Is Canada About to Become Chevron's Worst Nightmare?

Description

Chevron's (NYSE: CVX) long-running legal battle took another interesting turn last week when Canada agreed to hear an appeal on the case. The battle, which pits a handful of Ecuadoreans against mighty Chevron, is the modern day version of David vs. Goliath, but this time there are billions of dollars at stake. Because of that, this latest twist could have a big impact on the company's operations in Canada.

History lesson

It all started long ago in a remote Amazon rainforest in Ecuador. An oil consortium where Texaco was a minority partner from the 1960s through the early 1990s apparently made a real mess of things. When Texaco turned in its stake in the consortium in 1992 it paid around U.S. $40 million to clean up its share of the drilling contamination. The cleanup was overseen by the government of Ecuador, which certified that it was complete and released Texaco of any additional environmental liability.

Chevron didn't enter the picture until 2000 when it bought Texaco for U.S. $36 billion in stock. Little did it know at that time that it was also acquiring a legal headache that at one time represented a U.S. $19 billion judgment against the company. That judgment was eventually reduced to U.S. $9.5 billion, which was completely thrown out by a U.S. District Court earlier this year. The U.S. court ruled that the original multibillion-dollar judgment against Chevron was obtained by corrupt means.

Where Canada fits into this mess

Because Chevron has no assets in Ecuador and the U.S. overturned the judgment, the legal team representing the Ecuadorians is looking for a place where Chevron has enough assets that can be used to satisfy the original judgment. That leaves Canada as its next target because Chevron owns at least U.S. $15 billion in assets in the country. However, Chevron is hoping that its latest appeal will get the case thrown out.

If Chevron loses it could one day be forced to unload some its Canadian assets in order to pay theU.S. $9.5 billion judgment. That could mean its 20% stake in the Athabasca Oil Sands Project, forexample, could be put up for sale. That would leave its two partners with a tough choice to make toeither buy out Chevron's stake or to bring in a new partner.

More importantly for Canada is that a negative outcome for Chevron could also impact a number of important Canadian projects Chevron is currently investing to bring online. For example, Chevron is a 27% partner in the U.S. $14 billion Hebron heavy oil project that's offshore Newfoundland. Its partners there include 36% partner **ExxonMobil** (NYSE: XOM), 23% stakeholder **Suncor** (TSX: SU)(NYSE: SU), and 10% owner **Statoil** (NYSE: STO).

If Chevron is forced to pay, it might decide to pull back its investment in a project such as Hebron as it might put its stake in that project up for sale. That could force ExxonMobil, Suncor, and Statoil to bring on a new partner or even buy out Chevron's stake.

Similarly, Chevron is an important investor in the Kitimat LNG project in British Columbia. It's a 50% owner in the project with **Apache** (NYSE: APA). Right now Apache is looking for a partner to help with its portion of the likely multibillion-dollar cost of bringing this project online. Because Apache can't fund the project alone, it might put its completion in jeopardy if Chevron decided it needed to hold off investing in Canada to make that big payout.

Foolish bottom line
Right now, Canada holds the keys to this legal battle. Because of that it could become Chevron's biggest nightmare as it could force it to pay the multibillion-dollar judgment to the Ecuadorians. However, it actually also holds keys to its own energy future as this judgment could really affect Chevron's future investments in Canada.

CATEGORY

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