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Political priorities in the US and EU energy sectors following the US elections

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Analysing the US political priorities in the gas sector after Republicans achieved the government trifecta may seem rather straightforward – ‘Drill, baby, drill’. But gas producers’ business plans respond to both public policies and market realities. What those market realities will be is a less straightforward question. In the past couple of years, geopolitics rewired global gas markets, and sanctions fragmented liquefied natural gas (LNG) export trade flows and investment. The

policies of President Trump will undoubtedly bring further change and influence a complex interplay of geopolitical and market forces in the global LNG markets.

Energy in the US foreign policy

Energy security considerations have shaped foreign policies for decades, and in recent years, have evolved into an energy trilemma, where considerations of energy security, affordability and sustainability require a balance. Perhaps the only reliable prediction of how Trump’s

policies may impact global energy markets is that the energy trilemma priorities will be realigned, with gas and LNG becoming likely winners. The US became a net total energy exporter in 2019, during Trump’s first presidency. In 2023, the US became the world’s largest LNG exporter. According to the US Energy Information Administration, North America’s LNG export capacity is on track to more than double by 2028 – a third of that increase is attributed to LNG projects in Canada and Mexico. This

means that during Trump's second term, the US will have unparalleled resources to wield LNG exports as a lever in energy diplomacy. And Trump's energy diplomacy, both vis-a-vis his allies and adversaries, is where any prognosis becomes akin to fortune telling, because outcomes are contingent on Trump's mastery of trade and economic levers – LNG exports, tariffs and sanctions. Sanctions are likely to become the main levers in negotiating with Russia a peace for Ukraine, while tariffs may be levers pulled with the US' European allies.

Speaking at the New York Economic Club in September, Trump recognised risks that sanctions can bring to the dollar dominance: "I was a user of sanctions, but I put them on and take them off as quickly as possible, because ultimately it kills your dollar, and it kills everything the dollar represents." On tariffs, Trump said: "To me the most beautiful word in the dictionary is 'tariff, it's my favourite word.'" The rest of this article seeks to unpack these quotes to predict US policies in respect of European and Russian gas and LNG trade.

US sanctions against Russia

The biggest variable for US-EU LNG trade is future exports of Russian pipeline gas and LNG into Europe. Trump's resolve to bring a quick peace for Ukraine, against his past criticism of Europe's dependency on Russian gas, signals that sanctions against Russia may be used as bargaining chips to achieve peace

yet secure Europe as a key market for American LNG. Both Trump and JD Vance, vice president elect, seem aware of the side effects that sanctions are having on the global energy trade. In response to sanctions, the Russian gas sector has been focusing on building new trade channels outside the traditional financial system – an ecosystem fostering transactions in local currencies and a parallel trade network. Trading hubs have emerged in Asia and the Middle East to support the parallel market evading Western oversight entirely. The evolution of this parallel market results in differentiated prices forming depending on jurisdictions and regulations. China and India purchase discounted Russian LNG, protecting themselves from sanctions by transacting outside traditional financial channels. The trade in local currencies is not merely a means of circumventing sanctions but an economic strategy for Russia building new trade alliances with BRICS countries. Vance called sanctions policy in Russia a complete and total failure. In response to freezing Russian central bank assets via the REPO Act to use them to support Ukraine, Vance wrote a memo arguing that the core concern with the REPO Act is its impact on global interest in US Treasuries. The new administration seems to realise that to allow parallel energy markets to grow and have notable impacts on global markets and the energy policies of the countries involved is not in the US' long-term

interests. This suggests that the new administration may be pragmatic in assessing sanctions based on their economic effect and lifting restrictions that distort trade and incentivise Russia to foster tighter trade ties with US adversaries, including China, Iran and North Korea. Whether the pragmatism would result in lifting any sanctions or merely loosening sanctions enforcement remains to be seen. While the new US administration may be pragmatic in its approach to sanctions, there are no indications that the EU is willing to follow suit.

The EU as a market for American LNG

The recently adopted 14th package of EU sanctions against Russia introduced new prohibitions and reporting obligations in connection with the transshipment in EU territory of LNG originating in, or exported from, Russia and bound for non-EU markets. The ban on transshipment of Russian LNG is set to take effect in March 2025. Separately, the existing investment ban has been updated to confirm that the investment restrictions also cover Russian LNG projects under construction – Arctic LNG 2 and Murmansk LNG. The tightening measures to prevent transshipment of Russian LNG economically may benefit US LNG exporters. Trump could push for EU buyers to sign more long-term contracts with US LNG exporters, something that has not been done at scale even as European countries sought to reduce

