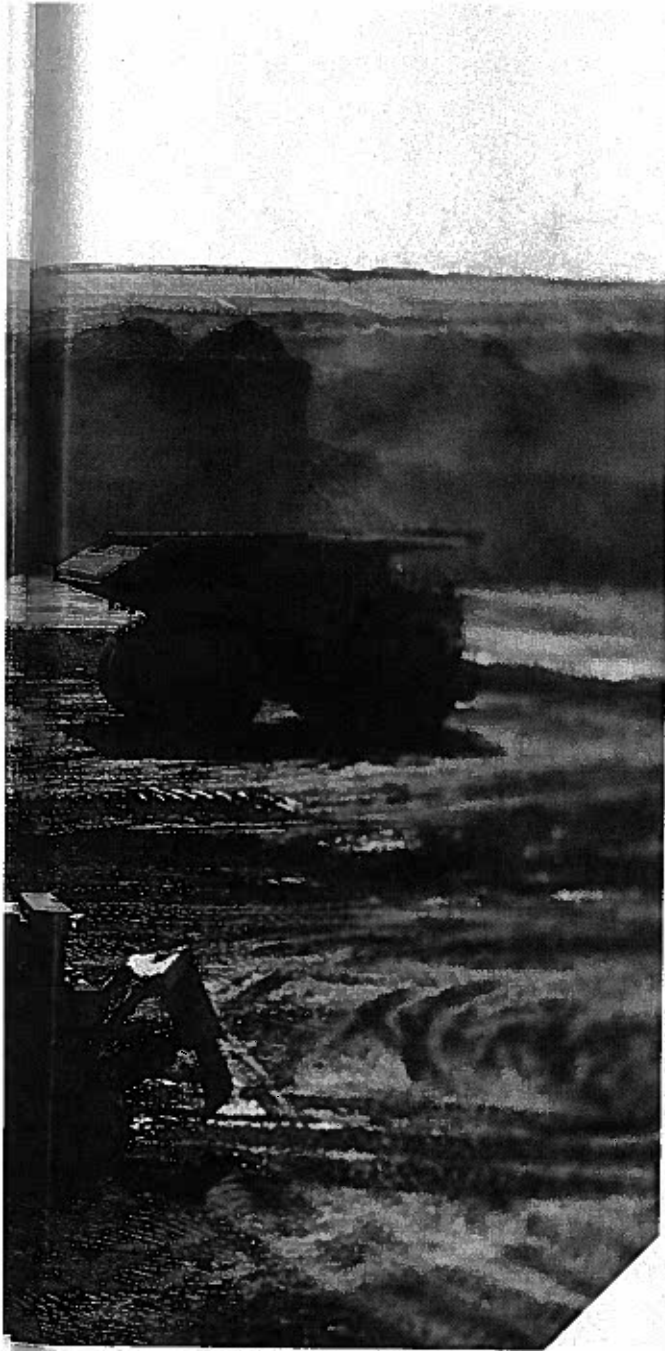




nation-changing event bigger than China's Great Wall took four significant drivers: U.S. oil demand, a regulator that behaves like a promoter, a government that behaves like an African potentate and an important document called the *Declaration of Opportunity*.

The seeds for the declaration were sown in the 1990s, a bad time for the tar sands. Dismally low oil prices had depressed the bitumen market. Multinationals shelved a promising \$12-billion project as two tar-sands pioneers, Suncor and Syncrude, struggled to make ends meet. The average Canadian at the time had no idea that 20% of our oil came from open-pit mines, or what some oilpatch wags called "brute force combined with ignorance." All in all, global investors had written off the tar sands as a black money pit. According to former Syncrude CEO Eric Newell, "The oilsands had just fallen off everyone's radar." (Unlike many current executives in the tar sands, Newell championed quality schools and invested in



CANADA'S OIL RUSH

HOW ALBERTA'S TAR SANDS GREW MUCH BIGGER—AND FASTER—THAN ANYONE EVER EXPECTED.

by Andrew Nikiforuk

Aboriginal employment and community infrastructure. He remains one of the province's most respected business leaders.)

In 1993, a group of 30 oil companies and government agencies gathered to raise the declining profile of Canada's Great Reserve. Shortly afterwards, the group formed the National Oil Sands Task Force. It became what Newell calls "the mother of all collaboration." The task force decided to sell the benefits of Canadian self-sufficiency in oil as well as to emphasize the downside of "increased reliance on Middle East oil and politics." It also wanted to beat Venezuela as the world's next great oil prize.

