Canadian oil exporters lose out due to dependency on U.S.

Increasing pipeline capacity to serve fast-growing Asian markets would guarantee world prices for Alberta oilsands oil, expert says

BY JOHN MORRISSY, POSTMEDIA NEWS JANUARY 28, 2011 12:14 AM

The rising differential in global benchmark oil prices for North Sea Brent crude and West Texas Intermediate shows the risk Canada suffers in relying too heavily on the U.S. as its major export market, says Scotiabank commodities expert Patricia Mohr.

WTI, the North American benchmark, has lagged Brent, its international counterpart, since Aug. 17 and the spread between the two has become more pronounced since, rising to a new record Thursday of $11.86 US a barrel.

Mohr said the spread is largely the result of near-record oil supplies building at the main terminal in Cushing, Okla., driving down WTI prices, while declining production in the U.K. and Norwegian sectors of the North Sea have pushed up Brent.

With almost half of all Canadian production exported to the United States, and with WTI as the main reference point for pricing, Canadian producers are missing out, Mohr said in her monthly commodity price index report.

"The wide discount for WTI off Brent highlights the commercial risk for Canada's oilpatch of relying largely on one export market," Mohr cautioned.

New pipelines from Cushing to oil refineries on the U.S. Gulf Coast should ease price-depressing backlogs in Oklahoma, but those are several years out, Mohr said.

In the meantime, "building more pipeline capacity or using the existing rail link from Alberta to the B.C. coast for onward shipment to fast-growing Asian markets would 'guarantee' world prices for the Alberta oilsands and other Canadian crudes."

Mohr added that China's petroleum consumption rose by a "sizzling" 12 per cent in 2010 and was up 19.1 per cent year-over-year in December.

The oil and gas sector led Scotiabank's commodity price index, which tracks prices paid for 32 key Canadian commodities in export markets, with gains in December of 12.2 per cent.

For the year, the overall index advanced 17.8 per cent and is now up 43.2 per cent from the April 2009 cyclical low.

Mohr is optimistic that growth in China, which is central to continued commodity price strength, will continue apace, at 9.5 per cent in 2011, despite concerns the country will tighten credit to squelch rising prices.