

25 April 2024

Contents

The Biden ascendancy: what a White House switch could mean for America's gas industry

Publication date: 10 September 2020

Gas Strategies Group

10 Saint Bride Street
London UK
EC4A 4AD

ISSN: 0964-8496

T: +44(0) 20 7332 9900
W: www.gasstrategies.com
Twitter @GasStrategies

Editorials

+44(0) 20 7332 9957
editor@gasstrategies.com

Subscriptions

+44(0) 20 7332 9976
subscriptions@gasstrategies.com



The Biden ascendancy: what a White House switch could mean for America's gas industry

Get the inside line. Take a free trial of Gas Strategies Information Services:

- Full access to Gas Matters, Gas Matters Today & LNG Business Review
- Access to our fully searchable archives containing
- Daily, weekly and monthly newsletters bringing the latest news and features to your inbox
- Gas Strategies iOS app

Free trial code **GS20**

Complimentary access

[1]

- America's system of checks and balances will temper any radical policies
- However, certain measures can be pushed through using executive orders
- Executive actions may put additional strain on America's struggling shale sector
- Biden's plan holds opportunities for the US gas industry, particularly in CCS

In the run up to November's presidential elections, Democratic candidate Joe Biden is standing on the party's most progressive climate platform ever. In his campaign to win the presidency from incumbent Donald Trump – a campaign which currently sees him ahead in the polls - the Democratic nominee is calling for USD 2 trillion to be invested in setting the US on an “irreversible course” towards net-zero by 2050.

In achieving net zero, Biden is aiming for a carbon-free power sector by 2035, ending unabated natural gas-fired electricity generation within 15 years, whilst calling for the creation of millions of “green jobs” for US citizens.

Significantly, Biden has also pledged to recommit the US to the Paris Accord, and take a leading role on climate action on the international stage.

Republicans have been quick to call Biden's climate plan a “socialist manifesto,” arguing that the Democrat's policies will kill more than 10 million American jobs “supported by the energy industries. Most recently, President Trump has focused on Biden's inference that he would end “new fracking,” warning voters that the policy would lead to a full-scale “disaster” in swing states such as Ohio and Pennsylvania, as well as in Republican strongholds such as Texas. In August, focus turned towards Biden's vice

president pick, California senator Kamala Harris, who told TV audiences in September 2019 there is “no question” she would outright ban fracking.

However, questions remain on the extent to which Biden’s campaign rhetoric would match with the reality of a Biden presidency, if the Democrats actually win the 2020 elections in the White House and Congress. At the same time, environmentalists have cast doubt on Biden’s commitment to tackling climate change, having condemned the nominee for continuing to receive donations from fossil fuel executives. Others point to Biden’s prior record as vice-president under Barack Obama, a role in which he presided over America’s fracking boom.

Presidential candidate Joe Biden's energy and climate pledges



[2]

Political constraints

Harish Natarajan, head of economic risk at AKE International, a political risk consultancy, says that despite Biden's radical statements "there are going to be very serious political constraints on what [Biden] could actually do to actively harm the US natural gas and fracking industries."

"The reality is, that US electoral politics doesn't really figure in that level of support," he tells Gas Matters. "Even if you were to see Democrats take control of the Senate, and even if they were to neutralise the filibuster, it would still be quite difficult to see how far Biden would be able to go." Other US commentators agree. "Despite all the campaign rhetoric – these issues involve global economics - mostly upstream - and regional/state politics - upstream and downstream," one independent US gas expert says. "These issues are stubbornly beyond the president's command."

"Even if Democrats keep the House and win a small Senate majority, Congress will battle among itself well into 2022 trying to define and enact a Green New Deal," he adds. "If they're able to enact something that all sides can support, then gas would emerge as an important bridge fuel within strong, economically-based carbon rules."

Another industry source concurred: "Politics is important but only on the margin. Global supply demand will rule; and the US is no longer an energy island for gas, as it has long ceased to be for oil and coal. Renewables will continue to grow as a share of the energy mix, probably a bit faster under Biden than Trump."

To put it bluntly, America's system of checks and balances is likely to pose serious problems for a Biden-led government, if it seeks to entirely transform the US energy system. Notably, Biden is renowned for his bipartisan approach to policymaking.

