The Oil Companies’ Self-Serving Fatalism on Petroleum Use

The American Petroleum Institute gave a pep talk to the Montana Chamber of Commerce last week, urging the State of Montana to fully commit to the oil and gas energy boom that is sweeping the country. The American Petroleum Institute’s chief economist asserted that the domestic oil and gas boom would foster an “American renaissance” of jobs and economic development that would produce thousands of jobs and millions of dollars in tax revenues.¹

He directly took on the opponents of the Keystone XL Pipeline that would move Alberta Tar Sands petroleum south across Montana and on to oil refineries on the Texas Gulf Coast. Such opposition was “just silly” he said because those tar sands were going to be developed no matter what. For that reason, whatever environmental damage might be associated with that tar sands development will take place whether or not the Keystone XL Pipeline is built.

That argument should sound familiar. It has been used to belittle opposition to expanded coal development in the Powder River Basin, expanded natural gas production anywhere, and the building of coal ports on the West Coast. Apparently pollution and greenhouse gas emissions will always be with us, no matter what our energy policy is. This fatalism, preached by energy companies, is useful to them but hardly true.

¹ Helena Independent Record, Mike Dennison, January 9, 2014.
Alberta and its tar sand developers want the Keystone XL Pipeline built through the U.S. to the Gulf Coast and its sister pipelines, the Northern Gateway Pipelines, across British Columbia to a new oil port on BC’s Pacific Coast, because they want to get paid the full world price for petroleum products rather than some lower domestic price tied to a regional oversupply. If the petroleum sludge from the tar sands can reach refineries on the coast or gain access to world refineries via gigantic ocean-going petroleum tankers, the tar sands developers will get a higher price for their product and earn higher profits.

Absent cheap access to those international markets, the lower profit margins will discourage Alberta tar sands development. The energy companies know that. That is why natural gas producers, for instance, are also pushing for the liquefaction of American natural gas and the building of ports for the export of that LNG.

Right now, from the natural gas producers’ point of view, there is a glut of natural gas in the United States that has driven the price of nature gas downward. Natural gas companies are cutting back on exploration and development and shutting in their more expensive natural gas wells because of the low prices. That plentiful natural gas supply is currently landlocked in North America. If the natural gas companies can arrange to export it, they can sell it at a much higher price overseas. Of course, then all Americans and American businesses would also have to pay the higher world price for what is now cheap natural gas. It is not clear how higher energy prices to all Americans and American industries would trigger an “American renaissance of jobs and economic development.”
This fatalistic refrain from energy developers is built around the proposition that the U.S. and the rest of the world are going to consume a certain amount of oil or natural gas or coal no matter what, because the national and world economies simply have to have that energy. That is a strange position for any business or organization representing businesses to take. Do they not believe in supply and demand or prices and costs? Most business people pursue the most profitable markets and seek to keep their costs low for a reason. To argue that price and cost do not matter in energy markets is ludicrous. Try telling that to the coal or nuclear or renewable energy industries as they have struggled to compete against low-priced natural gas. That change in relative fuel prices led to dramatic changes in how we generate electricity in the United States, a change with which coal companies are not particularly happy.

Because natural gas is less carbon intensive than coal, that fuel switching also was not carbon neutral. At least if natural gas developers can control the gas leakage from gas development and transportation, that change from burning coal to burning natural gas will significantly reduce carbon emissions.

If opposition to the Keystone XL pipeline is, as the American Petroleum Institute says, “silly,” there must be something in the water or air in the Pacific Northwest infecting us all. British Columbia and its First Nations are also not happy with the proposed Northern Gateway Pipelines that would carry tar sands products to a new export facility on the British Columbian Pacific coast. Like many people in the United States, British Columbians are not happy either with that scheme to help the tar sands sludge reach world markets and are strongly opposing that purely Canadian pipeline project. Apparently, British Columbia, despite its strong commitment to natural resource
development, has gotten infected with the same “silliness” disease as some Americans who oppose the Keystone XL pipeline.

Of course, it is also possible that the American Petroleum Institute is simply wrong, and there may be some reasonable limit to the costs that the rest of us should be willing to pay to boost oil company profits.