



POTEN TANKER OPINION



Canada's Pipe Dream

Exports via Keystone XL endangered by Biden Administration?

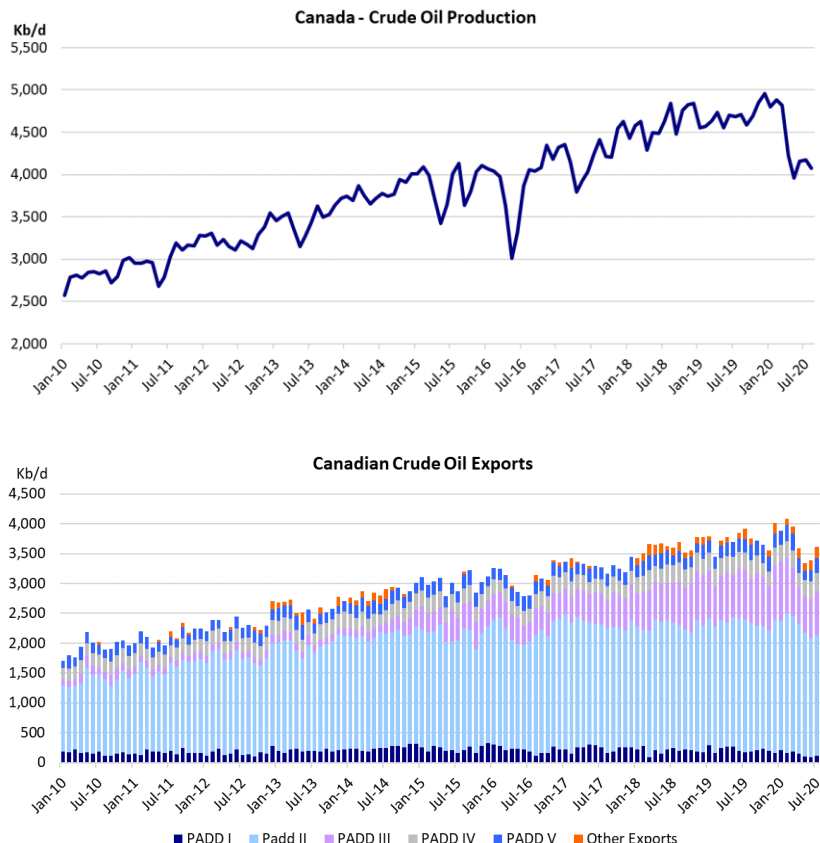
The 2020 elections were important for the energy market as the two presidential candidates have very different views on the US energy future. While President Trump has generally favored oil and gas production by making more public lands and offshore areas available for drilling and lowering regulatory hurdles that slow development, Mr. Biden is more supportive of energy efficiency measures and a transition to clean energy and renewables. On January 20, President Biden takes over the presidency, assuming that states certify in the coming weeks that Mr. Biden won the presidential elections. This will affect a number of energy policies, not least the development of pipeline infrastructure, and in particular the future of the Keystone XL pipeline.

The Keystone XL pipeline is an expansion of the existing Keystone pipeline that brings heavy crude oil from the oil sand fields in Western Canada to the Mid-Western states and to the U.S. Gulf coast. The 830,000 barrel per day (B/d) Keystone XL pipeline was originally proposed in 2008 but was vetoed by President Obama in 2015 for environmental reasons. President Trump campaigned in 2016 on allowing the pipeline project to move forward and his administration issued a cross-border permit shortly after taking office. However, the project is still facing court battles from environmental groups and from native American tribes that object to the pipeline crossing their land.

For Canadian crude oil producers, the Keystone XL is a critical export route that would allow them to increase production further. The country has tried to develop efficient export routes to various coasts for over a decade. Two projects that seem to move ahead are the expansion of the Trans Mountain pipeline to the Vancouver area (from 300Kb/d to 890Kb/d) and the replacement and expansion of Line 3 to the Midwest of the U.S. (from 390Kb/d to 760Kb/d). The Canadian section of the Line 3 replacement is finished and the US section is expected to start construction shortly.

As the top graph shows, Canadian crude oil production expanded gradually over the last decade, until Covid-19 hit earlier this year. Due to pipeline capacity shortages, producers had to resort to more expensive rail transportation. In February 2020, Canadian rail exports reached 411Kb/d, but had to be cut back when oil prices collapsed in the spring. In August, the last month for which data is available, Canada exported only 51Kb/d via rail.

The second graph shows that virtually all of Canadian exports are for the U.S. The majority of the exports are to PADD II (Midwest) and growing volumes are heading to PADD III (U.S. Gulf) to replace Venezuelan imports of heavy crude that were



Note: Due to confidentiality requirements, for some months Other Exports are not reported

Source: Canada Energy Regulator (CER)

halted due to U.S. sanctions. The Keystone XL pipeline would allow Canada to efficiently ship more crude to the U.S Gulf region, helping Canada in two ways: It would reduce the discount between Western Canadian Select and WTI and it would also allow Canada to diversify its exports further.

The most logical alternative export destinations for Canadian crude are in Asia, but Western Canadian crude does not have easy access to ports that can handle VLCCs, which would be the most cost-effective way. The Keystone XL would have allowed Canada to ship more crude to the U.S. Gulf where it could be used in refineries designed for heavy crude or loaded onto VLCCs for export, similarly to U.S. crudes.

During the campaign, Mr. Biden has indicated that he would revoke the permit for the Keystone XL pipeline. The Canadian government is trying to convince the incoming administration to let the project continue but it is a high-profile project for environmental groups, and it will be hard for Mr. Biden to break his campaign promise and keep it alive.

Killing the project would hurt the tanker market as these increased exports from the US Gulf to Asia would add much needed ton-mile demand for VLCCs.