



December 18, 2003

## **LNG Ministerial Summit Washington, DC**

### **Keynote Address by Secretary of Energy Spencer Abraham**

Thank you, Bob for that kind introduction. It's a pleasure to be here with you this morning. We had an excellent and productive session yesterday, and I am confident that today's will be even more fruitful.

I want to begin by welcoming our distinguished guests representing 21 countries, as well as those of you from the United States who were not present for my opening remarks yesterday morning. President Bush and I appreciate the efforts you have made to be here, and value your involvement in these important discussions.

I believe everyone here appreciates the need for an expanded, indeed global, market in Liquefied Natural Gas, and the benefits that the United States, all the other consuming nations, as well as the producing nations, will derive from this potentially huge market.

By the time we conclude our discussions here I hope everyone will understand just how much importance the United States attaches to LNG. We think you will see the exceptional advantages the American natural gas market offers to producers and marketers of LNG. And we hope you will share our belief that partnership with the United States will prove essential to the rapid development of greatly expanded LNG trade, not just between your countries and the United States, but in every part of the world.

Looking out at this group of delegates, I have every confidence that we will succeed in the tasks this Summit is designed to address:

First, understanding the enormous mutual benefit to be derived by the United States, other consumer nations, and producing nations from the development of a global LNG market.

And, second, understanding the obstacles to the creation of this market, and working cooperatively to devise strategies to overcome them.

Yesterday, I briefly sketched the short-term energy challenges facing the United States, with particular emphasis on the role of natural gas, and the tremendous potential of LNG

– indeed, the indispensability of LNG -- to meeting our future energy security requirements.

Energy security is fundamental to the smooth operation of modern society, and natural gas has a vital role to play in the balanced and diversified mix of energy resources we need to supply a growing economy.

Realizing the importance of natural gas to America's energy future, President Bush's energy plan makes several general recommendations for increasing both domestic and foreign supplies of natural gas.

To flesh out those recommendations and get advice on specific actions we might take, I turned in 2002 to an organization called the National Petroleum Council, a federal advisory group that assists me on oil and gas issues. I asked the NPC to conduct a study of our long-term natural gas policy and recommend actions that can be taken by industry and government to ensure adequate and reliable supplies for American consumers.

In its report, the NPC warned that, while natural gas will play an increasingly central role in helping us meet our domestic energy needs, "North America is moving to a period in its history in which it will no longer be self-reliant in meeting its growing natural gas needs; production from traditional U.S. and Canadian basins has plateaued."

We are hard at work implementing President Bush's energy plan to correct this supply-demand imbalance. But even if we are completely successful with every aspect of our energy plan, we still will not have adequate supply meet the forecasted demand for natural gas. For that, we need the contribution of a large and growing market in imported Liquefied Natural Gas.

We are here at this Summit to discuss ways to make that market a reality.

The time is right for these discussions. This is the case because the price is now right for LNG to compete in the American and other natural gas markets.

Historically low natural gas prices in the United States, combined with the relatively high cost of LNG, have kept LNG's share of our natural gas market quite low – on the order of one to two percent. That price environment has changed. Technological advances that have lowered the cost of making and transporting LNG, combined with rising prices for natural gas in the United States, have made LNG price competitive.

According To Energy Information Administration forecasts, that price environment will not change in the years and decades to come, and we expect LNG to be an integral – and profitable -- part of America's natural gas market.

The time is also right because LNG has compiled a record that should reassure those concerned about the safety of LNG tankers and onshore facilities. A record of 33,000 carrier voyages covering 60 million miles over a 40-year period without a major accident

is compelling evidence of this energy source's safety. The United States also has considerable experience handling LNG at about 100 small LNG storage and regasification facilities located throughout the country as part of our natural gas distribution system.

But we can never take too many safety precautions when dealing with an energy source, whether it be natural gas, coal, oil, nuclear power – even solar, wind and hydro-power. LNG is proven safe, but we can make it even safer.

The Department of Energy is today working with private sector safety experts and the National Association of Regulatory Utility Commissioners to ensure even greater safety and security in LNG operations.

We have also recruited the Sandia National Laboratories, part of the Department of Energy's network of national science labs, to our safety effort. Sandia's scientists will release the results of their comprehensive review of LNG safety early next year.

One final note on safety: Please be assured that the Department of Energy stands ready to assist with this industry's collective safety effort as well as our own, by making our technical expertise available to interested industry and government participants.

The time is also right for these discussions because both supply and demand for LNG are growing.

Reserves of natural gas are abundant and spread across the world. As I mentioned in my welcoming remarks yesterday, twelve countries are active LNG exporters today, and another 10 have seen the wealth-creating potential of their natural gas reserves and lined up as entrants or potential entrants to the LNG market.

As the roster of exporting nations grows, so does the list of potential importers. Three more countries will shortly join the 12 current LNG importers, and another seven are actively planning to meet demand with LNG imports.

