

What Is the Geopolitical Impact of U.S. Liquefied Natural Gas?

By Leslie Palti-Guzman

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This piece was written in 2019; as such, elements of this paper that were contemporaneous when written may now be dated.

Introduction

In 2017, the United States became a net natural gas exporter for the first time in 60 years as a result of skyrocketing shale gas production.¹ The unprecedented scale and speed of the country's transition from up-and-coming liquefied natural gas (LNG) demand center to LNG exporter took the world by surprise. U.S. natural gas has become a strategic asset, and the ability to export this energy has created new geopolitical dividends for Washington. The attention on U.S. natural gas is so widespread that it has provided a tremendous opportunity for the U.S. Department of State to reach audiences and broach subjects that may otherwise not be well-received.² It has added an element of U.S. economic and geopolitical power, strengthened the country's national security, solidified existing alliances and created new ones, and improved global discussions on energy security. Beyond Washington, the main winners are the existing and future LNG importers who benefit from better pricing and improve energy security, while the main losers are rival LNG exporters and geopolitical foes who have unleashed defensive strategies to protect market share.

1 Since 1957

2 U.S. energy diplomacy has a much broader focus than natural gas as it integrates other fossil fuels, alternative energies, technologies, and the fight against climate change, but in this paper, the author will only focus on LNG diplomacy.

But this story is developing and many chapters remain unwritten. The Trump administration's America First and Energy Dominance agendas have yielded some results but also damaged bilateral relations, undermining the U.S. standing in multilateral forums. The politicization of U.S. LNG in trade negotiations could backfire and harm U.S. energy interests. The current government is in favor of moving ahead full-throttle with U.S. gas production and exports but has failed to articulate a coherent and comprehensive LNG export strategy. The ongoing energy transition could undermine U.S. LNG leadership altogether if the United States does not find and develop a coherent narrative on natural gas's role in a greener world and on how to best use its energy for leverage on the international stage.

Washington is still figuring out how to use its newfound geopolitical clout. The United States is already the world's third-largest LNG exporter, and U.S. export potential will continue to soar in the coming years as energy systems undergo profound transitions, including decarbonization. Thus, perhaps not surprisingly, the U.S. government has to act now before it's too late to position itself to fully capitalize on this gas bounty in the international arena.

I – The Formidable Rise of U.S. Geo-Economic Gas Power

U.S. LNG: THE DISRUPTER IN CHIEF BY ITS MAGNITUDE AND SPEED

The United States' shift to LNG exports is an unprecedented achievement in its magnitude, speed, and revolutionary characteristics. It has shaken up global gas and energy markets, creating ripple effects across geographies and economies.

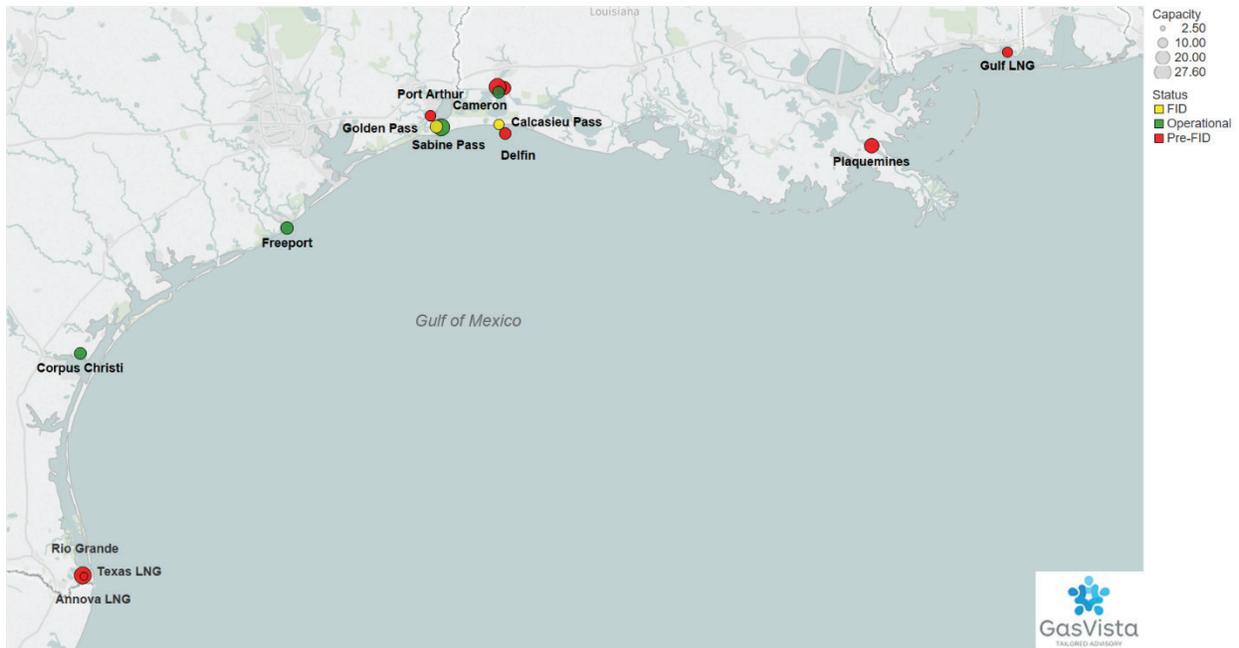
The United States is now the world's third-largest LNG exporter after Qatar and Australia—only 10 years after the beginning of widespread acceptance that shale gas in the lower 48 states offers an abundant and available source of natural gas—thanks to the combination of hydraulic fracturing and horizontal drilling. The first exports of U.S. shale-to-LNG started in February 2016, and within less than four years, the United States is about to reach an export capacity of ~60 million tons out of six operational export projects, and ~68 million tons in 2022 when all the projects would have ramped-up. There are another two large-scale projects currently under construction which will bring total U.S. LNG export capacity to 97 million tons by 2025, with a dozen other projects awaiting final investment decisions (FIDs). But the author does not anticipate any new large greenfield U.S. LNG will take FID in 2020 due to the risk of a prolonged glut, continuous demand uncertainty, and fear that an accelerated energy transition will turn these investments into underutilized or stranded assets. Asia LNG spot prices lost more than 56 percent in Q3 2019, and December 2019 North Asia Sling is below \$6/mmbtu despite winter approaching.

