National Post

Oil patch steams ahead; Rising costs, labour shortages highest hurdles

Tue Sep 13 2011
Page: FP1 / Front
Section: Financial Post
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As the rest of the world cuts back, Canada's oil industry is moving full steam ahead amid different types of fears — labour shortages and escalating costs.

With oil prices strong and balance sheets in good shape, companies operating in Canada seem to be shrugging off the global market mayhem that is pummeling stock prices and taking the long-term view, at least for now.

"For much of the global petroleum industry, the sky is not falling at current prices," Judith Dwarkin, chief energy economist at ITG Investment Research, said in a report.

"In Canada's oil sands, in-situ projects generally remain profitable at mid-US$70 a barrel West Texas Intermediate, and any slowdown in upstream activity would help relieve cost pressures. For these producers, the surge in crude prices during the first half of 2011 was gravy."

Chris Seasons, president of Devon Energy Corp.'s Calgary-based Canadian unit, said Devon will probably match in 2012 the $1.6-billlion spent in Western Canada in 2011 as it moves forward with its third in-situ oil sands project, Jackfish 3, and makes progress on its oil sands joint venture with BP PLC.

"Anything that has oil attached to it we still feel quite bullish on," Mr. Seasons said.

While market volatility is a concern, Mr. Seasons said the bigger worry for low-debt companies such as Devon is soft natural gas prices.

Kevin O'Brien, president of IMV Projects, one of Calgary's top engineering contractors, said the sector is in better shape today than during the 2009 downturn, when scores of companies cancelled plans and sent their workforces home.

But it didn't go unnoticed that those that stayed the course reaped big benefits and became "the envy of the industry," said Mr. O'Brien, whose firm designs surface facilities for operators such as Royal Dutch Shell PLC and Athabasca Oil Sands Corp.

"They got to take advantage of some of the cost savings during the downturn [and] they are bringing on more production, [while] a lot of the other producers in town just stalled," he said. "Going forward, I believe that even if there is an economic downturn, people are going to keep spending."

IMV has added 200 jobs since January, when many growth plans were restored as the economy rebounded.

With none of his clients signaling a slowdown despite global fears of a double-dip recession, the firm is continuing to look for engineering, procurement and construction management staff.

"Right now, we are still able to attract really good talent to come work for us," Mr. O'Brien said.

"We expect that it's going to tighten by fourth quarter of this year. In 2012, if things continue at the planned pace, it's going to be a difficult year for recruiting."

Mel Zimmerman, vice-president of search at executive recruiter Toombs Inc. in Calgary, said oil sands companies are paying attention to negative market sentiment, but still moving "full steam ahead" with their projects and hefty hiring plans, particularly for 2012 and 2013.

"As I talk to some of those big integrated upstream companies, they are not hiring four and six, the plans are to hire four hundreds and six hundreds." The most competitive areas, he said, are in the trades and technical disciplines.

Rick George, president and CEO of Suncor Energy Inc., Canada's largest oil company, hinted last week his company is planning "slightly higher" capital spending in 2012 relative to the $6.7-billion earmarked for 2011, when the oil sands player expects to reap record cash flow due to strong oil prices and cost cuts following its merger with Petro-Canada.

"Any crude price above US$70 a barrel is great for margins," Mr. George said.

Peters & Co. said inflation will be an "ongoing theme" for oil sands operators because of the large number of projects expected to begin construction over the next five years.

"There continues to be a shortage of experienced oil sands technical people," the brokerage said. "Attracting and retaining key personnel related to reservoir engineering, procurement and construction will likely be key for managing through the inflationary time period."

The expected surge in energy jobs has prompted Alberta's energy minister, Ron Liepert, to invite unemployed U.S. construction workers to look for jobs in the province's oil sands industry.