Trump’s Trade War Escalation Puts U.S. Energy in Crosshairs

U.S. gas is under threat as a trade war with China escalates.

China may target American liquefied natural gas in retaliation for a fresh round of duties announced Monday by the U.S. While the Asian nation last month said it was considering a 25 percent tariff on the fuel, it hadn’t yet provided any details when it vowed Tuesday to take new action.

The move would be a setback for a burgeoning energy relationship that was on track to be a boon for both economies. The move would also add new pressure on the U.S. LNG industry, which is competing with Russia, Australia and Qatar for market share in China, the world’s biggest gas buyer. Just last year, U.S. officials were courting Chinese companies to invest in new export projects.

The tariffs would signal how much pain Presidents Xi Jinping and Donald Trump are willing to endure not to back down from a trade fight. Trump risks stifling the U.S. gas export industry, which is seeking an estimated $139 billion to fund more than a dozen projects, while Xi threatens to raise the cost of his drive to eliminate smog by burning less coal.

China’s LNG Purchases

U.S. LNG has accounted for nearly 6% of China’s imports over the last year: Bernstein“Chinese companies will have an aversion to investing in U.S. LNG projects in the short term” if tariffs are imposed, said Saul Kavonic, Credit Suisse Group AG’s director of Asia energy research. “Australia and Qatar’s

LNG sectors will benefit from being seen as a lower risk source of supply by customers in the world’s fastest growing LNG market, at least over the near term.”

Booming Demand

China’s push to use more natural gas is driving global demand growth, with LNG imports jumping 47 percent in the first seven months of the year. Though it’s the third-largest buyer of U.S. cargoes, American supply made up a little less than 6 percent of purchases over that period, according to Sanford C. Bernstein & Co. If U.S. companies can seize 20 percent of the market by 2030, it could lower the trade deficit with China by $50 billion, Bernstein estimates.

Higher oil prices and a surge in LNG demand have reignited interest in export ventures, with about 15 U.S. projects targeting final investment decision this year and next, the most of any nation, according to Bloomberg NEF. Projects have been seeking investments or off-take agreements from China, which earlier this year topped Japan as the world’s biggest gas importer.

“It is hard to see any of these hopeful projects getting another Chinese buyer signed up for long-term volumes” if China slaps tariffs on U.S. gas, Trevor Sikorski, an analyst at Energy Aspects Ltd., said by email. “Given China is a huge part of global LNG demand growth, that is a big headwind for these new projects.”

Liquefied Natural Gas Ltd., which is yet to make a final investment decision of the $4.35 billion Magnolia LNG project in Louisiana, expects Chinese buyers will wait for uncertainty on tariffs to be removed before signing contracts, Chief Executive Officer Greg Vesey said Monday at an industry conference in Barcelona.

Exporting nations such as Australia and Qatar could benefit from the trade tensions, according to Xizhou Zhou, an analyst at IHS Markit.

“You have two important parties in the LNG market — one is a very important large buyer, one is an important large supplier — less likely to negotiate with each other,” he said by phone. “So Qataris, Australians will have less competition when it comes to the Chinese market for long-term contracts. ”

The GasLog Greece, which left Cheniere Energy Inc.’s liquefied natural gas export terminal in Louisiana on Aug. 15 en route to China, changed its destination mid-journey to South Korea. It was one of at least two U.S. LNG shipments heading for China during the past month. The other ship, Rioja Knutsen, arrived Sept. 3 at Tianjin.

More than a month ago, state-owned PetroChina Co. contemplated temporarily halting purchases of U.S. gas and increasing buying from other nations, while ENN Group, a private gas distributor and burgeoning LNG importer, decided not to buy any supplies from the U.S. this winter, Bloomberg reported last month.

Most LNG cargoes are sold at a price linked oil, whereas U.S. supplies are often priced off domestic gas prices, which have declined about 4 percent this year. China’s decision comes as U.S. gas has become cheaper than oil-linked cargoes and amid the prospect of crude continuing to rise over the next few years. LNG spot prices in Northeast Asia this year have averaged the highest since 2014, at around $9.70 per million British thermal units. Prices last year surged on the back of China’s soaring consumption.

That’s why the tariffs are an especially cruel blow for companies backing prospective U.S. liquefied natural gas export terminals, including Tellurian Inc., Liquefied Natural Gas Ltd. and Pembina Pipeline Corp. A 25 percent levy would lift U.S. LNG back above oil-linked costs.

On the other hand, that's good news for energy giants that have LNG prospects outside the U.S. That includes Irving, Texas-based Exxon Mobil Corp., which has ties to projects in Qatar, Papua New Guinea and Mozambique, and Royal Dutch Shell Plc, which is aiming to build a plant in western Canada, operates a project in Australia and has one of the world's biggest LNG trading portfolios.

Exxon also signed a preliminary deal earlier this month to participate in a potential LNG import terminal in southern China, as well as supply it with gas. Separately, PetroChina inked a deal with Qatar to purchase 3.4 million tons of LNG annually, the Chinese company's biggest supply deal yet. The agreement, which will start this month, could help China forgo some U.S. supplies during peak winter demand.

Merchant trading houses like Vitol SA, Trafigura Group Pte. Ltd. and Gunvor Group Ltd., may also be able to benefit by, for example, routing U.S. LNG to buyers including Japan and South Korea while selling Malaysian or Australian fuel meant for those markets to China instead, all with a little added mark-up for themselves.

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