US LNG Export Projects



Source: GasVista LLC, various news outlets

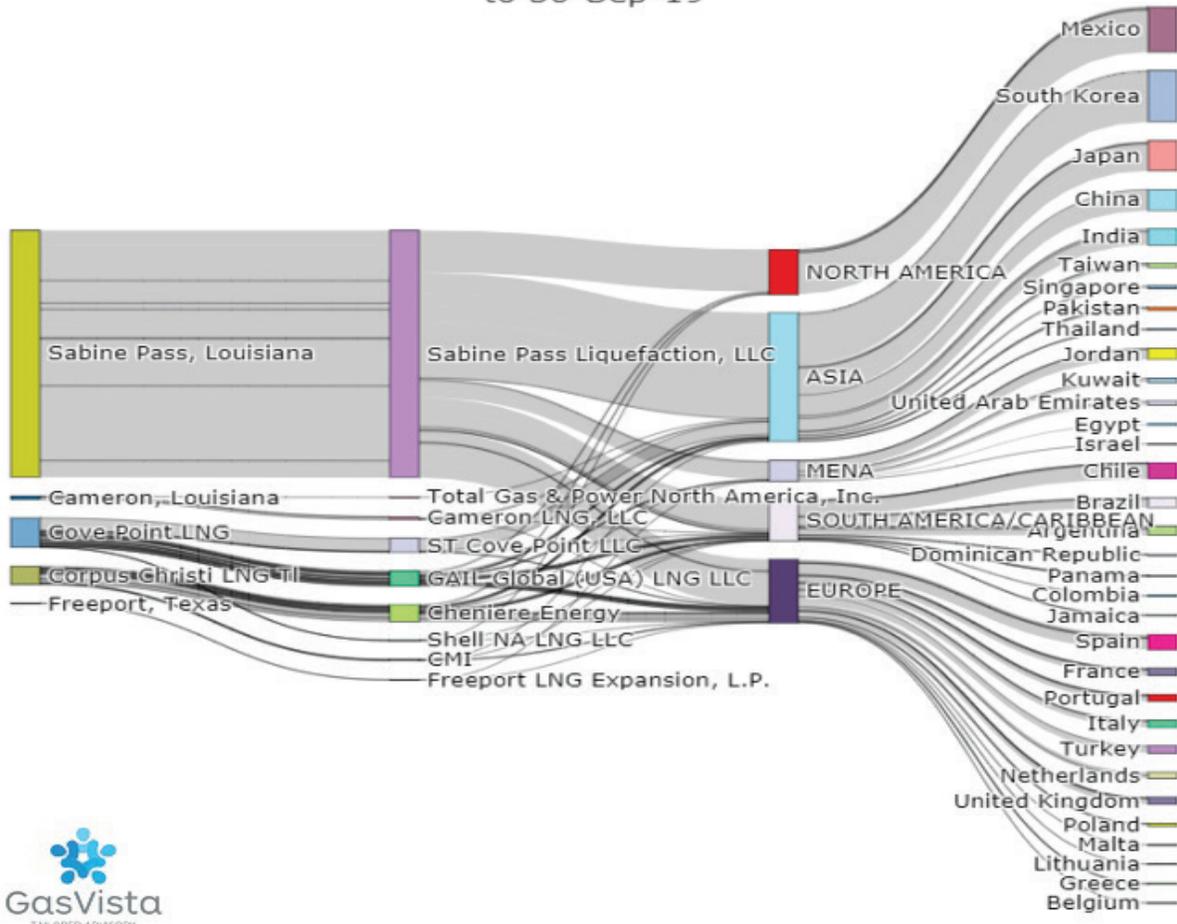
US Gulf Coast LNG Export Projects



Source: GasVista LLC, various news outlets

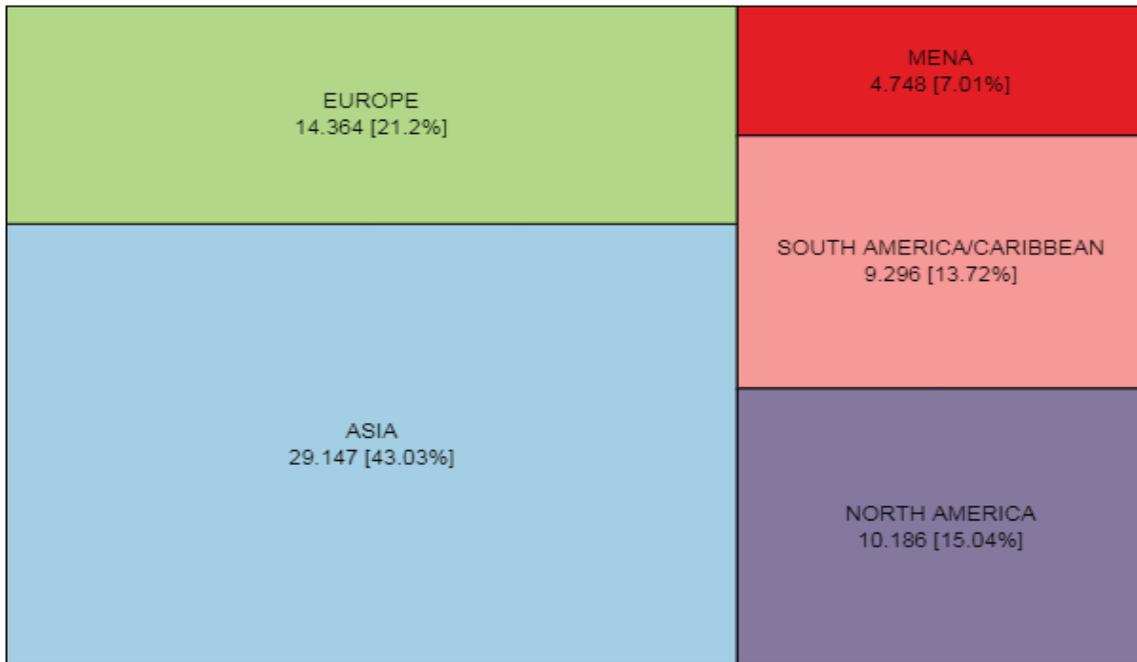
U.S. LNG exports show continuous growth and reach. The United States has already exported to 33 different import destinations across five regions since 2016. U.S. LNG could reach 34-38 mt of exports by the end of 2019, which is roughly half the level of Australian exports. South Korea remains the largest U.S. LNG importer for 2019, followed by Japan, Mexico, and Spain. The largest regional recipients of U.S. LNG are Asia (36 percent) and Europe (33 percent) which have become equally attractive regional destinations. The author's long-held view that roughly the same volume of U.S. LNG will go to Asia, to Europe, and to the rest of the world (each taking one-third of global supply) holds true for now.

