



Canadian Natural Resources Limited: More Bad News for Canadian Oil

Description

On Monday the government of British Columbia said it does not support the Trans Mountain Expansion project because it does not meet any of the province's five conditions.

This is certainly a setback for **Kinder Morgan**, the owner of Trans Mountain. But it's an even bigger setback for Canada's energy producers. We take a closer look through the lens of one of these producers, **Canadian Natural Resources Limited** ([TSX:CNQ](#))([NYSE:CNQ](#)).

What Trans Mountain means for CNRL

CNRL is one of the companies that has been contracted to ship oil out of an expanded Trans Mountain pipeline. And it's easy to see why. The energy giant has to accept lower prices for its crude, primarily due to a lack of market access.

To illustrate, Western Canadian Select, an index of Canadian heavy oil, traded 28% lower than West Texas Intermediate in the third quarter. This was actually seven percentage points higher than one year earlier, which should make sense. After all, the additional costs of transporting and refining Canadian oil remain in place even when oil prices plummet. So on a percentage basis, it's no surprise that the differential has widened.

A matter of survival

In its most recent investor presentation, CNRL shows how Canadian oil can get to market in the coming years (see picture). And what we see is that without new pipelines (Northern Gateway, Trans Mountain, and Energy East), rail will have to play a central role.

Source: CNRL investor presentation

Of course, rail is a more expensive way to transport oil than pipeline is. And that doesn't just mean slightly lower profits for CNRL.

North American producers are engaged in a fierce battle for survival, one in which the lowest-cost

producers win. So if Canadian oil has to face higher costs, there's the threat of it being priced out of the market. That may be welcome news for environmentalists, but it would be terrible news for CNRL, the Canadian oil industry, and Canada's economy.

Don't overreact just yet

B.C.'s opposition does not mean the end of the project. It is actually up to the National Energy Board to make a recommendation, and then the federal government has the final say.

The following day, Alberta premier Rachel Notley reaffirmed her support for the pipeline. She also said she will continue to work with B.C. to win the province's approval. Without a doubt, she will play a very central role. And there's something else we can be certain of: CNRL is on her side.

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1. Energy Stocks
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TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)

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