

Politics

# Keystone Is 'Kind of Old News' for Oil Industry



Sens. Mary Landrieu, D-La., talks with reporters after a news conference on the Keystone XL pipeline in the basement of the Capitol, November 12, 2014. *Photo By Tom Williams/CQ Roll Call*

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As the Keystone XL pipeline from Canada races toward a showdown in the U.S. Congress, many in the oil industry say it's already been bypassed by history.

Six years after the project was proposed, nearly every aspect of the debate has changed. The economy's on the mend, the price of crude oil has tumbled and the U.S. goal of achieving energy independence has never been closer, spurred by the success of fracking and a rising volume of Canadian crude entering the country in other ways.

While Keystone's status as a powerful political symbol remains as strong as ever in the halls of Congress, where the project may get a green light in a second vote this week, the pipeline's become "kind of old news" within the industry, said Sandy Fielden, director of energy analytics at RBN Energy in Austin. "Producers have moved on."

The 830,000 barrels per day Keystone would carry have found other paths to the U.S. Cross-border pipelines such as Enbridge Inc.'s Alberta Clipper are considering expansion. By next year, Alberta, home to the Canadian oil sands, will have built about 700,000 barrels a day of rail capacity from almost nothing a few years ago, said Patrick Kenny, an analyst at National Bank Financial in Calgary.

"A lot of work has been done to backfill the capacity that Keystone XL was supposed to represent," Kenny said. "Keystone would have been a 'must-have' without all the crude-by-rail that has come on in the last couple of years."

### **Rising Production**

U.S. production, meanwhile, is booming. In 2008, wells were pumping out around 5 million barrels a day. By August, that had risen to more than 8.6 million barrels, more than a 70 percent jump, according to the U.S. Energy Information Administration.

The added supply has helped push prices lower, with oil falling to about \$75 a barrel last week. When TransCanada Corp. first applied to build the project in 2008, oil was selling for more than \$100 a barrel. Now, energy companies have even begun lobbying to lift our-decade-old U.S. restrictions on exports.

Another selling point -- jobs the pipeline would provide -- may also be fading as an issue. While a few thousand would be employed during a two-year construction phase, just 50 permanent positions would remain afterward, according to a State Department analysis.

And the states where the pipeline would travel -- Montana, South Dakota and Nebraska -- already have an unemployment rate well below the 5.9 percent national average.

“The energy security argument has been gutted. The economic argument has been gutted,” said Michael Webber, deputy director of the Energy Institute at the University of Texas in Austin. “A lot of the arguments have changed.”

Still, there is one thing that hasn't changed: the politics behind the pipeline.

### **Shifting Argument**

“Whether it's needed or not needed, that's not going to stop people from handling this as a political issue,” said Amy Myers Jaffe, executive director of energy and sustainability at the University of California at Davis. “At this point in time, we have left the subject of the commercial value of the Keystone pipeline. That is no longer what is at stake.”

The Republican-led U.S. House, thumbing its nose at President Barack Obama's concerns over the project, approved it in a vote last week. This week, the

Democratic-led Senate is set to vote on Keystone, and Republicans say they have enough Democratic votes to pass the legislation. The reason: A yes vote stands as support for the bill's sponsor -- Louisiana Senator Mary Landrieu -- who is behind in the polls in a run-off election to keep her seat.

## **Veto Awaits**

If the bill passes, it faces an almost certain presidential veto. If it doesn't advance, Republicans including Mitch McConnell, the presumptive majority leader, promise to push it through next year.

“We will spend an enormous amount of time and energy debating Keystone,” Mike McKenna, A Republican energy lobbyist, said earlier this month. It's become “a religious item.”

Before the House vote, Obama offered his most pointed comments yet on the pipeline, challenging Republican claims that the project would create a significant number of jobs and would lower gasoline prices.

“Understand what this project is: It is providing the ability of Canada to pump their oil, send it through our land down to the Gulf where it will be sold everywhere else,” the president said last week during a visit to Yangon, Myanmar. “It doesn't have an impact on U.S. gas prices.”

Obama emphasized in remarks yesterday that the pipeline's impact on climate change will be a “major determinant of whether we should approve a pipeline shipping Canadian oil to world markets, not the United States.”

## **Environmental Question**

“We’re going to let the process play itself out,” Obama said.

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The process of producing and refining the heavy, tar-like substance known as bitumen from the oil sands releases more carbon dioxide than cleaner grades of oil. But the State Department concluded in a highly anticipated environmental analysis released in January that the pipeline’s contribution to greenhouse gases would be minimal, since the oil would find a way to market with or without the project.

Other forces are also at work. The Nebraska Supreme Court is considering legal issues related to the project that could keep it from traveling through that state or bring further delays. That case has prompted the U.S. State Department, which has jurisdiction because Keystone crosses the border from Canada, to suspend its review of the issue pending the outcome.

### **Industry Needs**

Meanwhile, even though the U.S. need for the project may be questionable, it remains important to Canada’s government and oil producers including Cenovus Energy Inc. and Suncor Energy Inc. that need it to transport the growing volumes of crude being produced in the country.

“We remain supportive of all projects that would open up access to new markets for our oil,” said Cenovus spokesman Reg Curren. The company has committed to ship 75,000 barrels a day on Keystone XL, he said.

As the most direct route to the largest market for the oil, Keystone XL “is still part of that short and longer picture,” Greg Stringham, vice president of oil sands and markets at the Canadian Association of Petroleum Producers, said in an e-mailed statement.

TransCanada spokesman Shawn Howard said the pipeline was an “important piece of energy infrastructure” that would help American workers. CEO Russ Girling told ABC News yesterday he still expects the pipeline to get built.

“The demand for it has just continued to increase,” he said in an interview, noting that oil from future growth in production will need a way to get to market. “Shippers have not wavered one bit over the last six years, they still want this to happen,” Girling said.

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