US LNG Importers -ALL COUNTRIES- by Supplying Facility, 24-Feb-16 to 30-Sep-19

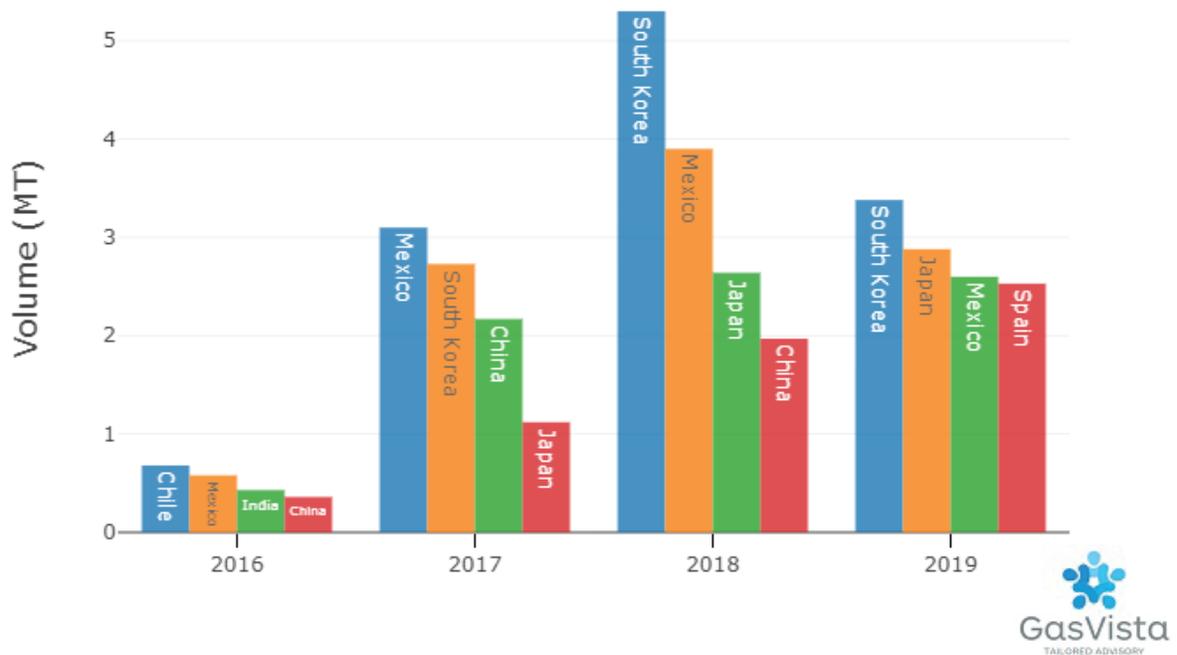




US LNG Importers -ALL REGIONS- 24-Feb-16 to 30-Sep-19

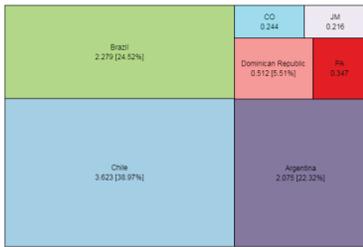


Top US LNG Importers -ALL REGIONS- 24-Feb-16 to 30-Sep-19

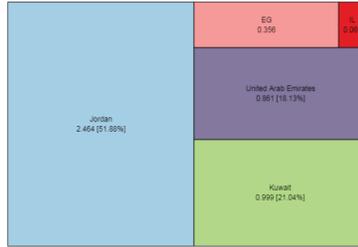


US LNG Exports -- By Regions -- Feb. 2016- Sep. 2019

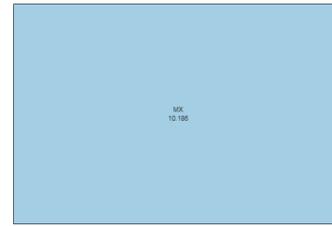
US LNG Importers -SOUTH AMERICA/CARIBBEAN- 24-Feb-16 to 28-Sep-19



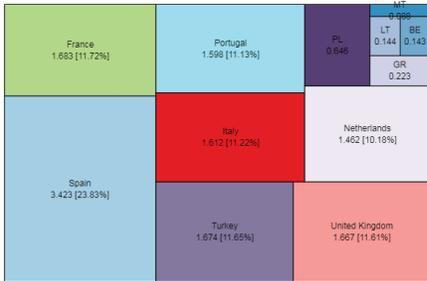
US LNG Importers -MENA- 28-Mar-16 to 03-Sep-19



