



The Good and the Bad From Canada's Oil Sands

Description

With President Obama mulling his decision on the Keystone XL pipeline, there is more attention heaped on Canada's oil sands than ever before.

Environmentalists are imploring President Obama to reject the pipeline, pointing to the threat that the oil sands pose to the environment. Others are pushing the president to approve the pipeline, saying that the environmental impacts of the oil sands are overstated, and that they don't outweigh the economic benefits.

But the story is not as simple as either side claims. Some producers have done a very good job on environmental issues, while others have not. So below we examine one producer that has made a lot of progress protecting the environment, and one that has not made nearly enough.

The good: Imperial Oil

Imperial Oil ([TSX: IMO](#))(NYSE: IMO) may be best known for its Esso gas stations, but it is also one of the oil sands' top producers. The company's flagship mining project, Kearl, has 4.6 billion barrels of bitumen resource and a projected life of 40 years or more.

Imperial has placed extraordinary emphasis on environmental protection with Kearl; in fact, diluted bitumen from Kearl has about the same life-cycle greenhouse gas emissions as the average crude oil refined in the United States. The key is a new technological process known as "paraffinic froth treatment", which allows bitumen to go straight to a refinery without being upgraded first.

But it doesn't stop there. Imperial will be building three "compensation lakes" to replace fish habitats disrupted by the project. Tailings (a waste by-product) will initially be stored in a custom-engineered area, then gradually placed into mined-out pits, which minimizes the environmental impact.

Perhaps most importantly, Kearl is dividing its leases into many different sections. And once each section is mined, it will be completely restored when the company moves on to the next section. By not mining the whole lease at once, Imperial is picking up after itself, proverbially speaking.

The bad: Baytex Energy

At the other end of the spectrum is **Baytex Energy** ([TSX: BTE](#))(NYSE: BTE), which has come under fire for its Peace River operations. The problem is that Baytex flares off excess gas at Peace River, which produces a strong odor in the surrounding area. This odor has been linked to numerous health problems, such as headaches, nausea, dizziness, muscle spasms, eye twitching, and cognitive problems.

Last week, the Alberta Energy Regulator finally cracked down on Baytex, ordering the company to install pollution-control equipment by August. Baytex, to its credit, is fully supporting the new mandate. But some local residents are still dissatisfied, since Baytex has not been forced to shut down its operations in the interim.

Foolish bottom line

Investors should take note; when an energy company places a high priority on the environment, it can be a sign of long-term thinking. Conversely, when a company neglects the environment, it's a sign that management just wants to make its numbers. So before you put your money in a company like Baytex, you should strongly consider a company like Imperial Oil first.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSEMKT:IMO (Imperial Oil Limited)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:IMO (Imperial Oil Limited)

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Date

2025/08/22

Date Created

2014/04/21

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