

Canadian Energy Research Institute

Canada, US Effects of Lower Oil Prices

**Jon Rozhon
Canadian Energy Research Institute**

Wilson Center. February 4, 2015

Canadian Energy Research Institute (CERI)

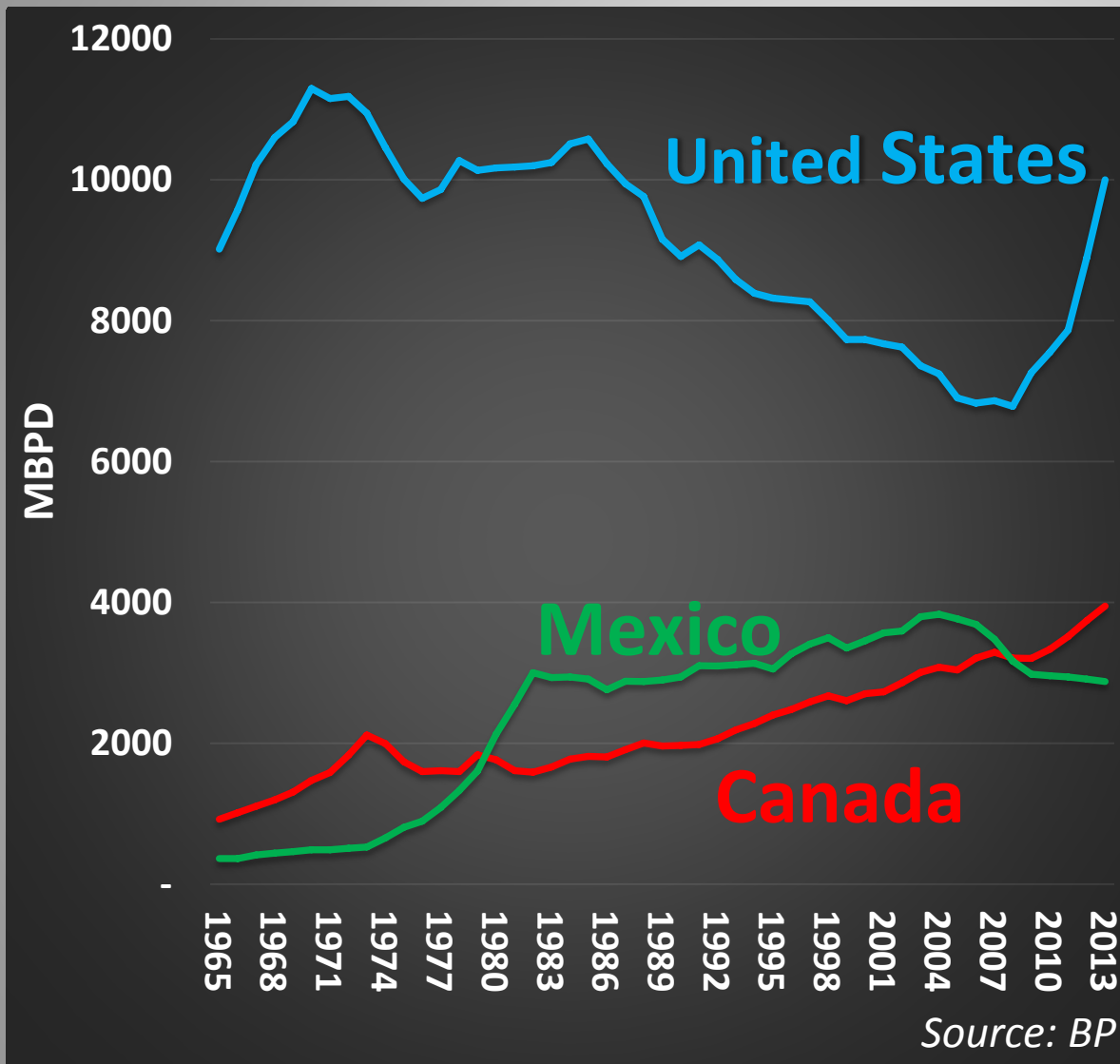
Overview

- Celebrating our 40th year in 2015
- Not-for-profit
- Relevant, independent, objective economic research in energy & the environment
- Inform policy, business, media, public
- Main Sponsors: Government of Canada, Government of Alberta, Canadian Association of Petroleum Producers (CAPP)

