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Published By: NEWS COMMUNICATIONS since 1977

Saturday December 26th, 2015

OIL PATCH PAIN DRIVES BARGAIN-HUNTERS TO EQUIPMENT AUCTIONS

In an auction room a few dozen potential bidders scan a picture of a used oil drilling rig projected on the wall while an auctioneer raises his voice to drum up enthusiasm.

"If you came to this sale not looking for a rig you should be looking at it now," the auctioneer bellows into his microphone. Initial asking price on the rig – complete with water, mud and shale tanks – was $150,000 and it eventually sold for $52,500, a fraction of a cost of a new rig that can fetch between $7-million and $15-million.

Business is brisk at this 180-acre (0.73 square km) Edmonton site and other North American locations of Ritchie Bros. Auctioneers – a clear sign that the oil industry has little hope that crude prices will recover any time soon.

The world's largest industrial auctioneer stresses it sells more than oilfield equipment, but it is no secret that many sellers are oil companies reeling from the 18-month rout that has driven crude prices near 11-year lows this week.

"All the oil companies are pulling their horns in so there's none of that work. If the price stays low, it's going to get a lot worse," says Frank Richardson, a general contractor from central Alberta.

Richardson uses the auctions to sell equipment when warranties expire and replace it with newer machinery.

This year was one to forget for the oil industry, but a bumper one for the Vancouver-based Ritchie Bros., with record third quarter gross auction proceeds of $894.5-million from 54 auctions worldwide. U.S. revenue was up 25 per cent in the first three quarters.

"There's been a slowdown in capital investment, which means people are working less and there's excess assets available," Randy Wall, Ritchie Bros. Canada president, told Reuters.

In six auctions held in Edmonton the company sold more than 38,000 pieces of equipment and trucks for a record of more than $731-million, as high-cost western Canada oil sands producers were hit particularly hard by tumbling crude prices.

Much of the machinery sold in Ritchie Bros. auctions ends up in logging, construction and farming. Wall said the transport and forestry industries were doing well, making up for weak demand in the oil sector, while the relatively weak Canadian dollar has lured more overseas buyers.

Foreigners usually bid in online "virtual auctions", such as one with the rig on the block – part of a complete sale of equipment of a small Calgary-based oil services firm including trucks, rig mats and catwalks.

In another "virtual auction" in one of Ritchie Bros. three auction rooms fitted with a big screen displaying the equipment on offer, a 220-ton all terrain crane went for $405,000 to an online buyer from Egypt, who fended off bids from India and Saudi Arabia.

Some oil patch specific gear, such as vacuum trucks, water trucks and drilling rigs, is selling for around half of what similar used equipment fetched two years ago, according to auctioneer Kevin Tink, a sign buyers expected the oil downturn to continue.

He warns, however, that any crude market recovery could trigger a surge in demand and prices for machinery, which would possibly delay a rise in output.

"People are disposing of anything that has been sitting around and is not being utilized, they are sweeping the corners of the yard," Tink says.

"If demand gets really strong and delivery on a winch tractor is six to eight months, people will pay more for the asset than it costs new, because they want to go to work with it the following morning."

For now, that prospect appears distant. Ritchie Bros. says worldwide prices have come down last quarter from first-quarter levels and bargain-hunters say they expect prices of oil and gas related equipment to fall further next year.

OIL INDUSTRY TO LOSE 100,000 JOBS BY THE END OF 2015 AS POLICY UNCERTAINTIES AND LOW PRICES DECIMATE SECTOR

That includes 40,000 direct jobs, the head of the country's oil and gas industry group says.

"Canadians should be concerned in times like these," Tim McMillan, president and chief executive of the Canadian Association of Petroleum Producers, said in an interview.

"We have a lot of big policy pieces moving around. We need … to ensure we can compete in a slower price environment and if prices do bounce back , that we are the preferred investment jurisdiction and that we are picking up more than our fair share."

Crude oil prices have halved in the space of a year to around US$35 per barrel and could slip further to the high US$20s as major producers continue to flood the market with record output, Citigroup estimates.

Alberta alone has seen job losses of 63,500 jobs in the first eight months of the year, mostly related to the oil sector, according to Statistics Canada.

Apart from the protracted price declines, Alberta's oil and gas sector has also had to contend with a 20 per cent hike in corporate taxes, a carbon tax and new regulatory policies to limit rein in carbon emissions.

Meanwhile, a new provincial royalty regime is to be announced in January, leaving Alberta oil and gas producers under a cloud of uncertainty. The new federal government also plans to unveil new policies, including a review of the regulatory process, which the sector sees as more burden in an already difficult environment for the industry.

McMillan said those burdens are chipping away at Alberta's competitiveness as an energy jurisdiction. In the 1990s, Canada attracted 37 per cent of all oil and gas investments in North America, a figure that now stands at 17 per cent, he said.

"I would like to see us getting more of the North American investment," said McMillan, who was previously Saskatchewan's energy and resources minister.

On Friday, American lawmakers lifted a 40-year export ban on U.S. crude oil, which would bring a new competitor into the already-crowded international suppliers market. McMillan said while scrapping the export ban will bring more efficiency to the North American oil landscape, Canada should try to forge its own path to international markets.

"I am may be more passionate about Canada controlling its own destiny as opposed to relying on our neighbours to the south to pass laws and have more freedom; that we are piggy-backing on their freedoms as opposed to developing our own infrastructure where we can control our own destiny," McMillan said.

Even if oil prices rise early and fast next year, it may take a while for Canadian oilsands to rebound as the industry has mothballed a number of long-term projects.

Canada has led the world in deferments since the oil crisis unfolded in November last year, with just under 40 projects scaled back due to low prices and lack of market access, according to Texas-based energy investment and merchant bank Tudor, Pickering, Holt & Co.

Next year is also rife with challenges, as the industry braces itself for a third royalty review in nine years in early January.

"My expectation (from the royalty review) is that we re-establish ourselves as a competitive jurisdiction," McMillan said. "And all those costs we have seen added in the last year or two be included in that positioning."

The industry is still assessing the implications of Alberta's climate change policy announced in November that sets a cap on carbon emissions in the oilsands to 100 megatonnes, aims to cut methane emissions by 45 per cent within 10 years and phases out coal-powered electricity by 2030. The cap on oilsands emissions has rattled many smaller producers who fear they may be sitting on stranded assets if the major players move quickly.

At the moment the oilsands sector emits 70 megatonnes annually to produce 2.3 million barrels per day. Analysts believe the remaining 30 million tonnes can accommodate up to a million barrels of new production with current technologies.

The challenge will be to manage that cap within the industry. McMillan said he is seeking more clarity from the government on how the cap will be implemented. "There are a great number of details that have not been made clear and those details will matter a great deal. We are working to find what we think will be a workable solution for Alberta."

McMillan, who attended the recently concluded climate summit in Paris, said Canada is ahead of other major exporters such as Saudi Arabia, Iraq and Venezuela — none of which have meaningful carbon policies.

"Canada has been a leader having a carbon price on our energy producers and that has left us standing out alone," McMillan said. "At two per cent of global emissions for Canada as a whole — our industry being just a portion of that — we can't solve this and we shouldn't think we can do it on our own."