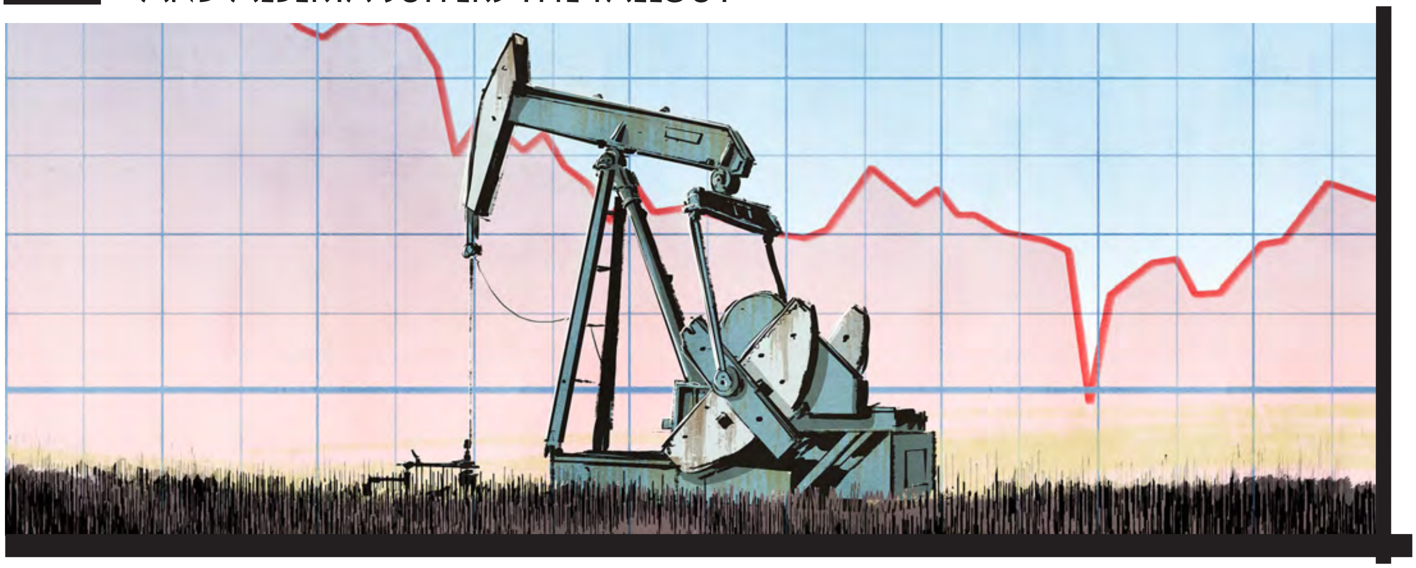
National

Oil Prices Plummet

– And Alberta Suffers the Fallout



Imagine this. Every week last summer, you bought your favourite sundae for four dollars. Predictable customers like you help ice cream manufacturers determine how much of the treat to make. This season, creameries are expecting similar customer behaviour. So, they have cranked out the same amount of product.

For some reason, though, no one is buying ice cream right now. As freezers fill up, the surplus ice cream is melting. So instead of charging you four dollars for a sundae, your local ice cream stand wants to pay *you* two dollars just to take one.

Take a barrel – please!

On a much larger scale, that's what happened in the global **crude oil** industry last month. Just a year earlier, oil producers were charging about $70 for one **barrel** of the **commodity**. Yet on April 20, 2020, these same companies couldn't give away their oil. Storage facilities were filled to capacity, and the excess had nowhere to go.

So oil producers offered to pay about $38 for every barrel someone took off their hands. It was the first time that oil prices went into what economists call 'negative territory'. The next day, prices recovered slightly, but it's been a rocky ride.

What's going on?

The COVID-19 factor

The current COVID-19 pandemic is largely to blame. Here's why. As with other global commodities, supply and demand determine the price of crude. If there is a shortage of oil and many customers want to buy it, the price goes up. But if there is a **glut** of oil on the world market, the price drops.

Producers increase or reduce the oil supply for political and economic reasons. But global demand for the product has been more or less steady for 35 years. After all, oil runs our cars, fuels our airplanes, and helps operate our factories.

