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SOME WESTERN CANADIAN OIL SELLING FOR LESS THAN $22 PER BARREL

As oil crashes through $35 a barrel in New York, some producers are already living with the reality of much lower prices.

A mix of Mexican crudes is already valued at less than $28, an 11-year low, according to data compiled by Bloomberg. Iraq is offering its heaviest variety of oil to buyers in Asia for about $25. In Western Canada, some producers are selling for less than $22 a barrel.

“More than one-third of the global oil production is not economical at these prices,” Ehsan Ul-Haq, senior consultant at KBC Advanced Technologies Plc, said by email. “Canadian oil producers could have difficulty in covering their operational costs.”

Oil has slumped to levels last seen in the global financial crisis in 2009 amid a global supply glut. While the prices of benchmarks West Texas Intermediate and Brent hover in the $30s, they represent a category of crude — light and low in sulfur — that is more highly valued because it’s easier to refine. Some producers of thicker, blacker and more sulfurous varieties have suffered heavier losses and are already living in the $20s.

A blend of Mexican crude has plunged 73 per cent in 18 months to $27.74 on Dec. 11, its lowest level since 2004, according to data compiled by Bloomberg. Venezuela is experiencing similar lows. Western Canada Select, which is heavy and sulfurous, has slumped 75 per cent to $21.82, the least in seven years. Other varieties including Ecuador’s Oriente, Saudi Arabia’s Arab Heavy and Iraq’s Basrah Heavy were selling below $30, the data show.

Crudes of this type trade at a discount to lighter varieties because to process them “refiners have to invest in upgrading facilities such as coking plants, which are very expensive,” KBC’s Ul-Haq said.

“Most places in the world, a lot of the producers they don’t really get the Brent price, and they don’t get the WTI price,” Torbjoern Kjus, an analyst at DNB ASA in Oslo, said by phone. “It’s really a dramatic situation that really cannot continue for a very long time for many producers.”

Mexico’s government insulated itself from the oil slump after it managed to hedge 212 million barrels of planned exports for 2016, using options contracts to secure an average price of $49 a barrel. The nation’s 2015 oil hedge provided it with a bonus of $6.3 billion.

Not all oil producing nations are as well protected. OPEC member Venezuela’s national budget for next year assumes a price of $40 when its own crude is trading just above $30. The nation’s dollar reserves have fallen by 32 per cent this year to $14.6 billion

Ironically, those selling at the lowest prices have even more incentive to pump, potentially deepening the glut that’s weighing on prices.

“A lot of the producers might want to sell as much at current prices,” rather than a level that could be even lower in coming weeks, Abhishek Deshpande, an analyst at Natixis SA, said by email.

OIL SANDS FIRMS BRACE FOR HIT FROM CARBON-CURBING TARGETS

Canadian oil sands producers such as Suncor Energy Inc. like to tout the long life of the world’s third-largest crude reserves as their greatest asset. That longevity may now be their biggest liability with a new global agreement to curtail carbon emissions.

Alberta is one of the costliest – and most carbon intensive – places in the world to produce oil. With prices below $40 (U.S.) a barrel, oil sands growth has already ground to a halt. Hopes of a return to the boom years are fading amid limits on emissions and the uncertainty of future fossil fuel demand.

“There’s a risk of stranded barrels in the oil sands,” said Laura Lau, a portfolio manager at Brompton Funds who oversees about $1-billion in assets including Suncor. “Part of this would have happened because of the economics, but with these carbon constraints, it gets worse.”

Governments from 195 countries committed over the weekend in Paris to reduce greenhouse gas emissions to head off dangerous climate change. Canada, as the Group of Seven’s largest oil exporter and with its natural resources-weighted economy, faces more risk than other industrialized countries from the limits.

Canada is the world’s fifth-largest producer of both crude oil and natural gas, and the 12th-biggest of coal. The energy industry accounts for 10 per cent of the national economy, compared with about 2 per cent of the U.S. economy that is dependent on energy production, according to the U.S. Energy Information Administration.

