INTERNATIONAL ENERGY FORUM

The US-China Trade Conflict

Impacts and challenges to the global energy sector

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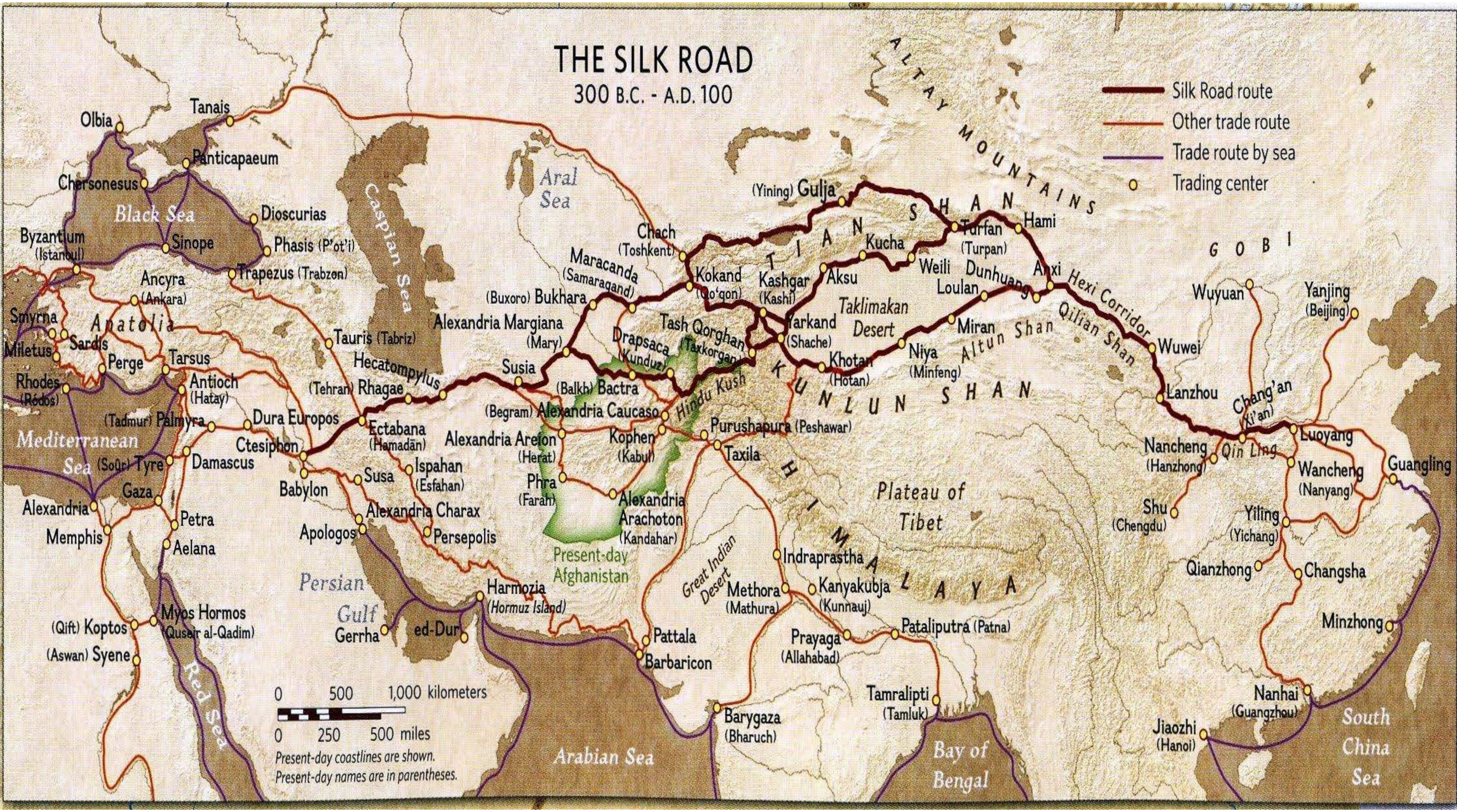
Historical Context



Contemporary Examples (19thth century onwards)

- **Anglo-Irish Trade War (1930s)**
  - The Irish Government refused to continue reimbursing Britain with land annuities from financial loans granted to Irish tenant farmers. This resulted in the imposition of unilateral trade restrictions by both countries.

- **Smoot-Hawley Tariff Act (1930s)**
  - A law that implemented protectionist trade policies in the United States. The act raised US tariffs on over 20,000 imported goods to protect American jobs and farmers during the Great Depression.

