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FUMBLED TALKS REVEAL MUCH ABOUT OPEC, OIL MARKET

'This is the new world of oil,' analyst says. 'Power is more decentralized'

It's difficult to see what purpose the once-mighty OPEC serves following the recently much-anticipated talks to freeze oil production and drive up prices. This was the first substantial effort in a decade and a half to co-ordinate both OPEC and non-OPEC countries in a freeze that would boost prices, yet it ended in only more confusion across energy markets. Prices have been battered since late 2014 after OPEC rejected calls to rein in an oversupply of 1.3 million barrels a day — but they began rising sharply in recent weeks on rumours that top producers Saudi Arabia and non-OPEC Russia would push for the freeze. A freeze seemed logical enough but, having risen on the hype; prices tumbled again after the talks in Doha, as OPEC again seemed to be floating directionless on a sea of excess oil. This is highly significant, as even OPEC debacles like this can reveal much about the current fragmented and disordered state of our globe. Giants stumble for a reason. "This is the new world of oil," said Jim Burkhard, a market analyst observing the talks in the Qatar capital. "The oil market is a reflection of the world. Power is more decentralized. "Without firm leadership, major oil-producing nations want others to cut production without doing so themselves, which tends to make meetings rancorous, directionless and ultimately incoherent. Add to this the distrust factor. Because there is no central regulator of oil output, members can ever be sure other countries, like Russia say, won't cheat on any global agreement by simply falsifying production figures.

Still, the major cause for failure this time is the intense geopolitical rivalry pitting Saudi Arabia and its Gulf allies against Iran, a power showdown heightened by ancient religious rivalry that isn't likely to fade anytime soon. To the surprise of many, Russia has been diplomatically embarrassed by the Doha collapse after it risked major credibility capital by assuming the role of honest broker to bring Iran and Saudi Arabia together on the freeze. Russia has close relations with Iran and success would have added fuel to its attempts to emerge as a key player and dealmaker in the Middle East at a time when U.S. influence has weakened. Moscow also wanted to heal its past rifts with OPEC, enhancing still further its clout in global energy markets. The stakes were high, higher still the risks. President Vladimir Putin went out on a limb backing the effort, and Foreign Minister Sergei Lavrov "confirmed" that Iran would attend and the talks would succeed.

Diplomats are still trying to unravel the failure, but Moscow appears to have believed it had firm commitments from both Tehran and Riyadh that a satisfactory deal could be reached despite deep-seated animosities. For Moscow, this was uncharacteristic naiveté. Moscow kept trumpeting its confidence in an agreement even as Saudi Arabia announced, on the very eve of Doha, that it would reject a freeze unless Iran signed on, which Iran dismissed as a "ridiculous" notion. Iran, after years of suffering international embargoes and sanctions before it signed the nuclear agreement last fall, is determined to dramatically boost oil production, now at 3.2 million barrels a day and heading for over four million by next year. Russia seems to have misread not only Iran, but failed to grasp how unpredictable Saudi Arabia has become under its younger and more divided leadership. The veteran oil minister wanted an agreement, but chief policy maker and Deputy Crown Prince Mohammed bin Salman scupper the deal. These are stressful times for the Saudis and Russians — both are desperately in need of more oil revenue to cover rising deficits, growing military budgets and pressing needs to reshape their whole economic structures at home.

This makes them more competitors — guided more by urgent, raw self-interest — than plausible energy allies. Saudi Arabia seems to feel Russia is actively poaching some of its energy customers and, to counter a perception it's losing ground, reportedly intends to soon boost exports to Europe and Asia, which makes a freeze unlikely. The Saudis also are rumored to suspect — there's that distrust factor again — that, despite any agreement, the Russians would not be able to resist pumping oil on the sly at maximum capacity. It's too soon to gauge how much Russia lost at Doha, but analysts with the energy market publication Oil and Company News predict it will have "a chilling effect on future Russia-

OPEC cooperation and weaken regional perceptions of Russian influence. "The more immediate effects of Doha, however, will be damage to OPEC's own credibility as it can no longer be seen as the main and mighty driver of oil prices. There's even speculation OPEC's lead powerhouse Saudi Arabia is questioning the organization's future usefulness when so many big non-OPEC producers follow their own paths. To Saudi leaders like Prince Mohammed, OPEC seems increasingly unable to protect its basic market share, the critical concern in a country where most of the budget still rests on oil revenue. Even if OPEC convinced others to join in a freeze it might only backfire if higher prices revived the U.S. shale oil production phenomenon as a major competitor. U.S. companies, of course, are not government owned and could take advantage of a freeze with new production that might capture Saudi markets. This new oil world is forcing even Saudi Arabia to start charting a more independent future for their oil industry. There's open talk of even selling off to private investors parts of government-owned Saudi Aramco, world's largest oil producer. At the bottom seems the realization that neither Saudi Arabia nor OPEC and all its members, can really control oil prices any longer. It's far too complex a world for that now, and most will be grateful.

