Oil price fall roils Canadian economy

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Canada's oil sector has been sent reeling by the dramatic fall in the price of oil, causing immense nervousness among the country's business and political elite and presaging an intensified attack on the living standards of workers in the major oil-producing provinces.

Over the past decade, the Canadian ruling elite has invested tens of billions of dollars in expanding domestic oil production, especially the extraction and processing of bitumen from the Alberta tar sands. Buoyed by high oil prices, the development of the tar sands—the world's third largest proven crude oil reserve— has been an increasingly important driver of Canadian economic growth.

In recent years, Alberta's economy has grown at double or more than the national average. Such has been the growth of Alberta's economy, it was forecast this past summer that in three years, Alberta's economy would be larger than that of Quebec which has twice Alberta's population.

The ruling elite has not only celebrated the tar sands for their profit-making potential, they have come to count on them to give Canada significant geo-political leverage on the world stage. Over the past decade, Liberal and Conservative politicians have frequently boasted that Canada is an "energy superpower."

Now, the strategy on which key sections of the Canadian bourgeoisie, including its banks and oil companies and Stephen Harper's Conservative government have staked their fortunes, seems set to unravel.

The November decision by the Organization of the Petroleum Exporting Countries (OPEC) to maintain current production levels in the midst of an international oversupply sent oil prices into a dizzying tailspin. And with global economy mired in anemic growth if not outright recession, there is little prospect prices will quickly recover.

The benchmark global oil price is now hovering at around USD $60 per barrel, down almost 40 percent from a 2014 high of $107 in June. At the current price, many high-cost oil producers—and the tars sands are among the world's costliest—face rapidly diminishing profit margins, even losses.

In an expression of the economy's dependence on oil exports, the Canadian dollar has been trading at its lowest in five-and-a-half years, down 7 percent since the end of June to US $0.86 and more than 15 percent since the start of 2013.

The oil price plummet is also adversely impacting the revenues of the federal Canadian government and the three major oil-producing provinces, Alberta, Saskatchewan, and Newfoundland and Labrador.

Economic commentators and media pundits have attempted to allay concerns about the pending damage to the Canadian economy by noting that Canada's economy is much more diversified than that of other major oil exporters and that the oil price drop and associated decline in the value of the Canadian dollar will help some sectors, such as the country's hard-pressed manufacturers.

What such analyses ignore is the extent to which manufacturing plants have been shuttered, and not just had their production curtailed, and the role that the expansion of oil production has come to play in the overall growth of Canadian capitalism.

Nevertheless, leading political and economic spokesmen have been unable to deny that the low price of oil will have far-reaching consequences.

Federal Conservative Finance Minister Joe Oliver has already stated that oil's free-fall will deplete federal coffers by CAD $500 million by the end of the year, and $2.5 billion per year from 2015 through 2019. Bank of Canada Governor Stephen Poloz, for his part, has hinged the central bank's monetary policy for next year on the impact of the depressed oil price on the growth in Canada's GNP, and intimated that interest rates will remain artificially low should oil fail to rally.

Oliver and Poloz made these announcements in the immediate aftermath of the OPEC decision to maintain current production levels. Since then, the price of oil has fallen still further. Western Canada Select, the crude oil extracted from the Alberta tar sands, has dipped below $40 per barrel, a price not seen since the financial crash of 2008.

The budgets of the leading oil-producing provinces, Alberta, Saskatchewan, and Newfoundland, are being impacted far more than that of the federal government, both because the oil industry represents a much larger part of their respective economies and because their budgets are highly dependent on oil royalties.

All three provinces have, for years, banked on oil prices of at least $75 per barrel to balance their budgets.

Saskatchewan's oil industry accounts for nine percent of the province's economy and produces 20 percent of Canada's oil, eclipsed in output only by the Alberta tar sands. Finance

Minister Ken Krawetz estimates that for every $1 drop in the price of oil, the province loses $20 million. He went on to say that if the price of oil remains at current levels, the province may soon be in an even worse predicament than Alberta.

