

Western Canada's energy sector: the suspense is killing us



Canada's energy sector is used to operating under uncertainty, particularly with respect to commodity prices. The autumn of 2008 was especially harrowing for companies that witnessed an unexpected \$100 drop in the price of crude oil in five months, and a comparable drop in the price of natural gas.

On top of this, some companies are seeing credit conditions tighten like a noose around their necks. This has been particularly difficult on startups and junior oil and gas companies, many of which do not have sufficient cash flow from existing production to finance their programs.

And now, like a bag of wet garbage, a whole new pile of uncertainty has landed on the boardroom tables of Alberta's energy sector: federal politics. Ottawa is anything but dull these days; with the political drama being played out on Parliament Hill, it's anyone's guess who will come out on top.

With this added layer of uncertainty, decision makers in the oil patch will be busy in the coming months grappling with a series of enormous questions. Will we be thrust into another general election this spring? What might a new government mean for oil and gas companies? Will there be new environmental policies to address? What about energy trusts? How might they be affected, if at all? What about corporate taxes? Do certain interests within a new coalition government portend bad things for the oilsands?

Let's not kid ourselves: energy companies (and their shareholders) hate high taxes, the elimination of income trusts, and tough environmen-

tal policies that would penalize them disproportionately. But as unpalatable as these may be, the certainty of knowing them is preferable to the uncertainty of not knowing them at all. If things are certain, at least you can plan around them.

That's the very uncomfortable dilemma facing Western Canada's energy sector at the moment: the not knowing.

It's no small inconvenience. How do you manage long-term planning when you don't know the environment in which you will operate? It's like driving through thick fog at top speed, or running an obstacle course blindfolded.

The implications for Canada's economy are profound.

For one thing, the sector is already in a tough bind. Energy prices have presented so much uncertainty that sensible capital expenditure planning is nearly impossible. Will oil be \$35 per barrel next year, or \$135? Will the US economy tank hard in recession, or will the stimulus packages from Washington work? And what about China? Growth there has slowed as well — will that drag down energy prices even more?

Secondly, corporate meetings in the days ahead will be dominated by scenario planning sessions and "worst-case" hypothetical situations. This takes away precious time and energy that decision makers could be putting toward other more mundane questions, like "Should we drill in this area over here, or that area over there?" Instead, they are asking themselves "Should we drill in Canada at all?" Once it boils down to that question,

we can safely assume that the economy will suffer.

Thirdly, Canada's politically uncertain landscape is quickly becoming entrenched into the psyche of the energy patch. One of the most significant things Canada has had in its favour is the fact that it's a politically "low risk" jurisdiction (at least compared to other energy-rich places like Russia, Nigeria, or any country you wish to name in the Middle East). But Canada's political stability trump card is quickly losing lustre. It's not that we're facing threats of terrorism or military coups. But uncertainty around policy can be nearly as poisonous to energy investment as war, corruption, or crackpot dictators.

For many reasons, Canadian voters are angered by the current political nonsense in Ottawa. And just at the wrong time, Canada's energy sector is being bombarded with questions that it would rather not have to deal with. It's not just the energy patch that is suffering — industries throughout the country are being dealt the same smack in the face.

Fortunately, Western Canada's energy sector and its decision makers are amazingly resilient. But just how many hits can it take? Global energy prices are, of course, beyond the control of our political leaders. But in these turbulent economic times, it's hard to stomach that political egos and ambitions are heaping more poisonous uncertainty on an industry that's still standing.

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