HOW TRUDEAU HELPS THE SAUDIS' SCHEME TO SIDELINE CANADIAN OIL

With the pain of rock-bottom oil prices leaving producers increasingly desperate, Saudi Arabia this week agreed in principle with Russia, to freeze oil output at January levels — essentially paying lip service to the notion of price stabilization, given that January's oil output was near a record high. Riyadh's tepidness towards shoring up oil prices raises a question: Why are the Saudis — long the champion of higher oil prices — content to continue the trend of plentiful, cheap oil exports? As federal and provincial politicians pat themselves on the back for their climate change 'leadership,' and pipeline opponents gloat about stalling construction of new Canadian pipelines, tanker-loads of foreign oil are delivered regularly to Eastern Canadian refineries, including increasing volumes from Saudi Arabia. The short answer is that the Saudis are conducting a not-so-subtle campaign of economic warfare against Canada and other upstart oil exporters to permanently cripple their respective oil industries. By enduring some short-term pain at US$35 per barrel or lower, the Saudis can sideline the likes of Canada and Venezuela and ensure a long-term command of the global oil market. Strangely enough, Canada is helping them do it. Saudi Arabia is no stranger to using oil as a weapon in its international relations. While everyone is familiar with the oil crises of the 1970s, often overlooked are the Saudis' actions in the 1980s. In September 1985, keen to both improve relations with the United States and belatedly punish the Soviet Union for its invasion of Afghanistan, and other misdeeds in the Middle East, Saudi Arabia flooded the world oil market, quadrupling its output in just six months. The Soviets, still floating on the sky-high oil-shock prices of the 1970s and heavily reliant on oil as a chief source of foreign hard currency, were hit hard. Economists put the toll on the Soviet economy at US$20 billion per year, signaling the beginning of the end of the Soviet Union. In a case of history repeating itself with a twist, Canada in particular now occupies the former role of the Soviet Union. A burgeoning oil producer with sizeable reserves, and an economy tied closely to its energy sector over the last decade, Canada's recent rocketing up the list of largest oil exporters has clearly not gone unnoticed. Venezuela, which too enjoyed its own oil boom over the last decade, is in a similar boat. The Saudi's arch-rival Iran, recently freed from punishing economic sanctions, is also set to get back into the oil game. Saudi Arabia, meanwhile, has clearly had enough. While high oil prices benefit — and essentially sustain — the kingdom, they also pose significant risk. With competition from Canada and Venezuela, and the suddenly formidable U.S. shale regions, the Saudis risk losing market share to countries without the same political, environmental and ethical baggage. In particular, as greater U.S. market share goes to its more politically palatable oil-producing rivals, the Saudis also face the loss of clout with Washington. The Saudis have abdicated their long-standing role as a "swing producer" and are content to let the oil flow, disclaiming any personal responsibility for influencing prices by placing the blame on increased U.S. oil output. The kingdom has opposed requests for an emergency OPEC meeting, and was also cool to calls for a slash in output during a meeting last week with Venezuela's oil minister, agreeing in principle only to a freeze at near-record high production levels. With a plentiful supply of oil and cash reserves to the tune of over US$650 billion to withstand a period of wilting prices, the Saudis are well-positioned to simply hunker down and batter its nascent rivals out of business. The twist to this story comes in the manner in which the Canadian government unwittingly plays into the hands of the Saudis. So proud is the Trudeau government of its action on environmental stewardship and climate change that it essentially does the Saudis' dirty work for them. By tightening the screws on domestic Canadian production while seeing an increase in Saudi-originating imports — the Financial Post reporting recently on the significant rise in imports of Saudi oil by Canada — we are helping to accelerate the rate of our own energy-sector's decline.

SUNCOR TO BOOST DISCLOSURE ON POLITICAL LOBBYING AND PLANS FOR 'LOW CARBON FUTURE'

Company to list trade associations that lobby governments to which it pays membership dues

Suncor says it will be provide more information about political lobbying and how it plans to compete under tougher climate-change policy. The company said Monday that the information will be included in its 2016 report on sustainability, to be issued in July.