- **US-Japan Trade War (1980s)**
  - Japan’s mid-century rise led to the country becoming an export powerhouse. As Japanese cars flooded the U.S. market, intense pressure eventually led to the signing of a Voluntary Export Restraint (VER) agreement that limited sales in the United States.

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US China Trade Conflict

Possible US motivations to implement tariffs

1. **Keep manufacturing jobs in the US**

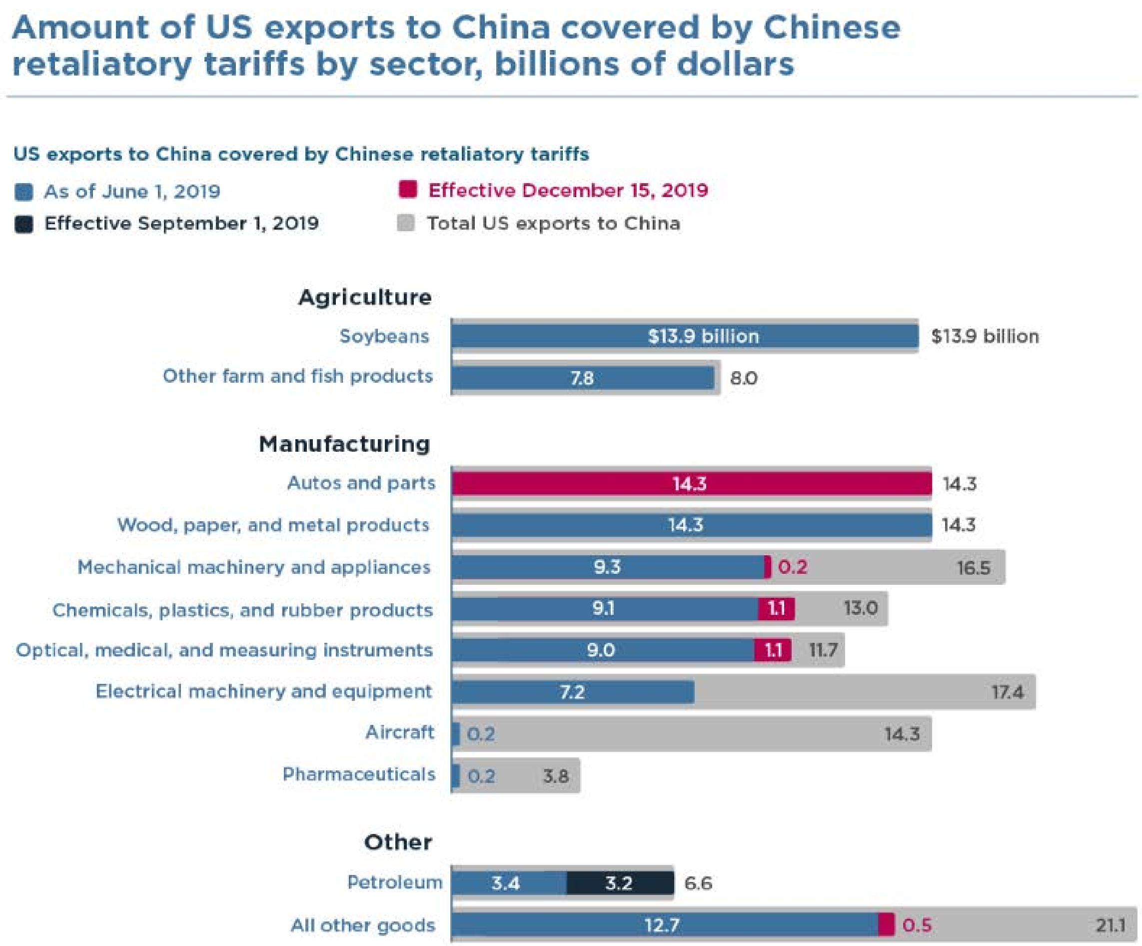
2. **Reduce US/China trade deficit**
   - Total US trade deficit = $621 billion
   - Total US trade deficit with China= $419 billion = **67% of all US debt**

3. **Reduce debt**
   - US owes China $1.13 trillion in debt

Source: US Census Bureau

China Tariffs On US Exports By Sector

Selective US industries targeted by China



Source: Peterson Institute for International Economics

Oil Price Volatility

Volatile pattern due to market shifts, trade conflict uncertainty, and news headlines