Canada’s fossil-fuel dependence helped ease the country through the global recession six years ago. That strength is now a weakness, especially for investors who have suffered a 46-per-cent decline of the S&P/TSX energy sub-index since June, 2014, and the risk of a further decline in what was once Canada's biggest growth sector.

"If you're on the high end of the cost curve, this ought to put a lot of fear into you as a producer," said Andrew Logan, director of the oil and gas program at Ceres, an investor network promoting sustainable business practices. Ceres represents investors with $14-trillion (U.S.) worth of assets.

Exports of fossil fuels from Canada have grown since 1990, the base year for the first global agreement to limit GHG emissions. For October, fossil fuels made up $5.8-billion (Canadian), or 13.5 per cent of total national exports, compared with $1.2-billion, or 9.2 per cent of national exports in October, 1990, according to the national statistics agency.

Owners of older oil sands assets that generate a lot of cash flow could use that money to transition to new areas such as renewable electricity generation, said Mr. Logan.

"Environmental sustainability is at the heart of our resource sector," Finance Minister Bill Morneau said in a speech in Toronto on Monday. "Canada … can and should be one of the world's most efficient and responsible energy producers."

While carbon limits will play a role longer term, commodity prices will likely be more important in limiting Canada's oil sands expansion, said Samir Kayande, vice-president of energy research at ITG Investment Research in Calgary. Only a fraction of Canada's 168 billion barrels of oil sands reserves are likely to be harvested in the current low-price environment.

"I see the issue of price and the place of oil sands on the cost structure as being far more important than greenhouse gas emissions limits," Mr. Kayande said, characterizing the climate polices as an issue that investors should pay attention to beyond the current investment horizon of the next three years.

Only 9 billion barrels can be economically recovered with U.S. crude below $50 (U.S.), he said. Climate policies will have a greater impact on development when prices rise as the most attractive oil sands projects, which use steam to coax crude from well bores, need crude higher than $60 a barrel to make sense, he said.

Innovation will be the key to making the transition to a low-carbon economy, said Trevor McLeod, director of natural resources policy at the Canada West Foundation. Without changes to technology and processes, it will be very difficult to meet even the existing carbon emissions targets.

For now, the oil sands will continue to bear the brunt of opposition to fossil-fuel use, as demonstrated by U.S. President Barack Obama's turning down a permit for TransCanada Corp.'s Keystone XL pipeline, said Robert Skinner, executive fellow at the University of Calgary's School of Public Policy.

"The oil sands has a huge bullseye on it and it has enormous symbolic value," he said. "It's an energy intensive process and there's no getting around that."

CROSS-BORDER PIPELINE SWITCH ALLOWING MORE CANADIAN CRUDE INTO MINNESOTA IS LEGAL, JUDGE RULES

Judge denied request to stop Enbridge from bringing in more Canadian oil.

A federal judge on Wednesday denied environmental and tribal groups' request to block increased crude oil shipments from Canada to the United States via two parallel pipelines that Enbridge Energy reconfigured at the border to skirt a regulated capacity limit on one of them.

Senior U.S. District Judge Michael Davis in Minneapolis ruled that the U.S. State Department's 2014 approval of the change is not subject to judicial review because it is part of a presidential determination related to the company's cross-border pipeline permit.

The ruling means that Calgary-based Enbridge can continue shipping higher volumes on its recently expanded 1,000-mile Alberta Clipper pipeline from Alberta, across northern Minnesota to Superior, Wis., even though the State Department hasn't completed a supplemental environmental study of the expansion.

Activist groups trying to block imports of carbon-intensive crude oil from the Canadian oil sands region said they may appeal.

"We are disappointed with the decision, which essentially says 'the courts can't help you,'" Vermont Law School Professor Ken Rumelt, lead attorney for a coalition of six groups, including Honor the Earth and the White Earth Nation, said in a statement.

