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## NATURAL GAS INDUSTRY COULD DWINDLE WITHOUT LNG FACILITIES

Jobs on the line as sector face uncertain future

The situation facing Canadian natural gas producers might be thought of in terms of a bakery that sells all its bread to the same customer every day. That's fine until the customer opens his own bakery next door, and the original baker knocks on the door and asks if they need any bread.

Historically, the United States has been the main buyer of Canada's oil, natural gas, propane and other petroleum goods. In the last five years, this relationship, symbiotic for so long, has seen profound changes as commodity prices have fallen and U.S. production has undergone a dramatic reversal of fortune because of the emergence of prolific shale oil and gas plays.

At the same time, Canada is still trying to ram its oil and gas across the border. Like in the case of competing bakeries, however, the demand is only so big.

"[We're] very concerned about it. We are losing our market in the U.S. for our gas," said Dave Tulk of Calgary-based Gas Processing Management Inc. "The ability of our gas to compete with the gas coming out of the shale plays … it's a real concern."

Similar to the Canadian oil industry's desire for new export pipelines, the natural gas industry is also craving an outlet to international markets. Several Liquified Natural Gas (LNG) facilities are proposed for British Columbia's coast, but there is considerable uncertainty whether any of them will be built. If they aren't, there is little doubt Canada's natural gas industry will suffer, especially as the U.S. market dries up.

"We, as Western Canada, need LNG to go off our west coast," said Tulk. "That creates a huge number of opportunities for us in terms of sustaining and growing our gas industry, sustaining and growing our LNG and petrochemical industries. Getting LNG is a critical strategic project that needs to happen for Canada."

Companies want to export natural gas because world prices are much higher than in North America.

There are some domestic opportunities for natural gas producers opening up in Alberta. The province is beginning to shift away from coal-fired power plants, and natural gas electricity generation is expected to make up much of the shortfall. In addition, the provincial government is also offering $500 million to attract new petrochemical facilities.

However, these possibilities don't amount to much of a contingency in case LNG export facilities are not constructed. Without LNG, experts say, the Canadian natural gas sector will contract.

"Failure is we don't get anything off our coast. Then we're in trouble," said Tulk. "We absolutely need this option to stop the irreversible decline of our gas industry."

The notion that the industry could collapse without LNG isn't new. Industry representatives have expressed a similar sentiment in the past, although the sense of urgency now is noteworthy. Natural gas prices are free falling, and there is little movement on the LNG front in B.C.

Work is beginning to dry up in gas fields, and optimism is hard to find.

While gas producers would benefit from an LNG export facility, the economics for a company to build such a multi-billion dollar plant aren't as rosy as they once were. Global prices aren't as lucrative as they once were. Two years ago, countries such as Japan and India were paying around $20 US per million British thermal units (MMBtu) of LNG, but in the last few months have only paid about $5 or $6. Weaknesses in Asian economies are largely blamed for the drop in global LNG Prices.

Gas producers in B.C and Alberta were only collecting roughly $2 US per MMBtu in recent months and that's why they so badly want an LNG facility. However, the price differential may not be large enough for a company to justify constructing a massive export terminal.

Last month, Shell postponed a decision on its proposed plant in Kitimat, B.C. A few weeks later, AltaGas shelved development of its Douglas Channel LNG plant near Kitimat because of poor economic conditions and worsening global energy prices.

The market for natural gas liquids (NGLs), such as propane and butane, is also suffering because of the same market factors.

"The declining value of Canada's net NGL exports is partly the result of low NGL prices and increased competition from rising U.S. propane production, which has increased 40 per cent since 2011," said the National Energy Board in January.

Prices for natural gas and NGLs are not expected to increase for Canadian producers in the near future. There is surplus natural gas in the U.S. as that country begins to export its own gas through LNG facilities.

"We're seeing natural gas prices get pressured to lows that we haven't seen in 17 to 18 years," said Martin King, a commodities expert at FirstEnergy Capital in Calgary, in an interview with CBC News earlier this month. "It's a wake-up call for some portions of the industry."

Canada's largest natural gas producer, Encana, lost more than $600 million in the most recent quarter and said it would cut a further 20 per cent of its workforce.

While Canada's gas industry fully supports construction of LNG export plants on the west coast, there are concerns about the environmental impact of such facilities.

For instance, the proposed Pacific NorthWest LNG project could become the largest carbon polluter in Canada if upstream emissions are taken into consideration, according to the Pembina Institute, an environmental think tank.

