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IS OBAMA TELLING THE TRUTH ABOUT CANADIAN OIL EXPORTS?

Because U.S. President Barack Obama will have to make a decision about the Keystone XL oil pipeline as early as this week, his comments on the hotly debated project tend to get plenty of scrutiny.

He's been increasingly dismissive of the importance of the project for his country, suggesting he'll make his choice purely on environmental grounds because it means so little to the U.S. economy.

It won't lead to lower gas prices, nor create much work aside from thousands of temporary construction jobs, he said last week. And he emphasized one point in particular: Oil delivered via Keystone XL won't even stay in the U.S.

"It is providing the ability of Canada to pump their oil, send it through our land, down to the Gulf, where it will be sold everywhere else," Obama said. "That doesn't have an impact on U.S. gas prices."

Is that true?

Spoiler alert: The Canadian Press Baloney Meter is a dispassionate examination of political statements culminating in a ranking of accuracy on a scale of "no baloney" to "full of baloney" (complete methodology below).

This one earns a rating of "a lot of baloney" -- the statement is mostly inaccurate but contains elements of truth. Here's why.

The United States has mostly banned exports of crude oil, ever since the energy crisis of the 1970s. That ban doesn't necessarily cover Canadian crude, as it could be eligible for export with a special license.

The U.S. still consumes way more oil than it can produce, and remains a net importer.

Despite a surge in domestic production that now has the U.S. extracting almost 9 million barrels of oil per day; the country

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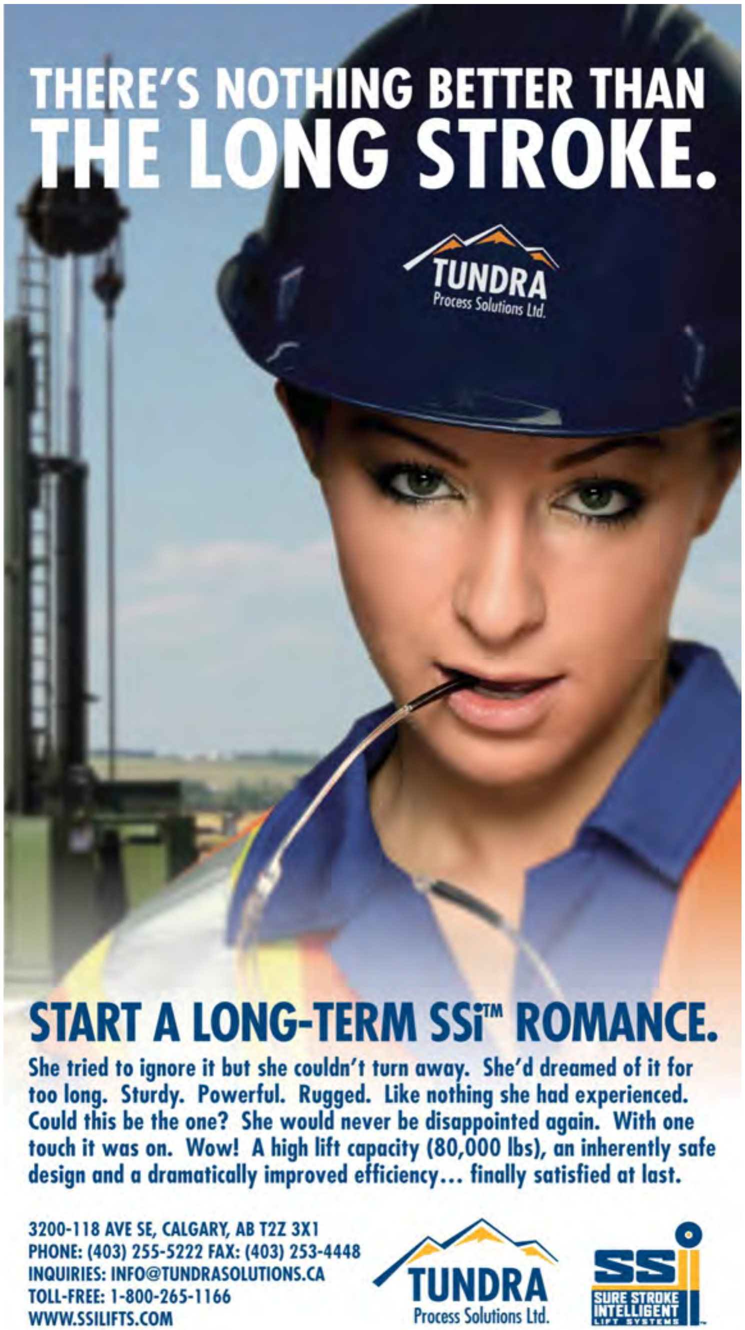

