REUTERS

» Print

Koch Brothers Positioned To Be Big Winners If Keystone XL Pipeline Is Approved

Thu, Feb 10 2011

Obama's bitterest political enemies already import and refine 25 percent of oil sands crude reaching the U.S., and stand to profit from an increased flow

By David Sassoon

The Keystone XL pipeline, awaiting a thumbs up or down on a presidential permit, would increase the import of heavy oil from Canada's oil sands to the U.S. by as much as 510,000 barrels a day, if it gets built.

Proponents tout it as a boon to national security that would reduce America's dependence on oil from unfriendly regimes. Opponents say it would magnify an environmental nightmare at great cost and provide only the illusion of national benefit.

What's been left out of the ferocious debate over the pipeline, however, is the prospect that if president Obama allows a permit for the Keystone XL to be granted, he would be handing a big victory and great financial opportunity to Charles and David Koch, his bitterest political enemies and among the most powerful opponents of his clean economy agenda.

The two brothers together own virtually all of Koch Industries Inc. — a giant oil conglomerate headquartered in Wichita, Kan., with annual revenues estimated to be $100 billion.

A SolveClimate News analysis, based on publicly available records, shows that Koch Industries is already responsible for close to 25 percent of the oil sands crude that is imported into the United States, and is well-positioned to benefit from increasing Canadian oil imports.

A Koch Industries operation in Calgary, Alberta, called Flint Hills Resources Canada LP, supplies about 250,000 barrels of tar sands oil a day to a heavy oil refinery in Minnesota, also owned by the Koch brothers.

Flint Hills Resources Canada also operates a crude oil terminal in Hardisty, Alberta, the starting point of the proposed Keystone XL pipeline.

The company's website says it is "among Canada's largest crude oil purchasers, shippers and exporters." Koch Industries also owns Koch Exploration Canada, L.P., an oil sands-focused exploration company also based in Calgary that acquires, develops and trades petroleum properties.

Waging War on Obama

The Koch brothers are not run-of-the-mill political opponents. An investigative report last year by the New Yorker magazine on the secretive and deep-pocketed pair have shown them to be "waging a war against Obama." They have bankrolled the Tea Party movement, climate change skepticism and right-wing think tanks, such as the Cato Institute, the Heritage Foundation, the Competitive Enterprise Institute and the National Center for Policy Analysis.

Through Flint Hills Resources LP based in Wichita, Kan., the Koch brothers provided $1 million in 2010 to the failed effort to suspend California's groundbreaking 2006 global warming law.

After the 2010 midterm elections, they have become established at the center of GOP power, according to The Los Angeles Times. The paper reported this week that Koch Industries and its employees formed the largest single oil and gas donor to members of the House Energy and Commerce Committee.

That includes the campaign coffers of the new committee chairman, Fred Upton (R-Mich.), who though once a moderate is now leading the anti-regulatory charge in the Republican-dominated House.

Hearings in his committee began yesterday on a bill to roll back EPA's regulatory power over carbon dioxide, a power which has been affirmed by the both the Supreme Court under Chief Justice Roberts, as well as Bush's EPA.

"The Koch brothers are architects of the dirty energy strategy, both in Washington and through their commercial interests," Jeremy Symons of the Reston, Va.-based National Wildlife Federation said. "It wouldn't make any sense at all for the president to give this pipeline project the thumbs up and undermine his own clean energy efforts."

Although the pipeline, if approved, would increase the supply of oil reaching the U.S., a 2009 market analysis conducted by TransCanada, builder of the pipeline, forecast higher prices. The analysis, which TransCanada conducted as part of its Canadian permit application, projected that prices would increase about $3 per barrel as a result of the pipeline.

That would send at least an additional $2 billion from American consumers to Canadian and multinational oil interests, despite the increase in supply. Given its deep involvement in the Canadian petroleum industry, the Koch brothers' operation stands to snare some of the windfall.

Deeply Involved in Oil Sands Trade

Kert Davies of Greenpeace, who last year issued a report on the Koch brothers' $50 million expenditure to finance climate change skepticism, guessed that Obama was not aware of the central role the libertarian brothers play in the Canadian crude oil trade.

"That's a very good question. I doubt that he personally is cognizant of that," Davies said. "But we do know that Koch Industries already imports a ton of tar sands into the U.S."

An unknown amount of company profits — figures are unavailable as the company is privately held — come from the Pine Bend Refinery near St. Paul, Minnesota, which supplies 30 to 40 percent of Wisconsin's transportation fuel and a large percentage of the jet fuel used at the Minneapolis-St. Paul International Airport.

About 80 percent of what the Koch refinery processes is heavy crude from Alberta's oil sands, a company spokesperson told the media last year. The oil that reaches the refinery is supplied through the Koch brothers' Flint Hills operation in Calgary, the company's website says.

