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Published By: NEWS COMMUNICATIONS since 1977

Wednesday March 25th, 2015

INSIDE CANADA'S PUBLICLY FUNDED $24 MIL OIL SANDS AD CAMPAIGN

The multimillion-dollar campaign to market Canadian oil in the U.S. was hard to miss.

The Maple Leaf was plastered on the walls of subway stops in Washington, D.C., and it popped up in all sorts of American publications with messages like, "America's Best Energy Partner," and "Friends and Neighbors."

Documents obtained by The Canadian Press offer a peek at the behind-the-scenes strategic considerations in 2013, as the federal government conducted a $1.6-million U.S. ad campaign that grew into a $24-million, two-year program that wraps up this month.

The records, released under the Access to Information Act, reveal the websites to be shunned as advertising outlets; the Internet search words that would trigger a Canadian energy ad; the coveted locations for billboards in Washington, D.C.; the rejected proposals; and the U.S. ad salespeople who angled for a slice of the publicity pie.

Throughout the two-year campaign, the Keystone pipeline issue remained unresolved. But that doesn't mean it failed, defenders say. In fact, the ads didn't mention Keystone. The original call for tenders spelled out the mission: to defend Canadian energy's reputation against hostile groups and lawmakers threatening anti-oilsands measures in the U.S. and Europe.

One proposed weapon for fighting back: popup ads.

Someone whose name was blacked out proposed using so-called takeover or roadblock ads that would monopolize people's computer screens: "If we're going to do this right, we might as well go big."

But a marketing manager at Natural Resources Canada suggested a more delicate balance. "We've attempted to maximize our nonstandard presence — without being offensive," he replied.

The subway posters were designed to grab the right people's attention, but there was some initial disappointment on that score. Space was snapped up at two downtown D.C. metro stations, but the most coveted spots close to Capitol Hill were unavailable.

There were many conversations about websites.

LinkedIn was used, then dropped because of a disappointing click count. Buzzfeed was interesting but the marketing manager at Natural Resources didn't want federal ads appearing underneath glib headlines with acronyms like LOL, OMG and WTF: "I'm a bit weary of their content," he wrote.

He warned against using Facebook: "I think it's dangerous." Aggressively partisan news sites were dropped, with Drudge Report and MSNBC turfed in favour of the more centrist National Journal.

Google was embraced. The campaign identified more than 250 terms that, when plugged into the ubiquitous search engine, would elicit a Canadian energy ad.

The search terms included "Keystone," "Canadian oil," "Alberta oil," "tarsands," "greenhouse gas emissions" — and less obvious ones about Saudi Arabian and Venezuelan environmental policy.

One famous term was apparently rejected. "I do not suspect Google will approve Obama as a (keyword)," said an ad buyer from M5, one of the agencies working on the project. "Just giving you a heads up."

For print ads, there were clear conditions. Spots were not to appear next to any anti−Keystone editorials or ads. Space was purchased in the Economist, New York Times, Wall Street Journal and Forbes editions on three continents and in publications in Beijing, Shanghai, London and Brussels.

U.S. ad−sellers took notice. They began calling with various pitches, and the correspondence shows that Canadian officials discussed ways to politely turn them down.

One unsuccessful pitch involved an ambitious project with an eight page advertising spread in the New Yorker and a Washington event featuring policymakers. When warned of the catch, the steep price tag, a Canadian diplomat responded: "That's quite an expensive catch."

Another idea considered, and rejected, was to turn Washington city buses into wraparound ads.

There were funds for advocacy — available to cover travel and hotel costs for people who might have some influence in a public discussion about Canadian resources.

There was opposition research. The embassy kept tabs on the work of environmentalists such as billionaire Tom Steyer and on the number of YouTube clicks for an anti−Keystone video featuring Robert Redford.

An internal memo to Washington embassy staff told them to stick to talking points if they were asked about the ads during a diplomatic reception.

Among the official lines: natural resources support 1.8 million Canadian jobs, they account for almost one−fifth of the country's economic activity, and the ads were a timely and appropriate endorsement of the sector.

