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ECONOMIC VIEWPOINT

By Jeffrey E. Garten

Imported Energy: How The U.S. Can Be Smarter

Washington must ensure that LNG comes from a wide range of suppliers

Since the 1973 OPEC oil embargo, U.S. Presidents and congressional leaders have unrelentingly promoted energy independence. In recent days, President Bush has been pounding this drum to push the energy bill that the House of Representatives passed in late April and that now awaits Senate action. But the production of oil and gas has peaked in America, and this country has been unwilling to reduce energy consumption substantially. Thus, absent a radically different new set of policies -- such as a turn to nuclear energy or extensive taxes on energy usage -- the sad reality is that the U.S. will become more reliant on foreign sources of fuel. The critical issue now is how to manage that growing dependence.

The U.S. botched that challenge with regard to oil. Petroleum imports have climbed to 60% of domestic consumption from 30% over the past 30 years. Meanwhile, much of America's economic and national security is still mortgaged to potentially unstable Middle East suppliers.

We have a chance to do better with imported liquefied natural gas (LNG). This fuel is produced abroad, liquefied at extremely low temperatures, and shipped to the U.S. It is then restored to its original vaporous state in regasification terminals located in U.S. ports or in floating terminals offshore.

Four LNG terminals are operating in North America now, and the Federal Energy Regulatory Commission (FERC) expects at least eight more by the end of the decade. Today natural gas in all its varieties accounts for 25% of U.S. energy needs, but that proportion is sure to increase because environmentally friendly gas has become the fuel of choice for new electric power generating plants. Although LNG accounts for only 3% of natural gas usage today, FERC estimates LNG could grow to over 25% of that within 15 years. We may import even more LNG than projected. Reason: LNG is far cheaper than natural gas in the U.S. and more imports could bring down the overall price of natural gas. In fact, despite protests by community groups that LNG terminals are environmentally dangerous or could become targets for terrorists, Cambridge Energy Research Associates is tracking more than 50 potential LNG projects in North America.

ALTHOUGH GAS PLAYS A SMALLER ROLE than oil, higher prices and future disruptions in foreign gas supplies could seriously hurt the economy. So Washington's challenge is to ensure that LNG supplies are strategically diversified. But the government is not organized for the foreign policy challenges, including how to deal with the potential next OPEC -- the Gas Exporting Countries Forum, composed of at least 14 major LNG producers that met last week in Trinidad. Members include Algeria, Egypt, Iran, Nigeria, Qatar, and Russia.

While LNG terminals cannot now operate without a government O.K., such authority is split among FERC, the Maritime Administration, and individual state governments. To lessen the possibility of an OPEC-type gas cartel developing and jeopardizing our economic and national security, Washington should exercise more centralized control, involve the National Security Council in permit reviews, and use its leverage to ensure that imports come from the widest range of suppliers.

The federal government could do this by requiring LNG terminal owners and importers to report

trading patterns and future purchasing intentions, reserving the right to intervene if it appears that a concentration of imports is coming from certain countries that one day could manipulate supplies for economic or political purposes. Such government intervention could take the form of regular consultations between Washington and U.S. importers about concentrated risk and ways to avoid it, backed by government authority to revoke a license in extreme cases where national security could be undermined. Washington should also encourage importers to maintain a healthy mix of long-term contracts and purchases on the spot market.

Admittedly, further federal intrusion into the energy markets will be an explosive political issue. I'm not comfortable with heavy regulation and wish there were better alternatives. But secure energy supplies are at the heart of America's well-being. And the specter of more images such as an American President pleading with a Saudi crown prince to turn on the oil spigot -- as happened yet again in late April -- convinces me that the risk of leaving regulation of critical LNG imports to the marketplace is way too high.

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