

Issues and Concerns Related to U.S. Pause on LNG Export Approval

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On January 26, the U.S. Biden administration announced a decision to pause new approvals for liquefied natural gas exports to countries that do not have a free trade agreement with the United States until the Department of Energy updates its analyses for granting such approvals. The DOE approval and the Federal Energy Regulatory Commission's permit for the location and construction of an LNG export terminal are crucial for final investment decisions for any new LNG export project. The decision argues that the pause will not affect existing LNG export projects or earlier approved ones in the construction phase. But the pause will have a significant impact on a number of large-scale LNG projects that are currently awaiting approval.

Before approving a new LNG export project, the DOE analyzes whether the project would serve U.S. national interests. According to the latest decision by the U.S. government, the DOE will be required to pay particular attention to the impact on climate change issues when conducting new analyses. Earlier DOE analyses have focused on the impact of LNG exports on the economy and energy prices in the United States. LNG export licenses have so far been granted for non-FTA countries as far as LNG exports to these countries have been expected to provide net positive benefits to the United States.

The Biden administration's decision to pause new LNG export approvals might have resulted from a political tug-of-war between climate change and energy issues in the United States or within the Biden administration.

As is well known, the Biden administration has positioned climate change as a grave crisis and one of its top priority policy challenges since its inauguration. It has been working with the European Union to drive and lead the global acceleration of carbon neutrality initiatives. Amid global energy price hikes since the second half of 2021 and the deepening Ukraine crisis that destabilized the international energy market, however, energy security has emerged as a top priority issue for the Biden administration. The world and the Biden administration have become acutely aware that the expansion of U.S. oil, gas, and LNG supply through increased production has played an important role in stabilizing the international energy market and that the expansion of U.S. LNG supply has played a pivotal role in supporting Europe, which is facing a gas crisis.

However, the renewed recognition of the importance of fossil fuels may not have been a good thing from the perspective of those who stand in a position of emphasizing the environment and supporting the Biden administration. Rather, the expansion of U.S. oil and gas supply, including LNG exports, under the Biden administration might have been viewed as running counter to the global enhancement of climate change measures and become subject to suppression. The lobbying by groups with such a perspective might have influenced the Biden administration, leading to the pause on new LNG export approval. In growing campaigns for the U.S. presidential election in November this year, the Biden administration, known for its emphasis on environment policy, may have no choice but to

take into account such groups and their lobbying. The political dynamics surrounding the presidential election might have made some impact on the decision of the pause on new LNG export approvals.

What is the significance of the pause on new LNG export approvals? As mentioned above, ongoing LNG exports and approved LNG export projects in the construction phase will not be affected. In this sense, there is no impact on the short-term increase in U.S. LNG supply. The United States became the world's largest LNG exporter in 2023 and is expanding LNG exports. As LNG export projects in the construction phase launch exports one after another, U.S. LNG exports could nearly double the current level by around 2030. In a sense, this indicates a sufficiently huge expansion of LNG supply capacity. However, the pause is expected to make final investment decisions difficult for LNG export projects close to approval. Such decisions may include those that had been expected to come this year. Furthermore, future LNG export projects may be left uncertain.

While LNG supply expansion continues for the time being, the sudden increase in uncertainty about potential future LNG supply projects may exert a variety of effects on the international LNG market.

First, there could be a surge in interest in U.S. LNG projects that are in the construction phase or have just been given approvals. When the prospects for potential future projects become uncertain, LNG buyers may be more interested in the assured projects. As a result, it is conceivable that the competitive environment for securing supply from the assured projects will become tougher. This means that there will be a change in competition for procuring LNG among U.S. projects.

Second, interest may shift to non-U.S. LNG projects. So far, the United States has demonstrated its dominant presence in the expansion of global LNG supply. While the expansion continues for the foreseeable future, competition among projects in the LNG market may change. This means that interest may grow in non-U.S. projects, especially those in Qatar, which is already moving to expand LNG supply. In North America, interest in Canadian LNG is expected to increase. It may also potentially have a certain impact on the awareness of the importance of Russian gas and LNG supply.

Another important change or impact could be seen in the views about U.S. LNG in the world, including Europe and Asia. The Ukraine crisis has brought the importance of U.S. LNG to global recognition. For Europe in particular, U.S. LNG played an important role as a "helping hand" from an ally and as a reliable source of supply in times of crisis. It can be said that the expansion of U.S. LNG supply and the subsequent stability of the market have been an important factor in enhancing energy security for U.S. allies. But the recent decision seems to pose a new element to the United States' LNG policy. While the U.S. position as a reliable LNG supplier remains unchanged, it cannot be ruled out that there will be a sense of uncertainty about this situation. As mentioned above, LNG buyers will have to keep a close watch on non-U.S. supply as well as U.S. supply.

The Biden administration has emphasized that the pause on new LNG export approvals will not apply in the event of an unforeseen national security emergency or affect supply to allies over the short term. In fact, the expansion of U.S. LNG supply under projects that will enter the production phase one after another will continue to meet growing demand not only from allies but also from the international LNG market. It is difficult to foresee what will be new DOE analyses that hold the key to the lifting of the pause and how they will influence new approvals. Another major factor of uncertainty is that it is completely unpredictable how the pause would be handled if Mr. Trump were to return to the presidency. Anyway, the future of U.S. LNG as a reliable, important energy source has

been met with an element of new uncertainty that could be significant. This is an issue that should not be overlooked in terms of energy geopolitics and diplomacy.

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