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Commodities

Can Canadian Oil Sands Survive Falling Prices?

 By [Matthew Philips](#) December 22, 2014


Photographer: Ben Nelms/Bloomberg

A machine works at the Suncor Energy Inc. mine in this aerial photograph taken above the Athabasca Oil Sands near Fort McMurray, Alberta, Canada.

As oil prices have crashed over the past six months, a lot of attention has focused on what this means for [frackers in the U.S.](#), as well as the national budgets of a lot of large oil producing countries, such as Russia and Venezuela. In short, [it's not good](#). But what about Canada? The country is the world's fifth-largest oil producer, and only Saudi Arabia and Venezuela have more proven reserves of crude.

Almost all of Canada's reserves (and production) are in the form of oil sands, which are among the most expensive types of crude to produce. There are pretty much two ways to do it. One is to inject steam into wells deep underground to heat up a thick, gooey type of oil called bitumen. The other is basically to strip mine large tracts of land and extract a synthetic blend of oil out of the earth and sand.

Taken together, both methods require about 17 percent more energy and water than conventional oil wells and also result in similarly higher levels of carbon emissions. That's made oil sands a particular target of environmentalists. Now the Canadian oil sands producers have to contend with an even greater opposing force: economics. If Canadian oil sands are more expensive to produce than most other oil, how can they survive in the face of prices that are nearly 50 percent cheaper since June?

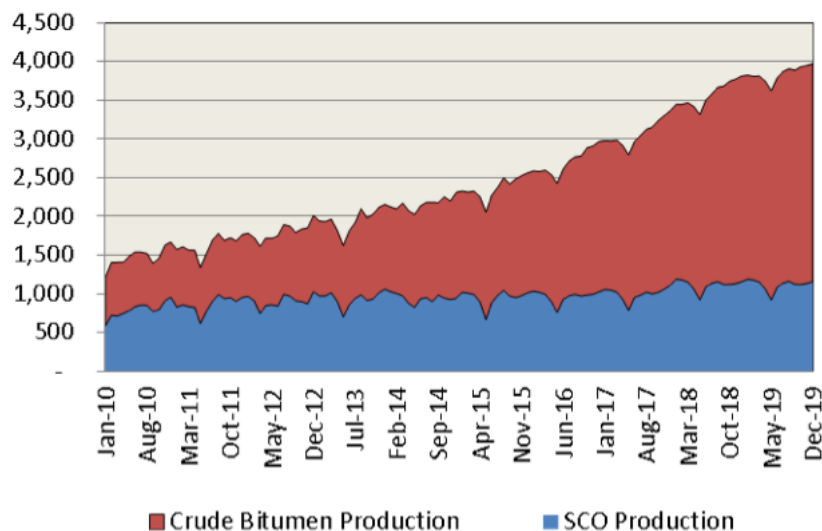
[Story: Oil City Prepares for Pain](#)

A few things play to their favor. The first is that their costs are more akin to a mining operation than conventional oil drilling. Oil sands projects require massive upfront investments, but once those are made, they can go on producing for years with relatively low costs. That's made oil sands, and the companies that produce them, quite profitable over the past few years.

Suncor Energy ([SU](#)) and Cenovus Energy ([CVE](#)) are two of the biggest oil sands producers in Canada. Both have profit margins that would be the envy of a lot of major oil companies. At Suncor, earnings before interest, taxes, depreciation, and amortization (Ebitda), a basic measure of a company's financial performance, have risen from 11.7 percent in 2009 to 31 percent through the first nine months of 2014. Exxon Mobil's ([XOM](#)) Ebitda so far this year is about half that at 14.3 percent.

That cost structure may give oil sands producers an advantage over frackers in the U.S., who operate on a much shorter time horizon. Fracked wells in the U.S. tend to produce most of their oil within about 18 months or so. That means that to maintain production and rates of return, frackers need to keep reinvesting in projects with fairly short lifespans, whereas an oil sands project, once up and running, can continue to chug along, even in the face of lower prices, since its costs are spread out over a decade or more rather than over a couple years. That should keep overall oil sands production from falling and help insulate oil sands producers from lower prices, at least for now.