The move comes as shareholders push for more disclosure at Suncor's annual meeting later this month. As part of the changes, Suncor says it will provide information about how it expects "to succeed in a low carbon future. "It will also publish its policy on lobbying and political donations, as well as list trade associations that lobby governments to which Suncor pays membership dues greater than $50,000 and $100,000 per year.

The company will also continue to disclose its political donations.

CHINA NOT EXACTLY STRIKING IT RICH IN CANADIAN OILPATCH

Prize asset in CNOOC-Nexen deal still struggling to live up to expectations

The Chinese-owned Long Lake facility in Alberta's oilsands could be shut down for a few years after a fatal explosion in January. The ongoing investigation represents another setback for Nexen and for Chinese investment in the Alberta oilpatch, to the extent some experts wonder whether China has any interest left in Canadian resources. Calgary-based Nexen was purchased by China's CNOOC Ltd. in July 2012 for $15.1 billion in cash. Nexen had assets around the world, but the Long Lake project was the centre piece of the deal as China was looking to gain a foothold in the Alberta oilsands. Long Lake had a history of problems as it tried to live up to its production targets and the struggles continued as the facility moved into Chinese hands. "On a cash cost basis they would have been struggling even without the shut in," said Kevin Birn, an oilsands analyst with the IHS Energy Group. "It's not very pretty. Nexen is backed by one of the world's largest oil companies, so it's not a threat to the stability of the company, it's how do they feel about that asset over the long term." The recent problems at Long Lake began with a pipeline spill in July when five million litres of bitumen, sand and oil leaked from a pipe at the facility. The plant had to temporarily shut down. In January, two workers were killed after an explosion at the facility's hydrocracker. Ever since, the facility has reduced its production dramatically. Occupational Heath and Safety (OHS) is investigating the explosion and has a stop work order for an area of the facility where the fatal explosion occurred. The investigation could take up to two years and OHS may recommend crown prosecutors lay charges against the company. Currently, the facility is allowed to produce about 20,000 barrels of oil a day compared to the facility's capacity of 70,000 barrels a day. "It's the minimum level necessary to keep the bitumen in the lines from solidifying and it allows the entire facility to remain at a near idle state until they are authorized to go back into full production," said Riley Bender, a spokesman with the Alberta Energy Regulator. Nexen did not respond to several requests for comment.

CNOOC's purchase of Nexen was good news for Nexen shareholders. They received a 61 per cent premium over the share price when the deal was announced.

"It was almost like a white knight coming in and paying a fairly decent price relative to the price of Nexen at the time," said Lanny Pendill, a senior analyst with Edward Jones.

But, four years later, industry watchers consider the deal a financial blunder for CNOOC.

Long Lake has been considered one of the most carbon intensive oilsands projects, which likely does not bode well since the Alberta government's carbon tax will come into effect at the start of 2017. Oilsands projects are complex, energy intensive facilities that use high temperatures to extract bitumen from the ground. Pendill suggests part of the issue is the "direct result of CNOOC starting to manage the business," ithout oilsands experience. The deal isn't regarded favourably in China, either. "Today, most people view that as a failure," said Edy Wong, an associate dean at the University of Alberta, who studies international business. "They overpaid for the asset and they have not been able to do very well." Purchasing Nexen allowed CNOOC to diversify its assets, but Wong said this deal is like many other Chinese investments in the Alberta oilpatch — the revenues have not met expectations. "From the perspective of state companies, the large enterprises, Canada is probably not considered to be a very attractive destination," he said. "Companies like CNOOC, Sinopec,

etc — Canada has not worked out very well for them and consequently, they are not looking to Canada as a place where they will increase their investment in the near future."

Wong suggests Chinese companies are having much more financial success from operations in Africa, central Asia and to a lesser extent in South America.

"When we look at a lot of the medium sized companies from China, who have invested in [Canadian] junior oil companies, most have not turned a profit. The rate of return for even the big companies, it's not there," he said.

The reason Chinese investments haven't always paid off is because of several factors. Many deals occurred when oil prices were high and there have been two downturns in the last decade.

"Unfortunately the Chinese did a lot of deals before the last crash in 2009. There has been a recovery but now another crash," said Pendill, the Edward Jones analyst. "There's been a lot of headwinds combined with paying a high price and not managing the assets as best as they could."

