The Biden Administration's Energy and Foreign Policy Agenda in Asia

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ABSTRACT

The U.S. prioritization of climate change and clean energy development and deployment will likely facilitate energy transitions in Asia and build upon existing clean energy engagement in the region, including the export of LNG. The climate change issue is also one area of strong mutual interest between the U.S. and China, and there is significant consensus that the two countries should work together cooperatively towards carbon mitigation and encouraging other countries to follow suit. However, cooperation in climate and clean energy must be viewed within the context of the growing geopolitical rivalry between the two countries, and it is possible that conflict and disagreement in other areas may affect bilateral climate coordination and cooperation. Keeping discussions regarding climate change within multilateral forums may be one means ofshielding this issue from other points of friction.

SUMMARY

It is likely that the Biden administration will be aggressive in both its climate policy and foreign policy agenda in Asia—although there will be rapid progress where there is alignment between those two policy directions, there is some concern that there may be some conflict between the two broader policy objectives.

- The Biden administration will likely return to shoring up closer relationships and ties with its allies inAsia within the context of its increasing geopolitical rivalry with China, which will likely not be favorably received in Beijing. There will be a focus on supporting allies in the region, including those countries that have had difficulties and challenges with their own bilateral relationships with China— in an attempt to moderate Chinese behavior and action in certain areas of concern.
- There is strong bipartisan consensus within the administration and Congress that there is an intense competition with China, and there is strong indication from the Biden administration that the U.S.- China relationship will not return to where it was during the Obama administration—when there were certain hopes that there could be a strategic partnership between the two countries.
- Therefore, the need to engage with China on climate and the importance of Chinese buy-in in global mitigation processes is viewed as contradictory to these perceptions about China as a geopolitical rival.
- Where there will be progress is when the U.S. can push for multilateralism, and the Paris Agreement is exactly the right framework for this type of engagement for the Biden administration to move early.
- Studies and exercises have been undertaken to explore how common areas of interest (such as energy and climate) might have spillover effects for other areas of disagreement. It does appear that there are many issues and areas of disagreement and conflict

between the U.S. and China—there isindication that the U.S. will be far more assertive in its criticism of China's human rights record than what was the case under Trump and even Obama. Beijing will consider this a loss of face for such criticisms to surface. It is difficult to envision that climate/energy discussions regarding bilateral cooperation will not be affected by negative dynamics in other areas.

- Positive areas of cooperation and agreement will need to be highlighted in order to prevent the overall relationship from deteriorating. Business has historically and commonly been an area of cooperation, and energy commerce is certainly an important element of this. Technology is also a major area for bilateral engagement and cooperation. There are some positive areas, and climate and energy are certainly areas of cooperation—there is strong consensus that climate is a shared issue and that cooperation between the U.S. and China are necessary.
- The wild card will be—will either side attempt to link energy/climate cooperation to any other issueor policy area, especially those in which the two sides are at odds.
- The appropriate medium/solution then should be to keep climate/energy discussions within a multilateral context in order to shield them from bilateral tensions and conflict. This should, in theory, allow both the U.S. and China to exhibit leadership in this area, for both Asia and the rest ofthe world.

China views the incoming Biden administration with optimism, and also sees Biden's prioritization of climate issues as one avenue towards reducing bilateral tensions, even as the burgeoning global clean energy marketmay lead to growing commercial competition.

- Biden administration will shift U.S. foreign policy, as well as environmental policy, especially relatedto climate change.
- China views that the emphasis on climate action will reduce the temperature of geopolitical conflict in the region, and that this dynamic may help rebuild U.S.-China relations—especially through cooperation in clean energy, LNG, and technology. There is also optimism that clean energy cooperation can also improve overall relations with other regional countries.
- China has its own energy agenda that focuses on greater deployment of clean energy systems and technologies.
- There can be both opportunities and challenges—even as political tensions may cease, the drive towards carbon and climate mitigation may lead to intensifying commercial competition between
  U.S. and Chinese energy companies.
- China is using green bonds to encourage sustainable development, and there is a growing drive for self-reliance in all sectors, although energy is a particular focus.
- China has a robust coal sector—in manufacturing, generation capacity, etc. One of the major focuses of China at the moment is reducing coal power capacity. Another objective is to eventually eliminate fossil fuel production, in addition to increasing reliance on wind, solar, and other clean energy alternatives and move from a high-

carbon energy system to a lower-carbon one.

- China is also encouraging energy innovation and advanced technology development. China is redirecting its financial policies—government funding and investment are now being redirected to clean energy R&D and low-carbon development.

