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OIL PRICE PREDICTED TO FALL TO $60 UNLESS OPEC CUTS BACK

Traders say significant cut in production would be needed to boost oil price

Oil is again under pressure this week, ahead of a meeting Thursday in Vienna in which the Organization of the Petroleum Exporting Countries will decide whether to cut back production.

Prices could plunge to $60 US a barrel if OPEC does not agree to a significant output cut this week, according to market players.

West Texas Intermediate crude oil trading in New York was down 80 cents Monday, to $75.71 US, and Western Canada Select was down $1.48 cents, to $58.53 US.

Brent crude, the price of half the world's oil, has fallen 34 per cent since June and on Monday traded at $79.56, down $1.00.

Goldman Sachs predicted last month that WTI could fall to $70 a barrel. Now that the price hovers a little above that level, traders say it is set to go lower.

Daniel Bathe, of Lupus Alpha Commodity Invest Fund, says Brent crude could fall to $60 a barrel if there is no OPEC cut.

"The market would question the credibility of OPEC and its influence on global oil markets if there was no cut," he said.

There is no consensus over whether OPEC is willing to cut back its production to deal with falling world demand for oil and an increase in oil supply from the U.S. shale boom.

Iran, which has limited access to markets because of sanctions, is believed to want a cut in production, as does Venezuela, which needs higher oil price to meet its massive debt burden.

But Saudi Arabia, which usually makes the sacrifice to keep the cartel strong, is believed to be increasingly reluctant to cut back, because that would just give other jurisdictions more leeway to boost production.

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"OPEC can't balance the market alone," former Qatari Oil Minister Abdullah Bin Hamad Al Attiyah told Bloomberg. "This time, Russia, Norway and Mexico must all come to the table. OPEC can make a cut, but what will happen is that non-OPEC supply will continue to grow. Then what will the market do?"

Half the analysts in a Bloomberg survey last week forecast that OPEC would cut production from its official 30 million barrel-a-day production target, but the other half said a cut was unlikely.

Some investors believe a small cut — of around 500,000 barrels a day — would not be enough to calm the markets. Many believe OPEC will have to cut at least one million barrels to be sure the Brent price would stay above $80.

Doug King, chief investment officer of RCMA Capital, sees Brent falling to $70, even with a cut of one million barrels.

U.S. imports of crude oil from OPEC nations are at their lowest level in almost 30 years, representing just 40 per cent of U.S. domestic demand. Meanwhile, shale oil production jumped to nine million barrels a day, cutting into crude imports.

"A surprise significant cut, say of two million barrels per day, is needed to push prices back up to $80," said Doug Hepworth of Gresham Investment Management. "And that would have to be accompanied by some new-found discipline in the non-Saudi members."

Certainly Saudi Arabia has been content to let the oil price slide in the last two months, failing to intervene when Brent slipped below $80 and WTI hit the $75 threshold.

The Saudis met with Russia last week with prices high on the agenda. The falling oil price is costing Russia up to $100 billion a year, its finance minister has said.

The world is oversupplied by an estimated two million barrels a day OPEC estimates, because of declining demand in China, Japan and Europe as their economies slow.

The low prices have hurt the Canadian oilpatch, leading to production cutbacks. A WTI price below $60 would make some oilsands production unviable.

OIL BOOM TRIGGERING COWBOY SHORTAGE ACROSS CANADA, DRIVING UP PRICE OF YOUR BURGER

There's been a lot of attention paid to how Canada's oil boom has helped make gasoline cheaper. What many people may not realize is that the boom is also driving up the prices they pay for burgers and steaks.

Surging energy investment in Prairie Provinces, home to most of the nation's farms and cattle ranches, has boosted domestic crude output to a record and sent pump prices to a three-year low. That's led to jobs on drilling rigs or pipe crews paying two-thirds more than those in livestock, luring cowboys and beef-plant workers to the oil patch.

The labour shortage is squeezing a cattle industry already diminished over the past decade by mad cow disease, drought and floods. The herd in Canada, the world's eighth-largest beef exporter, is the smallest in 21 years. Beef supplies are so tight that Costco Wholesale Corp. COST.O is importing more meat from the U.S., where prices are the highest ever.

"It's impossible to find workers," said Tim Stewart, 57, who has four unfilled jobs and is considering selling the 4,000- head ranch in Rockglen, Saskatchewan, that his family has owned since 1910. "If someone came along with a big fat checkbook, we'd probably walk away."

In Alberta, Canada's biggest producer of oil and beef, annual wages for specialized livestock workers was $44,870, or 63 percent less than petroleum workers at $73,105, according to a provincial government survey of employers last year. The data showed 72 percent of farm employers experienced hiring difficulties, with 25 percent reporting unfilled vacancies for more than four months.

