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Global oil glut may evaporate as Canadian fires hit output

CHESTER DAWSON THE AUSTRALIAN MAY 7, 2016 12:00AM



A policeman inspects damage in Fort McMurray, in the heart of Canada's oil-sands region.

Raging forest fires in the heart of Canada's oil-sands region curbed production and helped drive up global prices on Thursday as some worried enough oil was threatened to nearly wipe out the world's oversupply.

Many companies evacuated staff and cut production because of pipeline outages and the risk from encroaching blazes. No oil operations reported fire damage, but their efforts to protect themselves led to a reduction of at least 475,000 barrels a day, or almost one-fifth of Canada's 2.5 million barrels in total oil-sands production. Much of that output is sent to refineries in the US.

The outages are widely expected to be temporary, but they drove up the price of typically heavily discounted Canadian crude in recent trading. Prices for the US benchmark crude rose 1.2 per cent to \$US44.32 a barrel on Thursday, and the global benchmark gained about 1 per cent — with worries about lower supplies from Libya and Nigeria also affecting trading.

If oil production now threatened by the Canadian fires was halted, it would be enough to nearly wipe out the world's oversupply, said Tim Pickering, chief investment officer of Calgary-based Auspice Capital Advisors, which manages

\$US300 million (\$401m) and an exchange-traded fund based on the Canadian Crude Index.

“This is the most important issue in oil today,” Mr Pickering said. “That will put the system back in check really quick.”

Oil prices have been pressured for almost two years by excess supplies. But production has started to fall in the US and elsewhere following massive spending cuts by energy companies. Meanwhile, demand continues to grow.

Analysts say the global market is less oversupplied than it was even a few months ago while producers’ capacity to ramp up production has been reduced. That makes the oil market more vulnerable to a shortage if production is halted in any part of the world.

In addition to Canada, oil traders are worried about lower supplies from Libya due to political unrest and from Nigeria due to a pipeline outage. Some analysts also warn that Venezuela’s oil production could fall amid the country’s struggling economy and power shortages.

The longer-term impact of the Alberta fire remains unclear. Some officials say production will likely bounce back once the fire threat recedes; others say damage to infrastructure and from displaced workers could hamper efforts to ramp up output once the fires are extinguished.

“I expect we’ll recover fairly quickly, but it’s too early to say how much damage has been done to equipment and operations in the town of Fort McMurray,” Steve Laut, president of Canadian Natural Resources, said on a conference call with analysts. Mr Laut said that oil-sands output at his company, a major oil and gas producer, had not been affected by the disaster.

But the Bank of Nova Scotia said the destruction of property and loss of production at other oil-sands operations could cast a long shadow. The forest fire fallout could mean “very little” GDP growth for the overall Canadian economy in the second quarter and that the damage to infrastructure will slow the recovery in the country’s oil patch, the bank said in a report.

In the latest of a series of plant closures, Exxon Mobil’s Imperial Oil and ConocoPhillips on Thursday shut some production. Exxon cut output at its 194,000 barrel-a-day mine, citing “uncertainties”. Conoco halted a 50,000 barrel-a-day mine and evacuated all staff due to a fire near the town of Anzac. They followed a move on Wednesday by Nexen Energy, a subsidiary of China’s

CNOOC.

ConocoPhillips began evacuating people at its Surmont site before dawn on Thursday, including 196 local residents who had been offered shelter, in what it called a “precautionary measure”.

Two of the biggest oil-sands producers already reduced or halted production by at least 385,000 barrels a day. Suncor Energy, Canada’s largest producer, late on Wednesday shut its base mine operation. That operation’s two mines have a combined capacity of 350,000 barrels a day, though they had been running closer to 130,000 barrels a day as a result of routine maintenance.

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