

Discussion at Washington, DC on Geopolitics of U.S. LNG

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From July 21 to 23, I visited Washington, DC, and had an opportunity to exchange views on the overall international energy situation with many government officials and experts. On July 22, I participated in a workshop sponsored by the National Bureau of Asian Research, a U.S. think tank, under the title “Asia's LNG in a Divided World: Implications for Energy and Economic Security” to discuss liquefied natural gas from a geopolitical perspective. At this workshop, presentations on LNG were made from the perspectives of the United States, Japan, and China, followed by a lively exchange of views based on the Chatham House Rules. In the following, I would like to discuss the geopolitics of U.S. LNG based on my latest Washington talks, including those at the workshop.

First, I was most impressed by the opportunity to review and renew my thoughts on the geopolitical significance of U.S. LNG, which has expanded rapidly since 2016 due to the progress of the shale revolution and made the United States the world's largest LNG exporter. Without the shale revolution, the United States would have become the world's largest LNG importer, rather than the largest exporter. (This is the same case with oil. Without the shale revolution, the United States would have become one of the world's largest oil importers.) The United States has moved away from its dependence on imports for natural gas/LNG and oil, the most important commodities for international trade, becoming their largest supplier to international markets. In this sense, the United States has drastically enhanced its energy security and become a major player in keeping other major energy suppliers in check and changing supply and demand in the international energy market. The U.S. role in the LNG sector was fully demonstrated in the international energy market that became turbulent under the Ukraine crisis in 2022.

The United States was the first to announce an embargo on Russian energy immediately after the Russian invasion of Ukraine, and led the West in introducing and enhancing energy related sanctions against Russia. When Europe faced a sharp decline in gas supply and a serious gas crisis due to its then heavy dependence on Russian pipeline gas supply, large-scale U.S. LNG additional supplies, together with the promotion of energy conservation and the switch from gas to other energy sources, made the greatest contribution to European energy security. In addition to the contribution through quantitative expansion, U.S. LNG is characterized by the flexibility regarding export destination restrictions. Massive U.S. LNG flowed into Europe to rescue the crisis-hit region. Indeed, U.S. LNG played an important geopolitical role in helping European nations, as U.S. allies, struggle with the energy crisis.

This point will continue to be extremely important for anticipating the future international energy situation. The United States, now the largest LNG exporter in the world, is expected to achieve an unprecedentedly large-scale LNG supply expansion from now on, dubbed “Big Wave,” towards 2030. The continued significant supply expansion associated with the high flexibility regarding export destination restrictions will lead to the globalization of LNG and gas markets or structural changes to further strengthen the convergence between major gas markets such as Europe, the United States, and

Asia. LNG supply with the pricing mechanism based on U.S. Henry Hub prices will expand in a manner to diversify LNG pricing mechanisms around the world, especially in Asia.

The expansion of U.S. LNG, which brings about these important structural market changes, will solidify the United States' position as the world's No. 1 LNG exporter and strengthen its influence on the global gas and LNG market, further enhancing the importance of the United States as an influential LNG market player. For LNG importing and consuming countries, how to position the increasing U.S. LNG in their own import portfolios and how to position U.S. LNG to ensure and strengthen LNG supply security will become even more important in the future. For major LNG and gas exporters such as Qatar, Australia, and Russia, and also for emerging LNG exporters such as Canada, the presence of the United States as their competitor will only increase. U.S. LNG, which is getting on the "Big Wave," will inevitably become the most important presence and factor for global LNG geopolitics.

Through my discussion in Washington, DC, on the other hand, I felt that there is a continued awareness of the issue of how to think about risks regarding potential major U.S. energy policy changes when anticipating the future of U.S. LNG, which is becoming even more important. Although recent structural market changes have made LNG contracts relatively shorter and supply more flexible, there has been no significant change in the basic LNG business model that requires huge initial investment and long investment recovery periods. For businesses that make huge initial investments based on the premise of long-term business relations, major policy changes that greatly affect the business environment are risk factors that cannot be overlooked.

The Trump 2.0 advocates "energy dominance," as is well known, giving priority to LNG among energy sources. However, the previous Biden administration was regarded as not fully supporting LNG as a fossil fuel, as symbolized by the "LNG Pause" announced in January 2024. At present, we cannot predict what stance the next and future U.S. administration will take on LNG. Although U.S. LNG is likely to play an important role in the international energy market, whether the U.S. government will support this possibility or position LNG as just one of the fossil fuels will make a big difference for energy stakeholders around the world. The presence or absence of major U.S. LNG policy changes and their specifics will greatly affect global LNG geopolitics.

In addition to the above, my discussion in Washington DC covered other interesting geopolitical issues, including the important role of U.S. LNG in accelerating Europe's phase-out of dependence on Russian gas through the enhancement of sanctions against Russia, as well as the strategic consideration and future development of LNG trade between the United States and China under the escalation of their confrontation. In analyzing the current and future international energy situation, there are a number of important issues regarding the U.S. LNG geopolitics.

Another extremely important issue is related to U.S. LNG and Asia, in particular Japan. During my Washington visit, an agreement on tariff negotiations between Japan and the United States was suddenly announced, making the Alaskan LNG issue a major matter of interest again. Even after the announcement of the agreement, there are various views on the specifics of the agreement. The announcement called for Japan to invest \$550 billion in the United States and for the United States to lower the U.S. reciprocal and automotive tariffs on Japan from 25% to 15%. As shown by Japanese and U.S. stock market trends, this agreement was generally welcomed by market players. However, the details of the above \$550 billion investment (including profit distribution) remain to be seen. In addition, various speculations have arisen regarding Alaskan LNG in which the Trump administration has shown strong interest, such as those about a potential Japan-U.S. joint venture for developing LNG

in Alaska and the relationship between Alaskan LNG and the abovementioned \$550 billion investment. However, the actual situation regarding Alaskan LNG is still uncertain. Alaskan LNG has become one of the biggest geopolitical issues for Japan regarding U.S. LNG. We should pay close attention to future relevant developments.

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