So was the campaign successful?

A separate budget was used for gauging the public response — $58,335 for an initial focus group and $49,393 later for a poll.

The poll showed most D.C. respondents had seen the ads. They didn't quite agree, however, on what they'd seen. The most popular takeaway message, at 17 per cent, was that Canada and the U.S. were friends and energy partners. Building Keystone XL got 11 per cent.

One federal official says the ads were never designed to sway people about Keystone. They were there to spread a broader message people could remember and repeat, about an energy partnership with Canada.

"The ads were there to help create the political space for a (Keystone) approval."

3 WAYS SMALLER OIL AND GAS FIRMS CAN SURVIVE THE DOWNTURN

Alberta's oilpatch juniors strategize to ensure survival

When most Canadians think of the oilpatch, the names Suncor, Shell or Imperial Oil come to mind — the big guys, the companies that sell us our gasoline and announce multibillion-dollar oilsands projects.

But the beating heart of Alberta's energy sector is found among the smaller companies, the so-called juniors or intermediates. It's a riskier world, but also more fun — this where the cowboys operate. When times are good, you can make a bundle, but when times are bad, it can be pretty miserable.

Unless you like to play the markets, you won't recognize many of the names — Tourmaline, Bonterra, Crescent Point — but energy investors tend to follow their favourite executives from company to company, betting on their ability to make money when the sun is shining and survive when it's not.

Forty of these smaller companies went to New York last week for a round of speed dating with Wall Street investors, trying to convince U.S. portfolio managers that they are still a good bet. Here is a snapshot of the way three different companies are managing their way through the downturn.

Peyto Exploration and Development describes itself as both cheap and boring, which, in times like these, is the corporate version of ahumblebrag.

The company produces natural gas in Alberta, which has been a challenging business for years. Natural gas prices haven't collapsed in the same way oil prices have, but they're considerably lower than a year ago and there are serious concerns about oversupply. The price in Alberta right now for a gigajoule of natural gas is less than $3.

Peyto says that it can live with that price because its costs are only 93 cents a gigajoule.

"There's not a thing that we're doing that's proprietary," said Darren Gee, the chief executive of Peyto. "[Other] producers get caught up chasing revenue and they don't focus so much on the cost piece."

While the rest of the sector is pulling back on drilling and spending, Gee said his company is pouring it on now — because costs are lower in a downturn.

"We try to be busy when nobody else is, and hold in the reins big time when the industry is really busy," he told CBC News.

"Because we've found that it's that old saying, that bumper sticker in Calgary that said 'Please God let there be another oil boom — I promise not to piss it all away this time.' The industry tends to erode all its good returns in the high parts of the cycle that it generates in the low parts of the cycle."

Lightstream Resources offers one of the cautionary tales of the oil price collapse. Simply put, it's got too much debt — $1.5 billion as of the end of last year. With the collapse in oil prices, it had to suspend its dividend and lay off nearly 40 per cent of its staff. The company is trying to sell its assets in the Bakken oilfield to generate the cash to keep its bankers happy.

Lightstream's shares traded at $9 in June, but now bob around the 90-cent mark, and there's speculation among investors that the company may not make it through the downturn.

John Wright, the chief executive of Lightstream, said it's not that bad. "This is a period of painful patience. We're covering all our costs, we're spending $110 million, we're still putting money in the bank at a $50 oil price."

What Lightstream is not doing is drilling any more wells with oil at these levels. For the rest of the year, it will wait on oil prices to recover, try to sell its Bakken assets, pay down its debt and plot its comeback.

There are a number of companies that dodged the worst of the oil price meltdown by having hedged much of their production before the market crashed.

Crescent Point Energy is one of those. More than half of its production this year was hedged or pre-sold. That hedging program along with the lower Canadian dollar means that Crescent Point is selling more than half its production at just under $90 a barrel.

As a result, the company isn't really dealing with a cash crunch at the moment and is increasing its oil production this year.

