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FEATURED Q&A

Are the Oil Sands Doomed to Fail or Poised to Prosper?

The oil at Cenovus Energy's Christina Lake complex is located more than 1,200 feet underground, requiring specialized technology to drill and pump it to the surface. // File Photo: Cenovus.

Q **Canadian oil companies Cenovus and Canadian Natural Resources beat market expectations in the third quarter, reporting higher output and lower costs at their oil sands projects in Alberta. However, some analysts have predicted smaller Canadian oil sands projects ahead, with lower production growth in the coming years amid relatively high production costs in a recovering oil-price environment. What is the future of the Canadian oil sands? What are the biggest trends shaping the industry there? Are Canada's oil sands a smart investment?**

A **Murray Smith, consultant and former minister of energy for Alberta:** "As a matter of rule, when oil prices decline, foreign investment in Canada, and particularly Alberta, declines. When oil prices go up, the reverse generally occurs; Canadian companies, most recently Canadian Natural Resources and Cenovus, have bought out foreign interests for very reasonable prices. This will add to their already significant footprint in the oil sands, which are assets that reward scale. In turn, to finance the acquisitions, companies will then spin off non-core assets. Smaller Canadian companies will purchase these assets, and because of their small size, will operate these assets more efficiently. Such was the case of a recent acquisition of a Husky Energy asset, a major company, to a much smaller entity, Surge Energy. This renewal process has been repeated numerous times, as commodity prices for oil and natural gas rise and fall. And finally, when prices rise and multinational reserves fall, Alberta once again becomes an attractive destination for oil and gas investments. The oil sands of Alberta remain

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Russia Offers Venezuela Another Debt Lifeline

Russia's offer to restructure $3.15 billion in sovereign debt does not cover some $6 billion in debt that Venezuela's state oil company still owes the country, however.

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Four Countries in the Americas Join Group Against Using Coal

Canada, Costa Rica, El Salvador and Mexico joined 15 other nations from elsewhere in the world that this week made a commitment to quickly phase out using coal as a source of electricity.

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OIL & GAS

Brazil's Petrobras Reports Weaker Q3 Results

Petrobras CEO Pedro Parente defended the company's prospects to investors, saying Brazil's low-cost oil in the offshore sub-salt region will keep the company competitive in a tough market.

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Parente // File Photo: Petrobras.

OIL & GAS SECTOR NEWS

U.S. Calls on Mexico, Canada to Develop Regional Energy

U.S. Energy Secretary Rick Perry on Tuesday urged U.S. officials and their Mexican and Canadian counterparts to collaborate in order to develop North American energy resources and remove regulatory roadblocks to creating more cross-border energy infrastructure projects, the Houston Chronicle reported. Speaking alongside Canadian Minister of Natural Resources Jim Carr and Mexican Energy Secretary Joaquín Coldwell at a news conference at the University of Houston, Perry said mutual collaboration will enhance the physical and cyber safety of the energy systems that connect the three countries. "Canada and Mexico are the largest energy trading partners of the United States," Perry said. "And the energy security of our three countries is achievable because of mutual cooperation." Perry's calls for collaboration come as trade negotiators enter their fifth round of talks to restructure the North American Free Trade Agreement, or NAFTA, this week in Mexico City. When asked whether the renegotiation of NAFTA would affect energy relations among the three countries, Perry said the negotiation was a "good process; it's a healthy process." "Fifteen years ago, they told us we found all the oil and gas there was to find and that the days of being able to develop oil and gas were over with," Perry said. "Well, that's not the case. So does it make sense to sit down with our colleagues in Canada and Mexico to renegotiate a new North America Free Trade Agreement? Yes, I think it does." He added that concerns that the three countries would not be able to reach an agreement and that U.S. President Donald Trump might withdraw from the agreement entirely were "far-fetched." "We not only will have a good agreement, it'll be a fair agreement, and the private sector can know there will be contract in hand so when they come to invest in Mexico or Canada or the United States, there will be a good framework in place in which they can do business," he said.

Perry // File Photo: U.S. Government.

