Analysts: Tariffs price US out of LNG market

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By May Zhou in Houston |   
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China’s tariff on exports of US liquefied natural gas (LNG) will price the US out of the Chinese market and cause a reshuffling of the global market, according to industry leaders and experts.  
China announced on Tuesday retaliatory tariffs on an additional $60 billion worth of US imports, including a 10 percent tariff on LNG, effective Sept 24, and an increase to 25 percent by Jan1.  
China’s announcement came after the US said on Monday it would implement a 10 percent tariff on an additional $200 billion worth of Chinese imports on Sept 24.  
Charlie Riedl, executive director at the Washington-based Center for Liquefied Natural Gas (CLNG), said in a statement that “certainty is key for the US LNG industry, where timelines are years long and investments are worth billions, and these tariffs cause serious uncertainty.”  
“These tariffs have the power to price US LNG out of the Chinese market, the second largest LNG importer in the world. Tariffs will also make long term contracts more difficult to negotiate,” he said.  
US LNG exports to China, almost nonexistent less than two years ago, had gradually increased and accounted for about 10 percent of China’s total import in January 2018. Contrary to a steady increase in export volume as originally expected before the trade war, that rate dropped to about 3 percent in July, according to Sanford C. Bernstein & Co.  
Ira Joseph, head of Gas and Power Analytics at S&P Global Platts, said China will pay a higher price for LNG imports due to the tariff.  
“The tariff will change the amount of leverage that Chinese buyers will be able to impose on other potential LNG suppliers in Asia and the Mideast, as the US is considered a major low-cost option for future supply. While to some extent this is still true, it does raise the price floor in the negotiation on long-term contracts,” he said.  
Robert Ineson, executive director of global LNG at IHS Markit, an industry and market intelligence analysis company, said the tariff will have a chilling impact beyond the US and China.  
“The problem is to get the next round of build out to get buyers to want contracts. This whole round of trade conflicts make all buyers, not just China but Japan, Korea and others, nervous about doing business with the US. The LNG market is in Asia. Anything making buyers nervous has a chilling effect on US LNG projects under development,” he said.  
While the tariff might not necessarily push the US entirely out of China’s LNG market, Ineson said that US LNG will simply go elsewhere if China’s tariff on US LNG becomes effective and stays.  
Kenneth Medlock, senior director at the Center for Energy Studies at Rice University’s Baker Institute for Public Policy, said that the tariff will not have much of an impact on overall LNG volume flowing out of the US.  
“Rather, the portfolio of LNG supply will simply be reshuffled. This is generally the case when we have unilateral measures put in place, as opposed to multilateral measures. The tariff will raise the cost of US LNG imports to Chinese buyers thereby incentivizing them to buy more from other sources – such as Australia, Qatar, Russia, West Africa,” he said.  
“This will displace US volumes into other markets as the ensuing arbitrage rebalances the global system. In other words, volumes get reshuffled around the world,” Medlock said.

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