Crash in oil prices could mean Canadian Pacific crude-by-rail traffic falls to zero

By Bill Stephens | April 21, 2020
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An empty Canadian Pacific oil train arrives at Bensenville Yard in suburban Chicago on March 8, 2020. CP could see crude by rail traffic drop to zero in light of the crash in oil prices.

TRAINS: David Lassen

CALGARY, Alberta — Canadian Pacific is bracing for the possibility that crude by rail volumes could drop to zero amid a crash in global oil prices.

CP hauled a record 36,000-plus carloads of crude in the first quarter, Chief Marketing Officer John Brooks said on the railway's earnings call on Tuesday afternoon.

But the economic slowdown related to the COVID-19 pandemic and the oil production dispute between Saudi Arabia and Russia have caused oil prices to plunge. Oil futures dropped below an unprecedented $0 a barrel on Monday and production has not fallen as quickly as demand, creating a lack of available storage space.

As a result, CP projects a steep decline in crude oil carloads. "It's not inconceivable, given the volatility we're seeing, that could move to zero," Brooks says.

“It’s hard to tell what that goes to,” Brooks says, noting that volumes have been falling rapidly in recent weeks and the railway is projecting at least a double-digit decline in crude loads in the second quarter.

If things don’t improve, CP’s total oil volume for the year might stand at just 40,000 to 50,000 carloads, Brooks says.

The oil crash also will affect demand for frac sand and put pressure on ethanol shipments, Brooks says.

While crude by rail shipments account for about 6% of CP’s revenue, the railway has long-term contracts with producers that include minimum volume commitments. And that means the penalty payments will cushion the blow of volume declines.

CP serves the Canadian oil patch in Alberta, as well as the Bakken formation in North Dakota, and interchanges unit trains with all five of the U.S. Class I railroads for shipment to U.S. refineries.