consumes more than 18 million barrels per day. That's according to the U.S. Energy Information Administration, which projects that the country will continue to be a net importer for the foreseeable future.

Canadian oil is increasingly dominant among those imports, now overtaking the total amount the U.S. brings in from all OPEC countries combined.

Keystone XL is designed to carry more than 550,000 barrels per day to the Gulf of Mexico -- a big oil-transformation hub whose refineries have a capacity of more than 8 million barrels per day.

While carrying Canadian crude is the pipeline's main purpose, oil from the Midwestern U.S. would also enter the pipeline.

Nearly one-third of that oil refined on the Gulf gets exported -- about 2.69 million barrels a day in 2013, according to the EIA.

That's because exports of finished petroleum products are allowed from the U.S. including diesel, gasoline, and rocket fuel and plastics products. Those exports are rising rapidly -- having shot up seven-fold since 1990 and tripling in the last seven years alone.

Many of these products are owned, and exported, by American oil companies. Dominant refineries in the region include Texas-based Valero Energy Corp, Exxon Mobil and Marathon Oil Corp.

A major study by Obama's own State Department said of exporting crude oil through Keystone XL: "Such an option appears unlikely to be economically justified for any significant durable trade given transport costs and market conditions... Gulf Coast refiners have a significant competitive advantage in processing it compared to foreign refiners because the foreign refiners would have to incur additional transportation charges to have the crude oil delivered (there)."

The report added a caveat, with respect to finished petroleum products: "It is possible that (Canadian) heavy crude may be refined in the United States and processed into petroleum products that are exported... As this may already be occurring, it may continue with or without the proposed project."

Valero Corp. says something similar. Echoing the State Department review, it says it won't export Canadian crude, but concedes that an unspecified share of its finished product from Canada might wind up abroad.

"Valero has said repeatedly that it has no intention of exporting Canadian crude oil from the Keystone XL pipeline. Valero intends to process that crude oil at the Port Arthur, Texas, refinery, which is set up to process heavy grades of crude oil and has been doing so for decades," company vice-president Bill Day said in an email.

"As for refined products made from crude oil, Valero already exports a portion of the refined products it makes, without Keystone XL. The significant majority of the products Valero make stay in the United States for domestic consumption."

The anti-Keystone group Oil Change International, however, says that Canadian oil might wind up becoming redundant in the Gulf area and shipped overseas. It says it risks being squeezed out of the action there, because refineries belonging to state-owned companies from Venezuela, Mexico and Saudi Arabia control more than one million barrels a day of production in the Gulf, while domestic supplies of tight oil skyrocket.

Energy economist Andrew Leach agrees with some of what Obama says about Keystone's impact on the American economy, including that it won't lower U.S. gas prices. What of the thousands of temporary construction jobs? Leach describes that as "a rounding error" for a U.S. economy that created 214,000 jobs last month alone.

But he says the president's wrong on exports.

"There's basically zero chance you're going to see crude exports in any significant quantity, regularly, off Keystone XL," Leach said in an interview.

What about the prospect of Canadian oil being transformed and shipped abroad as a finished product? Leach said that logic could be used to denigrate any raw material, being imported anywhere for use in manufacturing products that could eventually be shipped overseas.

It could even be used for the other oil refined on the Gulf Coast, which Keystone XL is supposed to help supplant, said Leach, a professor at the University of Alberta.

