Keystone Debate is Heating Up

March 26, 2013

On February 17, some 35,000 opponents of the Keystone XL tar sands pipeline rallied in Washington D.C. Meanwhile, three Canadian cabinet ministers, two provincial premiers and several oil industry executives traversed the U.S. giving speeches in defence of the pipeline. Clearly the debate on the merits of tar sands pipelines, first described in our September 2011 bulletin *Fate of Tar Sands Pipelines Crucial for Climate Justice*, is heating up.

In that bulletin, KAIROS outlined the reasons for its opposition to the Keystone XL pipeline and described acts of non-violent civil disobedience that took place in front of the White House in August and September 2011. In a similar fashion, several peaceful protestors opposing the pipeline were arrested at the White House during the week prior to the February 17 rally.

Chief Jacqueline Thomas of the Saik'uz First Nation in British Columbia addresses a rally of 35,000 opponents to tar sands pipelines. Washington, DC, February 17, 2013. (Photo 350.org)

President Obama faces conflicting pressures as he prepares to make a decision on granting a license for the Keystone XL, designed to carry 850,000 barrels a day of tar sands crude to the Texas Gulf Coast. Thousands of people in the climate justice movement, bolstered by a letter from 18 leading U.S. climate scientists, are imploring the president to deny TransCanada Corporation the necessary permit for the pipeline to proceed. Organizers of the White House protests have called the Keystone XL "a fifteen hundred mile fuse to the biggest carbon bomb on the continent."[1] The *New York Times* has urged the president to say "no" to the pipeline in keeping with his pledge in the State of the Union address to act to protect future generations against climate change.[2]

On the other hand, a draft Supplemental Environmental Impact Statement (SEIS), released by the U.S. State Department on March 1, declared that construction of the Keystone XL is "unlikely to have a significant impact on the rate of development" of the tar sands. An exposé published in the *Huffington Post* presents evidence that the SEIS was not actually written by government officials. Instead it was composed by a private firm called Environment Resources Management and paid for by TransCanada Corporation – the owner of the pipeline.[3]

Keystone 'Vital' for Oil Industry; 'No Room to Compromise'

The benign interpretation by SEIS of the significance of the Keystone project for the future of the tar sands is contradicted by messages from Canadian government and oil industry spokespersons. Canadian oil executives maintain that the Keystone project is a necessity for further expansion of the tar sands, along with other projects to ship tar sands crude to the Pacific and Atlantic coasts. For example, Bruce March, Chief Executive Officer at Imperial Oil, told a Houston conference of industry executives that the Keystone XL project is, "vital to the continued development of the North American energy market."[4]

The industry view is reflected in an editorial in its trade publication, the *Oil and Gas Journal*: "Controversy over the Keystone XL project leaves no room for compromise. Fundamental views about the future of energy are in conflict. Approval of the project would acknowledge the rich potential of the next generation of fossil energy and encourage its development. Rejection would foreclose much of that potential."[5]

Canada's Natural Resources Minister Joe Oliver maintains that tar sands crude exported through the pipeline "will bring significant national security benefits" to the United States.[6] But will it be needed to ensure U.S. oil supplies? With the boom in oil extracted through hydraulic fracturing from the Bakken field in North Dakota and the Eagle Ford field in Texas, the U.S. market for tar sands crude is diminishing rapidly. The International Energy Agency has predicted that the United States will become the world's largest oil producer by 2020 and that North America will become a net oil exporter by 2030.[7] Oil Change International reports that Texas Gulf Coast refineries exported 60% of the gasoline, 42% of the diesel and 95% of the petroleum coke they produced in 2012. Much of the tar sands crude sent to Gulf Coast refineries will not be consumed in the U.S., but will be turned into gasoline and other products destined for markets in Latin America, Europe or Asia.

Price, Not Pipeline Capacity, the Industry's Immediate Concern

Listening to oil industry calls for approval of new export pipelines, one gets the impression that a lack of pipeline capacity from Alberta is an imminent constraint. But with current tar sands production of 1.8 million barrels a day (mb/d), the existing 3.8 mb/d of pipeline capacity is more than adequate.[8] Even if tar sands production were to reach 3.2 mb/d by 2020, as forecast by the Canadian Association of Petroleum Producers, there still would be adequate capacity to take the oil to existing markets. The problem for the industry is the low price that tar sands oil is receiving in those U.S. markets that now have access to oil from fields in North Dakota and Texas.

