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The Questionable Economics of the Keystone XL Pipeline

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The Lazarus of political dramas known as Keystone XL gained new life yet again this week as Senate Republicans introduced an amendment to force approval of a $7 billion, 1,750-mile, Alberta-to-Texas oil pipeline, and environmentalists generated 800,000 letters to the Senate in two days opposing it.

A quick review: In November, President Obama sent TransCanada, the Calgary-based oil services company that planned to build the pipeline, back to the drawing board when he rejected the proposed route through Nebraska, where the pipe would lie inches above an aquifer that sustains the Great Plains. Then in December, Republicans in Congress required the President to make a final decision within 30 days so they could portray him as a job-killer; he obliged, denying the permit in January. This week's Senate amendment and its corollary in the House—a measure tied to offshore drilling in the Atlantic Ocean that passed with a vote of 237-187 on Feb. 17—are attempts to override the President's ruling.

As skilled as opponents were in defeating the pipeline, which seemed a sure thing as recently as September, pro-pipeline commentators and their allies in Congress have proven equally adept at making the case for it. The pipeline's champions argue it will create jobs, slash domestic gas prices, and reduce dependence on oil from the Middle East.

Just how realistic are these claims?

Clearly, the construction of the pipe, most of it below ground, will be a huge undertaking. The estimated number of people it will employ in the process, however, has fluctuated wildly, with TransCanada raising the number from 3,500, to 4,200, to 20,000 temporary positions and suggesting the line will employ several hundred on an on-going basis. The U.S. State Department, which made its own assessment because the pipeline crosses the U.S.-Canada border, estimates the line will create just 20 permanent jobs. One advantage of a pipeline, after all, is that it's automated.

The gas price argument rests on the bump in supply the Keystone XL will bring to market. Keystone XL would deliver around 830,000 barrels a day. Not all of that would be used in the U.S., however: The pipeline delivers to a tariff-free zone, so there's a financial incentive to export at least some of this oil. This is especially true because area refineries are primed to produce diesel, for which there's less stateside demand. But let's say two-thirds of the capacity—half a million barrels a day—of Keystone oil stays in the U.S. That's a convenient estimate on which to gauge the impact of Keystone oil, because it's the supply increase the U.S. Energy Information Administration, which provides independent data on energy markets, expected in a recent study of the expiration of offshore drilling bans. In 2008, it studied what 500,000 barrels more per day would save consumers at the pump: 3¢ a gallon.

The point is not that the Keystone XL won't deliver on the economic claims made for it, but that it's highly probable the gains will be modest for consumers, while carrying significant financial risks, as we previously explored.

Meanwhile, those opposed to the pipeline—including environmental groups that sent all those e-mails to Congress—might want to put their energies instead into passing fuel economy legislation. The mileage upgrade for cars and trucks that Obama proposed last July would displace 11.6 percent of current consumption by 2025. (This upgrade is already technically feasible.) After 2025, the new fuel economy standards could well reduce consumption by 4 million barrels a day—nearly five times the capacity of the Keystone XL—and more than we get from OPEC.