[Graphic: The Only Oil Worth Owning](#)



GenscapeCanadian oil sands are expected to continue growing despite

lower prices

"They're safer than the frackers," says Carl Evans, an oil analyst at Genscape. "The sentiment up in Calgary has very much been that growth will push through this price dip, while U.S. production will start to come off highs." Evans says the breakeven costs for bitumen oil sands projects that are already up and running can be as low as \$10 to \$20 a barrel. Right now, the price of Canadian oil in Alberta is about \$40 a barrel.

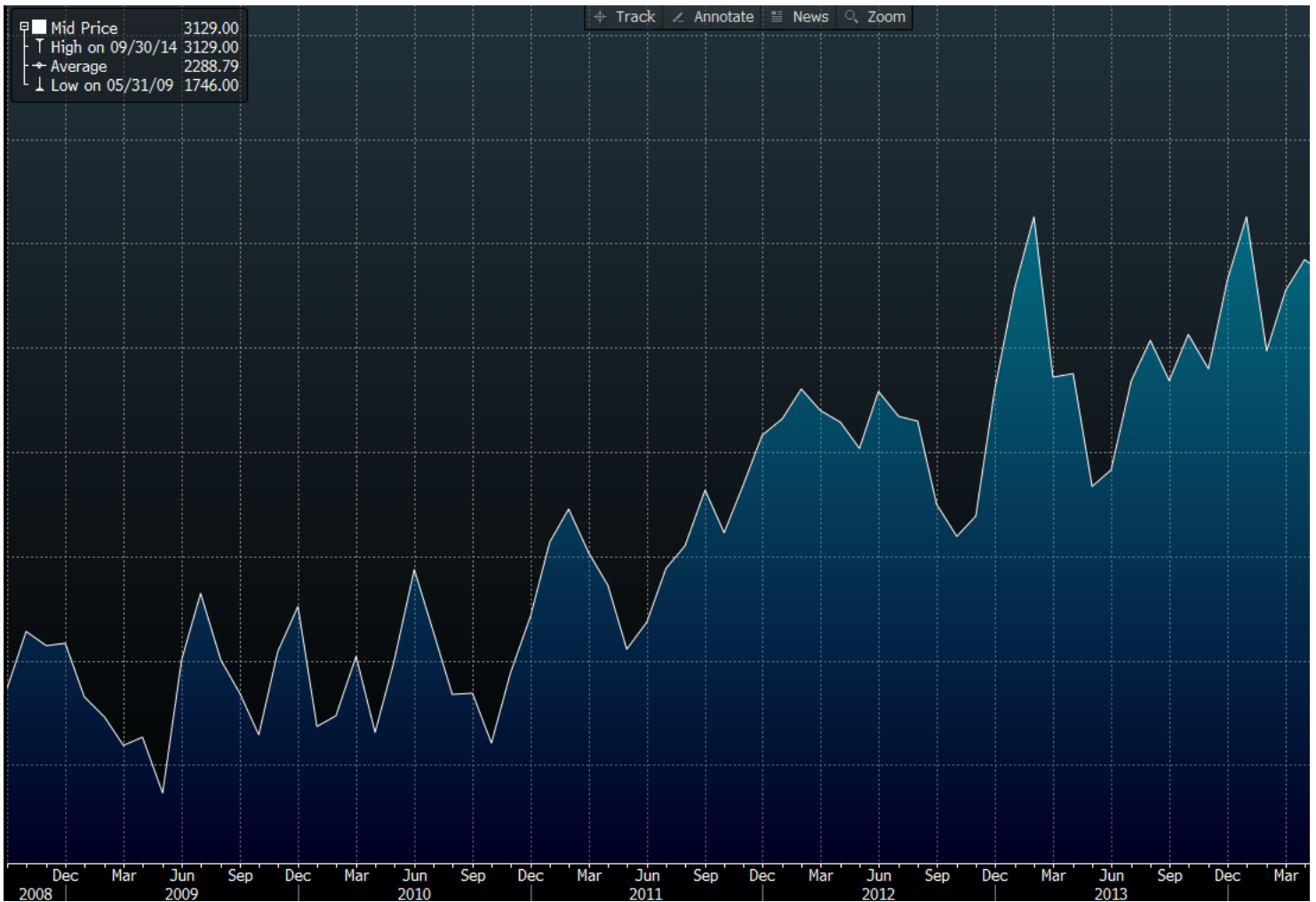
This isn't to say that future investments won't get cut if prices stay where they are. But those cuts won't show up in future production growth for years. A total of 14 new oil sands projects in Canada are [scheduled to start](#) next year with a combined capacity of 266,000 barrels a day, according to [data](#) published by *Oilsands Review*. That's 36 percent more than were started in 2014. Since most of those investments have already been made, those projects are probably safe. Even for projects that are only partially paid for, investors will still probably be loath to stop halfway.

