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Keystone Can Help the Gulf—and the Northeast

U.S. refiners could make great use of Canadian oil, if only Washington would let them.

By LUCIAN PUGLIARESI

Opposition to the Keystone XL pipeline comes in many forms. Former House speaker and current Democratic Minority Leader Nancy Pelosi suggested at a press briefing this month that the pipeline would have no value to the U.S.: "This oil was always destined for overseas. It's just a question of whether it leaves Canada by way of Canada, or it leaves Canada by way of the United States."

Really? The refiners who would be at the end of the pipeline do not re-export crude oil. Instead they produce high-value petroleum products for U.S. and foreign markets such as Brazil, Mexico and Europe.

According to the federal Energy Information Administration, the U.S. exported three million barrels per day of finished petroleum products in October 2011, a new high (versus domestic sales of 19 million barrels per day from all sources, including imports). Yet the U.S. imports two million barrels per day of finished petroleum products thanks to transportation inefficiencies.

For example, increased production of refined products from Gulf Coast refiners could serve East Coast markets but doesn't, thanks to the 1920s Jones Act. This protectionist legislation requires that all goods transported by water between U.S. ports be carried in (high-cost, naturally) ships built, owned, operated and crewed by Americans—and the existing fleet is tied up in long-term charters.

Canadian crude is perfectly matched to the complex and expensive refinery technology of many Gulf Coast refineries. The production of refined petroleum products is a tough, low-margin business operating in an environment of stiff foreign competition, flat domestic demand, congressional mandates for exotic biofuels, and an avalanche of existing and proposed environmental regulations. U.S. Gulf Coast refiners are now well positioned because they have access to growing markets in Latin America, and have made multibillion dollar investments in advanced processing technology that permits them to run lower-cost crudes, such as blended bitumen from the oil sands in Alberta. At least that was the plan before President Obama's war on fossil fuels.

This bright spot in the domestic refining industry is important. High feedstock costs, declining demand, new fuel standards, expanding environmental regulations and foreign competition are now taking a heavy toll on older and less complex refineries. By summer 2012, with the closing of the ConocoPhillips and Sunoco plants in Pennsylvania, the Northeast will have lost over 700,000 barrels per day of capacity since 2008. The American integrated oil company Hess announced Jan. 18 that it would close its refinery in the U.S. Virgin Islands, which provides large volumes of gasoline, heating oil and jet fuel in the Northeast.

Associated Press

Tar sands tailings pond at a mine facility in Alberta, Canada

If the Gulf Coast refineries can expand access to Canadian crudes, the combination of low-cost refinery fuel in the form of natural gas and currently installed processing technologies will yield a world-class refining center with a competitive advantage in the production of refined products. U.S. refiners will be in a strong position to expand their access to markets throughout the Western hemisphere and into Europe.

President Obama's jobs council has called for an "all-in approach" to energy policy and expedited permitting for energy projects. Meeting these objectives requires open markets that capitalize on production and transportation efficiencies.

Admittedly, the production of refined products doesn't have the politically correct caché of electric cars and the failed, government-sponsored Solyndra solar plant. But the economic value and subsequent employment growth from producing petroleum products is large and long term.

We are at the leading edge of an American petroleum renaissance. The combination of lower costs for both crude oil and natural gas provides a great opportunity for U.S. refinery capacity to increase over the next decade. But this will require a predictable and sensible regulatory regime—a regime noticeably lacking during the Obama administration.

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