Brazil's Petrobras Reports Weaker Third Quarter

Shares of Brazilian national oil company Petrobras fell as much as 7.8 percent this week following the release of disappointing third-quarter earnings on Monday, Reuters reported. Tighter margins and weaker domestic demand fueled a drop in sales volumes, the company said. Petrobras CEO Pedro Parente defended the company's long-term prospects to investors, however. In an interview on CNBC, Parente said Brazil's low-cost oil in the offshore sub-salt region will keep the company competitive in a tough market. "We count on the pre-salt production because the level of productivity of the fields is very high, so the cost to extract oil from the pre-salt is very low," he told CNBC's "Squawk on the Street" on Wednesday. "So we are talking about extraction costs below $7 per barrel." International oil companies such as BP, ExxonMobil, Shell, Statoil and Total have been investing in blocks in the Atlantic Ocean off the coast of Brazil as the

> **We are talking about extraction costs below $7 per barrel."**
> — Pedro Parente

NEWS BRIEFS

Four Countries in the Americas Join Group Against Using Coal

Canada, Costa Rica, El Salvador and Mexico joined 15 other nations from elsewhere in the world that this week made a commitment to quickly phase out coal, the Guardian reported. The Powering Past Coal Alliance was launched at a United Nations climate summit in Bonn, Germany. The fossil fuel currently provides 40 percent of global electricity. In Latin America, Colombia is a major coal producer and exporter. New coal-fired power projects being planned in seven countries in the region will add an additional 8,427 MW of capacity.

Trinidad AG Cautions Guyana on Corruption

Trinidad and Tobago's attorney general, Faris Al Rawi, on Wednesday advised that Guyana should guard against opportunists who may want to launder dirty money in a growing oil and gas sector, Trinidad Express reported. "What you may have [is] people that see sales on an exponential basis from persons who did not check for abuse of funds so you see abuse of trust or laundering proceeds of money, masking it as investment in some fringe industry associated with oil and gas," he said.

Mexico's Congress Raises Oil Price Expectations

Mexico's Congress on Nov. 10 gave the final approval for next year's federal budget, which raises the assumed oil price and exchange rate in order to help increase funding for reconstruction after two earthquakes rocked the country, Reuters reported. Authorized spending is for $276.98 billion, or 5.28 trillion pesos, up 43.29 billion pesos from the original draft. Lawmakers raised the projected exchange rate from 18.1 pesos per dollar to 18.4, and they raised oil price assumptions from $46 to $48.50 per barrel.

country enacts terms more favorable to foreign investment. Petrobras said it expects to receive $7 billion from divestments this year, excluding a planned initial public offering for fuel distribution unit BR Distribuidora, a figure below the $8 billion it previously forecast. Also this week, Parente said he will meet later this month with the CEO of China National Petroleum Corp. in Brazil to discuss the details of their partnership to build a refinery complex in Rio de Janeiro, Reuters reported.

ELECTRICITY NEWS

FMC, Rio Tinto Focus on Latin America Lithium

Philadelphia-based chemicals manufacturer FMC Corp said last week that it plans to invest $300 million in its lithium operations in Argentina in order to double production there, Reuters reported. The price of lithium has skyrocketed in recent years in pace with increased demand for the mineral amid projected wider use of electric vehicles. For FMC, the investment in Catamarca province will double its production to 40,000 metric tons per year in the next two years, pending approval by the province's legislature, Catamarca province Governor Lucia Corpacci said. In related news, global mining company Rio Tinto is said to be eyeing a $5 billion stake in lithium producer Sociedad Quimica y Minera de Chile, or SQM. Rio Tinto is reportedly close to purchasing a 32 percent stake in SQM, the Australian Financial Review reported, citing Chilean publication El Mostrador. Company officials have been "tight-lipped" on the potential deal, industry trade publications reported earlier this week. Canada's PotashCorp must sell its interest in SQM within 18 months of merging with Agrium, setting up fierce competition for the asset, Mining.com reported. Chinese chemicals and fertilizer company Sinochem has also reportedly been in talks to purchase a stake of SQM, which produced some 44 million metric tons of lithium carbonate last year and is developing

VENEZUELA WATCH

Russia Offers Venezuela a Lifeline

Russia on Wednesday restructured $3.15 billion in debt it is owed by Venezuela, giving its economically wrecked ally badly needed breathing room as it struggles with a massive $120 billion debt load, The Wall Street Journal reported. The debt will now be repaid over 10 years, with minimal repayments during the first six years. "Reducing the debt burden to the republic from the restructuring of liabilities will allow the funds that have been freed up to be allocated to the country's economic development, to improve the liquidity of the debtor, and to increase the chances of all creditors to recoup credits provided to Venezuela," the Russian finance ministry said in a statement. Venezuelan officials said the agreement would allow them to increase imports from Russia, including of wheat. The restructuring deal announced Wednesday doesn't cover $6 billion in debt that Venezuela's state oil company, PDVSA, still owes to Russia, according to the report. China on Thursday made no offer of debt relief to Venezuela, but said it was confident the country can deal with the problem, the Associated Press reported. Venezuela owes China nearly more than seven times as much as Russia, with $23 billion in debt. "We believe that the Venezuelan government and people are capable of properly handling the debt issue," ministry spokesman Geng Shuang said.