"If you believe the logic that Keystone XL crude is for export, because the diesel or the gasoline might be exported, then you also have to believe that Venezuelan crude that's currently being imported into the U.S. is just transiting the country -- it's just imported for export purposes. Which is an argument that no one would make," he said.

"And if you think that claim is ludicrous on its face, then so is the claim that Keystone XL oil is simply for export."

Key players in the project insist they won't ship Canadian crude abroad. The State Department, tasked with leading the Obama administration's own review, concurs on the grounds that it would make no economic sense. The U.S. will import more oil than it exports, perhaps for decades to come.

Some of the oil in the pipeline would be American, and all the oil likely would go to refineries in the U.S.

The same guarantee doesn't extend to finished petroleum products. Nobody's offering any promises -- let alone hard projections -- about what share of the oil that flows through Keystone XL might eventually wind up abroad after it's been refined.

Those exports of finished products are already happening, they're on the rise -- and they're being done by American companies.

For that reason, Obama's statement that Keystone XL is about Canada shipping its oil overseas through the U.S., not to it, contains "a lot of baloney."

M E T H O D O L O G Y

The Baloney Meter is a project of The Canadian Press that examines the level of accuracy in statements made by politicians. Each claim is researched and assigned a rating based on the following scale:

No baloney -- the statement is completely accurate

A little baloney -- the statement is mostly accurate but more information is required

Some baloney -- the statement is partly accurate but important details are missing

A lot of baloney -- the statement is mostly inaccurate but contains elements of truth

Full of baloney -- the statement is completely inaccurate

KEYSTONE XL LOSS MAY BE VICTORY IN DISGUISE FOR PIPELINE PROPONENTS

Narrow failure to pass bill in the U.S. Senate should guarantee pipeline's eventual passage

It's not easy to see victory in defeat. But that's exactly what proponents

of the Keystone XL pipeline should be thinking after a bill to approve the project failed to get the necessary votes in the U.S. Senate this week.

The pipeline that would connect Alberta's oil sands to Gulf Coast refineries in Texas and Louisiana fell just one vote short of the 60 needed to override a Democratic filibuster and get it through the Senate.

But had the bill's mostly Republican backers won, the legislation would almost certainly have been vetoed by President Barack Obama — a move that would only have hardened the resolve of Keystone's opponents.

Failing by an oh-so tantalizing single vote on the first try likely achieves the opposite effect.

The result should, instead, galvanize supporters of Keystone heading into the new year when the Republicans take control of the Senate for the first time since Obama became president.

Look at the votes in the Republican-dominated House of Representatives, where support for the project has steadily grown from just September, when members voted 226-191 in favour of Keystone, to 252-161 earlier this month.

For Stephen Harper's government, approval of Keystone should be, to use the prime minister's own words, a ''no-brainer.'' It's also become the most significant irritant in Canada-U.S. relations, as Obama delayed, and delayed, and still delays making a decision.

South of the border, Keystone is not a bilateral problem as much as a domestic political issue, one Obama now seems willing to exploit to promote his environmental credentials.

''Understand what this project is,'' the president told reporters last week. "It is the ability of Canada to pump their oil, send it through our land, down to the Gulf, where it will be sold everywhere else. It doesn't have an impact on U.S. gas prices.''

"If my Republican friends want to focus on what's for the American people in terms of job creation and lower energy costs, we should be engaging in a conversation about what are we doing to produce even more homegrown energy."

As presidential statements go, Obama's was a fine example of political dogma. It was also, according to anyone promoting the project on this side of the border, breathtakingly inaccurate.

Keystone XL won't just carry Canadian oil, up to 20 per cent will be Bakken formation oil from Montana and North Dakota. What's more, American oil firms are heavily involved in oil sands production.

Messy politics. Louisiana Senator Mary Landrieu, a Democrat facing a run-off vote for re-election next month, was the co-sponsor of the bill this week to approve the Keystone pipeline. The bill just failed to get the 60 votes needed to overcome her own party's filibuster in the Senate. (The Associated Press)

Even if the president was right, that Keystone is to carry only Canadian oil, produced by Canadian companies, to discriminate against it on that basis violates the North American Free Trade Agreement.