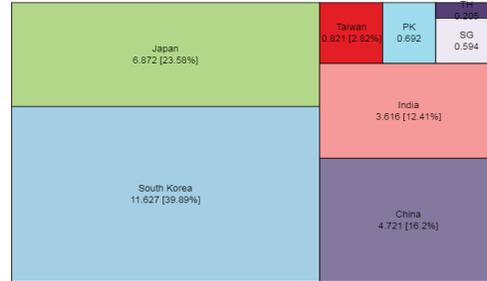
US LNG Importers -NORTH AMERICA- 23-Aug-16 to 27-Sep-19



US LNG Importers -EUROPE- 15-Apr-16 to 29-Sep-19



US LNG Importers -ASIA- 15-Mar-16 to 30-Sep-19



The unique characteristics of U.S. LNG have transformed global gas markets. The original model that was attractive enough to importers to get U.S. LNG exports off the ground included three key elements: Henry Hub-linked pricing; a tolling model, which provides cost transparency from production to liquefaction; and destination flexibility. The United States changed the game that had been played for decades in the LNG market in many ways, including:

- Growing the global pool of LNG export capacity, which in turn has strengthened global energy security and source/route diversification;
- Adding new players offering business model diversification when compared to traditional LNG portfolio players or state-owned companies;
- Accelerating pricing diversification by offering Henry Hub-linked U.S. LNG;
- Spearheading the restructuring of LNG contracts and erosion of destination clauses, increasing market liquidity and pricing transparency; and
- Reducing LNG import bills in many importing nations and limiting the growth of Japan’s post-Fukushima trade deficit by lowering the cost of its LNG imports.

The old LNG club that dominated the global LNG market is now obsolete—its opaque rules and market clout gone forever. This ongoing transformation has encouraged the global LNG market to become increasingly liquid, integrated, and creative in its contractual arrangements, and some vintage features that had long been the backbone of the industry are slowly disappearing, even in Asia. Oil indexation for long-term prices remains in place for the vast majority of existing supply, but its share keeps shrinking. Pricing and other contract features are gradually diversifying (notably with the rising share of Henry Hub-linked U.S. LNG exports), but oil-linked long-term LNG contracts will remain an option in the absence of market-based Asian LNG prices.³

3 The spread of Henry Hub-linked LNG pricing will have a significant impact on pricing mechanisms in Asia but will only be con-

THE MAIN WINNERS AND LOSERS FROM U.S.-MADE LNG

A win for high-growth (existing and future) LNG importers: “Bring it on! We want more”

Better pricing and bargaining position: U.S. LNG has lowered importers’ bills by flooding the market with new supply, forcing established suppliers to reduce their pricing and renegotiate older contracts to remain competitive and maintain market share. Importers from Europe to Japan have put continuous pressure on the U.S. government to streamline LNG export permitting to ensure supply will continue to grow and guarantee sustained affordable pricing of the fuel. U.S. LNG has been instrumental in lowering Japan’s LNG bill, which had skyrocketed post-Fukushima.

Improved energy security: Some countries have begun to shift their energy/power mix to rely more on natural gas, knowing they could rely on stable, abundant, and reliable supply from the United States. The U.S. gas bonanza has diversified LNG sourcing away from a single supplier or a single, less-stable region. U.S. supply has been perceived as coming from a more stable geography with safer shipping routes and more predictable policies.

A threat for rival LNG exporters: “What just happened?”

Black swan event: The rise of U.S. LNG exports happened so fast that many established suppliers are still struggling to adapt their export strategies to the new landscape (e.g., Algeria, Qatar). Qatar’s mega facilities were envisaged prior to the shale gas revolution as a means to supply the vast U.S. market.

Race between suppliers: U.S. LNG is a threat and has unleashed defensive strategies by other exporters to protect market share from this new economic competitor. Countries from Russia to Qatar are racing to monetize their resources as quickly as possible to preempt construction of new U.S. projects. They have announced to the world that they will produce and export new supply in the same timeframe for cheaper. Existing and future exporters are dreading the litany of U.S. projects awaiting FID. The scale and pace of U.S. LNG have been hard to predict due to regulatory delays (e.g., Federal Energy Regulatory Commission, Department of Energy studies) and market forces (there is ~200 mt of proposed U.S. LNG capacity waiting to take FID). Another defensive strategy has been to undermine U.S. LNG using inaccurate rhetoric. The Kremlin has been very successful at painting U.S. LNG as too expensive or too dirty and alleging that the U.S. government in its interactions with other countries is only interested in selling U.S. LNG.

Evolving export strategies: Russia has been betting on a volume-over-pricing strategy to protect its market share from U.S. competition. The Kremlin has signaled multiple times that it will dominate global gas markets and has directly contributed to this effort by speeding up the development of Arctic LNG exports—it dissolved Gazprom’s LNG export monopoly, offering tax breaks and other state-sponsored assistance to its competitor, Novatek. Russia has also altered its export pipeline strategy to target Asian customers, pivoting away from the European crowded gas battlefield (e.g., Power of Siberia pipeline). Similarly, Qatar has renewed ambitious export plans, which are a testament to growing competition between suppliers and to the threat of stranded assets for nations that derive their national wealth from fossil fuels. Qatar’s North Field growth plans—upscaled to bring on an additional 49 mt by 2027—are paramount for the country as Doha wants to keep its position as top exporter, dwarf the economic impact of the blockade, and discourage competitors/potential partners that are considering FIDs in other jurisdictions.

sidered by buyers as a transitional price marker before more widely used Asian pricing indexes emerge. As buyers are looking to hedge the risks of price volatility, imports of Henry Hub-linked supply are another way to diversify pricing exposure.

