Canada Has Plenty of Oil, but Does the U.S. Want It?

By CHIP CUMMINS And EDWARD WELSCH

Workers at Syncrude Canada’s oil sands North Mine in Fort McMurray, Alberta. Canada’s oil sands contain the world’s third-largest proven concentration of crude oil reserves.

EDMONTON, Alberta—In a 21st-century oil boom, this sparsely populated Canadian province has become one of the world’s newest petroleum powerhouses. Foreign investors are piling in, and Alberta plans to double production over the next decade.

The problem is that the U.S.—the biggest consumer of Alberta petroleum—may not want the additional oil.
Most of Alberta’s 1.5 million barrels of daily exports are extracted from oil sands, or bitumen. Turning this tar-like substance into oil is an energy-intensive process that generates lots of carbon dioxide, a gas suspected to contribute to global warming. Almost all the oil produced ends up in the U.S., where environmentalists and some powerful Democrats have lined up against importing any more of the stuff.

Washington remains ambivalent about a proposed expansion of a pipeline that could nearly double exports from Alberta to the U.S. Another line—proposed to pipe Alberta oil to the Pacific, where it could be shipped to Asian markets—is opposed by native Canadian groups.

"Alberta will be in a very difficult position" if either one of the two pipelines don’t go forward, Alberta’s Energy Minister Ron Liepert said. "By 2020, we’ll be landlocked in bitumen. We have to get it to market, and right now we don’t have the infrastructure in place."

Canada’s constitution cedes ownership of its energy reserves to its provinces. That essentially makes Alberta its own petrostate. And Edmonton is mounting a public-relations war to find new markets for its oil.

The province’s equivalent to a U.S. governor, Premier Ed Stelmach, shuttles regularly to Washington. Alberta has flown up both Democratic and Republican U.S. lawmakers, along with Hollywood director James Cameron, an oil-sands critic, to show what officials say is the industry’s improving environmental record.

The oil-sands debate comes at time when gasoline prices have soared in the U.S., and there is a growing focus on energy security. A recent study of global oil balances by London-based think tank Chatham House estimates that North America’s dependence on foreign-energy sources should fall over the next 20 years, despite growing consumption. But that assumes oil-sands output continues to feed U.S. markets.

Indeed, U.S. energy security will hinge increasingly on "unconventional" sources of petroleum. Oil sands is one. Shale-gas production, which has been skyrocketing because of new extraction technology, is another. But these unconventional sources pose new environmental concerns, and growing opposition could stifle their growth.

The global oil industry is watching Alberta closely. Some of the world’s biggest petroleum players, including Exxon Mobil Corp., Royal Dutch Shell Group and Norway’s Statoil have
invested in their own oil-sands projects and are expanding production. Foreign companies have made roughly $40 billion in oil-sands deals since 2005, according to data provided by Calgary investment bank Peters & Co.

Peter Pond, a short-tempered, Connecticut-born explorer and trapper, was the first non-native to stumble upon Alberta's oil sands. In 1778, he wrote of "springs of bitumen which flow along the ground" near the present-day town of Fort McMurray, in the northeast of the province. Native communities used the substance to caulk their canoes.

The oil sands are essentially a mix of bitumen—a black, pungent form of crude that is thick like tar at room temperature—and quartz sands, lying just beneath Alberta's boreal forest.

The first commercial oil-sands mining project, using giant scoopers to harvest the bitumen, started in the 1960s. Operations stayed small-scale, mostly because of their high costs. It wasn't until 2002 that Alberta officials put together the first, definitive report on the size of the reserves.

"It was like finding a Picasso in the attic," says Murray Smith, at the time Alberta's energy minister. A year later, he convinced a string of oil-industry authorities—including the U.S. Department of Energy's Energy Information Administration—to count Alberta's oil sands among the world's oil reserves. The province's estimated 170 billion barrels of proven oil reserves now ranks it third in the world behind Saudi Arabia and Venezuela.

"I knew when we got that done, we'd have an avalanche of investment," he said. Oil prices were hurdling higher, amid the U.S. invasion of Iraq and soaring demand from emerging economies like China. But the reserves classification also drew attention from environmental organizations, which had long criticized the oil-sands industry but largely ignored it.

