Enbridge (TSX:ENB) Pipeline in Murky Waters

Description

The trade agreements between Canada and the U.S. hit a rough patch during Trump's administration, and the situation went as far as the threat of dissolving the North American Free Trade Agreement (NAFTA). The bilateral trade relationships would have affected Canada more, since about three-quarters of Canadian exports are to the U.S. (74% in 2020).

Canadian governments and businesses hoped that things would be better under Joe Biden, but one of his first acts as the president was to revoke the permit that allowed **TC Energy's** (TSX:TRP)(NYSE:TRP) Keystone XL pipeline to be built in the United States. The company recently pulled the plug on that decision and booked significant losses.

Now, another Canadian energy giant is facing trouble north of the border.

A tougher environmental review

Enbridge (TSX:ENB)(NYSE:ENB) moves 25% of the crude oil produced in North America through its 27,564 km of pipelines, about half of which are in the United States. The network traverses through the country and reaches all the way down to Texas, although the problem the country is currently facing stems relatively close to the border.

Enbridge's Line 5 is an old oil pipeline, and a portion of it is running on the lake bed under Straits of Mackinac. This 6.4 km section needs to be replaced/rehoused without disturbing turning into an environmental disaster. The company is planning a $500 million tunnel under the Straits of Mackinac that would be used to rehouse the section of the pipeline.

The environmentalists have been worried about Line 5 leaking into the water and destroying the local ecosystem for years and are calling for Enbridge to shut down the pipeline that ships over half-a-million barrels of oil every day. The state government is involved, and even though Enbridge is invoking the 1977 treaty between two federal governments, but the U.S. federal government has declared that the matter is the state's to deal with.

Another nail in the Line 5 coffin is the U.S. Army Corps of Engineers (USACE) that concluded an environmental assessment of the tunnel project, is now planning to run an Environmental Impact Statement (EIS), which could take years.

Enbridge stock

Enbridge transports over three million barrels of crude oil and liquids per day, and Line 5 makes up about 18% of that. Shutting down such a significant portion of its total oil transportation for even a few days might deal a significant blow to the company's finances. Even if the other lines aren't working at full capacity, they can't be considered viable alternatives because of each line's geographic location.

The company relies on long-term transportation contracts, which shields it during times of low demand. But if it can't keep its end of the deal and transport the oil for other producers as promised because one of its lines was shut down, the impact can spiral out and impact the Canadian energy sector as a whole. Not to mention, it might be severe enough to crater the stock.

Foolish takeaway

Even though TC Energy pipeline being scrubbed was a financial blow to the company and a window closing for the Canadian energy sector, but Line 5 closing (if Enbridge is legally forced to do it) would be devastating on a different scale, because it's a functional line, not a prospect. And its impact will be felt across the North American energy supply chain.

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Author
adamothman