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Another Way Natural Gas Is Good for America

The United States is awash in natural gas. It has close to a 100 year supply and will overtake Russia as the world's largest producer in 2015. The U.S. will become a net exporter in 2016, generating "net economic benefits" domestically and redrawing the energy landscape globally. That is, if President Obama and his Energy Department allow it. The Obama Administration has control over whether to issue natural gas export permits, and is currently reviewing 20 applications for permits to export liquefied natural gas. A Senate Energy and Natural Resources Committee hearing scheduled for early February will surely inform that review.

The following op-ed from the Wall Street Journal explains why the federal government should embrace natural gas exports as a powerful foreign policy tool.

The Foreign Policy Uses of an Energy Bounty

The White House will effectively decide whether the U.S. becomes a global gas superpower.

The Wall Street Journal, Opinion, January 9, 2013, by Robert Johnston and Leslie Palti-Guzman

The United States is poised to become a global gas superpower. Thanks to innovation and investment in shale-gas technology, the production of natural gas in America has surged by 20% since 2006. But this story is about to enter a new phase—one in which success will depend on whether and how well the White House prepares the way for exports of America's energy bounty.

American gas production has grown so much that the global market is now intently focused on the "U.S. LNG export play," or shipments of liquefied natural gas overseas. The export demand is a win for U.S. gas producers, who are struggling with weak prices at home due to a domestic glut. Yet the surge of U.S. natural gas into global gas markets will have major implications for U.S. policy abroad, too. As the Obama administration considers energy-policy priorities for its second term, LNG exports could also be an attractive new tool in the State Department foreign-policy box.

A boom in U.S. gas exports would help rebalance relationships between producers and consumers, largely to the advantage of America's allies. The current market consensus is that the U.S. will export about six billion cubic feet per day of natural gas (also measurable as 45 million tons of LNG) by 2020. That's the equivalent of about 8% of current U.S. gas production or 16% of global LNG production. Globally, that would place America just behind the world's largest current LNG exporters, Australia and Qatar.

Liquefied natural gas (along with the shale-gas revolution) has brought the U.S. to the top of the list of global gas-reserves holders. Some contracts are being made already and as exports begin in 2016 after export facilities are completed, the U.S. will compete with other large gas-reserve holders such as Russia, Iran and Venezuela. The geopolitical impact of American gas exports will be felt in many ways.

For instance, the rise of a major alternative supplier diminishes the likelihood of cartel behavior by rival suppliers such as Iran and Russia. These countries were among the key founding members of the Gas Exporting Country Forum, often described as a potential "gas OPEC." Although today there is already more gas produced and exported by countries outside the GECF than by its members, this trend will be accentuated by U.S. gas exports.

Furthermore, the rise of American LNG exports makes it easier for Washington to convince allies not to do business with rogue states, particularly Iran. With the prospect of American LNG imports, India, for example, now has more attractive alternatives to the Iran-Pakistan-India pipeline. Pipelines are like a marriage, where the partners may be locked into supply and pricing arrangements that can last decades. A reliable and stable supplier of LNG such as the U.S. eliminates the need for risky long-term infrastructure projects and contracts.

With U.S. gas exports set to add to the global supply, there is also less interest in riskier Iranian and Venezuelan LNG export projects, which may now never materialize, as they would have to compete with more advanced U.S., Canadian, East and West African projects. Russia's Gazprom is now positioning itself in anticipation of more competition from the U.S. In the past two months, Gazprom announced that it is launching a gas program in eastern Russia with the development of the Chayanda field and new export infrastructures to increase its market share in Asia. Gazprom also is investing in the offshore section of the South Stream pipeline from Russia under the Black Sea to Bulgaria, to bypass Ukraine and focus instead on locking in European market share.

Yet in Europe, American LNG exports will be a welcome source of diversification to cut energy dependence on Russia. Gas from the U.S. could be as important for Europeans as the planned Nabucco West pipeline that will bring 10 billion cubic meters of Azerbaijani gas into Europe. U.S. LNG will also play a central role in helping the U.K. reduce its dependence on Qatar—a risk to watch closely, especially in light of the Iranian threat to close the Strait of Hormuz, which is the only sea access to Qatar.

In Asia, Japan and India are enthusiastic about the potential of U.S. LNG. News reports that say diplomats of both countries have urged the Department of Energy and the State Department to authorize enough production and export projects to satisfy their goals of importing cheaper gas from the U.S. In post-Fukushima Japan, American LNG is part of a new acquisition strategy designed to yield a more diversified supply portfolio, both in terms of sources and pricing.

Another appeal of new U.S. LNG supply is that American gas prices are linked to Henry Hub futures, a benchmark system (named after a major distribution hub in Louisiana) where prices reflect supply and demand. In the rest of the world, however, most gas sales until now have been contracted at a price calculated as a certain percentage of the oil price. As a result, buyers are currently paying a premium for oil-market risks that have little to do with global gas supply and demand. Exports of LNG from the U.S. could further encourage the decoupling of international gas prices from oil prices, and push down gas-market prices.

This pressure on traditional LNG pricing mechanisms in Asia—where buyers are especially burdened by the premium for oil-market risks that have little to do with the global LNG market—will take time and will not only be the result of U.S. LNG exports. But the prospect of buying gas from America has already improved the bargaining position of European and Asian importers, largely to the benefit of U.S. allies. Negotiations on sales-purchase agreements for many such projects are under way, ahead of final investment decisions by project developers in Australia, Canada, the U.S. and East Africa.

Unlike in many other major gas-producing nations, the U.S. government does not dictate investment decisions or contractual arrangements by American oil and gas companies. Yet through its power to permit exports of U.S. gas and set the regulatory and environmental framework for domestic production, the White House will effectively say yea or nay to the emergence of the U.S. as a global gas superpower. The world is waiting for its answer.

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