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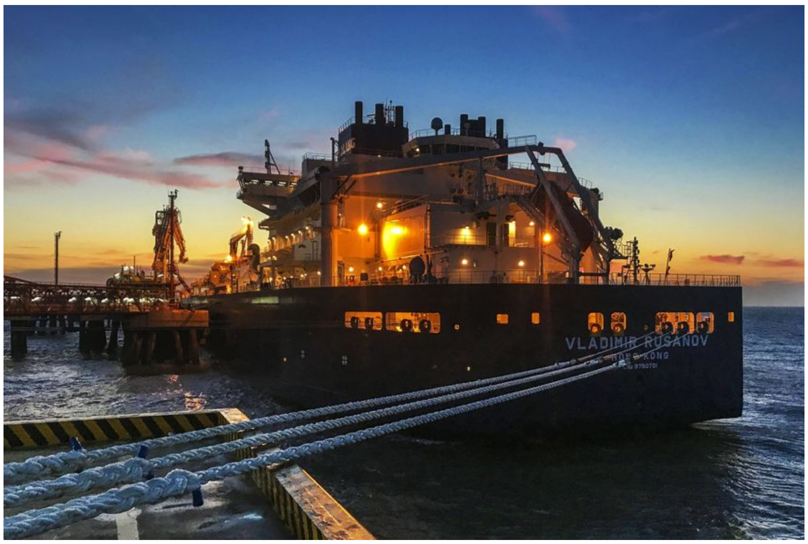
GAS MARKETS

Trade Fears Throw Future of U.S. Natural Gas Into Question

As trade disputes continue, the promising U.S.-China energy relationship is compromised



A liquefied natural gas tanker ship at a Chinese terminal. Growing demand for LNG and unexpectedly fast growth in China in particular have been a boon for U.S. producers. PHOTO: -/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Stephanie Yang and Timothy Puko

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U.S.-China trade tensions threaten a promising area of growth in U.S. energy: natural-gas exports.

While the trade dispute hasn't impacted near-term prices, some analysts believe it could disrupt exports and slow new infrastructure expansions. That could weigh on natural-gas prices in the longer term because U.S. producers are quickly running out of places to sell an unrelenting rush of supply.

Earlier this month, in response to U.S. tariffs, China proposed its latest round, including a 25% levy on liquefied natural gas, or LNG.

The two countries on Thursday announced they would hold lower-level talks on trade issues later this month.

If the sides can't come to an agreement, natural-gas tariffs in China could lead to opportunities for other major LNG exporters, such as Australia and Qatar, if U.S. gas becomes more expensive. China also may tap supply from Russia via a major pipeline under construction, or from its own domestic production in the coming years, analysts said.

"China will look elsewhere in the world to source the commodities they need," said J. Alexander Blackman, senior executive at Standard Delta LLC, a Houston-based commodities firm with operations in Asia.

U.S. exporters, in turn, will need to sell LNG to other countries if they are cut off from the rapidly growing Chinese market. Since exports wouldn't be hit immediately, analysts doubt tariffs would lead to a sudden swelling of supplies or depressed prices.

The more chilling prospect is that companies investing in U.S. export infrastructure scale back plans or put them on hold. "There's no way in the current environment that anyone's going to be signing any deals," said Neil Beveridge, senior oil analyst at Sanford C. Bernstein & Co. "It's causing a big overhang on what can get done."

That could inhibit producers' future ability to access the international market, limiting the growth of the U.S. natural-gas sector and an avenue to work off excess supply.

As the shale boom took off, U.S. companies rushed into projects to superchill gas into liquid so it can be loaded onto tankers and traded around the world. Growing demand for LNG and unexpectedly fast growth in China in particular have been a boon for U.S. producers hoping to sell natural gas overseas as an outlet for their record production.

"China could be really pivotal in underpinning that U.S. LNG growth," Mr. Beveridge said.

Since 2011, companies such as Houston-based Cheniere Energy, Inc. and Dominion Energy, Inc. in Richmond, Va., have spent about $44 billion constructing the plants and terminals necessary to export LNG, according to energy consultancy Wood Mackenzie.

China's voracious appetite for the fuel has helped drive the industry's transformation. Thanks to its need for cleaner-burning fuel, the country is expected to become the world's largest importer of natural gas next year, according to the International Energy Agency. The country is aiming to boost natural-gas use to 15% of energy consumption by 2030, up from about 6% in 2015.

As a result, "trade policy is fundamental," Total SA Chief Executive Patrick Pouyanné said to reporters at the beginning of the World Gas conference in Washington in June.

The French energy company owns a minority stake in the $10 billion Cameron LNG export plant in Hackberry, La. "I hope [the U.S.] will not lose the Chinese market," he said. The U.S. has "a very good place, a game to play in the LNG business. But the market is mainly driven by Asia and by China."

For the moment, traders are taking the trade dispute in stride as they wait to see how the threats play out. Last week, prices of natural-gas futures for September delivery rose to seven-week highs as weather-related demand kept the market buoyed.

"There's some flexibility with what's on the list and what China actually does," said Jason Gabelman, vice president at Cowen & Co who covers the energy sector.

Other analysts are skeptical that today's trade tensions will derail the long-term trend of LNG exports in the U.S., which the IEA expects to become the second-largest exporter by 2022.

Even before China announced the potential LNG tariffs, though, energy executives were on edge. The World Gas conference this year drew high expectations for a slew of deals for U.S. LNG, but saw little result.

The Friday night before the June conference, executives at Liquefied Natural Gas Ltd., a Houston-based developer of gas-export projects, hosted counterparts from a Chinese oil company to wrap up yearlong negotiations to help finance an 8-million-ton project in Louisiana.

But toward the end of the dinner in Houston, the Chinese executives made it clear they wouldn't sign until trade fears are resolved, LNG CEO Greg Vesey said in an interview.

"It's the fear of the unknown," Mr. Vesey said. "It puts a big slowdown on everything."

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