

The kinder, gentler energy superpower

Canada is the kind of oil supplier the U.S. can rely on, and no one knows it better than the Texans

DAVID EBNER AND BARRIE MCKENNA

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In Texas City, a small port town south of Houston near the Gulf of Mexico, a hub of refineries rises through the misty January air, billowing steam from scrubber towers.

These refineries make up part of a sprawling industrial cluster in the Gulf Coast region that is better equipped than anywhere on earth to handle the gooey crude coming out of Alberta's oil sands.

In a twisting turn of geography, geology and history, Texans are hungry for Alberta oil.

As the U.S. seeks to decrease its dependence on crude from unstable regions and OPEC countries, and with the oil sands booming, Canada has supplanted Saudi Arabia as the leading supplier of crude to the U.S., claiming the No. 1 spot in 2004.

Now, three major pipelines that would move Alberta oil all the way to Texas are under consideration, with a final decision on at least one likely within two months. A fourth pipeline is nearly approved to send almost half a million barrels a day to Illinois, Oklahoma and northern Texas — the first major extension of Canadian oil beyond the Chicago region.

The push to develop major oil pipelines over thousands of kilometres from Alberta to Texas represents a major shift in the movement of Canadian oil. Growing shipments of Alberta crude to the U.S. for refining are deepening the two countries' mutual dependence. The U.S. now buys almost 100 per cent of our oil exports, and Canadian exports to the U.S. could increase to 3 million barrels a day by 2015, from roughly 2 million barrels a day currently.

For the Americans, it can hardly flow fast enough. "The world's a more dangerous place these days; having our friend to the north getting us some crude is good," said Lane Riggs, a vice-president at Valero Energy Corp., an independent company that refines upwards of 30,000 barrels of Alberta crude a day and is hungry for more.

"We're very eager to support at least one of the pipelines," Mr. Riggs said.

American thirst for Canadian oil is fuelled in part by Canada's lack of geopolitical

ambition. Despite its growing importance as a supplier to the world's biggest oil consumer, Canada is the anti-superpower: a gentle giant that doesn't wield its oil clout as a geopolitical club (think Russia or Venezuela), or set a benchmark for world prices (like Saudi Arabia). It isn't lawless or war-ravaged (Nigeria or Iraq).

On the Texas Gulf Coast, refiners look north and see "friendly Canadians with oodles of barrels," said Réal Cusson, a senior executive at leading oil producer Canadian Natural Resources Ltd.

Most of the oil from Alberta flows to the U.S. through a network of pipelines that snake through Saskatchewan and Manitoba before turning south to refineries in Minneapolis and the Chicago region.

But the refineries best suited to the oil sands' sticky crude are in Texas. The type of "heavy" and "sour" oil that those refineries have long processed from Mexico and Venezuela is similar enough to Alberta's that refiners can adjust without many technical challenges.

The flow from Mexico and Venezuela that used to meet Gulf Coast demand and keep refineries busy is now dwindling. Political mismanagement in Venezuela has dampened output and in Mexico production has been hampered by aging oil fields and not enough investment.

A small river of Canadian oil — roughly 65,000 barrels a day — already moves to the massive hub of refineries around Houston through an Exxon Mobil Corp. pipeline that connects with existing infrastructure in southern Illinois.

Valero Energy, the largest oil-refining company in North America, is among those looking to boost its north-south infrastructure. At company head office in San Antonio, market analysts are assessing long-term supply and pricing of Canadian oil and drawing up plans so its refineries will be able to handle the oil sands crude. Executives at the company, which has 16 refineries and almost 6,000 gas stations, are now deciding which pipeline project to support.

The oil sands are good fit for the company, said Fred Newhouse, a Valero public affairs director, at Gus's, a ramshackle restaurant that is Texas City's hot lunch spot for everyone from managers to workers from the refinery grounds.

"Our niche is to turn the nastiest stuff into the best gasoline," Mr. Newhouse said over a steak sandwich.

