

1-18-12

API Response to NRDC/Oil Change International January 18th Report on “Keystone XL Pipeline: Undermining U.S. Energy Security and Sending Tar Sands Overseas”

Myth: “oil from the pipeline will be in addition to, not instead of, imports from elsewhere...”

Fact: According to EIA, crude from the KXL pipeline would replace declining supplies from Mexico and Venezuela.

Taken together, U.S. imports of crude oil from Mexico and Venezuela are about 1 million barrels/day lower than their previous peak levels. With an expected decline of Mexican crude production of 500 thousand barrels per day and the likelihood of increased exports of Venezuelan crude to Asia, current heavy oil imports to PADD III are likely to decrease by a significant amount within the next five years.¹

Myth: “many of the refineries on the Gulf Coast happen to be located in Foreign Trade Zones – or tax-free zones – where they can export refined products without paying U.S. duty taxes.”

Fact: With respect to U.S. taxes, the fact that Port Arthur is an FTZ has **no** bearing on U.S. revenue from Canadian oil sands imports and/or exports. Canadian oil sands crude imports, like Mexican crude imports, are not subject to duties under NAFTA. This designation applies regardless of whether the crude is imported into an FTZ or not. Petroleum products are traded globally, and the U.S. has a long history of exporting certain petroleum products and importing others to balance domestic supply and demand. Ultimately, if any petroleum products are exported, from an FTZ or not, they are still refined in U.S. refineries by U.S. workers and the U.S. economy benefits from an improved balance of trade from all exports.

Myth: “Canada isn’t even producing enough oil to fill its existing pipelines, which are running half-empty”

Fact: The oil sands are a massive resource. Depending on how fast production increases, pipeline capacity will be insufficient rapidly. Forecasts by CERI² show production exceeding existing capacity as soon as 2013. CERA states that by 2015 “oil sands exports will likely exceed refining capacity in the U.S. Midwest – currently the main market for oil sands output. Keystone XL will increase supply to the broader U.S. market – namely the U.S. Gulf Coast.”

Pipeline infrastructure must be planned for and construction started now to meet future demand for pipeline transportation. As has already been seen, approvals can take as much as three years and construction of KXL is projected to span two full construction seasons. If we do not start now, sufficient capacity will not exist in the future when needed.

¹ Final EIS, Volume 8, Appendix V <http://www.keystonepipeline-xl.state.gov/clientsite/keystonexl.nsf?Open>

² CERI, Economic Impacts of Staged Development of Oil Sands Products in Alberta (2010-2035), Study no. 125.

1-18-12

It is also an issue of where the pipelines are delivering their oil. There might be in aggregate enough capacity in the near-term, but the pipeline infrastructure might not be configured for today's refining and production realities. A perfect example is the storage hub at Cushing, OK where Canadian crude and domestic crude from the Williston Basin/Bakken is bottlenecked. XL would help relieve the bottleneck at Cushing.

According to CERA:

- US pipeline infrastructure needs to catch up with changing supply trends and expanding supply—namely, rising output from Canada, as well as the rapidly growing output from the Bakken Formation in North Dakota and Montana.
- Expanding pipeline capacity from Canada to the US Gulf Coast via the proposed Keystone XL project would provide more flexibility to the US supply system, allow infrastructure to begin to catch up with oil supply trends (namely the growing flow of Canadian oil), and enable increased US domestic production in the upper Midwest.
- A larger, more dynamic pipeline system benefits consumers, compared with a more constricted system that is less able to handle shifts in demand and supply.

Myth: “Keystone XL will increase U.S. Midwestern Oil Prices”

Fact: The EIA has concluded that the KXL pipeline “would not adversely affect Midwest gasoline consumers”³. Additionally, according to CERA, “Economic logic dictates that more supply lowers prices for a given level of demand.”

Myth: “Canadian oil: No cure for price spikes, oil shortages, or OPEC power”

Fact: Increased supply on the world market would address all three issues raised by NRDC. Construction of KXL would enable oil sands operators to increase production, thereby increasing supply on the world market.

Myth: “Clean Energy Creates More Jobs than Keystone XL”

Fact: The Keystone XL is a significant job creator. First are the thousands of jobs that would be created immediately in the construction of the pipeline. Second are the thousands of U.S. jobs that would be created by the development of new oil sands projects. (The existing pipelines to export oil from Canada to the U.S. are almost at capacity. New production in Canada cannot occur until new pipeline capacity is built. When KXL is built, it will allow for investment in new oil sands projects. These investments will result in new jobs in the U.S.) CERI data shows that the U.S. could create 10,000 new U.S. jobs next year if KXL was built due to development of new oil sands projects. That number jumps to 45,000 in 2015 and close to 85,000 jobs in 2020.

³ Final EIS, Volume 8, Appendix V <http://www.keystonepipeline-xl.state.gov/clientsite/keystonexl.nsf?Open>

1-18-12

If there was unlimited pipeline capacity (i.e. all proposed pipelines get built along with some additional capacity), all oil sands projects that are 1) operating, 2) under construction, 3) approved; 4) awaiting approval; and 5) announced could continue to move forward. Investments in all of these projects would create over 500,000 jobs in the U.S. by 2035.

Additionally, Obama's Jobs commission concluded that an All-In Energy plan is the best way to proceed. The report from the commission specifically said the following (emphasis added), "Continuing to deliver inexpensive and reliable energy is going to require the United States to optimize all of its natural resources and construct pathways (*pipelines*, transmission and distribution) to deliver electricity and fuel." (p29) "Additionally, policies that facilitate the safe, thoughtful and timely development of *pipeline*, transmission and distribution projects are necessary to facilitate the delivery of America's fuel and electricity and maintain the reliability of our nation's energy system." (p30)

Lastly, the green job studies relied on by NRDC don't include job losses from increased energy costs brought on by the forced adoption of alternative energy.

Myth: "Keystone XL's backers want to re-direct tar sands oil from the American Midwest to reach the international market where tar sands oil would fetch a higher price."

Fact: This statement seems to imply the U.S. would export oil sands crude without refining it. The US exported just 15.2 million barrels of crude oil in 2010. 100% of this oil was exported to Canada, even exports from the Gulf Coast of Crude Oil were sent to Canada. In fact, 99.5% of crude oil exported from the US since 2007 has been destined for Canada. There is no historic evidence to support any interest in exporting significant quantities of crude oil to any trading partner of the US except Canada.

Myth: "Keystone XL would divert large volumes of Canadian oil currently going to the Midwest to the Gulf Coast, where it will be refined and sold on the world market."

Fact: First, additional crude from Canada is needed to offset declining supplies from Mexico and Venezuela. Second, the U.S. does export a small (less than 10%) amount of refined on-road transportation fuel (gasoline and diesel), mainly to Mexico, Canada, and Brazil. These are all countries that we import crude from. U.S. companies are taking the oil supplied by these countries, refining it, and selling it back to them – supporting refining jobs in the process. Third, this is done mainly to balance refinery output (a refinery produces a relatively fixed ratio of gasoline and diesel) with domestic demand.