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SPECIAL BRIEFING

LNG'S NEW GEOPOLITICAL ERA

Market Shifts, Strategic Alignments & Energy Security?

GI Consultancy Intelligence Publishing

LNG's New Geopolitical Era: Market Shifts, Strategic Alignments & Energy Security?

US-China Trade Tensions Reshape LNG Markets

The ongoing trade and geopolitical tensions between the United States and China are causing significant shifts in global LNG markets. Historically, China had been emerging as a major importer of US LNG, reflecting a broader pattern of cooperation in energy trade. However, recent geopolitical friction has dramatically altered this dynamic. China, amidst heightened political tension and strategic recalibration, has notably reduced its LNG imports from the United States. This shift has been facilitated by China's efforts to bolster its domestic natural gas production, complemented by substantial increases in pipeline imports from Russia, notably via the Power of Siberia pipeline.

This reduction in Chinese imports from the US has triggered a redistribution of LNG flows globally. Excess cargoes originally destined for China are now increasingly finding their way to European markets, which are actively seeking alternative sources to offset diminished Russian gas supplies. In the short term, this shift has contributed to a stabilization of LNG prices and ensured continuity of supply for European markets. However, it introduces substantial long-term uncertainties as market participants must navigate new geopolitical realities. Companies and countries alike are compelled to diversify their supplier bases and strengthen their logistical capabilities and storage infrastructure, preparing for continued volatility in global trade relationships.

Moreover, the evolving US-China relations present significant strategic implications beyond the energy sector. Energy trade, historically a stabilizing factor in international relations, has now become intertwined with broader geopolitical strategies. Consequently, stakeholders in the global LNG industry must adapt swiftly to this shifting landscape, leveraging strategic partnerships and alliances to mitigate risks associated with ongoing trade disruptions.

Europe Deepens LNG Dependence Amid Infrastructure Vulnerabilities

Europe's dependence on liquefied natural gas (LNG), particularly from the United States, continues to deepen significantly due to sustained reductions in pipeline gas from Russia. Europe's energy landscape has experienced profound changes following geopolitical upheavals, notably the Russian invasion of Ukraine. These disruptions highlighted Europe's vulnerability, especially given its previous heavy reliance on Russian gas pipelines. In response, European nations have significantly accelerated their investments in LNG import terminals, storage facilities, and interconnected infrastructure to ensure secure, stable energy supplies.

Despite these investments, Europe's infrastructure faces substantial vulnerabilities, underscored by recent power outages such as the massive blackout in the Iberian Peninsula. This incident illustrated starkly how reliant Europe's energy grids have become on renewable energy sources, which, while

Negligible supply growth and resilient Asian demand kept prices elevated in 2024

2024 saw **increase** of just **2 million tonnes** of new LNG supply, the lowest for **10 years**

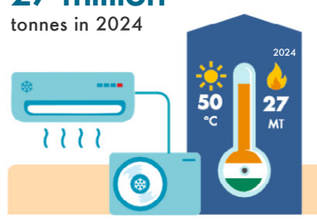
Global trade in LNG reached **407 million tonnes** for the year

LNG demand strengthened in Asia as Europe eased purchases due to **storage levels** and **strong renewables** generation.

China started 2024 with **strong** purchases of LNG to take advantage of **lower spot prices**

Total **Chinese imports** reached **79 million tonnes**, an increase of **6 million tonnes** from 2023, nearing its highest annual imports

Hot summer months in India spurred **more LNG imports** for power, reaching **27 million** tonnes in 2024



European **LNG demand** fell by **23 million tonnes** due to strong renewables generation and reduction in gas use

Source: shell.com

environmentally beneficial, are vulnerable to intermittency issues. LNG, therefore, is increasingly recognized as an essential strategic complement to renewables, providing a reliable, quickly dispatchable energy source crucial for grid stability.

Moreover, Europe's enhanced LNG dependency introduces critical cybersecurity considerations. As the continent's energy infrastructure becomes increasingly digitized and interconnected, it also grows more susceptible to cyber threats. These threats have intensified, prompting significant investment in cybersecurity measures across LNG import and storage facilities, recognizing that disruptions could have widespread implications for energy security and economic stability.

Nonetheless, Europe's deeper LNG reliance is not without complications. Despite significant volumes of LNG imports from the US, these alone cannot realistically resolve the substantial trade deficit between Europe and the United States. LNG imports remain a crucial but incomplete solution to broader economic challenges, necessitating continued efforts in energy diversification and diplomatic engagement to secure long-term economic and energy stability.

Asian Markets Strategically Position for Long-Term LNG Security

Asian markets, especially major LNG importers like Japan, South Korea, Taiwan, and emerging markets across Southeast Asia, are strategically positioning themselves to ensure long-term energy security. Given projected declines in traditional regional LNG supplies from Australia, Indonesia, Malaysia, and Brunei, Asian nations are increasingly looking toward the United States, specifically projects such as Alaska LNG, to secure future supplies.