The United States is one of the existing 12 LNG importers, but the scale of our imports today is relatively modest. We imported 230 billion cubic feet of LNG in 2002, which supplied about one percent of our natural gas needs, and accounted for about 4 percent of world LNG trade.

To meet our energy needs, the United States will have to become a much larger importer of LNG than it is today. Imports of LNG could reach 13 billion cubic feet per day – more than 20 times today's rate – in the year 2025, and account for 15 percent of our total natural gas supply.

That should give you some sense of how important a large and efficient global LNG market is to us – and of how important it is to us that so many producing and potential producing countries have chosen to participate in this Summit.

The time is right because the United States is a more attractive customer for producers and marketers of natural gas than any other consumer of LNG in the world. We offer an established, reliable, continent-spanning free market in natural gas unlike that found anywhere else in the world. The American natural gas market is well regulated and its activities are transparent.

An LNG tanker today can offload at facilities on the U.S. Atlantic and Gulf Coasts, and tap into that established and growing market serving 300 million Americans. In years to come, we expect that an LNG tanker will be able to offload at additional facilities on our Atlantic, Gulf and Pacific Coasts, and perhaps in Canada and Mexico.

Nearly every North American consumer can benefit from any LNG terminal, and nearly every supplier to a North American terminal can reach the entire North American market.

Suppliers from South America and the Caribbean, the Pacific Rim, the Middle East, Europe and Africa will find the American market to be both transparent and convenient from a shipping perspective, an important consideration when calculating costs and profits.

The United States will, in effect, be the center of activity in the growing, global LNG market. We will be a valued customer and trading partner to producing countries and all the other participants in this huge global trading system of the near future.

But in order to reach that desired outcome, there is a great deal of work to be done – by the United States internally, and by the members of what we hope will be an expanded, global LNG trade network.

The United States currently has four LNG import facilities, three on the Atlantic Coast and one on the Gulf Coast. We estimate that we will need as many as 13 large LNG facilities in North America, nine more than exist today, to reach the import volume of 15 billion cubic feet a day that I mentioned earlier.

Fortunately, there is a great deal of interest in the future of LNG in North America, as a result of which there are at least two dozen proposals out for the construction of LNG terminals in the United States, Mexico and Canada over the next several years.

There are, however, major challenges to the success of so large and complex an undertaking. They encompass the realignment of the entire gas supply chain.

That means the development of gas reserves and liquefaction facilities on the producer end. It means the expansion of the LNG tanker fleet. And it means the siting and construction of liquefaction facilities and their connection to the North American transmission infrastructure.

We estimate the capital requirements for a typical LNG development, from the producer's reserve source to the pipeline grid, to be \$5 to \$10 billion. Thus, if we want to

have 15 billion cubic feet of LNG reaching North American terminals every day in 2025, we must attract investment well in excess of \$100 billion.

That you are here today, and that private sector companies have proposed more than two dozen LNG terminals for North America, suggests that we will be able to find that capital.

We must also speed up the siting and permitting process for regasification and related facilities. That will require streamlined bureaucratic processes and the support of local governments and communities.

Two recent federal policy changes will have a positive effect on the approval process for both onshore and offshore terminals. Offshore terminals will now fall under the jurisdiction of the U.S. Coast Guard and permit applications will be reviewed under a discrete timeline.

Onshore terminals will no longer be subject to “open access” regulation, allowing companies to develop integrated LNG projects.

We will also have to address objections to new terminals based on environmental and safety concerns. Success in this will require a concerted effort to educate the public on LNG’s importance to the American economy, and on the environmental and safety record of the industry. It will also require the kind of leadership by federal agencies shown by the Federal Energy Regulatory Commission when it moved the permitting process forward in the reactivation of our Cove Point and Elba Island facilities.

We will have a powerful motivation to succeed in meeting and overcoming all these challenges. Failure to achieve our goals will impose an economic penalty on the American people in the form of higher natural gas prices.

The challenges that face the United States as we plan to expand LNG imports by more than 2,000 percent in just over two decades, are not unique to us. Other consumer countries will face similar challenges, as will producing countries as they seek sites, approvals and financing for their LNG infrastructure.

As we go forward, the U.S. government and private companies will be looking for reliable partners willing work with us to bring competitively priced, reliable supplies of LNG to our shores.

This Administration is hard at work laying the groundwork for America’s future energy security. Our meeting here today is one more example of our efforts to forge closer and mutually beneficial ties of energy trade and cooperation with existing and new international partners.

It is my hope that today’s discussions among our distinguished foreign guests and their delegations, American government officials, private sector energy companies, and

investment experts will reveal innovative approaches to meeting the challenges I have outlined.

I hope they will stimulate enthusiasm for close cooperation and rapid progress toward the goal of an efficient global LNG market that will benefit all of our countries and people.