

Rising global demand for LNG presents unique opportunity for US maritime industry

The enormous growth in the global liquefied natural gas business creates an unprecedented opportunity for the US maritime industry.

World demand for LNG is expected to triple by the year 2020. In the US alone, LNG imports are expected to grow within the next few years to meet 8% of the demand for natural gas, compared to meeting less than 3% in 2003.

The growth in LNG demand will be reflected in a dramatic increase in the movement of LNG by sea. Over the next three years, an additional 130 LNG tankers will be built, doubling the carrying capacity of the world fleet.

Training skilled officers to operate these highly sophisticated vessels represents a major challenge for the LNG industry. It is estimated that at least 5,000 additional deck and engineering officers with specialized LNG training will be required over the next five years.

From the perspective of US mariners, the severe shortage of experienced LNG officers creates an opportunity for qualified US officers to be competitive economically in seeking employment on international flag LNG carriers. The shortage has already driven up the wages of LNG officers and materially reduced the salary gap between the wages of US citizen officers and those of foreign nationals.

Use of US officers has many attractions for operators of the new LNG carriers. There already exists a pool of US officers with recent LNG experience who could help meet the industry's immediate needs. To help meet future requirements, US merchant marine academies and other US training facilities have the capacity to train large numbers of additional officers to serve on LNG vessels.

Recent changes in US tax laws introduce the possibility of placing some of the new LNG carriers under US flag, an option that has been economically impractical – without the benefit of special government programs – for many years. In 2004, in a dramatic shift in the taxation of shipping, Congress enacted a highly favorable tonnage tax regime to promote the use of US flag vessels in international trades. Under a tonnage tax election, the owner of a US flag LNG tanker suffers no tax disadvantage versus its foreign flag competitors.

Because US flag LNG tankers would not be operating in the US coastwise trades, strict Jones Act US citizenship and US build requirements do not apply. The only competitive impediment to US

flag operation arises from the higher cost of using full US crews. While the cost differential between using US versus foreign officers on LNG tankers has narrowed considerably, the cost of using a full US crew is substantial. Before we see a new generation of US Flag LNG tankers, ship owning and labor interests have much work to do to reduce the operating cost differential to acceptable levels. But there are compelling strategic and commercial reasons driving the parties to find creative ways to reduce US operating costs and permit the use of US flag LNG tankers.

Today, there are only five existing LNG receiving terminals serving the continental US, including one new offshore terminal in the US Gulf. Construction must begin soon on a number of critical LNG terminal projects on the east and west coasts if US energy markets are to benefit from growing foreign supplies of LNG. Otherwise, the LNG will be diverted to foreign markets and the US economy will suffer from natural gas shortages and higher gas prices in the years to come. Yet many coastal communities block construction of new LNG terminals because of perceived risks of accidents or even possible terrorist activities targeting the large LNG tankers that would pass nearby. Ways must be found to satisfy legitimate public safety concerns surrounding LNG imports. Use of US mariners and US flag vessels can add a significant additional dimension of security and control in the movement of sensitive LNG cargoes into US coastal terminals.

The increasing demand for liquefied natural gas has created a unique opportunity for the US maritime industry to become a significant participant in the expanding global LNG trade. It is in the interest of all segments of the US maritime community to cooperate in order to fully exploit this opening.

Robert N. Cowen, Esq.
Venable LLP

Note: Robert Cowen is a partner in the maritime and environmental practices at Venable LLP, dividing his time between the firm's New York and Washington offices. Cowen previously served as COO and general counsel of Overseas Shipholding Group Inc., one of the world's largest publicly traded oil tanker companies.

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