Canadian Oil Sands Production Growth to Continue Despite a Sustained Outlook of Lower Investment, IHS Markit Says

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New report foresees continued production growth across all oil scenarios. But reduced levels of investment will lower growth rates in coming decade

(January 30, 2018) – Oil sands production growth will continue through the next decade but a slowdown is anticipated with investment expected to remain lower than historical levels, says a new major research initiative by IHS Markit (Nasdaq: INFO), a world leader in critical information, analytics and solutions.

“Oil sands production is akin to base-load power generation, but for the oil market,” said Kevin Birn, executive director - IHS Markit, who heads the Oil Sands Dialogue. “Once operational, oil sands facilities are largely unresponsive to the oil price—with production neither ramping up nor ramping down materially. And since oil sands do not have to overcome production declines, every incremental investment in new capacity—no matter how small—can result in growth.”

Entitled Scenarios for Future Growth, the Oil Sands Dialogue report forecasts the outlook for oil sands investment and production growth across different prices outlooks in the IHS Markit global energy scenarios.

Upstream investment in new oil sands production capacity has fallen by two-thirds since the 2014 collapse of oil prices—from more than $30 billion to just over $10 billion estimated for 2017—and may fall further in 2018 before beginning to recover. Yet, oil sands production is still expected to grow in each of the IHS Markit scenarios.

In 2017, Canadian oil sands production is expected to have topped 2.6 million barrels per day (mbd). Depending on the IHS Markit scenario and corresponding global oil price trajectory, oil sands production could rise between 700,000 b/d to 1.4 mbd by 2030—with nearly 400,000 b/d of growth in all cases coming from projects in construction today or projects recently completed and ramping up.

The report says that although costs have fallen significantly in the oil sands and more oil will come for less, it is the unique nature of oil sands production that makes a future without oil sands growth difficult to envision over the coming decade. It cites the lack of production declines—if existing oil sands facilities are maintained, their production levels do not decline—which is unique compared to other types of oil production globally.

While the collapse of oil prices has slowed investment, projects under development at the onset have continue to be completed and production growth has continued. However, the reduced investment will impact the rate of future growth, the report says. In all IHS Markit scenarios, the level and pace of future investment and growth in the oil sands is lower compared with the decade preceding the oil price collapse.

“Growth in the Canadian oil sands will ultimately be a function of the future price of oil and the challenges that face the industry,” Birn said, “but growth will also be different, driven forward through the optimization and expansion of existing facilities because they are lower cost and quicker to oil. A more consolidated industry has also emerged in the last few years which means that even in much higher price scenarios overall investment is likely to remain lower than in the past.”

Scenarios for Future Growth and all other Oil Sands Dialogue research by IHS Markit is available at www.ihs.com/oilsandsdialogue.

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