Sign Up with the Oilfield News Online

Oilfield NEWS

www.oilfieldnews.ca

Published By: NEWS COMMUNICATIONS since 1977

Wednesday November 30th, 2016

WHAT'S AT STAKE FOR CANADA, MEXICO AND THE U.S. IN TRUMP'S NEW NAFTA

Canada and Mexico say they are ready and willing to reopen NAFTA – if that's what Donald Trump wants. Are they happy about it? Most definitely not.The North American free-trade agreement has been the glue that has bound the economies of the three countries since 1994. And before that, there was the 1989 Canada-U.S. free-trade agreement. All three countries have gained in the arrangement by cutting tariffs and other barriers. The combined GDP of the three erstwhile amigos has tripled.And now, the U.S. president-elect, who won the White House by promising to bring millions of jobs back to the United States, wants a new and better deal. So what's at stake for the three countries in a NAFTA 2.0?The United StatesExactly what Mr. Trump wants is not clear, short of bringing "jobs and industry back on to American shores" – as he explained in a video manifesto released this week. The video, which outlines plans for his first 100 days in office, makes no mention of NAFTA.And yet, dumping on the deal was a huge part of Mr. Trump's campaign. And reversing the large U.S. trade deficit (a combined $76-billion U.S. last year with Canada and Mexico) remains a key target of his team as it prepares to move into the White House in January. A memo, obtained recently by CNN, says Mr. Trump intends to propose changes to the treaty on issues such as currency manipulation, lumber, country-of-origin labelling for meat as well as environmental and safety standards.Mr. Trump talked during the election of a 35-per-cent tariff on Mexican imports and punishing U.S. companies that move there. Mr. Trump's team also wants to scrap a NAFTA provision that allows Mexican and Canadian companies to challenge U.S. regulations outside the court system, according to the Wall Street Journal. It is not clear whether this refers to the dispute mechanism system, which has been used successfully by Canada to fight off duties on lumber and steel products, or the more controversial Chapter 11 arbitration system that allows foreign investors to directly sue NAFTA governments for compensation. Doing away with the investor regime would be self-defeating: U.S. companies have launched – and won – more of these cases than Canada and Mexico combined. Canada Punishing Canada might not be a winner either. Yes, Canada enjoys a trade surplus, but it's been shrinking. It was $15.5-billion (U.S.) in 2015, down nearly 60 per cent from the year before, mainly because of tumbling oil and gas prices.U.S. exporters love Canada. It is the single largest market for U.S. goods and services, accounting for 15 per cent of everything the United States sells to the world. There is a high degree of integration within industries such as autos, aerospace and food products. Nearly two-thirds of products and services that cross the Canada-U.S. border are inputs for final products. Car parts typically cross the border multiple times before a vehicle reaches the consumer. And roughly 13 per cent of imports from Canada go into U.S. products sold to third countries.Mr. Trump apparently wants to target Canadian lumber and livestock exports. Open the deal and Canada's heavily protected dairy market could also be on the table. But making Canada pay may not repatriate U.S. jobs. The United States has already effectively removed lumber from NAFTA, forcing Canada into a managed trade deal. The last thing the U.S. lumber industry wants is for lumber to be put back in NAFTA. Perpetuating or increasing those restrictions will also make lumber – and U.S. homes – more expensive.The same applies to livestock. Reinstating U.S. country-labelling rules, which Canada and Mexico successfully removed through previous trade action, would make meat at U.S. grocery stores pricier.Mexico

Perhaps no country has more to lose in all this than Mexico. It has been the focus of much of Mr. Trump's fiery rhetoric on trade and immigration. If Canada is the outer ring of Mr. Trump's bull's eye, Mexico is dead-centre. The U.S. trade deficit with Mexico rose nearly 10 per cent in 2015 to $60.7-billion (U.S.). Canada's deficit was $15.5-billion (U.S.).Mexico could fight any punitive tariff at the World Trade Organization. Mexico might respond with duties of its own, which could hit some of the top five U.S. exports to Mexico: machinery, electronic products, vehicles, oil and plastics.And there is something else

Mr. Trump might want to ponder. NAFTA has helped Mexico develop a middle class and a more diversified economy. Walling it off again would send it into a downward spiral of poverty and instability – precisely the conditions that triggered previous waves of illegal immigration.

MASSIVE TEXAS OIL FIND FUELS ALBERTA'S CALL FOR CANADIAN PIPELINE

Once Alberta's biggest customer, the U.S. has now become the province's biggest competitor, minister says

A massive oil find in the heart of west Texas is adding a sense of urgency to Canada's quest for new oil markets."We watch all discoveries and question what that means for Alberta," says Alberta Energy Minister Margaret McCuaig-Boyd."It just shows us that it's critical for us, for Alberta and Canada indeed to diversify our markets and get Canadian pipelines to Canadian ports and Canadian tidewater."The Wolfcamp formation is estimated to contain 20 billion barrels of oil, 16 trillion cubic feet of natural gas and 1.6 billion barrels of natural gas liquids, according to the United States Geological Survey.

Though the find is not expected to have a significant effect on prices or markets for Canadian oil in the short term, the Alberta government is paying attention.The find is another reason why the province is losing interest in the Keystone XL pipeline, which was intended to move Alberta's oil to refineries along the Gulf of Mexico.While government and industry are still assessing what is best when it comes to Keystone XL, it's clear that shipping vast quantities of oil to the United States is no longer the preferred option, McCuaig-Boyd said."They were our biggest customer at one time. They've now become our biggest competitor."Federal Natural Resources Minister Jim Carr said last week the Keystone XL pipeline has become less of a priority as governments move to expand export markets.Wolfcamp is three times the size of the massive Bakken formation that spans North Dakota and parts of Montana, Saskatchewan and Manitoba."It is the largest continuous oil assessment that the USGS has done in the U.S. to date," said Stephanie Gaswirth, a geologist with the agency. The formation, which surrounds Midland, Texas, near the border with New Mexico, has produced conventional oil for decades.The new assessment reveals how much more oil and gas can be produced through hydraulic fracturing."Now that industry has the technology to go in with horizontal wells and can hydraulically frack those wells, it makes it feasible to recover the resource in this manner," Gaswirth said.Experts on both sides of the border said the Wolfcamp formation will not cause any major disruptions to Canadian oil markets in the immediate term.Robert Skinner, an energy policy expert at the University of Calgary's school of public policy, called the Wolfcamp news "an overcooked announcement."

The USGS finding is an assessment of potential extractable oil, not a known reserve, he said."It's not a discovery of new oil. What it is, is an announcement by a government agency that's looked at some of the shale formations," he said. "It's not going to be a significant jump in production from this. It's just, 'Here's more of this same old oil.' "

But Bernard Weinstein, associate director of the Maguire Energy Institute in Dallas, sees it as a far more significant finding that will benefit all of North America."Indeed, if you put Canada, the United States and Mexico together and you look at our reserves and our potential output — we're another OPEC."Weinstein said Alberta oil will have a role to play in the U.S. energy market regardless of the Wolfcamp development.The Gulf Coast refineries where some of Alberta's bitumen is refined are specifically designed to handle heavy oil, he said.Weinstein said the unknown factor is the cost of producing oil from the Wolfcamp formation.Because of the downturn in prices, Alberta oilsands producers have worked to reduce the cost of producing oil, and those lower costs may be of benefit as more so-called unconventional oil is poised to enter the marketplace.