"Canada promised in the Paris Agreement and Vancouver Declaration to reduce carbon pollution to address the climate crisis," said Matt Horne, Pembina's associate regional director for B.C., in a statement. "Stronger climate policies, not increased fossil fuel production, are the climate solution."

In addition, the group estimates the proposed facility could account for 75 per cent to 87 per cent of the emissions allowed under B.C.'s 2050 target.

## OIL OPTIMISM

For many ordinary Canadians the price of oil is much more than a financial play. Crude's two-year plunge to $26 US a barrel has shattered lives. Its recent rebound above $40 has inevitably sparked real optimism.

But while oil speculators can make a killing from short-term sharp rises and falls in prices, workers, homeowners, oil-producing companies and governments dependent on energy prices have reason to pause before altering their plans.

Short-term ups and downs in the price for oil have only a tenuous link to the world's long-term need for energy.

Cynics have pointed out that energy prices tend to go up when it snows in New York because so many traders there look out the window and say, "Gosh, it's cold; it must be time to buy." Short-term prices are volatile and based on speculative trading. Long-term prices depend on supply and demand.

There remains an enormous glut of oil in the world, stored in ships and trains and gigantic underground salt caverns, and there is little evidence that is about to suddenly change.

There are only two ways to begin eating into that supply glut. Either the global economy needs to begin using significantly more oil, or oil producers have to start extracting a whole lot less.

So far there are few signs that is happening. In fact, there are worrying signs of the opposite. Projects begun when oil was priced at more than $100 US a barrel are still coming on stream.

The news that sparked the recent uptick in oil prices was talk of an agreement between oil-producing countries to freeze, not cut, worldwide production. According to the International Energy Association, there are reasons to be skeptical about such an agreement.

"Even if there was an agreement on the freeze or similar, it would be unexpected that it would have major implications, at least in the first half of 2016," IEA executive director Fatih Birol said last week in an interview with Bloomberg News.

As OPEC has demonstrated, even strict agreements among a group of like-minded producing countries often end in cheating, as individual OPEC members put their own national finances ahead of the collective advantages of the cartel.

In the current state of the global economy, it is hard to imagine struggling national governments from Venezuela to Nigeria placing loyalty to an even looser collective above their own political survival.

And keeping track is hard. According to the Wall Street Journal, oil, once pumped, is actually disappearing from the global account books.

On the consumption side some other new data from the IEA was also discouraging for those hoping for a long-term jump in oil prices.

The association's data indicates that over the past two years, carbon dioxide output remained roughly constant. If $CO_2$ emissions are a proxy for fossil fuel use, that is a gloomy indicator for those hoping for a boost in consumption.

Spurred by international agreements at COP21 in Paris, the IEA data shows, the world's economies really are working out ways to live with less fossil fuel energy. And while general economic weakness has helped to stall oil demand, once economic growth picks up carbon-efficient technology will be even more advanced and cheaper.

In fact, each time oil prices rise, low-carbon tech becomes more competitive. At the same time, $40 a barrel oil puts many large world producers back into profit, reducing the economic need for global cuts in output.

While using historical comparisons may be an inexact tool because so many things are different, there are some indications this is too early for a major price rebound. For instance, the crash of oil prices from their peak around 1980 was similar in magnitude to what we have seen in the last two years.

In those days, fear of climate change was a factor that just didn't play. But even with a few small spikes, including during the first Gulf War, oil prices did not bottom out for nearly 20 years before beginning their roar up to their most recent highs.

Canada's oil business is far from dead. The low loonie continues to provide advantages over equivalent U.S. producers, although that advantage erodes as the Canadian dollar rises.

So far there is no obvious replacement for liquid fuel for the airline industry. As one reader pointed out recently, farming also continues to require huge amounts of fossil fuels with no commercial alternatives in sight.

While automobile fleets are replaced every 11 years, leaving room for a gradual transition to new technology, introducing carbon-saving tech in our housing stock will likely be a much slower process. There is no quick replacement for natural gas to keep Canadian houses warm during our long winters.

Society-wide transitions are inevitably slow, including the process of unwinding the huge global oil and gas machine to its optimum size.

The industry was built when people thought oil was rare and expensive. While the recent price surge is tantalizing for those who depend on that industry, the readjustment may take more time yet.

