Appendix 16

Analysis

Oil optimism yes, but it's too early to bet the farm on a full recovery: Don Pittis

There are reasons Canadians shouldn't change too many plans in hope of a turnaround

By Don Pittis, CBC News Posted: Mar 21, 2016 5:00 AM ET Last Updated: Mar 21, 2016 5:00 AM ET

For many ordinary Canadians the price of oil is much more than a financial play. Crude's two-year plunge to $26 US a barrel has shattered lives. Its recent rebound above $40 has inevitably sparked real optimism.

But while oil speculators can make a killing from short-term sharp rises and falls in prices, workers, homeowners, oil-producing companies and governments dependent on energy prices have reason to pause before altering their plans.

- **Canadian dollar, oil remain near highs for the year**
- **The electric car and Canada's oil future**

Short-term ups and downs in the price for oil have only a tenuous link to the world's long-term need for energy.

Speculating on a rise

Cynics have pointed out that energy prices tend to go up when it snows in New York because so many traders there look out the window and say, "Gosh, it's cold; it must be time to buy."

Short-term prices are volatile and based on speculative trading. Long-term prices depend on supply and demand.

There remains an enormous glut of oil in the world, stored in ships and trains and gigantic underground salt caverns, and there is little evidence that is about to suddenly change.

There are only two ways to begin eating into that supply glut. Either the global economy needs to begin using significantly more oil, or oil producers have to start extracting a whole lot less.

So far there are few signs that is happening. In fact, there are worrying signs of the opposite. Projects begun when oil was priced at more than $100 US a barrel are still coming on stream.

The news that sparked the recent uptick in oil prices was talk of an agreement between oil-producing countries to freeze, not cut, worldwide production. According to the International Energy Association, there are reasons to be skeptical about such an agreement.

Waiting for a freeze

"Even if there was an agreement on the freeze or similar, it would be unexpected that it would have major implications, at least in the first half of 2016," IEA executive director Fatih Birol said last week in an interview with Bloomberg News.

As OPEC has demonstrated, even strict agreements among a group of like-minded producing countries often end in cheating, as individual OPEC members put their own national finances ahead of the collective advantages of the cartel.

In the current state of the global economy, it is hard to imagine struggling national governments from Venezuela to Nigeria placing loyalty to an even looser collective above their own political survival.

And keeping track is hard. According to the Wall Street Journal, oil, once pumped, is actually disappearing from the global account books.

Discouraging data

On the consumption side some other new data from the IEA was also discouraging for those hoping for a long-term jump in oil prices.

- IEA data shows economies grow, CO2 emissions unchanged

The association's data indicates that over the past two years, carbon dioxide output remained roughly constant. If CO2 emissions are a proxy for fossil fuel use, that is a gloomy indicator for those hoping for a boost in consumption.

Spurred by international agreements at COP21 in Paris, the IEA data shows, the world's economies really are working out ways to live with less fossil fuel energy. And while general economic weakness has helped to stall oil demand, once economic growth picks up carbon-efficient technology will be even more advanced and cheaper.

- Green tech ready to step in when oil prices rise

In fact, each time oil prices rise, low-carbon tech becomes more competitive. At the same time, $40 a barrel oil puts many large world producers back into profit, reducing the economic need for global cuts in output.

Early rebound

While using historical comparisons may be an inexact tool because so many things are different, there are some indications this is too early for a major price rebound. For instance, the crash of oil prices from their peak around 1980 was similar in magnitude to what we have seen in the last two years.

In those days, fear of climate change was a factor that just didn't play. But even with a few small spikes, including during the first Gulf War, oil prices did not bottom out for nearly 20 years before beginning their roar up to their most recent highs.

Canada's oil business is far from dead. The low loonie continues to provide advantages over equivalent U.S. producers, although that advantage erodes as the Canadian dollar rises.

Planes and automobiles

So far there is no obvious replacement for liquid fuel for the airline industry. As one reader pointed out recently, farming also continues to require huge amounts of fossil fuels with no commercial alternatives in sight.

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While automobile fleets are replaced every 11 years, leaving room for a gradual transition to new technology, introducing carbon-saving tech in our housing stock will likely be a much slower process. There is no quick replacement for natural gas to keep Canadian houses warm during our long winters.

Society-wide transitions are inevitably slow, including the process of unwinding the huge global oil and gas machine to its optimum size.

The industry was built when people thought oil was rare and expensive. While the recent price surge is tantalizing for those who depend on that industry, the readjustment may take more time yet.

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