"I think the mechanics of the process here preclude much in the way of dramatic new energy and climate legislation regardless of who wins in November," the US gas expert notes. "We're not going to turn the whole country into either California or Texas."

Executive orders

Nevertheless, Natarajan believes that Biden could still have a significant impact on the gas industry by pushing through various measures using executive orders - a tool frequently used by Barack Obama [3] to re-interpret the meaning of existing laws and adjust the remit of federal agencies accordingly. Executive orders have also been used by Donald Trump to, among other measures, limit states' ability to deny developers of natural gas pipelines a permit on water quality grounds [4].



[5]

"On a very general level, some of the changes to environmental regulation can be reversed [6], and anything introduced as a Trump executive order can be reversed," he says. "The reversal of some of Trump's policies would have a detrimental effect on the industry. Over a ten-year period that could be quite significant."

Natarajan notes that "the sector is already in a very difficult position" meaning that a reversal of Trump's pro-energy industry policies could cause serious trouble for many smaller producers who are already struggling to survive in the low price environment – particularly considering the "mountains of debt" many of those companies are sitting on. The situation is likely to see increased consolidation in the sector.

"The Trump administration seemed to make it a priority to ensure the survival of shale companies," Natarajan says. "Under Trump, fracking seemed to be a large part of the future. [But] absent support, the sector is in a very difficult position – apart from major companies, which are able to survive in a constrained price environment. Even without a radical shift... it is a very difficult position for natural gas companies to find themselves in."

In the past five years, 240 shale producers with USD 171 billion in aggregate debt have filed for bankruptcy, according to figures from US law firm Haynes and Boone. 115 of these companies, with nearly USD 105 billion in debt, were in Texas. As of 31 July 2020, 32 fracking firms with USD 49 billion in aggregate debt, had filed for Chapter 11 bankruptcy in this year alone.

US oil and gas companies contacted by Gas Matters were reluctant to talk openly about the impact a Biden presidency might have on their industry.

Yet, in the view of the US gas expert, Trump's 'pro-energy industry policies' have not been as effective as the Republicans might like voters to think, meaning a U-turn under Biden may not be as harmful to the oil and gas industry as currently imagined.

"Trump's presidency has been powerless to resolve gas and energy industry issues," he says. "Its efforts have focused on cheerleading and trying, without success, to thwart renewable energy, for example with executive attacks on the national environmental policy act (NEPA), that aren't going anywhere. The industry seems to understand Trump isn't actually doing much but nonetheless they react positively - 'at least he's fighting for us!' - and they seem to fear what Biden will do – fears which are stoked mightily by Trump's campaign."

No new fracking?

During a CNN Democratic primary debate in March 2020, Joe Biden pledged to end fracking, following the lead of left-wing rival Bernie Sanders who had previously vowed to ban the practice in the United States. "No more – no new fracking," Biden said. "No more drilling on federal lands. No more drilling, including offshore. No ability for the oil industry to continue to drill."

However, Biden watered down this pledge, saying he would not launch an outright ban on hydraulic fracturing but would instead ban new fracking leases on federal lands. "I am not banning fracking. Let me say that again. I am not banning fracking, no matter how many times Donald Trump lies about me," Biden said in August, as critics slammed the candidate for backtracking on his previous policy. The reversal signaled that Biden is willing to take a pragmatic approach to secure victory.

Biden's qualified position came after he chose Kamala Harris as his pick for vice-president. During her campaign, the California senator Harris said that there would be "no question" she would ban fracking, starting with banning the practice on federal lands. As California attorney general she secured a USD 14 million settlement with oil companies including Chevron, ConocoPhillips, and BP over alleged violations of rules over storing hazardous materials.

Still, Natarajan notes that Biden remains very much of the pro-business wing of the Democratic Party. "Other than Kamala Harris, who at least on environmental policy seems to be part of the centre-left of the democratic party, most of his appointments are Obama-appointees, who are all very supportive of fracking and the natural gas industry," he says. "I think there's a pretty big difference between the rhetoric of what we've seen, and the political reality of what is likely to happen, especially on the natural gas front."

