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Opinion: Keystone XL and the need for a U.S.-Canada Energy Partnership

Declining U.S oil production creates new risks for the oil industry and new opportunities for President Biden to establish North American energy security

One important and surprising change of a tumultuous 2020 was the loss of U.S. oil independence. President elect Joe Biden can help get that back — and never lose it again — through a strategic energy and environmental partnership with Canada.

From 2008-2016, the Obama-Biden administration oversaw U.S. domestic oil production soar from 5 million barrels of oil per day to nearly 9 million barrels of oil per day. Back then, the U.S. was on a fast-track to energy independence powered by shale plays in West Texas and North Dakota. Canadian crude oil was viewed as lagging the U.S. in emissions reductions. Consequently, on January 18, 2012 President Obama elected to reject TC Energy's application for the Keystone XL pipeline that would carry 830,000 barrels of crude oil per day from Alberta, Canada down to refineries on the Gulf Coast.

Now, nine years later to the day, the facts on U.S. oil — and Canadian environmental leadership — have changed. U.S. oil production is in free fall with the loss of shale production, which has some of the highest cost, steepest decline production in the world. With years of abysmal returns, investment will not come back soon, and America is once again looking abroad for a secure supply of oil.

Canada should be President Biden's first priority in re-establishing U.S. energy security. Canada is the environmental, social and governance (ESG) leader among global energy powers. Alberta's oilsands, once a source of carbon intensive barrels, has reduced carbon intensity by over 20 per cent in the past nine years. The average barrel produced in Canada is now cleaner than one produced in California. Canada leads the world in key environmental categories like methane regulation, water use, and innovations like carbon capture and sequestration; and individual Canadian firms hold the top ESG scores in the industry. TC Energy, the builder of KXL, has also committed to being net zero by 2030, ahead of its US peers, and hire a U.S. union workforce. You won't get those commitments from Venezuelan shippers.

Canada's oil reserves are vast at 170 billion barrels, making Alberta's oilsands the third largest supply in the world, holding more oil than Russia, China and the USA combined. Keystone XL secures access to this strategic supply for purpose-built U.S. refining capacity in the Gulf. On environmental and strategic grounds this should be far preferable to carbon-intensive rail transit — or alternate supply from Venezuelan tankers.

But the U.S.-Canada energy security challenges are bigger than one pipeline. Under President Biden and Prime Minister Trudeau, we could forge a broad U.S.-Canada energy security framework that defines shared environmental, energy and economic objectives across multiple policy tracks.

The need for partnership is urgent. The U.S. is no longer energy independent. In the past year alone, U.S. production declined from 13 million barrels/day to 11 million today. Oil company bankruptcies are piling up while cost-cutting and defensive mergers are being used to survive the downturn. Investment capital is fleeing the sector.

At the same time, global oil demand is expected to rise an additional 5 million barrels a day from pre-pandemic levels to about 105 million barrels a day by 2025; with half of that growth coming from China and India. According to the International Energy Agency, global consumption is unlikely to peak for at least 20 years.

Competition to meet this demand from foreign, often despotic, state national oil companies (NOCs) is increasing. The restructuring of global oil markets in favour of the NOCs has become a dominant trend referred to as "Peak Investable Oil", a supply side theory that investor-controlled oil production has peaked and is starting to decline while state-owned control expands. For context, in 2019, only around 27 million barrels of oil (27 per cent of total global output of about 100 million barrels/day) was controlled by free market, investor-led companies. By 2030, NOCs are expected to control 80 per cent of global oil production. For decades, oil has conferred strategic geopolitical leverage on those who control it because it is the lifeblood of national economies. Unfortunately, a growing share of this industry is controlled by nations with scant regard for rule of law, individual rights, environmental stewardship or transparency. Some of them are overtly anti-democratic.

In this context, it is important to note that the U.S. and Canada are the only open democracies in the top ten energy powers, sharing the same democratic values and investor-led marketplaces that lead the world in efficiency, innovation, and the development of greener and cleaner fuels — as well as transparency, accountability and regulatory oversight. Our democratic governments may at times take these investor-led outcomes for granted, or be inattentive to the nature of state-backed competition. However, a peak investable oil world where prices are increasingly set by Riyadh, Moscow, and Tehran has long-term implications for U.S. energy security, the U.S. trade deficit, industry transparency and the free-market push for higher ESG standards.

In this context, the KXL pipeline should be seen not just as one piece of critically important infrastructure connecting the two democratic energy powers, but as one part of what could be a broader environmental and energy security partnership between the U.S. and Canada under a Biden administration.

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