Japan exemplifies this strategic shift. Despite complexities in ongoing trade negotiations with the US and the domestic political pressures affecting Prime Minister Ishiba's government, Japan recognizes the imperative of stable and sufficient LNG supplies. Japan's energy policy continues to grapple with delays in renewable energy deployment, compounded by growing energy demand from burgeoning data center operations, which are energy-intensive. This convergence of factors is likely to sustain Japan's status as one of the world's leading LNG importers, reinforcing its commitment to securing long-term LNG contracts and investments abroad.

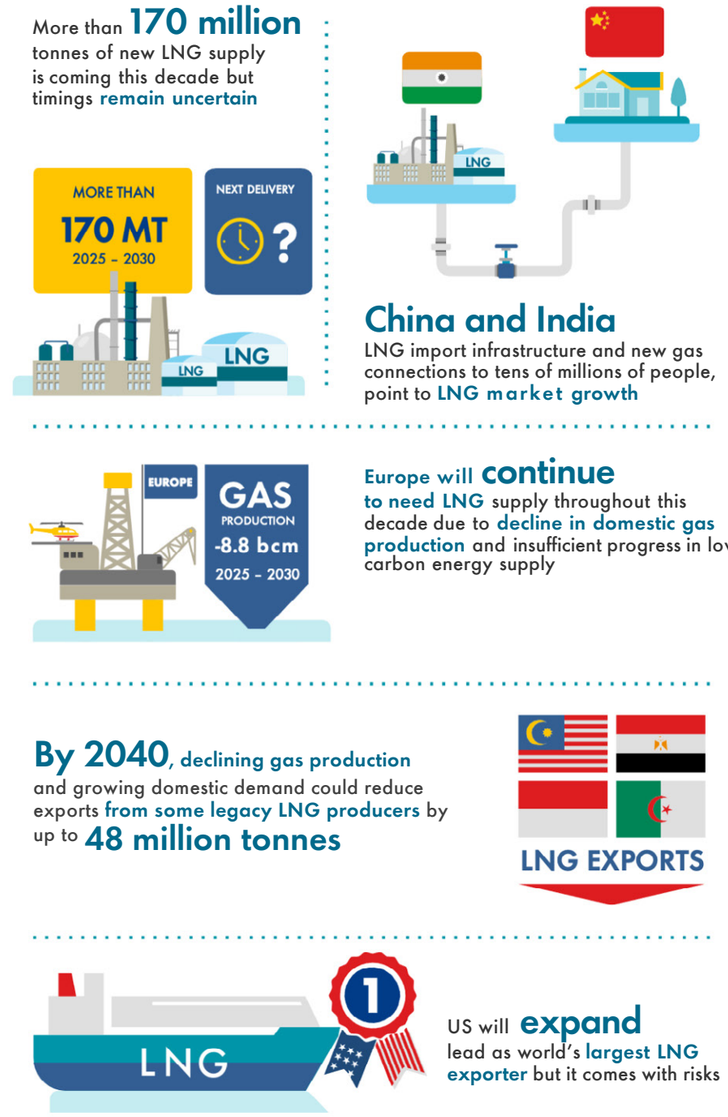
Asian investors have begun actively securing stakes in US LNG infrastructure and upstream shale gas assets, signaling a clear strategic pivot towards North American energy resources. Investments in projects like Alaska LNG provide geographic advantages, reducing maritime transportation bottlenecks associated with Gulf Coast exports. This trend toward vertical integration reflects broader Asian strategic objectives to insulate themselves against geopolitical risks and supply disruptions.

The proactive measures by Asian buyers underscore a recognition of the importance of energy diversification. They are not only securing immediate supplies but are also positioning themselves to manage future uncertainties. Such long-term contracts and investments reflect broader strategic hedging efforts aimed at bolstering energy security amid shifting geopolitical conditions and market volatility.

Additionally, the integration of advanced technologies and increasing digitization within the LNG industry has raised concerns about cybersecurity threats, prompting Asian markets to also prioritize cyber resilience in their infrastructure planning. Such initiatives further demonstrate a comprehensive approach to energy security, extending beyond traditional supply and demand considerations.

In conclusion, the evolving geopolitical landscape around LNG markets—driven by US-China tensions, Europe's deepening dependence and vulnerability, and Asia's strategic repositioning—highlights significant transformations in global energy security strategies. Market participants must adapt swiftly to these emerging dynamics, enhancing infrastructure resilience, diversifying supply sources, and fostering robust strategic alignments. LNG, thus, remains a pivotal energy resource globally, intricately tied to geopolitical stability and strategic international relations. ■

With rising global demand, LNG is the fuel of choice to meet energy system resilience



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