Biden's team of energy policy advisors includes, among others, Heather Zichal, who has been clear in her support of a "middle ground" approach to climate issues; Ernest Moniz, who sits on the board of electricity and gas utility Southern Company; and Jason Bordoff, a member of the National Petroleum Council.

Furthermore, despite vowing not to take "fossil fuel money," Biden has also received various donations

from oil and gas company executives and super PACs tied to fossil fuels.

“[Biden] is clearly in the Klobuchar camp, which holds that gas is an inextricable part of the global effort to forestall climate change, at least temporarily,” says the US expert. “He makes this clear by refusing to single out gas and pipelines for thrashing.”

Either way, Natarajan says that while Biden could use executive actions to put a halt to new fracking leases on federal land, the impact of a federal fracking ban on the US gas industry would be limited and are probably “more aesthetic than real”.

In January, Norwegian consultancy Rystad Energy suggested a federal fracking ban would have little impact on US shale output as producers would simply switch to drilling on private land. Natural gas production would be least hard hit by a federal fossil fuel extraction ban, with just 13% of natural gas production on federal lands, compared to 24% of crude oil production and 42% of coal extraction.

“The economics of fracking mean there’s probably not likely to be much new natural gas or oil projects on public land anyway – it’s more an early 2000s debate than a current one,” Natarajan says.

Gas-fired future?

Natarajan notes that “there is still a complete lack of detail” as to how the Biden administration plans “to get to a carbon neutral electricity grid by 2035.”

The US gas expert agrees. “The Biden campaign has promised to deploy the Green New Deal, but this short document says utterly nothing about energy.”

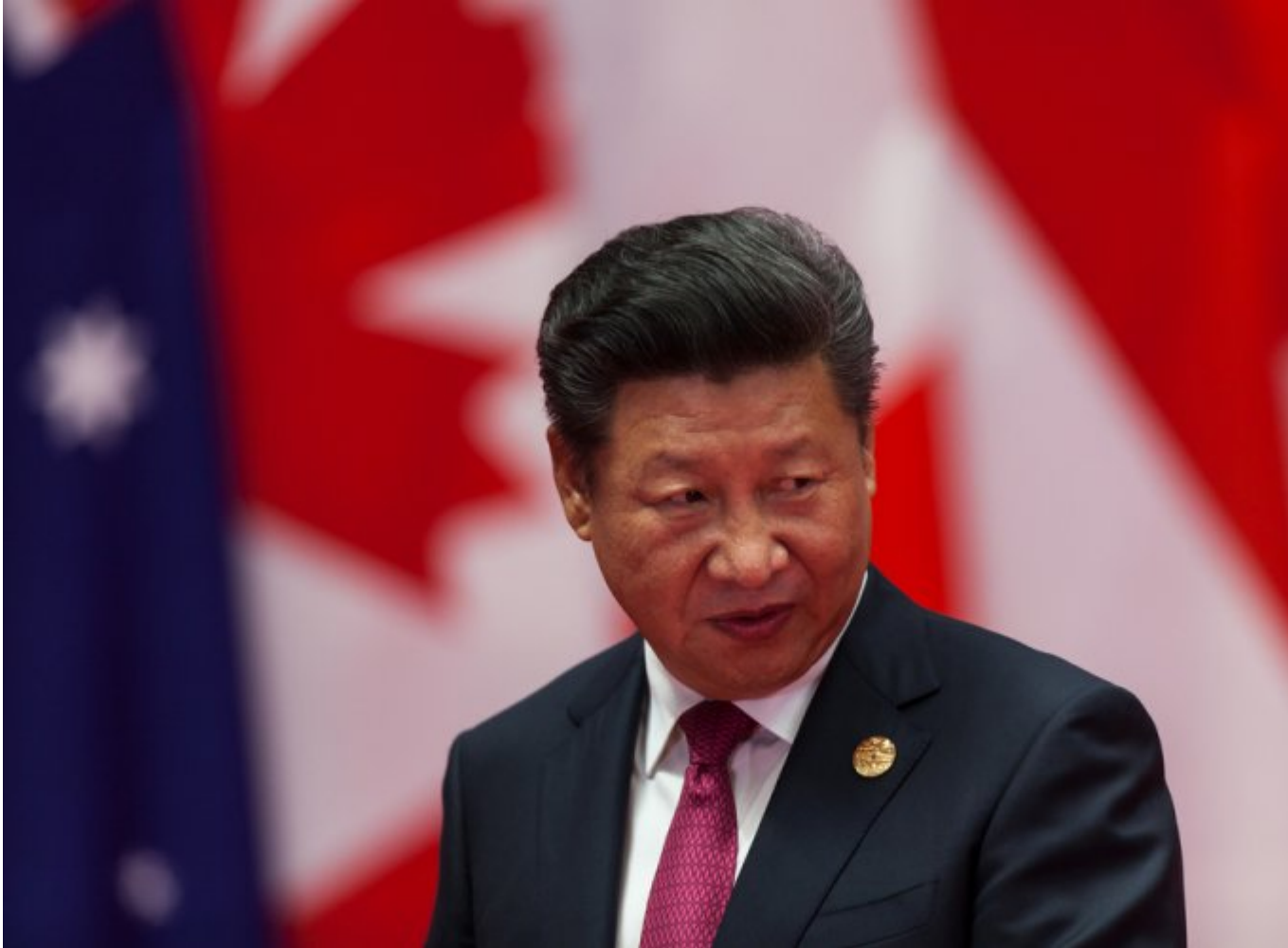
The lack of clear and decisive aims leaves space for natural gas in the US energy mix, up to and beyond 2035. “The answer [to what Biden will do in office] lies less in Biden’s pledges than in his hesitancy to pledge: Biden’s lack of support for radical versions of the as-yet undefined Green New Deal are telling,” the expert adds.