From March 2012 through to February 2013 heavier tar sands crude sold at prices from US$25 to US$42 per barrel below those for lighter West Texas Intermediate oil, the North American benchmark crude.[9] Although the price differential has since narrowed these deep discounts threaten the viability of new tar sands projects, not to mention the profitability of current production. Some producers "reduced production schedules and 2013 capital budgets to remain profitable in this environment."[10]

The industry's search for access to Pacific, Atlantic or Gulf of Mexico ports is largely a question of seeking access to markets that currently pay around US$34 per barrel more than the effective price for various kinds of Canadian crude.[11] Finance Minister Jim Flaherty's 2013 budget notes that if Canadian crude oil could reach the Gulf Coast where it would compete directly with sea-borne crude, Canadian crude would be worth approximately $8 billion more each year.[12]

This price differential lies behind the decision by some firms to ship tar sands oil by rail. For example, Southern Pacific Resource Corp. is paying $31 per barrel to send tar sands crude by rail to a terminal in Mississippi when it would cost only about $8 per barrel if a pipeline were available. But the deal still makes sense for Southern Pacific because early this year it got around $110 per barrel of heavy oil delivered to U.S. Gulf Coast refineries, well above the price for tar sands oil sold to other U.S. refiners.[13]

Indigenous Peoples Reiterate Opposition to Tar Sands Pipelines

In our Ethical Reflections on the Northern Gateway Pipeline, KAIROS expresses solidarity with Indigenous peoples who are resisting tar sands export pipeline projects that violate their rights to free, prior and informed consent before any project can proceed across their lands or waters. The renewed debate concerning the Keystone XL has prompted Indigenous leaders from Canada to reiterate their opposition.

Commenting on the SEIS report, Chief Allan Adam of the Athabasca Chipewyan First Nation, whose people live downstream from the tar sands extraction sites, stated: *"I must stress my extreme disappointment with this report. The fact that the Keystone XL pipeline is deemed as non-consequential simply paves the way for its approval and is directly connected to the unabated expansion of tar sands in my peoples' traditional lands. ... Expansion of the tar sands means a death sentence for our way for life, destruction of eco-systems vital to the continuation of our inherent treaty rights and massive contributions to catastrophic global climate change, a fate we all share."*

At the February 17 rally in Washington, Chief Jacqueline Thomas, immediate past Chief of the Saik'uz First Nation in British Columbia and co-founder Yinka Dene Alliance, declared: *"The Yinka Dene Alliance of British Columbia is seeing the harm from climate change to our peoples and our waters. We see the threat of taking tar sands out of the Earth and bringing it through our territories and over our rivers. The harm being done to people in the tar sands region can no longer be Canada's dirty secret*."[14]

'A greener alternative'

One of the most extraordinary statements made in defence of Keystone XL occurred when Natural Resources Minister Joe Oliver told reporters in Chicago that, "the oil sands are a greener alternative than some other sources from around the world."[15] In fact, greenhouse gas emissions from tar sands production and upgrading are 3.2 to 4.5 times more carbon intensive than emissions from conventional oil production in North America.[16] By reporting emissions on a well-to-wheels basis, i.e., after the refining of upgraded oil and its final combustion in a vehicle, the SEIS claims that tar sands oil produces only 5% to 19% more greenhouse gas (GHG) emissions than other types of oil. Other studies have estimated the full life cycle emissions from tar sands oil at as much as 37% more than other types of crude burned in the U.S.[17]

Perhaps Minister Oliver's claim that the tar sands are a greener alternative is based on progress that has been made in emission reductions per barrel of oil extracted. Indeed, the emission intensity of tar sands production did decline by 29% per barrel between 1990 and 2009. However, emission intensity in the tar sands rose by 2% between 2009 and 2010.[18] Moreover, the increased volume of production has resulted in an increase in total emissions.

