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Secrets of the Keystone XL Pipeline

The protesters outside the White House have furled their banners and headed home. Now the Obama administration will decide whether to issue a presidential permit for the 1,700-mile Keystone XL pipeline extension—a $7 billion project to bring heavy, "sour" crude oil extracted from tar sands in Alberta, Canada, down through Montana and the Plains states to refineries on the Gulf Coast, notably in Port Arthur, Texas.

Even as the protesters savaged the scheme as a fearsome environmental disaster, the State Department issued its final environmental impact statement on August 26. Not surprisingly, it was favorable to the project, furnishing such nuggets of encouragement as "analysis of previous large pipeline oil spills suggests that the depth and distance that the oil would migrate would likely be limited unless it reaches an active river, stream, a steeply sloped area, or another migration pathway such as a drainage ditch."

There will now be a ninety-day review period. If federal agencies aren't unanimous, then the final say-so is up to Obama. It's a sound bet that Obama will issue approval. Would the ductile president risk a thrashing from Republicans for putting birds ahead of jobs? Right before Labor Day he gave the business lobby what it sought on postponement of new air quality standards.

But undoubtedly the prime rationale put forward by the president will be security of supply and energy "independence," meaning supply from the fine, upstanding Calgary-based TransCanada Corporation, as opposed to "not secure and reliable sources of crude oil, including the Middle East, Africa, Mexico, and South America."

We saw this bait-and-switch game a generation ago amid the battles over oil in Alaska, where the North Slope drilling and pipeline were approved by Congress only because the oil was intended to buttress America's energy independence. Congress required the oil companies operating on the North Slope to refine the crude in the United States, with no exports permitted.

In fact, the companies had a long-term strategy to export Alaska's crude to Asia. In 1996 President Bill Clinton, extending Lincoln Bedroom sleeping privileges and a Rose Garden birthday party to Arco's former CEO Lodwrick Cook in exchange for campaign cash, signed an executive order OK'ing foreign sales of Alaskan crude.

This time there will be no twenty-five-year pause. From day one of the Keystone XL scheme the oil companies' plan has been to take the heavy crude from Alberta, refine it in Texas and then ship it out in the form of middle distillates—diesel, jet fuel, heating oil—primarily to Europe and Latin America.

Contrary to the lurid predictions of declining US oil production, disastrous dependence on foreign oil and the need for new offshore drilling, not to mention the gloom-sodden predictions of the "peak oil" crowd, the big crisis for the US oil companies can be summed up in a single word: glut.

Here let me wheel on a very useful report, "Exporting Energy Security: Keystone XL Exposed," just issued by Oil Change International (OCI), a "clean energy" advocate. The explosive sentences (buttressed by figures from the government's Energy Information Administration) come on pages 3 and 4: "For the last two years, and for the foreseeable future…demand [for oil in the United States] is in decline, while domestic supply is rising…. Gasoline demand is declining due to increasing vehicle efficiency and slow economic growth"; meanwhile, "as a result of stagnant demand and the rise in both domestic [notably North Dakota] and Canadian oil production, there is a glut of oil in the US market. Refiners have therefore identified the export market as their primary hope for growth and maximum profits."

Enter San Antonio–based Valero Energy, the largest exporter of refined oil products in the United States and a big-time retailer of gasoline in this country through its Valero, Diamond Shamrock and Beacon stations. As OCI's report emphasizes, the Keystone XL pipeline would "probably not have gotten off the drawing board" if it hadn't been for Valero. The company has the biggest commitment to the pipeline, guaranteeing a TransCanada purchase of at least 100,000 barrels a day, 20 percent of Keystone XL's capacity, until 2030.

Valero's CEO and chairman, Bill Klesse, doesn't keep his firm's business plan a secret. The big overseas market is diesel because Europeans, Latin Americans and others like the more fuel-efficient diesel engine. Valero's Port Arthur refinery can process cheap heavy crude from Canadian tar sands into high-value, ultra-low-sulfur diesel. Better still, since the refinery operates as a "foreign trade zone," it won't pay tax and custom duties on exports or on any gasoline imports from its Welsh refinery.

There's no national need for the Keystone XL extension. It spares TransCanada the task of trying to send the tar sands oil to Canadian terminals through fractious First Nations north of the border. It feeds Big Oil's bottom line. It's an environmental nightmare—mainly because of the certainty of corporate penny-pinching in maintenance and the equally appalling (and deliberate) lack of government safety enforcement.

Money talks, of course. Obama received $884,000 from the oil and gas industry during the 2008 campaign, more than any other lawmaker except John McCain. Valero throws the money around. Across 2008, 2010 and thus far in the 2012 campaign, it ranks in the top six contributors from the oil and gas industry—favoring Republicans by 80 percent or more. Between 1998 and 2010 Valero gave $147,895 to Rick Perry, outstripped only by Exxon. Surely, one way or the other, Bill Klesse can hope for a night in the Lincoln Bedroom. ■