U.S. LNG exports to Asia have grown dramatically in the past decade (far outstripping expectations and forecasts), and China has become a major market and destination for these exports, which have helped the country reach its LNG penetration targets. For China and the rest of Asia, LNG is an important source of cleaner energy that can help reduce the broader region's carbon emissions footprint.

- The LNG market has become more rational and transparent—almost half of Cheniere's LNG volume produced to date has headed to the Asian market. When Cheniere first received its export permits from the Obama administration, one of the key analyses that emerged was the impact of LNG exports on the U.S. domestic gas market—at that time, there was no expectation that the scale of the LNG export market would reach its current size and continue to be on an upward trend.
    - What Cheniere has exported in terms of LNG to date is more than double what the Obama administration anticipated would be the expected U.S. LNG export volume. Cheniere alone is the largest physical gas buyer in the U.S.
    - However, even with the volume of U.S. LNG exports, North American natural gas prices have remained relatively stable—which has resulted in a product which long-term customers in Asia particularly value—both in terms of reliability of supply and relatively low-price volatility.
    - The volatility of the natural gas prop market is orders of magnitude greater than the volatility of Cheniere's long-term LNG export contracts.
- Ultimately, the stability of price and reliability of supply of Cheniere's LNG export products allow long-term customers to better strategize and form long-term plans.
- In China, U.S. LNG exports have allowed the country to meet its objectives in natural gas penetration—recently, natural gas has reached up to about 15% of China's total primary energy consumption. In 2020, China experienced 12% growth in LNG imports and is now solidly the second largest LNG import market in the world, just behind Japan.
    - In 2019, LNG imports to China grew 14%--so in recent years, double digit growth rates have been the norm.
- U.S. LNG exports can help Asia meet its growing demand for cleaner energy in the future.
- With respect to China and its move towards renewables and clean energy, one may argue that LNG is an enabler for this type of clean energy transition. China has a staggering amount of installed coal capacity—at present, coal capacity is fifteen times that of natural gas generation capacity.
- However, the current commitment is to move away from coal generation to cleaner

sources, including LNG and renewables—China currently has 200 GW installed capacity of each wind and solar power, and those numbers are projected to grow dramatically. Concomitantly, natural gas infrastructure will also grow in support of both an effort to support growing renewable generation/capacity as well as to move away from coal generation. The relationship between renewables and LNG is complementary and symbiotic.

- Overall, China's economic growth rates remain robust, and thus, energy demand growth is also forecasted to grow tremendously.
- At the moment, LNG and LNG infrastructure growth is largely a coastal phenomenon, but in the future, this infrastructure is expected to expand. For now, natural gas remains a fairly modest piece of the overall Chinese energy consumption pie.
- Much of the additional/incremental additions of energy to China's mix will come from renewables, but it can be expected that natural gas consumption will grow in order to ensure that there is a backstop for intermittency and that energy supply remains robust and reliable.
- Cheniere was a major advocate of remaining in the Paris Agreement during the Trump administration, and is a major supporter of the Biden administration's decision to re-enter Paris.
- There are also currently efforts within the U.S. natural gas industry to move towards more environmentally-responsible production, which has not had a good track record recently. 75% of Cheniere's natural gas product is sourced from suppliers that have made pledges to reduce their respective carbon footprints.
    - Cheniere's Scope I emissions are very modest—there is a less than 1% methane leakage rate. The downstream functions of shipping and vaporization are also areas for improvement.
    - There is a continued commitment to reduce the lifecycle emissions of Cheniere's natural gas products.

The Biden administration's return to Paris and commitment to clean energy has massive repercussions for Asia's own sustainability policies and drives, and there will likely be increased investment in renewable energy manufacturing capacity in Asia (China particularly) to supply growing demand for solar, wind, etc. in the U.S.

- There is presently a drive towards greater inclusion of clean energy in energy portfolios in Asia— there are goals to go beyond LNG and integrate greater amounts of renewable energy.
- The Biden administration's decision to rejoin and re-enter the Paris Agreement is a major development related to these broader trends in Asia. It can be a major driver for countries and utilities to include more clean and renewable energy sources in their energy portfolios.
- There appears to be significant movement particularly in the solar energy market, especially as the Biden administration is poised to encourage the deployment of solar

energy (both farms and distributed-rooftop) along with state-levelsupporting policies.