PLENTY OF POLICY GAINS FOR U.S. GOVERNMENT FROM EXPORTS SO FAR

Since the first U.S. LNG cargo from the lower 48 sailed nearly four years ago, U.S. LNG has advanced U.S. global interests, encouraged energy security discussions and cooperation, bolstered ties with trade partners, and provided more leverage when dealing with hostile nations. Analysts had anticipated most of these geopolitical gains, but some were not on the radar.

The United States has a seat at the table to advance LNG market liquidity, energy cooperation, and free flow of navigation. These concepts are no longer solely vague theoretical principles that the U.S. government endorses; they are elements that U.S. actions can directly influence through daily trade. It has a voice in reshaping the rules of the market because it is an active player in the game. It is part of the global energy security discussion from the Gulf region and the Strait of Hormuz to the East Mediterranean and the South China Sea. The United States has been involved in Israeli-Lebanese negotiations over a disputed maritime border.

Meaningful energy security debate. U.S. LNG exports have deepened discussions on energy security with other countries and multilateral organizations. Recent meetings at the IEA and G20 have all put natural gas security on the agenda. In 2016, the international community took notice that U.S. LNG exports were about to increase dramatically. In response, the **G20 communique** noted “natural gas has become an integral part of global energy supply and we will endeavor to improve the functioning, transparency, and competitiveness of gas markets, with a strategic view of the gas supply chain including LNG at the global level.”

Added element of U.S. economic and geopolitical power. The United States used to project strength through its military, economy, and soft power, and has now added natural gas exports to its arsenal.⁴ Similar to “the dollar is our currency, but it’s your problem”, now it is also “the golden era of American energy is now underway, but it’s your problem.”

New power relations. The United States has entered into several strategic energy partnerships. LNG is a new bridge allowing for closer relations. Some of these new strategic relations include:

- *Japan-U.S. Strategic Energy Partnership (JUSEP).* During the third JUSEP meeting on February 28, 2019, the two partners **reaffirmed their goal** to coordinate investments, work closely on LNG, and encourage business-to-business connections. The U.S.- and Japan-led strategy is mutually beneficial. Japanese companies’ assistance with financing and building infrastructure in emerging countries seeking to import LNG will open up those markets to U.S. LNG while enabling Japanese companies, which are overcommitted until 2022, to resell unwanted LNG volumes to third-party countries. The United States and Japan also share the strategic goal of counterbalancing China’s Belt and Road Initiative in building energy infrastructure, notably in Asia and Africa.
- *Australia-U.S. Strategic Partnership on Energy.* The United States and Australia are rival LNG suppliers but they will both benefit from promoting regional energy infrastructure, advancing energy security, and enhancing open and competitive markets. Both countries are interested in opening up new markets for their exports, and their economic interests will be better protected if they team up to advocate for market-based principles, private-led development, and good economic governance. Their strategic and security goals for the region, including safety of shipping routes and checking China’s expansionist policies in the South China Sea, are also in close alignment. With these objectives in mind, the United States and Australia announced the Strategic Partnership on Energy in the

4 The United States was already a big exporter of other natural resources (including coal).

Indo-Pacific on February 2018, followed by the first annual **U.S.-Australia Energy Security Dialogue** in October 2018.

- *The U.S.-India Strategic Energy Partnership*, which was announced in June 2017, could serve as a building block to advance **Asia Enhancing Development and Growth through Energy (Asia EDGE)**. Some objectives of the bilateral pact have identical goals with the initiative, such as promoting “**deeper and more meaningful engagements through government and industry channels.**” In addition, gas is one of the pillars of the accord, and the two governments created the U.S.-India Gas Task Force to advance favorable policies, commercial investment, and strategic and economic interests and support a common vision for natural gas in India’s economy.

A trade tool. U.S. trade partners have had to adjust their relationships with the United States and its new-found energy bounty. The use of U.S. LNG in trade discussions has been two-way.⁵ The U.S. government has raised the topic of LNG to narrow bilateral trade deficits with many countries, and some countries have floated the idea of importing U.S. LNG to win political points and show goodwill. Other countries want to be part of the U.S. gas and LNG play now that the United States is no longer a customer—they want to invest in it (e.g., Qatar, Saudi Arabia) to perpetuate intertwined security and energy interests. That said, the author of this report has also been writing about how this strategy of using LNG as a tool in trade deals and increased politicization could backfire.

Greater resilience. U.S. energy wealth has allowed more flexibility in using sanctions to punish hostile nations like Venezuela and Iran. When the United States imposed sweeping sanctions on Russia during the 2014 Ukraine crisis, it avoided targeting Russian gas interests, largely to protect European economies that rely on Russian gas imports. But if sanctions were applied today, gas would likely be targeted because U.S. LNG could be seen as compensation for diminished Russian gas exports.

Exporting U.S. energy soft power through technologies and know-how to strengthen bilateral ties. Beyond the United States, not many countries have been successful in developing shale gas potential despite the Global Shale Gas Initiative (GSGI), but the United States has been instrumental in fostering domestic gas production in several nations (e.g., India, Israel) through the sharing of technological expertise and know-how. The United States is involved in a new U.S.-Israeli energy **research center** following an agreement in April 2019.

II – U.S. LNG Full Power Ahead: The Good, the Bad, and the Unknown

THE GOOD: U.S. LNG WILL FURTHER STRENGTHEN NUMEROUS BILATERAL/REGIONAL RELATIONSHIPS

U.S. LNG is playing a role in ongoing bilateral rapprochements and regional Initiatives that are yielding geopolitical gains. U.S. LNG exports have strengthened existing alliances and helped build new strategic relations.

