Keystone Cops (and Robbers)—Canadian Imports Threatened

Jonathan A. Lesser

The Keystone XL pipeline is the environmentalists' (and President Obama's) latest *bête noire*, a project regarded as so destructive and, well, evil, that it might as well be *Dr. Strangelove*'s doomsday device. Of course, if it is not built, the earth is still doomed, but at least it will not be the result of Keystone; some other calamitous project will take its place.

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ATTEMPTING TO DISCREDIT TWO CLEAN ENVIRONMENTAL IMPACT STATEMENTS

In a previous column,[1] I discussed the president's decision to delay approval of Keystone, pending additional environmental review by the State Department. In March, the State Department issued a Supplemental Environmental Impact Statement (EIS) for the pipeline,[2] following up on the "Final" EIS issued in 2011. The Supplemental EIS, which took into account a revised route from Canada into the Midwest, could not find any significant adverse environmental impacts. Subsequently, over a two-month period, the State Department received over one million comments on the Supplemental EIS.

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Despite the findings of no significant impacts in both the Final and Supplemental EIS, at the end of July, the State Department announced an inquiry regarding the ties of the contractor hired to prepare the Supplemental EIS, Foggy Bottom, has ties to the American Petroleum Institute. And subcontractors include two consulting firms, EnSys Energy and ICF International, which have (gasp) worked for oil companies. Environmentalists are rabid.

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Oddly enough, EnSys Energy prepared the 2010 EIS. EnSys is focused on downstream consulting and analysis,[3] including analyses of profitability of refineries, as well as modeling relationships between oil supply, demand, and market prices. ICF International is well known for its fuel-price

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forecasting models, which would be needed to gauge the economic impacts of oil sands production.[4] Thus, it would be surprising had these firms *not* worked with any oil industry clients.[5]

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The news of the State Department inquiry is just the latest in the ongoing environmental machinations designed to provide political cover for the president to reject the Keystone XL application. Of greater interest, and the focus of this month's column, are the president's statements on the economics of the pipeline, specifically its impacts on prices and jobs.

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LOWBALLING JOBS TO JUSTIFY REJECTION?

The president's job-creation numbers are at odds with both TransCanada's initial estimate of 20,000 jobs created during the one-to-two-year construction period. That number has been subsequently reduced to 2,500 to 9,000 direct construction jobs, not including any ancillary jobs in manufacturing and services related to construction.[7]

Whatever the number of jobs, unlike the jobs that were supposed to be created by taxpayer-funded loans to bankrupt green energy companies like Solyndra, these jobs will be funded by the private sector, without taxpayer dollars. Moreover, it seems odd for the president to dismiss temporary construction jobs when he has vainly searched for "shovel-ready" projects to restore the moribund US economy.

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STRESSING PRICE INCREASES WHERE THERE MAY BE NONE

More importantly, the purpose of developing energy infrastructure is not to create jobs; it is to increase the supply of energy. Increased supplies lead to lower prices, which helps all energy-using firms, and will increase economic growth. The fact that construction and operation of Keystone would create jobs is not a bad thing—unless you are an environmentalist—but direction job creation should never be viewed as the sufficient reason behind energy and environmental policy.

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Certainly the overall economic impacts of energy and environmental policies should be considered, because environmental quality is a "luxury" good—poor nations are rarely concerned with trade-offs between economic growth and environmental quality. Environmentalists may be delighted if the United States enacts policies that impoverish many of its citizens by increasing energy costs, but the majority will not. And the ultimate impact on the environment is likely to be worse.

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What is truly extraordinary is the president's claim that completion of Keystone will increase energy prices. In the abstract, this cannot possibly be true, as any introductory economics student knows. When the supply of a good increases, the market price falls. Although the president does not refute this basic economic fact, he claims that constructing Keystone will enable some local crude oil to be shipped to the Gulf Coast for refining, thus raising local prices in areas where crude oil is now "trapped."

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Apparently, in the president's view, this is one more reason not to build Keystone.

OTHER ARGUMENTS FALLACIOUS TO THE POINT OF DELUSIONAL

In some respects, the president's argument is similar to the position taken by Dow Chemical against LNG exports. Dow argues that prohibiting LNG exports means lower natural gas prices in the United States, which would benefit Dow's chemical manufacturing plants because natural gas is a major feedstock.[8] Of course, Dow forgot to mention that it has a thriving export business for chemicals. Then again, consistency is for the small-minded.

Banning exports does not lead to lower market prices. While that may happen in the short run, in the long run, producers will simply reduce production to restore market equilibrium. However, consumers will unambiguously lose. And they will lose even more because of the failed government intervention in the market. Trade is not a zero-sum game.

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Canada will continue to develop its oil sands resources and export the crude oil produced to willing buyers, such as the Chinese. However, environmentalists believe that if the US denies the Keystone application, somehow there will be no demand for that crude oil. In fact, world demand for crude oil is independent of Keystone. And as long as that demand exists, and technological improvements continue to reduce the cost of extracting crude from oil sands, development (and presumably the end of the world) will take place.

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Thus, these latest arguments against Keystone are not only petulant; they are delusional. Of course, economic realities rarely matter to politicians, so odds are that TransCanada will eventually give up, and instead build a pipeline to British Columbia so as to export the same crude oil to China.[9]

Stay tuned for more gnashing of teeth and rending of garments by environmentalists.

NOTES

1. Lesser, J. (2012). Pipeline petulance. *Natural Gas & Electricity, 28*(8), 27–29.
2. http://keystonepipeline-xl.state.gov/documents/organization/205719.pdf.
3. http://www.ensysenergy.com/products-and-services/.
4. http://www.icfi.com/markets/energy/fuels-markets#tab-2-clients.
5. Full disclosure: as a consultant focused on energy industry regulation and policy, this columnist works for energy companies.
6. Although the president cited 50 permanent jobs, the EIS estimates only 35 full-time maintenance jobs.
7. http://www.forbes.com/sites/energysource/2013/05/10/pipe-dreams-how-many-jobs-will-be-created-by-keystone-xl/.
8. Economists call this a "pecuniary externality." Unlike a typical, nonmarket externality (e.g., air and water pollution), pecuniary externalities are tied to goods and services for which there are markets and market prices. For example, wind energy mandates have increased the demand for "rare earth" metals, increasing their market prices, and thus imposing economic harm on all firms who use such metals.
9. Judging by the enormous infrastructure project to export LNG from Canada's west coast to Asia, the Canadian energy industry may have already given up on natural gas coming south. See Dawson, C., & Lefebvre, B. (2013, August 5). US and Canada vie for big gas projects. *Wall Street Journal.* Retrieved from http://online.wsj.com/article/SB10001424127887324260204578585883862305950.html.

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