Cross-border permits govern how much oil can be shipped into the United States. The same type of permit was at the heart of controversy over the proposed Keystone XL pipeline from Canada through western states, a project President Obama rejected in November.

For the Enbridge cross-border switch, the pipeline operator rebuilt a 17.5-mile segment of its older, underused pipeline called Line 3, which has a border permit that allows higher volumes than the line now delivers. Enbridge also installed valves to shift the flow of oil from the larger Alberta Clipper line into Line 3 and vice versa. After crossing the border, the oil shifts back to the original lines.

The result is that Enbridge has temporarily increased the overall flow in its Alberta Clipper, also known as Line 67, using the older line's permit. Anti-pipeline activists said the switch circumvented environmental review of the expansion project — a position Enbridge rejected.

"Today's decision leaves in place the State Department's approval of Enbridge's use of Line 3 and Line 67 consistent with its existing permits," Enbridge spokeswoman Lorraine Little said in an e-mail. "The interconnections are simply leveraging the flexibility we have under our existing permits to meet our obligations to shippers and to continue the vital service of transporting reliable, secure supplies of North American crude oil."

Enbridge says the border switch is temporary because the company has proposed a $7.5 billion project to rebuild Line 3, which also goes from Alberta to Superior, but operates at reduced volume because of its history of leaks. If the replacement project is approved, Line 3 eventually will need all of its cross-border capacity, probably sometime in 2017.

By then, Enbridge is hoping the U.S. State Department will have approved an expanded Alberta Clipper border permit, allowing it to ship up to 800,000 barrels of oil daily without the border switch. Enbridge already has added pumping stations in Minnesota to boost that pipeline's capacity after winning approval from state regulators.

In a joint statement, White Earth Nation, Sierra Club, Center for Biological Diversity, Indigenous Environmental Network, National Wildlife Federation and Honor the Earth said they are considering various legal options, including a possible appeal of the Davis ruling.

The ruling, based strictly on legal issues, came one day after a National Academies of Sciences report found that heavy Canadian crude oil — a type carried in both pipelines — poses a special risk when spilled into waterways. Researchers said the diluted bitumen can quickly turn into a thick, hard-to-recover residue that doesn't degrade and whose toxic effects are poorly understood.

PROTESTORS LOCK THEMSELVES TO ENBRIDGE OIL PIPELINE IN ONTARIO

On Dec. 7, Enbridge Inc. temporarily shut down a pipeline that parallels the northern coast of Lake Ontario after three protestors broke into a valve site near Montreal and locked them selves to equipment.

The protest was aimed at Line 9, a pipeline that originates in Sarnia, Ontario and sends Canadian tar sands and Bakken shale oil to the East Coast. The pipeline has been a frequent target of environmental protests over the last few years.

The Calgary-based pipeline giant — which operates both heavy and light crude oil and liquid natural gas pipelines in Michigan — has faced increased opposition to its infrastructure in parts of Canada; notably in the west, where a coalition of environmental groups and First Nations people have opposed construction of the Northern Gateway pipeline from Alberta to the Pacific coast.

Hurdles have been mounting for the 731-mile Northern Gateway, which was dealt a blow in November when new Canadian Prime Minister Justin Trudeau formalized a ban on marine oil tanker traffic on British Columbia's coast.

In the United States, Enbridge recently paid $200 million to expand its renewable energy portfolio with a 49-turbine, 103-megawatt wind farm project in West Virginia expected to begin service in 2016. Enbridge already owns about 2,000 megawatts worth of wind turbines in Canada and is a partner on wind projects in the United Kingdom, Texas and Indiana.

In the south, the Wall Street Journal reported Enbridge plans to spend $5 billion on three oil terminals near the Gulf of Mexico in a bid to fortify its position in the U.S. as Congress considers lifting a 40-year-old ban on exporting domestic oil.

