The Coming North American Oil Crisis

Description

The energy sector in the United States is about to enter an interesting era. For the first time in decades, the U.S. is on the verge of producing its own energy needs — and then some.

Thanks to new drilling technologies and the discovery of huge reserves in the midwest and southern states, the United States is practically awash in oil. From 2008 to 2013, U.S. production rose almost a billion barrels a year, more than a 50% increase. North Dakota led the way, increasing production approximately 500% during that time.

This is also good news for U.S. refineries. Most of this new production is light oil, which is easier to refine into finished products. Even previously shut down refineries are starting to reopen because of consistent local supplies of oil.

U.S. oil producers are beginning to run into a bit of a problem. The country is about to be in a position to export oil for the first time in decades. But because the U.S. used to import so much of the stuff, Congress has passed various laws that makes it illegal to export oil. Yes, various classes of export licenses exist, but they’re exceptions to the rule. Very little U.S. produced bitumen will be exported over the next few years.

A huge advantage to Canadian producers

If oil is pulled out of the ground in Canada and exported to the United States, export restrictions no longer apply to this product. U.S. refiners are free to use that oil however they choose — including exporting it. Refiners will use American oil for domestic use, and export Canadian oil and gasoline.

Currently, very little Canadian oil is exported from American ports. Since the U.S. isn’t energy independent at this point, the U.S. still consumes most of the oil it imports from Canada. There’s no need to export it if there are hungry customers just outside your doorstep.

Exporting excess Canadian oil could help with another potential problem that comes with increasing production — price decreases. Remember, these are many of the same U.S. companies that produced so much natural gas that they sent the price of the commodity to less than $3 per million BTU. As oil production increases, producers run the risk of the same thing happening, but not if refiners can export some of the excess supply.

This is good news for **Suncor** (TSX: SU)(NYSE: SU), **Imperial Oil** (TSX: IMO), and **Canadian Oil Sands** (TSX: COS), the largest players in the oil sands. Since pipelines needed to export oil from B.C.'s pacific coast haven't even gotten past the planning stage at this point, this not only opens up various markets to Canada's oil, but it also helps ensure demand for Canadian oil going forward.

It also reinforces the importance of **TransCanada's** (TSX: TRP)(NYSE: TRP) Keystone XL pipeline getting approved. If the United States is so awash in oil that domestic production overtakes existing pipelines, Canadian oil is out of luck. If this happens, production will simply shut down until pipeline capacity opens back up or Canadian producers find other markets for their crude. This is not a good situation for Canadian producers.

This issue has the potential to be huge for Canadian oil companies. They've had the luxury of a customer that has always been thirsty for whatever oil it could get. As the U.S. becomes energy independent, this is going to change, and in a big way.

Canadian exports via U.S. ports could alleviate some of the excess supply issue that experts see coming. It opens up the U.S. market for domestic products, and at the same time opens up other markets for Canadian products. It also gets around Congress's pesky export laws. These U.S. exports could be the savior of the Canadian oil industry.

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