Source: Macrotrends.net
Source: Peterson Institute for International Economics

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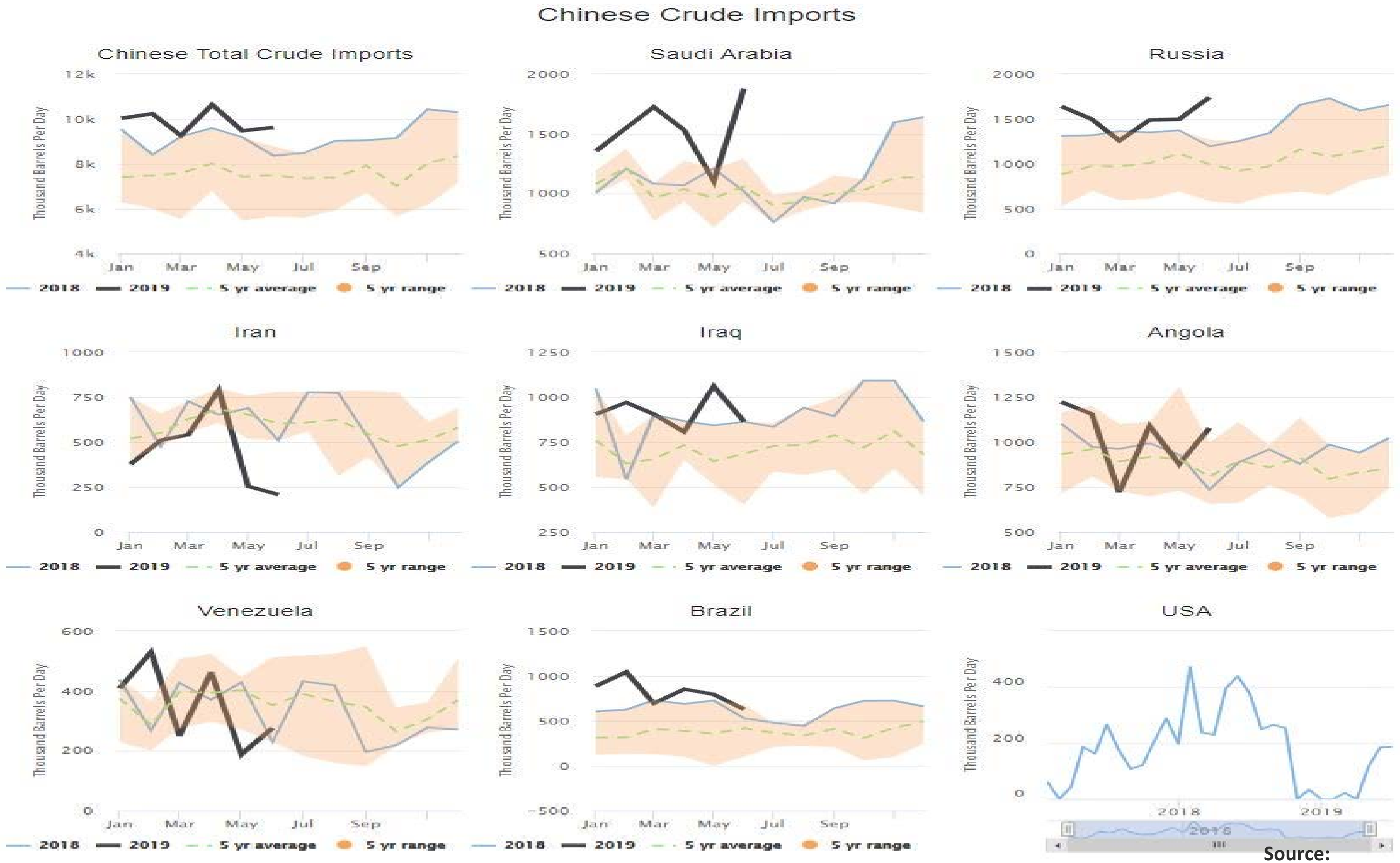
China crude oil imports

