Canada's Crude Oil Merry Go 'Round

Description

With America dragging its feet on the approval of **TransCanada's** (TSX: TRP, NYSE:TRP) proposed Keystone XL pipeline, Canada's energy industry is looking for other options to get its oil to refiners and on to the global market.

Most recently TransCanada announced it will move forward on its Energy East pipeline project which will ship over a million barrels of oil per day to three eastern refineries. In addition to this, **Enbridge** (TSX: ENB, NYSE: ENB) is looking to reverse the direction of its Line 9, which would push additional volumes of crude to these eastern refineries.

The dilemma

There's one small problem with all of this. These refineries already receive a fair amount of home grown oil. Oil fields offshore of Newfoundland and Labrador currently produce about 200,000 barrels of oil per day. An amount that's expected to remain steady over the next few decades as natural decline is offset by new projects coming online like **ExxonMobil's** (NYSE: XOM) Hebron field and **Husky's** (TSX: HSE) South White Rose. All of that oil could potentially be pushed out of its home market meaning this more locally produced crude is likely on the move.

Making matters worse is that Exxon, through its subsidiary **Imperial Oil** (TSX: IMO), has decided to transform its Dartmouth Refinery in the region to a terminal operation. The 88,000 barrel per day refinery, which was one of the main buyers for this offshore crude oil, had been up for sale but Imperial couldn't find a buyer, which is why the refinery is being shuttered. With a flood of supply coming to the region's remaining refineries from western Canada, its offshore oil will likely need to find a new market.

Where might it go?

One possibility is that the crude oil produced offshore could someday be exported. With upwards oftwo million barrels of oil flowing east, and the possibility that Keystone XL proposed 830,000 barrels ofdaily capacity wont one day flow south, Canada might have no choice but to send its oil further eastinto Europe as well as to the west into China. With only about 870,000 barrels per day of currentrefining capacity east of Montreal, the region will simply be flooded with oil by the end of this decade.

The only other real viable option is that offshore producers like Exxon and Husky would be forced to turn to the rails and send the oil to one of the many refineries along the east coast which have recently increased rail capacity. However, in light of recent events, that might not be an easy sell.

Final Foolish thoughts

The one thing that is certain, Canada needs to find ways to get its oil out and into customer's hands in order for this industry to be the big economic driver everyone hopes it will be. Pushing our oil from west to east will not only push out foreign imports, but will also displace some home grown production. Right now however, this seems to be the best option and could lead to a future where one way or the other, our oil finally becomes another nation's import.

Canada's already fueling China

Canada has been one of the leaders in a global shift in energy. However, we're not talking oil or natural gas here. Rather than these two relatively mainstream energy sources, your portfolio could be best served by uranium – the key ingredient for nuclear power. With the global nuclear market ramping up in places like China, uranium could be a big winner…

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