US energy

New US access to energy resources counters Obama's predicted 'Asia pivot'

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NORTH American energy production beyond just natural gas self-sufficiency is beginning to reveal new trends in energy imports and exports.

Liquefied natural gas imports to the US have declined significantly, accounting for less than 1% of natural gas used in the US.

The slower pace of economic growth in Europe and the US has the Organisation of the Petroleum Exporting Countries doing what Opec does — reducing supply to tighten the market and keep prices up.

Opec reduced daily supply of oil exports by almost 1m barrels in the four months through December, equal to one fully loaded supertanker every two days, data compiled by Bloomberg shows.

An idea gaining traction among policy wonks and other smart people is a renewed focus on the North American continent as a superpower trading bloc

An ExxonMobil refinery in Baytown, Texas: according to ExxonMobil's 2013 Energy Outlook, the US will become a net exporter of energy by 2025. AP

North America's rising star

This continued in January, with a slight reversal in demand expected in March, owing to refiners completing maintenance in the US and Europe.

The larger story here is the rethinking of North American energy resources and its impact on trade routes.

A more resource-supplied US, and potentially one that exports more natural gas, oil and oil-related products, offers a different lens through which to view the infamous "Asia pivot" of the Obama administration.

An idea gaining traction among policy wonks and other smart people is a renewed focus on the North American continent as a superpower trading bloc.

Robert Pastor, a renowned North America Free Trade Agreement expert, writes in his recent book that trade between Nafta countries, the US, Canada and Mexico, peaked in 2001.

For numerous reasons — lack of leadership and political will, the rise of China as a result of entry to the World Trade Organisation and infinite special interests that undermined the regulatory overhaul needed to facilitate trade — Nafta stalled out.

Dr Pastor noted in a recent talk that the "pivot to Asia" could be made more sensible by strengthening the North American bloc first.

Within the Trans-Pacific Partnership countries, the three countries comprise the largest amounts of trade flows relative to the other TPP countries.

Robert Zoellick, recent former head of the World Bank, wrote a Wall Street Journal opinion piece on February 5 this year that echoed Dr Pastor's ideas.

He wrote: "First, [the US] should strengthen its continental base by building on the North American Free Trade Agreement with Canada and Mexico.

"Together, the three partners could boost energy security, improve productivity, and give North Americans an edge in manufacturing and other industries that are already experiencing rising wages in east Asia."

Mr Zoellick's comments reflect a growing realisation by those who choose to see the obvious —namely that the North American bloc is sitting in the perfect storm of economic renewal.

Dr Pastor argues the case for a North American 21st century over the much-touted Asian one, if only true leadership seized the opportunity.

But the concept of the North American idea is possibly more relevant today because of the continent's energy renaissance.

It's not the question of whether the US will become energy-independent in the next 50 years that matters, but that systems of trade and co-operation are feeling the tailwinds of more efficient and rational utilisation of resources.

The Chinese manufacturing superpower that the world has observed for a couple of decades is slowly changing its global role.

The Lake Charles LNG terminal, Louisiana: Japan is seeking to import LNG from Louisiana to reduce its energy bills. BG

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China is diversifying its business model through incentives to boost domestic consumption, acquiring and merging with other countries' businesses and strengthening its traditional mercantilist ways via numerous trade relations.

And so, a redirecting of comparative advantage is happening subtly and slowly.

According to ExxonMobil's 2013 Energy Outlook, the US will become a net exporter of energy by 2025. In contrast, Europe and the Asia-Pacific will continue to rely on imports to fuel their economies.

The US, whose crude imports have fallen 11% this year, is on track to produce its largest quantity of oil since 1991, according to Energy Department data.

According to the International Energy Agency, the US will overtake Saudi Arabia in oil output in 2017, although the roles reverse again in 2030. Natural gas consumption will rise in the period to 2035, driven by demand from China, India and the Middle East.

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The implications of greater energy self-sufficiency for the US, with its neighbours also flush with energy, are numerous.

To reduce its energy bills, even Japan is seeking to import LNG from Louisiana. The US purchased 12% less crude in 2012 than in 2010, helping to create oversupply in global shipping fleets in the Middle East Gulf.

The Panama Canal enlargement could play a role in the US exporting natural gas. The route cuts voyages by more than 7,500 miles to Asia, where fuel demand is growing fastest.

The waterway, handling 5% of world trade and shipping 333m tonnes in the year to September 30, is used by 14,000 ships a year, connecting 160 countries and 1,700 ports, according to the canal authority's website.

Many more LNG export terminals are in the works.

The US may boost its LNG output to 50m tonnes annually by the end of the decade, from zero this year, according to Morgan Stanley in a report published in January.

The US would become the world's third-largest producer, after Australia and Qatar. And don't forget the Sabine Pass LNG export terminal in Cameron Parish, Louisiana.

Significant sums are being invested to create the infrastructure for exporting considerable amounts of LNG from there.

Other players are applying for licences to export LNG, including Exxon's Golden Pass, which is thus far only an import terminal, and Cameron LNG terminal in Louisiana, among others.

Regardless of the powerful levers Opec has to influence prices and global supply, the US' increasing energy production offers global markets more buffering, competition and opportunities.

Eventually the map of trade routes could allow for new contours that depart from those of the past decade.

A slightly different view to 2050 may emerge. Even the China we have known will adjust, and other growth areas of India, the rest of Asia, Africa and the Middle East will offer attractive markets. ■

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