In the north, analysts are expecting increased opposition to Enbridge's border-crossing Alberta Clipper pipeline after President Barack Obama rejected a permit for TransCanada's Keystone XL pipeline in November.

Enbridge has been waiting three years for the U.S. to decide whether to allow a doubling of capacity through the existing pipeline, which runs from Alberta to Superior, Wis., where it connects with Enbridge's Lakehead network and Lines 5 and 6 — both of which carry oil across Michigan. Lawsuits challenging the line are pending in federal court.

In September, Enbridge's proposed North Dakota to Lake Superior Sandpiper pipeline was dealt a setback when a Minnesota appellate court reversed a prior state regulatory approval.

Enbridge recently culled its workforce by 5 percent amid falling crude oil prices.

OIL CRASH HITS SAFEWAY SUPERMARKETS AS SHOPPERS DIAL BACK

A "vibe" has settled over regions hit by oil's steep fall that's diminishing shoppers' appetite to splurge on weekly treats or more expensive dining-in options, supermarket executives for Empire said Wednesday.

Empire, which owns the Safeway and Sobeys banners, counts on Western Canadian markets – and importantly Alberta – for a third of its sales, a sum that's feeling the financial strain wrought by deteriorating economic conditions in the Prairies.

"There's clearly an Alberta situation that's being played out, which can be analyzed two-fold," Marc Poulin, head of Empire, said on a conference call.

"There's the direct oil-related market … Then there's an overall Alberta market vibe or negative vibe if I can call it that that's also having a factor. That also spills into Saskatchewan to a certain degree," Poulin said.

"The weakness in Alberta has become a bit broader-based because the psyche of the consumer [has been affected]," Jim Durran, an analyst at Barclays Capital, said.

Like other areas of the economy,

supermarkets are now seeing a "serious impact" from the oil and commodity slump, analysts at CIBC World Markets said in a Nov. 12 research note.

Many customers affected by the slowdown have traded down to lower-priced options or into discount banners for example.

Yet Nova Scotia-based Empire, Canada's second-biggest supermarket operator, doesn't own a discount banner in the region, and counts on Safeway, a conventional store with sometimes higher price points, for much of its Western Canadian sales.

That's left some experts speculating that the Empire may tinker with pricing in order to prevent customers from moving to a discounter.

"We're clearly looking at the way we go to market," Poulin said. "That's the work that's currently going on."

CANADA'S ENCANA SLASHES DIVIDEND, CUTS CAPEX

Canadian oil and natural gas producer Encana Corp, responding to a sharp drop in oil prices, has slashed its dividend by about 79 percent and its 2016 capital budget by more than a quarter.

The company's shares fell as much as 10 percent on the Toronto and New York Stock Exchanges on Monday.

"The initial guidance that they put up for 2016 was little worse than what most people were expecting on the production side. And there is a risk the numbers could come down further because the guidance was based on WTI of $50," said Cormark Securities Inc analyst Amir Arif.

U.S. West Texas Intermediate was trading at about $35.56 per barrel at 1625 GMT.

Encana said it expected to produce an average 340,000-370,000 barrels of oil equivalent per day (boepd) next year, down from the 395,000-430,000 boepd it expects to produce in 2015.

The company expects to end 2015 with around 600 fewer staff, down to 2,900 from around 3,500. Around half of this decrease is attributable to natural attrition and divestitures, in which staff transitioned to the purchasing company. The remaining half is attributable to layoffs, Encana spokesman Doug McIntyre said.

Encana, which said in July that it had cut 200 jobs, plans to spend $1.5-$1.7 billion in 2016, compared with $2.2 billion this year.

The Calgary-based company, which cut its dividend for the first time since 2013, joins other oil producers who have reduced or suspended dividend to shore up their finances amid a nearly 70 percent slide in global oil prices since June 2014.

Canadian Oil Sands Ltd has slashed its dividend, while Husky Energy Inc and Penn West Petroleum Ltd have suspended dividends this year.