Newfoundland and Labrador, where the energy sector makes up 29 percent of gross domestic product, stands to suffer a tremendous decline in corporate and government revenues. The province relies on oil royalties for nearly one-third of its revenue, proportionally more than both Saskatchewan and Alberta.

The Canadian ruling class, however, is nervously eyeing Alberta, as the country's top oil producer and consequently the key bellwether for the economic and political fallout of the decline in oil prices.

Alberta's Conservative Premier Jim Prentice, a former federal Industry Minister under Conservative Prime Minister Stephen Harper, has already vowed that "all Albertans will feel the consequences" of the oil price drop. "I won't cushion it," Prentice said in a recent state of the province speech. "We will have to make some tough decisions and the impact will be felt in every corner of this province."

With $215 million in provincial revenue lost for every $1 drop in the price of oil, Alberta's revenue would shrink by $7 billion or 15 percent next year at current oil prices.

Although Prentice has yet to table any concrete measures in response to the crisis, the tenor of his speech makes abundantly clear that the working class will be made to pay for it through major cuts to public services like education and health care, as well as cuts in the wages and jobs of the workers who administer them.

Around 11,000 professional, scientific, and technical service jobs in Alberta's energy sector were downsized in November, a staggering figure that will grow in January as oil companies slash investment and curb production. Given that the vast majority of the lost positions are linked to new tar sands development, the figure points to an abrupt cut-off of new capital investment and a decline in business confidence in future tar sands' development.

Billions of dollars in tar sands' projects have already been shelved or put on hold. Mergers and acquisitions in the Alberta oil patch have hit a four-year high, with the typically highly-leveraged tar sands companies particularly susceptible to takeovers. One such acquisition was the recent takeover of Talisman Energy, one of the country's largest oil producers, by Spanish oil firm Repsol S.A., for $13 billion.

Alberta is Canada's most socially unequal province. Oil towns like Calgary and Fort McMurray are characterized by new and colossal fortunes, along with crushing poverty. The top 10 percent of Albertan families earn almost two-thirds of after-tax income, while the bottom 10 percent take home a mere 1.7 percent. Studies have pointed to the glaring fact that income inequality in Alberta—where a full 87 percent of earnings goes to the top half of families—is even worse than that of the US.

Prentice assured the petroleum bosses that tax increases are out of the question as a means of dealing with the revenue shortfall. Alberta has the lowest corporate tax rate in the country at a mere 10 percent. Its flat income tax rate, also at 10 percent, has billionaire oil barons contributing proportionately as much of their paycheque to provincial coffers as the tens of thousands of highly exploited and low-paid temporary foreign workers, some of whom earn as little as $10 per hour and work menial jobs with little job security.

Both Prentice and Prime Minster Harper have used the drop in the price of oil as a new excuse for their opposition to environmental reform, with Harper going so far as to denounce proposed restrictions on greenhouse gas emissions by the oil and gas industry as "crazy economic policy".

There are, however, concerns within ruling circles that Harper's virulent opposition to the most tepid environmental regulation is becoming a diplomatic embarrassment and a political liability.

Significant tensions have also developed between the Conservative government and the Obama administration over the latter's refusal, based on political calculations, to allow the building of the Keystone XL pipelines, which would transport Alberta crude to US refineries on the Gulf of Mexico.

Oil industry executives and Alberta and Saskatchewan politicians have also expressed increasing frustration over the failure of various Canadian provincial governments to give quick approval to projects to deliver tars sands oil to Canada's east and west coasts.

"No pipelines are being built, no pipelines are being approved," complained Saskatchewan Premier Brad Wall last month. "I think certain interests in Central Canada aren't comfortable with the fact that we're an energy power." Wall then went on to implicitly attack "equalization"—the program whereby the federal government provides money to the poorer provinces to ensure a national standard for public services.

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