New American
Written by **Brian Koenig** on January 26, 2012

Warren Buffett to Benefit From Obama's Keystone XL Decision

As environmental groups hail President Obama's rejection of the Keystone XL pipeline, billionaire and prominent Democratic donor Warren Buffett (left) is set to reap a handsome reward from the decision. Buffett's Burlington Northern Santa Fe LLC is a notable beneficiary — among other U.S. and Canadian railroads — of the move, as it is one of the railroads that will transport the Canadian oil if the pipeline isn't approved.

In a decision sponsored by Obama, the U.S. State Department denied TransCanada's permit on January 18, asserting that the February 21 deadline that congressional Republicans imposed was not enough time to examine TransCanada's proposal. The company assured it would review the pipeline's current blueprint and re-apply with a route that avoids certain regions of Nebraska that Obama and environmentalists claim are "ecologically sensitive."

According to the State Department, with some expansion, railroads will be able to transport all new oil extracted by western Canada through 2030. "Whatever people bring us, we're ready to haul," Krista York-Wooley, a Burlington Northern spokeswoman, affirmed. If Keystone XL "doesn't happen, we're here to haul."

The $7 billion pipeline, which would transport crude oil from Alberta, Canada to the Gulf Coast, would funnel 700,000 barrels a day of oil into the U.S., while creating a reported 20,000 direct jobs and hundreds of thousands of indirect jobs.

The downside to oil railroad transportation, analysts note, is that transport costs will be more expensive and the new method in which the oil will be transported will emit more greenhouse gases into the atmosphere. Even the State Department conceded that railroad transportation discharges more global warming gases than pipeline transportation.

Environmentalist organizations such as the Natural Resources Defense Council launched a virulent campaign against Keystone XL, arguing that oil leaks would taint drinking water supplies and that extracting Alberta tar sands oil emits more greenhouse gas emissions than traditional oil (of course, with or without the pipeline, Canada will extract the oil).

While analysts predict that railroad transportation will be capable of transporting all the oil, expansion will be required and shipping costs are estimated to be significantly higher. Because tank cars are a "hot commodity," says railroad analyst Tony Hatch, availability could spur a temporary "hiccup" in transport capacity.

Further, Greenbrier Cos. and American Railcar Industries, manufacturers which have been expanding to cover increasing sand requirements used in oil and gas exploration, have surged rail-car production to a three-year high. But rail-car supplies can expand capacity without a problem, Hatch added. "Railroads are not just a stopgap while we wait for a pipeline," he said in an interview. "They are potentially part of the long-term solution." Added Bloomberg News:

> Railroads are being used in North Dakota (STOND1), where oil producers have spurred a fivefold increase in output by using intensive drilling practices in the Bakken, a geologic formation that stretches from southern Alberta to the northern U.S. Great Plains. During 2011, rail capacity in the region tripled to almost 300,000 barrels a day as higher production exceeded what pipelines handle, according to the State Department report on Keystone XL.
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> Shipping oil using tank cars on rail costs about $3 more a barrel than pipeline transport, using prices in North Dakota, a differential "unlikely" to slow the development of oil sands crude if no pipeline is build, the State Department said. The gap is shrinking as larger storage terminals are built, the agency said.

Republican lawmakers have put new proposals on the table to get Keystone XL approved, such as granting authority to the Federal Energy Regulatory Commission, which would confiscate the State Department's authority to decide on the pipeline. Other proposals include allowing Congress to vote on Keystone's approval, under legislative authority to regulate foreign commerce. The President's resistance to such measures has attracted a hailstorm of criticism, as opponents contend that his decision to reject TransCanada's permit was purely political.

Obama often congratulates Mr. Buffett for his "civic-minded" duties, because the billionaire entrepreneur has repeatedly requested that his taxes be raised. Obama's public admiration for Buffett's class-warfare sentiments has even led him to brand his tax hike proposal as the "Buffett rule."

But history reveals that Buffett's political motives are often strategic. As Timothy Carney from the *Washington Examiner* notes, "Buffett profits from taxes he supports." For example, by lobbying for higher estate taxes, he is able to buy up family businesses which cannot afford paying their heirs' death taxes because they exceed the business's liquid assets. Moreover, Buffet has also profited immensely from government spending, as he raked in about $1 billion off of the Wall Street bailout by investing in Goldman Sachs, anticipating that the government would bail it out.

So in the case of Keystone XL, government intervention has, yet again, offered Warren Buffett a handsome reward.