ISSUE ALERT

OIL SANDS FACT CHECK

May 24, 2012

Higher Supply = Higher Prices or NRDC Flunks Econ 101

Who could have imagined the day would come when the Natural Resources Defense Council (NRDC) crafted a report focused on relieving Americans' "pain at the pump"?

But there it is: the same group that once stated "there's nothing we can do to control the price of gas in America" released a paper this week outlining the ways in which Keystone XL pipeline is apparently poised to make prices at the pump go higher – as if higher gas prices were something the group actually opposed.

Of course, we know the truth about NRDC's position on gas prices – that they support policies that increase the cost of fossil fuels to discourage their use. What's tougher, though, is determining how the group came up with a methodology allowing it to argue, in effect, that greater supply of secure sources of oil from Canada via the Keystone XL somehow equates to higher prices for fuel.

We take pride in going where few others have gone before, places like: reading an NRDC report in its entirety. And that's what we did; then we took some time to correct some of the worst mistakes made therein. Below, our attempt to set the record straight:

NRDC: "The Keystone XL tar sands pipeline would pump up to 830,000 barrels per day (bpd) of some of the world's dirtiest oil…"(p.3)

- **FACT:** Oil sands crude oil has similar characteristics to most heavy oils refined in the United States and its use will not have the catastrophic effect on climate as many opponents suggest.

  Prior to being transported via pipeline from the extraction site, oil sands crude is upgraded to a standard **similar to other heavy crude oils** commonly transported and refined throughout the country, including locally-produced California heavy crude..

NRDC: "By taking oil from Midwestern gasoline refineries to Gulf Coast diesel refineries, Keystone XL will decrease the amount of gasoline available to American consumers." (p.3)

- **FACT:** A Department of State/EnSys report found that U.S. refinery throughput (a.k.a production) was the same **with or without Keystone XL** (see Figure 5-11, page 59). The report also found that the increase in U.S. product supply cost between scenarios with and without Keystone XL was only 0.6% in 2030 (page 74).

- **FACT:** Keystone XL and other pipeline projects will increase the total amount of Canadian crude supplied to the US. This is not a matter of diverting crude from one part of the country to another, but of increasing the total supply to US refineries, both in the Midwest and Gulf Coast.

- **FACT:** Regarding the implication that Midwestern refineries are "gasoline refineries" and Gulf Coast refineries are "diesel refineries" a quick look at Energy Information Administration (EIA) data shows that Gulf Coast refineries produced more finished motor gasoline in 102 out of the last 103 weeks.

NRDC: "Data from the fourth quarter of 2011 indicate that the majority of refined products produced in Texas Gulf Coast refineries were exported on the international market." (p.4)

- **FACT:** By an overwhelming margin, US refineries produce products primarily for US consumers. In 2011, only 8% of on-road fuel produced in the US was exported, according to EIA.

- **FACT:** Despite our exporting power, the U.S. is not exporting supply demanded by domestic markets. Refineries produce a number of different products from a barrel of oil and the vast majority of U.S. petroleum product exports consist of byproducts of the transportation fuels refining process that have **less of a demand domestically** (e.g., asphalt, residual fuel oil, petroleum coke).

- **FACT:** According to the U.S. Energy Information Administration (EIA), in 2011, **99.7 percent of the crude oil** produced in (or imported into) the United States was also consumed here, which means less than one-half of one percent (0.3 percent) was exported. More on this faulty export argument here and much more here.

NRDC: "[T]he numbers show that by reducing available gasoline supplies in the United States, the Keystone XL pipeline will likely increase pressure on retail gasoline prices." (p. 5)

- **FACT:** The EIA examined the potential effects KXL would have on consumer gasoline prices (as cited in the Dept. of State/EnSys report), concluding that the project "**would not adversely affect Midwest gasoline consumers**" and that "Gasoline prices in all markets served by PADD I [East Coast] and III [Gulf Coast] refiners would decrease, including the Midwest" (p. 4)."

