

BN Canada Frets About Oil-Export Options After Keystone Delay
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By Jeremy van Loon and Colin McClelland

Nov. 11 (Bloomberg) -- The U.S. State Department's decision to delay a ruling on TransCanada Corp.'s Keystone XL pipeline increases the pressure on Canada to find a way to sell its oil to countries beyond the U.S.

Currently, 99 percent of Canada's crude exports go to the U.S., a figure that Prime Minister Stephen Harper wants to reduce in his bid to make Canada a "superpower" in global oil markets.

"The energy superpower vision of the prime minister can't be realized if we can't get the product to market," said Portland Investment Counsel fund manager James Cole, who oversees C\$600 million (\$590 million) at Portland Investment Counsel in Calgary and owns shares in Suncor Energy Inc.

Enbridge Inc., which operates Canada's largest oil pipeline system, and Kinder Morgan Inc. are proposing expansions to the Pacific coast so Canada can ship crude to Asian countries.

Canada accounts for more than 90 percent of all proven reserves outside of the Organization of Petroleum Exporting Countries, according to data compiled in the BP Statistical Review of World Energy. Most of Canada's crude is produced from oil-sands deposits in the landlocked province of Alberta, where output is expected to double over the next eight years, according to the Canadian Association of Petroleum Producers.

Enbridge's Northern Gateway pipeline, which would extend from Alberta to Kitimat, British Columbia, would require the lifting of a ban on coastal oil tankers. The ban is intended to protect one of the world's last intact temperate rain forests from a spill such as Alaska's 1989 Exxon Valdez.

"It's no slam dunk that Northern Gateway will be approved, given vociferous opposition in parts of British Columbia," Cole said.

Native Opposition

Hearings by Canada's energy regulator on Northern Gateway begin in January, with opposition lined up from native groups like the Saik'uz and Nakazdli nations as well as environmental organizations.

"We've seen enough from the tar sands," said Fred Sams, the elected chief of the Nakazdli First Nation in Fort St. James, British Columbia, in an interview. "Better to leave it in the ground. There's no benefit to us."

Negotiations with native groups along the proposed Northern Gateway route are complicated by land claims between the province of British Columbia and natives, many of whom, including Sams' Nakazdli nation, refuse to enter into talks until the province recognizes the historic claims to territory inhabited for hundreds of years.

Court Battle Seen

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That kind of opposition means legal battles, said John Stephenson, who oversees about \$2.5 billion as senior vice president and portfolio manager at First Asset Investment Management Inc. in Toronto.

"No matter what happens, it will end up in a Supreme Court challenge," he said. "If Canada is serious about becoming an energy superpower, the federal government could push this through and stomp on some toes and say 'we're going to make it happen.'"

Further south of Enbridge's route, Kinder Morgan wants to boost capacity on its TransMountain pipeline that terminates near downtown Vancouver and which would make use of the Burrard Inlet, a waterway that bisects Greater Vancouver.

The inlet is too narrow and shallow for the supertankers that would carry oil to China, said Gerald Graham, a maritime law consultant based in Victoria, British Columbia.

"You can't get the largest oil tankers through the Burrard Inlet," Graham said in an interview. "The boats you can get in and out of there would only be big enough to take down the coast to California."

Rail Option

Other options to help reach Prime Minister Harper's vision of Canada as an energy superpower include reversing an Enbridge pipeline to ship crude east, a plan by Enbridge to build a competing pipeline to Keystone XL called Wrangler or shipping oil by rail to terminals such as Arctic port of Churchill, Manitoba.

"The short-term solution if there's someone who really needs to move crude would be the rail," said First Asset Investment's Stephenson. "It's not Looney Tunes because it's virtually immediate. You could get people to sign up for this."

Meanwhile, oil-sands producers such as Suncor and Canadian Natural Resources Inc. are confident that the industry will find a solution.

"This industry is very inventive," Chief Executive Rick George said on a Nov. 3 conference call with analysts. "We'll get the crude to move around one way or another."

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