reliance on supply from Russia, because EU climate policies make EU future gas demand uncertain. Ursula von der Leyen, president of the European Commission, was reported to have already signalled in a recent conversation with Trump that they are open to increasing shipments of American LNG to Europe. Unsurprisingly, the move to buy more American gas was immediately coined as the EU's gambit to avoid Trump's tariffs. The EU imported about 50 billion cubic metres (bcm) of LNG more in 2023 than it did in 2020, bringing the total last year to about 130 bcm. The share of US LNG in EU imports has doubled from 23 percent in 2020 to about 47 percent in 2023. The actual level of imports dropped in 2024 amid weaker gas demand and higher storage levels. But there is likely to be a bounce back next year if the Ukraine-Russia gas transit agreement ends in December 2024. It remains to be seen how Trump will balance tariffs and trade considerations against access for US LNG exporters to EU gas markets. Tariffs on goods imported into the US could hit European industry and growth, further reduce Europe's energy consumption and impact its future needs for US gas.

Another factor playing into the future of the US-EU gas trade is Europe's climate commitments, and a possibility of the trading bloc going further and including LNG in its Carbon Border Adjustment Mechanism – effectively placing an import duty on LNG at prevailing emissions trading schemes carbon

prices. The EU recently passed a first-of-its-kind methane regulation that will require oil, gas and coal companies to monitor, report and verify methane emissions across the bloc. These rules will also apply to importers of fossil fuels from 2025. This new EU regime foresees a possibility to exempt US LNG exporters from the most onerous requirements, but only if the US system for measuring, reporting and verifying methane emissions is deemed 'equivalent' to the new EU standards. Any potential progress here will largely depend on related measures the incoming US government will take. Also, Trump's possible removal of penalties introduced by the Biden administration on methane leaks in gas production could disadvantage US LNG's environmental credentials among European buyers, although it would not stop US players taking on voluntary methane reduction obligations to be able to market low emissions gas to Europe. It is too early to tell whether the US

and EU climate policy priorities may diverge. A recent decision of the Hague Court of Appeal handed down on 12 November 2024 in *Milieudefensie et al. vs. Royal Dutch Shell* is, however, telling. The court ruled that Shell does not have an absolute emissions reduction obligation of any percentage, and under EU law it will not have such an obligation for the foreseeable future. The *Milieudefensie* decision may be seen as a deterrent to climate litigants because the court ordered the claimants to bear the costs of both the first instance decision and the appeal proceedings.

US-Russia gas rivalry

A key question is how the outlook for Russian LNG supply is shaping up for 2025, and how recent sanctions developments around Russian LNG projects might drive demand for increasing volumes of LNG from the US and Qatar. Russian sources – official government documents and scarce information



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from Russian gas producers – starkly contradict the consensus of analysts, which predicts a negative impact of sanctions on the Arctic 2 LNG project. Russian gas producers have never been particularly transparent, and, in the current environment, understandably do not announce their moves. This leaves a draft Energy Strategy of the Russian Federation 2050 unveiled in September and expected to be adopted by the end of 2024, as the only Russian source for gas exports outlook. The projected growth of gas exports in the draft strategy bewildered observers with its optimism. The strategy was discussed with energy ministers of BRICS countries in September. It considers two scenarios – conservative and targeted. The conservative scenario assumes the continuation of the existing trends and policies in the fuel and energy sector in Russia, without significant investments. The targeted scenario contemplates a balanced development of the energy sector with the lowest costs and full realisation of Russia's export potential. In both scenarios, the

strategy assumes that sanctions will remain in place, the country's GDP will grow above the level of the world economy until 2030, and at the world average until 2050. The population is assumed to remain at the level of 2023. According to the strategy, Russian gas production was 638 bcm in 2023 and will grow to 951 bcm by 2036, and to 1085 bcm by 2050. Supplies to the domestic market will increase from 495 to 664 bcm, while gas export will grow from 143 to 421 bcm in 2050, including pipeline gas from 101 to 176 bcm and LNG from 42 to 245 bcm. This means that Russia plans to increase gas production by 70 percent in 2050 and its LNG exports sixfold with sanctions in place. Whether and how this will be achieved is the subject of speculation ranging from the prospects of reloading LNG in Russian waters to building nuclear powered submarine LNG carriers. The only certain thing is Russia's determination to reindustrialise its economy, to build new trade alliances and to remap global energy flows, using national currencies in energy

trade. The communique of the 9th BRICS energy ministers meeting in Moscow is testament to that.

Conclusion

An analysis of US energy policies after Trump took office would be incomplete without considering other key markets, particularly US policy toward China and its bearing on Australian and Russian supplies of LNG and gas to China. At this stage, the energy and policy infosphere is awash with speculation, and LNG traders' positions spell more volatility. But no matter how US and EU policies shape up following the US elections, energy, commodities, sanctions and public policy teams have busy times ahead. ■

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