US-CHINA TRADE DISPUTE: IMPACTS ON THE ENERGY SECTOR
SUMMARY

• The US-China trade dispute has an indirect yet significant impact on global energy demand.
• The US energy sector is also directly impacted through Chinese tariffs on several US energy commodities.
• Chinese tariffs on US energy commodities may result in a global rebalancing of trade in the short-term and raise questions about major projects in the US and China in the long-term.
• Chinese tariffs on US crude can exacerbate the global supply glut, enhance volatility, and delay oil and gas investment in the long-term.

CONTEXT

On March 22, 2018, US President Donald Trump’s administration released a report outlining its complaints with China’s trade practices. Since then, the US has imposed tariffs on Chinese products and China has responded with its own tariffs on US products. So far, the US has imposed tariffs on about $550 billion of Chinese goods while China has responded with tariffs on about $185 billion of US products.

A slow de-escalation in the form of product and tariff exemptions in September 2019 by both countries has paved the way for a potential “phase-one” partial trade deal that would see China buy more US agricultural products in return for a suspension in additional tariffs.

IMPACTS TO THE ENERGY SECTOR

Slowing Demand Growth and Price Volatility

The trade dispute has had an indirect effect on energy demand. Chinese oil demand growth has played an important role in the rebalancing of the oil market and helped to stabilise markets. The trade dispute, however, has had an impact in offsetting that growth. The US-China trade dispute has added another variable of uncertainty to an already volatile energy market. It risks stalling an already slowing global economy which has also impacted global oil demand growth that is now around 1 mb/d for 2019 – the lowest point thus far in the latest IEA and OPEC short-term forecasts.

Energy Tariffs

In response to US tariffs, China has also directly targeted around $7 billion worth of US energy products. Although small compared to the exports covered by Chinese tariffs in the agricultural and manufacturing sectors, these tariffs carry important implications for the US, China, and the global energy community.

Chinese tariffs on key US energy products include:

• **Crude** – China placed a 5 percent tariff on U.S. crude oil from 1 September 2019, the first time U.S. oil is targeted since the trade dispute.
• **LNG** – China has imposed 10 percent duty on U.S. liquefied natural gas (LNG) since September 2018 and then raised it to 25 percent in June 2019.
• **Propane** – China imposed another 5 percent tariff on U.S. propane from 1 December 2019 which adds to the 25 percent levied since 23 August 2018.
• **Polyethylene** – China placed 25 percent tariffs on three grades of US Polyethylene as part of the tariffs imposed on 23 August 2018.
• **Methanol** – China has imposed tariffs of 25 percent since June 2018 on US methanol.
**ANALYSIS**

In the short-term, a rebalancing of trade will see China favour other supply sources over the US. Over the long term, LNG tariffs may slow down the phase-out of coal as China reconsiders its reliance on overseas gas imports. Overall, greater leverage from non-US importers and additional supply of LNG, propane and polyethylene on the market may affect investment incentives.

The tariffs create uncertainties regarding new projects in both the US and China. LNG projects under development in the US would be at a competitive disadvantage and propane tariffs could bring uncertainty to China’s PDH (propane dehydrogenation) industry which is dependent on US propane supply. This would also bring into question US Polyethylene (PE) expansion projects as Linear Low-Density Polyethylene (LLDPE) and High-Density Polyethylene that make up more than 90 percent of new US output.

Crude oil tariffs on US crude will reduce Chinese demand in the long-term – a market with an ability to absorb US light, sweet shale oil due to a growing petrochemical sector. The inability for other markets to take in additional incremental supply can exacerbate the global supply glut, enhance volatility, and delay oil and gas investment. With respect to methanol, trade between the US and China is limited although tariffs could impact the start-up of projects in the US that may seek greater exports to China in the future.

**ROLE OF THE IEF**

In the same way that global energy security can be impacted by geopolitical instability, economic trade disputes also affect oil and gas demand and supply balances. When these become entrenched, they create suboptimal conditions for the global energy sector to function in an efficient and reliable manner. Bilateral negotiations between the US and China are important and will continue. However, it is also incumbent upon the international energy community to continue to constructively engage through the IEF energy dialogue to better understand the risks arising from disputes between producers and consumers and assess their impact on global energy security and orderly energy transitions.

The fourth objective under Section II of the IEF Charter states:

> The fundamental aims of the Forum are narrowing the differences among energy producing, consuming and transit Member States on global energy issues and promoting a fuller understanding of their interdependency and the benefits to be gained from cooperation through dialogue among them, as well as between them and energy related industries.