



## Crude Oil Market Crash 2020: Alberta Might Never Recover

### Description

Alberta has every reason to be worried sick about the fallout from plunging oil prices and COVID-19. Oil and gas producers in Alberta are facing the [toughest challenge](#) with the price of Western Canada Select closing at a very low US\$5.29 per barrel on April 1, 2020.

If Alberta wants to maintain the same production level of 1.5 million barrels per day in 2019, the WTI price should at least be US\$20 per barrel. About US\$2-US\$5 more should be added to sustain capital costs. The over-dependence on the oil industry is apparent in the [present situation](#), Alberta might never recover.

For years now, Alberta has been beholden to volatile crude oil prices. Likewise, a system that favours perpetually low income and corporate and sales taxes is not helping any to alleviate reliance on natural resource revenue.

### Norway model

Alberta should have followed the lead of Norway. In the last 20 years, the country was able to transform its oil and gas resources into financial wealth. The government invests oil revenues abroad through a sovereign wealth fund known as the Government Pension Fund Global (GPFG).

Norway's GPFG as of year-end 2019 was US\$1.15 trillion, and the sovereign wealth fund also returned 19.9% last year due to positive equity returns around the globe. Meanwhile, the Alberta Heritage Savings Trust Fund reported last February 28, 2020, that total assets were worth \$18 billion as of December 31, 2019.

Based on the calculations by the Calgary Chamber of Commerce, had Alberta mirrored Norway, its sovereign wealth fund could be around \$163.7 billion today. The huge disparity somehow indicates the province's focus on spending oil revenues on the immediate need rather than preparing for the future.

## New investment

The shares of **TC Energy** ([TSX:TRP](#))([NYSE:TRP](#)), a prominent name in the oil industry, are struggling. Its stock is trading at \$57.86 per share as of this writing. The energy stock's year-to-date loss is now 15.16%, while the dividend yield is 6%.

This \$54.4 billion energy infrastructure company will finally begin construction of its long-delayed Keystone XL pipeline. The \$68 billion project and its construction starting this April will connect the said pipeline from the U.S. into Canada.

Alberta has agreed to extend a helping hand to TC Energy. The provincial government will be investing US\$1.1 billion as equity in the project, the amount of which is substantial to cover planned construction costs until the end of 2020.

Once complete, the province expects the pipeline to generate a net return of more than \$30 billion through royalties and higher oil prices in the next two decades. Thus, Alberta can sell its shares for huge profits.

## Future prosperity

According to Alberta's premier Jason Kenney, the province can't wait for the pandemic to end and the global recession to act. The investment in TC Energy is a bold move but essential to the future prosperity of Alberta.

Kenney adds the Keystone project will enable the province to retake control of its economic destiny. It will be back in the hands of the owners of the natural resources as well as to the people of Alberta. There is a chance for recovery after all.

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