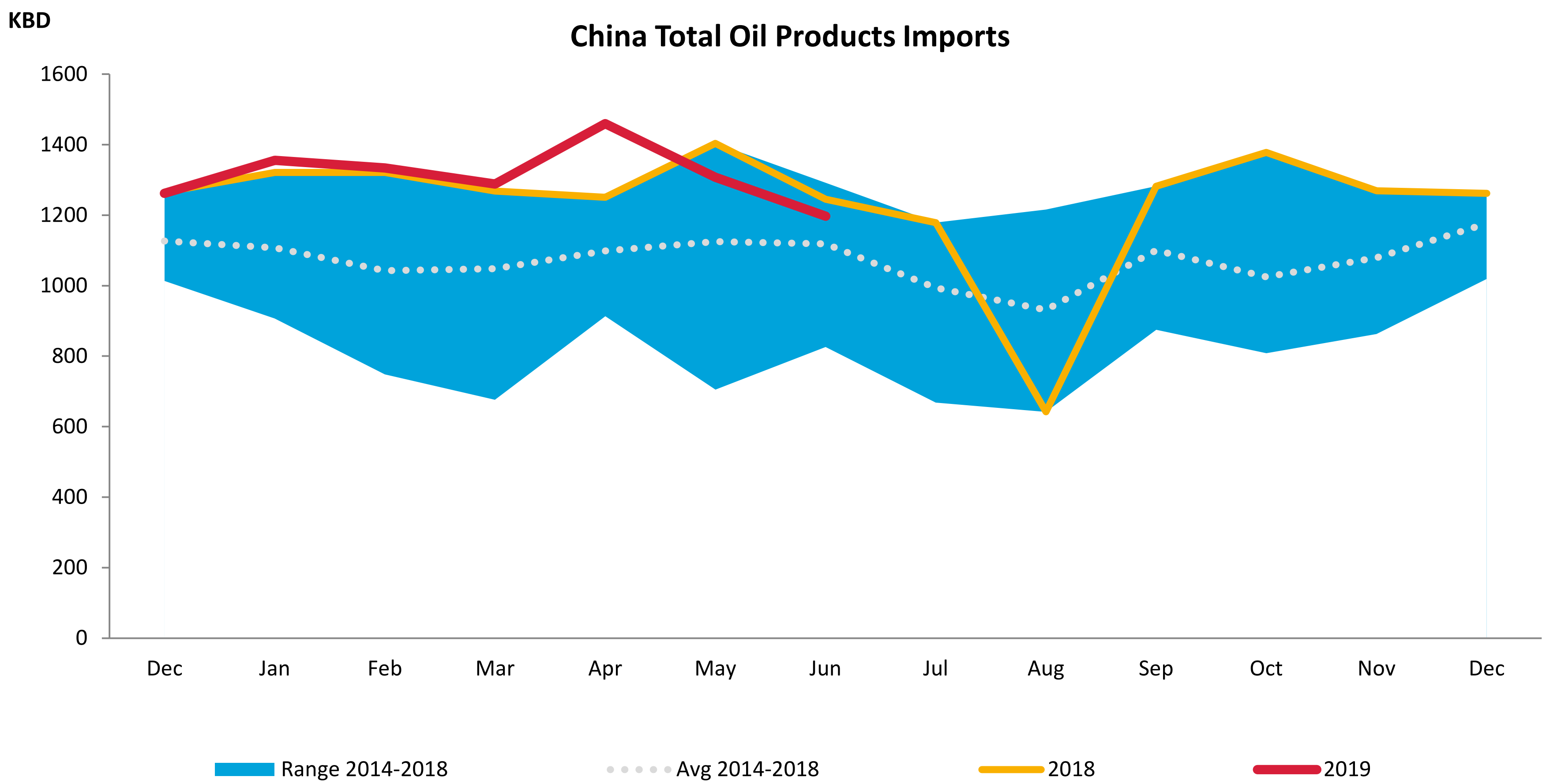
Showing impacts of trade tension and sanctions



