



Energy Expert Jeff Rubin's Thoughts on Keystone XL and Buffett's Bet on Oil Sands

Description

How will **TransCanada's** (TSX: TRP, NYSE: TRP) Energy East pipeline impact the oil patch? Will the project even get off the ground? In part 4 of my interview with former **CIBC** chief economist and bestselling author Jeff Rubin, we discuss the prospects of the pipeline and how important it is to the energy industry. Below is the transcript of our conversation; it has been lightly edited for clarity.

Robert Baillieul: I'm visiting the Maritimes and drivers here are paying \$1.40 per litre for gasoline. If TransCanada's Energy East pipeline is built and all other things being equal, will I pay \$1.00 per litre or \$1.10 per litre after the pipeline is constructed?

Jeff Rubin: You're not going to be paying anything less for a litre of gas! What's probably happening now is that the price you're paying for a litre in Halifax was supplied by the Saint John Irving refinery with Venezuelan oil. So instead of your gasoline being refined from Venezuelan oil, it's going to be refined from Alberta oil. Incidentally, both are heavy oils and both from tar sands.

But the point is, once the pipeline gets the oil from Hardisty, Alberta to the Saint John refinery, where it can be loaded on a ship, it will get world prices, so it's going to get the same price as the Venezuelan price. So you're no better off.

So the obvious question is, if you're in Ontario and you're not getting any of the production gains or the pipeline construction projects, what's in it for you to get 1.1 million barrels per day or bigger for the Keystone XL project to be piped through your province just so you have the privilege of paying world oil prices every time you fill up?

Baillieul: Would that hold up construction?

Rubin: I'm saying that it's certainly possible that Ontario won't want 1.1 million barrels per day flowing through the Energy East pipeline to the Maritimes because all it means for Ontario is that we get world oil prices, which are higher gasoline prices when you fill up. And we have the environmental risks of having 1.1 million barrels per day of oil going through our province. [That's] more crude than Keystone

XL.

So let me predict what will happen if it can't get approval. With access to the Gulf of Mexico blocked by the U.S., access to the Pacific blocked by B.C., access to the Maritimes blocked by Ontario, then they'll go north. There's some talk about moving oil, again by rail, up to Churchill, Manitoba. And with the kind of climate change that we're seeing that there's much less ice in the Arctic and Hudson Bay, maybe we'll put it on a supertanker there to get it out.

Again, it doesn't really matter what coast you get it to, as long as you get it to a coast, you can load it on a tanker, you're going to get world oil prices. Now, is that a gain for the environmental movement, to divert oil from the Keystone XL and instead have it shipped by super tankers through the Arctic? It's another example of unintended consequences.

Robert Baillieul: Clearly some smart money is betting on the Alberta oil sands. Earlier this month Warren Buffett disclosed a \$500 million investment in Suncor (TSX: SU, NYSE: SU). ExxonMobil and Imperial Oil (TSX: IMO) bought ConocoPhillips' Clyden lease for about C\$751 million.

Jeff Rubin: The reason why money is now flowing into the oil sands is because the oil sands are no longer saddled with this huge price discount that they were earlier this year. At one point earlier this year, Western Canadian Select was trading at nearly half the price and that was the so-called bitumen bubble that the royalty implications for the province of Alberta were immense. All of a sudden they had a deficit.

Since then, that price gap has enormously narrowed thanks to rail transit. And as that price gap has narrowed, more people like Warren Buffett have become interested.

You might remember the same Warren Buffett who came out against the Keystone XL while going long railway stocks. He certainly had that figured out. But that's hardly an environmentally inspired move.

Baillieul: He also owns the companies that build the rail cars.

Rubin: Yeah, so when people like Warren Buffett start going green, it's worthwhile to consider ulterior motives.

Coming up next

In part 5 of my interview with Jeff, we discuss how regulations could put a halt to the crude by rail boom.

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Disclosure: Robert Baillieul has no positions in any of the stocks mentioned in this article.

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