

What if Keystone XL loses?

By Talia Buford
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The talk around TransCanada's Keystone XL pipeline often treats its approval as a foregone conclusion.

Some environmentalists and political analysts are saying it would be smart for President Barack Obama to delay a decision on the 1,700-mile, Alberta-to-Texas oil pipeline until after the 2012 elections. Industry-backed polls say people in the U.S. want more Canadian oil. And the environmentalists who formed a 12,000-person human chain around the White House on Sunday clearly see a real danger in the pipeline being approved.

But what if they're all wrong? Here's a look at everyone's options if Obama rejects the proposal:

What would TransCanada do?

TransCanada leaders told investors during a quarterly earnings call Nov. 1 that a denial could put a crimp in the company's plans - though the executives were quick to express confidence in the pipeline eventually winning approval.

"If the administration delays the project long enough where it becomes a low probability it will ever get through the process in time to meet [the shippers'] needs, they're not going to support us anymore," said Russell Girling, TransCanada president and CEO. He added, "They need crude oil by a time certain."

If the pipeline is denied, the company would look for other ways to fulfill its contracts with

shippers. No other pipeline is currently situated to service both the Canadian oil sands and the Gulf coast refineries, Girling said.

TransCanada spokesman Terry Cunha noted that many of the opponents are trying not just to stop the pipeline but to thwart development of Canada's oil sands, which the environmentalists consider a threat to the Earth's climate.

"They want to stop the development of the oil sands, which won't happen," Cunha said in an email to POLITICO. "There is a need for crude oil worldwide."

What would Canada do?

Canada boasts one of the largest reserves of oil sands in the world - 173 billion barrels of bitumen, a thick, tarry substance that can be processed into usable oil. And the Canadians want to increase sales of it to countries that need it.

In recent months, Canada Natural Resources Minister Joe Oliver has reiterated the country's commitment to develop the oil sands, with or without the Keystone approval.

"What will happen if there wasn't approval - and we think there will be - is that we'll simply have to intensify our efforts to sell the oil elsewhere," Oliver told Reuters last month.

Canada could look at other pipelines through the U.S., work with TransCanada to reroute the Keystone XL, or try to ship the oil directly to Asia, he told Reuters.

But those moves seem unlikely, said Michael Marx, director of the Sierra Club's Beyond Oil campaign.

"The odds they'll be able to build those pipelines are very low and they're getting lower," Marx said. "It's always been a political threat manufactured by Canada to put pressure on the U.S. to approve the Keystone. "

Marx said three proposed pipelines would travel from Alberta to marine terminals along the Pacific or Atlantic coasts, and could provide the kind of port access similar to Keystone XL. None of the alternative projects is owned by TransCanada.

One of the projects, the Kinder Morgan Trans Mountain pipeline, is already in operation between Edmonton and the lower portion of British Columbia, but Kinder Morgan is eyeing an expansion of the pipeline that would route it to Kitimat, a town further north in British Columbia.

Enbridge, a Canadian energy company, has two separate pipelines potentially in the works that would transport oil sands to Kitimat and New England. One, the Northern Gateway pipeline, would carry a daily average of 525,000 barrels of petroleum from near Edmonton to Kitimat but faces intense opposition from Canadian First Nation territories, which own the land the pipeline would travel through, Marx said. Meanwhile, the Trailbreaker pipeline would require flipping the flow of existing pipelines from Portland, Maine, to Canada and allow the crude to be shipped from Maine.

"My sense is that it's a really hollow threat," Marx said. "That oil is not going anywhere and in fact, the government is concerned that the tar sands are landlocked, which makes the Keystone the critical pipeline to get it to a coast where it can then be exported."

What would environmentalists do?

A pipeline denial wouldn't mean environmentalists would just disappear. But in some cases, it would shift their focus.

"This is part of a growing movement," said Damon Moglen, climate and energy policy director for Friends of the Earth. "It's not going to go away. It's just going to build. [It's the] real birth of a 21st century movement."

The Natural Resources Defense Council already has a campaign against the exploration of the

Canadian oil sands, said Susan Casey-Lefkowitz, director of the group's international program. The campaign focuses not only on Keystone XL but on the other proposed pipelines that could serve as alternatives to get the oil to a port.

"If we achieve what millions want and the pipeline is rejected, we will go on and fight the next pipeline," she said. "This is a long term, deep-seated commitment for [environmental groups] as more tar sands and dirty fuel resources are being explored for extraction."

Other greens would move on to entirely new causes.

Bill McKibben, the major organizer of the anti-oil-sands movement, said he would turn his attention to opposing shale gas development in the Eastern United States. Daniel Kessler, spokesman for Avaaz, an international activism organization, said his group would focus on closing coal plants and encouraging the switch to electric vehicles.

"Even if we win, that's where the big fight really starts," said Kessler.

And what about the United States?

The U.S. energy market would cope, some experts say.

"It's not like we'll have an oil shortage," said Mark Lewis, a partner at the law firm Bracewell & Giuliani who specializes in oil and gas pipelines. "We'll continue to get product from the sources we get product from."

If Canadian tar-sands oil moves to Asia, Lewis said, then the U.S. would just continue getting its oil from regions like the Middle East. And the Canadian oil sands would most likely still be developed, with that product entering the same global market.

So nothing really changes?

"I think that's right," Lewis said. "Since the product is fungible, [even if it were approved] it's not going to change pricing, it's not going to have a dramatic impact other than we'd be a bit immune from political risks and unstable regimes."

A denial of Keystone XL might become a rallying cry for the industry and potentially for Republicans, who could use the rejection as a symbol that Obama is " beholden to the left wing," or to say Obama doesn't care about creating jobs.

The jobs point would be a harder one to shake: Recent unemployment numbers show a still-dismal 9 percent unemployment rate and slow job creation, something supporters of the pipeline say could be fixed with the approval of Keystone XL. Despite concerns that the jobs won't be long term, or that the industry numbers are exaggerated, a denial would still come back to its effect on the economy.

Rep. Lee Terry (R-Neb.), who sponsored a bill to expedite a State Department decision on the Keystone project, pointed to double-digit unemployment among trade union members, and to ranchers who wouldn't receive right-of-way and rental payments from oil leases.

"I know for the environmental community, that's the goal: Kill the pipeline," Terry said. "But the point they're missing is what it will really do to our economy, and that the oil will still be used. It'll be shipped to China. And their refineries aren't as clean as ours. The world will still have carbon emissions from heavier crude; it will just negatively impact our economy."

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