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“If Trump…”: Oil and Natural Gas

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The biggest event of 2024 is the US presidential election. Former President Donald Trump has won Republican Party preliminary elections in 32 of 34 states, and despite some uncertainty – namely, the outcomes of trials in which he has been indicted – it appears certain that he will secure the presidential nomination at the Republican Party’s convention in July. Phrases such as “If Trump…” and “Trump looks like a certainly…” are popping up everywhere in media reports, and scenarios that envisage Trump’s re-election are being explored in various fields. At the present point in time social problems such as immigration and abortion rights are emerging as the main issues in the presidential election, but the economy and foreign policy such as Ukraine and China are also attracting attention. On the other hand, Trump is making relatively few references to energy and climate change. Perhaps this is because the Biden policy is not that different from that of the previous Trump administration as a result of the inflation since2021, the greater priority on energy security following the Russian invasion of Ukraine, the wane of ESG at least within the US, and the fact that the Biden Administration is for the most part not limiting domestic oil and natural gas development.

Where oil and natural gas development in the US is concerned, unlike in 2020, when drilling on federal lands, and the construction of new oil pipelines became a point of contention, thus far they have not emerged as much of an issue at all. Alaska’s Willow oil project, which the previous Trump Administration approved, was confirmed by the Biden Administration in March 2023. Nevertheless, in the wake of opposition by environmental groups and others, the approval was revoked in September of the same year. If Mr. Trump is elected, the Willow project will likely be reapproved, but it will be 2028-2029 before the project begins production and even at its peak its production output will be 0.18 mb/d, or just 0.9% of the US total production output currently (19.65 mb/d as of February 2024). The Biden Administration is not regulating the hydraulic fracking that is essential for shale development, which accounts for most of the US oil and natural gas production growth, and this is on par with the former Trump Administration. Mr. Trump will undoubtedly attempt to repeal the IRA (Inflation Reduction Act), and it may be that he revises methane emission controls also. The impact on the oil and natural gas industries will of course depend on the content of any repeal and revision, but such moves will serve as a tailwind for oil and gas development. In January 2024 the Biden Administration temporarily paused approvals of LNG exports to non-FTA countries, but conceivably this will be revoked if Mr. Trump returns to power. Even under the present administration, the pause will be lifted in one year's time, but with possible regulatory changes in terms of approval criteria. Therefore, the emergence of a Trump Administration would likely dispel the uncertainty surrounding US LNG export approvals and encourage LNG buyers to commit to the US projects.

What about outside the US? Ukraine attracts the most attention in connection with this upcoming US presidential election. Thus far the US has implemented aid for Ukraine worth some $75 billion, which is said to account for around half the sum of the entire world's Ukraine aid. However, opposition to this is mounting within the US, and it is believed Mr. Trump will suspend the Ukraine aid once he is back in the White House. Although the EU is increasing its aid, if the US were to suspend, it would be difficult for the EU to make up that shortfall in its entirety. Should that be the case, Ukraine's tactical situation may deteriorate as a result of arms shortages and so forth, and during the next US president's term, Ukraine may be compelled to call a ceasefire based on the territory under its control at that point. However, even if a ceasefire is realized there is little likelihood of the West's sanctions against Russia being eased promptly, so the ceasefire will have a limited impact on oil and natural gas markets. In other words, exports of oil and particularly LNG from the US to Europe will remain at high levels, and neither will there be major changes in the quantity of oil and natural gas exported from Russia, or where it is exported to. Nevertheless, with a ceasefire, the risk of disruption to Russia's oil supply would probably decline because Ukraine's drone attacks would be halted.

Turning to China, the previous Trump Administration substantially hiked tariffs on Chinese products, and the policy has been followed by the Biden Administration also. Perhaps with the goal of distinguishing his position from that of the current policy, Mr. Trump says he will lift the tariff rate to over 60%. Although the value of China's exports to the US declined by 20% in 2023, China is the largest exporter to the US after Mexico. A substantial hike in tariffs would create a headwind for the economy of China, the world's largest importer of oil, evoke Chinese oil and natural gas demand restrictions, and make it more likely that prices will face downward pressure. Additionally, an unyielding stance toward China may be connected to sanctions on China's Iranian petroleum imports, which is discussed below.

Where the Middle East and the Gaza situation are concerned, Mr. Trump is not making any notable comments other than to encourage a ceasefire by Israel. However, it is easy to make a distinction with the Biden Administration when it comes to Iran. In 2018 the former Trump Administration imposed the strongest sanctions on Iran in history and went as far as secondary sanctions on exports of Iranian oil. The Biden Administration, which took on the JCPOA (the Iran nuclear deal) from the President Obama era, explored a policy of reconciliation with Iran (although this was never realized), and it is in effect tacitly approving the evasion of sanctions on Iranian oil exports. Accordingly, if Mr. Trump returns to power, he could strengthen clampdowns on Iran's sanction evasions and impose sanctions on China, which imports Iranian oil in large quantities. Such developments would contribute to a decline in exports of Iranian oil and a rise in oil prices.

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