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Well-Oiled Machine

By Erik Heinrich/Fort McMurray



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Standing on a wooden platform located deep inside his open-pit mine, Pat Crisby, a plainspoken Newfoundlander, makes a startling observation. "We move enough dirt to fill the SkyDome in 48 hours," says Crisby, a fiftyish manager at Syncrude Canada Ltd., a company that is the Incredible Hulk of North America's biggest and richest resource deposit: Alberta's oil sands. The idea of filling the 60,000-seat home of the Toronto Blue Jays (now called Rogers Centre) with sticky, bitumen-laced soil from the Aurora North mine in a weekend is mind-boggling. But it puts the business conducted on this chunk of boreal real estate into perspective: there are 173 billion bbl. of crude contained in an area roughly the size of Florida. It just has to be dug up.

Syncrude, headquartered just north of Alberta's booming Fort McMurray, is a consortium of U.S. and Canadian oil companies including Imperial, Petro-Canada and ConocoPhillips that produces 350,000 bbl. of light, sweet crude per day from tar sands at three mines on the banks of the Athabasca River. About two-thirds of that gets piped to the U.S. Syncrude accounts for about 27% of the 1.3 million bbl. extracted by oil companies every 24 hours from this stark landscape of jack pine, spruce and poplar forests shot through by a bright northern light.

But it pales by comparison with what's just around the corner. Canada is poised to become Venezuela north--without the loopy President and the deadweight national oil company as unwanted partners--as the biggest oil boom in North American history hits terminal velocity. An estimated \$124 billion will be invested from 2007 to 2012, according to the Athabasca Regional Issues Working Group, an industry association. Production in Alberta oil sands will more than quadruple, to about 5 million bbl. daily, by 2015; Canada currently exports an average of 1.9 million bbl. daily (from all sources) to the U.S., more than any country, including Saudi Arabia. That's about 20% of total U.S. imports. "Canada has emerged as an energy superpower," says economist Peter Tertzakian of Calgary-based ARC Financial Corp., an energy-investment firm with a nearly \$1.9 billion asset portfolio. He adds that going forward, 10% to 15% of the world's incremental oil production will come from Canada's oil sands.

And you have ExxonMobil to thank (or blame) for it. The U.S. giant got hammered by investors following its first-quarter earnings report. Profits were \$13 billion, but production was falling. Yet in Canada, Exxon has muscled aside some of its Syncrude partners and parachuted in a new management team to meet aggressive expansion targets. "Everything up here is American, pretty much," says an oil worker earning \$130,000 a year, a fairly

typical salary in Fort McMurray, which has earned the nickname Fort McMurray because it has the nation's highest average income. The timing seems right for Canada too. Carpenters and truck drivers are fetching six-figure wages in Alberta--and working in -50°F (-46°C) temperatures in the winter--but Canada's traditional manufacturing hub of southern Ontario is suffering, ironically, because of its ties to the U.S. auto industry. And Canada's strengthening loonie has shed its huge cost advantage to the dollar.

The bulk of Canada's new energy will get pushed through an expanded pipeline network straight to waiting U.S. upgrading plants and refineries, a majority of which are located in such Midwestern states as Minnesota, North Dakota and Ohio. Shell, Chevron, British Petroleum and Total S.A. of France, along with about 20 smaller but no less ambitious players, are also transforming Alberta's boreal oil patch into the primary supplier of feedstock for an integrated North American energy market. "Canada is extremely important to U.S. energy security," says Rob Routs, executive director of oil sands at Netherlands-based Royal Dutch Shell PLC, the world's No. 2 oil company, with annual revenue of \$355.8 billion, which plans to boost production in Canada's north nearly fivefold, to 700,000 bbl. per day, by the middle of the next decade.

Somewhat surprisingly, Canada has been reluctant to acknowledge its newly minted status as an energy power broker. "We need to start acting like an OPEC-level player with an ability to change the world economy," says Ross Jacobs of Fort McMurray, a Liberal who was recently defeated in a bid to represent his district in Alberta's provincial legislature. "Canadians need to start thinking globally."

Yet they can't even think nationally. Relations between the maverick western province and Ottawa have always been stormy. In the 1970s, at a time of skyrocketing fuel prices, leftist Prime Minister Pierre Trudeau promoted a National Energy Program of self-sufficiency and Canadian ownership of oil and gas development, which ignited a turf war with Alberta. Alberta won, which means so did the U.S., because the oil could be freely traded.

