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Angola and Nigeria are poverty-stricken countries, with a majority of their populations living on less than US$2 per day.

The quota compliers tend to be affluent, low-population Gulf countries – Kuwait, Qatar and the United Arab Emirates – and OPEC's North African members – Algeria and Libya.

Unlikely cut

Based on IEA data, OPEC-11 compliance was 83% in March, or about 720,000 bpd above target. Compliance among the quota busters ranged between 44% for Iran and 69% for Venezuela, and among the quota compliers between 80% for Libya and 94% for UAE. The quota busters were 690,000 bpd over their targets, the quota compliers were 130,000 bpd above, with Saudi Arabia producing 100,000 bpd below its target.

Although 83% compliance is far above the cartel's historical average rate of 60%, it is questionable whether it will be high enough to satisfy the Saudis, especially given the relatively small improvement in March owing to the lack of progress among quota busters.

OPEC-11 compliance improved four percentage points between February and March, but improved a mere 10,000 bpd among the quota busters. Compliance declined slightly in Angola and Nigeria and remained flat in Iran and Venezuela.

Saudi Arabia's crude oil production also was flat between February and March. Since the kingdom normally produces far below its target to bolster prices in a relatively low oil-price environment, this may be a sign the Saudis are serious about obtaining high compliance from most if not all members before agreeing to another round of cuts. ■

Bucking the trend in Canada's oil sands

Doom and gloom continue in Alberta's oil sands but there are some signs of life as service costs come down

By Ashok Dutta

- **Five oil sands projects have made progress recently, from both majors and minnows**
- **Service costs have always played a significant role and lower prices are helping**
- **When demand starts to rise once more there will be a supply crunch**

Western Canada's oil sands do appear to be in a dire state but there are some signs of life from both junior and major companies.

Five projects are currently at various stages of implementation, with a total production capacity of 265,000 barrels per day of bitumen post-2012.

The lead has been taken by a joint venture of Calgary's EnCana and Houston-based ConocoPhillips, which last month filed a regulatory application to add another 120,000 bpd capacity to its existing Christina Lake project.

Not to be left behind, on April 15, Royal Dutch/Shell also filed an application to carry out an environment impact study for its Carmon Creek in-situ project in the Peace River area. It will have a nameplate capacity to produce 80,000 bpd of bitumen over the coming few years. *(See: Shell brings back Carmon Creek project)*

Next in line are two ventures proposed by Calgary-based juniors – Petrobank Energy & Resources and Osum Oil Sands. The former has awarded the front-end engineering and design (FEED) contract to Vista Projects for its 10,000 bpd May River project, while the latter has filed a regulatory application for its 35,000 bpd Taiga project.

Additionally, bids are under evaluation at Korea National Oil Corporation (KNOC) for the FEED contract covering a 20,000-bpd expansion of its BlackGold bitumen extraction project in northern Alberta.

The list does not end there. According to an official at Jacobs Engineering Canada – who did not wish to be identified – a team of Flint Energy Services and Ledcor will soon be given the greenlight by Suncor Energy to proceed with work on the stalled third and fourth phases of Firebag project. On completion in late 2010 or early 2011, they will produce a combined 125,000 bpd of bitumen. *(See: Flint, Ledcor to work up Firebag stages)*

The majors have greater flexibility over these matters and their investments can be seen as a way of hedging future risk. That is, by cutting back on some projects while allowing a few to continue provides a means of locking in an amount of future production while avoiding too much financial exposure in these straitened times.

The juniors, though, present a rather different case. For the smaller companies these projects, which carry relatively high price tags, will prove challenging and this presents an interesting indication of how they see the oil sands' future. ▸▸

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Project	Client	Capacity (bpd)
Christina Lake Expansion	EnCana/ConocoPhillips	120,000
Carmon Creek	Shell	80,000
May River	Petrobank	10,000
Taiga	Osum Oil Sands	35,000
BlackGold Phase 2	KNOC	20,000

Source: DMS Americas

Motivating factors

The recent developments stand in contrast to the sector's outlook in November, when nearly all developers were either cancelling or putting on the back burner projects involving investments worth billions of dollars.

Ostensibly, a prime driver in the change may be an increase in oil prices to about US$50 per barrel. But there are others factors as well and probably more significant.

"Those companies that continue to spend through the downturn will be rewarded by lower service and contractor costs and commodity prices, which are poised to rise substantially in the long term," a special advisor to Washington's PFC Energy, Lew Watts, said at the recently concluded Canadian Energy Research Institute conference in Calgary.

"If you can carry on investing in the next three years, you will benefit, as there is going to be a strong push on demand. Large international oil companies with very strong balance sheets are investing through this because of the huge advantages they can derive," he said.

Some benefits are already in hand, according to Vista Projects' president and founder, Alex Campbell.

"Project costs, from an engineering viewpoint, are already down," he told *NorthAmOil*. "We do not have a definitive figure as yet, but it is probably less than 10%."

Furthermore, there seems to be a silver lining in the recent lay-offs in Calgary's engineering community.

"It is dramatically different now compared with what it was six months ago. We had to hire young and inexperienced hands and train them. Now, the right person is available for the right job," Campbell said.

Campbell also pointed out oil companies investing in preliminary engineering works would receive benefits from options of value engineering that will ultimately bring down project costs.

"When prices were high and there was a rush to complete all design and construction works, project optimisation took a back seat. Now, if clients wish to bring down capital costs, it will be possible," he added.

The outcome will be keenly awaited, as crude oil prices rise and more oil sands projects come to the drawing board.

Higher demand

According to Watts, once the dust of the current economic crisis has settled, energy use in emerging countries such as China and India will continue to increase. With higher global oil demand, when combined with production shortfalls, this creates a supply problem that is the opposite of what is presently occurring.

"It is not a matter of reserves. The world is not running out of oil, it is running out of oil production capacity," he said, adding: "We have a supply crunch – whether it [happens] in the latter part of the next decade or into the 2020s, it is coming. The oil sands are incredibly important to [global] energy security and that is not appreciated."

Besides requiring a benchmark oil price of more than US$55 per barrel and being tagged as 'dirty oil,' Alberta's oil sands producers have other issues to come to terms with. These include reducing water and steam usage for in-situ production methods.

Some majors have initiated steps to tackle these hurdles. A case in point is Shell, which plans to use steam-drive technology – rather than cyclic steam stimulation (CSS) – for its Carmon Creek project.

It plans to use vertical deviated wells, which will help recover 50% more bitumen. This is compared with about 20% using the horizontal CSS wells.

"The produced water will be treated to remove solids and residual hydrocarbons and re-used to produce steam, to be generated mainly by new cogeneration facilities. The cogeneration units will enable the production facilities to be self-sufficient in electrical power and any excess power will be exported to the provincial power grid for sale to the public. Also, most of the water used to make steam will be separated from produced bitumen and re-used," said a Shell statement.

The industry is not out of the woods and severe concerns remain over its near future. However, the handful of projects underway will be watched with interest to see whether these moves pay off. ■