Meat processors including Cargill Inc. and JBS SA also are affected, with fewer cattle and workers reducing beef output. The slowdown will cost the industry as much as $300 million this year, even with beef prices at all-time highs, according to the Canadian Meat Council.

At the same time, Canada's crude reserves, which are the world's third largest, are attracting $514 billion of planned investment in oil sands production over the next 24 years, according to the Canadian Energy Research Institute.

Output has risen for four straight years, expanding 23 percent to a record average of 3.95 million barrels a day in 2013, according to data compiled by BP Plc. Retail gasoline plunged to $1.1452 a liter on Nov. 21, the lowest since February 2011, government data show.

"The oil patch is rolling along pretty good right now, and it makes it difficult for agriculture to compete with the same labor force," said Greg Bowie, chairman of Alberta Beef Producers, a Calgary-based industry group that represents 20,000 producers. "It's difficult to get and retain good labor, and in a lot of cases, that's crucial."

Canadian ranchers held 13.3 million cattle as of July 1, the fewest since 1993, government data show. Since then, heavy rains in Manitoba and Saskatchewan have flooded pastures, damaging forage and boosting feed costs that are forcing ranchers to cut their herds even further.

Beef processors may be forced to reduce plant operations to as low as 70 percent of capacity, the lowest since 2008, because they don't have enough animals, said Brian Perillat, a senior analyst at Calgary-based Canfax, a livestock industry researcher. Meat packers will probably slaughter as few as 2.4 million head in 2015, the fewest since 1963, he said.

The price of Grade A slaughter cattle in Alberta have surged 40 percent in 12 months to a record $173.25 per 100 pounds on Nov. 7, the most recent data available for Manitoba's agriculture department. The cost of feeder cattle, the young animals purchased to be fattened for slaughter on feedlots, are up 74 percent from a year earlier, after reaching an all-time high $295.50 per 100 pounds in October, the data show.

Supplies also are dropping south of the border in the U.S., after grain costs surged to a record in 2012 and a multiyear drought damaged pastures in Texas, the biggest producer. The herd fell to 87.7 million head on Jan. 1, the smallest for that date since 1951, after the smallest calf crop since 1949, U.S. Department of Agriculture data show. Cattle futures in Chicago are up 26 percent this year, touching a record $1.7275 a pound on Nov. 19. Prices settled at $1.70025 yesterday.

Retail ground beef in Canada rose 23 percent in the 12 months through October to a record $11.74 per kilogram, according to the government. Consumers paid $21.43 a kilo for sirloin steak in September, also the most ever. In the U.S., where meat prices are rising more than any other food group, beef output will drop 3.2 percent in 2015, USDA data show.

While it can take as long as three years to expand cattle production, higher prices are creating an incentive to boost global supply. Calves born on ranches graze on pastures until they are about a year old. The animals weigh 500 pounds to 800 pounds and are fattened on corn until they reach 1,300 pounds, when they are sold to meatpackers.

Canada's herd may increase as much as 4 percent in 2016, Canfax's Perillat said. In the U.S., drought is receding in Texas, and the feedlot herd in October was 0.5 percent larger than a year earlier at 10.633 million head, government data showed Nov. 21. Australian feedlots held the most cattle since December 2006, industry data showed Nov. 11.

For now, flooded pastures in parts of the prairies is compounding the stress on ranchers. Portions of Saskatchewan and Manitoba, the largest beef producers after Alberta, had a record wet growing season in 2014, according to Gail Martell, the president of Martell Crop Projections.

The rains fell on parts of Manitoba where the soil remained saturated from flooding in 2011, with excess moisture reported on 80 percent of the province's cattle-ranching areas, said Melinda German, general manager of Manitoba Beef Producers.

Neil Olafson, who has 200 head on 2,300 acres near Lake Manitoba Narrows, said he may have to sell half his herd next year to generate the cash needed to feed the rest of his herd because the pastures are so water-logged. Most of his hay fields are too wet to plant, and calves are about 100 pounds below their normal weight, he said.

"The stress is unbelievable," said Olafson, 57. "That's why so many of our neighbors are throwing up their hands and saying we just can't deal with this anymore."

OIL-SANDS KEEP CHURNING WITH CRUDE AT $75, NOT GROWING

The Canadian oil-sands frenzy that led to $265 billion of investments in less than a decade won't immediately stop with $75 crude. Two years from now is another matter.

Oil-sands projects are multibillion-dollar investments made upfront to allow many years of output, unlike competing U.S. shale wells that require constant injections of capital. It's future expansion that's at risk.

