Overview

Further projects to import liquefied natural gas (LNG) from overseas could be desirable as elements of a strategy to meet future U.S. energy demand, despite current disfavor of such projects by the Department of Energy. Specific proposals should be evaluated on their individual merits in the light of the following findings.

- **LNG imports could expand from the currently approved level of 0.8 trillion cubic feet per year (Tcf/yr) to between 1.3 and 1.8 Tcf/yr by the middle of the next decade. This amount, less than one-tenth of present domestic gas production, is limited by political instability in Iran, absence of any economic advantage in exporting gas for some other Middle Eastern oil producers, shorter transportation distances to competing European and Japanese markets, and restrictions on trade with the Soviet Union. The most likely sources of U.S. imports, other than by pipeline, include Nigeria, Indonesia, Australia, Malaysia, Trinidad, Colombia, and Chile.**

- **Not all potential LNG exporters are major oil producers or members of OPEC, so curtailments of foreign gas supplies are less likely to coincide with those of oil than they would be otherwise. Also, LNG exporting nations generally have greater financial incentives than oil producers do to maintain uninterrupted shipments, because of the difficulty in finding alternative purchasers with appropriate terminal facilities, and the large amount of debt incurred for liquefaction facilities that must be paid by the exporter from project revenues. To the extent that Maritime Administration and Export-Import Bank programs promote involvement of U.S. owners and creditors in LNG ships and facilities, the exporter's stake in uninterrupted revenues diminishes. In the event of an interruption, the resulting shortfall could be managed to minimize adverse impacts through the present priority curtailment system and by sales and exchanges among gas wholesalers.**

- **Over the next decade, domestic gas production will probably satisfy essential requirements, but neither domestic sources nor pipeline imports from Canada and Mexico are likely to meet additional marginal demand except at costs equal to or greater than that of LNG. Delivered gas from LNG is likely to cost approximately the same as competing fuels; less than synthetic fuels and distillates from foreign crude oil, and more than currently regulated domestic natural gas. Consumers also assume part of the financial risks associated with an LNG project by paying gas prices regulated to allow investors to recover portions of their initial costs, regardless of the project's subsequent commercial success or failure.**

- **Although the disposition of added supplies in gas markets is complex and will vary greatly from one case to another, gas made available as a result of LNG imports will generally be used at least partly, and possibly entirely, in manufacturing and electric-generating applications. Also, under the Natural Gas Policy Act of 1978, the cost of added supplies will not necessarily be borne by the customers receiving them. Of the types of consumers likely to obtain more gas from LNG proj-**

ects, industrial customers will probably pay a price close to that of alternative fuels and of the LNG itself, and electric utilities and purchasers of electricity will receive a subsidy in the form of "exempt" prices under the Act. Although households and commercial establish= ments would probably receive little additional gas, at least initially, the price levels in these sectors will rise or fall in response to the higher cost of LNG and to any savings that may result from improved utilization of transmission and distribution capacity.

- Importing LNG entails a significant outflow of dollars from the United States compared to domestic alternatives, but its direct impact on the balance of payments is less severe than that of purchasing equivalent amounts of foreign oil. Furthermore, the effect of being able to choose the lowest cost alternative from among LNG, foreign oil, and domestic production and conservation may outweigh the influence of direct payments associated with any specific trade by improving the competitive position of U.S. industry generally.