S&P Declares 'Selective' Sovereign Default

S&P Global Ratings on Monday declared Venezuela in selective default following the South American country's failure to make payments on bonds following the expiration of a 30-day grace period, Reuters reported. Venezuela's government failed to make $200 million in coupon payments for global bonds due in 2019 and 2024 by Sunday's expiration of the grace period, S&P said in a statement. The ratings agency added that it had lowered Venezuela's long-term foreign currency rating to "SD" and also lowered its long- and short-term foreign currency sovereign credit ratings for the country to "SD/D" from "CC/C." Venezuela's state-run oil company PDVSA has also been declared in default by rating agencies Fitch and Moody's, BBC News reported.

Bondholders Criticize Debt Restructuring

Private-sector creditors were invited to meet Monday with a restructuring committee led by Venezuela's vice president, Tareck El Aissami. Investors who attended the meeting at the presidential palace said they heard a half-hour speech from El Aissami, whom Maduro has put in charge of negotiations on restructuring the debt, The Wall Street Journal reported. The speech by El Aissami, who has been blacklisted by the United States for his alleged role in drug trafficking, focused on Venezuela's efforts to continue making its debt payments. After his talk concluded, investors at the meeting were given boxes of chocolates and escorted out of the building, the newspaper reported, citing two people who attended the meeting. "They didn't even allow questions," said one of the investors. "They gave no details on their plans and no future meeting dates." Maduro's government on Monday night called the meeting "highly promising" and said it was the beginning of the process of refinancing Venezuela's debt.

more projects in Chile and Australia. In addition to Argentina and Chile, Bolivia holds among the highest lithium reserves in the world.

POLITICAL NEWS

Peru's Kuczynski Denies Consulting for Odebrecht

Peruvian President Pedro Pablo Kuczynski in a televised address Wednesday reiterated his denial of allegations that he was previously a consultant for Brazilian construction company Odebrecht, which is enmeshed in a massive multi-country bribery scandal, Reuters reported. "I did not receive any support from that company in either of my two electoral campaigns," said Kuczynski. "It is fundamental that we all fight against corruption, and I am committed to that fight." The president's remarks came a day after local newspaper El Comercio reported that Odebrecht hired Kuczynski a decade ago, before he took office as president. The newspaper reported that Marcelo Odebrecht, the construction firm's

> **"I did not receive any support from that company in either of my two electoral campaigns."**
> **— Pedro Pablo Kuczynski**

jailed former chief executive officer, told Brazilian prosecutors that his company had hired Kuczynski after he served in former President Alejandro Toledo's cabinet, and he added that the company may have funded Kuczynski's failed 2011 campaign for president. Via Twitter, Kuczynski had earlier denied any professional links with Odebrecht and denied receiving any campaign donations from the company. A year ago, the Brazilian company acknowledged in a plea deal with U.S. prosecutors that it paid Peruvian officials $29 million as part of a multi-country bribery scheme. It and affiliated petrochemical company Braskem agreed to pay a combined $3.5 billion in fines to settle charges in the United States, Brazil and Switzerland in connection with the scheme to pay $788 million in bribes to officials in 12 countries, mainly in Latin America.

Colombian Senate Approves Tribunals to Try Former Rebels

Colombia's Senate on Wednesday approved the creation of special tribunals to try former members of the Revolutionary Armed Forces of Colombia, or FARC, for war crimes, Reuters reported. The tribunals were approved as part of a system of transitional justice that the FARC and President Juan Manuel Santos' government agreed upon in the peace accord they signed a year ago, ending the country's more than five-decade armed conflict. The transitional justice measures still must win approval in the lower house of Colombia's Congress before they can take effect. The lower chamber is expected to vote on the legislation next week. The special courts created in the system will mete out sentences such as landmine removal for former guerrillas who are convicted of war crimes. The peace accords between the government and the FARC spare rebels who are convicted from serving their sentences in traditional prisons. The transitional justice system can also apply to members of the military as well as civilians who gave funding to illegal armed groups, such as paramilitaries.

