



## Can Canada's Oil Patch Benefit From the Crisis in Crimea?

### Description

The crisis in Crimea has highlighted the geopolitical risks that exist in Europe and the dependence of the European Union on Russian energy supplies — as well as a potential beneficiary, Canada's oil patch.

The E.U. currently obtains almost a third of its crude, natural gas and fuel needs from Russia, creating a key dependency for its member states and giving the Kremlin considerable leverage in Europe. That dependence essentially renders the E.U. impotent in any action it may wish to take against Russia.

The world has already witnessed this impotence when the E.U. attempted to impose economic sanctions on Russia when it invaded the Republic of Georgia in 2008. As a result of the current crisis, E.U. leaders have identified the need to reduce their dependence on Russian energy imports if they are to ever be truly in a position to influence the Kremlin.

Accordingly, the E.U. and its member states are seeking to diversify energy imports. This includes looking at importing natural gas and possibly other crude products from the U.S. and Canada. Such a move would be a boon for the patch, creating greater demand for Canadian crude products and natural gas.

It would also further spur the development of major unconventional oil and gas formations in Canada, key among them the Montney and Duvernay. The Montney is estimated by the National Energy Board to be one of the world's largest natural gas resources, holding over 449 trillion cubic feet of natural gas.

The crisis has also seen calls for the U.S. to ease its restrictions on oil exports and/or allow limited crude exports to the E.U. Such a move would spur further demand for Canadian crude from the U.S. — the destination of around 98% of all exported Canadian crude — as U.S. refineries demand greater quantities of Canadian crude to replace their own dwindling inventories and meet growing E.U. demand.

It would also ease the downward pressure on Canadian light crude prices (Edmonton Par). The price differential between Edmonton Par and West Texas Intermediate has widened significantly over the last six months because of waning U.S. demand caused by growing tight light oil from the U.S. shale

oil boom.

### **Could the Crimean crisis be the catalyst to force approval of the Keystone pipeline?**

The crisis has also renewed calls for Obama to approve **TransCanada's** ([TSX:TRP](#))([NYSE:TRP](#)) controversial Keystone pipeline. Approval of the pipeline would reduce U.S. dependence on crude imports sourced from hostile states, decreasing its vulnerability to these states using energy scarcity as a geopolitical weapon.

If the pipeline were approved there would be a significant increase in the volumes of Canadian crude, especially heavy crude being shipped to U.S. Gulf Coast Refineries. It would also remove a key transportation bottleneck, which has been preventing Canadian oil producers from getting their product to market and boosting Canadian crude prices, particularly the price for heavy crude.

Clearly, even if approved, the pipeline could not be built fast enough to be of any use in the current crisis. But this may just be the motivation needed to push Obama to approve the pipeline.

### **Who stands to benefit?**

Clearly any increase in demand for Canadian crude benefits the majority of players in the patch, but if the Keystone pipeline is approved, one of the biggest winners will be TransCanada. Once the pipeline is complete, it is expected it will be able to transport 830,000 barrels of crude daily and give TransCanada around a 25% return on the project.

But it's not TransCanada that will benefit most significantly from the completion of the pipeline, but rather Canada's heavy oil producers. The completion of the pipeline will allow them to ship even greater quantities of heavy crude and bitumen to market. It will also bolster the prices of Canadian heavy crude and bitumen, further reducing the price differential with West Texas Intermediate.

This would significantly boost the revenue, cash flow and ultimately profits of major heavy oil producers like **Suncor** ([TSX:SU](#))([NYSE:SU](#)) and **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)). Many analysts see approval and completion of the pipeline as being more important for Suncor and Canadian Natural than TransCanada. One analyst went so far as to claim if Keystone is approved Canadian Natural's share price could jump by as much as 5%.

Any move to allow U.S. exports of crude to Europe would also benefit Canada's light oil producers. By providing an alternate market for U.S. tight light crude and increasing demand for light crude in North America, the pressure on Canadian light crude prices would ease. This would help to boost the profitability of major Canadian light crude producers including **Crescent Point Energy** ([TSX:CPG](#))([NYSE:CPG](#)) and **Lightstream Resources** ([TSX:LTS](#)).

### **Foolish bottom line**

The Crimean crisis has certainly illustrated the impotence of the E.U. when dealing with the Kremlin because of its dependence on Russian energy exports. But it has also forced the E.U. and its member states to consider how to diversify their energy imports, which has the potential to further benefit the patch over the longer term.

## **CATEGORY**

1. Investing

## TICKERS GLOBAL

1. TSX:CNQ (Canadian Natural Resources Limited)
2. TSX:SU (Suncor Energy Inc.)
3. TSX:TRP (TC Energy Corporation)
4. TSX:VRN (Veren Inc.)

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