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FUELLING THE FIRE

It's no secret that 2005 has been the most prosperous year in the history of Canada's oil-and-gas industry. That prosperity reflects this country's position as a global energy powerhouse. We've come a long way from 19th-century explorers like Kootenai Brown and John Lineham, who realized that oil seepages on the surface pointed to energy riches in the rocks beneath our nation. The riches are still there, more valuable than ever, and so Canadians should expect prosperity from a robust oil and gas industry to continue resonating across our country into 2006 and beyond.

Let's look at some numbers. Canadian upstream oil-and-gas revenues—the dollars generated from the sale of unrefined petroleum products and natural gas—will top \$105 billion in 2005. It's the first time the hundred-billion-dollar level has been breached. That level is 25% greater than last year, and five times what it was a mere decade ago. After-tax cash flows show similar, spectacular growth, and should exceed \$55 billion. The prognosis for 2006 is for a similar performance, and notwithstanding a global economic meltdown, \$100-billion-plus revenue numbers are likely sustainable by our oil-and gas industry for several years to come. That has important implications for the Canadian economy. Higher tax and royalty revenues, a growing need for materials, equipment and services, and high paying jobs for workers from across the country are among the benefits accruing to Canadians.

The primary impetus for the stellar top line in our petroleum industry comes from strengthening oil-and-gas prices, which have risen with conviction over the past five years. Though the causes are complex, the economics are simple: tightening supplies in the face of a steadily growing global dependence on oil is why prices are rising—and the symptoms are not going away overnight.

Collectively, our energy-hungry global community is now demanding 85 million barrels of oil every day—or roughly 1,000 barrels a second. That's four Olympic-size swimming pools full of oil being drained every minute. And global consumption is not slowing. It's not a question of *if* consumption will grow next year, or the year after. The question is, *By how much?* Under modest global economic growth scenarios, oil demand will grow by at least one million barrels per day, per year, for the rest of the decade and beyond. The U.S. still has the biggest appetite, but China and other rapidly industrializing Asian nations are growing thirstier as they use oil as their "booster rocket" for economic growth. That Olympic swimming pool full of oil will drain faster and faster every year.

Supplying the planet's new oil consumers, from drivers to industrial companies, is getting neither easier nor cheaper.

The era of drilling holes in the ground and being rewarded with oil gushers is history. After 145 years of consuming oil, the world's inventory of prospects is becoming more limited, and more difficult to develop. Consequently, costs escalate and prices go up. But let's be clear: we're not running out of oil, as some like to suggest. There's plenty of oil in the world. The big issue is that each additional barrel of oil that the world is demanding is now much costlier to bring to market than even five years ago.

And that brings us back to Canada, and our famous oilsands. As the name implies, oilsands are an aggregation of tarry, "heavy" oil mixed with sand. It's an *unconventional* or secondary source of oil. Unlike *conventional* oil, which flows easily out of a well drilled into the ground, oilsands must be specially processed to yield the "lighter," "sweeter" oil that refineries require. Exploiting and processing oilsands is an energy-intense process that requires billions of dollars of infrastructure.

Fort McMurray, Alta., was put on the international stage in 2004, when oil economists at the U.S. Department of Energy officially recognized that Canada's oilsands contained more than 200 billion barrels in oil reserves, the second-largest accumulation of oil in the world (after Saudi Arabia). In 2005 the oilsands made mainstream headlines as companies from as far away as China joined the gold rush to secure the area's valuable energy supplies.

The gold rush of investment in the oilsands, about \$95 billion over the next 10 years, is expected to increase Canadian production over two and a half times from the Fort McMurray region to 2.7 million barrels per day by 2015. This bonanza represents the largest energy project in the world today. When oil was US\$20 per barrel, it took vision by companies like Suncor to invest in an area that was almost totally disadvantaged against cheap Middle Eastern oil. Everything changed in 2005 after much of the industry became convinced that higher prices of coveted, light crude oil would be sustained.

Perhaps Sir John Cadman, the chairman of Anglo Persian (the predecessor company to BP), said it best, in 1928: "The time will eventually come when the world may have to look for a greater part of its supplies from secondary and synthetic sources, but he would indeed be an optimist who imagined that—on the reaching of such a stage—prices would remain as low as those existing in the past."

Sir John's prophecy has come to pass in the wilderness of our oilsands. It's a prophecy that translates into greater prosperity for all Canadians.

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