Record Discount on Canadian Oil Prices

Prices for Western Canadian Select (WCS) oil have been having some difficulties since last spring. International prices have returned to 2014 levels while WCS has been weakening (graph 1). The price has been sliding faster since the start of October. Recently, it was around US$20/barrel, some US$50 below the price for a barrel of West Texas Intermediate (WTI), which is the largest gap to date.

A few major factors are responsible for this price difference. In Western Canada, oil production increased more quickly than anticipated in 2018, and the pipelines, already limited, have now reached full capacity. The region’s oil producers are therefore having trouble getting the oil to the international market. Rail transport has increased substantially to compensate (graph 2), but this solution remains more expensive and inadequate. The congestion in Canada’s distribution systems could persist, as pipeline capacity may not increase until late 2019, and some new pipeline constructions remain uncertain. Moreover, certain U.S. refineries have shut down temporarily for maintenance, while other refineries have closed due to the natural gas pipeline explosion in British Columbia. The drop in demand for Western Canadian oil has brought WCS prices down, but that should be temporary.

**GRAPH 1**
The spread between WTI and WCS hits a record high

![Graph showing the spread between WTI and WCS prices](image)

**GRAPH 2**
Limited pipeline capacity pushes oil producers to use rail transport

![Graph showing exports of crude oil by rail in Canada](image)

**IMPLICATIONS**

The discount on WCS means that Canadian producers are getting less for their oil than foreign producers. This creates a smaller incentive for investing in Canada’s oil industry, especially if the trend holds over the long term. If a price difference of this magnitude persists, it could have an influence on the Bank of Canada’s monetary policy decisions. WCS prices should however rise over the coming months as U.S. refineries resume operations. Transportation will remain a challenge.

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