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a smart investment, as the question poses. Exploration costs remain a small factor, labor productivity has improved, construction costs are more in line and operating costs are at their lowest in history. For those companies with long-term sunk capital, the future is bright, as they add scale and timing of expansion to their portfolio. The major impediment remains access to market via low-cost pipelines. Trans-mountain pipeline expansion and Keystone XL expansion will help diminish the spread between oil sands oil and WTI. Oil shipments by rail will grow as well, in the short run. The oil sands of Alberta remain a very viable investment, particularly as new technologies continue to drive down the carbon emissions footprint and the cost of production."

A **Anthony Swift, director of the Natural Resources Defense Council's Canada Program:** "The imperative of addressing climate change is driving a dramatic transformation of the global economy that has existential implications for the future of high-carbon fossil fuels sources like Alberta's tar sands. One of the clearest signs of this shift has come in the form of divestment by many of the largest multi-national oil producers who, despite significant investments in Alberta's oil sands, have recently divested their assets in the region. The oil majors who have either sold their assets in Alberta or divested from major portions of their oil sands operations include Statoil, Marathon Oil, Shell, ConocoPhillips, Total and ExxonMobil. This exodus from the tar sands totals $24 billion in investments being offloaded over a five-month period. Persistent low oil prices have forced Canadian producers to undertake major cost-cutting efforts that have increased the efficiency of existing operations, but drastically scaled back production expansions that had been projected as recently as 2014. In addition, recent analysis of capital expenditures in the oil sands suggests that there is limited interest from producers in spending on projects that would bring on new production beyond the 2020 timeframe. The international community's efforts to limit warming to below two degrees Celsius will only further undermine the profitability of investments in Alberta's tar sands, as countries hasten the transition to electric vehicles, ban internal combustion engines and take other measures that would dampen, if not reverse, the demand trend required to support the economic case for new tar sands projects."

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NEWS BRIEFS

Former Argentine Soccer Official Commits Suicide Following Bribe Allegation

Jorge Delhon, a former Argentine soccer official who was accused Tuesday in a U.S. court of taking bribes, committed suicide by throwing himself under a train in a Buenos Aires suburb, La Nación reported. Sports marketing executive Alejandro Burzaco testified that he paid Delhon and another Argentine official bribes in exchange for soccer broadcast rights between 2011 and 2014.

Mexico Proposing Alternative to NAFTA 'Sunset Clause'

Mexican negotiators on Wednesday said they will propose that the North American Free Trade Agreement be "rigorously reviewed" every five years rather than the U.S. demand for a "sunset clause," essentially an automatic expiration, Reuters reported. Officials are in the fifth round of talks between the United States, Canada and Mexico to update the pact. For the first time since the talks started earlier this year, the trade ministers this week decided not to participate directly in the NAFTA meetings "so negotiators can continue to make important progress on key chapters," the three governments said.

Brazilian Amazon Deforestation Rate Falls

Brazilian representatives at the global climate talks in Germany this week said the deforestation rate in its Amazon conservation areas fell by 28 percent over the past year, to its second-lowest level in decades, the Associated Press reported Tuesday. Brazil said satellite data shows 159 square kilometers (61 square miles) of deforestation in the rainforest over the 12 months ending in July of this year, down from a 221 square-kilometer loss of forested land in the Amazon during the previous year. Colombia's Congress has until the end of this month to approve the measures in a fast-track system that is intended to reduce the number of debates involved in the legislation's passage in an effort to implement the peace accords as soon as possible.

ECONOMIC NEWS

Thousands of Brazilians Protest Austerity Measures

Thousands of Brazilians took to the streets in protest last weekend against President Michel Temer and his government's proposed austerity measures, including a widely unpopular pension reform that the government sees as key to closing the budget deficit, Reuters reported. Protests took place in cities throughout the country, including Rio de Janeiro and Brasília. Protesters were also demonstrating against a wave of privatizations that the government

Temer // File Photo: Brazilian Government.

had recently announced. "We must prevent the destruction of our country, the loss of social gains and the threats against democracy," said Telma de Barros, a teacher protesting in São Paulo. Though there have been other protests against the government's austerity measures in recent months, the demonstrations last Friday had the highest turnout by far. One law Brazilians were protesting was a new labor law that had been approved by the Senate in July and which went into effect on Saturday that will allow for more flexible contracts, gets rid of mandatory union dues and makes unions liable for the legal costs of losing court challenges. Protesters were also demonstrating against a pension reform proposal that would raise the retirement age and extend the contribution period required in order for workers to receive their full pensions.

