Canada Sees Explosive Growth in Oil Production

Description

The world needs more oil. Canada is one of the few countries with the resources to supply this demand. Because of this the country's National Energy Board sees its oil production growing by 75% to 5.8 million barrels per day by 2035. That of course is assuming that the country has enough infrastructure to transport the crude oil to export markets.

The infrastructure issue remains a big question mark these days as Canada's export partner (the U.S.) continues to drag its feet on **TransCanada's** (TSX: TRP) (NYSE: TRP) Keystone XL pipeline. If that pipeline isn't built it could signal that America doesn't want any more Canadian oil. That would force Canada to look outside of North America for future customers, which should be quite easy to find given Asia's appetite for oil.

Rails answer the call

In the near-term the solution appears to be sending more crude oil on railways owned by **Canadian Pacific** (TSX: CP) (NYSE: CP) and **Canadian National** (TSX: CNR) (NYSE: CNI). Over the past year the volume of oil being shipped on railways has nearly tripled from 3,000 to 8,000. This growth will be unstoppable if more pipelines are not built.

Unfortunately, Canada has experienced first-hand the dangers of crude-by-rail. While the tragic disaster in Quebec earlier this year wasn't crude oil from Western Canada, it does highlight the risks of this mode of transportation. Further, it's not the first time crude oil has spilled this year as a Canadian Pacific train derailed in Minnesota, spilling 30,000 gallons of crude oil.

This risk is not lost on those that are trying to block the proposed Keystone XL project. Many of those same groups are now attempting to thwart terminal projects in California and Washington State due to the environmental concerns as diluted bitumen from Canada is harder to clean up than conventional crude oil. Opponents of these projects are trying to mandate that the crude be shipped on rail cars that undergo an expensive retrofit. That retrofit could prove too costly for the railroads and producers, which would impede growth.

Production moves forward

Oil sands producers don't appear overly concerned about the lack of future takeaway capacity. Earlier this month, **Suncor** (TSX: SU) (NYSE: SU) and its partners approved the Fort Hills oil sands mining project. The C$13.5 billion project is expected to unlock 3.3 billion barrels of oil over its 50 year lifespan. Once complete it should produce about 180,000 barrels per day.

As part of the project's approval, Suncor inked a deal with **Enbridge** (TSX: ENB) (NYSE: ENB) to ensure it had adequate takeaway capacity for the life of this project. While working directly with Enbridge will help Suncor ensure its oil gets out of the region, it still doesn't solve the problem all together, nor does it ensure that the oil will get out of the country.

For example, earlier this year Suncor's production was reduced by nearly 3 million barrels due to issues with Enbridge's regional oil sands pipeline systems. Further, last month its production was hit by a shutdown of a TransCanada regional pipeline system. So, while production in the region continues to move forward, the oil production won't always flow smoothly.

Investor takeaway

Canada is poised to deliver impressive oil production growth in the decades ahead. Producers like Suncor continue to approve new projects that will deliver the next phase of oil growth. However, these projects will only produce at maximum capacity if there is adequate takeaway capacity, particularly capacity on less expensive pipelines. If the Keystone XL isn't approved, it will force Canada to reevaluate the future flow of its oil, with the next most likely destination being Asia.

Bottom line, with so much oil in its possession, Canada will find a way to get more of it into the hands of high paying customers. So, if America doesn't want the oil, it will find someone that does. That might take longer to develop, but in time Canada's oil production should explode higher.

CATEGORY

1. Investing

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1. TSX:CNR (Canadian National Railway Company)
2. TSX:CP (Canadian Pacific Railway)
3. TSX:ENB (Enbridge Inc.)
4. TSX:SU (Suncor Energy Inc.)
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