

Discussion opportunity in the U.S. on LNG Export Pause

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On February 7-10, I had an opportunity to talk with U.S. government officials and energy industry executives, and think tanks and other experts in Washington DC. On February 8, I also took the stage at a webinar at the Center for Strategic and International Studies (CSIS) to introduce the key points of the IEEJ Outlook 2024, a long-term global energy supply and demand outlook published by the Institute of Energy Economics, Japan ([Outlook for 2024 Global and Japanese Energy | CSIS Events](#)).

My talks and discussions in Washington DC, while covering various issues, focused on the temporary pause on pending decisions on liquefied natural gas exports to countries that have no free trade agreements with the United States, as announced by the Biden administration on January 26 and discussed by A Japanese Perspective on the International Energy Landscape (674). (For details of the pause, see my abovementioned essay and “U.S. LNG Export Pause and Its Long-term Implications” presented by Takafumi Yanagisawa at an IEEJ energy webinar held on February 5). It was extremely timely for me to focus my talks and discussion during my latest U.S. visit on the LNG export pause, which is of great interest to Japanese energy stakeholders. In the following, I summarize my impressions gained through the talks and discussion and provide a perspective for considering this issue.

The first key point is the existence of diverse and differing opinions in the United States, which has caused an intense tug-of-war and clashes of interests. I have a strong feeling that the decision to pause new LNG export approvals derived from the complex and severe domestic political situation in the United States ahead of the presidential election in November. Expanding U.S. LNG exports have strengthened their position as a key reliable source of energy for the West to save Europe in particular from a gas crisis triggered by Russia’s aggression into Ukraine. The importance of U.S. LNG has come to be widely recognized for the energy security power of the United States and the Western bloc, as well as for international energy security. From the standpoint of emphasizing climate change, however, the expansion of U.S. LNG exports will have negative implications by prolonging the use of fossil fuels. During my talks and discussions with U.S. stakeholders, I heard that the decision on the LNG export pause was designed to emphasize environmental protection and appeal to environmental groups, especially to younger generation in the groups. Of course, there are various reasons and factors behind all policy decisions and it is not easy to articulate them. It is quite conceivable that behind this pause are problems and reasons that are not visible to us. However, it cannot be ruled out that the response to climate change and the related domestic situation in the United States, especially the domestic political situation in the run-up to the presidential election, may have had some connection with the pause.

However, the problem is complicated by the fact that if the most important driving force for the decision can be the emphasis on environmental concerns or the enhancement of climate action,

there are various other important factors to consider. I got the impression that some within the Biden administration might have emphasized prudence in the pause decision. While the emphasis on climate change measures is obvious, some Biden administration officials might have considered how this policy decision could affect global energy security and the United States' relations with its allies. During my latest Washington discussion, I also noted that there was a great deal of interest among U.S. stakeholders about how Japan views and intends to respond to this issue. From the viewpoint of those promoting U.S. LNG exports, it is very important for Japan to be concerned about this issue and lobby the U.S. government in various ways. However, I felt that even the administration that made the decision was paying attention to how Japan (and Europe) would view and respond to the decision and what implications the decision would have for them. This point would be especially important if the Democrat administration won the forthcoming presidential election. It is important for Japan to fully understand the various positions within the administration and take appropriate measures. (Of course, most of the U.S. stakeholders who talked with me seemed to think that if the Trump administration were to come back, this pause decision would be immediately withdrawn, which means that the exact opposite position would come to the fore.)

The second key point is sensitivity to energy price hikes. It has been pointed out that one of the reasons behind the decision to pause LNG export approvals is that, if U.S. LNG exports, which have already shown dramatic expansion, increase further very significantly in the future, the total demand for U.S. natural gas for LNG production and domestic supply will increase significantly to tighten the U.S. gas supply-demand balance and push up gas prices. On this issue, some stakeholders who talked with me argued that if the U.S. natural gas production curve (indicating how much can be supplied at specific prices) were fairly flat as previously assumed, price hikes would be extremely limited despite a substantial increase in LNG exports. In addition, some others were of the view that concerns about the negative impact of price hikes on the domestic economy were an afterthought that was added to the emphasis on environmental protection. Again, it is difficult to find out the truth rigorously and it is beyond my ability. However, I felt that if prices were to rise due not only to an LNG export expansion but also to any other market factors, it could have a considerable impact on the debate in the United States. Rising U.S. energy prices for any reason through the second half of this year will have a variety of implications for energy policy. Most symbolically, gasoline price hikes could even affect the presidential election results. Since 2021, Europe and Japan have demonstrated their extreme sensitivity to rising energy prices by introducing energy subsidies. In a different way, the United States seems to be demonstrating its sensitivity to energy price hikes.

If domestic or political factors such as an emphasis on environmental protection and concerns about high domestic prices lead to the LNG export pause decision, the U.S. LNG supply may be viewed as being affected by U.S. domestic political conditions. This can be important for Japan and Europe despite the presence of sufficient short- to medium-term supply capacity amid lingering concerns about long-term supply capacity, as heard many times during the Washington talks. As a result, I felt that it was impossible to rule out the possibility that the reliability of U.S. LNG would be clouded by the pause decision from the viewpoint of the importers.

The last key point is that outlooks for the global LNG or natural gas market are extremely important for considering the LNG export pause issue. If we view natural gas and LNG demand as declining during the world's decarbonization towards 2050, how to secure long-term LNG supply will become less important. If global LNG demand expands until 2040 and falls back to the current level in 2050 even in a low-growth scenario as indicated by the IEEJ outlook, however, the view of the world will become different. In particular, the IEEJ's analytical conclusion that it is essential to secure new LNG supply capacity because of the gradual depletion of the existing capacity attracted strong

interest from the U.S. side during my Washington talks. Through both the CSIS webinar and my personal talks with U.S. stakeholders, I felt that the IEEJ conclusion that investment will be indispensable for adding 8 million to 18 million tons in LNG capacity globally on annual average up to 2050 attracted great interest in the context of the role of U.S. LNG in this process.

As Japanese Prime Minister Fumio Kishida's state visit to the United States looms, efforts continue to enhance the U.S.-Japan alliance and bilateral cooperation. Japan and the United States should have constructive discussions to enhance bilateral relations regarding the entire energy policy including LNG.

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