What $50 A Barrel Oil Means for Canada

Monday May 11th, 2015

Notes By Nichole Ekkert-Vine

**Opening Remarks:**

Maureen Boyd, Director of the Carleton University Initiative for Parliamentary and Diplomatic Engagement

**Panelists:**

- Adam Sieminski, Administrator, U.S. Energy Information Administration

- Alex Ferguson, Vice-President, Policy and Performance, Canadian Association of Petroleum Producers

- James Meadowcroft, Canada Research Chair in Governance for Sustainable Development, Carleton University

- Glen Hodgson, Senior Vice-President and Chief Economist, Conference Board of Canada

**Moderator:**

Velma McColl, Principal, Earnscliffe Strategy Group

**Closing Remarks:**

Dr. Pauline Rankin, Associate Vice President, Research and Internationalarleton University

**Velma McColl, Moderator**

* Global Changes Cutting Deep
  + Economics of energy are changing
  + Oil prices have dropped 50% since June 2014, below $50 per barrel in Q1 2015
  + Slow climb to $60 per barrel but mixed reviews on its stability
* The View from Different Provinces
  + Alberta
    - Oil is 15% of Alberta’s revenue, with royalties up to 30%
    - Layoff and job losses in 2015 are greater than 35,000
    - Oil and gas investment to decline 30% in 2015
    - Also hit Saskatchewan and Newfoundland badly
* The Fundamentals Have Changed
  + Shifting dynamics in transportation, electricity, energy production and changing economics
* Climate Change
  + Energy consumption increases at low prices, and we can see this in the US
  + Also likely increases GHG emissions
  + Solar, renewable, and wind energy face tougher economics even though they are increasingly cost-competitive
  + Climate change rules also driven with push from Paris
* Political Realities in Flux
  + Balance of influence shifting between federal and provincial governments on energy and climate
  + Canadian energy strategy through CFO
  + Provincial carbon pricing and everyday policies
  + Federal election in October
    - Different visions from parties on market strategies on low carbon economy
  + US election is in 2016 will also affect what is happening here
* Temporary or Permanent Shifts?
  + What will these shifts mean?
  + What does this mean for energy and fossil fuels?
    - Fluctuating oil prices and everyday economics for renewables
    - Shift in political/policy dynamics to greater experimentation, less of the status quo
    - Canada is not in control of terms of engagement

**Adam Sieminski, United States Information Administration**

* This is the sixth time that oil prices have collapsed in Adam’s career. Will this change? Yes, but we don’t know when. The timing is going to keep changing
  + Between their 2014 and 2015 publication, the EIA has predicted that the markets will re-balance and oil will go back up to about $75 a barrel
* If you are a producer supplying oil, this is a hurting time, however the average household in the US will have $750 more to spend in the year 2015 than in 2014. This can be seen as positive.
* You need to talk about ranges in prices if you are going to try and product oil prices. Otherwise predicting it is impossible.
* The range from some companies right now is looking at $30 to over $100 per barrel. But what are policy makers supposed to do with this?
  + This topic is re-addressed further down in the notes
* Shale oil revolution in the US has started to slow down
  + The four main provinces in the US for shale oil have barely been growing at all, and may be in the negatives in the future.
  + Over the next few years, oil production in certain places will go down and all the producers will even out. As the market evens out, the price does too.
  + Oil demand is going up about 1 million barrels per day. If you are going to demand this much, something is going to break, and it did. The price of oil “broke”.
  + Most of the growth in oil demand is happening outside of Canada, US, and Europe. It is happening in Asia, Latin America etc. If you want to understand the oil industry, don’t just look at Alberta and Texas
* Reduction in energy intensity largely offsets impact of GDP growth, leading to slow projected growth in energy use.
* In the transportation sector, gasoline consumption in the US in on the decline. Diesel fuel and jet fuel will continue to rise however because more people are coming to the US.
* If oil prices remain low, it will peak soon and come down over time. If it is liquid gas, LNG exports will grow and we would see pipeline exports to Mexico.
* One of the things the Canadian government is thinking about now is where to position ourselves in the Paris dealings.
* When we look at substituting coal for natural gas, we never see quite the peak in the US that we formally see, in this scenario.
* Right now it is a very exciting time. The EIA is looking to show the energy flow on a map between different countries. They want to extend this to Mexico and Canada.

**Glen Hodgson, Senior Vice-President of the Conference Board of Canada**

* 2015 has been a $40 billion hit if you are in the oil and gas industry
  + There has been a 25% - 30% slow in growth
  + We have seen many layoffs in Calgary and Edmonton, and we may be seeing a recession here. Clearly if you are in the oil patch you are seeing this.
  + Newfoundland is also in recession, dealing with a $1.1 billion hole.
* For average consumers however this seems like a good thing — an extra $50 per moth for Canadian families.
  + The oil producing provinces are suffering, but in Ontario we are seeing a growth of 3%, and 2.5% in Quebec.
  + Depending on where you sit the effect is very different.
  + It was determined that the price would be $55 per barrel at this time, and we were pretty close.
  + 2-3 years from now oil will be a predicted $75-$80 per barrel
  + Growth will pick up in Canada next year, however not by much.
  + When building pipelines like the ones in progress, the first step is to get the licensing which can be tough.
  + The analysis has been done and it is looking good for Canada.
* Fiscal tools to put a price on carbon - action at the provincial level makes more sense
  + For example, carbon tax in BC has been successful, and we may see this coming to Ontario.