The poor track record of Chinese investment in the oilpatch raises questions about whether there will be any more buying in the coming years. Concerns about whether any export pipelines will be constructed is another reason why future investment is not a sure thing.

Still, Pendill is not ruling it out.

"I don't think the Chinese are done, even inside Canada and the oilsands," he said.

China's population keeps growing and so does its demand for energy. It must look outside its borders to supply its needs for decades to come.

"Hopefully they've learned from their mistakes and those future investments will turn out better than past investments have."

IS THE U.S. FINALLY CHANGING ITS TUNE ON THE OIL SANDS?

When you have only one customer for your product, that customer is always right. Even when that customer is acting hypocritically, this is the case with the Canada-U.S. energy relationship today We now know the precise distance between "one of the dirtiest sources of fuel on the planet" and "a much more nuanced story." It can be measured in months—five, to be exact. That knowledge comes to us courtesy of U.S. climate envoy Jonathan Pershing, who last week characterized the Canadian oil sands as "a much more nuanced story" than what U.S. Secretary of State John Kerry wrote in his letter rejecting the Keystone XL pipeline exactly five months to the day earlier. The newly-appointed Pershing was on his first official visit abroad and was promoting the idea of carbon offsets for the oil sands to the Canadian news media. The apparent U.S. re-calibration comes ahead of Prime Minister Justin Trudeau's visit to the United Nations in New York on Friday, where he will sign the 2015 Paris climate agreement and commit Canada to reducing its greenhouse gas emissions to 30 percent below 2005 levels by 2030.

But does Pershing's statement signal a real change of heart in Washington over the oil sands? Was it a hat tip to the new and aggressive greenhouse gas-reduction policies of the Canadian and Albertan governments? Perhaps. But it's also a reminder that when you have only one customer for your product, that customer is always right. Even when that customer is acting hypocritically, which is the case with the Canada-U.S. energy relationship today. For all of Secretary of State Kerry's bluster about "one of the dirtiest sources of fuel on the planet," the U.S. was even then expanding its imports of that fuel by 10 percent, and has continued to set new all-time highs for oil sands imports in the subsequent months for whichdata is available. Who, then, is Pershing's "much more nuanced story" meant for? Former Canadian Kyoto Protocol negotiator and private investment manager, Chris McDermott, says the message may be coming from the Canadian government itself. "You can look at it as a diplomatic misstep—that Pershing's just up here proposing things to the Canadian press which he doesn't seem to be proposing to politicians first," McDermott says. "Or, the other thing that's probably going on is that [Environment Minister] Catherine McKenna is scared of the Canadian Association of Petroleum Producers and would rather the Americans—as Canada's biggest customer—promote carbon offsets as a messenger on behalf of the Canadian government." It may be too soon to tell whether the Trudeau government is favoring back channels over boulevards in its energy strategy. And it's certainly too soon to tell whether Pershing's softer tone on the oil sands marks a real turning point, or if Canadian oil production will continue to catch verbal abuse from its lone, increasingly ravenous, customer. There is, of course, a third possibility, which is that there is no real coordination on carbon happening at all. Evidence for that can be found within Canada, where our consultation-heavy government has announced the creation of new federal-provincial working groups to examine carbon policy areas and report back to Ottawa with proposals for a climate plan next fall. What's more, the environment ministry on Thursday will host a live Facebook discussion with McKenna encouraging Canadians to find and submit their own solutions to climate change. The event is a bit of promotion for an even more ambitious consultation initiative: The launch of a new government website where all Canadians will be asked to advise Ottawa on their carbon-cutting strategies.

It's one boulevard that promises to be crowded with the most extreme views on all sides. We might be well advised to avoid it.

1391-100th Street
North Battleford, SK S9A 0V9
Fax: 306-445-3513
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Wally Lorenz - Agent
Tel: 306-843-3296
Cel: 306-843-7898
email: znerol.w@sasktel.net
http://wallylorenz.point2agent.com

RE/MAX OF THE BATTLEFORDS
REALTY SPECIALISTS INC., BROKERAGE
INDEPENDENTLY OWNED AND OPERATED

Dorothy Lehman- Agent
Tel:306-446-8800
Cel: 306-441-7782
Fax: 306-445-3513
email: jd.leh@sasktel.net

RE/MAX OF THE BATTLEFORDS
REALTY SPECIALISTS INC., BROKERAGE
INDEPENDENTLY OWNED AND OPERATED

Kayla Petersen - Agent
Tel: 306-446-8800
Cel: 306-481-5780
email: kmb@sasktel.net