Encana said on Monday it would cut its annual dividend to 6 cents per share from 28 cents per share in 2015.

The company - focused on the Permian and Eagle Ford shale fields in Texas and Montney and Duvernay shale fields in western Canada - said 95 percent of its budget for 2016 would be directed to these assets.

"While capital spending was in line with expectations, they are getting less production for the same amount of money," said BMO Capital Markets analyst Randy Ollenberger.

The company's U.S.-listed shares were down 7.5 percent at $5.59 in mid-morning trade, while its Canada-listed shares were down 7.6 percent at C$7.68.

SUNCOR URGES CANADIAN OIL SANDS SHAREHOLDERS TO ACCEPT TAKEOVER OFFER: 'HOPE IS STILL NOT A STRATEGY'

Canada's largest oil and gas company Suncor Energy Inc urged shareholders of Canadian Oil Sands Ltd to tender their shares to its offer for the company.

Suncor highlighted the premium shareholders would receive to Canadian Oil Sands' current price if they accept Suncor's offer, and warned that shares are likely to drop if the offer is rejected.

"If Suncor does not receive substantial support for its offer on January 8th, 2016, we will look to pursue other opportunities," Suncor said in a statement Tuesday.

Canadian Oil Sands adopted a poison pill two days after Suncor made its unsolicited all-stock offer in early October, which valued the company at $4.3 billion.

"Hope is still not a strategy," Suncor wrote in a letter to Canadian Oil Sands' shareholders, stressing there was "little time remaining" before its tender offer expires on Jan. 8.

HEAVY BITUMEN CRUDE OIL FROM CANADA POSES AN EXTRA ENVIRONMENTAL RISK

Study findings come as regulators face key decisions on Minnesota pipelines

Enbridge's 2010 pipeline rupture in Marshall, Mich., above, that spilled 843,000 gallons of dilbit into a Kalamazoo River tributary is cited in new report.

Heavy Canadian crude oil shipped through northern Minnesota pipelines poses a special risk when spilled into waterways because it soon turns into a thick, hard-to-recover residue that doesn't degrade and whose toxic effects are poorly understood, the National Academies of Sciences said in a research report Tuesday.

The report for the U.S. Transportation Department recommended regulatory changes to speed cleanups of spilled heavy crude oil, to require disclosure of what oil pipelines carry and to conduct more research of human and ecological risks and other knowledge gaps.

The findings are important to Minnesota, Wisconsin and Michigan, where pipelines carry diluted bitumen from Alberta to Midwest oil refineries. The oil, called bitumen, must be diluted with lighter ¬hydrocarbons to flow through pipelines. The diluted bitumen is called dilbit.

The National Academies report said that when dilbit spills, the light hydrocarbons usually evaporate. The "relatively dense and viscous" material left behind tends to sink to the bottom of rivers and lakes and adhere to shoreline and wetland plants, the report said. Unlike lighter crude oils, which biodegrade, "the recalcitrant nature of bitumen" means that aquatic organisms are exposed to its toxic effects for longer periods, the report said.

"There is an opportunity to act quickly within the first several days," Diane McKnight, a University of Colorado Boulder environmental researcher who chaired the research panel, said in an interview. "We're optimistic that these practical and pragmatic recommendations could influence how these spills are handled."

Environmentalists opposed to crude oil pipelines said the report shows why no new projects should be built.

"There are definitely unique risks to Minnesota waters, and we are not ready to face those risks," said Paul Blackburn, a Twin Cities environmental lawyer who has fought pipeline projects in the state.

The report, "Spills of Diluted Bitumen from Pipelines: A Comparative Study of Environmental Fate, Effects, and Response," said that 250 million barrels of diluted bitumen is imported to the United States from Canada each year. Blackburn estimated that two thirds of the heavy crude flows through northern Minnesota pipelines to Superior, Wis., where Enbridge Energy has a terminal on Lake Superior.

