



## Is This the Beginning of the End for the Oil Industry?

### Description

The energy sector is undergoing a seismic shift that has caught many pundits by surprise. That shift was triggered by the Saudi decision to boost production as the Kingdom sought to challenge the U.S. shale oil industry's rise and reassert OPEC's dominance. Because of growing global supplies coupled with waning demand growth, crude prices plunged. There are signs, despite moves by OPEC and other oil dependent non-OPEC states to boost prices, that the oil industry is in decline and that prices will never recover to their pre-crisis highs.

You see, the industry is experiencing an inevitable confluence of events that is causing long-term demand for petroleum to decline. That makes oil stocks unattractive investments.

### Now what?

The secular trend to clean sources of renewable energy continues to gain momentum as the challenges posed by global climate warming and climate change weigh heavily on humanity. That has seen a massive push by governments across the world to curb global warming and led to the formation of the Paris Agreement on climate change which entered force in November 2016.

This document aims to keep the global temperature increase this century to below two degrees Celsius above pre-industrial levels.

It has already been speculated by energy industry insiders and analysts that in a less than two-degree world, a third known oil reserves would become stranded assets. Among the most vulnerable are Canada's oil sands because of the significant amount of energy expended to produce usable crude from bitumen.

The agreement aims to eventually eliminate fossil fuels from the global energy mix. It has been speculated by Carbon Tracker, a think tank of energy, financial and legal analysts, that oil demand growth will peak in 2020 a mere three years from now. After that point, the oil industry will no longer need to grow.

The rise of the electric car certainly supports this thesis.

The single largest consumer of oil globally being responsible for nearly half of all barrels consumed is gasoline and already there are moves afoot to eliminate gasoline powered vehicles. The governments of France and Britain have banned the sale of petrol and diesel cars by 2040. Other European governments are planning similar legislation. China, which is battling to curb the massive amounts of pollution in its major cities created by the country's rapid industrialization is implementing legislation aimed at seeing electric vehicles make up 12% of all new car sales by 2020.

While those targets appear ambitious renewable energy, technology is moving at a rapid pace.

Already, there is analysis that shows electricity generated from solar and wind power is cheaper than coal, oil and natural gas fired plants per megawatt hour produced.

The performance of electric cars is progressing in leaps and bounds while costs are falling. **Tesla Inc.'s** Model 3, which is set to go into production before the end of this year has a 346-kilometre range per charge, a top speed of around 200 km/h and is able to accelerate from 0 to 100 km/h in roughly six seconds.

### So what?

This means that weaker oil prices are here to stay and if demand growth drops off altogether by 2020 as some analysts have predicted, then global oil supplies will exceed demand causing prices to tumble once again. None of this is good news for Canada's energy patch. Oil sands are responsible for more greenhouse gas emissions per barrel of crude produced than conventional oil production and production costs are also higher.

Deeply indebted intermediate oil producers such as **Baytex Energy Corp.** ([TSX: BTE](#))(NYSE:BTE) and **Pengrowth Energy Corp.** (TSX:PGF)(NYSE:PGH), which are dependent on crude being at US\$55 to survive will be sharply impacted by weaker oil prices.

Furthermore, Pengrowth has invested considerable capital in its oil sands assets notably the Lindbergh Thermal project. Even energy majors such as **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) would not escape unscathed because three-quarters of its oil production comes from oil sands.

### CATEGORY

1. Energy Stocks
2. Investing

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