In any event, the very idea that this is a choice between either Keystone or increasing U.S. oil production is nonsense.

Statistics kept by the U.S. Energy Information Agency show that Canada supplies the bulk of U.S. oil imports — more than 2.5 million barrels a day in August — or about a third of all of America's crude oil imports.

As to where the oil sands crude would end up, oil analysts say it just isn't true to suggest, as the president did, that it would either bypass Gulf Coast refineries, most of which are geared to refine exactly that kind of crude, or be refined there and shipped overseas.

So, where does that leave Canadian proponents of Keystone if the guy in charge is being selective with the facts, and when his position appears to relate more to his potential legacy than being good neighbours?

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First: approving Keystone XL is in the American interest. That means lobbying members of the incoming Congress and using Canada's consular offices to push the benefits in every state.

All politics is local? Climate advocates and representatives from the Rosebud Sioux Tribe in South Dakota protest against the Keystone XL pipeline in front of U.S. Senator Mary Landrieu's home in Louisiana. (Reuters)

As the late Tip O'Neill, a former speaker of the House famously said, "All politics is local," even when you're talking about a pipeline that crosses the U.S.-Canada border and will run through a half-dozen states in the Midwest.

Second: underscore the North American energy market is totally integrated. Building Keystone promotes a more reliable, more secure source of supply, safe from the political vagaries of the Middle East or Venezuela.

Third: blocking the pipeline won't stop development of the oil sands. If not Keystone, the oil will be shipped by rail.

The U.S. Energy Information Agency reports that oil and petroleum products accounted for the second largest increase in rail traffic in the U.S. in 2014. The Canadian Association of Petroleum Producers estimated in June that about 700,000 barrels a day will be transported to markets by rail in 2016, much of it to the U.S.

None of these arguments guarantees that Obama will change his mind.

But with a new Congress arriving in the new year, they could help sway enough Democrats to push future votes much closer to the two-thirds majority needed to override any presidential veto.

Faced by that prospect, Obama may be more inclined to deal, signing off on Keystone after all those delays, in return for Republican support for some other item on his agenda, like comprehensive immigration reform.

If that happens, Obama could very well claim victory in defeat. Something proponents of Keystone should be doing this week.

ADANI-WELSPUN TO INVEST $1.5 BILLION IN US SHALE, CANADIAN OIL SANDS ASSETS

Infrastructure powerhouse Adani Group along with the towel-to-pipe conglomerate Welspun is studying liquid-rich shale and oil sands assets in the US and Canada for acquisitions as the two home-grown business houses look to build a formidable oil and gas enterprise.

Adani, owned by Gautam Adani, who has close ties to Prime Minister Narendra Modi, and Welspun, controlled by B K Goenka, have a strategic partnership for oil and gas business and the duo hold interests in conventional blocks in India, Thailand and Egypt. The partners now plan to invest $1.5 billion towards stake purchases in select Louisiana and Texas shale fields in the US and some Alberta oil sands projects in Canada as they bet big on unconventional resources.

The two groups feel that shale and oil sands, which have significant potential, will play a greater role in the world's total energy mix and, hence, want to invest in these areas, said sources familiar with the matter. However, unlike their earlier strategy where the joint venture firm, in which Adani owns majority shares, bought exploratory blocks and then had to discover oil, this time around the plan is to buy interest in oil-producing assets, they added.

With oil prices collapsing, valuations have become attractive, offering buyers like Adani Welspun Exploration (AWEL) opportunities to pick up high-quality unconventional acreage, said an investment banker. Weakening global demand and an oversupply in the US has pulled down crude oil prices to a more than four-year low of $75 a barrel, trimming the once-high valuations of shale and oil sands assets. If Adani Welspun works out a deal in the North American region, which is known for its rich reserves in unconventional resources, it will mark

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the Ahmedabad and Mumbai-based groups' first investment in shale and oil sands properties, following in the footsteps of private-sector explorer Reliance IndustriesBSE -1.29 % and state-run GAILBSE -0.22 %, IOCBSE -0.79 % and Oil IndiaBSE 1.04 %, which have acquired stakes in similar assets. Indian firms have so far invested over $10 billion in US shale gas, of which Reliance alone has invested over $7 billion.