A. Eastern Europe Case Study: Poland

U.S. LNG exports have helped Poland rebalance its relationship between Russia’s Gazprom, which was formerly its sole supplier, and Poland’s state-owned PGNiG. It gave Poland confidence to challenge its monopolistic supplier. Poland had historically paid higher prices for its Russian gas than Western European importers. The prospect of LNG diversification has given PGNiG leverage in gas contract negotiations and

⁵ Under the Obama administration and the negotiations of the Trans-Pacific Partnership (TPP), the Japanese were the first ones to think about getting U.S. LNG export guarantees within the TPP agreement.

put the Russian giant on the defensive, having to accommodate new demands and fight a pricing dispute which was ruled on by the Stockholm Tribunal. Poland has been requesting a pricing reduction under the 8.7 bcm long-term contract since 2014.

Poland chose to enter into new long-term agreements with U.S. projects rather than relying on supply from Algeria, Nigeria or Mozambique because it values U.S. diplomatic engagement and the prospect of improved energy security. It has a U.S. ally that feels strongly committed to the country's success in reducing its reliance on Russian gas. Warsaw has often felt that its energy security concerns are better understood by the United States than by the European Union. The Obama and Trump administrations have both backed Poland's attempts to counter Nord Stream 2.

PGNiG is stronger in its bargaining thanks to U.S. LNG. Poland uses U.S. LNG as leverage against Russia and Qatar, both to ensure fair prices and to bolster energy security by diversifying its supplier network. PGNiG has signed three new long-term contracts (ranging from 20 to 24 years) over the past two years to import an aggregated ~5.45 mtpa (~7.5 bcm/yr) from three different U.S. LNG projects under development. The contracts are based on commercial attractiveness, but the close bilateral relationship between the United States and Poland was instrumental in making it happen.

Poland is on track to further enhance its gas supply security, and the country will not renew its long-term contract with Gazprom, which expires at the end of 2022. Poland will rely on a combination of domestic production (which is currently stable at ~4.5 bcm/yr), Norwegian supply (via the proposed Baltic pipeline), and LNG imports to meet its gas needs (17 bcm in 2017). Poland will expand its LNG import capacity with Poland's Swinoujscie expansion and via an additional terminal, Gdansk FSRU.

B. Southeast Asia Case Study: Vietnam

Several smaller emerging markets in South and Southeast Asian countries are anticipated to be the main engines for LNG demand growth. It is these markets in particular that are posing major challenges for LNG exporters due to competition with coal, political instability, absence of relevant regulatory frameworks, and lack of creditworthiness. This is where the U.S. government can assist, notably with infrastructure build-out, financing guarantees, and training on contracts and regulatory frameworks.

The U.S. government will be most helpful to U.S. gas/LNG interests in assisting non-creditworthy national oil companies. The United States is still putting together its new financial arm, the International Development Finance Corporation (USIDFC), which will facilitate the buildout of new gas and LNG infrastructure around the world. For now, U.S. financial tools to develop gas infrastructure are still nascent. This is one of the goals of Asia EDGE, which will contribute to building the LNG consumer base in Asia.

The Vietnamese government has been very supportive of new LNG import projects, seeking to import large volumes from the United States with the goals of protecting itself from China and appeasing the Trump administration by reducing the bilateral trade deficit. The seeds of future U.S.-Vietnamese LNG trade are already planted but won't materialize until the first imports start post-2023. A flurry of announcements regarding Vietnamese LNG infrastructure and deals with the participation of U.S. companies and Indo-Pacific U.S. allies (see [here](#), [here](#), and [here](#)) have benefited from:

- *The U.S.-China trade war*, with U.S. LNG exporters actively looking to open new markets in Southeast Asia;
- *Vietnam's race to reduce its trade deficit with the United States*. Vietnam is anxious that the Trump admin-

istration would put the bilateral trade deficit high on the agenda and is eager to preemptively defuse future tensions by signaling its interest in U.S. LNG;

- *U.S. presence to counter China's aggressive behavior in the South China Sea.* Vietnam wants to see LNG tankers carrying U.S. LNG through the Strait of Malacca and the South China Sea, which is worth more than U.S. government statements that it stands for freedom of navigation; and
- *Vietnam's need to meet electricity demand growth and replace declining domestic coal resources.*

Vietnam could import >10 mtpa by 2030 with seven proposed regasification projects (though not all of them will cross the finish line).

C. Caribbean and Central America case study: Panama

U.S. LNG will be the dominant supplier to the Caribbean and Central America (CCA) for commercial and geopolitical reasons. CCA is the “natural” region for U.S. LNG exports for three reasons: proximity, optimization of shipping, and geopolitics. The U.S. government sees a window of opportunity in the Caribbean for U.S. LNG to offset the withdrawal of Venezuela’s Petrocaribe program, given both the proximity of U.S. Gulf Coast LNG projects and the fact that several of the island countries have free trade agreements with the United States. The Dominican Republic is already relatively well-positioned to weather a change in the terms of the program, having already started to shift its grid away from oil and coal and towards natural gas. U.S. assistance was instrumental in establishing Panama’s first regasification terminal, the 1.5 mtpa Costa Norte, which started operations in 2018 (e.g., USTDA facilitated the feasibility study for the Panama Canal LNG terminal project).

Also, Panama’s new President is cultivating a close relationship with the United States and maintaining distance from China. That said, even if Panama’s new administration moves slowly on some Chinese-backed infrastructure projects, there is a limit to the country’s ability to distance itself from China, given China’s importance to Canal revenues. China has become the second-largest country of origin and destination for cargoes using the Panama Canal behind the United States, albeit with a large gap. The United States makes up 66.4 percent of the Canal’s trade, compared to 13.5 percent for China.