Two years later, the task force released a nifty 25-year strategy,

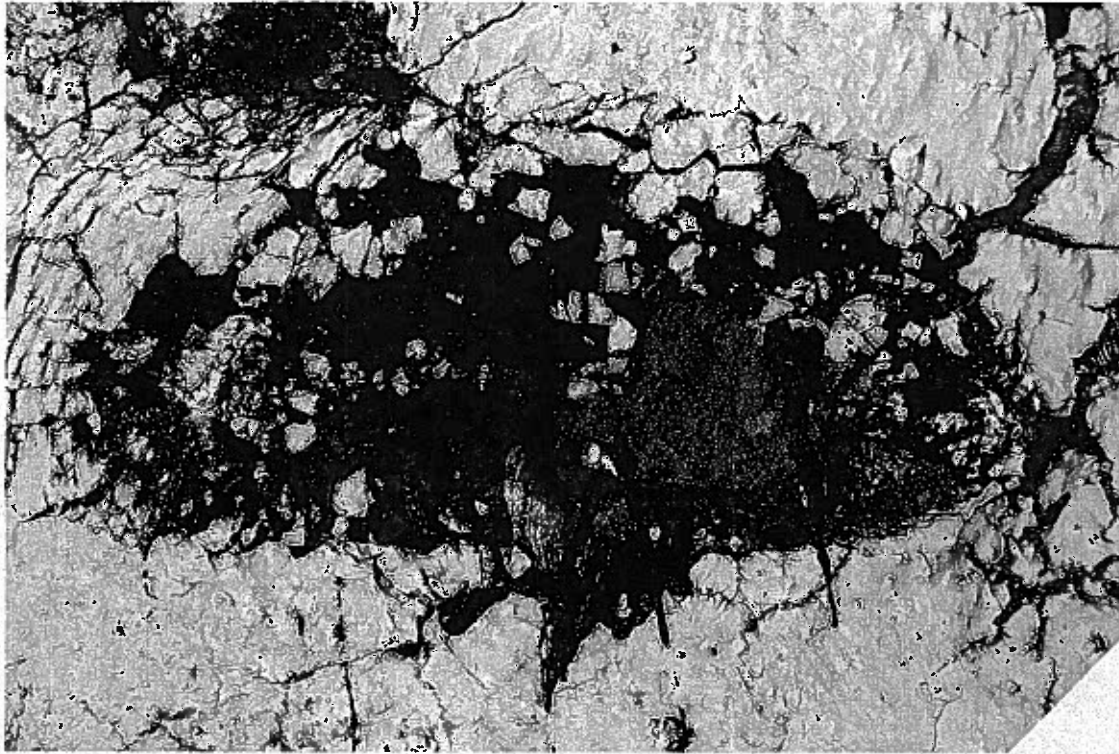
The Oil Sands: A New Energy Vision for Canada. The report identified the tar sands, which contained a third of the world's known petroleum resources, as "the largest potential private sector investment opportunity for the public good remaining in Western Canada." To entice investors, the plan proposed that the Alberta government reduce a hodgepodge of royalty fees then as high as 30% to a single-digit deal: a generic 1% regime until companies had paid off their multibillion-dollar investments. The plan also advocated that the federal government provide megabreaks in corporate taxes. This new vision rebranded bitumen, the dirty hydrocarbon, as a "knowledge-based, technology-driven, resource of substantial quality and value" as well as "a national treasure."

The task force hoped that the plan would encourage companies to invest \$25 billion, create 10,000 jobs and slowly boost the nation's oil production from 450,000 barrels a day to nearly a million over a 25-year



Excerpted from *Tar Sands*, a new book by regular Calgary-based contributor Andrew Nikiforuk.

TODD KOROL



THE SPEED OF GROWTH SURPRISED EVEN OILPATCH EXECUTIVES.

period. It called for logical, staged and incremental development. "We really sold it," recalls Newell. "It was the most comprehensive lobbying since free trade." In 1995, the governments of Canada and Alberta signed on, and the next year the report morphed into a national *Declaration of Opportunity*.

