

Suncor says it's too soon to say when Libyan operations may resume

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CALGARY - An end to Moammar Gadhafi's decades-long rule in Libya appeared close-at-hand on Monday, but a major Canadian oil company that suspended its operations in the country six months ago isn't ready to return just yet.

Suncor Energy Inc. (TSX:SU) removed its employees from the North African nation when conflict broke out in February, and its chief executive officer has said they wouldn't return as long as Gadhafi remained in charge.

Now, the days of Gadhafi's reign seem numbered, after rebels advanced on the capital of Tripoli on Sunday. But Suncor spokeswoman Kelli Stevens said it's still too early to know what the effect will be.

"We are continuing to monitor how that situation unfolds," she said.

"The most important piece for us, right now, is probably that this latest set of developments might mean peace is nearer for the Libyan people."

Suncor took a \$514-million writedown on its Libyan assets during the second-quarter. Those operations make up a tiny fraction of the company's overall earnings and production.

Suncor's operations in another conflict-ridden country, Syria, have continued throughout a bloody crackdown on anti-government protests. The company acquired assets in both countries through its 2009 merger with Petro-Canada.

Brent crude — a benchmark for much of the oil produced and sold abroad and sold to refineries on the U.S. East Coast — dropped 26 cents to \$108.36 per barrel. It fell much more dramatically earlier in the day on hopes supply constraints from Libya may soon ease.

West Texas Intermediate crude for October delivery — the key North American benchmark — rose \$2.01 to \$84.42 per barrel. Traders who play the international oil markets, anticipating that the price of Brent crude would keep falling, wanted more U.S. oil.

Libyan crude represented less than two per cent of global demand before the conflict, but it was a key supplier to much of Europe. Brent crude prices have been high for months, as output from Libya has all but disappeared.

The market reaction Monday isn't pinned on any concrete effect the Libyan developments are having on world oil supplies, said Bob Schulz, business professor at the University of Calgary.

"Just because it appears that Gadhafi's going down, doesn't mean that there's going to be stability in Libya, nor in Syria, nor in any place else in the Middle East," he said.

"It may take a while — a while meaning years — for stability to be re-established. It may mean that the oil prices may go up and down depending upon news releases rather than on demand and supply."

Roger McKnight, a senior petroleum adviser at consulting firm En-Pro International, said people are kidding themselves if they think Libyan oilfields will operate at full capacity again the moment Gadhafi leaves.

"It'll take at least two years to get that whole infrastructure back working. So this is a prime example of speculation at work," he said of Monday's crude swings.

While Libyan production is small in a global context, disruptions in that country tend to move markets. That's because Libyan oil is high-quality, making it a coveted product for refineries.

Lower global oil prices will eventually filter down to the fuel pump, said McKnight. Plus, North America has ample supplies of gasoline and diesel — even if a hurricane hits Gulf Coast refineries — and demand is set to wind down after the Labour Day long weekend in two weeks.

"So in my mind there's only one way for oil prices to go for the consumer, and that's down," McKnight said.

Christian Leuprecht, an associate professor of political science at Queen's University in Kingston, Ont., said Canadian companies stand to benefit from a possible transfer of power to the Libyan rebels.

"I think the National Transitional Council will quickly look towards probably more rather than less private investment in the oil sector, in part because they won't have a whole lot of money to get things going, and they'll be pre-occupied with other things," he said.

As part of the NATO effort to oust the Gadhafi regime, Canada ought to have a "solid" crack at new oil bids that may come up down the line, Leuprecht said.

"Canadian companies have good expertise in running operations in far-off places that are sparsely populated, and then getting the oil to market in a quick and efficient way. And I think that's a significant advantage in a country like Libya."