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Free Ukraine by Freeing Energy Markets

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Whether military, diplomatic, economic, or otherwise, the U.S. government has an array of policy options to bring to bear in response to Russia's unacceptable aggression against Ukraine. However, one must not discount the impact that free markets and free trade can ultimately have on the situation.

Much of Russia's power in the region is the result of its control over energy supplies and distribution systems. Diminishing Russia's economic leverage over the region should be a key component of America's response. This could be largely accomplished simply by liberalizing global energy markets. The U.S. has antiquated and unnecessary restrictions on exporting liquefied natural gas (LNG) and crude oil, and Congress should make lifting these restrictions a priority.

Loosening Russia's Energy Grip. Ukraine understands that energy diversification is a key to its own future. In 2013, the Ukrainian government reached agreements with Royal Dutch Shell and Chevron to explore and develop the country's two large shale gas fields in Yuzivska and Olesska. Chevron's 50-year contract consists of a $350 million exploratory phase that could potentially result in $10 billion in investment. Shell's investment is of similar size, and both would yield significant natural gas supplies in a few years' time.[1]

But to truly diminish the power that a nation garners from its control over energy markets and supplies, the U.S. needs to lead broad liberalization of global energy markets. This means not only encouraging private-sector development around the world but also allowing for market-driven increases in production in the U.S.

The U.S. could maximize its influence by increasing opportunities for exports. To some extent, this is already occurring as the U.S. is now a net exporter of refined petroleum products, doubling its exports to Europe from 2007 to 2012.[2]

Action Needed Now. Given the five to seven years that approving, engineering, permitting, and constructing a new LNG terminal takes, lifting gas export restrictions might not have a near-term and direct impact on the Ukraine crisis.[3] However, doing so would send an important signal to Russia and the rest of the world. It would show any leader from any country that derives power from controlling energy interests that such strategies will no longer be effective.

Opening markets would provide a diversity of suppliers and greater energy supplies for the global market. This would likely result in lower prices and will certainly mean more choice for countries like Ukraine in the not so distant future. Ultimately, providing that choice would be what diminishes Russian power. Establishing free-market reforms now and increasing energy supplies would help to prevent future incidents and price shocks, not just in Ukraine but across the globe.

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There are a number of legislative efforts underway to achieve this objective. Most recently, Senator Ted Cruz's (R–TX) American Energy Renaissance Act would do so by:

- **Lifting natural gas export barriers.** As a result of Ukraine's reliance on Russian energy, policymakers have called for lifting restrictions on natural gas exports. Companies must obtain approval from both the Federal Energy Regulatory Commission (FERC) and the Department of Energy (DOE) before exporting natural gas. A facility is automatically authorized if the recipient country has a free trade agreement (FTA) with the U.S. But if not, the DOE can arbitrarily deny a permit if the agency believes the total volume of natural gas exported is not in the public's interest. The decision to export natural gas should be a business decision, not a political one. There are numerous non-FTA nations with which the U.S. trades regularly. Natural gas should be no different and should be treated as any other good traded around the world.[4]

- **Lifting the ban on crude oil exports.** In 1975, the U.S. government banned crude oil exports (with limited exceptions). Allowing crude exports to flow to their most valued use would increase economic efficiency, grow the economy, and demonstrate America's commitment to free trade. Concerns over resource scarcity and gas price increases in the U.S. are unsubstantiated. Further, whether the U.S. is a net importer or net exporter has no bearing on price volatility—petroleum is a fungible commodity traded on a world market. Crude oil exports could drive down prices as more supplies reach the world market and more efficient refiners.

- **Preventing the war on affordable energy.** The Environmental Protection Agency proposed regulations for carbon dioxide and other greenhouse gas emissions for future power plants and plans to finalize standards for existing plants by summer 2015. These regulations would significantly reduce the use of coal as a power-generating source in America. As more coal generation is taken offline, the marketplace must find a way to make up for that lost supply, which would largely be done through a combination of decreasing energy use as an adjustment to higher prices and increased power generation from other sources, most notably natural gas.[5] As the U.S. experiences a renaissance in energy-intensive industries and builds export capacity as a result of the shale revolution, the Administration's war on coal could adversely affect America's competitive advantage.

Open Energy Markets. Increasing domestic energy production and lifting bans on energy exports would help the U.S. economy and Ukraine. And by increasing energy supplies to the global market and diversifying global supplies, these reforms would diminish the ability of any nation, including Russia, to use energy as a weapon to impose its will in the future. For these reasons, Congress should open access to America's energy resources and allow for the free trade of energy resources.

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3. Freeport LNG, "Liquefaction FAQs," 2013, http://www.freeportlng.com/Liquefaction_FAQs.asp#regulatory (accessed March 11, 2014).
4. See Nicolas D. Loris, "U.S. Natural Gas Exports: Lift Restrictions and Empower the States," Heritage Foundation *Backgrounder* No. 2767, February 11, 2013, http://www.heritage.org/research/reports/2013/02/us-natural-gas-exports-lift-restrictions-and-empower-the-states.
5. See Nicolas D. Loris and Filip Jolevski, "EPA's Climate Regulations Will Harm American Manufacturing," Heritage Foundation *Issue Brief* No. 4158, March 4, 2014, http://www.heritage.org/research/reports/2014/03/epas-climate-regulations-will-harm-american-manufacturing.