It didn't take long for opportunity to knock. Within two years, U.S. and Canadian oil companies plunked down more than \$10 billion for projects. By 1998, the roads in and out of Fort McMurray were humming and the city's hotels were full. Housing prices had jumped by \$50,000. Suncor had started to clear cut an estimated 290,000 trees for its Steep Bank mine, and surveyors and contractors staked out new mine sites for Shell and Syncrude. Bitumen leases that had sold for \$6 an acre in 1978 now sold for \$120. (By 2006, companies would be paying \$486 per acre.)

The speed of growth surprised even executives, who called the tar sands "the real Canadian oil story." Jim Carter of Syncrude crossed his fingers, saying, "We just hope the coming development is logical and managed." Rob Macintosh, a director of the Pembina Institute, an energy watchdog, started praying. "The regulatory agencies in Alberta just aren't capable of forecasting, assessing or managing the full environmental effects of proposed expansions in Fort McMurray," he said in 1998. "The public is in the dark."

"Oilsands fever" turned the task force's rational projections

into dull paperwork. Announcements for a new mine or pipeline hit the headlines on a monthly basis. Within eight years, "one of the largest industrial expansions in recent Canadian history" surpassed the task force's investment forecast nearly fourfold. Although the strategy had called for a million barrels a day by 2020, the boom delivered that volume nearly 16 years ahead of schedule. "What was visionary at the time turned out to not be very visionary," says Eric Newell.

The *Declaration of Opportunity* had all kinds of strategic helpers. Former Alberta premier Ralph Klein often claimed that his government had no plan for the tar-sands boom. According to him, it all just happened like magic: "To have a long-range plan would be an interventionist kind of policy which says you either allow them or you don't allow them to proceed. The last thing we want to be is an interventionist government." But Klein's government did intervene, with a heavy hand: it never refused a single tar-sands project, thereby accelerating the pace of development.

The Energy Resources Conservation Board, the province's oil and gas regulator, became a much more critical driver of rapid tar sands development than "the come and get it fiscal regime" offered by the *Declaration of Opportunity*. The ERCB, founded in 1938, at one time actually said no to projects. But since the 1990s, the politically appointed board has become a captive regulator, largely funded by industry and mostly



EDWARD BURTYNSKY. COURTESY NICHOLAS METVIER GALLERY. TORONTO/PAUL KUHN GALLERY. CALGARY

directed by lawyers and engineers with ties to the oilpatch. On paper, the ERCB has a mandate to develop and regulate oil and gas production in the public interest, and it claims to have the world's most stringent rules. But these rules have allowed the board to approve oil wells in lakes and parks, permit sour-gas wells—as poisonous as cyanide—near schools and endorse the carpet-bombing of the province's most fertile farmland with thousands of coal-bed methane wells and transmission lines. Until recently, the board refused to report the names of oil and gas companies not in compliance with its regulations, citing security reasons. Curiously, the agency has only two mobile air monitors to investigate leaks from 244 sour-gas plants, 573 sweet-gas plants, 12,243 gas batteries and about 250,000 miles of pipelines. In any given year, the board approves more than 95% of the 60,000 applications submitted by industry. The ERCB is the kind of institution [Cold War military strategist and Hudson Institute co-founder] Herman Kahn was thinking about when he wrote that “a surprising number of government committees will make important decisions on fundamental matters with less attention than each individual would give to buying a suit.”

Since the 1996 *Declaration of Opportunity*, the ERCB (often in joint hearings with the Canadian Environmental Assessment Agency) has approved one mining and in situ project after another

in the tar sands. The decisions stand as classic examples of bureaucratic neglect and abuse. After hearing in 2006 that the construction of Suncor's \$7-billion Voyageur project would draw down groundwater by 300 feet, overwhelm housing and health facilities, and result in air quality exceedances for sour gas, benzene and particulate matter, the board agreed that the project would “further strain public infrastructure” but declared the impacts “acceptable.” After the Albian Sands Muskeg River Mine Expansion proposed to dig up 31,000 acres of forest, destroy 170 acres of fish habitat along the Muskeg River and withdraw enough water from the Athabasca River to fill 22,000 Olympic-sized pools a year, the board concluded in 2006 that the megaproject was “unlikely to result in significant adverse environmental effects.” In 2007, when Imperial Oil's Kearl project proposed to plant four open-pit mines in a 77-square-mile area, producing more greenhouse gas emissions than 800,000 passenger vehicles in Canada, the board repeated its favourite cliché: the project “is not likely to cause significant adverse environmental effects.”