Source:
General Administration of Customs, China

China total oil products imports

Volatile trade pattern; an effect of trade dispute import tariffs



Source: JODI Oil

China-US Trade Conflict

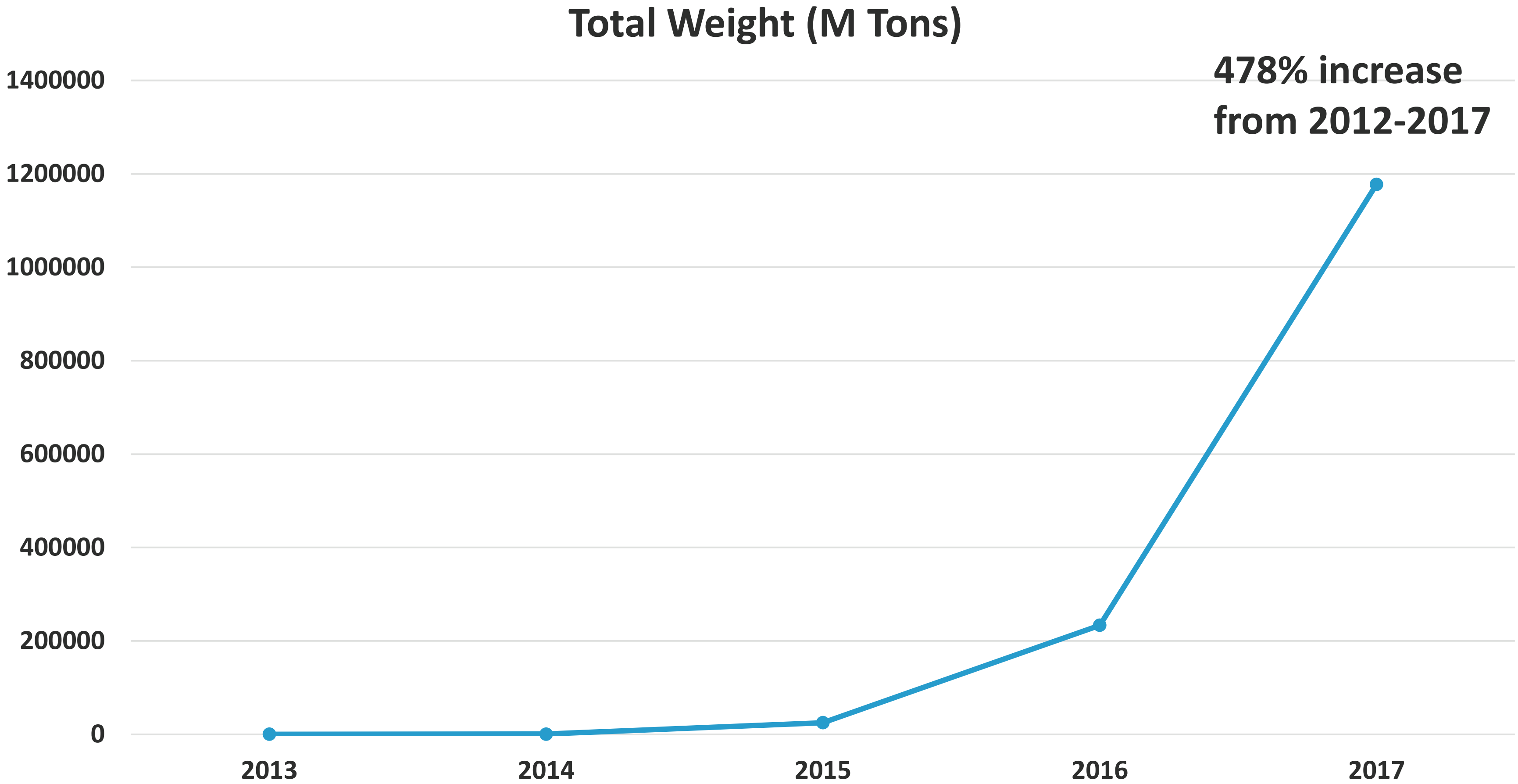
Chinese Tariffs on US Energy Products

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

China also imposed a 25% tariff on coal, but this is largely metallurgical coal used for construction rather than energy.