All CERI research is publically available at

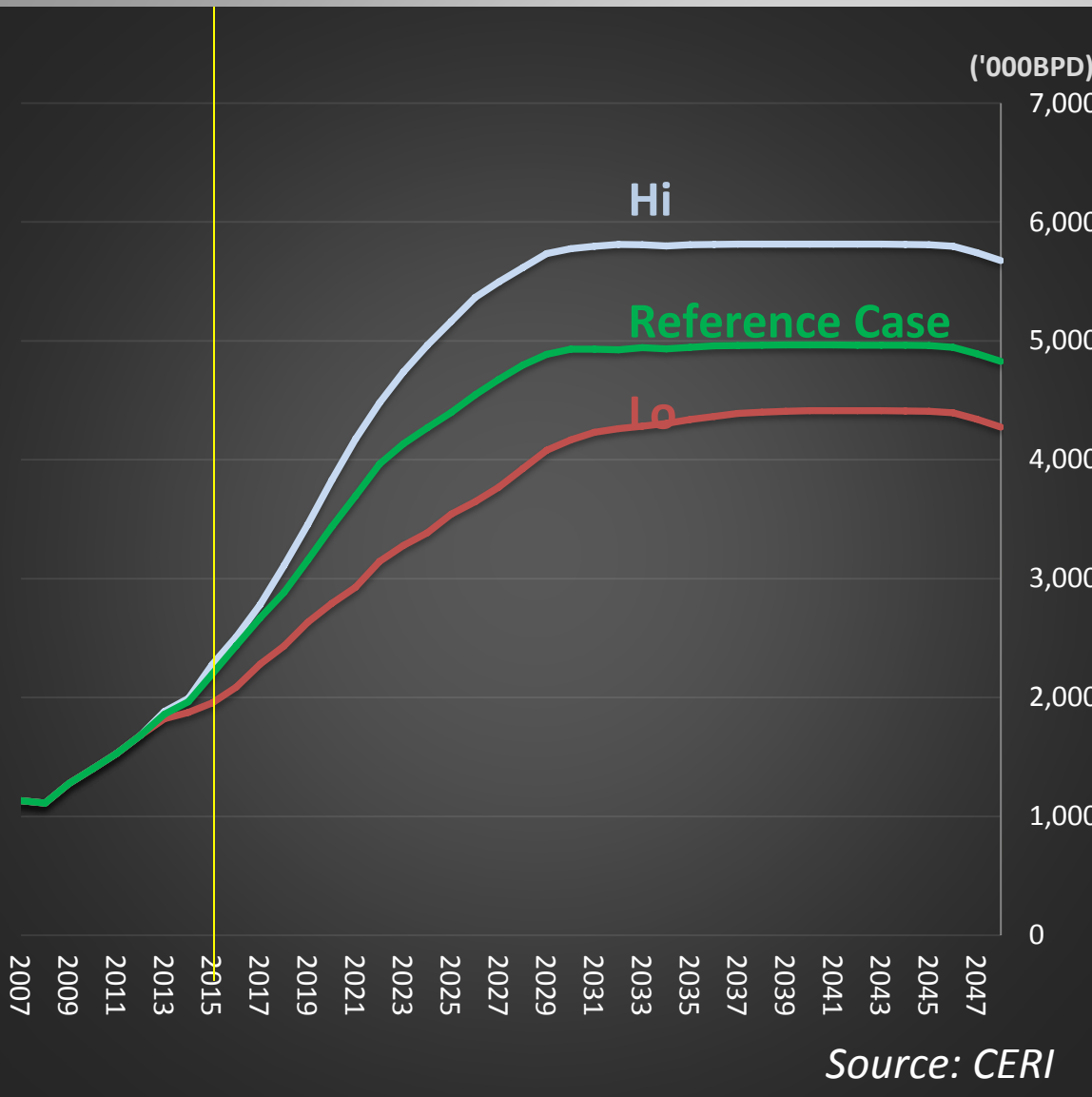
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Domestic Oil Production