The US economy continues to rely heavily on fossil fuels. As of June 2020, natural gas-fired capacity (40.6%) was the largest source of electricity in the US, followed by nuclear (19%), coal (18.6%), hydroelectricity (8.1%) and renewables including wind, solar, and geothermal (7.8%), according to figures from the US Energy Information Agency (EIA).

In the absence of a radical shift, the US is likely continue to be a carbon economy, in which natural gas will continue to play a fundamental role. In all EIA forecasts, gas continues to play a major role in the US power mix through to 2050, supplying as much as 31% electricity to 2050 in the EIA’s 50% carbon-free scenario, and 36% in the reference case, which still assumes a large-scale buildout of renewables.

Notably, Biden’s carbon-free electricity plan relies heavily on both hydrogen and carbon capture and storage (CCS) technology, both of which present opportunities for the gas industry. Indeed, according to the American Petroleum Institute (API), the natural gas industry sees “some common ground in Vice President Biden’s energy plan in areas like acceleration of carbon capture technology.”

Daphne Magnuson, VP of strategic communications at the natural gas supply association (NGSA) tells Gas Matters that a Biden administration could also create opportunities for LNG producers, by easing tensions with China. “If the escalation of tariffs between the United States and China is satisfactorily resolved, there are renewed opportunities to export US LNG to growing markets in China and throughout Asia,” she says.



[7]

Trump vs Biden

The USA is now set to hold its presidential elections on Tuesday 3 November. At the time of writing, Biden is polling 7.2 points ahead of Trump, according to aggregate polls from Real Clear Politics. “Every single fundamental is against a Trump re-election,” says Natarajan. “From this point on, I don't think there's ever been a [candidate] who's been this far behind who's managed to come back, but it's not implausible. Of course, the circumstances of this election – given coronavirus – are potentially different.”

Considering Trump's surprise victory against Hilary Clinton in the 2016 presidential election it would be

unwise to rule him out. Yet, if Biden does enter office, Magnuson says the NGSA “will do as we have done under every new administration and work to prevent unnecessary regulatory barriers.”

She adds: “It will be our challenge to effectively communicate the role of natural gas as a building block and partner to making that clean energy future an affordable reality.”

The API echoed a similar non-partisan sentiment, saying: “We stand ready to work with both parties to shape an effective approach to reducing the risks of climate change, both through industry action and policies that balance economic growth and environmental protection.” -LG



Consulting

+44 (0) 20 7332 9900
consult@gasstrategies.com



Alphatania Training

+44 (0) 20 7332 9910
training@gasstrategies.com



Information Services

+44 (0) 20 7332 9976
subscriptions@gasstrategies.com