

# Here we are again: Canada needs more pipeline capacity

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## Highlights

Canadian oil production has not slowed down its growth. The consequence is that even more export pipeline capacity is needed to prevent a repeat of the wider price differentials and lower prices of the past. By all accounts, Canadian oil will find a home; it's a matter of price. However, Canada faces a choice in expanding export capacity. Should it further integrate its oil transportation system and access to world markets through the United States, or take on what will likely be a longer, more challenging, albeit strategic and more self-sufficient, path of expanding access to global markets wholly within Canada, likely off its west coast?

The question about how to ensure the adequacy of crude oil export capacity has been an ever-present issue for Western Canada. Opposition to pipeline projects in the past decade, particularly those related to the oil sands, managed to impede new greenfield pipeline projects to the point where private capital found the uncertainty too great to proceed.<sup>1</sup> Of the five major pipeline projects that were proposed at one point in time — Keystone XL, Northern Gateway, Line 3 Replacement, Energy East and Trans Mountain Expansion — only two were completed. The Trans Mountain Expansion, which began operations in mid-2024, has the potential to be the last major new oil pipeline ever built in Canada (albeit the expansion was the twinning of a largely existing pipeline right of way).<sup>2</sup>

However, the Government of Alberta does not view abandoning new pipeline projects as in the best interest of Canada, and it is seeking to grow incremental pipeline capacity. A pipeline to the West Coast is being proposed as a key part of reinvigorating investment in the Western Canadian upstream business. On Nov. 27, 2025, the governments of Alberta and Canada finalized a memorandum of understanding that included support for increasing pipeline export capacity to Canada's west coast.<sup>3</sup> With Alberta and Canada looking to advance a new pipeline, various perspectives and questions are being raised about the need, viability and feasibility of a new pipeline.

1. On April 8, 2018, Kinder Morgan Canada Ltd. suspended work on the Trans Mountain Expansion Project (TMEP), stating that given “the continued actions in opposition to the Project by the Province of British Columbia, it will not commit additional shareholder resources to the Project.” The Government of Canada purchased Trans Mountain Corp. in May 2018 as it was “the best opportunity to complete TMEP and thereby realize the great national economic benefits promised by that project.”

2. The other major pipeline completed was the Enbridge Line 3 Replacement project, which commenced full operations in 2021. This was also an expansion of an existing pipeline.

3. The Prime Minister of Canada “Canada-Alberta Memorandum of Understanding,” 27 November 2025, <https://www.pm.gc.ca/en/news/backgrounders/2025/11/27/canada-alberta-memorandum-understanding>.

# Does Western Canada need additional pipeline capacity?

Yes, it does. In 2025, S&P Global Energy estimated that Western Canadian crude supply for export averaged 4.6 million barrels/day. This volume of supply from Western Canada inclusive of imported diluent, less regional refinery demand, was roughly equivalent to that of Iraq — the 5th largest producer globally (Canada is the 4th largest producer globally).<sup>1</sup> S&P Global Energy also anticipates that this volume will continue to grow due to the expansion of liquids-rich unconventional activity, as well as the continued optimization of existing oil sands assets. By 2030, Western Canadian export supply could exceed 5.2 million b/d — 650,000 b/d more than today. Western Canadian supply is highly seasonal, with peak supply occurring in the winter and the trough of production in the spring, during the annual oil sands maintenance period. This swing can be dramatic. In 2025, the peak supply available for export exceeded 5.2 million b/d — 400,000 b/d higher than the annual average.

S&P Global Energy estimates that effective pipeline export capacity in 2025 averaged 4.9 million b/d.<sup>2</sup> Surplus capacity averaged just over 300,000 b/d for the year. However, in the winter when export supply could be 400,000 b/d greater than the annual average, pressure on the existing pipeline system will build. For winter 2025–26, we estimate there was sufficient capacity, but by as early as the winter of 2026–27, supply could more materially overtake export pipeline capacity if existing pipeline systems are not expanded. There is currently significant storage capacity in Western Canada, which producers can use to mute the impact on price differentials if pipeline space becomes insufficient. But the larger the oversupply, the more quickly storage will fill, and the more likely prices will be negatively impacted.

## Could future supply growth be met with enhancements to existing pipelines?

Across the major export pipeline companies — Enbridge Inc., South Bow Corp. and Trans Mountain Corp. — S&P Global Energy estimates that nearly 900,000 b/d of pipeline enhancements and optimization projects (both proposed and sanctioned) have been made public. If our base production outlook holds true, these pipeline capacity projects would be sufficient to accommodate Western Canada's export supply volumes. Timing of completion is, of course, a key factor.