- US production climbing at pace unheard of in recent times -- technologically driven growth
- Canada production growing steadily – as conventional production drops, oil sands pick up
- Mexico production in decline For a decade, so constitutional change to attract foreign companies

The situation in Canada's Oil Sands



Oil Sands

- Production ↓ ~ 10% in 2020 from earlier forecasts
- Suncor \$1 billion CAPEX cut, 1000 jobs cut; 2 projects delayed
- CNRL \$2.4 billion CAPEX cut; SAGD reduced; Horizon mine intact
- But 425,000 bpd capacity increase in 2015, ~200 to 350 kbpd over next 3 to 4 years
- 3 million bpd oil sands production in 2020, up from ~ 2 million bpd in 2015.
- Earlier forecasts were for production in excess of 3.4 million bpd in 2020

Canadian Economic outlook

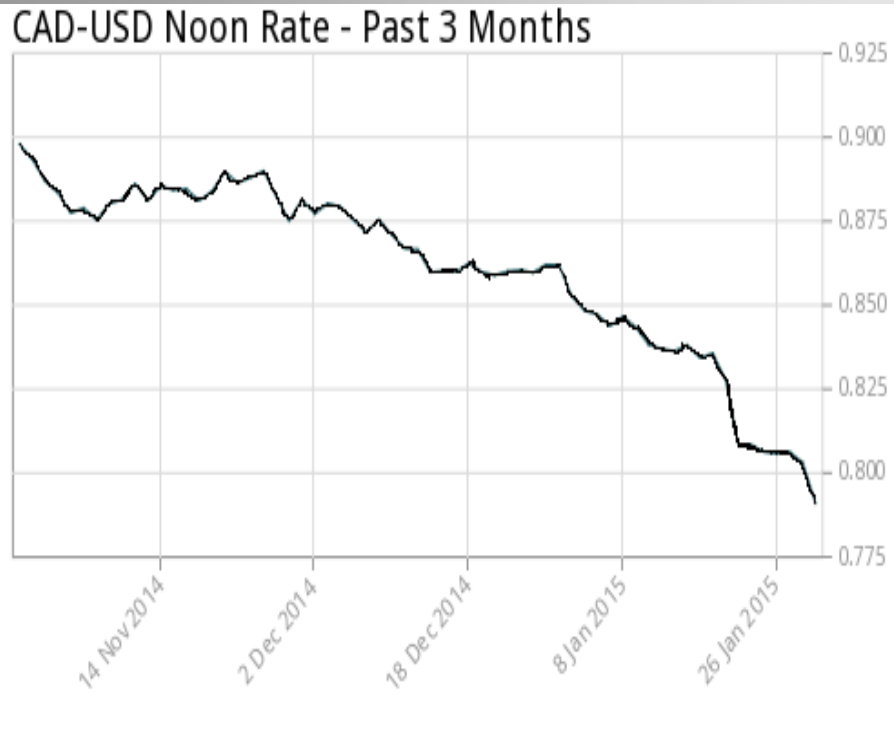



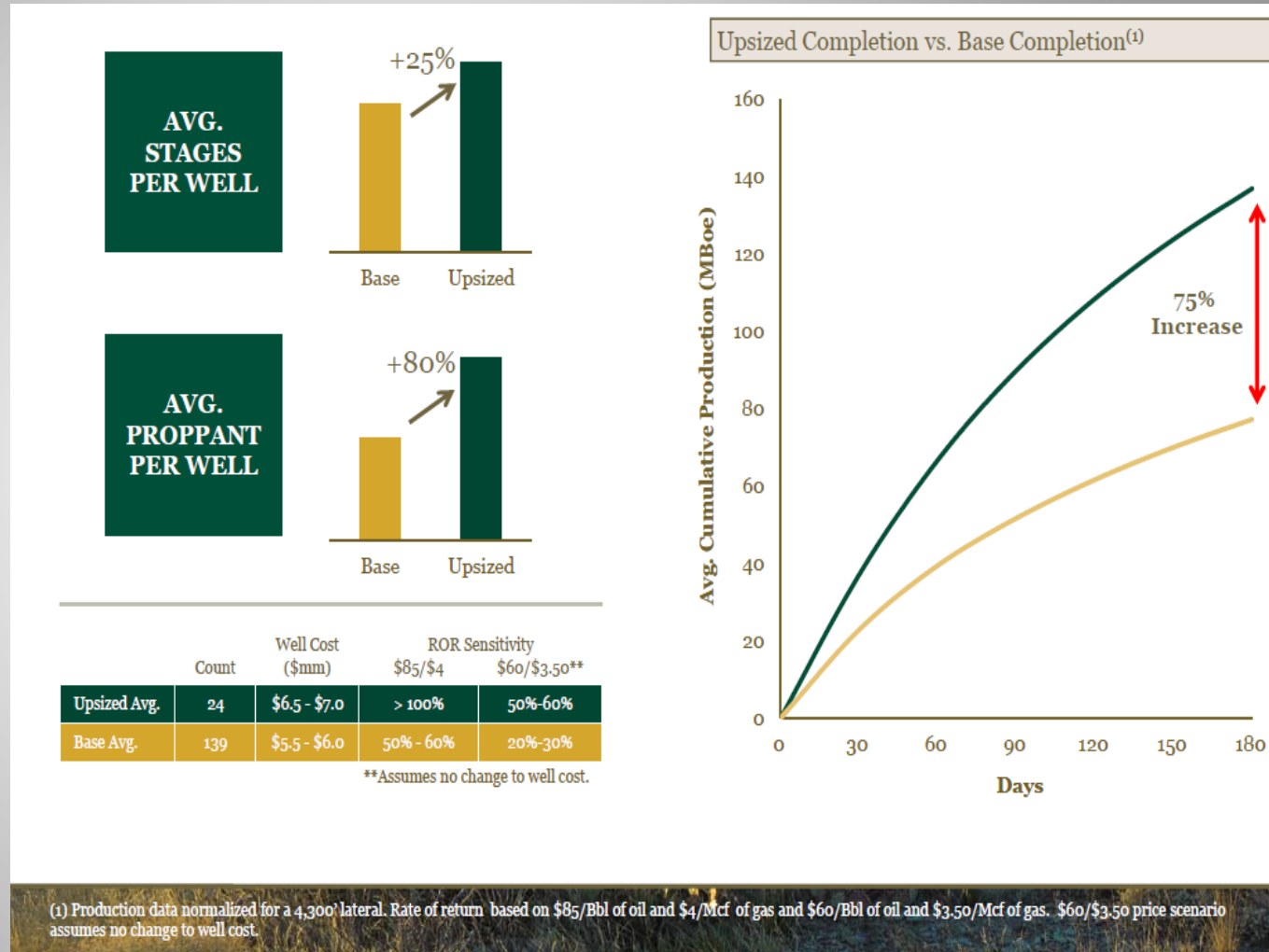
Image Source: Bank of Canada

- Weak dollar, low oil price good news for Canadian manufacturers
- Plunge in oil price caused Finance Minister to postpone 2015 budget to April
- Low oil price to reduce federal revenues by more than \$8 billion
- Balancing the budget still possible in 2015 with a sustained \$48 oil price, says PBO

The situation in the US

- Oil production  80% since 2008
- Technology has helped feed “addiction to oil”
- Technology made 80% of US oil economic at \$70
- Technology made 50% of US oil economic at \$60
- Technology will make ...% of US oil economic at \$50?

Innovation & cost reductions keeping US oil in the game



Source: Concho Resources

After Oil Bottoms out, then what? \$100 oil?