A new study, *Petroleum Coke: the coal hiding in the Tar Sands*, from Oil Change International has revealed another hitherto little known reason why the tar sands pose such a danger to the climate. When tar sands crude is refined, it leaves behind a by-product called petroleum coke, or petcoke. The Oil Change International study explains: "Petcoke is like coal, but dirtier. Petcoke looks and acts like coal, but it has even higher carbon emissions than already carbon-intensive coal. On a per-unit of energy basis petcoke emits 5% to 10% more carbon dioxide than coal."[19] Since emissions from petcoke burned as a substitute for coal are seldom included in estimates of tar sands emissions, the ultimate climate impact of using fuels from the tar sands in usually underestimated.

NAFTA Looms as Obstacle to Keystone Rejection

KAIROS' paper, *Fate of Tar Sands Pipelines Crucial for Climate Justice*, describes how the approval of Keystone XL could have the effect of increasing the quantity of oil that Canada is obligated to make available to the United States under the terms of the North American Free Trade Agreement, even if its export causes shortages in Canada. Now another danger looms. President Obama's decision may be influenced by the possibility of a suit against the United States under NAFTA's investor-state mechanism. TransCanada could deem a denial of a permit to be a violation of its rights under NAFTA and sue for compensation. TransCanada has already spent $1.8 billion on engineering, equipment and pipe for the Keystone XL.

As Ralph Nader writes, "[The] 'sleeper' argument on Obama's desk is that TransCanada, having already invested big money in the U.S., can invoke Chapter 11 of the NAFTA trade agreement

and sue the U.S. government for big damages if its permit is denied. Incredible as it may seem, the notorious Chapter 11 has been used by numerous companies to seek billions of dollars in damages from governmental official decisions in either Mexico, the U.S. or Canada. Companies have succeeded in obtaining settlements totalling hundreds of millions of dollars, paid for by the taxpayers, of course."[20]

Time Running Out to Prevent Disastrous Climate Change

When President Obama gets around to making his decision on Keystone XL, he will have before him a final report from the U.S. State Department signed by his new Secretary of State, John Kerry, who has spoken about "the need to safeguard for coming generations, a world that is not ravaged by rising seas, deadly superstorms, devastating droughts and other destructive forces created by a changing climate."[21]

Climate justice advocates in the United States are planning to increase the pressure on President Obama. As of mid-March, 52,000 people have signed *The Keystone XL Pledge of Resistance* to either engage in acts of dignified, peaceful civil disobedience in opposition to the Keystone pipeline, or to support others who will do so, in Washington or in their local communities.

NASA climatologist James Hansen warns that fully exploiting the tar sands would lead to such disastrous climate change that it would be Game Over for the Climate. Hansen's analysis deals not just with the direct effect of burning oil from the tar sands but also on the feedback effect resulting from the release of carbon from frozen permafrost and methane hydrate crystals in the Arctic. In KAIROS' most recent Briefing Paper, *Time to Refocus Our Approach to Climate Change*, we include the most up-to-date information on the unprecedented melting of Arctic and Antarctic ice and its consequences.

This Briefing Paper, based on a more detailed KAIROS research paper, recounts how time is running out if we are to have any hope of keeping the rise in global temperatures below two degrees Celsius and avoiding catastrophic climate change. We make the case that we cannot wait until governments engaged in UN climate negotiations come up with a plan in 2015 that would not take effect until 2020. Instead we focus on what must be done now within Canada to curb GHG emissions. We cite calculations by Bill McKibben, a founder of 350.org and a key organizer of the Washington protests. McKibben reports that to have an 80% chance of keeping the rise in global temperatures below 2^{0}C, the world can only release 565 gigatons (Gt) of CO_2 by 2050.[22]

What McKibben's analysis means for us in Canada is that we cannot go on expanding production from the tar sands. If we were to limit extraction to the 170 billion barrels of tar sands crude that are deemed recoverable given current technology and prices, their combustion would release 81.4 Gt of CO_2, equivalent to 14.4% of world's allowable total. If all the oil in place in the tar sands were burned, their CO_2 emissions would eventually amount to 881 Gt, far in excess of allowable emissions.[23]

Meaningful action must include stopping the fastest growing source of GHG emissions within Canada by ending approvals for new tar sands projects and export pipelines such as the Keystone XL.