"We've been doing barbell hedges," said Scott Saxberg, chief executive of Crescent Point. "Combining hedges out in the future and bringing them forward to get an average $75-$76 pricing."

Crescent Point may be feeling good about its prospects for the year, but its share price is still suffering, down 40 per cent from the high reached last summer.

Saxberg expects a quicker recovery in oil prices than many in the market — he thinks OPEC will cut production in September and oil will bounce back to the $60 or even $70 range, but said he's covered for a year and half either way.

It is the job of energy executives to talk their way through these kinds of downturns. Despite their confidence, nothing is certain in the energy market these days — least of all the price of oil. Just a week ago, there was a fair amount of confidence that oil would trade around $50 US through this year, but now it's closer to $43. That's a 15 per cent discount.

No matter what path companies take through the crisis, the only thing that seems certain is that there's more pain to come.

ALBERTA FACES STRUCTURAL DEFICIT EVEN IF OIL REBOUNDS, TD SAYS

Province's fiscal forecast likely too optimistic on oil prices, report finds

The government of Alberta could be facing a long-term deficit situation for reasons beyond the temporary plunge in oil prices, TD Bank said in a report Thursday.

Economists Jonathan Bendiner and Derek Burleton say the province's current estimate of a $7-billion budget shortfall might not be realistic and the government could be facing much more serious fiscal challenges — namely, a structural deficit.

Unlike what's known as a cyclical deficit, which is when governments temporarily dip into the red because of a temporary slowdown in the business cycle, a structural deficit is a situation where a government spends more than it earns even after the real economy rebounds, because of the compounding impact of debt payments.

Alberta is set to unveil its latest provincial budget next Thursday. Policymakers have already signalled to expect spending cutbacks, but the bank's report says it doubts those alone will be enough to fix Alberta's long-term financial problems.

"While the government has discussed a number of policy tools to address its fiscal challenge, a slash and burn approach to achieving fiscal balance in quick time can be costly to the economy and does not address current inefficiencies in program spending and an over-reliance on non-renewable-resource revenues," the TD report says.

Given that oil closed below $43 US a barrel yesterday and the year is now almost one-quarter finished, that projection may be a tad optimistic. TD Bank's forecast is much bleaker, expecting an average price of $52 per barrel of WTI this year, rising to $68 next year.

If oil prices prove to be lower than the government is forecasting, that $7-billion deficit guess is likely to be on the low side, the bank says.

"The lower price forecast suggests that without any actions, the budget deficit could come in by as much as $1 billion higher than the government's cited figure for fiscal 2015-16," TD notes.

Even if oil rebounds, the province could still face a structural deficit in the range of $4 billion to $5 billion in a few years, potentially turning it into a have-not province. "Borrowing related to fund[ding] these shortfalls would transform Alberta's current net asset position into a net debt position by the next fiscal year and rise to as high as seven to eight per cent of GDP by fiscal 2018-19," TD says.

That's much better than the ratios for many other governments, but still reason for concern to Albertans, the bank says.

Alberta has already floated the idea of cutting five per cent of all spending from its budget, while dipping into its $6-billion contingency fund. That's a pretty deep cut to services, but TD notes that Alberta spends more per capita on services than any other province — by as much as $1,300 per person.

But taking a knife to every budget equally isn't the best plan, TD says. "Experience has shown, however, that merely starving departments of funding misses the opportunity of securing longer-term savings."

Infrastructure spending, TD says, should remain a priority, as that's typically an area where governments see good bang for their buck. And the bank urges the province to resist the urge to simply pass the buck on to local governments, the way others have. "Spending cuts must balance short-term fiscal objectives with longer-term sustainability."

TD also says to be wary of asset sales, because too often that just results in a one-time windfall of a "future income stream that would have flowed into government coffers anyway."

On the subject of taxes, the bank notes that thanks to resource royalties, Alberta currently has the lowest tax burden in Canada, and among the lowest in North America. It also famously doesn't have a provincial sales tax, something the government has hinted it has no plans to change.

