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IENE Comment

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*By Irina Slav**

The EU this month finally sealed a tariff deal with President Trump. The deal involves a commitment to buy $250 billion worth of energy commodities and products annually for three years. That's in addition to a 15% tariff rate on European exports to the U.S. Taken together, the two aspects of the deal prompted a—perfectly justified—wave of criticism from Europeans who said they felt betrayed by their leadership. The good news: that commitment won't happen. It can't.

This is not the first time the EU is promising to buy stupendous amounts of U.S. energy. They did it a couple of years ago as well. It did not work then, either, for simple physical reasons. These were laid out last week by Reuters' Clyde Russell, who demonstrated that it would be physically impossible for the EU to fulfil its promise to Trump even if it buys all the oil, coal, LNG, and nuclear fuel that the U.S. has for export. Outer media followed suit, all with the same message: it is impossible. The strange part is that the EU is probably willing to try, especially with LNG.

Per Reuters' Russell, the EU imported some 83 million tonnes of LNG last year. That, per EU numbers, is equal to some 100 billion cu m. The bill for those imports stood at over $51 billion but below $52 billion.

Per Rystad Energy, the U.S. exported a total of 88.4 million tonnes of LNG last year. So, to fulfil its promise to Trump, the EU would need to swallow all this LNG. The problem with this is that U.S. LNG producers have long-term contracts to service. That 88 million tonnes is not all available to European buyers. So the EU can't swallow all U.S. LNG exports even if it wanted to.

The EU has been really vocal about supply diversification in recent years. It doesn't want to be over-reliant on a single supplier because look what happened with Russia — which only supplied 40% of the EU's natural gas at peak delivery rates. If the EU tries to buy all its LNG from the U.S., the latter's share in total EU gas supply would be significantly over 50% because

Norway doesn't have the capacity to pump more than 30% of what the EU needs and Central Asian volumes are still slim. It seems the EU is only serious about diversification when it's the "right" kind of diversification, even if it actually means over-reliance on one supplier.

There is another problem, too. Last year, the EU passed something called the Corporate Due Diligence Directive, or CDDD, with the aim of mandating net-zero plans and human rights violation checks for companies over a certain size that do business in the EU. Fail that and you're facing a fine of up to 5% of your global annual revenues. The EU does not mess around. The EU fines, when it's not busy innovating in the exciting world of plastic bottle caps.

So, the EU wants to mandate net-zero plans for all of its gas suppliers, among others. One of them has already signaled it will not play along. Qatar's energy minister said last year the country's energy firm had no intention of devising a net-zero strategy and if the EU wanted to keep buying LNG from Qatar, it might want to consider tweaking the directive. Which the EU did. Qatar was still unhappy and asked for the whole net-zero section of the directive to be removed.

This puts the EU in an interesting position. It could tell no to Qatar and double down on U.S. LNG, which is what it has promised anyway. That would make Trump happy but it won't make European gas consumers happy because U.S. LNG is expensive. It also won't make U.S. LNG exporters happy because of the directive. It looks like the EU would need to choose between the net-zero stipulation in the CDDD and relatively affordable gas supply.

However, it's not just the gas. If the EU wants to keep its promise to Trump it would also have to import all of the available oil that the U.S. has for exports. And the coal, too. Leaving aside the total redrawing of global energy commodity flows, what are we going to do with all that oil and, more importantly, coal, in a place where steelmakers are being forced to switch to electric arc furnaces and drivers are being forced to switch to EVs?

Clearly, this is one promise that cannot be kept. It's a good thing, then, that the deal is non-binding, as reported by the European Commission itself, and the two sides will continue negotiating a binding one. One cannot help but wonder if the binding deal will be just as bad as this one.

Yet there is good news. Luckily for the EU, its energy businesses might just save it from an embarrassing bankruptcy. The way was described by Kpler's Matt Smith, who said that "Even if Europe did want to increase its imports, I don't know the mechanism by which the EU goes to these companies and tells them to buy more US energy. Companies are beholden to their shareholders and have a duty to buy the cheapest feedstock."

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