US LNG Exports to China

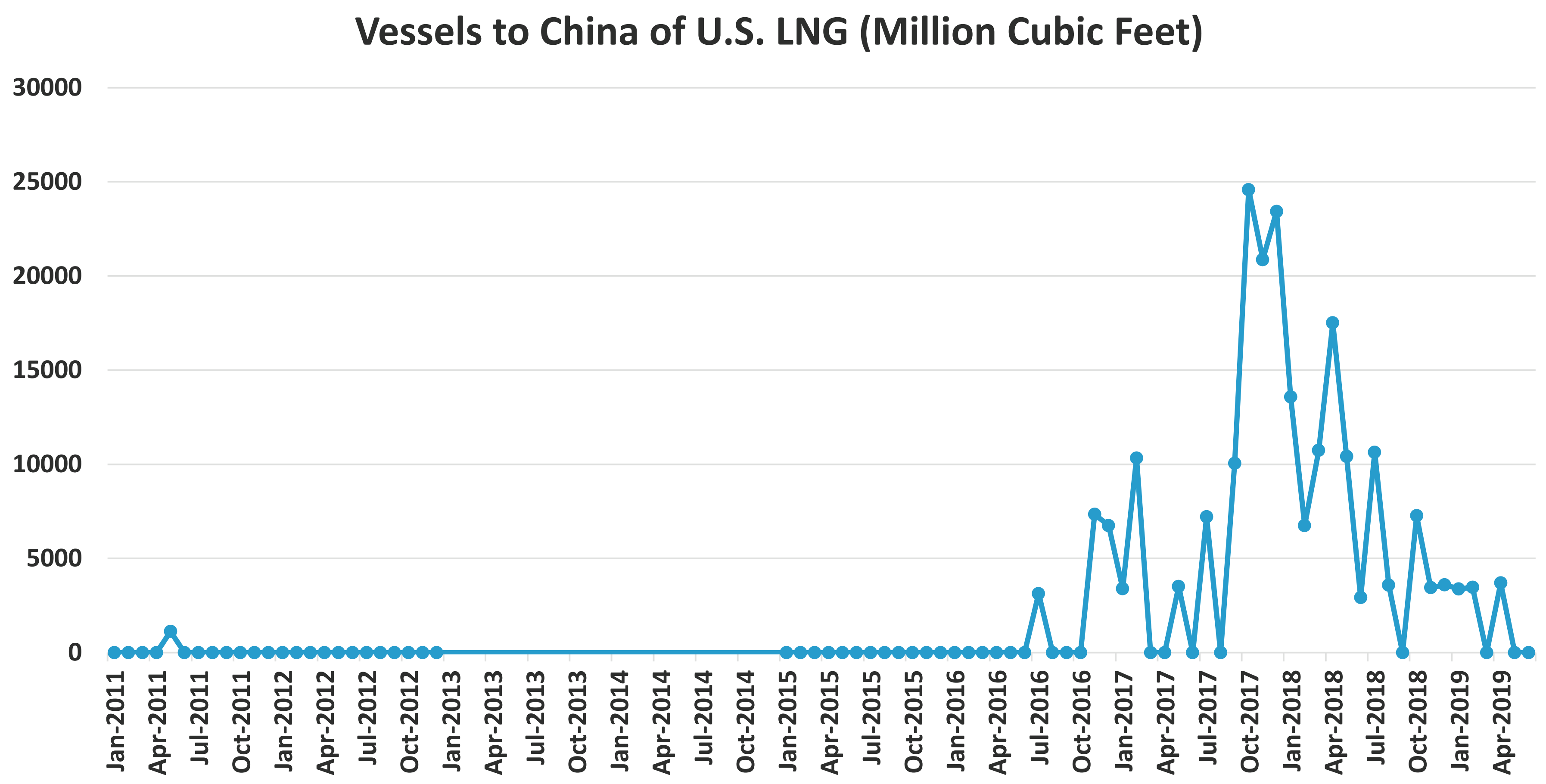
Fastest growing market for US from 2012-2017



Source: Chatham House (2018), 'resourcetrade.earth', http://resourcetrade.earth/

US LNG Exports to China

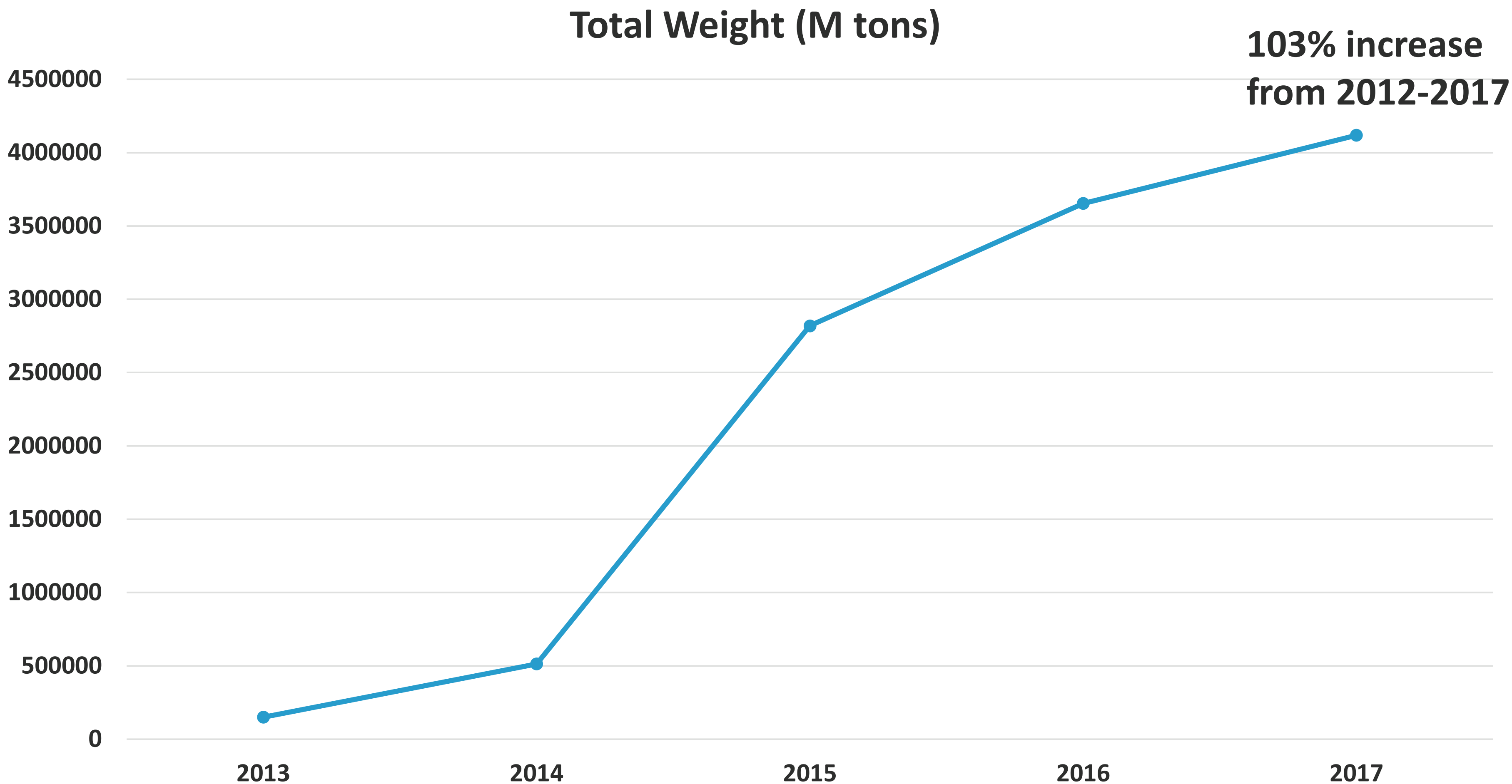
Trade conflict affecting supplies 2018 onwards



