



Unrest in Colombia Could Lift Canadian Heavy Oil Prices

Description

Similar to Chile and Ecuador before it, the South American country of Colombia has lapsed into a state of civil unrest. Protests have rocked the Andean nation over the last week as a range of groups including unions, teachers, students and indigenous communities rally against economic inequality, growing insecurity and corruption.

There appears to be no end in sight for the protests with various groups rejecting the government's offer of dialogue. This poses a very real threat to Colombia's economically vital oil industry.

Oil production could fall

After opening its economy and attracting considerable foreign investment over the last decade, the Latin American nation has emerged as the region's fourth-largest oil producer. A large proportion of the crude produced in Colombia is heavy in oil, meaning it has an API gravity of 15 to 25.

The world's single largest producer of crude with APIs of 25 or lower was Venezuela. However, the crisis gripping the Latin American petroleum state has seen its oil production plunge to historical lows.

This, along with Washington's sanctions aimed at preventing companies from doing business with Venezuela's government and curtailing Caracas's oil exports, has triggered a shortage of heavy oil. That is weighing on U.S. refiners because many refineries are configured to only process heavy oil.

Another source of heavy oil is Mexico, albeit it's also experiencing from a marked decline in production caused by unplanned production outages, lack of investment, aging oil fields and unreliable infrastructure.

For the aforementioned reasons, Colombia has become an important source of heavy crude for U.S. refiners. The fear is that the current unrest will continue to escalate and expand, leading to blockades of oil fields forcing drillers to suspend production.

A farmer's blockade in the southern Colombian department of Putumayo earlier this year forced

upstream oil producer **Gran Tierra Energy** to halt operations at two of its blocks in the region, reducing oil output by 4,500 barrels daily. The protests could also cause pipeline bombings, oil theft and other disruptions to rise.

Already the Colombian Petroleum Association (ACP) claims that protests, blockades, legal uncertainty and security issues have stymied up to US\$700 million in investment in Colombia's oil industry.

The protests could trigger further community blockades against what is a highly unpopular industry in many parts of Colombia, causing oil production to fall.

That would exacerbate an existing shortfall in heavy oil feedstock for U.S. refiners, bolstering demand for Canadian heavy crude, most of which is produced from the oil sands.

This would buoy the Canadian heavy crude Western Canadian Select (WCS) benchmark price, which has gained 9% since the start of November.

That would be a boon for the oil sands and Canada's largest oil sands producer **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)), where for the third quarter 2019, 37% of its oil output came from the oil sands.

It has shown itself to be a cash flow [generating machine](#), reporting some solid third-quarter 2019 results, including a notable 11% increase in oil production.

Notably, even a 19% year-over-year decrease in the average North American West Texas (WTI) benchmark price for the quarter failed to put a significant dent in Canadian Natural's financial performance.

Despite cash flow from operating activities falling 31% year over year, it was still an impressive \$2.5 billion while net income was just over \$1 billion.

Oil sands operations typically have low operating costs, as like mines, there are considerable upfront expenses required to develop them and bring them to production, but once achieved, ongoing operating costs are low.

Producing oil sands assets also have very low decline rates, making them highly cost-effective long-life assets with minimal investment required to sustain production, meaning that oil sands assets can be exceptionally profitable even when oil falls.

Foolish takeaway

The ongoing unrest in Colombia, while potentially harmful for many Canadian businesses operating in the Andean nation like [Scotiabank](#), could be a boon for Canada's beaten down energy patch.

If there are any major disruptions to Colombia's oil industry, it will aggravate an existing shortage of heavy crude, leading to a greater reliance from U.S. refiners on Canadian heavy oil imports and giving WCS and ultimately oil sands companies earnings a healthy lift.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date

2025/08/23

Date Created

2019/11/28

Author

mattdsmith

default watermark

default watermark