardless of which country the reserves are located in.

Yet the US representatives not only criticised the separate value for tar sands, but also clearly pushed for a version of the proposal that would continue to allow for the inflow of carbon intensive unconventional fossil fuels, undermining the Obama administration’s own commitment to tackling climate change. In the same e-mail quoted above, the DG energy policy officer writes: “the US Mission said that they had a real problem with Option 1. None of the other options are good but they would prefer a system of averaging out the crudes.”

Option 1 is the strong Commission proposal from 2011, categorising fuels according to their feedstock of origin, such as conventional oil, tar sands and oil shale etc., and assigning fuels produced from each feedstock a particular greenhouse gas value. An averaging out of crudes means that all oil-based transport fuels would effectively receive only one single average value, instead of different values that reflect their varying carbon intensities. It is the preferred option of the oil refiners and companies, as it would mean that the European Union would not attempt to limit its use of high-carbon unconventional oil, including tar sands.

An analysis by the research consultancy CE Delft suggests that a feedstock approach (Option 1) could represent additional GHG savings of up to 19 million tons of CO2 emissions in comparison to an averaging approach, due to reduced investments in tar sands projects. The US administration
has thus not only tried to influence the content of the FQD, contrary to its public pronouncements, but also pushed for a weakening of the Directive to give the world’s dirtiest fuels unfettered access to the European markets, with serious consequences for the global climate. In a letter sent to USTR Froman on 9 July 2014, Members of the US Congress also expressed their concern that “trade and investment rules may be being used to undermine or threaten important climate policies of other nations.”

Media reports which surfaced in the first half of June indicate that Big Oil and the US government might have obtained what they wanted. The reports claim that the system chosen by the Commission is one of averaging of all crudes – exactly what the US mission had requested in its e-mail. If they are correct, the new FQD proposal will be considerably less effective in discouraging the import of highly climate damaging oil, such as tar sands. It might well be the case that the FQD is the first environmental casualty of the TTIP negotiations.

“[W]e remain concerned that official U.S. trade negotiations could undercut the EU’s commendable efforts to reduce carbon pollution.”

Letter sent by 11 Members of the US Congress to USTR Michael Froman
Industry scaremongering about alleged negative impacts of the FQD

The oil industry’s main objection to the FQD is the alleged administrative burden it would cause for the oil companies and the potential consequences for the transatlantic fuel trade. Yet, on both issues, the industry is vastly exaggerating the impact the FQD implementation could have, without providing any credible evidence.

Furthermore, the industry doesn’t even seem able to agree on how much trade would actually be affected. In an email to DG Trade in September 2013, a representative from the US Chamber of Commerce claims that the FQD “could have a major detrimental effect on the $15 billion of diesel fuel that the US exports to Europe each year.” A couple of months earlier, oil industry association EUROPIA claimed that the FQD “will potentially compromise a value of around €20bn of oil products trade with the US.” By then, the AFPM had already warned the US Trade Representative that the FQD would “potentially [eliminate] a $32 billion a year flow of trade.” Exxon Mobil, however, was able to top even this figure, writing to the European Commission in an email that the Commission proposal “will prevent 60 Billion Euro [sic] diesel exports from US to Europe.”

To put these numbers into perspective, the total current EU-US fuel trade amounts to US$ 32 billion per year, of which slightly less than half (US$ 15b) is related to US exports to the EU. Of the 335,000 barrels per day of refined products that the US exported to the EU in 2012, only 4,000 barrels per day came from tar sands, which represents 0.03% of Europe’s fuel consumption. Thus, an EU FQD that effectively deters imports of tar sands diesel from the US would only affect a minuscule part of the transatlantic fuel trade, and an even smaller part of Europe’s overall transport fuel supply. Since this would only concern high-carbon fuels, the bulk of EU-US fuel trade would not be impacted, as conventional crude oil from the US would be rated the same as conventional crude oil from Russia or Europe itself.

The refiners further assert that the Commission proposal would require an “extensive, costly and likely infeasible” tracking scheme for crude oil compliance which would make exports to the European Union a “practical impossibility.” But no further arguments are provided for these claims.

However, according to a leak from the European Commission impact assessment the compliance cost for the 2011 Commission proposal as well as all other proposals would amount to “substantially less than a Euro cent a litre.” A comprehensive study by the research consultancy CE Delft came to the conclusion that the costs would be 0.8-1.6 Euro cents per barrel of oil, translating into one quarter to half a cent for a typical 50 litre tank of fuel. It seems highly unlikely that such a negligible cost would deter trade between the EU and the US in any significant way. This is particularly hard to believe for an industry in which the five largest companies accrued a combined profit of US$ 93 billion in 2013.
CONCLUSION

Civil society groups have raised concerns about how the TTIP could threaten the ability of regulators to protect our environment in the future. They fear that the TTIP could be used to roll-back existing regulations and hamper the establishment of higher standards to protect people and the environment. Yet, as this briefing has shown, TTIP is already being used by corporate lobby groups as a vehicle to attack, weaken and delay important environmental regulation still in the making. The development of the FQD proposal under the TTIP negotiations should be a cautionary tale of what we can expect from this free trade agreement. If the apparently successful attempts by the fossil fuel lobby to use the negotiations to weaken the Fuel Quality Directive are an indication of what to expect from the agreement, the TTIP can rightfully be seen as a way to further entrench corporate power and will present a significant hurdle for legislation desperately needed to avoid catastrophic climate change.