The Impact of Foreign Investment Restrictions on the Stock Returns of Oil Sands Companies

SPP Research Paper No. 7-16

14 Pages
Posted: 28 Aug 2014

Eugene Beaulieu (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=246713)
University of Calgary - Department of Economics

Matthew Saunders (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2289116)
University of Calgary - The School of Public Policy

Date Written: June 6, 2014

Abstract

In December 2012, prompted by the proposed purchase of Nexen by the Chinese SOE CNOOC, the federal government announced revised guidelines for investments by state-owned enterprises (SOEs) in the oil sands. Declaring the sale marked “the end of a trend and not the beginning of a trend,” Prime Minister Stephen Harper explained how the government would approach such decisions in the future, including placing the onus on foreign investors to demonstrate how deals would be of net benefit to Canada, as well as granting the industry minister the discretion to accept or deny proposed deals.

Accounting for five per cent of Canadian GDP, $28 billion in government revenue and three per cent of all jobs nationwide, the oil sands are an integral component of Canada’s economy. The sector has long relied on foreign capital to finance projects, meaning that any move to deter outside investment could have profound consequences for the development of this critical economic asset.

In this paper, the authors examine the impact of this policy change by measuring the stock returns of firms operating in the oil sands. Employing an event study analysis, they find empirical evidence that the government’s policy change has resulted in the material destruction of shareholder wealth, particularly in the case of the smaller oil companies. What is more, given the composition of the global oil industry has changed to one where SOEs dominate both reserves and production, is this a policy Canada can afford in the long term?

“When we say that Canada is open for business, we do not mean that Canada is for sale to foreign governments.” Prime Minister Stephen Harper, December 7, 2012.

“…going forward, the [industry] minister will find the acquisition of control of a Canadian oil-sands business by a state-owned enterprise to be of net benefit, only in an exceptional circumstance.” Prime Minister Stephen Harper, December 7, 2012.

“A year after the new Investment Canada Act rules were announced in December 2012, investment dollars from state-owned enterprises have essentially stopped flowing into the bitumen extraction business. Energy-directed foreign direct investment — of which SOEs play an important role — fell off a cliff in 2013, declining 92 per cent year-to-year from $27 billion to $2 billion. These are very worrisome statistics for a nation highly dependent on foreign investment to fund its capital-intensive resource industries.” Sebastian Gault, December 2, 2013, Published in Alberta Oil agazine.

Keywords: Oil sands, SOE, China SOE, oilsands

JEL Classification: N75, Q48

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Posted: 2014-05