Testimony of
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Before
U.S. Senate Committee on Energy and Natural Resources
On
The Role of U.S. LNG in Meeting European Energy Demand

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Good morning. Thank you for the opportunity to testify before this Committee. I'm a Senior Fellow at the Manhattan Institute where I focus on the policy implications at the intersection of technology and energy, and where I have advocated for years that America's energy policy posture should reflect the new realities of technology and respect the enduring realities of geopolitics.

I am also a Faculty Fellow at the McCormick School of Engineering at Northwestern University where my focus is on the technology and the future of manufacturing. And I note for the record that I'm a strategic partner in a boutique venture fund dedicated to startup companies creating digital oilfield technologies. You will of course notice that the theme in all these pursuits is the role of technology, a key force in our economy and in geopolitics, the impact of which has changed the energy landscape in ways that have still not been fully reflected in national policy.

In that regard, permit be to begin my observations with a summation of the state of energy affairs by quoting someone the Committee is familiar with:

> "[America is] now the world's largest producer of natural gas. We've gone from debating how many import terminals will line our coasts to conversations about how much we can export. Our mindset has changed from a deep-seated fear of scarcity, to the incredible possibilities of abundance. And that has opened new doors for us and for the world."

This brief and accurate distillation of what can only be called a "new world energy order" was delivered by this Committee's chairman, Senator Murkowski, at the opening of the 27th World Gas Conference here in Washington D.C. this past June. My only modest disagreement with the chair's observation is that there are still some laggards in regards to the change in "mindset" with regard to the new energy realities.

In my remarks today I will briefly elaborate on the relevance of the new reality as it relates specifically to the opportunity for the United States to export far more LNG to our European allies. First, if I may note, details and additional geopolitical implications of America's dominant role in global natural gas markets are contained in my new Manhattan Institute policy paper titled, *Natural Gas: The Real Fuel Of The Future*, which, while slated for release next week, I request be submitted for the record today as part of my testimony.

As the Committee is well aware, in recent months President Trump has substantially elevated awareness on both sides of the Atlantic about the state of Europe's dependencies on Russia for natural gas, and collaterally the potential for the United States to take a larger role in supplying Europe with that fuel.

Now, however, a variety of European officials have said they believe promoting U.S. LNG sales is all about American "self-interest." Recent polls show most European citizens share that view. We can be honest: of course it is in America's self-interest. But it is also in the self-interest of Europe. And it is precisely when counter-parties have mutual, even if differently motivated self-interests, that sensible trade and business relations can be forged.

Permit me to summarize the state of affairs in terms of three key underlying facts that argue that both American and Europe should embrace the new energy reality.

First, for the foreseeable future, Europe will be critically dependent on increasing imports of natural gas. Europe's own internal production of natural gas is in imminent and radical decline. At the same time, its need for additional gas supplies is rising as a direct consequence of policies to promote the use of wind and solar.

The production of natural gas from North Sea is dropping even faster than originally forecast. Within a few years, Europe will lose domestic supply greater than the capacity of the Nord Stream 1 pipeline from Russia. There are no plans or expectations to replace that supply within Europe's borders. At the same time, increased reliance on episodic sources of power from wind and solar, combined with Germany's abandonment of nuclear energy, increases the need to ensure adequate electric generating capacity to produce power 24x7. That reality puts more pressure on natural gas power plants. Modern digital economies are critically dependent on reliable power, and the push to electrify the transportation sector will further accelerate reliance on 24x7 generation.

With the completion of Gazprom's controversial Nord Stream 2 pipeline, it is simply a fact that Europe's reliance on Russian gas will rise, forecast to become 40% of all imports. Germany's Defense Minister's response to that fact has been to assert that they are "an independent country." German Chancellor Angela Merkel has observed in this context that the old Soviet Russia no long controls East Germany. History has of course seen a change in some borders, but some things have not changed.

