



## Has Trump Just Saved the Oil Sands?

### Description

In a long-expected move, President Trump recently embarked on his planned regulatory rollback that's aimed at freeing the mining and energy industries from what some pundits claim are onerous obligations.

This includes what can only be considered a declaration of war by Trump on climate change; a host of Obama-era policy tools aimed at reducing energy consumption and eliminating carbon emissions. This essentially amounts to an open repudiation of climate change and the global push to minimize carbon emissions. While it may not yet be a significant blow to preventing climate change, it could very well benefit Canada's oil sands industry.

### Now what?

Canada's oil sands have been under considerable pressure for some time because of the impact of the extraction and conversion of bitumen into crude on the environment. Up until the oil crash, the industry was the fastest-growing emitter of greenhouse gases, and it's the largest greenhouse gas emitter in Canada.

In fact, it has been estimated that every barrel of crude produced from the oil sands generates 20% more greenhouse gas emissions than conventional oil production.

It is for these reasons that the Alberta provincial government introduced a policy aimed at reducing greenhouse emissions from the oil sands industry through a legislated emission limit and carbon pricing. This has increased the cost of production for oil sands companies, fanned fears of up to \$250 billion of lost production in the coming decade, and increased the likelihood of the oil sands becoming stranded assets.

Even before this legislation appeared, prominent investors, including Jeremy Grantham, were claiming that the oil sands will become stranded assets.

Essentially, this means that the cost of producing oil from bitumen will exceed the commercial and economic benefits, making the oil sands a nonviable source of crude. The likelihood of this occurring

grew significantly when the Paris Agreement on climate change, which aims to reduce global temperature increases to less than two degrees Celsius, came into force.

The agreement has already been recognized by many within the industry, including Canada's largest oil producer **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)), which has developed a plan to leave its least economic oil reserves untapped. Suncor will focus on its most economic projects, which should lead to higher margins and a better return on capital.

Nevertheless, Trump's latest actions have reignited the debate over Canada's environmental legislation and the impact it is having on the oil sands, one of the world's largest energy resources. They also point to the industry receiving a far warmer reception south of the border. This is evidenced by Trump's approval of **TransCanada Corporation's** ([TSX:TRP](#))([NYSE:TRP](#)) Keystone XL pipeline, which was blocked by the Obama Administration.

These events are of considerable significance for Canada's energy patch because almost three-quarters of all crude produced is exported to the U.S. If the U.S. economy expands at the rate expected, because of Trump's planned fiscal stimulus and regulatory rollback, then demand for petroleum and related products in the U.S. can only grow rapidly.

### So what?

This would certainly be boon for pipeline companies such as TransCanada and **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)), which form a vital link between the energy patch and its largest export market. Since the approval of the Keystone XL pipeline, TransCanada's outlook has improved significantly and, on completion, its earnings should receive a healthy lift.

Trump's recent policies will certainly aid Canada's energy patch in what has been a difficult operating environment since the collapse of oil prices over two years ago.

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