

Keystone oil sands pipeline rejected, for now

By Steve Hargreaves@CNM Money January 18, 2012: 6:47 PM ET

NEW YORK (CNM Money) -- The Obama administration rejected a bid to expand the controversial Keystone oil sands pipeline Wednesday, saying the deadline imposed by Congress did not leave sufficient time to conduct the necessary review.

"The rushed and arbitrary deadline insisted on by Congressional Republicans prevented a full assessment of the pipeline's impact, especially the health and safety of the American people, as well as our environment," Obama said in a statement.

The pipeline may not be dead though. The State Department, which was tasked with issuing the permit, said the denial does not "preclude any subsequent applications."

Shortly after the decision was rendered TransCanada (TRP), the company that wants to build the pipeline, said it would do just that.

"TransCanada remains fully committed to the construction of Keystone XL," Russ Girling, TransCanada's chief executive officer, said in a statement. "Plans are already underway on a number of fronts to largely maintain the construction schedule of the project."

The 1700-mile long pipeline expansion, intended to carry crude oil from Canada's oil sands to the U.S. Gulf Coast, has become a lightning rod in American politics.

Supporters, including the oil industry, some unions and many in the Republican party, say it's a vital job creator that will lessen the country's dependence on oil imported from volatile regions.

Opponents fear the pipeline may leak, and that it will lock the United States into a particularly dirty form of crude that might ultimately end up being exported anyway.

The two sides have been squaring off since this summer, with the project highlighting how both sides view larger issues of jobs, the economy, the environment and energy.

"President Obama put the health and safety of the American people and our air, lands and water -- our national interest -- above the interests of the oil industry," Frances Beinecke, president of the Natural Resources Defense Council, said in a statement. "His decision represents a triumph of truth over Big Oil's bullying tactics and its disinformation campaign with wildly exaggerated jobs claims."

Pipeline supporters were unhappy with the announcement.

"This political decision offers hard evidence that creating jobs is not a high priority for this administration," U.S. Chamber of Commerce President Thomas Donohue said in a statement. "The President's decision sends a strong message to the business community and to investors: keep your money on the sidelines, America is not open for business."

Why deny Keystone now? The reason a decision is being made today is that under the payroll tax deal reached last month, House Republicans gave President Obama 60 days to either approve or deny the pipeline.

Republicans have made the pipeline a central issue in their attacks against the president, and were quick to respond Wednesday.

"President Obama's decision to reject the Keystone XL crude oil pipeline is as shocking as it is revealing," Republican presidential frontrunner Mitt Romney said in a statement. "He seems to have confused the national interest with his own interest in pleasing the environmentalists in his political base."

The administration had repeatedly said 60 days is not enough time to conduct the necessary reviews.

In November the administration, which had been studying the application since it took office, delayed a decision on the pipeline until 2013 after vocal protests from environmentalists and opposition from many people in the State of Nebraska, who feared the pipeline's proposed route over a sensitive aquifer.

Questions were also raised about the State Department's objectivity in the case when it emerged that a TransCanada lobbyist had close ties to the administration and the company conducting the environmental review for the State Department also had ties to TransCanada.

But the State Department's reference to "subsequent applications" and TransCanada's insistence that the project will go forward means this issue is unlikely to go away.

That will be unwelcome for environmentalists, who have hated the pipeline since day one.

They fear it could leak, and say the crude transported to the Gulf Coast may ultimately be exported to Europe or Asia. They also doubt it will really create the jobs supporters promise, saying it could even cost jobs if it helps derail the green economy.

But mostly they are concerned over the environmental effects of developing the oil sands themselves.

Much of the oil sands are currently mined like coal in giant open pits that result in water pollution and deforestation. Companies that operate in the oil sands, including ExxonMobil (XOM, Fortune 500), BP (BP) and Royal Dutch Shell (RDSA), have gotten better at mitigating these impacts, but problems remain.

And because oil sands are just that -- sand mixed with oil -- the oil needs to be separated out, requiring massive amounts of energy and leaving an overall greenhouse gas footprint 5% to 30% greater than conventional oil.

Pipeline supporters say crude from the oil sands isn't any dirtier the heavy oil imports it would replace from Mexico or Venezuela.

They say the \$7 billion pipeline will create over 10,000 construction jobs in each of the two years it takes to build, generate \$5 billion in property tax revenue and pump a total of \$20 billion into the U.S. economy over the project's 100 year lifetime.

Crucially, they say that while the 700,000 barrels of oil a day the pipeline would carry is still imported oil, at least it's from politically stable Canada.

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