

Trump's gas doctrine: What does it mean for the EU?

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The United States (US) has always been a key player in the European Union's energy security, as a supporter of its gas supply diversification plans. The Trump administration is underlining the US' role as a gas exporter. This shift of tone from a strategic to a commercial approach risks furthering divisions and mistrust among European Union (EU) member states, with potential negative effects for the Energy Union.

The meaning of dominance

During his campaign, Donald Trump declared that the US was heading towards "energy dominance" as a "strategic, economic, and foreign policy goal".¹ These claims are supported by the remarkable surge in US oil (78.6%) and gas production (43%) over the past ten years.² In 2016, the US had become the world's third oil producer, and the first in natural gas. To clarify what "energy dominance" entails, Energy Secretary Rick Perry, Environment Protection Agency Administrator Scott Pruitt, and Interior Secretary Ryan Zinke have recently written in an opinion paper³ that dominance means "a self-reliant nation, free from the geopolitical turmoil of other nations that seek to use energy as an economic weapon."

Trump's energy aides have also underlined the US' role as a gas exporter, a topic particularly dear to the EU and some member states craving for more competition and lower prices on gas imports. In July 2017, Trump spoke at the Three Seas Initiative summit in Warsaw, a forum for energy and infrastructure cooperation in Central and Eastern Europe aimed at boosting the region's gas interconnectivity. The President underlined the role that US Liquefied Natural Gas (LNG) could play to break Gazprom's dominance on Eastern European markets, emphasising that US LNG cargoes had already reached the region. The first US LNG cargo arrived at the Polish regasification terminal of Świnoujście in June 2017.

Gas supply diversification has been an EU objective for a long time. Pursuing this objective, Brussels has frequently advocated for the US to lift administrative restrictions on gas exports. In this regard, Trump's remarks on LNG in Warsaw can be seen as promising. The US government's position seems to be consistent with that of the previous administration, which provided licenses for the export of up to 100 billion cubic meters per year. This potential increase in global competition is positive from an importer's perspective.

So far, so good. But is there more than meets the eye? Yes, and it is worrisome from an EU perspective.

From strategy to commercial transaction?

Looking more carefully at the terms Trump used in his Warsaw speech to frame energy cooperation, it seems that the US is shifting from a strategic commitment to allies to a more commercially driven discourse.

For instance, under the Obama administration, the US had put their political weight behind the European Commission and some member states' opposition to Nord Stream 2 – a pipeline project which would take more Russian gas to the European market via Germany, bypassing Ukraine. They insisted that the project was contradicting the Western pledge to support Kiev against Russia's destabilising actions.

¹ <http://thehill.com/policy/energy-environment/281430-trump-outlines-america-first-energy-plan>

² <https://www.bp.com/content/dam/bp/en/corporate/pdf/energy-economics/statistical-review-2017/bp-statistical-review-of-world-energy-2017-full-report.pdf>

³ <https://www.whitehouse.gov/the-press-office/2017/06/27/perry-zinke-and-pruitt-paving-path-us-energy-dominance>

Under the current administration, the US is following a different approach: it is voicing its opposition to the pipeline project while stressing its desire to sell more gas to Europe. In July 2017, the US House of Representatives approved a bill, previously backed by the Senate, giving the President the right to impose sanctions on companies that invest in or provide goods and services to Russian export pipelines, while also stating that the “US should prioritise the export of US energy resources.”⁴ Secretary of State Rex Tillerson had previously made similar statements linking the US opposition to Nord Stream 2 and the promotion of US gas sales to Europe.

Although an alignment between commercial and strategic interests is possible, such a shift in tone risks misleading the European audience on two levels. From an economic perspective, it provides the wrong impression that the US government could dictate energy exports, which are driven in fact by price signals and global competition. On a political level, it raises the suspicion that America’s new approach to Europe’s energy security is more driven by commercial interests than by a principled commitment to its European allies.

Implications for the EU and needed measures

The recent export promotion rhetoric in the US has already increased mistrust and political divisions within the EU and across the Atlantic. For example, the German and Austrian governments – the main European supporters of the Nord Stream 2 project - have argued that the US sanctions bill that would hit the pipeline is motivated by their specific economic interests. At the same time, Trump’s visit to Warsaw seems to have prompted a wave of energy nationalism in Poland. President Andrzej Duda mentioned the country’s desire to establish long-term supply contracts with the US, whilst Polish Deputy Prime Minister Mateusz Morawiecki stated that his country is aiming for “energy independence” and pursuing the objective of becoming a “gas distribution hub.” From an EU perspective, it is fundamental that US actions do not get in the way of the Energy Union’s key objectives, such as market integration and solidarity among the EU27. As a result, the Union and its members need to do three things:

First, the EU should firmly state that the addition of US LNG to the global market is a positive development, but that US gas plays no special role in the Union’s energy policy choices, which are still determined by a liberal, market-based approach to external gas supply. To avoid wrong impressions, member states who attach strategic importance to US gas should refrain from suggesting that special gas relations can be crafted with the US, whose LNG exports are in fact not tied to any destination.

Second, within the political dialogue that the Energy Union initiative provides, the Commission and the member states should address the underlying reasons for the intra-EU race to host a gas entry point. The race has intensified with the development of the Internal Energy Market (IEM). EU policymakers need therefore to consider whether rising intra-EU tensions are a natural consequence of the single market itself as countries compete to become a hub for serving larger areas of the IEM. Or whether competition is the result of the IEM’s limitations which implies that EU countries aim to fight for their own facilities as they do not trust that market or solidarity mechanisms can increase energy security. Reaching clarity on these issues is essential if the Commission is to determine whether policy action should aim at a better gas market design or a more forceful implementation of existing provisions.

Finally, member states sharing the objectives of the Energy Union should help the Commission to counter the view, popular in Central and Eastern Europe, that LNG is the only long-term response to the EU’s energy diversification needs. Several key EU documents, including the 2014 Energy Security Strategy, flesh out a more articulate approach where gas supply diversification is one of the dimensions of energy security, alongside solidarity in emergency situations, energy efficiency and diversification of sources (e.g. renewable energy).

A failure to adequately react to the shift of tone in the US will result in continued intra-EU competition that will only benefit third parties politically or commercially. Ultimately, it may also prevent Europe from taking advantage of the current benign global gas market conditions.

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⁴ http://docs.house.gov/billsthisweek/20170724/HR_____.pdf (Sec.257(10)).