No one working in the oil sands complains about the big paychecks, but beyond the project a serious backlash is growing against the economic and environmental pressures that come with maxing out oil production. A shortage of housing in Fort McMurray has pushed the price of an average home to more than \$600,000. Two-bedroom apartments rent for about \$3,500 a month. "The tar sands are being developed in an unsustainable fashion from virtually every point of view," says Jack Layton, leader of the New Democratic Party (NDP).

The bigger issue for Canada is that Alberta will get locked into the upstream rungs of an integrated North American energy market, while high-tech jobs head south, along with raw bitumen. "A Wild West approach to development is raising costs and acting as a disincentive for big energy companies to invest in upgrading and refining operations in Alberta," says Gil McGowan, head of the Alberta Federation of Labour, the province's largest union, representing 140,000 workers.

But Ed Stelmach, premier of Alberta, has little time for McGowan and other critics. "If you take Alberta out of the equation, there's very little growth in Canada," says Stelmach, whose Progressive Conservative Party has a cozy relationship with Big Oil. But Stelmach's critics are getting louder as concerns mount over outside greenhouse-gas

emissions from the oil sands. At a recent fund-raising dinner in Edmonton for his party faithful, two Greenpeace activists rappelled from the ceiling of a hall, unveiling a banner that read \$TELMACH: THE BEST PREMIER OIL MONEY CAN BUY. It was Greenpeace's typically great political theater, but Stelmach won't entertain any cries for a moratorium on new projects.

And neither will Exxon. Down the road a few kilometers from Syncrude's Aurora mine, at the company's corporate headquarters, Tom Katinas has been shaking things up since he arrived from Exxon, based in Irving, Texas, in April 2007. "In the past, people came in at the bottom and worked their way to the top," says Katinas from his fourth-floor corner office, in a Sopranos-style drawl that reveals his Brooklyn roots. "There weren't enough new ideas."

The recently arrived president and ceo of Syncrude, along with a group of 25 handpicked Exxon executives, is sure to introduce plenty of change over the life of a 10-year service contract signed by their parent company. "Many Syncrude managers took a golden handshake rather than deal with Exxon," says a person familiar with the overhaul taking place.

Why is an American oil company, the biggest in the world, with annual revenue of \$390 billion, calling the shots at Canada's biggest oil-sands producer? Syncrude, founded in 1964, when commercialization of the oil sands wasn't economically viable, epitomizes the tangled web of partnerships and deals that is Alberta's energy sector. The company has seven partners, but Syncrude's biggest shareholders are a pair of Calgary-based operators, Canadian Oil Sands Trust and Imperial Oil Ltd., which together own a 61.7% stake. It's through its controlling position in Imperial that Exxon has become master at Syncrude.

The planned expansion at Syncrude from 350,000 bbl. per day to 500,000 bbl. may have been too important for Exxon's future to leave to anyone but the A-team from Texas. "My job is to build a strong operational foundation," says Katinas, whose previous assignments have taken him to Saudi Arabia, Singapore and the U.K. In addition to Syncrude and Imperial, the biggest operators in the oil sands are Suncor Energy Inc., a Canadian-owned company, and Albion Sands Energy Inc., a joint venture of Shell, Chevron Corp. and Marathon Oil Corp. This tight clutch of companies accounts for 75% of all production in the oil sands.

And they all have their foot on the gas. At the Aurora North mine, a giant shovel fills up another 797B Caterpillar heavy hauler with a 400-ton load of material that--after being spun in what looks like the world's largest cement mixer to separate the bitumen from the sand--will eventually yield 200 bbl. of oil. "A year from now, that mountain won't be there," says Crisby, referring to the black wall of bitumen-rich soil gradually being demolished by shovel, dozer and a convoy of heavy haulers that operate around the clock.

The mega-projects across Alberta's oil sands rival some of humankind's greatest engineering achievements, including the pyramids of Giza and the Great Wall of China. After thousands of years, those ancient projects still bear witness to history. Conservative estimates predict the tar sands will give out in just 70 years. Their legacy to Canada is yet to be written, but it may be a great deal bigger than expectations. With new deposits still being

found and technologies improving, the sands could produce for a couple of hundred years more. Forget Venezuela. Canada may become the new Saudi Arabia, the last great oil kingdom, right on the U.S. border.

Oil Sands For more images of Syncrude's Alberta operation, go to time.com/oilsands

The original version of this article misidentified Canada's New Democratic Party as the National Democratic Party