"Once you start a project it's like a freight train: you can't stop it," said Laura Lau, a Toronto-based portfolio manager at Brompton Funds. Current oil prices will have producers considering "whether they want to sanction a new one."

The price rout is intensifying challenges of developing the world's third-largest proven reserves amid soaring labor and steel costs in northern Alberta and a lack of pipelines like TransCanada Corp.'s proposed Keystone XL.

While existing operations such as Suncor Energy Inc. (SU)'s Millennium mine can keep running, projects under consideration by companies including Devon Energy Corp. and Cenovus Energy Inc. face the threat of delay. Decisions may impact a more than doubling of oil-sands production, to 5.2 million barrels a day by 2030, estimated by the Canadian Energy Research Insitute.

New projects using drilling and steam to coax bitumen from the ground require U.S. crude prices of $85 a barrel to be profitable, according to the institute. Mining projects need more than $106 a barrel, while mines with upgraders to convert bitumen into synthetic light oil require $110.

For mines that are already operating, companies can produce at $36 a barrel, said Dinara Millington, senior research director at the institute.

"The oil-sands project is not a typical oil project because it produces at the same level for decades," Millington said. "Once you've sunk your capital and recovered a return on your capital, after that it's just operating costs."

West Texas Intermediate, the U.S. benchmark, has plunged about 29 percent from this year's June high to $75.78 a barrel yesterday after a shale boom propelled U.S. crude volumes to their highest since 1986 and slowing global growth pared the outlook for demand. Some producers have already curbed drilling in U.S. shale regions.

About a quarter of oil-sands projects are at risk as prices fall, according to the International Energy Agency.

Nine out of every 10 barrels of potential oil-sands production require $95 per barrel, according to Carbon Tracker Initiative, a group that highlights the risks of climate change to fossil-fuel investors. Investors should be questioning why more projects aren't being shelved, said James Leaton, a research director at Carbon Tracker.

"If the oil price stays down for the next year, we'll see a lot more of that pressure," Leaton said.

Developers have already started scrapping or delaying projects after a period of rampant construction. They spent about C$300 billion ($265 billion) from 2006 through last year, according to Canadian Association of Petroleum Producers data.

Total SA in May cited rising costs in delaying a decision on development of the C$11 billion Joslyn mine, a joint venture with Suncor. The two companies last year canceled their C$12 billion Voyageur oil-sands upgrader. They are still going ahead with the C$13.5 billion Fort Hills mine.

Statoil ASA in September said it would delay work at its 40,000 barrel-a-day Corner oil-sands drilling project.

Projects that recently won regulatory approval are most likely to be considered for delay, Brompton's Lau said.

Devon plans to make a decision by the end of 2015 on how to develop its Pike project with BP Plc after receiving regulatory approval earlier this year to produce 109,000 barrels a day, Chief Operating Officer David Hager said earlier this month.

"Given the more challenged oil-price environment we're in right now, we want to make sure we get this absolutely right when we actually go to full development on this," Hager said.

If oil prices remain low, Canadian Natural Resources Ltd. may decide next year to delay its 50,000 barrel-a-day Grouse project scheduled to start in 2018 or 2019, President Steve Laut said in an interview.

Cenovus will decide next year on its 300,000 barrel-a-day Telephone Lake project, which it's developing in increments of 45,000 barrels a day, the company said this month.

The blow from cheaper crude is partially offset by a narrower discount for Canadian oil and the weakening of the nation's currency, which reduces costs relative to revenues in U.S. dollars, said Peter Tertzakian, chief energy economist at Calgary-based ARC Financial Corp.

As more Canadian heavy crude reaches U.S. refineries by rail and expanded pipelines, its discount relative to the U.S. benchmark narrowed to $17.25 a barrel yesterday from a record high of $42.50 in December 2012.

"The companies are still going to be producing oil and trying to find ways to reduce their costs," said Bob Schulz, a University of Calgary business professor. "New projects are going to take a hit."

AMHERST WALKS AWAY FROM WASTE WATER DISPOSAL NEGOTIATIONS

The plan to dispose of millions of litres of hydraulic fracturing waste water through Amherst's treatment system has all dried up.

"The majority of council said No, let's withdraw," Mayor Robert Small said of an in-camera meeting Sunday night to update contractual discussions with Atlantic Industrial Services of Debert about the disposal of the waste water through the town's system, into the Laplanche River and eventually into the Bay of Fundy.

Small said the deal, which would have brought the town $500,000 over a two-year period, was derailed because of the project's connection with fracking.

"There was an element of concern with respect to just exactly what this treated water had in it," Small said. "Because there was a connection to fracking, that was really a distaste for a lot of people. The issue was not fracking, but they just connected it all to fracking."

