

## Trans Mountain Pipeline Expansion Approved (Again): A Positive Development But Won't Stop Rail in Its Tracks

- Prime Minister Trudeau announced his Cabinet's much-anticipated approval of the Trans Mountain pipeline expansion today.
- This is good news for Canada's oil patch as it will alleviate chronic capacity constraints over the long run. However, reliance on oil-by-rail will persist as new capacity would hit markets by 2022 at the earliest.
- Meanwhile, expect continued opposition to make for a bumpy ride.

The Trans Mountain pipeline expansion (TMX) was given the go-ahead today by Prime Minister Trudeau's Cabinet. This is an important decision in what has been a long regulatory saga, but it is certainly not the end. The expansion has been approved by the National Energy Board twice already, most recently in February after 2016's decision was overturned by the Federal Court of Appeal for failing to sufficiently consult Indigenous peoples. In response to concerns, the federal government has pledged to use revenues from the pipeline for clean energy investments and to launch a new round of engagement with Indigenous groups on how to share benefits of the project, including potentially equity stake or revenue-sharing arrangements.

The approval comes as no surprise—the federal government owns the pipeline after all. It purchased the pipeline last summer for \$4.5 bn after U.S. Kinder Morgan backed away from the investment in light of costly regulatory uncertainty. The government has maintained it will bring the project to completion under a Crown corporation before looking to new investors to take over.

Today's decision is a positive development for Canada's western oil sector, but it will have little impact on short term production. The expansion will go a long way in alleviating chronic capacity challenges that have plagued the Canadian oil sector as it is expected to boost TMX's current capacity threefold to 890 kbpd. Construction is to begin this season, according to the government. However, with the earliest completion date only by 2022, Canadian crude will still rely on oil-by-rail to get its product to market in the meantime (chart 1).

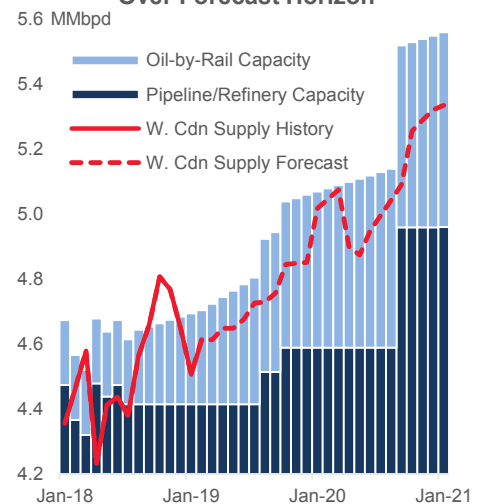
It will force a fast reset on pipeline politics as federal election season kicks off. With both leading parties throwing explicit support behind pipelines, mud-slinging will require far more precision as differentiation comes down to the details.

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Chart 1

### TMX Approval Won't Reduce Canadian Oil Patch's Reliance on Oil-by-Rail Over Forecast Horizon



Notes: Pipeline & OBR capacity are forecasts.  
Sources: Scotiabank Economics, Scotiabank GBM, CAPP, AER.

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