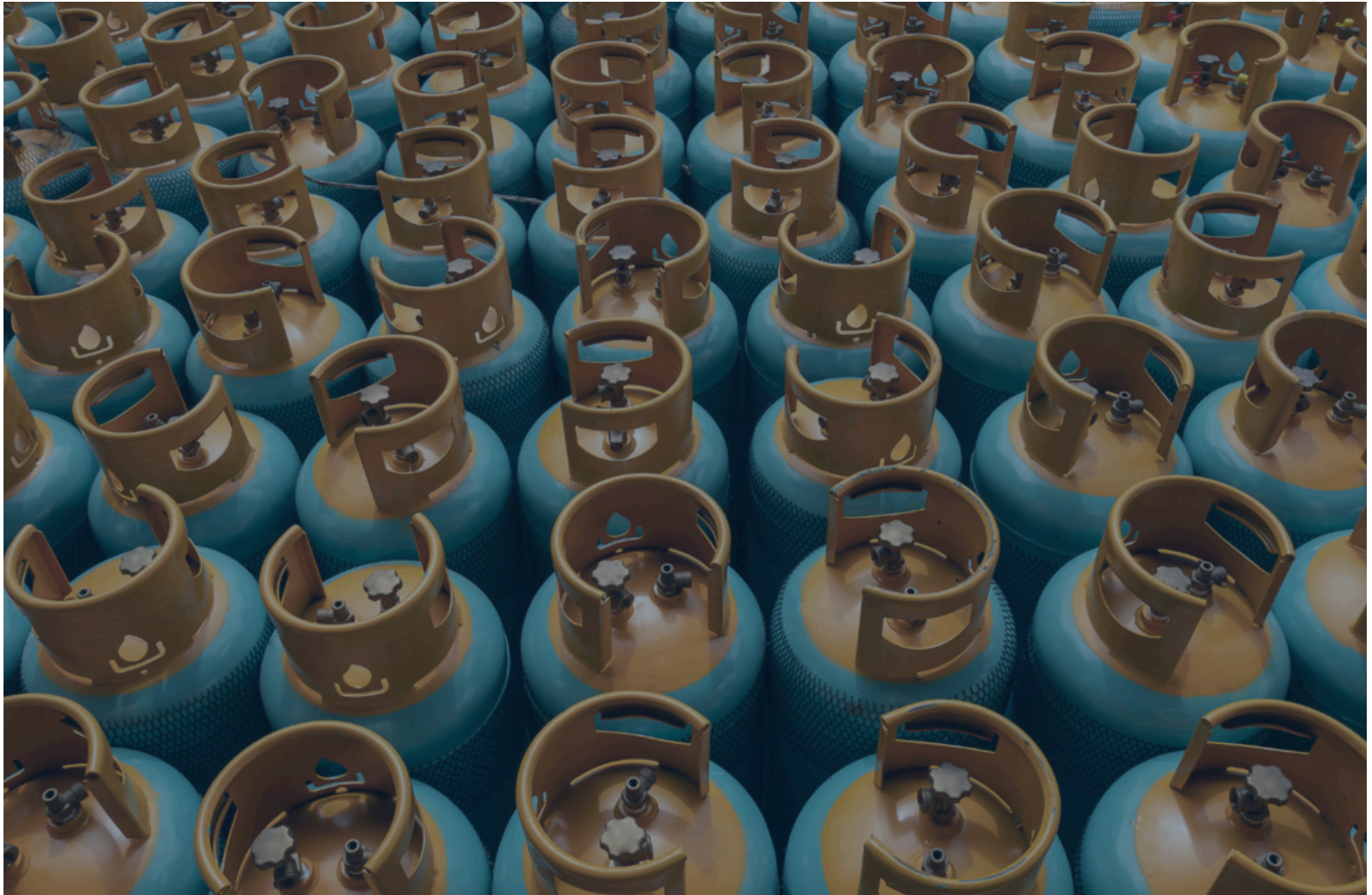




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THE US PAUSE ON LNG TERMINALS WILL NOT PUT EUROPE AT RISK

January 2024  By Lukas Trakimavičius

Week the White House announced that it was pausing the approval of new liquefied natural gas (LNG) export projects; environmental concerns. This sparked a number of sharp reactions in the media. Some claimed this decision would anger American allies since last year Washington supplied around 40 % of the European Union's LNG. However, such fears appear to be vastly overblown as it is highly unlikely that this decision will put Europe's energy security at risk.

Following the pause, the Department of Energy (DOE) will conduct a review of the licensing process, focusing on the economic and environmental impacts of new LNG export terminals. Currently, the full impact of this policy is uncertain, but it is widely believed that at least four LNG projects will be hardest hit by the freeze. There are far more LNG export projects in the pipeline, but not all have been approved for construction by the Federal Energy Regulatory Commission or the DOE.

while, industry groups have decried the policy as a 'win for Russia and a loss for American allies' and called on the administration to reverse the pause.

Though President Biden's election-year decision to align himself with the environmentalists may understandably ruffle feathers, it would be misleading to suggest that this would undercut Europe's security of supply.

There are at least four reasons for this.

J S LNG export capacity is still expected to grow, even if no new projects are greenlighted.

The pause will not affect Washington's existing commitments. Energy Secretary Jennifer Granholm clearly stated the decision will have zero impact on current US supplies to Europe and Asia, or the authorised LNG export projects, which are scheduled to come online in the next couple of years. In fact, a good chunk of the terminals likely targeted by the freeze had not been operational until the late 2020s or even early 2030s.

Indeed, US LNG export capacity is still expected to grow, even if no new projects are greenlighted. In 2023, the US exported 100 million tonnes of the superchilled fuel, overtaking Australia and Qatar to become the world's largest exporter of LNG. However, once the already approved and under-construction projects come online, the US could nearly double its export capacity towards the end of the decade, cementing its status as an energy superpower.

Therefore, LNG shortages will not result from this decision any time soon. In addition to the upcoming US LNG capacities, in the next couple of years a large wave of new LNG export terminals in countries like Canada, Mexico and also Qatar will come online. While demand for LNG is also expected to increase globally, data from the International Energy Agency suggests that a surge in new LNG export projects might actually lead to a supply glut from 2025.

Meanwhile, the EU's appetite for natural gas is poised to fall. In 2023, the EU consumed around 400 billion cubic metres (bcm) of gas. However, thanks to sustained deployment of renewable energy sources, energy efficiency programmes and demand management, the bloc is on track to gradually wean itself off its reliance on fossil fuels, including gas. According to Rystad Energy, its gas demand might decrease to some 340 bcm by 2030, thereby reducing the EU's overall reliance on energy imports.

J S LNG supplies will continue to serve as a steadfast pillar of the continent's energy security for many years to come.

Indeed, the LNG markets dislike uncertainty and the fact that the Biden administration has not provided more clarity about the timeframe of the pause is not helping either. As a result, the only potential impact on Europe is that Biden's decision, in the long term, could lead to somewhat higher energy prices. This is because the bulk of Europe's LNG contracts are tied to the more volatile spot market, whereas most Asian LNG buyers opt for the more predictable oil-indexed pricing long-term contracts.

In the end, suggesting that Biden's LNG pause poses a threat to Washington's allies would be a stretch. Thanks to an increasingly well-supplied LNG market and the accelerating phase-out of fossil fuels, Europe's security of supply will likely remain unaffected in both the short and long term. However, if one thing is certain, it is that US LNG supplies will continue to grow.

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