THE BAD: U.S. LNG IS NOT A SILVER BULLET AND CANNOT REPLACE A CAREFULLY-CRAFTED ENERGY POLICY

U.S. LNG diplomacy has already missed some opportunities to yield greater geopolitical gains, which should remind the U.S. government that this new LNG asset is not a silver bullet and won’t work alone. It has to be integrated into a larger energy policy. The following case studies show that political hesitation, lack of continuity between administrations, and unpredictability from the current administration have injected a degree of politicization into LNG trade and/or lack of commitment, leading to some notable failures.

A. Nord Stream 2 is a transatlantic energy diplomacy failure

The United States and the European Union have failed so far to stop the expansion of Nord Stream 2, a political pipeline project that will undermine European energy security and solidarity, pitting Northwest Europe against Eastern Europe. The current gas glut is a historical opportunity for Europe to rebalance its gas mix and increase its intake of affordable and diverse global LNG supplies (and not just from the United States), while also reducing its share of Russian pipeline gas at a time of indigenous production declines and a phaseout of coal and/or nuclear in several countries. Central and Eastern Europe (CEE) LNG diversification is not yet a done deal and could be threatened by Russian expansion of Nord Stream

and TurkStream. It will be a litmus test for U.S. energy diplomacy and the new European Commission's resolve to further improve the continent's energy security as the energy transition takes center stage. The following projects will need political and financial attention in the coming months:

- The stalled Croatian Adria LNG on Krk island: Krk took FID in January 2019, but there are still some disagreements between parties in Hungary and Croatia over who will bear the costs, and some regulatory hurdles remain to be cleared.

Decreased interest in building interconnectors if TurkStream 2 goes ahead: A handful of interconnectors have yet to be built to ensure a free flow of regasified LNG between the countries in the region (e.g., [Hungary-Slovenia](#), [Lithuania-Poland](#), [Slovakia-Poland](#), [Greece-Bulgaria](#)).

B. The delisting of the Singapore LNG market-based index has shown a lack of political will

Fostering transparent trade and supply diversification to promote economic stability, integration, and prosperity was at the heart of the U.S. government's support for Asian gas and LNG hubs under the Obama administration. The Singapore LNG hub did not garner enough market/commercial interest from companies and suffered from a lack of political support from the United States and other regional players over the past two years. It was a missed U.S. energy diplomacy opportunity for the following reasons:

- It could have established a pricing benchmark that would reflect local market fundamentals for Southeast Asia LNG importers;
- It could have prevented China from developing its own LNG price hub;⁶
- It could have accelerated the emergence of an open, transparent, liquid spot LNG trade, which in turn would enhance energy security. Increased liquidity would enable importers to respond quickly to demand or supply shocks by relying on more available spontaneous LNG purchases through the hubs; and
- It could have fostered regional interdependency. Given that the region cannot rely on pipelines alone for gas market integration, an LNG hub could have been a common project that triggered energy security cooperation through joint infrastructure development.

THE UNKNOWN: GROWING COMPETITION TO OPEN NEW DEMAND CENTERS AND BUILD NEW INFRASTRUCTURE IN ASIA

The active geostrategic LNG battlefield between rival suppliers will increasingly take place in Asia where demand growth is most promising. As all LNG suppliers work hard to grow the pie of importers and proactively create demand, they will be competing for the same markets in Southeast Asia and South Asia. Demand is limited, and competition will heat up amidst growing demand uncertainty and accelerated energy transitions in various countries. While the United States and its allies make inroads in the region with Asia EDGE, Russia's Novatek is one of a long list of entities using state resources to ensure that emerging LNG markets have access to the financing they need to drive demand growth. Novatek is pursuing integrated gas-to-power projects in a bid to establish new demand centers for LNG in countries that are also targeted by Asia EDGE (e.g., Vietnam).⁷ The Russian government is very involved in opening new business doors to defend its market share.

6 See Leslie Palti-Guzman's NBR paper "The Future of Asia's Natural Gas Market: The Need for a Regional LNG Hub."

7 Novatek announced a memorandum of understanding (MOU) with the Ninh Thuan Provincial People's Committee on May 22, 2018, to develop an integrated energy-generating project. The MOU was signed in the presence of Russian Prime Minister Dmitry Medvedev and Prime Minister of the Government of Socialist Republic of Vietnam Nguyen Xuan Phuc.

That said, opening up new markets will benefit all LNG suppliers, not just the United States or Russia. The U.S. and Russian governments cannot guarantee that after assisting a country with regasification infrastructure that the country will exclusively receive U.S. or Russian LNG or LNG from any specific supplier. It might choose to import LNG from Qatar, and U.S./Russian taxpayer money would then have served the interests of a commercial or geopolitical rival.

III – The U.S. Government Needs to Find Its LNG Voice, Fast

The geopolitical use of U.S. LNG exports in foreign affairs went from subtle energy diplomacy under the Obama administration to an unapologetic and proud deployment of energy power under the Trump administration. At the heart of U.S. energy diplomacy under the Obama administration was the idea that the United States could reshape the energy system, notably the international gas market, in its image. The Bureau of Energy Resources in the Department of State had worked to foster transparent trade and supply diversification to promote economic stability, integration, and prosperity with a special focus on Europe and Asia. In other parts of the world, the focus has been on energy access with initiatives such as Power Africa. Under the current administration, the America First and America Energy Dominance agendas have yielded some results but have also damaged bilateral relations with several trade partners and undermined U.S. standing in multilateral forums. The current government is advocating for full-throttle growth of all U.S. gas production and exports but has failed to articulate a coherent and comprehensive LNG export strategy. The ongoing energy transition could undermine U.S. LNG leadership altogether if the United States does not find a coherent narrative quickly enough on natural gas's role in a greener world and on how to best use its energy as leverage on the international stage.