Source: US Energy Information Administration

US Propane Exports to China

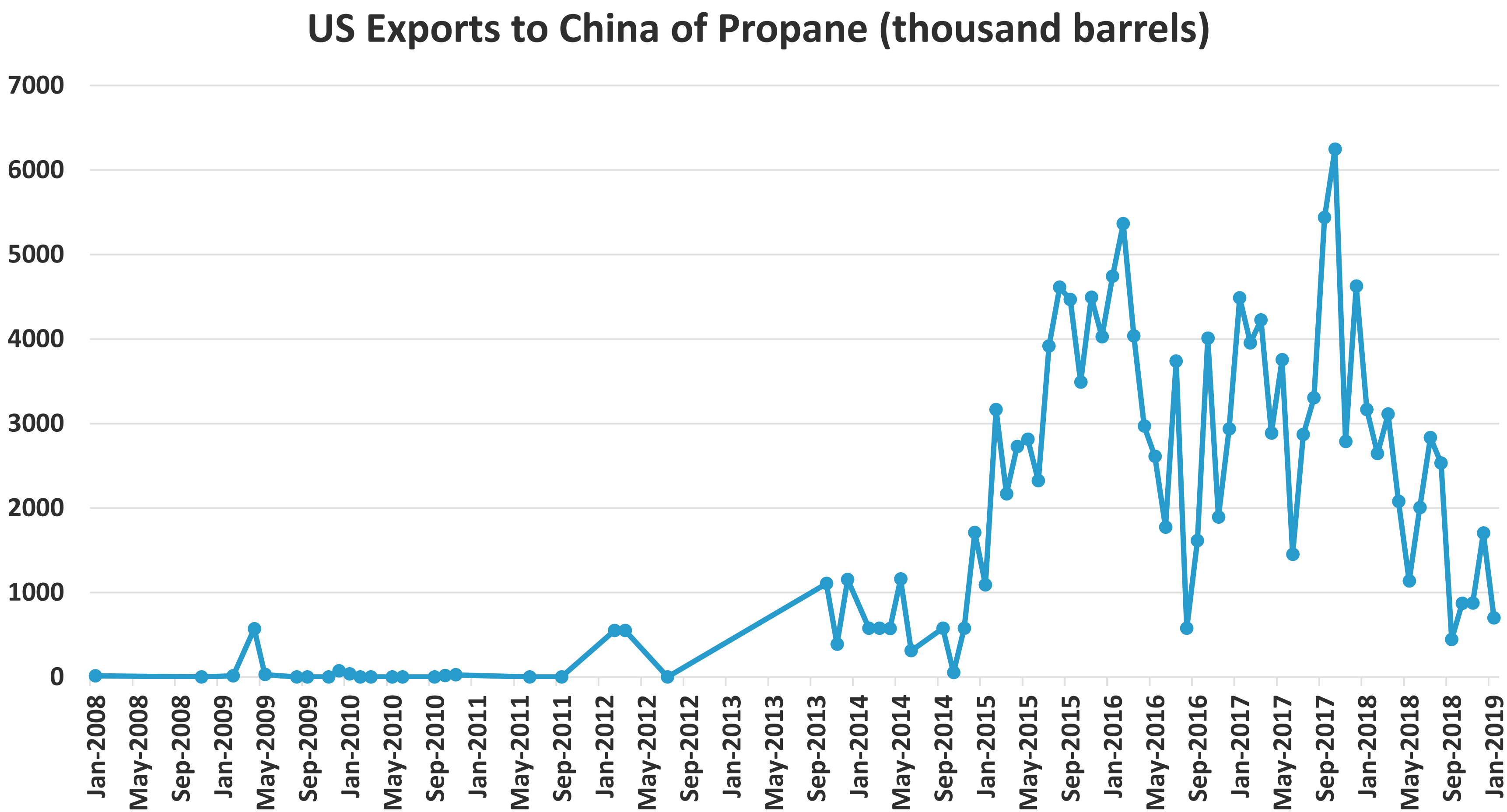
Fastest growing market for US from 2012-2017



