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A U-Turn for a Terminal Built in Texas to Import Natural Gas

By **CLIFFORD KRAUSS** SEPT. 29, 2014

SABINE PASS, Tex. — The giant Golden Pass natural gas import terminal here, meant to bring Middle Eastern gas to energy-hungry Americans, sits eerily quiet these days, a sleepy museum to a bygone era.

Its 5,000 valves, 50 million pounds of steel and ship berth as big as 77 football fields — representing a $2 billion investment by Qatar Petroleum, Exxon Mobil and Conoco Phillips — have been dormant for nearly three years. The unexpected American shale fracking frenzy produced such a glut of domestic gas that the United States does not need Qatari gas anymore.

But the Golden Pass story is only beginning.

Qatar Petroleum, the state oil company, is now requesting permission to export American gas, proposing with its partner Exxon Mobil an audacious conversion of the facility to export from import. The additional estimated cost: $10 billion, if not more.

Conoco Phillips has bowed out of the export project, deciding not to double down. For Qatar Petroleum and Exxon Mobil, the retooled plan represents a grand improvisation and a plan to export a sizable share of the new American bonanza.

“Do we hope to make money out of it that we are not making today? Absolutely,” said Robert S. Franklin, president of the Exxon Mobil Gas and Power Marketing Company. “There is very significant upside in this project.”

The two companies propose to reverse some pipelines, using the existing gas storage tanks and docks and adding three enormous refrigerant plants to the complex on land now occupied by cattle grazing under a blazing sun. The plants will take American gas and cool it to minus 260 Fahrenheit, condensing it to a liquid that can be loaded on tankers and shipped to Asian, Latin American and European markets.

Golden Pass is one of eight potential liquefied natural gas projects Exxon is considering, including projects in Canada, Australia and Tanzania. As the biggest gas producer in the United States, Exxon could profit handsomely from the terminal, which could export two billion cubic feet of gas a day, nearly 3 percent of current production in the United States.

The proposed conversion offers many bonuses for Qatar, which plans to put up 70 percent of the money for the export project. It is a way to salvage a failed project from an embarrassment and convert it to a jewel among its gas investments, which already stretch from the Persian Gulf to the Adriatic Sea to South Wales. The project could enable the Persian Gulf emirate to capitalize on the United States energy revolution in time to help finance the hosting of the 2022 World Cup and other giant construction projects.

Most important, Golden Pass could help Qatar remain a dominant player in the growing and fast-changing global natural gas market. Qatar leverages its immense gas wealth to exert political influence in the Middle East and North Africa, backing directly and indirectly Hamas in Gaza, Islamic militias in Syria and Libya, and allies of the Muslim Brotherhood across the region, even while granting the United States space for a military base on Iran's doorstep.

"The Qataris have a clear view that their resource is both commercial and geopolitical," said Amy Myers Jaffe, an energy and Middle East specialist at the University of California, Davis. "They want to sell their gas to important places, and they want to be important to the United States."

Qatar is a slowly declining energy power, in part because the United States no longer needs its gas. In a few years, other countries, particularly Australia, will replace Qatar as the global swing producer that will determine where supplies go and at what price; the sale fees of gas are set regionally and not globally as they are with oil.

But large Asian and European buyers are increasingly bargaining to buy gas at prices that approach the low American gas price, frequently on the spot market. That is far below Qatar's preferred price, which is indexed to higher global oil prices. As more American gas comes on the world market, Qatar could become increasingly squeezed, energy specialists say.

Qatar still has abundant pricing power. Its own export plants, which it runs in partnership with Exxon Mobil, Royal Dutch Shell, Total of France and other international oil companies, produce a third of the 230 million tons of annual global liquefied natural gas output.

But the export terminals being built around the world will provide markets with an additional 80 million tons of annual capacity — and none of it is being built in Qatar. Australia will replace Qatar as the largest global gas exporter by 2017, according to a report this year by Eurasia Group, the New York-based geopolitical consultancy, and combined United States and Canadian capacity could also surpass Qatar's by 2020.

"If they want to retain market share, Qatar is definitely going to need more gas," said Leslie Palti-Guzman, senior analyst for global energy and natural resources at Eurasia Group.

Qatar may need more gas, but producing more at home is a politically charged proposition. The country has a moratorium on gas production from its main offshore field, which it shares with Iran. A main reason, regional energy specialists say, is to avert angry charges and potential retaliation from Tehran for draining the shared field.

The Golden Pass terminal would give the Qataris more gas to sell without breaking their drilling moratorium at home. The Texas facility would also give them an opportunity to sell American gas at the low American price to mostly Asian traders who have the purchasing leverage to demand it. In doing so, Qatar can try to preserve the higher oil-indexed price for the gas it produces at home.

"For Qatar to adapt, they not only need to adapt their marketing strategy in terms of where to sell the gas but also in terms of their pricing strategy to retain market share," Ms. Palti-Guzman said. "Golden Pass fits into that."

Requests to speak with Qatari government and oil industry officials went unanswered. Exxon Mobil's Mr. Franklin said he could not speak for them, but offered praise. "They have been as good as anyone we've dealt with from a business-friendly perspective," he said of Exxon Mobil's Qatari partners.

The Golden Pass project remains at least five years from fruition, and Exxon Mobil executives have expressed frustration at the slow pace of Obama administration approvals of proposed export terminals.

"Why don't we have a permit?" Mr. Franklin complained. "I have no idea."

The terminal's prospects appeared to many specialists to have improved when the Energy Department issued a rule in May pushing platforms with strong financial backing, which includes Golden Pass, to the head of the regulatory line of approval.

More than 20 projects are under consideration by the Energy Department and the Federal Energy Regulatory Commission, which reviews their environmental impact. The Energy Department gave final approval to two proposed export projects this month, enabling them to ship gas to countries without free-trade agreements with the United States. They join Cheniere Energy's terminal a few miles from Golden Pass across the Louisiana border, which was the first terminal to gain full federal regulatory approval and is expected to begin exporting by late 2015.

Still, the Golden Pass project remains a somnolent hub of high technology and giant structures perched incongruously in alligator-infested swampland. The terminal bears few signs of Qatar, aside from a set of clocks displaying both Qatari and Texas time down the hall from pictures of Qatari tankers that had docked here years ago before the terminal went quiet.

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