THE U.S. GOVERNMENT NEEDS TO REGAIN CONTROL OF THE GAS/LNG NARRATIVE

First, let's debunk a few myths:

- **The United States is not solely interested in selling its gas when it promotes energy security in Europe.** The United States was engaged in European energy security long before the shale gas revolution and the Nord Stream 2 pipeline saga. The debate around the expansion of the Russian pipeline put the U.S. government on its back foot, forcing it to justify involvement in European affairs and opposition to the project at a time when European countries were expanding their LNG imports (and not just from the United States). The United States was accused of seeking market share in an unfair way, notably by trying to force the Europeans to abandon a divisive political pipeline.
- **The United States has not constrained domestic gas production elsewhere to keep resources underground so that it benefits U.S. gas interests.** The United States assists other exporters in developing their own resources, even if that means creating economic/energy competitors. U.S. foreign policy has much broader considerations than just gas exports. Even after its shale gas potential became clear, the United States continued to aid other exporters in advancing their own exploration and production through financial aid and diplomatic engagement because the U.S. government has always prioritized broader security interests. Eastern Mediterranean gas development is a good example of successful U.S. diplomatic engagement that has fostered regional cooperation between Israel, Egypt, Greece, and Cyprus. If the United States were to target gas production in Iran, it would not be because it could become a rival supplier, but because the U.S. government is more concerned with revenues derived from Iranian gas exports that could be used to finance illicit activities.
- **U.S. LNG is not a weapon;** it is an additional lever in the foreign policy toolbox. But it raises the question: where is the line between tool and a weapon? The U.S. government should not sell LNG.

It can advocate for domestic natural gas and for the U.S. companies that produce it. It can level the playing field with state-backed competitors and assist U.S. companies with entering new markets. It can push for legislative and regulatory frameworks that benefit all producers and exporters. But the government's use of LNG in trade discussions has led to some confusion of late regarding the government's possible use of it for retaliatory purposes, which would imply diminished reliability of U.S. LNG. But while the U.S. government has hinted LNG could be a good way to narrow deficits, it has not conditioned U.S. LNG exports on geopolitical benefits or activities by trade partners that broaden U.S. national security interests (for instance, Poland did not sign three long-term contracts to import U.S. LNG in exchange for a permanent U.S. military base in Poland). In contrast, Russia has been using gas exports and government funds to influence political outcomes in the former Soviet Union, and China has not allowed other countries to access its own energy resources unless they acquiesce to its territorial claims. U.S. LNG exports are not linked to specific asks the way exports of Russia's and China's resources sometimes are.

U.S. LNG AS A TOOL AND LEVER FOR WHAT?

A. Fostering market liquidity and market-based mechanisms

Recent trade war developments with a strong LNG component (e.g., China-United States) have cast doubt on the U.S. willingness to accelerate the transformation of the new gas order and influence its shape in its image—freer, more transparent, market-oriented, and competitive. Trade wars go against the principles of free LNG trade flows. The United States should return to its commitment to creating a global gas market with more competition, market rules, liquidity, and efficiency, which in turn will improve global energy security.

B. Grow the market for everybody with concrete tools

The United States should take the lead in opening up new markets and creating a bigger pie for all suppliers, even if that means benefiting rival exporters. This could also result in greater collaboration between players to advance concrete gas infrastructure projects (this is among Asia EDGE's goals). U.S. government money will have to follow. If the United States is in the leadership position to create a welcoming environment for its gas exports, it will have more opportunities to build an energy/gas system that will benefit its future interests.

C. The United States should help promote gas as having a role to play in the energy transition

U.S. LNG government advocacy has a role to play in positioning gas/LNG in the energy transition and should address carbon/methane emissions before the energy transition makes it obsolete. What could government gas advocacy look like?

- Showcasing U.S. coal-to-gas switching success: Increased use of natural gas has been widely credited with having dramatically reduced U.S. carbon dioxide emissions in recent years. Notably, there is a consensus that coal-to-gas switching in power generation has been the main driver behind the recent decline in U.S. carbon emissions, though other factors have been at play (e.g., energy efficiency). However, natural gas, which remains a fossil fuel, is responsible for emissions of methane, a potent greenhouse gas.
- Encouraging carbon reductions abroad with gas substitution: U.S. LNG exports could accelerate a demand revolution that could support an international carbon reduction agenda by promoting the switch from coal or fuel oil to natural gas in power generation, which would improve carbon footprints. Many countries that were previously not thinking about importing gas are now reconsidering

their energy policies because the ongoing transformation of the global gas market makes the fuel more affordable and accessible. Four niche frontier markets will support LNG demand growth and appetite for U.S. LNG: South and Southeast Asia, the Middle East, Caribbean/Central America, and to a lesser extent, Africa. Additionally, LNG will not only be used for power generation in these regions, but also for industrial and transportation use. The main areas where the might of the U.S. government will be required will be with diplomacy and financial assistance because of these countries' internal political stability and creditworthiness.

- More stringent methane regulations: Environmental opposition has been rightly concerned by the rise in methane emissions coincident with the U.S. energy boom. As companies and LNG export projects compete no longer solely on economic but also on “green” grounds—from “sustainably fracked-gas” to tracking responsibly-produced gas—the U.S. government should better prepare its companies with regulations that establish a framework to clean up U.S. gas and make it attractive to foreign markets in the long-term. Even if new regulations come at a cost for the companies, it will pay off in the longer term, allowing U.S. LNG to maintain market share and avoid discrimination by virtue of being “dirtier” than gas from other sources.

Conclusion

Nearly four years after exports began, U.S. energy diplomacy, export policies, and environmental regulations are still catching up to the reality of the United States as a new-found gas superpower. Washington's future gas doctrine—provided it emerges before it's too late—will have unparalleled power to restructure global gas markets for the better and clarify to the world what it stands for when it comes to building the energy system of tomorrow. True, gas made in the United States creates foreign policy opportunities for Washington, but it will also create many beneficial positive externalities for the world as long as the United States stands by its traditional market-based principles and puts all its resources behind making U.S.-made LNG greener.

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