Adani and Welspun declined to comment.

While the joint venture has an overall investment plan of $1.5 billion for overseas energy assets, it seeks buys entailing a minimum investment of $300 million, said the sources quoted earlier.

Adani Welspun has been on the learning curve in the oil and gas business with some oil blocks yet to be commercially viable. For instance, its Assam block turned out to be a dud, while the Mumbai and Gulf of KutchBSE 4.96 % offshore blocks have met with some success.

Indian companies have been scanning oil and gas assets abroad to meet the growing energy demand of Asia's third largest economy, which meets four-fifths of its crude oil and about a fourth of its gas requirements through imports.

ARE TRANSCANADA CORP. INVESTORS IN LINE FOR A PAY DAY?

TransCanada Corp (TSX: TRP) (NYSE: TRP) revealed its plans for the next six years of capital projects. In total, TransCanada is projecting to spend $46 billion between now and 2020. This is a staggering amount of money that could unlock the country's energy potential. Unfortunately, the majority of this earmarked cash is tied to projects that are currently being blocked or investigated by provincial, state, and federal governments.

In addition, the recent drop in crude prices has resulted in a sense of short-term uncertainty in the entire energy industry. While projects are not likely to be cancelled, delays could be possible.

Fortunately TransCanada has about $13 billion in smaller projects which are slated to enter service by 2017. This includes projects such as expansions on the existing Canadian Mainline gas pipeline that runs from Alberta to Quebec, and the NGTL natural gas pipeline in Northern Alberta.

However, it will take more than these small projects to maintain investor confidence. Investors have been keeping an eye on the three big projects that continue to remain just over the horizon.

Prince Rupert Gas Transmission Project

The first of these three projects is the proposed 900km Prince Rupert Gas Transmission Project which would carry natural gas from northern B.C. to the proposed Pacific NorthWest LNG facility on Lelu Island. Here we have a government that is willing and ready to get gas moving, but major corporate partners such as Royal Dutch Shell PLC and Petronas have yet to build any of the infrastructure needed to justify the pipeline.

The second stalled project is the famed "pipeline to nowhere", a.k.a. the Keystone XL pipeline, which would bring 830,000 boe/day of oil sands crude to refineries in the Gulf of Mexico. This project has seen delay after delay in the American legislature, including another setback last week. If the current political climate in the U.S. persists, this project could remain on the shelf until 2017.

Energy East

Last but not least is the $12 billion Energy East project, which will carry 1.1 million barrels of crude from Alberta to Atlantic Canada. This would allow oil sands producers to sell to refineries in Quebec, which are currently dependent on supplies from overseas.

The issue drawing the ire of provincial governments and local gas distributors is that an existing natural gas pipeline in Ontario and Quebec would be retrofitted to alternate between natural gas and crude oil. The fear is that this natural gas pipeline is already barely keeping up with winter demand, and any interruption in supply would lead to gas shortages and surges in pricing.

On top of all of these proposed and delayed pipelines there is a renewed push from activist investors to break up the company. The loudest voice appears to be a U.S. hedge fund called Sandell Asset Management, which believes that the company would be worth $75 per share under its vision of the company.

Its proposed changes would be to separate TransCanada's pipeline and energy segments into separate entities and to speed up the rate that TransCanada is moving its U.S. assets into its master limited partnership TC PipeLines LP. The fear here is that these plans would make a quick buck for the hedge fund but severely cripple TransCanada's cash flow and capital project schedule. Another victim could be TransCanada's dividend, which has just been raised to $1.92 per year with a yield of 3.3%.

In all investors are left in a very murky situation because as even if two of these three major projects receive approval, any long-term gains could be negated by a successful activist investor intervention.

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	Active	Down	Total	% Active
Western Canada				
AB	317	247	564	56%
SK	80	68	148	54%
BC	49	17	66	74%
MB	14	12	26	54%
WC Total	460	344	804	57%
Eastern Canada				
QC	-	1	1	0%
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