"You don't stop a project mid-cap-ex," says Greg Sharenow, a portfolio manager at Pacific Investment Management Company (Pimco) and former senior energy economist at Goldman Sachs ([GS](#)). "We'll see a pause in new investments, but you probably won't see shut-ins without real distress," he says.

[Story: For These Companies, Cheap Oil Pales Next to Sweet Surcharges](#)

Oil sands companies have also been pretty good at lowering their costs over the past few years. According to Cenovus's third-quarter earnings report, operating costs have come down 9 percent and 14 percent per year for two of its biggest projects.

Canada's falling dollar could end up benefiting its oil sands producers. Over the past 12 months, the Canadian dollar has lost almost 10 percent of its value against the U.S. dollar. That's bad news for most Canadians since it reduces their buying power, but for oil sands producers, it could end up a net plus. While most of those companies pay their costs in Canadian dollars, they get paid in U.S. dollars because almost all the oil they produce is sold to U.S. refiners. That means their costs have gotten cheaper while their revenues have gained value.



BloombergThe U.S. imports more than 3 million barrels a day of Canadian oil.

When it comes to the U.S. import market, Canadian oil essentially competes with similar grades of heavy crude from Venezuela, Colombia, and Mexico. Recently, Canadian crude's been winning big. U.S. imports of Canadian oil have doubled over the past decade, from 1.5 million barrels a day in 2005 to more than 3 million barrels a day. Meanwhile, crude imports from Venezuela have gone in the opposite direction, falling from 1.3 million barrels a day in 2005 to less than 800,000. Not only is Canadian crude cheaper; most refiners also tend to think it comes from a more stable supply.

[Story: Zowie—Somebody Made an Absolute Killing by Shorting Oil](#)

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[Phillips](#) is an associate editor for *Bloomberg Businessweek* in Washington. Follow him on Twitter [@matthewaphilips](#).

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bwbw123 • 2 months ago

From the growing costs of 4.5 million premature deaths from polluted air around the world to the new cancers and massive environmental costs the real costs have to be socialized. To keep the real costs off the books of the above companies requires increased levels of government corruption. Tarsands take 4 gallons of water to get one gallon of toxic sludge and as Kalamazoo, MI shows it can't be cleaned from the water as it sinks etc. Tarsands needs to stay in the ground if humanity avoids the worst of global warming because it means pedal to the metal and more funds for denial and locks us into decades more.

29 ^ | ▾ • Reply • Share ›



tombox → bwbw123 • 2 months ago

getting tired of you lunatics spreading your idiotic bs all over the place , give it a rest

22 ^ | ▾ • Reply • Share ›



pakilolo → tombox • 2 months ago

So you deny science and the earth scientists who are studying what is going on with the changing climate? You deny what we can all see and scientifically measure is happening to the planet? When you use the word "lunatic", please look in the mirror.

7 ^ | ▾ • Reply • Share ›



tombox → pakilolo • a month ago

yes, its liberal green bs science , mixes cause and effect and is the favorite cause du jour of hypocrites

3 ^ | ▾ • Reply • Share ›



bwbw123 → tombox • 2 months ago

Steve. Corporate Socialism continues to take more and more of our freedoms. For instance the two million asthma deaths for children around the world may seem far away and not your children. But in reality we more and more see the pollution moving further away from where it was burned. And as far as global warming our shared atmosphere can't tell where it was burned. Our government being turned over to multinationals that know no loyalties not only turns your freedom over to powers not even in our government as it becomes a branch office not our government.