Pine Bend is capable of refining up to 320,000 barrels per day of predominantly Canadian crude oil, most of it sourced in Alberta's oil sands. Every day, the U.S. imports about 1 million barrels of oil from Alberta's oil sands mines, and about 2 million barrels of Canadian oil overall.

This means that the oil sands crude which reaches the Pine Bend refinery on American soil accounts for about a quarter of the total supply reaching the U.S. from Alberta's tar sands mining operations.

The company says the Pine Bend refinery is among the largest processors of heavy crude in the United States. Its various fuel products are distributed via a 537-mile pipeline system in Minnesota and Wisconsin that the Koch brothers also own, as well as via truck and rail.

Figures on other quantities of tar sands oil that Koch interests handle out of their Calgary operations are not publicly available. According to the Flint Hills Resources Canada website, the Koch Industries subsidiary has more than 90 customers and offers "physical and financial marketing capability related to a large selection of Canada's crude oil streams."

White House Visit

It is unclear whether the president or his advisers are aware of the extent of the Koch brothers involvement in tar sands imports or have tried to quantify the economic benefit they could derive from the Keystone XL pipeline.

Obama has not shown his cards on the pipeline permit, even after Canadian Prime Minister Stephen Harper made a personal appeal for swift approval at a White House meeting last week.

At a carefully scripted press conference after a private meeting of the two leaders, Obama made no mention of energy when speaking warmly about Canada, the nation's largest trading partner. The president said trade with Canada supported 1.7 million U.S. jobs.

Harper used a vastly different figure. He said 8 million U.S. jobs depend on trade with Canada, and he made a point to underscore the energy issue, in both his English and French remarks.

"Canada is the largest, the most secure, the most stable and the friendliest supplier of that most vital of all America's purchases: energy," he said.

After they finished with their prepared remarks, a Canadian reporter asked Harper if he had discussed the pipeline permit with President Obama. The prime minister said that "we did discuss the matter you raised," but he provided no fresh details, only a rambling rationale for why approval of the permit would be in the American interest. When Harper was done, the president offered no comment. He quickly took the next question.

Until the visit from Harper, all eyes had been on Hillary Clinton and the State Department, which is officially weighing the pipeline permit. The application was cruising toward a swift and barely noticed approval early last year, but the BP oil catastrophe in the Gulf of Mexico provoked a closer look as environmental security became a national concern.

The 1,959-mile pipeline would cut through Montana, South Dakota, Nebraska, Kansas and Oklahoma to refineries in Texas, and crisscross the Ogallala Aquifer, which Americans living in the Midwest rely on for fresh drinking water as well as irrigation.

Last July, the EPA rolled up its sleeves and called a time out. The agency deemed the State Department's environmental review of the Keystone project as "inadequate," the lowest possible ranking. EPA raised concerns over a potential oil spill over the Ogallala aquifer.

The agency also asked the State Department to consider the national security implications of expanding the nation's commitment to a relatively high-carbon source of oil, which EPA says has a well-to-tank carbon footprint 82 percent greater than conventional oil.

The review period was extended 90 days to allow for interagency cooperation, but Secretary of State Clinton created controversy when she said in a speech that she was inclined to grant the approval. Her comments came before the interagency analysis was completed.

Subsequently it was revealed that TransCanada's chief Washington lobbyist, Paul Elliott, served as national deputy director and chief of staff for delegate selection for the 2008 presidential campaign of then-New York Sen. Hillary Clinton. Freedom of Information Act requests for communications with Paul Elliott have been perfunctorily rejected by the State Department.

If Lisa Jackson's EPA and Hillary Clinton's State Department cannot reach agreement over the Keystone XL permit application, the matter could end up on the president's desk under provisions of the National Environmental Policy Act of 1969.

A surprisingly powerful provision allows any federal agency, concerned about the environmental effects of a proposed major federal action, to force a review by the White House Council on Environmental Quality, which is a part of the executive office of the president. A CEQ source told SolveClimate News last July that once a matter is in their hands, "we have broad authority to do what we will with it."

Regulations describe seven possible avenues that CEQ can decide to pursue to resolve interagency disputes referred for resolution. CEQ can decide whether it wants to mediate the dispute, for example, hold public hearings, or publish its own findings and recommendations. If interagency differences are irreconcilable, as a last resort CEQ can submit the referral and its response together with its recommendation to the president for action.

Image: Gus Ruelas/Greenpeace

See Also: Controversy over Meaning and Timing of Oil Pipeline Report TransCanada Takes Oil Sands Heat In Stride Clinton Ties to Pipeline Lobbyist Obscured by Questionable FOIA Denial CA Student Delivers Prop. 23 Debate Challenge to Koch HQ in Wichita Tax Pledge Adds Another Political Hurdle to U.S. Climate Action