"It's a dangerous substance," added Jim Murphy, senior counsel for the National Wildlife Federation. "It puts resources at risk in a way that regular oil doesn't, and it is much more carbon polluting than regular oil. We really just shouldn't be subjecting wildlife and communities to this risk. Certainly, expansion and building of new pipelines is a mistake."

The same heavy Canadian oil was to be carried in the Keystone XL pipeline that President Obama rejected in November.

The report comes nine days before the Minnesota Public Utilities Commission is scheduled to make key procedural decisions on Calgary-based Enbridge Energy's plans to replace and expand a 1960s-era pipeline from Canada through Minnesota to carry diluted bitumen and other crude. Enbridge also wants to build a separate crude oil line on the same northern Minnesota corridor to ship North Dakota crude oil. Both projects face key decisions about the scope of planned environmental studies.

"Our priority is preventing an incident from ever occurring," Enbridge spokeswoman Lorraine Little said of the academies' report. "We have robust emergency response plans in place. That is why we focus our efforts on providing the training, equipment and personnel to be able to act quickly in coordination with local, state and — if warranted — federal responders in order to protect people, property and the environment."

Enbridge's 2010 pipeline rupture in Marshall, Mich., that spilled 843,000 gallons of dilbit into a tributary of the Kalamazoo River was mentioned prominently in the academies' report. Enbridge has spent more than $1 billion to clean up the spill.

In a statement, the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration said it will publish a bulletin to the pipeline industry on the dilbit report, suggest voluntary improvements to spill response plans and take other steps, including hosting a public meeting next year to consider revising federal pipeline regulations.

CANADIAN DOLLAR EDGES LOWER AS WEAK CRUDE OIL PRICES WEIGH

The Canadian dollar edged slightly lower against the U.S. dollar on Thursday after U.S. crude oil prices hit a fresh trend low below $37 a barrel, contrasting with gains for fellow commodity currencies, the Australian and New Zealand dollars.

Oil gave up earlier gains as persistent oversupply concerns offset a surprise fall in U.S. crude inventories after 10 weekly rises.

U.S. crude CLc1 prices were down 0.70 percent to $36.90 a barrel, while Brent crude LCOc1 lost 0.22 percent to $40.02.

A rise in the number of Americans filing for unemployment benefits had little impact, as the underlying trend remained consistent with tightening conditions.

Canadian industrial production capacity climbed 0.6 percentage points to 82.0 percent in the third quarter of 2015, close to expectations, following two consecutive quarterly declines.

New home prices in Canada rose by a higher-than-expected 0.3 percent in October from September on higher prices in the Toronto area.

At 9:14 a.m. EST (1414 GMT), the Canadian dollar CAD=D4 was trading at C$1.3571 to the greenback, or 73.69 U.S. cents, slightly weaker than the Bank of Canada's official close of C$1.3564, or 73.72 U.S. cents.

The currency's strongest level of the session was C$1.3533, while its weakest level was C$1.3580.

Against the Australian dollar, the Canadian dollar weakened to C$0.9898, having hit its weakest level in 10 months at C$0.9938 after Australian employment surged for the second straight month.

The Canadian dollar also underperformed against the New Zealand dollar after New Zealand's central bank cut its benchmark interest rate to match a record low of 2.50 percent, but virtually shut the door on further easing.

Canadian government bond prices were mixed across the maturity curve, with the two-year CA2YT=RR price down 1 Canadian cent to yield 0.542 percent and the benchmark 10-year CA10YT=RR rising 7 Canadian cents to yield 1.483 percent.

The Canada-U.S. two-year bond spread was 1 basis point wider at -39.3 basis points, while the 10-year spread was 2 basis points wider at -73.7 basis points, extending recent out performance for Canadian bonds.

Canadian Prime Minister Justin Trudeau said on Wednesday his government would see if it could stick to its target for budget deficits but stressed he would do what was necessary and responsible to attain the desired level of economic growth.