12 ^ | ▾ • Reply • Share ›



crunchy2k → bwbw123 • 2 months ago

What is next? clothing animals like our cats and dogs? After all it is for the kids.

4 ^ | ▾ • Reply • Share ›



FNLED → tombox • 2 months ago

Says a Corporate Socialism supporter.

5 ^ | ▾ • Reply • Share ›



PetEng → bwbw123 • 2 months ago

You don't use hydrocarbons? Hard to see how you are posting on the internet without being a hypocrite.

5 ^ | ▾ • Reply • Share ›



FNLED → PetEng • 2 months ago

Why should we use hydrocarbons for plastic when anything made with petroleum can be made with biomass?

Are you a supporter of Monopoly instead of choice and competition in the market place?

4 ^ | ▾ • Reply • Share ›



J-dawg → PetEng • a month ago

Leave to social commentary to the people who can actually grasp such things, Engineer.

^ | ▾ • Reply • Share ›



Steve Shorey → bwbw123 • 2 months ago

I'd rather take my chances with oil sands than with more government control of our lives and livelihoods. There is no oil produced within 1000 miles of where I live.

8 ^ | ▾ • Reply • Share ›

**FNLED** → Steve Shorey • 2 months ago

We the People are the Government.

5 ^ | ▾ • Reply • Share ›

**Martin_vanburen** → FNLED • 2 months ago

Not in Steve's backyard.

6 ^ | ▾ • Reply • Share ›

**pakilolo** → Steve Shorey • 2 months ago

The government is us...we vote for the government. Without rules and regulations we have chaos. The government does not control our lives but is there to prevent (in this case) environmental catastrophe.

1 ^ | ▾ • Reply • Share ›

**Steve Shorey** → pakilolo • 2 months ago

The liberal moonbats don't even follow their own rules and laws.

^ | ▾ • Reply • Share ›

**Christopher** → bwbw123 • a month ago

Premature deaths? Are you an abortion advocate and if so, are you adding THOSE premature deaths?

^ | ▾ • Reply • Share ›

**Hopsgegangen** • 2 months ago

The Koch brothers own 3 things: tar sands, refineries set up to process tar sands oil, and the U.S. Congress. Watch for Mitch McConnell to make Keystone XL his first priority.

9 ^ | ▾ • Reply • Share ›

**Rick** → Hopsgegangen • 2 months ago

Something Reid should have done years ago.

5 ^ | ▾ • Reply • Share ›

**pakilolo** → Rick • 2 months ago

Why? So we can guarantee a faster disintegration of our climate and environmental system? So we can destroy the ocean and forests and glaciers and ourselves faster? So China can get the Tar Sands Oil as soon as possible?

Research shows that oil prices will rise with the completion of the XL Pipeline. There will be about 50 permanent jobs. WooHoooo.

Rick: take you stupid tea party hat off....and turn off

Fox -so called - News.

5 ^ | ▾ • Reply • Share ›

**FNLED** → Rick • 2 months ago

Why?

^ | ▾ • Reply • Share ›

**Pfft** • 2 months ago

Love the nutbags who drive cars, fly on planes and use electricity -- but complain endlessly about the hazards of fossil fuels. Go live on an island or North Korea if it bothers you so much.

27 ^ | ▾ • Reply • Share ›

**callmeisaac** → Pfft • 2 months ago

I agree. I'm for energy independence and also for renewable energy and alternative forms of transport. The more choices, the cheaper and less congested travel is.

In the meantime, I don't own a car - I ride a bike.

16 ^ | ▾ • Reply • Share ›

**FNLED** → Pfft • 2 months ago

Ignorant comment from a Corporate Socialist that never saw a fossil fuel market failure he wouldn't defend.

7 ^ | ▾ • Reply • Share ›

**FNLED** → Pfft • 2 months ago

Why do you support a monopoly of fossil fuels and no choices in the marketplace?

6 ^ | ▾ • Reply • Share ›

**Pfft** → FNLED • 2 months ago

I support choices when they're economically viable. When goofy alternatives are ready to capture market share -- they will.

