# Will This Unsettling Trend Derail Canadian Oil Production?

## Description

The lack of pipeline infrastructure is really beginning to come back to bite North America. For the second time in the past week a train carrying North American crude oil has derailed. While the last two spills have been minor, could these
derailments put the brakes on the explosion of crude oil being shipped by rail?



**Another week, another wreck**

This latest derailment was on a **Canadian National Railway** (TSX: CNR) (NYSE: CNI) train heading to a refinery in Saint John. It was carrying crude oil produced in Western Canada as well as propane. While the train did catch fire, there were no injuries reported. That's a much better outcome than the tragic disaster this past summer.

This past summer's derailment that claimed the lives of 47 people was carrying oil from North Dakota's Bakken Shale. That was the same oil behind last week's derailment in the U.S. In fact, that derailment prompted the U.S. government to issue a warning that Bakken oil is potentially more flammable than other oil. What we don't yet know is if the Canadian National train was carrying heavier oil from the oil sands or lighter oil that's also produced in Western Canada.

**Maybe we really do need the Keystone XL**

Either way, it's becoming clear that transporting crude oil by rail is starting to make headlines for all the wrong reasons. However, the industry doesn't have much choice as political pressures continue to cause delays in approving critical pipeline projects like **TransCanada's** (TSX: TRP) (NYSE: TRP) Keystone XL pipeline. The Keystone XL is expected to ship 830,000 barrels of oil per day, but with each passing day more of that capacity is being filled up by rail.

That's leading some of America's top independent oil producers to suggest that the U.S. doesn't need the Keystone XL anymore. However, given the recent rash of fiery derailments they might change their tune. Especially in light of the fact that the Keystone XL was to transport 100,000 barrels per day of Bakken oil that's behind most of the recent incidents.

Still, environmentalists have made stopping TransCanada's Keystone XL pipeline a priority. The thought is that it will keep dirty Canadian oil out of the U.S. That hasn't exactly worked as planned as producers have turned to shipping oil
by rail. Further, over the next few years Canada is poised to build enough rail-loading capacity to more than make up for the delay in building the Keystone XL pipeline. That is unless of course the recent rash of derailments doesn't put the brakes on crude oil being shipped by rail.

If that happened it would put pressure on heavy rail shippers like integrated oil giant **Suncor** (TSX: SU) (NYSE: SU). It relies on rail to sell its oil at higher prices as well as to supply its Montreal refinery. The availability of rail is one reason why Canada's largest oil producer announced that it will boost its oil output in 2014 by 10%. Halting the oil-by-rail trade could cause producers like Suncor to end up with a glut of oil.

**Investor takeaway**

The concern is that this rash of train wrecks will cause greater regulation of oil being shipped by rail. This could increase the costs to the point where it really starts to drain profits. That's why investors need to keep an eye on any changes that could halt oil shipments out of Western Canada.



**CATEGORY**

1. Investing

**TICKERS GLOBAL**

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2. NYSE:TRP (Tc Energy)
3. TSX:CNR (Canadian National Railway Company)
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