Demand dries up

To meet that demand, companies have been pumping near-record levels of their product into the global market. They're extracting about 100 million barrels a day from fields,

Definitions

BARREL: unit of measurement of oil. One barrel is equivalent to about 159 litres.

COMMODITY: a raw material or primary agricultural product that can be bought and sold, such as copper or coffee

CRUDE OIL: oil that has not yet been refined

GLUT: an excessive amount, as in the production of a crop, often leading to a fall in price oceans, and sands. That's nearly 16 billion litres every 24 hours.

Before COVID-19, we were guzzling it all up. Refineries turned that oil into gasoline and other products people and industries used daily. Now, however, much of the world is locked down. Highways are empty. Planes are parked, Factories are silent. As a result, the need for oil is plummeting.

OPEC, COVID-19, and the Oil Supply

The Organization of the Petroleum Exporting Countries (OPEC) is a group of 13 major oil-exporting countries. The top six are Saudi Arabia, Iraq, Iran, United Arab Emirates, Kuwait, and Venezuela. Saudi Arabia is seen as the leader of the group. The U.S., Russia, China, and Canada are also top oil producers. However, they aren't members.

OPEC controls about 79 percent of the world's total crude reserves. Formed in 1960, it is a **cartel**. To get the best price, its members decide how much oil to produce and what to charge for it.

In March, as COVID-19 spread, major OPEC customers like China were slashing oil imports as factories shut down. OPEC and Russia met to consider options. Although not part of OPEC, three years ago Russia agreed to match its oil production levels to that of OPEC.

To keep prices high as demand fell, Saudi Arabia wanted to cut oil production. Russia refused; it wanted to keep prices low. Saudi Arabia responded by slashing prices. That flooded the market and started a **price war** with Russia, just when the world was using less and less oil.

When oil prices plunge, the global economy suffers. So on April 12, Saudi Arabia and Russia struck a deal to cut production by 9.7 million barrels a day in May and June (about ten percent of the world's normal oil supply). That would stabilize global oil prices. However, the cost of a barrel of oil plunged into negative territory a week later. Critics say that's because the deal fell short and came too late.

Canada feels the pain

COVID 19 is badly hurting economies around the world. Canada is no exception. But Alberta, our largest oil producer, will suffer the most of all the provinces. Why? Because in 2019, Alberta produced nearly four million barrels of oil a day. Now, that output could plunge by 1.7 million barrels a day. That's one-third of Canada's total. So some **oil sands** projects will likely shut down. Tens of thousands of people could lose their jobs.

What's more, crude oil producers delivered hundreds of millions of dollars in **royalties** to the Alberta government. With oil sales at a near standstill, the province won't have that money to invest in education, health care, and other social programs.

Canada as a whole profits from Alberta's oil sales, too, through taxes. But the federal government will take in billions less in oil revenues next year. So it will also have less to spend on programs and services. That affects everyone.

A little good news

At the end of April, there were some hopeful signs for oil producers, however. Oil prices jumped more than 20 percent. The reason: Supply was lower than expected and some stay-at-home rules were lifted. But will production ever bounce back to pre-pandemic standards? Or will new habits mean we fly, drive, and buy less? Stay tuned. ★

Definitions

CARTEL: a group of suppliers who work together to keep prices high and restrict competition

OIL SANDS: a mixture of sand, water, clay, and a type of oil called bitumen, found in northeastern Alberta

PRICE WAR: a fierce competition in which businesses cut prices in an attempt to increase market share

ROYALTY: a share of the profit paid to the government for the right to extract oil

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On the Lines

Answer the following in complete sentences:

1. What usually happens to prices if a product is in short supply and many people want to buy?

2. What usually happens if large amounts of a product are available and not many people want to buy?

3. Describe the global demand for oil over the past few decades. How much oil was being produced daily?

4. What happened to the demand for oil in recent months? Explain why this occurred.

5. How much did a barrel of oil cost in April 2019?

6. What happened to oil prices in April? Describe why the price entered 'negative territory'.

7. Which province produces most of Canada's oil? How much oil is produced here?

8. What do some projections estimate Alberta's oil production will fall to?

9. How will the drop in oil revenue affect the Alberta economy?