**Alex Ferguson, Vice-President of Policy and Performance at CAPP**

* Association of Petroleum Producers (to clarify, not part of the pipeline association)
  + Representing cross-Canada industry
  + They employ half a million people in Canada
  + 25,000 suppliers across Canada, 1,500 outside of western Canada
  + $18 billion in taxes and royalties per year
  + Looking at a significant drop in that (50% in royalties, $7 - $8 billion)
  + Forecasted 50%+ decline in drill, and heavier on non-oil sands side
  + Capital expenditure 40%-50% drop from last year
  + $60 billion decline in revenue this year
* Putting things into perspective
  + This loss is equivalent to the total revenue of the Canadian mining industry
  + This has had a significant impact on our country
* Some people compare this drop to the 2008/2009, however it more like the drop in 1990.
* Alberta has to take care of their own cost structure because they cannot control the price of oil.
  + Example: $15 discount on a $50 barrel is worse than $30 off of a $100 barrel.
  + Buyers and sellers say it is a very fragile time. Not knowing what is going to happen in the next few years is a critical driver.
  + Substantial inventory of deferred and cancelled projects

**James Meadowcroft, Canada Research Chair for Sustainable Government**

* What does $50 mean to renewables, sustainability, and climate change?
  + It’s complicated, unfortunately.
  + Firstly, there are impacts that come from lower oil prices. Lower oil prices means more consumption, and more oil consumption means more carbon dioxide into the air.
  + This is looking bad for climate change.
* If fossil fuel is cheaper, this makes it harder for renewables to be competitive
  + Most renewables are not competing directly with oil because oil does not have a place in the power sector. They are competing with other things in the power sector.
  + In the transport sector, then you could say there’s competition for oil.
* Climate change and sustainability are being affected, but not so much renewables.
  + Climate change is what we need to focus on.
* Viewing the short term and viewing the long term
  + In the long term, it may not matter what the price of oil is.
  + Climate change requires a set of policies and a long term transition to lower carbon.
* Emerging realities:
  + The science of climate change suggests that if we want to bring this issue under control, we have to dramatically reduce carbon. Don’t stop using fossil fuels, but stop producing greenhouse gasses.
  + There are risks and it will take a while, but the fact is that emissions have to get down to a small percent of current emissions.
  + By the middle of the century, large countries such as Canada will have to cut down.
* Assume that in the next 20 years, climate change shows itself more aggressively, and politicians take notice of this. Oil prices will not be what we think they will be.
* Different actions need to be followed in different regions to reduce carbon.

**Velma McColl Concludes, Questions to Follow**

* Change in the economic fundamentals of energy projects
  + There is no major energy business in Calgary that isn’t thinking about being more efficient.
  + Some of these efficiencies will come from reduction in carbon (economic and environmental efficiencies)
* Broader Structural Change
  + Is something about this different? What are we doing differently now?

**Glen Hodgson Answers:**

* We now have really advanced technology that is becoming more economic over time, such as batteries that hold energy. We are seeing newer and cleaner options, but will they make it past Canada to other countries? Will the Chinese get there? Shut down their coal powered plants?
  + The Chinese won’t cap their greenhouse gas emissions until 2035.

**James Meadowcroft Answers:**

* Technological innovation is taking place quite rapidly in the energy sector. We are seeing the development of new renewables and battery technologies.
  + These could play a critical role in the key sector that we don’t have a solution for, which is transport and personal transport.
  + The potential for renewable transport is growing.
* The international field shows that China understates the goals that they will accomplish, so that they can surpass them.
  + The pollution is reaching major proportions and has become a government problem.
  + We are developing renewable technologies in North America, but in 20 years will we be selling to the Chinese, or will we be buying from them?

**Alex Ferguson Answers:**

* Things are changing and one of the most important aspects is the interaction of the natural resource sectors in Canada.

**Velma McColl, Second Question**

* Some oil companies are coming together to reduce their economic footprint.
* What are your comments on the global and North American dynamic?

**Adam Sieminski Answers:**

* Dealing North America is important because we are so big. The opportunity for best practices is in regulatory reform. There are tremendous opportunities to move forward.
* There is joint interest between the US and Canada, and Mexico may join in with railroad safety.
* Last year when EIA did the longer version of the energy outlook, they wanted to know what would happen if they imposed a carbon fee/tax. One thing they saw was renewables and natural gas, potentially nuclear power in the US.
  + The key is to still use some fossil fuels, but tackle carbon at the same time.

**Velma McColl, Third Question**

* Many have asked, “What is a policy maker to do?” With the downturn in oil, what is the answer to this?

**Glen Hodgson Answers:**

* Eco-fiscal commission. Maximum environmental impact at lowest risk for the community.
* It would be hard to charge a standard carbon price for Ottawa. What is most important is creating action from a provincial level.
* A carbon trade system linked in with California is where we can start.

