



## Now That Pipeline Capacity Could Skyrocket, Should You Sell the Rails?

### Description

For years, there has not been enough pipeline capacity to accommodate the fast-growing oil production in Canada and the United States. As a result, there has been tremendous growth in crude-by-rail, which has been an enormous boon to railway operators. This should be a very familiar story.

But in just a couple of days, the conversation is starting to change. On Tuesday, the Republican Party gained control of the U.S. Senate, which could lead to a vote on the Keystone XL pipeline. And on Wednesday, **Marathon Petroleum Corp.** ([NYSE: MPC](#)) announced it may reverse a pipeline that stretches from Louisiana to Illinois. The pipeline has even greater capacity than Keystone, and could be a game-changer for Canada's oil sands.

What does this mean for **Canadian National Railway Company** ([TSX: CNR](#))([NYSE: CNI](#)) and **Canadian Pacific Railway Limited** ([TSX: CP](#))([NYSE: CP](#))? Is the crude-by rail industry business headed for decline? Should you sell these companies' shares?

The answer to both questions, at least for now, is very simple: no. Below are three reasons why.

### There's always enough demand

Even if the Marathon pipeline is reversed AND Keystone is approved, there will always be enough demand for crude-by-rail. The numbers tell the story.

Crude oil production from Western Canada is expected to grow by 3.2 million barrels per day from 2013 to 2030. Meanwhile, Keystone XL could only accommodate 830,000 barrels per day, and the Marathon pipeline another 1.2 million b/d. That doesn't even account for increased production in the United States, which places further strain on the country's pipeline network.

In the meantime, the crude-by-rail business is being held back by other constraints. For example, there is a shortage of tank cars, and that will only become more serious as older (more dangerous) cars are phased out. So really no matter how many of these pipelines get built, there is clearly enough demand for crude-by-rail.

## Crude-by-rail has its advantages

Pipelines are unquestionably cheaper than rail. No one disputes that. But rail has some advantages, and because of this, it will always have its place.

One advantage is known as “dispatchability”. In plain English, this means rail has the flexibility to ship crude to the highest-profit destination, wherever that may be. Right now, that’s the Gulf Coast. But in the future, that may change. Second, you can ship small amounts more economically. Finally, shipping by rail has a lower capital commitment. This makes crude-by-rail especially valuable to smaller producers.

## Crude-by-rail isn’t that meaningful to the rails

Let’s suppose the story changes, and crude-by-rail really does go into decline. That still wouldn’t be too meaningful to the rails.

Last year, crude and condensate accounted for 5% of revenues at Canadian National and Canadian Pacific. Granted, this share is growing rapidly – CP Rail CEO Hunter Harrison said this number could grow to 10% in the next two to three years. But this segment will remain a minor part of revenues for a long time.

So the rails remain a solid option for any portfolio, and will be for a long time. In fact one of them is featured in The Motley Fool’s five-stock model portfolio, detailed in the free report below.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:CP (Canadian Pacific Railway)
3. NYSE:MPC (Marathon Petroleum Corporation)
4. TSX:CNR (Canadian National Railway Company)
5. TSX:CP (Canadian Pacific Railway)

## Category

1. Investing

## Date

2025/08/20

## Date Created

2014/11/06

## Author

bensinclair

default watermark