

LNG after Liberation Day

What US protectionism could mean for the LNG industry

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GFB Insight

How could recently announced US protectionist policies impact the long-term outlook for the LNG industry?

The recent protectionist moves by the new US administration could lead to changes to the global economy that carry a significant impact on the LNG industry: this report analyses the full range of possibilities based on what we know so far and describes the consequences for market participants

- The announcement of a wide range of protectionist policies by the US has the potential to materially impact the outlook for the LNG market
- Following multiple revisions in the weeks following the first announcement, however, the longevity of these policies and their long-term impact remains highly uncertain
- This uncertainty makes a return to the status quo before April 2025 with minimal long-term consequences still possible at the time of writing
- At the same time, however, the potential for significant changes to well-established assumptions needs to be seriously considered
- Overall, the announced policies are widely expected to:
 - Worsen global economic growth projections, at least in the short-term
 - Increase the cost of new US LNG projects
 - Increase the politicisation of LNG trade flows
- These developments may exacerbate other changes already occurring in the LNG industry, such as the impact of decarbonisation policies and the growing influence of geopolitics on global gas markets

State of uncertainty: how deep the transformation caused by the set of protectionist policies announced by the new US administration remains unclear; a complete return to the status quo before April 2025 is still possible

Trump administration introduces range of protectionist policies and puts in question long-standing geopolitical relationships







Where next?

Return to status quo?

Material decoupling between US and China?

Complete transition to multipolar world?

The Trump administration's policies put in question three key long-standing assumptions for the LNG industry

		Long-standing assumption	New development
1	US supply	 Vast volumes of flexible low-cost supply capacity, more than capable to meet the majority of projected global demand growth	 <ul style="list-style-type: none">• How much new US supply capacity will actually be developed?• What will its destination flexibility and pricing terms actually be?
2	Asian demand growth	 Energy demand growth from export-oriented Asian economies represents the main prospect for continued global LNG market growth	 <ul style="list-style-type: none">• How much will long-term growth prospects from Asian markets be impacted by a potential turn away from globalisation?
3	Market flexibility	 Progress towards higher destination flexibility and growing liquidity of spot market; large portfolio-players play a key role in supporting market growth	 <ul style="list-style-type: none">• Will the global market fracture?• Will politics play a more important role than economics in shaping market dynamics and trade flows?

US supply: role as an unlimited source of low-cost and highly flexible incremental supply is put in question

Potential impacts of recent Trump administration policies, if sustained

- ▶ Higher construction costs due to import tariffs on steel and other key materials
- ▶ Shipping becomes more expensive due to regulatory restrictions
- ▶ Explicit efforts for differentiation in supply sources by importing markets
- ▶ Loss of Chinese buyers, key to long-term purchase commitments necessary to develop new projects
- ▶ Growing role of US LNG in negotiations to reduce trade imbalances, although materiality is uncertain
- ▶ Potential for global demand outlook to worsen as a result of lower economic growth



While it is true that momentum has increased for some US LNG projects, with Louisiana LNG taking FID in late April, overall it is arguable that the prospects of US LNG growth have worsened

This is due to the expected higher costs and the threat of lower flexibility, which hurt two of the most attractive qualities of US LNG

In short, US LNG has taken one step forward only to take three steps back

This improves the long-term prospects for projects in other regions (Argentina, Africa, potentially even Russia) that could have otherwise struggled to compete

There is also a growing risk that a small wave of new projects could be rushed to FID in the next few years driven by political rationales instead of firm demand needs. Such developments **increase the likelihood of a prolonged period of low prices in the late 2020s**

Asian demand growth: prospects will be pushed downwards by any turn away from globalisation

Potential impacts of recent Trump administration policies, if sustained

- ▶ The markets representing the key engine of growth for LNG see lower energy demand growth prospects
- ▶ LNG as a “transition fuel” could become a luxury as economies focus on lowest-cost energy supply
- ▶ LNG worsens import dependence and is less attractive compared to domestically produced fuels or renewables when supply security becomes vital



LNG is an expensive imported alternative to replace declining domestic gas production or domestically produced alternative fuels (such as coal)

The current expectations for global LNG market growth are heavily dependent on economic growth in Asian markets that benefit from a globalised economy

The damage of protectionist policies is exacerbated if they are designed to move energy-intensive industrial activity from LNG importing markets to LNG exporters such as the US

Therefore, **a sustained turn to protectionism would inevitably worsen the long-term prospects of the LNG industry, potentially hastening the date of peak global demand**

Market flexibility: the politicisation of US LNG could fracture market and hurt liberalisation

Potential impacts of recent Trump administration policies, if sustained

- ▶ Political factors play a stronger role in shaping LNG trade flows
- ▶ The role of state-owned entities grows as LNG becomes a key geopolitical chip
- ▶ US LNG supply becomes less flexible as it cannot access key markets and its costs increase
- ▶ Protectionist policies fracture the market for shipping and key technologies (e.g. liquefaction)
- ▶ Producers are given special exemptions from regulatory changes (such as EU methane regulation) to benefit geopolitical relationships



LNG market dynamics are increasingly influenced by non-economic factors, as had already been seen in the growing influence of decarbonization policies and in the events following invasion of Ukraine

Political risks change the landscape for infrastructure investment, increasing the risk that assets may be decommissioned well before the end of their expected economic life due to changing political priorities

This leads to a **higher perception of risk and increased focus on liabilities caused by regulatory uncertainty**: contractual clauses that cover changes in policy or significant economic hardship become increasingly valuable

Risk of market fracturing increases: higher likelihood that pricing dynamics, regulatory exposure and access to key technologies diverge between regions on the basis of political relationships

Cargoes are fundamentally less free to follow supply-demand dynamics: price volatility increases

Regardless of the longevity of the April 2025 US policies, market participants are faced with rising political uncertainty



Rising uncertainty

- ▶ The growing unpredictability of policy changes in key markets makes it necessary to question all long-standing assumptions
- ▶ The outlook of the LNG market keeps moving away from straight-line growth forecasts: wider ranges of scenarios are key to developing effective long-term strategies
- ▶ Geopolitical scenarios become key to developing effective market outlooks

Scenarios previously considered extreme can no longer be excluded from strategic thinking



Weakening growth prospects

- ▶ LNG has become a commodity for a globalised market: protectionist policies and fractures in global trade would harm long-term growth prospects
- ▶ This, coupled with rising uncertainty, may shorten the horizon for returns for LNG industry participants
- ▶ Investment in infrastructure is riskier as dependency on stable long-term returns has become more challenging

Industry participants may seek higher returns over a shorter time-frame as the perception of risk increases



Commercial priorities change

- ▶ Diversification becomes a key priority to ensure businesses are resilient against market and political volatility
- ▶ Contractual security from political and regulatory changes acquires value and becomes key element of negotiations
- ▶ Partnerships with state-owned entities in some markets may provide a key competitive advantage

Market liquidity and political stability can no longer be relied upon as a matter of fact



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