[1] Cited in Andrea Germanos. *Climate Scientists to Obama: Reject the Keystone XL Pipeline*. January 15, 2013. At http://rabble.ca/news/2013/01/climate-scientists-obama-reject-keystone-xl-pipeline.

[2] Editorial "When to Say No." *New York Times*. March 11, 2013. At http://www.nytimes.com/2013/03/11/opinion/when-to-say-no-to-the-keystone-xl.html?ref=todayspaper&_r=1&

[3] Brad Johnson. "'State Department' Keystone XL Report Actually Written by TransCanada Contractor." *Huffington Post*. March 11, 2013. At http://www.huffingtonpost.com/brad-johnson/keystone-xl-pipeline-report_b_2825044.html?view=print&comm_ref=false.

[4] Cited in Shawn McCarthy. "Oil sands executives take fight for Keystone XL to Houston." *The Globe and Mail*. March 6, 2013. B1.

[5] Cited in Michael T. Klare. "The Strategic Importance of Keystone XL." *Tom Dispatch*. February 10, 2013.

[6] Cited in Paul Koring. "In pitch to U.S., Oliver touts environmental record." *The Globe and Mail*. March 6, 2013.

[7] International Energy Agency. *World Energy Outlook 2012. Executive Summary*. Paris: International Energy Agency. November 2012. Page 1.

[8] Michelle Mech. *A Comprehensive Guide to the Alberta Oil Sands*. May 2011. Page 27. At http://www.greenparty.ca/sites/greenparty.ca/files/attachments/a_comprehensive_guide_to_the_alberta_oil_sands_-_may_20111.pdf.

[9] Godon Pitts and Nathan Vanderklippe. "Alberta's Deep Freeze." *The Globe and Mail*. February 9, 2013. B8.

[10] Nathan Lemphers. *The climate implications of the proposed Keystone XL oilsands pipeline*. Drayton Valley: Pembina Institute. January 2013. Page 6.

[11] The Canadian effective price is an export-weighted composite price for Western Canadian light oil, Newfoundland light crude and Western Canadian heavy oil, including bitumen. The price comparison cited here is with Brent crude, the international benchmark price for much world oil trade. See Department of Finance. *Jobs Growth and Long-term Prosperity: Economic Action Plan 2013*. Ottawa: Department of Finance. March 21, 2013. Pages 30 and 33.

[12] Ibid. Page 32.

[13] Dave Cooper. "Alberta bitumen makes it to Mississippi by rail." *Edmonton Journal*. January 7, 2013.

[14] Andy Rowell. *Biggest climate rally in U.S. history sends clear message to Obama: Say no to Keystone XL*. rabble.ca. February 18, 2013. At http://rabble.ca/news/2013/02/biggest-climate-rally-us-history-sends-clear-message-obama-say-no-keystone-xl.

[15] Cited in Paul Koring. "In pitch to U.S., Oliver touts environmental record." *The Globe and Mail*. March 6, 2013.

[16] Michelle Mech. Op. cit. Page 6.

[17] Marc Huot and Jennifer Grant. *Clearing the air on oilsands emissions*. Drayton Valley: The Pembina Institute. November 2012. Page 3.

[18] Ibid. Page 5.

[19] Lome Stockman. *Petroleum Coke: The Coal Hiding in the Tar Sands*. Washington: Oil Change International. January 2013. Page 4.

[20] Ralph Nadar. "Perils of the Keystone XL Pipeline Confront Obama." *Counterpunch*. February 22-24, 2013. At http://www.counterpunch.org/2013/02/22/perils-of-the-keystone-xl-pipeline-confront-obama/

[21] Cited in Editorial "When to Say No." *New York Times*. March 11, 2013.

[22] Bill McKibben. "Global Warming's Terrifying New Math." *Rolling Stone Magazine*. July 2012. At http://www.rollingstone.com/politics/news/global-warmings-terrifying-new-math-20120719.

[23] McKibben confuses data for tonnes of carbon and carbon dioxide in the part of his essay dealing with the tar sands. The numbers cited here rectify that error by converting the data he cites for tonnes of carbon contained in the tar sands to tonnes of carbon dioxide.