



*"If we pollute the air, water and soil that keep us alive and well, and destroy the biodiversity that allows natural systems to function, no amount of money will save us."*

David Suzuki

Most of the time markets get it pretty right. Through the price mechanism they tend to allocate resources to where they can be most efficiently employed. And if they get it wrong the process of arbitrage will generally set things right. However sometimes the market becomes fixated on relatively meaningless short term considerations at the expense of more weighty but distant long term considerations, such as the enduring environmental legacy.

The Keystone XL pipeline is a 2,750 kilometre pipeline that will connect the oil sands of Alberta in Canada to the oil refineries of the US Gulf Coast. Canada, behind just Venezuela and Saudi Arabia, has the third largest reserve of oil in the world. However, unlike conventional oil which is drilled from underground reservoirs, Canada's oil resides in oil (or tar) sands. These are strip mined from the boreal forest as a sticky bitumen-like substance and put through an energy-intensive process to separate the oil, sand and clay, generating large amounts of toxic waste. It is estimated that, over the life cycle (mining, processing, transportation, refining), it takes the energy equivalent of a barrel of oil just to produce a barrel of oil from oil sands. This is an equation that can only be maintained with extremely low gas prices (due to the US shale gas revolution) and high oil prices.

Opponents of the Keystone XL pipeline argue that by providing this route to refineries the pipeline will ensure that this difficult to extract oil continues to be mined at a faster rate than it otherwise would and that Canada's boreal forest – one of the world's few remaining intact ecosystems and itself a massive store of carbon – will be degraded beyond repair.

As the Keystone XL pipeline crosses an international border it requires the approval of the State Department and the President. Once President Obama has negotiated the passage of the Federal Budget and the lifting of the debt ceiling, he will face one of the most critical challenges of his administration. Whether this pipeline ultimately receives approval later this year will be a key measure of whether President Obama is prepared to place long term environmental interests ahead of short term (and very distorted) financial considerations.

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