



TransCanada Corporation: 3 Things to Know About the Keystone Rejection

Description

On Friday, U.S. president Barack Obama formally rejected the Keystone XL pipeline proposal from **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)). TransCanada had filed its initial application all the way back in 2008, before Obama had even become president.

The rejection was also a foregone conclusion. The president has downplayed the pipeline's benefits, while emphasizing its risks, for over a year. Meanwhile, with American oil production taking off in recent years, the country doesn't need Canadian oil like it once did. Yet it is still a big blow to Canada's energy sector.

We will take a look at three things to know about Obama's Keystone rejection.

1. It hurts the oil producers more than TransCanada

Even after this decision, TransCanada won't miss a beat. The company still has over \$35 billion worth of commercially secured projects, which should keep it busy for the rest of the decade. Better yet, the U.S. shale oil industry is still over reliant on rail to move its crude to market, providing a perfect opportunity for TransCanada to secure more projects.

The pain will be felt more by Canada's energy producers. **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) and **Canadian Natural Resources Limited** ([TSX:CNQ](#))([NYSE:CNQ](#)) had already booked capacity on Keystone. Smaller producers in Alberta (especially those with lots of debt), who are depending more on higher oil prices, will be affected even more.

2. It is good news for most of Canada

For over a decade, rising oil prices were a boon to Alberta's economy. But for the rest of Canada, particularly in provinces like Ontario, high oil prices were more of a curse than a blessing.

The main problem was that high oil prices led to a stronger Canadian dollar, which hurt other exporters, particularly manufacturers in Ontario. High gasoline prices were a drag as well. But with Keystone being rejected, there is a lower ceiling for oil exports to the U.S.A. This is a negative for the

loonie and a positive for provinces like Ontario.

This is not a trivial matter. For example, companies like **Toronto-Dominion Bank** are in a very good position, while companies like **Canadian Western Bank** will continue to face headwinds.

3. It's not over

TransCanada has a number of options at its disposal.

Of course, the company can give up. Or, more likely, it can wait out the results of the presidential election next year, knowing that Keystone could get approval with a Republican in the White House.

A third option— and certainly the most extreme—would be suing the U.S. government for violating NAFTA. The company has already spent \$2.4 billion on the project, and could argue that it has been unfairly targeted by the U.S. government. But the U.S. has never lost a NAFTA case, so TransCanada probably won't try this option, at least not while Obama remains in office.

In any case, we'll probably hear more about Keystone, just not for another year.

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2. NYSE:SU (Suncor Energy Inc.)
3. NYSE:TRP (Tc Energy)
4. TSX:CNQ (Canadian Natural Resources Limited)
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Author

bensinclair

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