Hilliard's Weekend Notebook

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Alberta tries to save the oil sands

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The Government of Alberta ordered producers to cut their production of heavy oil by 8.7 percent on January 1, 2019.

Claiming to represent the "owners of the resource," the Notley government decided on this extraordinary intervention into the market. The restriction of supply is expected to make prices rise.

Will the heavy hand of government intervention achieve the desired result?

One of the government's most vocal supporters in the private sector, Cenovus CEO, Alex Pourbaix said:

"Under normal circumstances, oil and gas producers would never advocate for government intervention … but these are not ordinary circumstances … we advocated for this mandatory production cut because we continue to believe it is the only short-term solution to the extraordinary situation Alberta finds itself in."

Cenovus is a spin-off from Encana, the former Alberta Energy Company (AEC), an Alberta government-owned corporation in the 1970s.

Pourbaix, a year into his term at Cenovus, moved from TransCanada Pipeline, where he was involved in planning for the delayed Keystone XL expansion and the now-defunct Energy East project.

Canadian Natural Resources (CNRL) CEO Steve Laut, until recently a vocal critic of the NDP government, had some praise for Notley: ***"She's on the right track … I think most people agree we don't want the government to intervene … but when you have a broken market, it's incumbent on the government to step in,"*** he said.

Premier Notley said the cuts are necessary because of the low price for Western Canada Select, a blend of bitumen and an expensive liquid called "diluent".

"We cannot continue to hold ourselves hostage this way," Notley said. Claiming that Alberta's resource owners are receiving only 1/5 of the world price she said, ***"That makes no economic sense."***

Notley blamed successive federal governments and called the lack of market access a ***"national crisis."***

But others objected. Imperial Oil's CEO Rich Kruger warned of "unintended consequences" from the curtailments. In 2017 Imperial Oil wrote off 3.5 billion of Alberta oil sands reserves as uneconomic, announcing it will henceforth concentrate on developing its growing shale oil division in the Texas Permian Basin.

Many foreign companies are trying to leave the province. In March 2017 Shell (a British-Dutch company) sold some of its Alberta assets to Canadian Natural Resources, for $12.7 billion.

In 2016 Statoil, Norway's largest oil company, exited Alberta with a sale to Athabasca Oil.

Starting In 2015, Total, head office in Paris, France, sold some of its assets in the Alberta's oil sands to Canadian Natural Resources and stated it would like to sell the balance.

In March 2017 ConocoPhillips sold most of its Alberta assets to Cenovus for more than $17 billion.

Husky criticized Notley's decision, saying there could be ***"serious negative investment, economic and trade consequences."*** Husky is owned by Li Ka-Shing, a Hong Kong-based billionaire.

Suncor opposes the production cuts. All three large companies that oppose the cuts operate refineries that benefit from the very low price of bitumen used as feedstock.

Suncor, owner of the former Petro-Canada and part of Syncrude, said that it ***"believes that the market is the most effective means to balance supply and demand."***

This type of government action happened once before, almost 40 years ago under then-premier Peter Lougheed.

In 1981 the Alberta government mandated a series of production cut in response to the National Energy Program of 1980. Starting on March 1, 1981 Alberta production was cut by 60,000 barrels/day with further cuts planned for June 1 and September 1. The cuts lasted until August when the federal government caved to Alberta's demands. The objective of that curtailment was to put pressure on the rest of Canada, the main buyer of Alberta oil at that time. The Calgary oil patch and most Albertans were fully behind Alberta's actions.

This time the supply glut is caused by lack of access to U.S. markets, and it might take longer to address the so-called “market failure.” Even then, there are no guarantees. The surge in U.S. shale oil production is a longer-term threat to Canadian oil exports.

If these cuts don’t work, watch for more intense lobbying of governments in Alberta and Ottawa on behalf of companies that have gambled hundreds of billions of dollars on Alberta’s heavy oil.

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