What *An America First Energy Plan* may mean for U.S. Oil & Gas Sector

――「米国第一エネルギー計画」が米石油・ガスセクターに与える意味とは? ――

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米国戦略国際問題研究所（CSIS）エネルギー・国家安全保障部シニアフェロー Jane Nakano氏による連載第２回のテーマはトランプ大統領の掲げる「米国第一エネルギー計画」。トランプ大統領は、規制緩和を通じて米国のシェールオイル・ガスの開発・生産を促進し、雇用創出につなげるとの公約を掲げているが、果たしてその通りに進むのか。アメリカの石油・ガスセクターの現状を俯瞰しつつ、OPECをはじめとした他産油国の動向やトランプ政権による保護主義政策が石油・ガス生産・輸出に与える影響について分析する。

An America First Energy Plan is the energy policy of U.S. President Donald Trump, whose chief campaign slogan and the inauguration theme was “America First.” The Plan’s chief feature is to “embrace the shale oil and gas revolution to bring jobs and prosperity to millions of Americans” mainly through deregulation. How successful may the administration be in stimulating the U.S. oil and gas sector, which saw the capital expenditures for upstream activities decline by roughly 50% in 2015, year over year and another 25-30% in 2016, year over year? What would the “revolution” mean for U.S. exports of oil and natural gas?

Very little happened under *An America First Energy Plan* in the President’s first month in the office due to the slow confirmation of relevant cabinet nominees as well as the administration’s preoccupation with other issues, such as immigration. Entering its second month, with key confirmations finally completed (such as the Administrator of the Environmental Protection Agency on February 17, and the Secretary of Interior on March 1), the Trump administration is picking up its pace in overturning many of the Obama-era regulations with the Republican-controlled Congress as its strong ally. For example, early in his second month in the office, the President signed an executive order that aims to rescind or revise the Waters of the U.S. rule, which the environmental community sees as very important for the protection of U.S. streams and wetlands from commercial development and pollution.

While the voracity with which the White House and Congress seek to un-do Obama era environmental regulations sends a positive signal to U.S. energy producers, directly linking the prospect of wide-ranging deregulation to the recovery of U.S. upstream would be premature, if not facetious. In fact, the U.S. energy sector has already begun showing some signs of recovery. The domestic price has risen roughly by 105% for crude oil, and 85% for natural gas in the last 12 months. Moreover, the rig counts have grown by 35% for oil and by 46% for natural gas production during the same time. In the last few months alone, over 120 rigs were added for oil production.

An additional source of optimism comes from the remarkable gains in oil and gas production productivity. For example, as of early 2017, a new well produces seven times as much crude oil in the Eagle Ford and four times as much in the Bakken—compared to 2011 (EIA/RBN). The story is similar for natural gas production productivity in the Marcellus/Utica: each rig adds eight times as much of natural gas today over 2011 (EIA/RBN).

Both the pace and contour of recovery will also depend on the December 10 production cut agreement between OPEC and non-OPEC producers, and its future success. The rare achievement to strike production cut and the subsequent reporting that suggest a high level of compliance has been welcome news to the U.S. unconventional production, which generally requires a higher break-even price than conventional production. The health of U.S. oil and gas sector will be highly influenced by whether the compliance holds, whether the cut will have produced a desired price effect and, if not, whether the stakeholders may extend the agreement for another six months. Notwithstanding a circular relationship between U.S. oil production and inventory levels, and OPEC's decisions regarding output, therefore, whether the administration can claim the success of *An America First Energy Plan* is subject to—although not entirely—the future actions of fellow crude oil producer countries around the world.

How will U.S. oil and gas exports fare under President Trump? After some years of heated internal debate, the United States greenlit the unabridged export of U.S. produced crude oil in December 2015. In the first half of 2016 alone, U.S. crude was shipped to over 16 countries around the world. Yet, the average volume of U.S. crude oil exported in the year ending in January 2017 was only 65,000 barrels per day (mb/d) higher than the previous year's average (RBN)—far lower than anticipated as the global crude prices remained competitive.

As for the export of natural gas, the low crude oil prices and the low spot LNG prices in Asia of the last few years muted the economic competitiveness of U.S. LNG to long distance markets in Asia. Consequently, fewer cargos with shale-based LNG have thus far journeyed to Asia from the U.S. Gulf Coast than originally anticipated. The recent recovery in spot LNG prices in Asia is encouraging for U.S. LNG. Yet, with the sense of oversupply lingering in the global LNG markets, U.S. producers would welcome stronger demand from major importers, such as Japan. In short, how much crude oil and natural gas the United States will export in the coming years is bound by the market fundamentals.

Notwithstanding the importance of energy market fundamentals, the major factor overlaying all of the moving parts mentioned above is the rising tide of protectionism. The U.S. decision not to participate in the Trans-Pacific Partnership dashed the prospect for many major LNG importers to qualify for the fast-track LNG export review by the U.S. Department of Energy. Also impactful may be the future of the North America Free Trade Agreement (NAFTA). A significant change to the natural gas provision in the NAFTA could hinder the robust natural gas exports to Mexico, which imports about 60% of U.S. gas exports today. Undermining such a reliable outlet as pipeline gas supply to Mexico could depress U.S. natural gas prices and resultantly dis-incentivize gas drilling to the detriment of its own industry.

Moreover, the "border adjustment tax" (BAT), which is part of the major tax reform that has been proposed by some Republicans in the U.S. House of Representatives, would significantly impact the flow of energy trade. The BAT is said to prohibit companies from deducting import costs as regular business expenses while making exporters' foreign revenue and profits exempt from taxation. Its proponents argue that the BAT could raise significant revenue that would help offset a large portion of the $1.8 trillion estimated cost of the proposed reduction in the corporate tax rate from 35% to 20%. The proposed BAT raises many interesting questions for the energy sector. Would the BAT, as currently proposed, actually discourage crude oil imports and encourage U.S. production instead of becoming a major revenue raiser? And, if domestic production grows, how much would the prices of domestic crude and gasoline rise? More fundamentally, how would the BAT affect the energy security of the United States as well as the role of the United States in the global energy economic architecture? These questions warrant a heavy dose of clear-eyed thinking as well as caution. Even if Congress gets its way—a prospect highly uncertain at this time—some serious legal showdowns could be on the horizon over its legality vis-à-vis the World Trade Organization rules. It is too early to ascertain the impact of *An America First Energy Plan* on the U.S. oil and gas sector, but clearly the political winds have shifted.

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