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Economic revival sweeping Western Canada

By Nathan VanderKlippe
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New deals in energy sector touted as sparkplug to 'lead the country out of the recession'

Mere months after Alberta took the crown as Canada's fastest-growing home to the unemployed, the province finds itself at the heart of an economic revival that is sweeping Western Canada.

Confidence has come roaring back to the resource sector that dominates the western provinces, as new hope for global economic growth fuels optimism that the see-saw of the past few years has given way to a more stable future for crude, metals and fertilizer.

All of that has translated into a sudden upshift on the levers of investment in Western Canada, as corporate leaders who have spent the past year biding their time and refining their plans now move billions of dollars to seize a moment for which they've been waiting. The latest came Thursday, when Canadian Natural Resources Ltd. CNQ-T said it is nearing a major new spending outlay in the oil sands.

"The West is on fire," said Adam Waterous, Scotia Capital's Calgary-based head of global investment banking. "It's fantastic news for the country. These are big, big projects that are going to get developed. And there's no question that the West is going to lead the country out of the recession."

The change has been propelled largely by signs of an economic recovery and forecasts of accelerating growth, which all point to renewed demand for the products the West has to offer.

"The industry is starting to accept that we are through the dip," said Steve Spence, president of Osum Oil Sands Corp., which said this week that it has sought the province's regulatory nod for a 35,000 barrel-per-day oil sands project. "Not that things have gone crazy again, but that it's safe to start moving projects forward."

Osum's project was just one in a string of high-profile announcements this week, which together have been industry's way of saying "We're back," said David McColl, research director at the Canadian Energy Research Institute.

Energy executives were mindful of the sustained oil rally during year-end board meetings, a time of year when important development decisions are often made.

Oil has now traded at higher than \$70 (U.S.) a barrel for more than six months. The stability has sparked a rebound the oil sands industry, which a year ago was suffering so badly that Suncor Energy Inc. posted its first red ink in nearly two decades.

Now, new projects have come flooding back. This week alone, Husky Energy Inc. and BP PLC have pressed ahead

with their \$2.5-billion Sunrise project; ConocoPhillips Co. and Total SA revealed an 83,000 barrel-a-day expansion of their Surmont project, estimated at \$1.5-billion; and Canadian Natural Resources Ltd. said it hopes to announce an expansion of its Horizon mine by year-end.

Still, some worry about a return of the problems seen during the boom, such as soaring costs for labour and materials.

"We're in kind of a sweet spot right now, where we're seeing a nice, steady but maintainable stream of projects coming online," ATB Financial senior economist Todd Hirsch said. "But by May and June, if [companies] are all starting to pile in again, costs are going to get way out of reach for these guys and it will be the same thing all over again."

And some key areas are still weak. Natural gas prices are below levels many companies require for solid profits, undermining what has long been a bedrock of the Alberta economy.

The resource industry is betting, however, most commodity prices will remain firm. In B.C., a mining boom has been pumped up by solid gold and copper prices, a key environmental approval last week and the ongoing construction of the province's first new mine in a decade.

"The story is really the return of robust demand out of Asia, primarily for minerals, metals and industrial raw materials," said Jock Finlayson, executive vice-president of the Business Council of British Columbia. Strong commodity prices also provide companies the opportunity to negotiate favourable long-term fixed-price contracts.

The B.C. government made a move Thursday to maintain that boom by extending an important flow-through mining tax credit for three years, until 2013. B.C. has also found itself with surging natural gas fortunes. Recent blockbuster land sales for the Horn River and Montney plays in the province's northeast are now translating into production that is expected to grow by 6.3 per cent in the 2010-2011 fiscal year. Even B.C.'s long-suffering forestry sector has caught a glimmer of hope with an unexpected surge in demand from China.

The good news has extended to Saskatchewan, too, where oil companies are rushing to drill more wells in the lucrative Bakken play, two promising gold properties are being developed and the improving outlook for potash, one of the province's mainstays, brought a \$240-million (U.S.) funding commitment this week from BHP Billiton Ltd., which is working on its proposed Jansen mine.

"We feel there are grounds for cautious optimism," said Roy Schneider, a spokesman with Saskatchewan's Ministry of Energy and Resources. "This may be not an outstanding year, but a solid one."

Part of the optimism has come from a much better profit outlook. Though it was painful, the past year helped to strengthen many major projects. Sunrise, for example, saw its estimated construction cost drop by 40 per cent. In that sense, the downturn provided a much-needed break to trim fat from projects whose costs had jumped.

"That's helped to bring the cost structure more back in line with what might be sustainable over the longer term," said Dave Collyer, president of the Canadian Association of Petroleum Producers.

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