This brings me to my second point: Europeans don't trust Russia. As a recent PEW survey revealed, 78% of Europeans expressed lack of confidence that Russia would "do the right thing" when it comes to world affairs. Perhaps unsurprisingly then, Russian President Vladimir Putin has been on what has been called a "charm offensive" with many European leaders. In late August, for example, Mr. Putin attended the wedding of Austrian Foreign Minister Karin Kneissl, bringing flowers and a troupe of Cossack singers, and waltzed with the bride.

Without regard to President Putin's charm offensive, or the episodically offensive Tweet from President Trump, there is the undeniable underlying fact that, as recently pointed out by the European Council on Foreign Relations, the EU and Russia are in "an open battle over the norms of international conduct… a clash between liberal universalism and authoritarian statism." And, as the European Council on Foreign Relations has also observed, winning this on-going battle won't come so much from "countering Russia" but from "improving Europe's resilience."

Which brings me to my third point, that Europe has a remarkably easy and low-cost path to increasing resilience in critical energy markets. There is no need for Europe to build new LNG import facilities since those that already exist there are only operating at 27% of capacity. Using those existing ports at full capacity could bring in nearly three times as much natural gas as the Nord Stream 2 pipeline is designed to carry.

Recently, various European officials have indicated receptivity to purchasing LNG from America at what they term as "competitive" prices. There is no denying that gas delivered by Gazprom pipelines can arrive in Europe at lower cost than even the record low prices now associated with shipping U.S. LNG there. But it bears noting that the EU, as have many nations, frequently embracing policies that require paying a premium for some energy supplies based on key non-price attributes – security and resilience are attributes worth something. In that regard, it bears noting that based on the current price spread between U.S. LNG and Russian natural gas, even if Europe were to use all of its idle LNG import capacity to buy American gas, Europe's *overall* annual energy import costs would rise by less than 10%. In the long run, that could be the cheapest resilience hedge EU leaders could buy.

As I noted at the outset, all of this is, self-evidently, in America's self-interest too. Increasing domestic natural gas production has the potential to add millions of jobs and hundreds of billions of dollars to the GDP over the coming years. But in the new realty, it is clear that the scale of growth in domestic gas production coming can't possibly get absorbed by any growth in U.S. domestic demand. In all likelihood, not even half of the expected rise in output from the profoundly productive American shale fields can be taken up domestically. Exports of LNG will become an increasing critical if not the primary vector for new gas production.

However, as this committee knows, the infrastructures associated LNG are very capital intensive and require long-term and forward-looking commitments from investors. Thus, any friction, impediment or uncertainties in related regulatory domains can significantly diminish willingness of both domestic and foreign investors to make those bets in American infrastructure.

In that regard, there is one specific and unique feature of U.S. LNG exports that I believe Congress should address – and that is the requirement that American businesses must seek permission from the Department of Energy in order to sell a product to foreign buyers.

This requirement is anchored in legislation that is nearly a century old, and stipulates that such permission is granted when it is determined that gas exports are in "the national interest." In the new energy reality it is demonstrably the case that it is now *de facto* always in the "national interest" for any and all businesses willing to invest in such exports. While there are a number of legislative efforts underway to require that DOE expeditiously consider and grant such permissions, this approach is neither enforceable nor does it solve the core issue of potential capriciousness. And it is not responsive to the nature of the new energy reality.

Hence, it is now time for Congress to amend the legislation to completely remove this 'sand' from the gears of that part of our economy, to eliminate the political uncertainty about energy export policies that could come from some future Administration. I am not recommending that Congress eliminate that particular DOE office *per se*, but rather it should be repurposed to become an office of export assistance – much as the Department of Agriculture does for that industry. Not only would such an action send a strong signal to markets and investors, but it would also be a very powerful geopolitical signal.

Finally, permit to conclude by noting that a number of European officials this past August have specifically mentioned the need to address this particular issue – the long-term uncertainties associated with U.S. firms needing to seek political permissions to export. <>