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1. Western Canadian crude production was 5.1 million b/d in 2025, which does not account for diluent or any regional domestic consumption.

2. Effective pipeline capacity represents capacity available for use. Pipelines do not always run at design capacity and can face pressure restrictions or downstream issues that limit overall throughput.

Figure 1

### Pipeline enhancement and optimization announcements

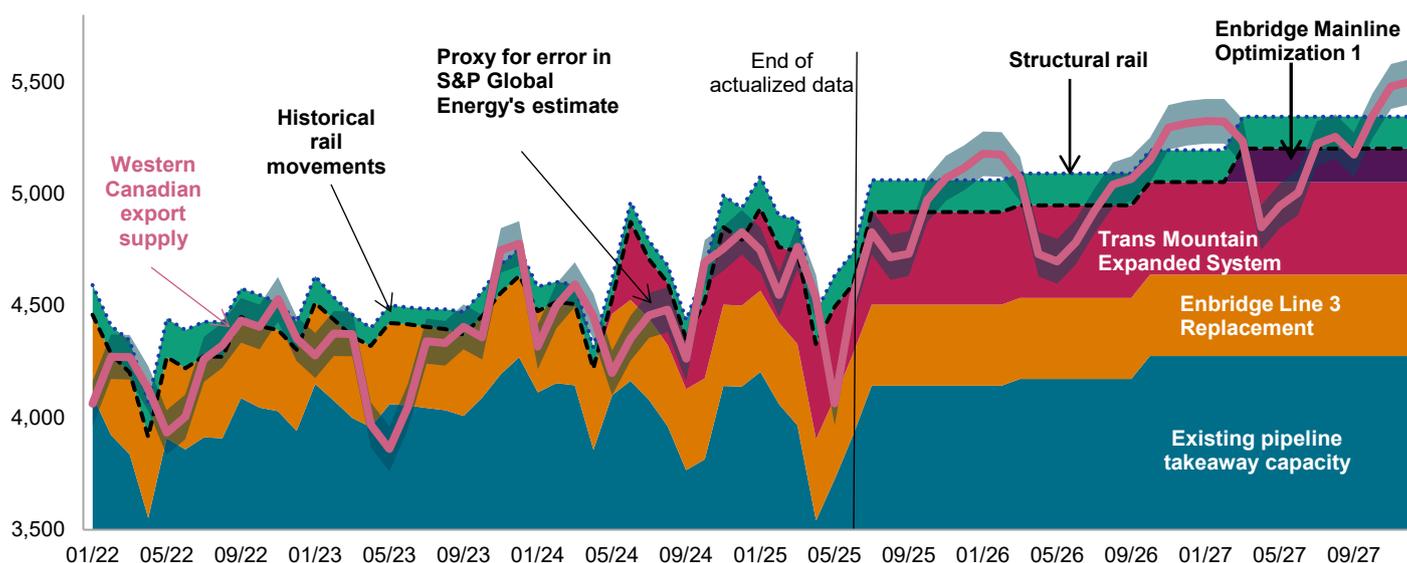
Company	Project	Volume b/d	Status
Enbridge	Mainline Optimization 1	150,000	Sanctioned
Enbridge	Express Expansion	30,000	Sanctioned
Trans Mountain	Drag-Reducing Agent	90,000	Sanctioned
Enbridge	Mainline Optimization 2	250,000	Proposed
Trans Mountain	Mainline Optimization	360,000	Proposed

Data compiled December 2025.

Source: Trans Mountain, <https://www.transmountain.com/optimization-projects>, Accessed Jan 29, 2026. Enbridge Mainline Optimization 1, <https://www.enbridge.com/media-center/news/details?id=123867>, Accessed Jan 29, 2026. Enbridge Mainline Optimization 2, <https://www.enbridge.com/stories/2025/november/southern-illinois-connector-mlo-430000-bpd-new-capacity-canadian-oil-production-growth>, Accessed Jan 29, 2026. Enbridge Express Optimization, <https://majorprojects.alberta.ca/details/Express-Platte-Pipeline-System-Expansion/11748>, Accessed Jan 29, 2026.

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### Western Canada crude oil takeaway capacity (thousand b/d)



Data compiled Dec. 4, 2025.

Source: S&P Global Energy.

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If production growth exceeds our expectations, then more pipeline capacity may be needed.<sup>3</sup> To be clear, the Government of Alberta’s objective is to accelerate production growth.

