Oil Sands Report Ed 1 2011

Market Intelligence

Rising oil prices have renewed interest in oil sands and extra-heavy oil projects. In the two countries with the largest proven reserves, Canada and Venezuela, there has been an increase in both domestic and foreign investment in projects. With Japan, China and South Korea leading the pack in terms of the monies invested and diversity of projects funded. As all four countries are reliant on oil imports and Japan has no fossil fuel reserves of its own.

In Venezuela, for the first time since his election Chavez has awarded heavy oil blocks in its Orinoco belt to foreign companies. While the state-owned oil company, PVDSA will still retain a majority stake in the project, it is still a big turnaround for the country that nationalised its oil sector in 2007.

By contrast, the majority of Canadian oil sands leases have been awarded. Therefore mergers and acquisitions are likely to feature heavily over the coming years rather than brand new projects in the Alberta oil sands region. Major players in the sector include Suncor and Shell. Both of which have developed remediation technologies for the waste, known as 'tailings', created by oil sands extraction. Thus, they have an advantage in meeting Alberta's 'Tailings Performance Criteria and Requirements for Oil Sands Mining Schemes Directive' which includes a mandate for companies to half fine particle tailings by 2013.

Other major players in the sector are also 'multi play' companies using their other assets to finance the large capital costs for oil sands extraction. Many have a stake in the oil refineries over the border and pipelines transporting diluted crude to the US market.

Several pipelines are under development or under construction in anticipation of growth in US demand. The biggest is the Keystone pipeline which will transport crude from Alberta to the Gulf of Mexico. Another, the Northern Gateway, will run from Alberta to ports and other hubs on the West coast of Canada so crude can be shipped to Eastern US and growing Asian markets.

Highlights

Environmental opposition and opposition from the US oil industry are stalling the development of some of these projects. For example, Imperial Oil hit a setback when its plan to transport 35,000 tons of mining equipment over the Rocky Mountains was delayed by the Idaho Supreme Court on environmental grounds.

In Venezuela environmental opposition is less of a problem. Instead there are concerns over the ability of PVDSA to meet its goals for the development of the Orinoco belt. Furthermore, Venezuela is still perceived as a risky investment because the oil fields under development could be nationalised at a later date.

Further information on the technologies used in extraction, projects under development, players in the sector, prices and so on is covered in more depth in our report.

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