

Pipeline Politics: The Keystone Distraction



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The United States has experienced an energy revolution since the Keystone XL Pipeline was proposed seven years ago.

The decision by Senate and House Republicans to make approval of the Keystone XL Pipeline their first legislative priority has a decidedly retro feel. Much has changed since the Keystone project was first proposed in 2008. Most important is America's shale oil and gas boom, which has contributed to a sharp drop in global oil prices. With U.S. oil production in particular surging, why do Republicans persist in claiming that Keystone is a matter of such urgent national interest?

The answer clearly has more to do with politics than with the new realities of U.S. energy abundance. Republicans see Keystone as a classic wedge issue that splits two important Democratic constituencies, labor and environmentalists. So much for claims by Senate Majority Leader Mitch McConnell and others that the GOP will use its new Congressional majority to govern responsibly and put problem-solving over partisanship.

That's a shame, because the Keystone debate is a distraction from a bigger and more important issue: How to move America's shale windfall to market. A good portion of U.S. production is happening in places like North Dakota, which is far outside America's original "oil patch." When Keystone was first proposed, about 60% of domestic production came from Alaska, Texas, and the Gulf of Mexico, where significant oil and gas infrastructure is located. However, with production now occurring in shale developments like North Dakota, surpluses are developing at storage and transportation hubs making it difficult to get to market.

What's more, U.S. oil and gas exports to the rest of the world are constrained by obsolete laws spawned during the "energy crisis" of the 1970s. Intended to husband America's dwindling reserves of fossil fuels, such laws no longer make sense in this new era of shale energy abundance. Instead of engaging in another divisive and perhaps inconclusive fight over Keystone, lawmakers should be using their political capital to repeal those laws and allow U.S. producers to freely trade oil and gas on world markets, like any other commodity.

Yet Republicans seem more interested in importing Canada's heavy crude than in exporting America's "light and sweet" oil. Let the GOP obsess about moving Ca-

nadian tar sands oil to U.S. refineries and ports, most likely for shipment overseas. Progressives should focus on moving American energy to American markets. Building a new energy infrastructure here for these purposes will create a lot more jobs than Keystone. Some estimates forecast that close to 10% of the total U.S. construction workforce will be engaged in the oil and gas construction sector by 2017, about 500,000 jobs.¹

The United States has experienced an energy revolution since the Keystone XL Pipeline was proposed seven years ago. Then, crude oil prices frequently reached record highs in excess of \$140 per barrel, and U.S. crude oil production stood at five million barrels per day. Today, expanded domestic crude oil production, weakened global demand, and OPEC's unwillingness to curtail their production have created an oil glut resulting in crude oil being traded at almost a third of the 2008 price. While Americans are reaping the benefits of lower gasoline prices at home, these lower prices bring uncertainty for domestic crude oil producers and even threaten future production in the crude oil shale fields in the United States.

The energy sector has become an important driver of U.S. investment during our painfully slow economic recovery. Investment is projected to total \$890 billion over the next two decades. And all this investment is spawning good, middle-class jobs for Americans. For example, a freshly minted welder who receives a two-year degree in welding from technical college can command a salary of \$130,000 a year working for an oil company in Texas.

Unfortunately, inadequate infrastructure constrains our ability to take full advantage of such investment and job growth. Bottlenecks have led to price disparities in crude oil produced in the Midwest, which trades at a discount for lack of refinery access. And natural gas often trades at a premium in the Northeast and New England because of too little pipeline capacity to those markets.

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To be fair, some lawmakers recognize these bottlenecks and energy infrastructure constraints due to expanded domestic production and have sponsored legislation to alleviate the problem. But the GOP fixation with Keystone seems to suck all the air out of the room. Republicans routinely hype its supposed benefits—job creation, U.S. energy security and creating an alternative to expensive crude oil imports coming to Gulf State refineries. Yet, the flow of Canadian tar sands oil pales in comparison to U.S. production—now in excess of nine million barrels of crude oil per day. This has made the United States the world's leading producer and, potentially at least, a major exporter of crude oil.

The upper Midwest shale basins are pumping crude oil faster than it can be moved to refineries. North Dakota's production was almost 1.3 million barrels per day last November. Now Keystone proponents point out, correctly, that the Keystone XL Pipeline will not just bring tar sands oil from Alberta, it will also bring Bakken production from North Dakota to the Gulf States. But only in much smaller quantities, with 100,000 barrels per day the most common estimate.

Moreover, while the Canadian tar sands crude will be bought by American refineries and used in the United States as gasoline and diesel, a significant amount of the refined product will be shipped abroad for international markets—the same markets that are seeing some of the lowest prices in history.

Accurately estimating the number of jobs the Keystone project would create is difficult. History suggests we ought to treat the most glowing claims skeptically. When the Trans-Alaskan Pipeline was proposed in the early 1970s, for example, estimates for job creation were all over the place. Initial forecasts predicted 26,000 people would be employed in construction jobs. These numbers dropped to 18,000 in late 1973, and eventually 21,000 workers were used during peak construction. Similarly, job creation estimates for the Keystone XL Pipeline construction are all over the map. In 2010, Trans-Canada said 13,000 jobs would be created, and the number grew to 20,000 in 2011, only to be revised downward to 13,000 in 2013.² One university study has the job creation number as low as 2,500. The State Department's draft Supplementary Environmental Impact Assessment issued last February projects only 35 permanent jobs would be created by the project.

Nonetheless, Americans are hungry for more well-paying jobs and there is no doubt that the public supports Keystone for that reason. Last week's ruling by Nebraska Supreme Court ruling in favor of the pipeline has given the project fresh impetus. In truth, the partisan battle over Keystone has engendered exaggeration on both sides. Building the pipeline wouldn't be an environmental catastrophe, since the Canadians are going to develop their energy resources in any case. And as noted above, Keystone probably wouldn't yield the immense economic and geopolitical benefits Republicans claim.

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The fact remains, however, that the GOP Congressional majority is foregoing opportunities to pursue a bipartisan path toward a balanced national energy policy. There is broad support, for example, for easing export restrictions on U.S. oil and gas, as PPI has proposed. And the two parties should be able to find common ground on improving our energy infrastructure and promoting environmental best practices for shale oil and gas production.

House Republicans already have passed the Keystone bill. While some Senate Democrats support the bill, it seems unlikely proponents can muster the 67 votes necessary to overcome a promised presidential veto. So there's a good chance the GOP's Keystone gambit will waste time, squander good will, and set a stridently partisan tone for the new Congress. And lawmakers will miss the real opportunity: Moving American energy to consumers here at home and around the world.

Endnotes

¹ Wm. Chris Daum, Scott Duncan and Sabine Hoover, Overview of U.S. Oil and Gas Construction Boom, *Pipeline and Gas Journal*, February 2014, <http://www.pipelineandgasjournal.com/overview-us-oil-gas-construction-boom>.

² Ellen R. Wald, Pipe Dreams: How Many Jobs Will Be Created By Keystone XL?, *Forbes*, May 10, 2013, <http://www.forbes.com/sites/energysource/2013/05/10/pipe-dreams-how-many-jobs-will-be-created-by-keystone-xl/>.

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