CRS INSIGHT

U.S. Natural Gas Exports and the Trans-Pacific Partnership (TPP) Agreement

October 15, 2015 (IN10375)

Related Authors

- Paul W. Parfomak
- Michael Ratner

Paul W. Parfomak, Specialist in Energy and Infrastructure Policy (pparfomak@crs.loc.gov, 7-0030)
Michael Ratner, Specialist in Energy Policy (mratner@crs.loc.gov, 7-9529)

On October 5, 2015, President Obama announced the conclusion of negotiations for the Trans-Pacific Partnership (TPP), a free trade agreement (FTA) among the United States and 11 other Asia-Pacific nations—Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. (See CRS In Focus IF10000, *The Trans-Pacific Partnership (TPP) Agreement*.) The agreement reduces and eliminates tariff and non-tariff barriers on goods, services, and agriculture. It also establishes trade rules and disciplines, some of which expand on commitments at the World Trade Organization. Before the TPP agreement can take effect for the United States, Congress must pass implementing legislation under procedures known as trade promotion authority (TPA), which it passed in June 2015. Although the TPP agreement does not contain an energy chapter, it could have implications for U.S. natural gas trade by conferring FTA status to key producers and consumers of liquefied natural gas (LNG) in the Pacific Basin. Natural gas exports may, therefore, be one factor in congressional debate about the agreement.

Currently, parties seeking to sell U.S.-produced LNG to foreign buyers must file for export authorization from the Department of Energy (DOE) pursuant to Section 3(a) of the Natural Gas Act (15 U.S.C. §717b; 10 C.F.R. Part 590). Authorizations are for specific volumes of LNG. If the United States has an FTA with the importing nation, that application *automatically* will be deemed consistent with the "public interest" and approved without delay. Exports to non-FTA countries are presumed to be in the public interest, unless, after opportunity for a hearing, DOE finds that the authorization would not be in the public interest. Of the countries with which the United States already has an FTA in effect, only South Korea is a major LNG importer. (Chile, Mexico, and Singapore are FTA nations that import smaller volumes of LNG). Therefore, most companies seeking to export U.S.-produced LNG have applied for export approval to countries with which the United States does not yet have an FTA. Note, a non-FTA export approval need not specify a destination country; only sanctioned countries are prohibited from receiving the exports. Thus a non-FTA authorization is limited to an approved volume of LNG but not a destination.

The Trans-Pacific Partnership includes one non-FTA country, Japan, which is currently a major LNG importer. Japan is noteworthy because it is the world's largest LNG importer by volume, and is, therefore, a key player in the Pacific Basin market for LNG (**Table 1**). Greater access to U.S. natural gas supplies has been a national priority for Japan, especially after its Fukushima nuclear accident increased Japan's reliance on natural-gas-fired electricity generation;

LNG supplies were one of Japan's key motivations for ultimately joining the TPP trade negotiations. Another non-FTA country in the TPP agreement, Vietnam, is not currently an LNG importer but has plans to import LNG in the next few years.

Table 1. TPP Countries' Natural Gas Position 2014

(Billion Cubic Meters)

Country	Production	Consumption	Exports/(Imports)	LNG Terminals?	FTA?
Australia	53.69	28.92	24.77	Yes	Yes
Brunei	11.01	3.19	7.82	Yes	No
Canada	151.15	98.87	52.28	Yes	Yes
Chile	0.91	4.40	(3.49)	Yes	Yes
Japan	2.97	120.64	(117.67)	Yes	No
Malaysia	65.42	34.93	30.49	Yes	No
Mexico	41.13	69.61	(28.48)	Yes	Yes
New Zealand	4.93	4.93	0.00	No	No
Peru	12.91	7.73	5.18	Yes	Yes
Singapore	0.00	10.24	(10.24)	Yes	Yes
United States	727.83	761.81	(33.98)	Yes	—
Vietnam	8.99	8.99	0.00	No	No

Source: Cedigaz Statistical Database, 2015, http://www.cedigaz.org/.

Note: LNG terminals may be import or export terminals.

The approval of U.S. LNG exports to non-FTA countries has been controversial. Producers contend that increased exports will not raise domestic natural gas prices significantly (as there is ample supply to meet domestic demand) but will provide benefits in terms of increased revenues, trade, and jobs. Domestic consumers of natural gas, who have benefitted from recent low prices, fear domestic natural gas prices will rise if more natural gas is exported as LNG. Congressional interest has focused on DOE's process and criteria for approving LNG commodity exports to non-FTA countries, with some Members arguing that DOE may be approving too many non-FTA export applications and others arguing that it may be approving too few, or approving them too slowly. Multiple bills have been introduced in the 114th Congress to either facilitate or restrict U.S. LNG exports, including an amendment to the TPA (S.Amdt. 1236) which was not accepted but would have denied TPA procedures to legislation implementing an FTA that allowed national treatment for natural gas. (For more information, see CRS Report R42074, *U.S. Natural Gas Exports: New Opportunities, Uncertain Outcomes*.)

By conferring FTA status on Japan and the other participating nations, the TPP would, in effect, remove any restrictions on U.S. LNG exports to those countries. DOE export approvals would be automatic. The practical effects of this change in status in the near term are unclear, however. Should the TPP be implemented in its current form, Japan would be the only major addition to the list of FTA countries for LNG export purposes. However, Japanese companies have already signed contracts for a significant amount of U.S. LNG supplies, approximately 20% of their 2014 consumption. Because the Pacific Basin LNG market is already competitive among multiple suppliers, and because Japan seeks supply diversity, it is questionable whether Japanese companies would contract for large additional volumes of U.S. LNG in the near term if the TPP agreement takes effect. Vietnam reportedly has contracted with Gazprom to supply LNG for its first planned terminal, although supplies for a second planned terminal have yet to be secured. Notwithstanding these existing arrangements, U.S. LNG export projects that have signed contracts with Japanese or other foreign companies may still have "excess" export capacity. They may apply to export greater volumes to FTA countries in the future because the Japanese volumes will no longer be counted under their non-FTA export limits. How the Pacific market for LNG would ultimately respond to the TPP agreement thus remains to be determined.