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Global Gas Dynamic Could Affect Foreign Policy

By The Moscow Times

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HOUSTON, TEXAS — The rise of global trade in liquefied natural gas in the coming decade could curb Russia's foreign-policy leverage over Europe and prompt China to take a more constructive role in global affairs as its imports of the fuel surge.

This view, shared by many energy experts at the IHS CERAWeek conference in Houston, Texas, means that in the future Russia may have less room to assert itself with neighbors the way it did when its forces recently seized control of Ukraine's Crimea.

Moscow has in years past cut gas supplies to Ukraine in foreign policy tussles, causing disruptions for Europe.

Russia's critical role in Europe's gas market is likely to continue through 2020 and beyond. But longer term its role could fade as more shale gas is produced globally and numerous loading and unloading terminals for liquefied natural gas, or LNG, come online.

That will give buyers more bargaining power and undercut pricing power for suppliers as more trade shifts to waterborne freight and away from pipelines like those that run to Europe from Russia, some through Ukraine.

"Russia has weaponized its gas-export capability for a long time and they have used it to make people dance. That is what has kept Ukraine on a short leash," said a person familiar with Russian energy issues who asked to remain anonymous.

In 10 years or more "Russia is not going to be able to use gas this way and they know it. They are understandably concerned about it," the source added. "It is a geopolitical problem for them."

Of the European Union's current annual demand for 485 billion cubic meters of gas, Russia supplies about 160 billion cubic meters, or bcm. About a third of Russia's gas is exported through Ukraine.

Transformation in Progress

Carlos Pascual, the U.S. State Department's senior energy diplomat, said Ukraine before the latest crisis had already trimmed reliance on Russian gas to about 22 bcm from 42 bcm a year.

"The U.S. energy transformation of recent years gives us options we did not have several years ago. So we ought to explore using those options," said Richard Haass, the president of the Council on Foreign Relations think tank.

Since 2011, the U.S. Department of Energy has conditionally approved six proposals to export LNG to countries with which the U.S. does not have free-trade agreements.

The approvals total some 8.5 billion cubic feet per day of LNG — more than the 6 bcf per day Russia exports through pipelines through Ukraine to Europe. More than 20 U.S. projects await approvals.

U.S. LNG exports are not expected to begin in earnest until at least 2017. In the meantime, supplies from other exporters, including Australia, Canada, and Qatar, could help meet European demand.

"We could use energy exports to wean countries off of dependence on a country like Russia. It helps the U.S. trade balance, which in turn, makes the U.S. less vulnerable to developments in the world," Haass said. "The U.S. ought to be making it possible to export crude and we ought to be expanding the countries who are in a position to receive liquefied natural gas," he added.

U.S. Shale Boom Changes Dynamic

There is also a growing debate in Washington about lifting restrictions on crude exports as domestic oil output swells toward a projected 43-year high of 9.3 million barrels a day next year.

"The industry could do a lot better job talking about the drivers for, and what the implications would be, of exports," U.S. Energy Secretary Ernest Moniz said.

More global gas trade may also alter Chinese diplomacy. China is forecast to have voracious demand for gas, which comprises some 5 percent of its current energy mix, as it pushes to curb pollution from dirty coal plants.

"As China becomes more and more dependent on global [gas] supply ... China is going to be the country that is greatly disadvantaged politically," Amy Myers Jaffe of the University of California, Davis, said at a forum last month on the geopolitics of gas.

China can currently take a "nonconstructive" approach to key global diplomatic issues and not suffer any real economic consequences, but that will change, she said.

The U.S., which pioneered the controversial technique hydraulic fracturing, has the upper hand in the tight oil and gas game.

"[The U.S.] is the home of oil and gas technology so the developments are in the house and in many areas the way the states handle the regulations and the way that mineral rights belong to people who own the land" can facilitate doing business, said Andrew Mackenzie, chief executive officer of global mining and oil company BHP Billiton .

Even if export restrictions are not lifted, rising U.S. output of oil and gas has already impacted prices for everything from coal to refined petroleum products. Countries that relied on exports to the U.S. are feeling squeezed and looking for new buyers.

"It has affected all markets globally for crude," said Nigerian Minister of Petroleum Resources Diezani Alison-Madueke, who serves as the alternate president of OPEC. "Everybody is struggling to reposition themselves."

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