Why The Keystone Pipeline Will Actually Raise Gas Prices In the U.S.

By Washington's Blog
Global Research, February 02, 2014
Washington's Blog

Region: USA
Theme: Environment, Global Economy, Oil and Energy

Big Oil Is Gaming the System to *Raise* Domestic U.S. Prices

Bloomberg notes:

> Completion of the entire [Keystone] pipeline would **raise prices at the pump in the Midwest and Rocky Mountains 10 to 20 cents a gallon**, Verleger, the Colorado consultant, said in an e-mail message.The higher crude prices also would **erase the discount enjoyed by cities including Chicago, Cheyenne and Denver**, Verleger said.

CNN Money reports:

> **Gas prices might go up, not down**: Right now, a lot of oil being produced in Canada and North Dakota has trouble reaching the refineries and terminals on the Gulf. Since that supply can't be sold abroad, it reduces the competition for it to Midwest refineries that can pay lower prices to get it.
>
> Giving the Canadian oil access to the Gulf means the glut in the Midwest goes away, **making it more expensive for the region**.

Tyson Slocum – Director of Public Citizens' Energy Program – explains:

> How does bringing in more oil supply result in higher gas prices, you ask? Let me walk you through the facts. A combination of record domestic oil production and anemic domestic demand has resulted in large stockpiles of crude oil in the U.S. In particular, supplies of crude in the critical area of Cushing, OK increased more than 150% from 2004 to early 2011 (compared to a 40% rise for the country as a whole). Segments of the oil industry want to import additional supplies of crude from Canada, bypass the surplus crude stockpiles in Oklahoma in an effort to refine this Canadian imported oil into gasoline in the Gulf Coast **with the goal of increasing gasoline exports to Latin America and other foreign markets.**
>
> ***
>
> Cushing typically is a busy place – I noted in my recent Senate testimony how Wall Street speculators were snapping up oil storage capacity at Cushing. And all of that surplus capacity is pushing WTI prices down – and for many in the oil business, downward pressure on prices is a terrible thing. As MarketWatch reports, "[B]y running south across six U.S. states from Alberta to the Gulf of Mexico, [the Keystone pipeline] would skirt the pipeline hub at landlocked

> Cushing, Okla., **a bottleneck that has forced Canadian producers to sell their oil at a steep discount to other crude grades facing fewer obstacles to the market**.
>
> ***
>
> There are several global crude oil benchmarks, and the price differential between Brent and WTI now is around $10/barrel, which is a fairly significant spread, historically speaking. **Moving more Canadian crude to bypass the WTI-benchmarked Cushing stocks, the industry hopes, will align WTI's current price discount to be <u>higher</u>, and more in line with Brent.**
>
> ***
>
> The Keystone pipeline isn't just about expanding the unsustainable mining of … Canadian crude, but also to **<u>raise gasoline prices for American consumers</u> whose gasoline is currently priced under WTI crude benchmark prices.**

Slocum [notes] that oil is America's number 1 *import* at time same that fuel is America's number 1 *export*.

Specifically, more oil is being produced now under Obama than under Bush. But gas consumption is flat.

So producers are exporting refined products. By exporting, producers keep refined products off the U.S. market, creating ***artificial scarcity*** and keeping U.S. fuel prices high.

Slocum said that the main goal of the Keystone Pipeline is to import Canadian crude so the big American oil companies can export more refined fuel, **driving up prices for U.S. consumers.**

Tom Steyer [points out]:

> Statements from pipeline developers reveal that the intent of the Keystone XL is **not to help Americans, but to use America as an export line to markets in Asia and Europe**. As Alberta's energy minister Ken Hughes acknowledged, "[I]t is a strategic imperative, it is in Alberta's interest, in Canada's interest, that we get access to tidewater… to diversify away from the single continental market and be part of the global market."

And [see this] NBC News report.

As Fortune explains, the U.S. is now an exporter of refined petroleum products, but Americans aren't getting reduced prices because [the oil companies are now pricing the fuel according to *European* metrics:]

> The U.S. is now selling more petroleum products than it is buying for the first time in more than six decades. Yet Americans are paying around $4 or more for a gallon of gas, even as demand slumps to historic lows. What gives?
>
> ***

> Americans have been told for years that if only we drilled more oil, we would see a drop in gasoline prices.
>
> ***
>
> But more drilling is happening now, and prices are still going up. That's because Wall Street has changed the formula for pricing gasoline.
>
> ***
>
> Until this time last year, gas prices hinged on the price of U.S. crude oil, set daily in a small town in Cushing, Oklahoma – the largest oil-storage hub in the country. Today, gasoline prices instead track the price of a type of oil found in the North Sea called Brent crude. And Brent crude, it so happens, trades at a premium to U.S. oil by around $20 a barrel.
>
> ***
>
> So, even as we drill for more oil in the U.S., the price benchmark has dodged the markdown bullet by taking cues from the more expensive oil. As always, we must compete with the rest of the world for petroleum – including our own.
>
> This is an unprecedented shift. Since the dawn of the modern-day oil markets in downtown Manhattan in the 1980s, U.S. gasoline prices have followed the domestic oil price ….
>
> In the past year, U.S. oil prices have repeatedly traded in the double-digits below the Brent price. That is money Wall Street cannot afford to walk away from.
>
> To put it more literally, if a Wall Street trader or a major oil company can get a higher price for oil from an overseas buyer, rather than an American one, the overseas buyer wins. Just because an oil company drills inside U.S. borders doesn't mean it has to sell to a U.S. buyer. There is patriotism and then there is profit motive. This is why Americans should carefully consider the sacrifice of wildlife preservation areas before designating them for oil drilling. The harsh reality is that we may never see a drop of oil that comes from some of our most precious lands.
>
> ***
>
> With the planned construction of more pipelines from Canada to the Gulf of Mexico, oil will be able to leave the U.S. in greater volumes.

This isn't old news … or just a hypothetical worry.

As Bloomberg reported in December 2013:

> West Texas Intermediate crude gained the most since September after TransCanada Corp. (TRP) said it will begin operating the southern leg of its Keystone XL pipeline to the Gulf Coast in January.
>
> [West Texas Intermediate oil] prices jumped to a one-month high, narrowing WTI's discount to Brent. TransCanada plans to start deliveries Jan. 3 to Port Arthur, Texas, via the segment of the Keystone expansion project from Cushing, Oklahoma, according to a government filing yesterday. Cushing is the delivery point for WTI futures. Crude [oil pries] also rose as U.S. total inventories probably slid for the first time since September last week.

> "With the pipeline up and running, you are going to see drops in Cushing inventories," said Michael Lynch, president of Strategic Energy & Economic Research in Winchester, Massachusetts. "It drives up WTI prices far more than Brent. You are going to see a narrowing of the Brent-WTI differential."

The original source of this article is [Washington's Blog]

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: **Washington's Blog**