Located in holding tanks in Kennetcook, the waste water was used by a subsidiary of Triangle Petroleum to frack a series of test wells in Hants County in 2007 and 2008. But before being brought to Amherst to be discharged into the Laplanche, the water would have gone through decontaminating processes to bring it up to Canadian drinking water standards, Small said.

Residents used a vigorous Facebook and social media campaign to expressed their distaste for the project and concerns over the levels of chemicals and sodium they feared remained in the treated waste water.

Ed Childs, a former town manager, makes no apologies for taking part in the Facebook postings that opposed the waste water plan.

"I think they were too many unanswered questions," said Childs, 72, who moved to Amherst 15 years ago. "I was quite pleased that at least the majority of council had the sense to back off.

"I'm not sure if it's as free (of toxins) as they say why they'd need a disposal site to dump it into. And you have professors at Mount Allison and UNB saying 'don't touch it.' "

Small thinks misinformation

may have turned the tide.

"Regardless of whatever that water contained, and the facts associated with it was that it was very clean water, a lot of people thought that we were supporting fracking," the mayor said. "A lot of people thought that we were actually going to treat the water. There was a ton of misinformation out there that raised a concern within the community."

Small and council had asked Environment Minister Randy Delorey to come to town to present information about what exactly is in the waste water. The minister agreed but before the final arrangements were made, council pulled the plug on negotiations with AIS.

"It's fair to say that I was disappointed personally with that piece of it," Small said. "I did invite the minister up and he said that he would come up and present the facts associated with the contents of the water. It' s not debating fracking, it's not debating everything associated with fracking. The fundamental concern is what is in the water and is it OK to put out into the environment."

To that question, Childs answers a resounding no.

"We really have to be careful we don't spoil the Bay of Fundy," said Childs, alluding to the Fundy and its surrounding landscapes having been recognized as a World UNESCO biosphere site.

Small is also disappointed with a lost revenue source.

"There's not a town in Nova Scotia that couldn't use revenue right now," Small said. "I know this was a one-shot deal but this was one opportunity where the town didn't have to go to the taxpayer.

"The message that came back from the UNSM (Union of Nova Scotia Municipalities) meeting that I just attended is that municipalities have to think of new ways of generating revenue. We just can't keep going to the taxpayer. This would have been one of those things."

But Childs argues that for 33 million litres of waste water, "you're not getting much a litre."

Childs also said that sewage treatment systems are "temperamental" at best.

"It could create problems down the road. Those systems are not designed for industrial waste."

The mayor admits frustration with the way the waste water project played out but he says he learned some valuable lessons along the way.

"The whole communications approach you take, that is so important, and I think it's fair to say that we did not anticipate that sort of comeback on it. But, you learn from it."

Meanwhile, AIS has also been negotiating a similar deal with the town of Dieppe in New Brunswick.

BRITISH COLUMBIA APPROVES PETRONAS LNG PROJECT, TWO GAS PIPELINES, BUT UNCERTAINTIES REMAIN

British Columbia has approved a liquefied natural gas export terminal being developed by Malaysia's Petronas, along with two pipelines to service Canada's fledgling LNG industry, the province's Ministry of Environment said on Tuesday.

A federal environmental review of Petronas' Pacific NorthWest LNG project is continuing, with the Malaysian state-owned energy firm expected to make a final investment decision on the $11 billion facility before the end of the year.

Provincial environmental assessment certificates were issued on Tuesday for Petronas' terminal, along with the Prince Rupert Gas Transmission (PRGT) pipeline, which is being developed by TransCanada Corp, and the Westcoast Connector Gas Transmission pipeline, proposed by Spectra Energy Corp.

The PRGT pipeline would feed Petronas' LNG terminal, while the Westcoast Connector line would send gas to BG Group's proposed Prince Rupert LNG project. BG has pushed back a final investment decision on its export facility by a year into 2017.

While the environmental approvals are another step forward for British Columbia's fledgling LNG industry, numerous hurdles remain before any new pipelines or terminals are built in the Pacific coast province.

In addition to the federal review, Petronas must now meet eight social and environmental conditions set out in the provincial approval and secure various permits from all levels of government.

The company is also in the process of negotiating with aboriginal communities and refining its terminal design plans to mitigate the impact on sensitive fish populations.

More than a dozen LNG export projects have been proposed for British Columbia as energy companies from around the world race to export cheap Canadian gas to international markets.

But uncertainties over taxation, the regulatory process and aboriginal consent, along with fierce competition from rival projects in the United States, have called into question whether any will ultimately be realized.