- Increased demand in solar is likely to be associated with reductions in import tariffs, in order to decrease the cost of solar modules for expanded deployment. This will be a significant development, as much of these solar modules will be coming from China. This will also increase investment into solar module manufacturing as well. All of this will result from increased solar demand from the U.S.
- It can be expected that there will be less supply of solar modules to Asia, and more supply of solar modules to the U.S.
- The aggressive movement of the Biden administration to act on climate change will also influence and affect investment and financial trends—ESG has been a major driver for investment decisions in recent times, and oil and gas companies such as Chevon and Exxon are increasingly investing in cleanand renewable energy in response to these broader developments. Green and sustainability bonds and certificates are emerging, and are evidence of some of these general trends.

QUESTION & ANSWER

Q: *As Asia in general moves away from coal, how does that impact other coal producing and consuming nations in the region? What role can the U.S. play in this broader dynamic?*

A: The U.S. has transitioned fairly dramatically from a majority coal-based energy system to one that is largelybased on natural gas. This is, of course, an extension of the United States' significant endowment of natural gas resources. Growing renewables penetration has also increased natural gas consumption. The U.S. can act as a capital provider, integrated equipment vendor, etc. will be involved in this transition in all of these countries in Asia.

A: Many countries in Asia are attempting to move away from coal to other types of energy. However, there are challenges to funding and financing this transition. There is a need to replace the baseload generation provided by coal with an alternative, and this alternative has typically been natural gas, including LNG. There is also increasing emphasis on R&D and involvement in new technological fields—biofuels, green hydrogen, etc. The U.S. and EU may play critical roles in engaging with such countries in R&D and advanced clean energy technologies.

A: The U.S. has ramped up the U.S. Development Finance Corporation (DFC), and there has been an emphasison joint financing and cooperation with South Korea and Japan in enabling clean energy projects elsewhere in Asia. The general movement from DFC and other financial institutions (including World Bank and other international development banks) has been to discourage coal capacity additions and to drive towards clean energy sources. If all of the money is moving away from coal, this should facilitate the transition away from coal. One concern may be Japan's use and promotion of its advanced coal-fired technologies. Given current urgency with climate change and the availability of natural gas supplies, such coal technologies should not be promoted or exported.

Q: *Where do you see the balance of power in green and clean energy technologies? Is China*

the leader in thisfield?

A: The U.S. is certainly not in the lead, but I would not write off the U.S. as a technology competitor in any sector or industry. The U.S. lost some leadership to Japan in terms of information technology and semiconductors decades ago, but then leapfrogged to global leadership with the advent of smartphones. It is hoped, generally speaking, that technology competition will drive innovation, reduce costs, expand deployment—which will then help to address the global climate issue. This would be harnessing the power of market competition to help address broader global issues. Technology competition should no longer be viewed from a realist lens as a nation-to-nation test or competition—cooperation among entities in different countries, sharing and buying technology from each other, should be viewed as a positive for global clean energy. The appropriate levels to view this issue: the firm level and the global interest level. This should not be perceived or portrayed as a duel of national governments.

A: China views that there is a strong need for technology cooperation. Comparative advantages in technology can produce synergistic effects with respect to clean energy deployment and climate/carbon mitigation.

A: The target of net-zero by 2050 by countries throughout the world is very aspirational. The expectation is that improvements in clean energy technologies will occur quite rapidly in the next several years. However, there are questions—what will the pricing be? What price point is necessary in order to achieve commercialfeasibility? China will likely play a leadership role, particularly when it comes to solar modules.

Q: *How will countries in Central Asia play in China's energy future?*

A: I think China has positive relationships with Central Asian countries. China's emphasis on a move to LNG and cleaner energy should have a positive influence on neighboring countries, and China can support clean energy transitions in other countries through funding, technology cooperation, exchanges, etc.

Q: *How can the U.S. mitigate Chinese influence in Central Asia in terms of energy?*

A: China has its own foreign policy and seeks to maintain good relations with its Asian neighbors. Friction occurs when specific countries choose sides in the U.S.-China rivalry. I believe, in general, the Bidenadministration will continue to seek good relationship with both China and other countries in Asia.

Q: *What is the biggest challenge for the Biden administration in achieving its climate agenda?*

A: The issue is really one of scale—the commitment is there and the technologies/resources are in place.

A: The Biden administration has to focus on domestic concerns and recovery, and so that will be a major hurdle—that may leave much less room for global cooperation agenda than would otherwise be the case ina normal transition/situation. Progress in climate, however, has not been driven by policies, but amazing progress in technologies—fossil fuels, nuclear power,

renewable energy, etc. In this case, we need to rely upon amazing advances in technology rather than just policy.