

## SUMMARY AND RECOMMENDATIONS

The 1986 collapse in crude oil prices left its mark around the world. Demand for oil has increased in most countries as consumers respond to the lower cost of petroleum products. OPEC's 1986 revenue from crude oil exports fell to little more than half of its 1985 level. Spending on petroleum exploration and development is down, which means lower reserve additions in the future. This is especially the case in areas where the cost of finding and developing reserves is high, as in Canada's frontier regions, Alaska and the North Sea. Although Canada now enjoys an aggregate self-sufficiency in oil, we are a net importer of light gravity oils and our production of these will fall in coming years. Low oil prices will accelerate this decline.

The lighter petroleum fuels (light-medium crude oils and natural gas), which are more easily produced and processed, are found predominantly in the Eastern Hemisphere. The heavier, less easily produced and processed petroleum fuels (heavy oil, bitumen and shale oil) lie principally in the Western Hemisphere. An estimated 58% of the world's proved reserves of conventional crude oil is located in the Middle East, yet that region produced only 22% of the world's oil in 1986. The Western Hemisphere, with only 17% of conventional world reserves, produced 29% of the 55.9 million barrels/day lifted last year. This unbalanced output, measured against the share of reserves held, almost guarantees that the Middle East will eventually dominate the production of conventional crude oil once again. Over 90% of the world's current surplus capacity to produce oil – an excess capacity of roughly 10 million barrels/day – lies within OPEC, and most of that in turn is found in the Persian Gulf.

Outside the Middle East, the supply of conventional light oil will decline and oil-importing nations will turn increasingly to the Persian Gulf to satisfy their requirements. As control of petroleum markets reverts to the oil-rich Middle Eastern countries, they will be more able to manipulate price. Given the political instability in this part of the world, further disruptions in the international supply of oil are a possibility for which oil-importing nations should prepare.

Canada faces a shrinking availability of domestic conventional light crude oil but possesses large and technically recoverable resources of bitumen. This resource requires costly upgrading to yield the light petroleum products required by Canadian consumers. Canada also holds substantial quantities of conventional heavy oil and has established modest reserves of light oil in the East Coast offshore and the north. These oil deposits are not generally producible, however, at the reduced oil prices which we have recently experienced.

In the near term, Canada will be forced to import larger quantities of light crude oil. This will increase our vulnerability to any curtailment in offshore supplies. A mechanism is required to offset this rising dependence until longer-term changes can be made to rectify Canada's light oil supply/demand imbalance.