But that's a mistake, TD says. "By closing the door on the introduction of a PST, the government is missing an opportunity, in our view.

"Budget 2015 will provide a major opportunity to set the province's finances on a more sustainable path. We hope that the government seizes the moment."

CANADA'S OIL INDUSTRY TO LOSE MONEY AND JOBS IN 2015

The collapse of oil prices in the second half of 2014 will take a bite out of the Canadian oil industry's finances. Revenues are expected to fall by 37 per cent and the industry will post a pre-tax loss of more than $3 billion and shed close to 8,000 jobs this year, according to The Conference Board of Canada's latest Canadian Industrial Outlook: Canada's Oil Extraction Industry.

"With WTI prices now hovering below US$50 and most projections climbing slowly to US$80 a barrel in the next few years, the Canadian oil industry is coming to grips with the new price environment," said Mike Shaw, Economist, The Conference Board of Canada. "Canadian companies have quickly cut billions from their investment plans, as well as instituted layoffs and hiring freezes to minimize losses. Consolidations and reevaluations of spending plans will likely continue through 2015 and 2016."

Prices are projected to average US$55 per barrel in 2015 as cuts in investment ease production growth and low prices spur demand. However, the days of triple digit oil prices have passed for the immediate future. With the rise of horizontal drilling and hydraulic fracturing, the U.S. industry will be able to quickly respond and increase production if prices reach US$80 a barrel, putting a hard cap on prices.

The lower oil price environment is expected to take a big bite out of investments in the Canadian oil patch. At current prices, many new projects in both the oil sands and Canadian tight oil plays are seen as uneconomic. While supply costs vary, breakeven costs range between US$60-80 per barrel for a Steam Assisted Gravity Drainage (SAGD) facility (the non-mining method of oil sands extraction) and US$90-100 per barrel for an oil sands mine. Overall, oil investments are projected to fall from $56 billion last year to $44 billion this year and $40 billion in 2016.

Despite the gloomy outlook for oil prices and investment, Canadian oil production is expected to increase in 2015 and through the end of the forecast as billions of dollars already invested in capacity in recent years feed into greater production. Total crude production is forecast to increase by 175 thousand barrels per day in 2015, going from 3.6 million barrels per day (mmbd) last year to 3.8 mmbd this year.

CALGARY STAMPEDE FEELING THE IMPACT OF OIL PRICE PLUNGE

Canada's top rodeo is feeling the impact of the global oil price plunge, with bids to sponsor one of the Calgary Stampede's main events down more than 20% from last year.

The 103-year-old Stampede is a 10-day festival of rodeo, street parties and corporate entertainment held in Canada's oil capital every July.

Nightly chuck-wagon races are among its headline events. Drivers, supported by outriders, race chuck-wagons emblazoned with the logos of sponsors and pulled by a team of four horses in front of a cheering crowd of thousands.

The rights to advertise on top riders' chuck-wagon canvases are sold off each spring in an auction that many in Calgary consider a barometer of economic sentiment.

This year, total bids fell 21% from 2014 to C$2,782,000, reflecting the mood in a city where layoffs among oil producers are mounting.

Benchmark oil prices have plunged more than half since last June due to a global supply glut, with U.S. crude last trading at just over $45 a barrel.

Despite the slide in bids, the 2015 total was still well above the C$1,692,000 bid in 2009 following the last major oil-price crash. The record auction year was 2012, the Stampede's 100th birthday, when sponsors bid C$4,015,000.

"We are pretty ecstatic that our numbers are up above where they were in 2009," said Paul Rosenberg, chief operating officer at the Calgary Stampede. "About a 20% drop is to be expected in challenging times."

24-Mar-15				
	Active	Down	Total	% Active
Western Canada				
AB	74	456	530	14%
SK	7	125	132	5%
BC	41	40	81	51%
MB	-	15	15	0%
WC Total	**122**	**636**	**758**	**16%**
Eastern Canada				
QC	-	1	1	0%
Canada	**122**	**637**	**759**	**16%**

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