Shifting sands: Part I

An empire from a tub of goo

How did the quest to retrieve the treasure hidden beneath huge swaths of northern Alberta go from fool's errand to monumentous payoff? Erin Anderssen, Shawn McCarthy and Eric Reguly explain.

Murray Smith remembers what happened on the morning of April 9, 2003, the way other Canadians remember Paul Henderson's miracle goal against the Russians.

For Mr. Smith, then Alberta's energy minister, the big score was a letter from his federal counterpart south of the border. It was about the oil sands – a resource that had long been underestimated at home and almost ignored internationally. No more, U.S. energy secretary Spencer Abraham wrote. From now on, when the Americans talked oil, they would be counting the reserves sitting beneath the forests of northern Alberta.

Mr. Smith had grown up among the oil rigs of central Alberta and bought his first share in an oil company when he was 11 by collecting his older brother's beer bottles. He had also spent much of his adult life in the oil patch and understood more than most the significance of Mr. Abraham's message. The endorsement from the world's hungriest oil consumer was like winning an Oscar. Keen to reduce its dependence on the Middle East, the U.S. was officially acknowledging for the first time that the tarry mud around Fort McMurray could be turned into gasoline, diesel and heating fuel at a profit.

The world finally was acknowledging what Albertans had been saying for decades: that their oil sands rival any source of crude on Earth. "If you took all the oil in the south of the United States and all the oil in Alaska and all the oil in Mexico," Mr. Smith points out, "it doesn't hold a candle to Alberta."

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With rising prices and prospects of a Mideast war prompting concerns about the security of the U.S. supply, media giants from CBS's 60 Minutes and The New York Times flocked to the tale of an oil bonanza so close to home. Enthusiasts outnumbered the skeptics and the phrase "second only to Saudi Arabia" went from speculation to conventional wisdom. Alberta had become a bankable star in the global oil game.

Or as Mr. Smith jokes: "It only took 40 years to become an overnight success."

A decade earlier, the oil sands had resembled a massive boondoggle, backed by only a few believers who struggled to attract capital for faltering projects. And now the race to profit off that pile of dirt spread across an area the size of Florida is transforming the country.
Now, oil production in northern Alberta is expected to quadruple to more than four million barrels a day by about 2020, if all the projects proposed go ahead. Virtually every major oil company in the Western world has picked up a piece of the action, investing nearly $90-billion to create what promises to be the biggest industrial project on Earth and sparking predictions that Canada will become what Prime Minister Stephen Harper calls an “energy superpower.”

The oil sands are seen as a crucial source in a world of increasingly tight supply, where many reserves are in politically volatile regions controlled by undemocratic states. Put another way: Should they disappear tomorrow, one industry expert estimates, the price of oil could jump a third to $130 a barrel.

The value and importance of the oil sands will make that much harder the choices that Albertans and all Canadians suddenly face. Canada has now become a major-league merchant of one of the most desirable – and dirtiest – sources of energy. The money is flowing in, and the profits are rolling out – good news for stockholders, the Canadian dollar and government coffers.

But there are environmental and social costs to stuffing our pockets while the oil speeds south. And Canadians will have to answer a question already being asked by many Albertans: When does a boom become a burden?

The wrinkles are beginning to show. The growing wealth of Alberta has aggravated the cleavage between Central Canadian assumptions and Prairie assertions, between haves and have-nots. The soaring Canadian dollar – viewed more and more as petro-currency – has savaged the Central Canadian manufacturing and forestry industries. The economy is increasingly concentrated on oil, which can be a fickle commodity. As people flock to the province, escalating housing costs have squeezed everyday Albertans and overburdened public services, most acutely in Fort McMurray, where men and women come to work but not to settle.

And it is far from certain that the bullish assumptions about development will pan out. There are at least two major hurdles: the growing protest at home and abroad over the massive environmental toll and a serious shortage of workers to build all those multibillion-dollar projects.

Before beginning to discuss how best to manage this mixed blessing, Canadians may wonder just how they created an empire from a tub of goo.

The road to riches

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