3 ^ | ▾ • Reply • Share ›

**FNLED** → Pfft • 2 months ago

Nope.

You support Market failures that Socialize external spillover costs onto the environment and the populace.

And since you only support socialism for fossil fuel market failures that keep the cost artificially cheaper than alternatives while you decry any other instance or form of socialism for individuals or emerging competition, you are a really a silly hypocrite.

Plain and simple

4 ^ | v • Reply • Share ›



icowrich → FNLED • a month ago

That's true. If oil companies couldn't externalize the cost of their waste, it would be a fair marketplace.

2 ^ | v • Reply • Share ›



FNLED → icowrich • a month ago

Exactly.

So called conservatives love market failure that the 1% can profit from.

The GOP are the greatest Corporate Socialist enablers on earth

1 ^ | v • Reply • Share ›



icowrich → Pfft • a month ago

It's not that fossil fuels are bad, per se. It's that they're bad when used too much. You may as well say people who consume fish are hypocrites if they don't want their children to die of mercury poisoning. A small amount is better than a large amount.

5 ^ | v • Reply • Share ›



tombox → Pfft • 2 months ago

they won't because they don't have the courage of their convictions..in other words they are just stupid followers of the cause du jour

5 ^ | v • Reply • Share ›



Alex Povolotski → tombox • 2 months ago

All talk and no action.

1 ^ | v • Reply • Share ›



KhawarNehal → Pfft • 2 months ago

You need a plane or a boat to get to the island. Who is going to walk or swim there ?

Then if you need the internet on the Island talk to me.

Khawar Nehal

<http://deira-dubai.com>

6 ^ | v • Reply • Share ›



J-dawg → Pfft • a month ago

One cannot champion for transition by withdrawing from the society that needs to make the change. It's really not that difficult of a concept.

2 ^ | v • Reply • Share ›



pakilolo → Pfft • 2 months ago

And Climate Change does not bother you? Melting Arctic Ice and glaciers does not bother you? Mega forest fires are OK? Heating planet is OK? Scientific studies and predictions are all lies? Mega storms are no problem? Heat wave OK? Acidic Oceans and dying coral reefs and fish OK? Maybe you should go to North Korea.

2 ^ | v • Reply • Share ›



Pfft → pakilolo • 2 months ago

And exactly what are YOU doing about it? Do you eat beef or chicken? You're part of the problem. Drive a car? Fly in a plane? Use electricity generated by fossil fuels? Again, you're part of the problem.

Right now, fossil fuels are the most cost efficient way to generate power. All this other stuff like windmills, ocean currents and solar hold promise -- but aren't commercially feasible yet -- no matter how much you whine and stomp your feet -- while wearing Chinese shoes made in a city with filthy black air before they were loading on a bunker oil burning container ship to get here -- this very same ships responsible for 10% of the planet's carbon emissions.

So get off your high horse already. Stop blocking the production of fossil fuels and strangling everybody's standard of living in the process. Because for now -- everybody -- INCLUDING YOU -- need them.

3 ^ | v • Reply • Share ›



Artist1 → Pfft • 2 months ago

North Korea has all of those things...propaganda works wonders on you, eh?

1 ^ | v • Reply • Share ›



Alex Povolotski → Pfft • 2 months ago

YES!!!


1 ^ | v • Reply • Share ›




pakilolo → AlexPovolotski • 2 months ago

Your tea bags are dangling the wrong way on your revolutionary hat. Wake up.

^ | v • Reply • Share ›

 **Noan Fesnoux** · 2 months ago
Oil Sands producers are also gambling on a failure for governments to reach binding agreements on carbon dioxide emissions. Then again, is it really considered gambling if you have paid for the dealer to get his position? Economically, fracking and bitumen extraction only make sense when the environmental costs are externalized, which has always been the way these industries operate.


9 ^ | v · Reply · Share ›

 **FNLED** → Noan Fesnoux · 2 months ago
All right wingers are trained to support Socialism for the rich and only the rich.


