



How the Changing U.S. Energy Sector Affects Canada's Oil Patch

Description

Canada's energy industry has fast grown to be a crucial sector in the Canadian economy. The country is one of the few globally to be a net exporter of energy and, according to the U.S. Geological Survey, has the world's third largest oil reserves. The importance of the sector is further underscored by energy exports, according to the Energy Council of Canada, making up almost 7% of Canada's total GDP and 16% of total investment in Canada.

But crucially Canada's key energy export market is the U.S, which accepts well over 90% of all of Canada's energy exports and the dynamics of U.S. energy demand continue to change. According to the U.S. Energy Information Administration, since 2008 U.S. oil production has grown by almost 50% to over 7.5 million barrels of crude daily. The boom has also seen U.S. crude reserves shoot up, with new unconventional oil discoveries boosting reserves by 60% in 2012 when compared to 2008.

The U.S. is expected to reach energy self-sufficiency by 2035

It is expected investment in the U.S. energy sector will continue to grow, which will see both reserves and production increase significantly. According to global integrated energy company BP, in its BP Energy Outlook 2035, the U.S. will become energy sufficient by 2035 because of the shale oil boom.

This will see demand from Canada's key energy export market wane, which along with pipeline and infrastructure constraints will cause the price differentials between Canadian light and heavy oil to widen once again. That means players in the patch will need to look to other key export markets, including Europe with its energy supplies threatened by Russia, and a rapidly growing China.

Already **Enbridge** ([TSX: ENB](#))([NYSE: ENB](#)) has received approval from Canada's energy regulator the National Energy Board, to ship oil from Alberta to the West Coast, which will facilitate the export of oil to China. The company's Northern Gateway pipeline also forms a crucial part of this strategy of gaining access to ever important Asian energy markets. While the energy regulator has been looking favorably upon these developments, there is growing opposition from local residents and First Nations.

If Enbridge is able to secure the appropriate approvals and ship oil to the west coast the company will become an important link in Canada's strategy of accessing non-U.S. energy markets, boding well for

its future growth. But it will take some time for sufficient infrastructure to be put in place that allows for the transportation of large enough volumes of crude and natural gas to fill the declining from the U.S.

These widening price differentials will have a significant impact on a range of Canadian crude producers, with the most vulnerable being small-cap explorers and producers — particularly **Athabasca Oil Corporation** ([TSX: ATH](#)), **Sunshine Oil Sands** (TSX: SUO), and **Blackpearl Resources** (TSX: PXX), which need to raise funds for investment in their oil sands projects.

Light oil producers will also be hard hit by the changing dynamics of U.S. energy demand, with U.S. light oil making up the greatest portion of U.S. oil production and reserves. The most vulnerable are those with heavily leveraged balance sheets, declining production, or in the midst of critical turnaround programs.

Accordingly, declining U.S. demand for Canadian light crude could potentially have a significant impact on **Lightstream Resources** (TSX: LTS), **Penn West Petroleum** (TSX: PWT)(NYSE: PWE) and **Pengrowth Energy** (TSX: PGF)(NYSE: PGH). All of these companies are attempting to divest themselves of non-core assets with varying degrees of success so as to the use the funds to restore their heavily leveraged balance sheets.

Foolish bottom line

Increasing U.S. energy self-sufficiency is shaping up as a key threat to Canada's energy sector. This in conjunction with pipeline constraints will see Canadian crude price differentials widen impacting the profitability of a number of players in the patch. Furthermore, it will take some time for sufficient infrastructure to be put in place to allow players in the patch to access lucrative Asian energy markets.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ENB (Enbridge Inc.)

Category

1. Investing

Date

2025/09/23

Date Created

2014/04/29

Author

mattdsmith

default watermark