## JOE CECI STANDS BY $10.4B BUDGET DEFICIT DESPITE RISING OIL PRICES

Finance minister says oil's climb means 'good things for our budget,' but not a smaller deficit

Alberta's budget forecast remains at a bleak $10.4-billion deficit even with the recent rise in oil prices, says Alberta's finance minister.

At Joe Ceci's last budget update on Feb. 24, the price of World Texas Intermediate — the main North American contract — was hovering at $30 US a barrel. By Thursday, it was trading above $40 US.

"We have built in ... a price for oil forecasts going forward," said Joe Ceci.

"If this current increase in oil continues, then I think that would mean good things for our budget — meaning we wouldn't see the deficit increase, and we wouldn't have to go into more debt to maintain important services that Albertans rely on."

Ceci also said that the government is sticking to its plan to bring in a carbon tax effective January 2017, the details of which will be "rolled out as a piece of legislation after the budget."

Ceci said he does not think Albertans are dissatisfied with the way the NDP is handling the downturn, despite recent survey results.

An Insights West poll out Friday suggests that two-thirds of Albertans believe Premier Rachel Notley's NDP government will be ousted in the 2019 provincial election.

"That poll is probably not worth very much ... and not indicative of the work we're doing."

## LAID-OFF OIL WORKERS COULD FIND JOBS ON CANADIAN FARMS

While the oil and gas sector flounders, Alberta farms are struggling for a completely different reason: there aren't enough workers to go around.

In fact, research by the Canadian Agricultural Human Resources council says farms are currently short 26,000 workers.

The Council's Debra Hauer says the shortfalls are Canada-wide.

"Those jobs are across the country, from all provinces and also across all commodities, all production types." she says. " And also all types of jobs. So they are severe shortages and also pervasive shortages as well, too."

Hauer says if even if you've never worked on a farm you should consider it, since many of your skills could be transferable.

"There are quite a lot of transferable skills between the oil and gas industry to agriculture." she says. "That includes all sorts of skills to do with mechanics, truck driving, logistics, and all sorts of different types of skills."

She says you can find job openings on-line, or even by knocking on a farmer's door to see if they need help.

## OILPATCH REPRESENTED THRU CENOVUS CEO BRIAN FERGUSON NAMED TO TRUDEAU'S ECONOMIC ADVISORY COUNCIL

Council named just days before release of Liberal government's first budget

Alberta's oilpatch will have a voice on what could be the most influential group of people around Prime Minister Justin Trudeau and Finance Minister Bill Morneau.

Cenovus CEO Brian Ferguson is among the six men and eight women appointed to the federal government's new economic advisory council, which was unveiled Friday.

The group is made up of business and academic leaders — all of whom will be paid an annual salary of $1.

Their task is to help the government prepare a long-term economic growth strategy, set to be released by the end of the year.

"I look forward to working with the council members, whose diverse backgrounds and impressive expertise will inform our work as we develop and implement a strategy that will build on the foundation we will lay with budget 2016," Morneau said in a statement.

The Liberal government plans to table its first budget Tuesday, spelling out much of Ottawa's plan to boost productivity and economic growth.

## SQUAMISH WOODFIBRE LNG PROJECT GETS FEDERAL ENVIRONMENTAL APPROVAL

Company says the project will create about 100 jobs a year for 25 years

The federal minister of environment and climate change has approved the environmental assessment of a controversial

LNG project near Squamish, B.C.

The Squamish mayor and residents of the coastal town have repeatedly voiced their concerns and opposition to the proposed Woodfibre LNG project, which is expected to produce and export up to 2.1 million tonnes of LNG per year.

“The Woodfibre LNG Project underwent a thorough, science-based environmental assessment that considered public and indigenous input and views,” said Minister Catherine McKenna in a written statement.

“The process benefited from scientific and technical expertise, indigenous traditional knowledge and constructive feedback that helped to inform my decision.”

The decision includes a lengthy list of legally-binding conditions, including consultation with aboriginal groups, mitigating the impact on fish habitat and migratory birds, and implementing noise and air emission reduction measures.

The project cleared its first hurdle last October, when it was granted an environmental assessment certificate by the B.C. government.

That certificate includes 25 conditions meant to mitigate the negative impacts construction and operation of the plant will have on things like marine life and water quality.

The company proposing the project says the Woodfibre LNG plant will create more than 650 jobs per year during the construction phase, and about 100 full-time jobs for more than 25 years.

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