U.S. State Department Greenlight for the Keystone Pipeline?

The U.S. State Department, which has to approve pipelines crossing into the United States from other countries, recently released its updated study of the environmental impacts associated with the proposed Keystone XL pipeline. That pipeline would carry Alberta tar sands bitumen to oil refineries on the Gulf Coast. President Obama had previously indicated that he would approve the 1,700 mile pipeline if it would not “significantly exacerbate” greenhouse gas emissions.

The State Department’s updated environmental study runs to 11 volumes, but seems to tell the President that the building of the Keystone pipeline will have little or no impact on greenhouse gas emissions. That has cheered proponents of that pipeline and infuriated those worried about dumping another huge supply of carbon-intensive fossil fuels into the world market to be burned.

The State Department’s basic argument is that given the projected world demand for petroleum products and the relatively low cost of producing bitumen from the Alberta tar sands, that energy source is bound to reach international markets one way or the other. Even if it did not, other heavy crude oils from Latin America or other sources would be used in its stead and the greenhouse gas emissions would be more or less the same.

This is a familiar argument: The claim is that in a huge international energy market with many alternative sources of supply, the rising demand for that energy will
always be met from one source or another. Therefore it does not matter, really, which energy sources are developed or when. The outcome will always be the same.

This argument has been applied to coal, natural gas, and uranium, as well as petroleum resources. Energy consumption and greenhouse gas emissions are, apparently, tied to inevitable trajectories, rising at a rate beyond our control, determined by some external set of economic forces that dictate our energy and climate future.

This fatalistic view is a handy tool for energy producers because it allows them to argue that any public policy that seeks to limit the production of particularly dirty energy resources will be ineffective and, therefore, wasteful. If energy producers actually believed that, one would expect that they would not spend so much time fighting the regulation and use of such dirty fuels. They would just abandon the dirtier fuels and turn to make their money on the other energy sources that they say would inevitably take their place.

But energy producers know that markets, costs, and prices matter. One of the reasons for the push for the Keystone XL pipeline is that much of the Alberta tar sands energy potential is currently bottled up in Alberta and the market for those tar sands products is limited to those parts of the U.S. and Canada that are easily reached by existing pipeline and rail infrastructure. In addition, the rapid development of the Bakken shale oil deposits in North Dakota and Montana has also been building up excess supply because of the limited infrastructure to move that burgeoning crude oil supply to refineries outside of the region. The result has been that those oil producers are getting a significantly lower price for their production. The same thing has been going on with natural gas production in the U.S. and Canada. That natural gas cannot be exported
from North America except by liquefying it and loading it on tankers. It is currently
“stranded” in North America and despite cutbacks in production and drilling, natural gas
prices have remained quite low. One could say the same thing about Powder River
Basin coal. With American demand for coal being undermined by cheap natural gas,
coal producers have had to cut back their production, keeping mine mouth coal prices
for Powder River Basin coal quite low. It is not surprising to find Powder River Basin
coal producers hungrily looking at trying to arrange for west coast coal ports that would
allow what is now “stranded” coal to be exported to Asian markets at a much higher
price.

Similarly, natural gas producers want new LNG ports built so that they can get
higher prices selling that gas into foreign markets. Those pushing the Keystone XL
pipeline are similarly trying to move the tar sands bitumen and Bakken oil to markets
where that crude petroleum will be more valuable. If they cannot, their profits will be
lower and less of the tar sands will be developed.

The point is that the cost of access to markets matters to energy developers. As
natural gas prices tumbled because of increased production, natural gas producers
stopped producing from their more costly wells and dramatically reduced their drilling for
new gas supplies. Natural gas displaced coal in the generating of electricity and coal
producers cut back production and laid off some of their coal miners.

Energy producers look for the cheapest way to produce their energy and the
most valuable market into which they can sell that energy. Anything that increases the
cost of producing and marketing a particular part of the energy supply will discourage
production and use. Similarly anything that substantially increases the supply of a
particular form of energy will cause its price to fall making it more attractive to consumers, encouraging them to increase their consumption.

The amount of energy we use is not dictated just by our desire to stay warm in the winter and cool in the summer or just by our desire to energize the useful and attractive appliances we own. Cost matters, and we and appliance manufacturers adapt to those costs.

This is not to say that it is easy to figure out how energy markets will evolve in the future. Technological change will constantly be disrupting the production and consumption of energy. But we do know that higher costs discourage the development and use of energy relative to what that energy use otherwise would have been. Our energy future is not stuck on some autonomous accelerating trajectory over which we have no control.

If we destabilize our climate and fry the planet, it will be because we declined to make difficult choices, not because there were no better choices we could have made.