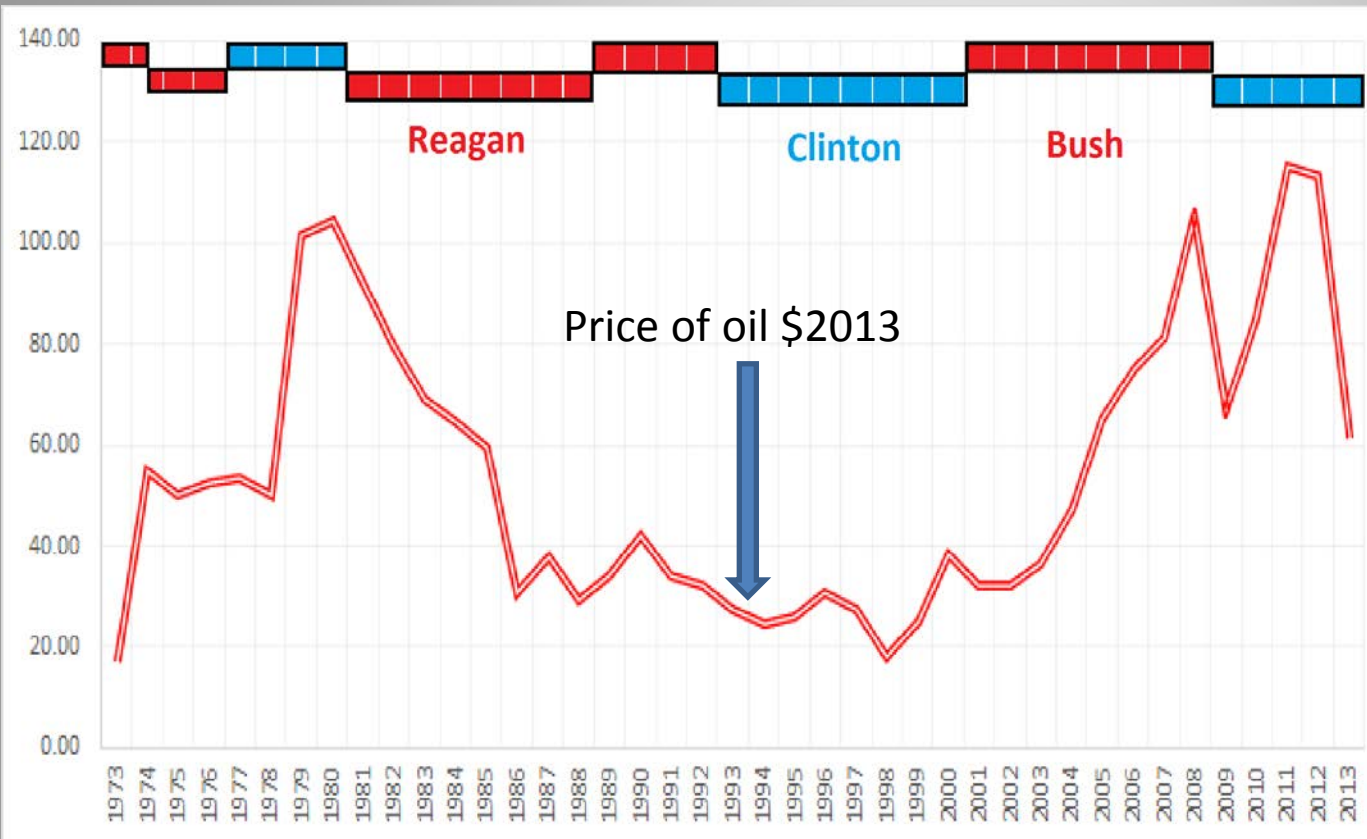
Saudi Prince Al Waleed Bin Talal – “We’ll never see the price of oil again at \$100.”

Daniel Yergin – “Never say never” Oil went to \$115 with the emergence of ISIS

T. Boone Pickens – Bin Talal “doesn’t know what he’s talking about.” When the US shuts down rigs the price will rise.



Another explanation for low oil prices



- The theory – inverse relationship between price of oil and US\$
- Reagan, Clinton strong US dollar presidents
- Bush Jr., Obama weak US dollar presidents
- Forget geopolitics, Forget supply/demand, according to this theory...

The Long Haul

- low oil prices cyclical not structural
- Prices came down because of
 1. Supply glut
 2. Efficiencies
 3. less geopolitical uncertainty
- CAPEX will slow at first; investors cautious with committing funds to large projects
- But global demand has been growing and will continue to grow.
- The oil plunge of 2014-16 will be a distant memory as oil prices rise in future.