



TransCanada Corporation's Keystone XL: How Low Can Oil Go?

Description

The Keystone XL pipeline was officially approved at the White House on Friday. President Trump, alongside **TransCanada Corporation's** ([TSX:TRP](#))([NYSE:TRP](#)) CEO Russell Girling, performed the ritual to promote future job growth and success for all.

Certainly, this is exciting news for the pipeline provider and oil and gas construction companies alike. However, should the everyday consumer be as thrilled?

The average North American is led to believe they will profit. TransCanada, the mastermind behind the Keystone XL, outlines the project's three major benefits, including job creation, tax revenue, and energy security.

One may associate the pipeline with a government-mandated infrastructure project, but with private backing. The tax revenue will benefit depressed counties near construction sites and the U.S. and Canada's national governments. The job creation, however myopic, will allow North American construction workers to dust off their helmets and re-enter the job force.

The key issue lies with the final point. Energy security "(will help the U.S) secure access to an abundant energy resource produced by a neighbour that shares a commitment to a clean and healthy environment."

When the savvy consumer fills up the tank after a long day at work, they don't feel the urge to inspect the origination of the gas. Furthermore, when homes across Canada are heated each winter, consumers don't consider their "brand loyalty." Price is the sole factor contributing to the purchase.

So, how will the Keystone XL impact the oil price?

The price of oil is at the mercy of global market supply and demand. Traditional economic theory suggests that an increase in supply will reduce the price. However, as the world (especially Canadian energy companies) learned last year, oil is not your typical commodity market.

The simple conclusion is that the pipeline will likely not have any direct impact. OPEC and Russia very

much control the price of oil. Since the Middle East has the easiest access, and thus the cheapest extraction methods, to the black gold, they are at a steep competitive advantage. Energy companies in Canada have already proven that \$50/barrel is barely enough to survive.

If global production wanes and prices steadily rise, what is stopping Canadian producers from joining in on the gouging? The fundamentals of the oil market suggest these companies have an economic incentive to follow price hikes, especially given the financial outlay required to increase drilling. After all, should Saudi Arabia decide to flex its power and ramp up production again, Canadian producers would be overly exposed. Perhaps it would be best to “play nice” and follow the cartel’s pricing.

Therefore, the consumer is likely no better or worse off, economically speaking, from the uptick in Canadian production. The adage may ring true in this case, “if you can’t beat them, join them.”

An investment in TransCanada may provide considerable long-term dividend income.

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