**Alex Ferguson Answers:**

* CAPP tries to give advice to governments on a regular basis. But one thing they do is show the complexity of the environment. If you pull just one wire, the rest of the web goes haywire.
* It is a source of wealth for policy makers to gain this data.
* Does Canada need an EIA?

**James Meadowcroft Answers:**

* A carbon price is great. We do however need to back off from thinking about climate change on a 3-4 year change. Look at it from a 3-4 decade perspective and how we can make changes.
  + It will look different from province to province.
  + What are the resources in a low-carbon economy that are important? We need to look at this.
  + The Canadian government is looking at a low-carbon economy plan.

**Adam Sieminski Answers:**

* What is a policy maker to do? When it comes to energy policy, it is frustrating because economic policy and national security policy take precedence.
* Policy makers should strive to use market solutions whenever possible. The politicians themselves understand that.
* Emphasizing diversity in supply and demand is something most nations have found in their long-term self-interest.

**Questions from the Floor**

**Leon Benoit, MP and chair of the Standing Committee on Natural Resources:** The Alberta premiere says they want to diversify the economy more. Canada is already refining more than we can use. The premiere says they will encourage refining. What are your thoughts on what this move could do to the Alberta economy? Refining produces very little jobs. What does this focus/government intervention do to the Alberta economy?

**Alex Ferguson Answers:**

* It is good to have these economically viable transactions happening.
* On the natural gas side, there are some hurdles. There is trouble finding somewhere to put propane and liquids. This could be looked at.
* Is there an opportunity with Ontario with the pipeline coming in for refining?
* In the end it is up to the policy makers.

**Adam Sieminski Answers:**

* In general and in the US, diversity in the petroleum sector can be seen in different ways.
  + Regional: Do you want to invest in one country, or more countries?
* The terminology:
  + Upstream: Production
  + Midstream: Moving things around
  + Downstream: Refining and marketing
* The companies that have lasted the longest, have diversified vertically. They have been in transportation and refining etc. There is value in diversification.

**Glen Hodgson Answers:**

* Diversification is a good idea in theory, but it depends on how you do it.
* You may see that you will be getting a good payback, with little jobs to show for it.
* Public policy may show diversification in the future.

**Adam Sieminski Answers:**

* You want to be sure you are doing something that makes sense in the marketplace.
* Diversifying for the sake of diversifying is not a good strategy.

**Question from Raymond Cote, M.P. Beauport--Limoilou, Quebec:**

**Alex Ferguson Answers:**

* We are seeing the situation in Alberta and comparing it to what it looked like in 1990.
* Many of the expectations we have are gradually increasing over time.
  + In 2008 Alberta did not have that. It was more of a capital problem as opposed to the revenue problem there is now.
  + We have to gain the investors to get a return, but the resources invest too.

**Adam Sieminski Answers:**

* Saudi Arabia, Iran and Iraq have a lot of oil, and if all of this oil came into the market, we could have low oil prices for a long time.

**Final questions from the floor are answered all at once, for reasons of time**

**Question 3:** If we are talking about policy, we seem to be missing someone on the panel. We also need the federal government engaged. Listening is good but being engaged is better. How do we make sure the federal government takes a leadership role to ensure issues are tackled?

**Question 4:** Should Canada adopt the Norwegian example of benefitting from natural resources?

**Question 5:** Should we redefine what GDP means and contains? Should we be measuring costs of pollution, etc. GDP has been growing, but median incomes have not changed. Is it going to help having that extra $600 per family?

**Question 6:** 80% of investments will have to be put towards balancing oil production. Any comments about if Canada is positioned to benefit from the trend?

**Glen Hodgson Answers:**

* Addressing question number four:
  + Royalty revenues should not flow into the budget.

**Adam Sieminski Answers:**

* Addressing question number four:
  + Showing the spread of oil revenues and how it has helped.
  + There are a lot more people here than in Norway – 5 million versus 35 million
* Addressing question number five:
  + What are we supposed to measure? What goes into GDP? Should we be measuring happiness? Maybe this really would be a better way to measure improvements.

**Alex Ferguson Answers:**

* Addressing question number six:
  + Oil shale and natural gas shale needs investment. We are getting this from the source rock.
    - In the US, 6% of the oil comes from the source rock and 11% of natural gas.
* Canada has an enormous deposit as well as Columbia, Poland, France etc. France however has banned fracturing for this oil and gas.
* Technology is going to make a big difference in the near future.

**James Meadowcroft Answers:**

* Addressing question number five:
  + There are many critiques by economists who have calculated GDP. If GDP goes up, it shows people are better off, so they say. But this may not be true.

**Dr. Pauline Rankin, Associate Vice-President, Research and International, Carleton University - Closing Remarks**

* Thank you to everyone who made this panel a success.
* Carleton University is both well qualified and pleased to contribute to the energy debate through sponsorship of policy panels like this.
* Carleton provides interdisciplinary research and undergraduate and graduate degree programs in areas such as energy economics, governance, and alternative energy sources. There are sustainable energy programs in Engineering and in the School of Public Policy and Administration as well as research chairs in Engineering in energy-related issues.