Exporting Our “Surplus” Natural Gas

The U.S. House of Representatives is gearing up to push through legislation to accelerate Department of Energy approval of the construction or expansion of new ports and facilities to liquefy American natural gas so that it can be loaded on ships and sent to world markets. One justification for this is that U.S. natural gas production has expanded so rapidly that there is a “glut” of natural gas in the United States that has driven the price of natural gas to amazingly low levels. At coastal ports in the U.S. natural gas can be bought for about $3 per million BTUs. In Europe the price is closer to $11 and in Asia $16 per million BTUs.

To those who own or produce natural gas, especially those in the fracking fields of the eastern states, this seems outrageous. These prices seem to suggest that, if they could export that natural gas, they could make four to five times as much money. Of course, some of that price difference is an illusion since it costs something to liquefy the gas, load it on a ship, travel half-way around the world, and then convert it back into gas. But still, the differences have natural gas producers and their political allies salivating over the potentially higher profits of selling American natural gas abroad rather than here at home.

Of course if considerable American natural gas were to be diverted to foreign markets, the total demand for American natural gas would rise, and we would have to turn more quickly to higher-cost sources of natural gas. As a result natural gas prices in the U.S. would rise. Although natural gas producers can sing the praises of U.S. natural gas competing around the world, it is unlikely the U.S. consumers will feel the same
way. That will make it more expensive to heat our homes and run our businesses. The energy intensive manufacturing industries that have been relocating back to the U.S., leading to what some have described as a U.S. manufacturing “renaissance,” are not likely to be enthusiastic about an increase in natural gas prices. The electric utility industry that has been meeting increasingly strict air pollution regulations by shifting from coal-fired generation to natural gas fueled generators are also likely to object.

Some environmental groups may also see these energy exports in less than positive terms. Some of those concerned with climate change will see this potential flooding of international markets with cheap American natural gas as undermining a necessary sift away from increased reliance on fossil fuels. Other environmentalists may see expanding the world supply of natural gas, a less carbon-intensive fuel than coal, as providing a “transition” fuel as we try to get our carbon emissions on a declining trajectory. Of course, the increasingly recognized leakage of methane from natural gas production sites, pipelines, and gas-using appliances, may be undermining any positive role for natural gas in reducing greenhouse gas emissions.

Some caution is certainly called for. Other nations that depend on importing natural gas to fuel their economies sign long-term contracts linking the price paid for the natural gas to the world price of oil. The American economy is completely linked into that world oil market. We have to pay whatever that price is no matter how much oil we actually produce ourselves. And that price has remained remarkably high for a very long time. Assumedly we do not want to also link what we have to pay for natural gas to that world oil price. That might make a small number of Americans very rich, but at a high cost to the rest of us.
Trying to figure out where a substantial increase in the liquefaction and export of our natural gas would lead is more than a little difficult. There are just too many things in play. Will fracking be as productive of natural gas as projected or will it turn out to have been over-hyped from a long-run point of view. Remember the coal-bed methane boom? Will federal, state, and local governments finally begin applying environmental laws to fracking activity, constraining more or less its expansion? Many, including the U.S. Department of Energy, project a significant increase in natural gas prices, whether or not we export large quantities of natural gas, for the simple reasons that the costs of producing gas from fracking are already above the market price of natural gas and are expected to continue to rise. Ultimately the price we pay for natural gas will have to follow those costs upward. The U.S. could lose its current apparent advantage relative to other world sources of natural gas. Will coastal communities embrace many more liquefied natural gas terminals, despite the fact that some folks depict them as potential catastrophic bombs.

There is more than enough to think about here. Enough, anyway, to resist the “free trade” argument that opening up our land-locked natural gas supplies to world trade is certain to benefit Americans. Of course some will loose from that further embrace of world markets, but others will gain. In the aggregate, free trade theory assures us, the gains will exceed the losses, even though, of course, the gainers, the natural gas producers, certainly will not compensate the losers, consumers and small businesses.

This not an appeal to shut down all of our ports and hunker down in a survivalist mode. But it is a suggestion that we should be somewhat skeptical about what energy companies tell us is will be good for us.