



The Round-Up: November 3rd 2006

Posted by [Stoneleigh](#) on November 3, 2006 - 1:01pm in [The Oil Drum: Canada](#)

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[Draining Canada First](#)

How long can Canada go on behaving like America's most compliant energy colony?

Not very long, according to David Hughes, a petroleum geologist with the Geological Survey of Canada. Speaking before the World Peak Oil Conference held in Boston last week, Hughes painted a remarkably pessimistic picture of Canada's energy future, especially regarding natural gas.

Despite record drilling activity, natural gas extraction volumes have slipped from the peak set in 2002, and output per well is now declining at an annual rate of 28%. Put another way, energy companies must add 3,000 more wells in 2007 on top of the 15,000 now in production just to keep output from diminishing.

That would be a daunting challenge even if there were spare rigs and drilling crews standing by. As it now stands, there is no spare capacity of this sort anywhere in North America.

With only eight years of proven reserves left in Canada, Hughes suspects that natural gas output is about to fall off a cliff. Barring a miracle or two, Canada will soon experience challenges in providing for its own citizens, let alone producing surplus volumes bound for American furnaces.

[Energy trusts lose \\$17 billion in value over income trust tax changes](#)

"If the tax proposal is enacted as presented, we believe that Canada will lose control of its energy sector and investment activity will decline in conventional oil and gas production," the capital markets unit of investment firm Canaccord Capital said in a report Thursday.

"This tax proposal puts a 'for sale' sign on Canadian energy resources by removing a competitive cost of capital advantage - a wave of foreign takeovers is likely to emerge. As a result, Canadian energy decisions will eventually be made outside of our borders."

Canaccord suggested the government has effectively increased the cost of capital for the Canadian oil and gas sector.

[Income trust tax angers Alberta oil patch](#)

"What you have amongst a lot of people in the oil patch is an intense sense of disillusionment," he said. "There was billions of dollars bet by ordinary people, companies, executives on the strength of this promise. To have this result, to have billions of dollars lopped off, seems to have struck a raw nerve."

[Broken Trust](#)

If he had merely ended the investment trust mechanism, he could have halted the erosion of the Canadian tax base, without also destroying \$25 billion of shareholder wealth in a single day, shutting down the existing investment trust apparatus, violating the trust of every investor in Canadian assets, imperiling future investment in the country, eroding the Canadian government's credibility, undermining the Canadian dollar and looking like an incompetent buffoon.

[Talisman puts off \\$1B in projects](#)

Talisman Energy Inc. is deferring \$1 billion in exploration projects in 2007. It's the latest oil and gas producer to pull back on drilling amid high costs for labour and equipment....

....Talisman ex-pects to spend \$4.8 billion on exploration in 2007, the same amount as 2006. But given spiralling costs for drilling and other services in the energy industry, Buckee said that's a real decrease of between 10% to 15%.

Two of Talisman's larger competitors in the Canadian oilpatch -- EnCana Corp. and Canadian Natural Resources -- have cut their drilling plans for 2007, citing rapidly escalating costs and softer natural gas prices.

[Officials pushing for natural-gas alliance](#)

Russian officials are pushing for the formation of a "natural gas OPEC" that would link Moscow with major suppliers in Central Asia and Iran to gain more clout against customers in the West. If successful, the alliance would control more than half of the world's known gas reserves and give Moscow powerful leverage as it seeks to strike a new long-term deal on energy with the European Union....

....Russian President Vladimir Putin first floated the idea of a natural gas cartel in 2002. Genadi Zodanov, a Communist Party member of parliament, said a gas cooperation deal with Iran would create a strategic alliance with Tehran, giving the world's two largest natural-gas producers the kind of clout OPEC's Persian Gulf producers have wielded in the oil market for decades.



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