Mexico to 'Soften' Effects of Fuel Price Hikes on Consumers

Mexico's finance ministry is looking at ways to "soften" the price impact of gasoline market liberalization next year, Reuters reported Tuesday. Energy Minister Pedro Joaquin Coldwell said some independent fuel importers recently have complained about a lack of tax adjustments to reflect the at least 15 percent increase in recent weeks in international prices of gasoline and diesel, the two main refined products imported by Mexico. A tax mechanism will be designed to protect the Mexican consumer "from abrupt increase in prices," he said without elaborating on the changes. "Before we had only one brand for retail gasoline stations. Now we have 30," Coldwell added. Consumer prices overall rose by 0.63 percent in October, pushed higher by higher gasoline prices and a seasonal end-of-summer increase in electricity tariffs, Goldman Sachs told clients in a research note last week.

Jamaica Tourist Arrivals Top 4 Million

Jamaica's tourism minister, Edmund Bartlett, is expecting tourist arrivals to reach four million this year as earnings from the sector top $3 billion, the Jamaica Gleaner reported Thursday. Bartlett said the island continues to have record-breaking arrivals, welcoming 3.3 million visitors during the first nine months of the year, a 9.5 percent increase as compared to the same period last year. Gross foreign exchange earnings for the first 10 months of the year was $2.34 billion, which is a 10.8 percent increase over the corresponding period in 2016. An unusually damaging hurricane season elsewhere in the Caribbean has not hurt Jamaica's tourism sector, according to the report.

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A **Chris Cote, energy market analyst at ESAI Energy:** "Indeed, some Canadian oil producers had a strong third quarter. The price of oil rose, new projects came online, and acquisitions helped reduce costs. Next year is likely to be a strong year for Canadian producers as well, with crude production rising by 250,000 barrels per day as companies finish expansion phases and the new Fort Hills mine ramps up output. But things will be different in 2019. Production will continue to grow, at around 120,000 barrels per day, as incremental additions are made to projects already underway, but Fort Hills will remain the last mega-project for the next several years. New mining projects in the Canadian oil sands need the price of WTI crude to be around $70 per barrel. New SAGD (steam-assisted gravity drainage) projects require about $60 WTI. Today WTI is at about $57, where it is likely to remain, barring some major event. At the same time, U.S. demand for the heavy crude of the oil sands is largely satisfied. There is one scenario on the horizon that could change this outlook. A major disruption to Venezuelan production, which is already in steady decline, would send U.S. Gulf Coast refiners looking for some 75,000 barrels per day of extra-heavy crude. Canada, which currently sends some 50,000 barrels per day, is one possible source, while production turnarounds in Mexico and Ecuador are still a year or two off. This potential new demand, and the possibility of Keystone XL going forward, could be the boost some smaller projects need to get the green light."

> **"U.S. demand for the heavy crude of the oil sands is largely satisfied."**
>
> — Chris Cote

A **Remi Piet, senior director at Americas Market Intelligence:** "Recent results from Cenovus and Canadian Natural Resources should not hide the structural evolution of energy markets as Canadian energy companies already struggle to see the forest for the trees. Most of them have been fairly conservative in their investment strategy, adopting the short-term argument that production cost reduction would help them maintain some of their margins until a return of high market energy prices. To a large extent, Canadian companies have contented themselves with a risk-averse 'if it is not broken don't fix it' approach that will hurt them in the near future as they failed to diversify their operations. Among major energy companies in Alberta, very few have taken the proactive approach of investing in emerging markets and positioning themselves in the capacity to benefit from the pockets of economic growth they will direly need when the output of Canadian oil sands projects decrease. Oil prices will continue to stagnate because of geopolitical and global competition logics and calculations. The current restructuration of the Canadian oil sands corporate landscape should be an opportunity to get off a beaten path that promises only diminishing returns and instead identify key international investment opportunities south of the border. Recent discoveries in Mexico, Guyana, Suriname and Colombia represent key opportunities for an industry in need of diversification. Local political and economic risks need to be acknowledged, but can be easily mitigated. It is high time for the Canadian oil sands companies to export their know-how and bank on their technological expertise by developing the sources of their future growth as the return from the Canadian oil sands will continue dwindling."

The Advisor welcomes comments on its Q&A section. Readers can contact editor Gene Kuleta at **gkuleta@thedialogue.org**.

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