"Once the oil sands were recognized as official reserves, you had a real shift in perspective," said Keith Stewart, a Greenpeace campaigner in Toronto.
Growing Reserves

Proved oil reserves, in billions of barrels

<table>
<thead>
<tr>
<th>Country</th>
<th>Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>262.6</td>
</tr>
<tr>
<td>Venezuela</td>
<td>211.2</td>
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<tr>
<td>Canada</td>
<td>175.2</td>
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Source: Energy Information Administration

Environmental groups ramped up attacks against the industry on several fronts.

Oil-sands surface-mining has eaten up a vast expanse of shallow reserves buried just below Alberta's boreal forest around Fort McMurray. The operation results in toxic tailings, which companies collect in large ponds.

Alberta officials and oil-industry executives say technology has led to big environmental improvements. Companies are reclaiming mined areas and tailing ponds. And they have switched their focus to deeper deposits of bitumen, accessible by drilling wells that aren't as disruptive to the surface.

Alberta and oil-sands operators say their emissions compare favorably to oil from other parts of the world. They dismiss claims that bitumen is more prone to oil spills, citing years of heavy-oil pipeline operations in Canada and California.

As oil prices climbed toward $100 a barrel late last decade, California Democratic Rep. Henry Waxman became an outspoken critic of oil-sands production. In 2007, he authored legislation that made it into President George W. Bush's Energy Independence and Security Act. The section can be interpreted as banning U.S. agencies from buying fuels made from oil sands. The legislation, still on the books, hasn't impacted sales because no one so far is using a severe interpretation of it. But Alberta officials were taken off guard.

That "motivated" Alberta to step up its game, said Gary Mar, who took over as Alberta's diplomatic representative in Washington in 2007. He lobbied in Washington, but he also traveled from state house to state house, fighting local legislation—including low-carbon fuel initiatives in California, New England and elsewhere—that threatened oil-sands sales. He left his job earlier this year to campaign to replace Mr. Stelmach, who is stepping down as premier.

Last year, TransCanada Corp. started up its Keystone pipeline, running from Alberta to the oil-storage hub of Cushing, Okla. It has applied to boost capacity from some 591,000 barrels a day to 1.1 million, and extend the line to reach Gulf Coast refineries. The State Department needed to sign off since the line crosses the U.S. border, and a decision looked likely by the middle of last year.

Both sides mobilized. In March, senior Alberta and federal Canadian officials met with the Canadian petroleum producers group to discuss "upping its game" on oil-sands outreach and
communications, according to a redacted summary of the meeting, obtained by the environmental group Climate Action Network.

The producers group acknowledges the meeting. A representative of Canada's federal Natural Resources ministry said it regularly meets with "a wide range of stakeholder" on various issues and the ministry's former deputy minister participated in this meeting at the invitation of the producers group.

In July of last year, Mr. Stelmach bought an ad in The Washington Post: "A good neighbour lends you a cup of sugar," it read. "A great neighbour provides you with 1.4 million barrels of oil a day."

Rep. Waxman, at the time the chairman of the House energy committee, urged Secretary of State Hillary Clinton to reject the expansion of the pipeline. Fifty other Democratic lawmakers also wrote to her, urging more environmental studies.

Later that month, the Environmental Protection Agency urged a more thorough environmental-impact study, prompting the State Department to delay its decision until this year.

Then, in April, President Barack Obama weighed in for the first time, telling attendees at a town-hall meeting in Pennsylvania he wanted to investigate "how destructive" oil-sands operations may be to the environment before approving the line.

Last month, the EPA said the State Department's environmental assessment still wasn't thorough enough, threatening more delays and further exasperating Alberta officials and oil executives. "There's growing frustration, but there's also acknowledgment that a process has been laid out," said Mr. Liepert, the Alberta energy minister. He says the province will live with the end-of-year timeline, but wants "no more delay."

Industry executives and lobbyists are sending a message: If the U.S. doesn't want Alberta's oil, Asia—in particular, China—will buy it. Enbridge Inc., the company proposing to build the line to the Pacific, has used Washington's delays as ammunition in its own public-relations battle. It's trying to win support for its project from federal, British Columbia and native officials.

"Right now, all our eggs are in one basket: the U.S. market," Stephen Wuori, president of Enbridge's liquids pipelines division, told a group of executives at an industry lunch in Calgary in May. "That basket is not getting any bigger, and some of the folks holding the basket are starting to complain about the chickens."

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