10 ^ | v · Reply · Share ›

 **Martin_vanburen** → FNLED · 2 months ago
It's called a Plutocracy.


6 ^ | v · Reply · Share ›

 **crunchy2k** → FNLED · 2 months ago
aDude, its not the wing nuts. It is the eco freaks. My first encounter with one was while I was taking an ecology course. We were learning how to statistically observe the environment. But this eco pheak in the class thought we should return the invasive Japanese snails back into the evinroment. As a home owner I had a cow paddy and so too the prof wwho promised the gardeners a cleaned area.

1 ^ | v · Reply · Share ›

 **pakilolo** → crunchy2k · 2 months ago
So...you make this stuff up and you go along?

^ | v · Reply · Share ›

 **Fred Milton Olsen** · 2 months ago
>>> "Can Canadian Oil Sands Survive Falling Prices?"


God, I hope not! In fact, I hope that the jiggery-pokery with world markets blows up in their faces and causes a financial meltdown that will NEVER be forgotten.

Get your money out of the markets and out of dollar investments, folks.

You can go solar cheaper than you think. Take a look at Amazon.com solar panels from Renogy. They'll deliver to your door.

Quit whining and be the change you want to see in the world.

7 ^ | v · Reply · Share ›

 **Brad Arnold** · 2 months ago
First, I would really like to thank Mr Philips for this article - I've been wondering what the "break even" price for oil sand oil is (less than 40 \$/barrel once the enterprise has made the initial investment).

Second, what isn't widely know is that there is a revolutionary energy technology emerging that will completely wipe out the fossil fuel recovery industry: LENR. I have much more material, but due to space limitations I will cite just two (a couple of quotes from NASA, and a link with a short excerpt). My experience is that most people are in denial since it is such a fundamental paradigm change.

"LENR has the demonstrated ability to produce excess amounts of energy, cleanly, without hazardous ionizing radiation, without producing nasty waste." - Dennis Bushnell, Chief Scientist at NASA Langley Research Center


"Total replacement of fossil fuels for everything but synthetic organic chemistry." --Dr. Joseph M. Zawodny, NASA

<http://www.opednews.com/articl...>


"There are many companies now racing to bring Low Energy Nuclear Reaction products to the marketplace. One notable company is Solar Hydrogen Trends, which claims to have accidentally discovered a way to use LENR to produce hydrogen gas from water at the energy equivalent of producing pollution free oil for about \$5.00 a barrel. Their hydrogen gas producing reactor has been independently tested by two well known companies, AirKinetics, Inc. and TRC Solutions. Both companies found that the reactor works as promised, and the TRC Solutions PDF report is quite shocking."

[see more](#)


5 ^ | v · Reply · Share ›

 **wallybobble** → Brad Arnold · 2 months ago
hydrogen gas for fuel cells I suppose. hydrogen can be produced by running electricity from solar through water. bottled, transportable, etc

^ | v · Reply · Share ›

 **charles.hoffman.cpa** · 2 months ago
political stability and the protection of supply chains - Alberta, Ca has the Calgary Stampede once a year; otherwise, it's calm and right next door

2 ^ | v · Reply · Share ›

 **Vladek** · a month ago
Oil sands have one of the highest spending and production costs and already trades at \$15 discount to WT crude.

1 ^ | v · Reply · Share ›

**Vincent Wolf** • 2 months ago

Great were back to the wasteful ways of the 70's. Watch people start buy LARGE SUV's instead of the mid-size ones. And big trucks.

1 ^ | v • Reply • Share ›

**bwbw123** • 2 months ago

Like V. Nam and those of us who stayed in this country to make it better and end the war so too many are working and have for decades to cut back carbon burning and we know we can cooperate and have to not again rely on us few that don't accept the mindless Love It or Leave it choice the far right had then and now with the idea, you use some so you can't have a say and certainly can't ask for cooperation to solve our shared problem of global warming.

1 ^ | v • Reply • Share ›

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**Companies Mentioned**

- [SU](#)

(Suncor Energy Inc)

- \$30.56 USD
- -0.97
- -3.17%
-

- [CVE](#)

(Cenovus Energy Inc)

- \$19.97 USD
- -0.49
- -2.45%
-

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