

MEMORANDUM

The Progressive Policy Institute believes that a pragmatic path forward on the LNG export public interest test permit pause can secure a climate, economic, national security, and domestic political win. The Administration's pause has created uncertainties for customers of U.S. natural gas which have the potential to create climate, geopolitical, and market risks as allied governments and investors make long-term decisions about sourcing their energy needs. PPI believes the White House could mitigate these risks by developing a public interest test for LNG exports that is meaningful, workable, and transparent. In the immediate term, announcing an objective requirement that ensures environmental performance would reassure buyers and the climate community alike, harmonizing domestic policy with the demands of major importing allies and providing the Administration with an opportunity to highlight marquee first-term climate policy achievements in the IRA, IIJA, and CHIPS and Science Act. This objective standard could be built around a third-party verification of methane performance for the entire supply chain of each cargo, including the ship.

Achieving certainty of environmental performance and regulatory requirements would benefit both the environment and U.S. companies at a time when major trading partners are implementing similar requirements to be imposed on all their suppliers. Once this short-term target is announced, a well-designed update to the previous DOE studies of LNG export impacts on the climate could serve as a credible certification of U.S. achievements in lowering methane emissions and provide a better baseline understanding of the U.S. gas industry in a complex and rapidly changing global energy system.

Some advocates of reassessing the climate public interest test see it as a way to restrict U.S. natural gas exports. Our proposal aims, instead, at achieving net emissions reductions on a global scale. U.S. LNG exports play a vital role in meeting global energy demand with energy that is cleaner than coal and Russian gas, is delivered on more flexible contracts than its global competitors, and is subject to the Inflation Reduction Act's ambitious domestic methane mitigation measures. Moreover, natural gas has become an important tool for U.S. foreign policy. America's ability to act as a swing producer has provided crucial support and flexibility to Europe during Russia's invasion of Ukraine as well as the Houthi disruption of Red Sea shipping. The LNG industry has grown to play a sizable role in the U.S. economy, with jobs that pay well above the national average and \$47.4 billion in exports in 2022 driving the energy sector to a record-high 18% share of overall U.S. goods exported that year.

At the same time, the Biden administration has made significant progress toward accelerating the development of clean energy. Its trio of major bills, the IRA, IIJA, and CHIPS and Science

Act, have dedicated hundreds of billions of dollars to clean energy incentives that are now flowing throughout the economy and benefiting workers and households in those industries as well as the global climate. In the oil and gas sector, the IRA methane fee and methane mitigation regulations are projected by the EPA to reduce upstream emissions by roughly 54 million metric tons of methane between now and 2035, which would average out to 45% of 2019's annual emissions each year. The Administration should build on this success with pro-deployment reforms that spur even faster buildout of next-generation clean technologies so that the federal funding turns into real working projects providing low- and zero-carbon energy fueling productive work in the American economy as quickly as possible.

Internationally, the pause is already affecting the decisions of trading partners at a time of global insecurity as war continues between Russia and Ukraine and Houthi strikes disrupt crucial shipping lanes in the Red Sea. The only way U.S. exporters were able to supply Europe after Russia's invasion of Ukraine was through flexible contracts that allowed for the rerouting of exports destined for other major importers in Asia and Latin America. Current export capacity is insufficient if the U.S. wishes to prevent Russia from regaining global market share, revenues, and soft power even in the face of American sanctions. Even though already-approved projects will continue to scale up capacity in the meantime, the continued global energy shortage risks pitting importing U.S. allies against each other in the bids for LNG cargoes as high energy prices endanger their carbon-efficient heavy industries and popular support for the energy transition.

As the EU implements methane monitoring and reporting requirements for new LNG imports starting in 2027 and the CLEAN Initiative by Japan and South Korea hopes to establish a market for differentiated, low-methane natural gas supplies as a coalition of importers, a certification requirement for U.S. cargoes could build on existing domestic regulatory frameworks and bolster the international market for cleaner gas. Additionally, developing countries around the world with growing populations and economies may yet serve as significant importers in the future as energy demand rises, and preventing the installation of new coal plants while complementing intermittent renewables and supplying industrial and chemical inputs will be crucial to supporting their growing electricity grids and limiting global greenhouse gas emissions.

In the longer run, technologies including trade in clean hydrogen and various methods of carbon management must innovate and scale rapidly in order to fill the remaining gaps in our future energy system and achieve decarbonization. Meaningful climate, economic, and national security benefits under the current system should not be discarded in the meantime.