



One Issue That Will Annoy Pipeline Investors for Years

Description

On Saturday, citizens of Kitimat, British Columbia, held a vote on the proposed Northern Gateway pipeline. The town is affected because it would house a marine terminal that would store the oil as supertankers sailed into its harbor to load up.

Almost 60% of the town voted against the proposed **Enbridge** ([TSX: ENB](#))([NYSE: ENB](#)) project, citing environmental concerns and the risk of a catastrophic disaster. Additionally, many members of the Haisla First Nations — who live close to Kitimat but weren't invited to vote in the plebiscite — are strongly opposed to the project.

In the United States, pipeline rival **TransCanada Corp** ([TSX: TRP](#))([NYSE: TRP](#)) is slowly moving forward with its hyped new pipeline mega project, Keystone XL. The company is currently waiting for approval from the highest levels of the U.S. government. Things are moving slowly, and I'd characterize the company's mood at this point as cautiously optimistic.

At this point, investors in pipeline companies have to be used to government delays for getting these projects approved. We all know the government places more of an emphasis on thoroughness than speed, meaning a whole lot of waiting. Governments also have to walk the line between doing what's best for the country and what's politically popular. Often, these two factors don't go hand in hand.

When we first started building pipelines, the environment was barely a concern. Environmental issues were pushed under the rug, and promptly forgotten. We all put our heads in the sand and figured if we didn't think of the environmental impact of a problem, it didn't exist. This attitude shifted considerably in the past decade, and for pipeline companies, these government approvals are going to get harder to get in the future, not easier.

Even governments have problems playing nice when there are billions of dollars at stake. B.C. Premier Christy Clark and former Alberta Premier Allison Redford had an infamous public tiff about royalty rates from Northern Gateway a couple of years ago, back when the idea of the pipeline was just getting introduced. Clark's argument was if B.C. was going to take on the risk of an environmental disaster, the province would insist on getting compensated for it. This attitude is quickly becoming the norm, rather

than the exception.

Ultimately, it's the federal review panel that makes the decision on the Northern Gateway pipeline, and citizens of Kitimat are out of luck if the project is approved. But don't think the feds aren't paying attention to votes like this one. The citizens sent a message, and much to the chagrin of pipeline investors, the message is increasingly that people don't want pipelines in their backyard.

And yet, oil needs to be shipped and export markets need to open up for the long-term health of Canada's energy patch. The United States, our biggest energy customer, is increasing its own domestic production significantly. Asian markets are hungry for Canadian oil, especially Japan and China. It only makes sense to exploit this long-term trend.

Although it has its flaws, transporting oil via pipelines is the best option we have. Pipelines are safer and more cost efficient than the other viable alternative, shipping oil via rail. Canada has little choice but to expand our pipeline network and make serious efforts to export energy to other markets, not just the usual one to the south.

Foolish bottom line

Opposition to pipelines will remain fierce in the future. Environmentalists are passionate about their cause, and will continue to be a giant pain in the neck for Enbridge and TransCanada execs. And while this will undoubtedly cause delays in new pipeline construction, I don't see any scenario where these pipelines don't get built. Exporting energy will just be too important for the Canadian economy.

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Author

nelsonpsmith

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