Can politics trump economics? How the White House energy and trade agenda is reshaping LNG markets

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The LNG industry is on a continued path of growth, as it has become an increasingly key source of energy security for Asia and Europe. At the same time, LNG is expected to represent an ever-growing share of global gas trade, with the decades of the market's history signaling growing globalization, expanded spot market liquidity and destination flexibility.

This steady progress towards liberalization should, however, not be taken for granted, as the ever-growing influence of political developments on the market raises questions on the industry's continuation along this path.

Evidence of how much geopolitics could shock global gas markets became dramatically clear in 2021, in the period leading up to the Russian invasion of Ukraine, and then escalated in 2022 with the rapid reduction of Russian pipeline supply to Europe, the largest supply-shock in the history of the industry. More than three years on, the ramifications of these events still create ripples in global markets, as on-and-off negotiations for a resolution of the conflict put the future of Russian pipeline and LNG exports at the whim of face-to-face meetings between leaders.

The last 12 months have however seen another momentous escalation in the intrusion of geopolitics in global LNG trade dynamics, with new models of gas relationships emerging in the aftermath of the inauguration of the second Trump administration. Immediately after his nomination, in fact, US President Trump made the continued expansion of LNG export capacity key to the administration's energy policy and energy dominance agenda. His administration is also explicitly using LNG volumes as a strategic bargaining chip in the negotiations it is undertaking to reshape the country's trade relationships and political allegiances.

There are no better examples of the impact of such policies than the resurgence of Alaska LNG. This project, which has been under development for decades, had never made significant progress due to its large scale and uncertainty on costs. Before the inauguration of the second Trump administration, buyers from major Asian markets had in fact never been willing to make the long-term commitments that would have enabled investors to green light the project, and the project did not appear to have a clear path to success.

President Trump, however, made Alaska LNG a key priority of his agenda. When Liberation Day's sweeping tariffs came, then, the same Asian buyers that earlier had not been willing to commit to Alaska LNG volumes, suddenly began expressing their interest in the project with the explicit aim of improving their relationship with the White House.

State-owned entities from five countries have so far made overtures to Alaska LNG: Japan, South Korea, Taiwan, Thailand and India. How concrete is the interest of Japan and South Korea, however, remains to be seen, as in mid-June the Japanese largest power generator JERA finalized four deals to import LNG from different U.S. projects, to cover imports up to 30% of the total by the end of the decade, diversifying supplies. Notably, none of these agreements involved Alaska LNG. A recent announcement by President Trump himself of a potential joint venture for the development of the project was also rapidly denied by Japanese officials. Recent deals signed by

KOGAS, Korea’s national gas company, also appear not to include Alaska LNG, despite the US president raising again the possibility of a JV for the development of the project as a part of the deal.

Taiwan’s interest has been more vocal and is more overtly a consequence of the current geopolitical environment. In March, state-owned CPC signed a non-binding letter of intent to buy LNG from Alaska LNG and invest in the project, which may be close to be turned into a definitive agreement. When, in June, the secretary-general to Taiwan’s President visited Alaska in an energy diplomacy tour, he said amid trade challenges and international turbulence Taipei “faced no choice but to rise to the occasion." If Taiwan’s unique geopolitical position wasn’t enough, the outcome of a recent referendum on the future of nuclear in the country, which did not gather enough support for the restart of recently shut down reactors, is likely to provide even stronger incentives for Taiwan’s government to seek military and economic security by importing US energy.

Similar rationales are also likely to have driven Thailand’s PTT’s interest in Alaska LNG, as it signed a non-definitive cooperation agreement detailing the procurement of 2 million tonnes per annum of LNG from Alaska LNG over a 20-year term.

Alaska LNG is not the only US project to have seen renewed momentum in recent months, and the change of fortunes of many pre-FID US LNG projects needs to be understood in the wider context of the LNG market. Global LNG production is about to start its largest phase of expansion to date and is expected to grow by more than 50% by 2030. Such a rapid expansion will apply downwards pressure to market prices, as demand growth will struggle to keep up with the pace of increase in supply.

It may appear surprising, then, that new projects continue to attract buyers willing to sign up for long-term purchase commitments which may, for multiple years, turn out to be out of the money. This, however, becomes easier to explain when considering that much of this activity has been driven by state-owned entities in an explicit political goal, improving the relationship with the United States, rather than in response to market incentives. A prioritization of geopolitics and geoeconomics in the current context of tensions over tariffs is in fact a key symbol of era-defining reset of relations between the US and its global partners. Higher than necessary energy import bills may simply be the necessary cost for such a reset of relations.

Over the last two months, this has been clearly demonstrated by the wave of trade deals announced by the US with a heterogeneous range of partners which explicitly leverage US LNG exports as a key bargaining tool. Perhaps none of these deals has garnered more attention than the one between the US and the EU, which has been widely criticized for the overly ambitious targets it sets. Beyond the details of the agreement, however, the fact that such a deal came to exist is a highly symbolic development on its own. The discussion of LNG trade targets through direct government-to-government negotiation is in fact a remarkable step for these two markets, which have come to represent by far the most successful examples of liberalization.

It is increasingly evident, therefore, that the policies of the Trump administration are opening the door for bilateral trade negotiations to take a stronger role in driving further additions to global LNG supply and in directing where these supplies flows. The volatility of such bilateral relationships, then, creates new layers of risk and uncertainty for market participants, and makes economics alone no longer sufficient to understand the evolution of the market.

In this context, Alaska LNG remains a crucial test case to understand how much politics will be able to overrule economic rationales. At present, this project is still without firm offtake commitments, and its success remains highly uncertain. If it was to continue making progress and eventually reach FID, however, the significance would be clear: this could signal a new era for the global natural gas market, one in which alliances and sanctions are more important than prices in directing supplies, and where national power and geopolitical malice have more influence than market incentives and price arbitrage.

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