NRDC: "Existing pipelines from Canada to the United States provide enough capacity to move all the oil that Canada produces." (p. 6)

- **FACT:** Both refining capacity and pipeline infrastructure are expected to be inadequate to meet the surge in production from the oil sands. IHS CERA projects that by 2015, Midwest refineries will no longer have capacity to process oil sands crude, and according to the U.S. State Department, new production is expected to exceed existing pipeline infrastructure by the year 2020.

  Because of a glut of production, crude oil supply in the U.S. Midwest is nearing saturation. Soon, there will not be enough refineries equipped to refine Canadian oil sands crudes in the Midwest. Expanding pipeline capacity to the U.S. Gulf Coast, where refineries are capable of handling heavier crudes due to their historical intake of Mexican and Venezuelan heavy grades, will benefit consumers by allowing access to more refined products. The U.S. Gulf Coast refining complex is the world's largest concentration of refineries that can process heavy crude, and is connected to other regions of the country by a robust finished product pipeline infrastructure and is more strategically positioned to meet the nation's energy needs.

NRDC: "One of the primary purposes of the Keystone XL tar sands pipeline is to increase the price of Canadian tar sands and profits for the multinational companies that produce the tar sands." (p.7)

- **FACT:** Surely President Obama had the profits of multinational companies in mind when, standing in Cushing, Okla. (home to a significant oil bottleneck) he said: "We're producing so much oil and gas in places like North Dakota and Colorado that we don't have enough pipeline capacity to transport all of it."

  In addition to serving a key role in our nation's energy infrastructure, the Keystone XL will generate significant job growth and revenue nationwide. The $7 billion project will generate as many as **20,000 new U.S. jobs** during construction alone and create **$20 billion in new spending**. The latest data from the Canadian Energy Research Institute (CERI) shows that

10,000 U.S. jobs will not be created next year due to the project delay. By 2015, that figure jumps to 45,000 jobs and close to 85,000 jobs by 2020.

NRDC: "Refineries may attempt to pass on higher costs to consumers directly in the form of higher gasoline prices." (p.8)

- **FACT**: EIA has already debunked this assertion (see above). Moreover, since the U.S. imports gasoline, prices are tied to global markets. In that sense, gasoline is just like crude, where refineries have no such ability to directly set the price of crude oil. According to market logic (but brought to you by API's report on gasoline prices), "[c]rude oil prices are set globally through the daily interactions of thousands of buyers and sellers in **both physical and futures markets**, and reflect participants' knowledge and **expectations of demand and supply**."

NRDC: "[T]he destruction of the Boreal forest substantially increases the carbon impacts of tar sands production." (p. 10)

- **FACT:** Canada's oil sands development has affected **less than 0.2 percent** of Alberta's boreal forest. The Alberta Biodiversity Monitoring Institute (ABMI), a non-profit organization created to monitor the impacts of oil sands development on Alberta's biodiversity, reports that the Lower Athabasca region shows a species intactness index of 94 per cent – **close to a completely intact condition** for the region.

NRDC: "Relying on the international market for much of their crude oil supply, East Coast refineries are paying the highest price in the nation for crude oil feedstocks…The costs are being passed on to East Coast consumers, who pay some of the highest gasoline prices in the country." (p. 9)

- **FACT**: While it's true that many East Coast markets are currently paying some of the highest prices for gasoline, the market conditions have little to do with the Keystone XL debate. NC State University economist Mike Waldren succinctly explains what's happening to our fellow citizens:

  > "First of all, **we don't have the pipelines** [to ship oil from the Midwest to the East Coast]. And secondly the refineries in the East Coast were **built to refine oil from Africa and from the Mid-East** … not the oil from the Midwest of the U.S. And so what we have right now is a problem. We have a problem of oil supplies going up in the Midwest of the U.S. but that oil not being able to be used on the East Coast, and that's resulted in a difference in … prices on the East Coast being much higher than prices in Midwest."