Despite Domestic Oil Boom, U.S. Will Remain Primary Market for Oil Sands Growth

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Destination and type of oil sands—rather than quantity—will be most impacted, IHS study says

CAMBRIDGE, Mass. (January 14, 2013) - The substantial growth in tight oil production in the United States is reshaping future markets for Canadian oil sands, according to a new IHS CERA Oil Sands Energy Dialogue report. The U.S. will remain the primary market for oil sands and its import levels are expected to grow, but the destination and type of oil sands imports will be altered, the report says.

The significant growth of tight oil will not eliminate the U.S. need for oil imports, including the oil sands. U.S. tight oil (2.2 million barrels per day) surpassed oil sands production in 2012 and is continuing to grow. Yet, assuming minimal changes in U.S. oil demand, and considering declines in conventional supply, tight oil has the potential to replace only about one third of U.S. net oil imports by the end of the decade, the report says.

Tight oil has expanded supply. It also created transportation bottlenecks, generating a glut of supply in the U.S. Midwest—the current destination for 80 percent of oil sands exports—making oil sands subject to price markdowns and providing an incentive to expand market access.

“Far from being an 'either/or' proposition, the Canadian oil sands and U.S. tight oil are both important sources of U.S. oil supplies for the foreseeable future,” says Daniel Yergin, IHS vice chairman and author of The Quest. “Tight oil is not a replacement for oil sands in the U.S., but the development is altering the opportunity for oil sands.”

“Together tight oil and oil sands can meet energy needs and contribute to economic growth for North America,” says Jackie Forrest, IHS senior director and head of the IHS CERA Oil Sands Energy Dialogue. “But which connections are made, when, and where will ultimately impact the development of both oil sands and tight oil, and the size of the resulting economic and security benefits.”

Oil sands production remains projected to grow from 1.7 mbd now to 3.2 mbd in 2020 but the type of supply is changing, the report says. Historically, more than half of oil sands supply came from converting the heavy oil sands bitumen into a lighter form called synthetic crude oil (SCO). However, SCO supply is now in competition with tight oil; consequently, the majority of future oil sands supply will be in the form of bitumen blends, similar to other heavy crude oils imported to the United States.

The U.S. Gulf coast—which contains substantial capacity (2.4 mbd) for processing heavy crudes—holds the most potential for oil sands market expansion, the report says. Oil sands blends will need to gain market share by displacing other foreign heavy crude sources, such as Mexico and Venezuela.

The U.S. West Coast also holds potential for oil sands growth, the report says. While the region is already a market for oil sands, California remains largely untapped. With 90 percent of its refining capacity geared towards heavier crudes, the total market potential for heavy bitumen blends could exceed 700,000 barrels per day (bd), the report says.

Despite the large potential, several factors contribute to uncertainty for oil sands in California, the report notes. Construction of new pipelines and marine expansions from Canada’s west coast remain uncertain and California’s Low Carbon Fuel Standard could disadvantage oil sands.

In other regions, such as the U.S. and Canadian East Coast, the majority of the refining capacity is geared towards lighter crudes; providing limited potential for growing supplies of heavy oil sands supply.

The report also notes that markets outside of North America, particularly Asia, holds potential for oil sands expansion. China is expected to nearly double its 10 mbd refining capacity by 2030. However, issues of timing create uncertainty. Decisions on the type of refineries to be built are currently being made. If Asian investors decide that access to oil sands is unsure, they will not construct refineries geared to consume heavy oil sands. This will create a major timing question for Canadian policy decisions.

The development of future pipelines will play a major role in the oil sands market access going forward. Despite strong financial incentives, pipeline projects are facing increasing scrutiny, the report says. In addition to project economics, several factors—including regulatory processes, local concerns, GHG emissions and climate change legislation and Aboriginal rights in Canada—will
influence the development of future projects.

The complete report is available for download at the dialogue’s homepage, http://www.ihs.com/oilsandsdialogue

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