The ERCB, which neglected to open an office in Fort McMurray until 2003, has to date given a thumbs-up to more than 100 tar-sands projects, both big and small. Basically, anyone who wants to build a plant gets one in the province. “Alberta has been very oil

PROVINCIAL REGULATORS HAVE BEEN VERY FRIENDLY TO DEVELOPMENT.

THE U.S. NOW BURNS UP 25% OF THE WORLD'S OIL.

friendly and very development friendly and no project has been rejected outright," reported Robert Mason, vice-president of TD Securities, at the Western Canada Oil Sands Summit in 2004.

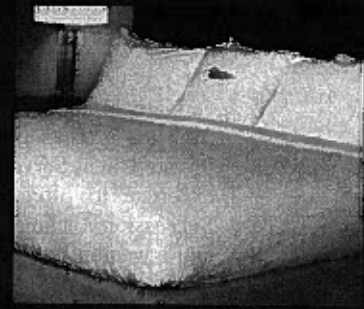
Maurice Dusseault, a global expert on unconventional oil and a widely published academic, accurately described the board's character in a 2002 report for Alberta Energy on heavy oil developments. Said Dusseault: "There is a general consensus in Alberta (except within oil companies) that the environmental aspects of the oil and gas industry require better management and enforcement by the ERCB, or alternatively that the authority should reside with Alberta Environment, a separate provincial department." Dusseault questioned whether ERCB's dual mandate of approving projects and managing royalties was a wise one: "Giving the agency responsible for production and royalties the mandate to also enforce regulations leads to a difficult internal conflict of interest. The result is usually a clashing of goals. Most commonly it is the enforcement of environmental regulations that suffers."

The world's largest energy consumer has driven the pace and scale of the bitumen rush as actively as have Alberta's rubber-stamp regulators. With just 5% of the world's population, the United States now burns up 20.6 million

barrels of oil a day, or 25% of the world's oil supply. Thanks to bad planning and an aversion to conservation, the empire must import two-thirds of its liquid fuels from foreign suppliers, often hostile ones. "The reality is that at least one supertanker must arrive at a U.S. port every four hours," notes Swedish energy expert Kjell Aleklett. "Any interruption in this pattern is a threat to the American economy." This crippling addiction has increasingly become an unsustainable wealth drainer. In 2000, the United States imported \$200 billion worth of oil, thereby enriching many of the powers that seek to undermine the country. By 2008, it was paying out a record \$440 billion annually for its oil.

The undeclared crash program in the tar sands has transformed Canada's role in the strategic universe of oil. By 1999, the megaproject had made Canada the largest foreign supplier of oil to the United States. By 2002, Canada had officially replaced Saudi Arabia and Mexico as America's No. 1 oil source, an event of revolutionary significance. Canada currently accounts for 18% of U.S. oil imports (that's 12% of American consumption), and the continuing development of the tar sands will double or triple those figures. Incredibly, only two in 10 Americans and three in 10 Canadians can accurately identify the country that now keeps the U.S. economy tanked up.

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U.S. vice-president Dick Cheney, a devoted oilman, was among the first to notice all the frantic digging in northern Alberta. His 2001 National Energy Policy, a controversial document drawn up largely in secret by oil executives, declared that the United States was facing "its most serious energy shortages since the oil embargoes of the 1970s." Predictably, the policy identified the exploration, production and consumption of more oil and gas as the best solution. Cheney highlighted the tar sands as "a pillar of sustained North American energy and economic security." He also called for a "North American Energy Framework to expand and accelerate cross border energy investment in oil and gas pipelines." A month after Cheney put forward his policy, the energy ministers of Mexico, Canada and the United States formed the North American Energy Working Group "to enhance North American energy trade and interconnections consistent with the goal of sustainable development." (Nine different energy groups are now making plans to unite the continent's oil, gas and electricity markets.)

After 9/11 and the falling Twin Towers, proposals for accelerated continental energy integration flowed across the border faster than new ERCB approvals in the tar sands. The goal was no longer energy independence but "interdependence." In 2003, U.S. ambassador to Canada Paul Cellucci declared that the time had come "to complete the integration of our energy markets." The following year the Canadian Council of Chief Executives, led by Rick George, the Colorado-born CEO of Suncor, championed a resource security pact and regulatory convergence because "Canada has a critical

role to play in ensuring the energy security of the continent."