Having only sufficient pipeline capacity is not enough. Ideally, to ensure an unimpeded flow of oil to markets, pipeline systems need surplus capacity to allow supply to be rerouted should any system upsets occur, such as a major refinery or pipeline outage. When supply overtakes export capacity, the price of Western Canadian crude oil will discount, reducing Western Canadian producers’ and government revenue, such as royalties and corporate taxes.

3. See the latest oil sands production outlook, S&P Global Energy CERA “Oil sands optimization projects to increase production, even in lower price track of 2025,” 24 June 2025, <https://www.spglobal.com/energy/en/news-research/blog/crude-oil/062425-canadian-oil-sands-optimization-projects-to-increase-production-even-in-lower-price-track-of-2025>

# Is there global demand for more Canadian heavy oil?

Yes. The world consumes over 84 million b/d of crude oil and condensate. There has been considerable debate about viable markets and future demand for Canadian heavy crude oil. To date, most Canadian heavy sour exports have found a home in the US market, offsetting the declining output of similar-quality imported crude oil from Latin America.

After the US military intervention in Venezuela in early January 2026 and the US' subsequent discussions with crude oil producers, the potential for the revitalization of Venezuela's oil production has grown. S&P Global Energy believes a plausible scenario is that Venezuelan production could grow by 250,000 b/d by 2027, from the current level of about 750,000 b/d. However, more meaningful growth will require confidence in the stability of the subsequent political regime in Venezuela, coupled with legislative and capital reforms, and significant levels of investment, which may require a longer timeframe to achieve. Although there is room for more heavy oil consumption in the US markets, the existing routes are well-supplied by Canadian crude. Left to market forces, this situation is unlikely to be disrupted even with additional Venezuelan crude available to the US market.

As US markets are increasingly saturated with Canadian oil, exports of Canadian heavy sour crude to Asia have been growing — both via re-exports from the US Gulf Coast and, since 2024, from Canada's West Coast with the completion of the Trans Mountain Expansion. Prior to the startup of Trans Mountain Expansion, increasing volumes of Canadian heavy crude were being re-exported from the US Gulf Coast. Some of these re-exports were transferred to the Trans Mountain system once the expansion was completed, given Vancouver's proximity to Asia. If incremental pipeline capacity from Western Canada to the US is built, the increased flows would likely result in US Gulf Coast re-exports rising again. The key market for these re-exports would be Asia, principally China and India, which are increasingly well-equipped to process heavy sour crude oil.

When it comes to future markets for Canadian heavy crude, price matters. It is true that refineries generally need specialized equipment to process heavy oil. However, even if offshore exports of Canadian heavy oil doubled or tripled, some of this volume could also be blended with lighter crudes, allowing less complex refineries to augment their diet to meet specific refined product demand. If Canadian heavy sour crude were a poor match for the existing global refining kit, then it would come down to price. Canadian crude could always discount its price to incentivize a refinery to displace a competitive source, or, over a longer period, incentivize a refinery to invest in the necessary equipment to process a heavy sour barrel from Canada. In this way, Canadian barrels can also compete for market share beyond existing installed capacity to process heavy crude.

# What is the most economical way to expand pipeline export capacity?

An optimization or enhancement of an existing pipeline system is likely to be the lowest-cost option to boost Canada's export capacity. While this would be the most economic option from a pipeline operator's perspective, it may not be the most economic option for Canada. Long-term, it is in Canada's best interest to have the strongest possible price for its oil.

As greater volumes of heavy sour oil exports move south to the US Gulf, for re-export to offshore markets, the Western Canadian heavy oil differential should increase — reducing the value of heavy oil in Western Canada. The price of oil in Western Canada reflects the cost of transport to market and the quality difference to other crude grades in that market. As Canadian crude must travel further to reach demand centers, the price discount has widened — first as exports from Alberta filled US Midwest refineries, and then as incremental barrels sought markets on the US Gulf Coast. As Canadian heavy crude transits south to tidewater on the Gulf Coast, further discount is needed to incentivize that last barrel's loading onto a maritime vessel.

Moving west to Asia from Vancouver does not mean there will be a better price differential for Canadian heavy oil. For this to occur, the transport cost needs to be lower than the cost of transportation to the US Gulf Coast. According to S&P Global Energy estimates, the current upper range of the spot toll to the US Gulf Coast is \$12.50 b/d. A pipeline to the West (or North or East) Coast of Canada would need a toll less than this to be competitive with a southbound pipe.

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