Valero's Texas City refinery was started as a co-op a century ago by Virginia farmers who wanted a direct source of kerosene and diesel. The refinery began operating a few years after one of the world's first oil gushers was uncorked near a town called Beaumont. An 18-metre engraved granite obelisk marks the spot where, in 1901 in a grassy field beside a highway, "a new era in civilization began."

That gusher at Spindletop sparked Texas's oil-soaked modern history and helped

fuel America's rise to global economic superpower as the world's No. 1 crude producer.

But the last boom went bust in the 1980s, and the Texas oil patch now produces fewer barrels of oil each day than the Alberta oil sands. Towns like Beaumont have suffered through double-digit unemployment for almost two decades. Now the region is booming again, in part because companies are building the infrastructure to take on more Canadian oil.

As many as 400,000 barrels a day could soon flow from the oil sands to Texas. Enbridge Inc., Canada's main oil pipeline company, in partnership with Exxon, the world's biggest publicly traded oil company, is seeking shipping commitments from companies like Valero by Feb. 29 on a \$3-billion pipeline. Several other companies have similar plans, including Kinder Morgan, the Houston-based pipeline giant.

In anticipation of the flow of crude from the north, oil companies have launched a multibillion-dollar investment boom. Several major refineries are adding facilities to handle oil sands production and constructing pipelines further south so they can supply Texan refineries on the Gulf Coast.

South of Beaumont, at the refinery of oil sands producer Royal Dutch Shell, construction cranes tower and lines of trucks trundle in and out of the site. Co-owned with Saudi Aramco, the Saudi state oil company, the refinery's capacity will double by 2010 to handle more oil sands flow along with new production from Saudi Arabia.

"You don't get too much 'not in my backyard' round here," said Jim Rich, president of the Greater Beaumont Chamber of Commerce. "We embrace the energy economy here."

The growing north-south tilt of North America's oil infrastructure puts a bigger onus on Canadian policymakers to make their voices heard in the U.S. The oil sands' growth could be threatened if the U.S. adopts policies aimed at curbing emissions during production, since oil sands production is higher in emissions.

Some members of Congress want to replicate California's plan to impose low-carbon fuel standards that target not just tailpipe emissions but also those that occur during production. That could put a surcharge on oil sands crude — unless producers can figure out a way to curb their emissions.

To protect and foster the U.S. market, Canada will have to make sure more Americans know where their oil comes from, Canadian officials say. On a 2006 visit to New York, Canadian Prime Minister Stephen Harper promoted Canada as an "emerging energy superpower" — the only "stable and growing producer of this scarce commodity in an unstable world."

The emissions question also worries refiners. "That could present a significant challenge, depending on how legislation is enacted," said James Gallogly,

executive vice-president of refineries and pipelines at ConocoPhillips Co. His company has an \$11-billion partnership with EnCana Corp. to produce and refine oil sands crude, and a \$5-billion partnership with TransCanada Corp. for an almost-approved pipeline from Alberta to Illinois and Oklahoma, with a separate connection to Texas.

"If we can have a very close source from our neighbours to the north, then that's an ideal situation," Mr. Gallogly said. "But we do have to recognize that it's energy-intensive oil."

Recognition of any kind is slow in coming.

When the pipeline that runs through Clearbrook, Minn. — part of Enbridge Energy's Lakehead system and a vital artery that delivers nearly a fifth of U.S. oil imports and 10 per cent of its supply — exploded in late November, two welders who had been trying to fix a pinhole leak were killed and the flow of oil was interrupted.

Oil trading rooms from Houston to London were rattled, causing the price of crude to spike as much as \$4 (U.S.) a barrel in the fretful hours that followed. Experts worried George W. Bush might have to tap into the U.S. government's emergency oil stocks in the Gulf of Mexico.

But what became a big part of the story for the reporters who flocked to Clearbrook was the surprising fact that Canada had become the leading foreign supplier of oil to the United States.

"They were shocked to find out how much of our oil comes from Canada," said Mike Gibeau, the mayor of Clearbrook.

"They know now."

David Ebner works in The Globe's Alberta bureau and reported this story from Texas City, Tex. Barrie McKenna is a Globe correspondent in Washington, D.C.