With Kahn-like flair, one think-tank after another has mined the same tarry concept. At the 2004 North American Forum on Integration in Monterrey, Mexico, the Mexican oil analyst Lourdes Melgar argued that North American Free Trade Agreement partners should also be energy partners because "the sophisticated and dynamic North American economy demands a continuous and rising supply of energy." The Council of the Americas' Energy Action Group later added that an integrated energy marketplace would naturally require "the standardization of regional and subregional laws, taxes, royalties and transmission rates."

In 2005, rapid tar sands development achieved top billing in a bold proposal by wealthy businessmen and government elites for the political and economic integration of the continent. Their report, *Building a North American Community*, outlined a scenario in which Mexico would supply the cheap labour and Canada the cheap energy for a U.S.-dominated North American economy. The report gushed that "Canada's vast oilsands, once a high cost experimental means of extracting oil, now provide a viable new source of energy that is attracting a steady stream of multi-billion dollar investments and interest from countries such as China and they have catapulted Canada into second place in the world in terms of proved oil reserves." Blessed with this sort of abundance, the report advised, the governments of Mexico, Canada and the United States must "work together to resolve issues and ensure responsible use of scarce resources and the free flow of both resources and capital across all three borders."

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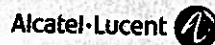
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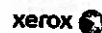
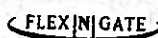
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Building a North American Community served as the founding document for the highly contentious Security and Prosperity Partnership of North America. The SPP, a sort of NAFTA-plus, commits the governments of Canada, Mexico and the United States to European Union-like co-operation in what SPP documents describe as "markets and democracy, freedom and trade and mutual prosperity and security." One of the SPP's first acts was to establish an Oil Sands Experts Group to study pipeline and market issues "associated with the value added development in Canada of the oil sands." The U.S. government website for the SPP formally declares "greater economic production from the oil sands" as a central goal of energy integration. At a 2006 gathering in Houston, Texas, the Oil Sands Expert Group agreed to examine "options and plan for a smooth transition towards bitumen production that could be as high as 5 million barrels per day." In the spirit of integration, a contingent of Mexican energy employees attended the meeting too.

A 2006 report by the U.S. Congress saluted the tar sands as a "new force in the world oil market." It explained that "the proximity of this growing source of supply is a highly positive development for the U.S. and indeed the world."...

The hard work of U.S. policymakers and security experts has often been dwarfed by Alberta's consummate salesmen. Alberta has marketed rapid tar sands development with more gusto than a Bay Street broker. In several visits to Washington, D.C., as premier, Ralph Klein posed for photos by monster trucks and declared that the province had "energy to burn." He also said that he'd never met a pipeline he didn't like. Whenever critics such as Al Gore raised concerns such as the tar sands'

carbon making or water guzzling, Klein would make a similar reply: "The United States needs our oil. I don't know what he proposes to run [the country] on, maybe hot air?"

Klein sent his former energy minister Murray Smith, also a dedicated oilman, to Washington to preach the tar gospel. In 2006, Smith gave a remarkable speech to members of the Interstate Oil and Gas Compact Commission in Austin, Texas. He said that the tar sands were part of a northern energy corridor, which included Alaska and the North-

THE U.S. HAS TARGETED CANADIAN OIL AS VITAL TO ITS SECURITY.

west Territories, that "was going to supply energy to this continent for the next 100 years." He vowed that tar-sands production would not only replace depleted U.S. oil stocks (a shortfall of some 340,000 barrels a day) but "fuel economic growth." Powering the continent, he implied, was as simple as taking two tons of sand, adding hot water and mixing briskly. He added that an open-pit tar mine moved enough earth every day "to fill Yankee Stadium ... and some would say that's not a bad idea."

Compared to a conventional oil well, Smith said, which peters out in a couple of years, the tar sands are almost inexhaustible: "You mine it, you build it, cash flow it for 30 years and then it drops off and finishes." The production of five million barrels a day was no pipe dream, according to Smith. He boasted that the province had issued 2,700 tar-sand leases, and there was lots more bitumen left. The "royalty structure for oil sands is [that] we 'give it away' at 1%," he emphasized. Companies don't pay 25% on the price of bitumen until they've paid off their entire capital costs.

Smith ended his talk with a direct appeal for mobile workers. Although thousands of foreign workers already toiled in the sands, Alberta needed more labour: "If any of you have children who are engineers, I would like you to entice them to work in the naturally air conditioned comfort of Fort McMurray as opposed to this oppressive humid environment of Austin." The resource belongs to Alberta, concluded Smith, "but the opportunity belongs to all of North America." ❖:1

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