



## Is This \$10 Billion Project the Key to Unlocking Canada's Oil Riches?

### Description

Although Canada has the world's third-largest oil reserves, it's having trouble getting that oil out. Not only are the oil sands expensive to extract, but getting the oil out of Alberta and to customers is proving to be an even more difficult venture.

Pipeline projects like **TransCanada's** ([TSX: TRP](#))([NYSE: TRP](#)) Keystone XL project, **Enbridge's** ([TSX: ENB](#))([NYSE: ENB](#)) Northern Gateway, and **Kinder Morgan Energy Partners'** (NYSE: KMP) Trans Mountain are all facing opposition. However, that opposition could begin to fade away if a proposed \$10 billion refinery is built in British Columbia.

### Laundry list of concerns

Environmentalists have long been opposed to the development of the oil sands. The oil there has a larger carbon footprint than conventional oil, and its physical footprint is also rather large when it's mined. Then, of course, diluted bitumen is tougher to clean up than traditional oil when spilled. It's reasons like these that are fueling opposition to pipeline projects that will take the oil from Alberta to customers in the U.S. and Asia.

The projects from Enbridge and Kinder Morgan Energy Partners in particular have the added environmental issue that the oil would be shipped by boat through sensitive coastal waters before heading to Asia. The concern here is that an oil spill would have a devastating effect on the livelihood of those living along the coast, and it is one that the recently formed company Pacific Future Energy would like to address.

### How it helps

The company is proposing to build a \$10 billion oil sands refinery in British Columbia. It would be the world's greenest refinery, as it would use advanced European refining technology. It would take the bitumen and turn it into gasoline, diesel, kerosene, and other products that would cause less harm to the environment if spilled. The company could then export these refined products to Asia instead of the oil, which would yield higher revenue than just shipping the oil.

This project is among a number of refinery projects that are on the drawing board for western Canada so it's not a sure thing at this point. In addition, the \$10 billion price tag is just for the first phase of development to build the initial capacity of 200,000 barrels per day. Each additional phase would cost another \$6 billion for 200,000 barrels per day of capacity, with the plan to eventually process one million barrels per day. However, this project and others like it are being proposed with the hope that refining the oil first would ease some of the environmental concerns that many have with shipping bitumen overseas.

By reducing the opposition to pipeline projects it also would help to remove the lid on the price of oil in western Canada, which is forcing producers to ship it by rail. Because rail is a more expensive option, it's slowing down the growth of oil sands production. In fact, these [high costs recently put the brakes on one major oil sands mining project](#) as the partners on that project just didn't see enough takeaway capacity coming online to bring the price of oil up to the point where the project could earn a compelling return.

The only way Canada will be able to unlock the full value of its oil sands is to be able to more freely move that oil from Alberta to customers around the world. While rail is helping in the short term, it's a much more expensive, and potentially riskier, method of transportation.

The bottom line is that refineries like the one proposed by Pacific Future Energy could very well be the key to unlocking Canada's oil riches. These projects could help end the opposition to pipeline projects from Enbridge and Kinder Morgan that have been holding back the free flow of oil.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:TRP (Tc Energy)
3. TSX:ENB (Enbridge Inc.)
4. TSX:TRP (TC Energy Corporation)

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## Author

mdilallo

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