Source: Chatham House (2018), 'resourcetrade.earth', http://resourcetrade.earth/

US Propane Exports to China

Trade conflict affecting supplies 2018 onwards



Source: US Energy Information Administration

LNG Tariffs

Implications for US and China

- **Rebalancing of trade**
  - China will seek to replace US LNG with traditional players including Australia, Qatar, Russia and new players such as Canada
  - US will seek demand from Europe and Japan/Korea

- **Uncertainty about new US LNG projects**
  - Projects under development that cannot sell LNG to China are at a competitive disadvantage. There is still potential to attract investment (Saudi investment in Port Arthur LNG)

- **Long-term effects far more important**
  - China will become largest LNG importer and will need to relay on US LNG to diversify supply.
  - US exporters need to rely on Chinese demand in the future

Source: Chatham House (2018), 'resourcetrade.earth', http://resourcetrade.earth/

Propane Tariffs

Implications for US and China

- **Rebalancing of Trade**
  - China buyers will seek to replace US propane with other players including the UAE, Qatar, Algeria and Canada
  - May create alternative opportunities for US propane in other markets

- **Greater leverage from importers will drive US propane prices down**
  - US propane exporters will reduce prices to gain greater market share in existing markets such as Japan and Korea

- **Uncertainty on China PDH (propane dehydrogenation) industry**
  - Future growth of PDH industry is highly dependent on US supply
  - 12 PHD projects in China will be added over the next five years – 6.5 million tons of propane demand

Source: Chatham House (2018), ‘resourcetrade.earth’, http://resourcetrade.earth/

Polyethylene Tariffs

Implications for US and China

- **Rebalancing of Trade**
  - China buyers will seek to replace US PE by forging closer ties to the Middle East and India
  - US focusing on Southeast Asia, Europe and Africa

- **Declining prices as a result of high PE output**
  - A glut of supply and challenging export market puts downward pressure on prices

- **Uncertainty on new US PE US expansion**
  - LLDPE and HDPE make up more than 90 percent of new US output

Source: Chatham House (2018), 'resourcetrade.earth', http://resourcetrade.earth/

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Overall Global Energy Impacts

Risk to the global economy, market stability, and sustainability

1. **Volatile Oil Prices**
   - Crude prices hit below $60 per barrel in August. WTI near-month crude oil futures fell approximately 8 percent – the steepest fall in more than three years

2. **Slowing Energy Demand**
   - IEA and OPEC growth projections in August decreased from the month prior with total growth of 1.08 mb/d and 1.10 mb/d, respectively in 2019. Both OECD and Non-OECD demand growth fell to their lowest point this year in both forecasts

3. **Decreased Energy Investment**
   - Energy companies now forced to buy more expensive raw materials which can result in fewer projects and lower investment. The lack of a Chinese market can impact expansion.

4. **Reduced Optionality For Energy Exporters**
   - US companies have to diversify exports due to tariffs on energy products including propane and LNG – two of the fastest growing US exports

5. **Globalization Challenges**
   - The extent to which energy trade is dictated by protectionist policies undermines confidence in trade and investment in an open energy market

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Mitigating challenges through Dialogue

1. **Energy diplomacy**
   - IEA-IEF-OPEC Trilateral is an example of how impact of geopolitical events can be softened through innovative arrangements and regional and international partnerships.

2. **Data sharing and increasing transparency**
   - Allows the possibility to proactively manage the energy market by keeping tabs on global supply/demand. JODI data collaboration has offered new insights into non-OECD inventories.

3. **Technology Cooperation**
   - Collaboration on renewable and clean technologies such as CCUS, future role of hydrogen and finding efficiencies through digitalisation and artificial intelligence can accelerate the orderly energy transition and provide more energy options.

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