In the last several months, as Western governments have put in place sanctions in response to Russia’s takeover of Crimea and continued efforts to destabilize Ukraine, the question of the role energy has played in the crisis has been raised frequently, both in terms of the cause of the crisis but also as a solution. In particular, policymakers and experts have asked if the recent surge in US natural gas production could be used to achieve the twin objectives of inflicting economic pain on Moscow and undermining its influence in Europe by providing the region an alternative source of energy supply to Russian gas. The resulting discussion has suffered from a bit of hyperbole—try searching the Internet for “hit Putin where it hurts” or “get Putin’s attention” for a sampling. As Washington considers further actions to respond to Russian aggression, including potential changes to US energy export policy, and Europe looks for ways to weaken Moscow’s energy leverage, a cool-headed examination of the potential impact of US liquefied natural gas (LNG) exports is required. This paper aims to provide such an examination.

In short, we find that the US shale gas boom has already helped European and other gas consumers and hurt Russian gas producers by freeing up LNG imports the United States was projected to need before the advent of the shale revolution. Even though European LNG imports have declined in recent years, and Russian exports have reached all-time highs, the additional global gas supply that has resulted from the US shale boom has strengthened Europe’s bargaining position with Russian suppliers. US LNG export terminals already approved and under development will continue to improve that negotiating power and provide the region with more supply options. Additional LNG terminals, were they to be approved, financed, and constructed, would have an even greater effect, especially if coupled with much-needed policy and infrastructure changes by Europe.

There are a number of reasons for US policy makers and the public to support US LNG exports. By 2020, the global natural gas market is likely to look quite different than it does today. While LNG supply is relatively tight currently, a significant increase in global supply projected by the end of the decade will create a more liquid, diverse global gas market. The United States, along with Australia, will play a key role in that transformation, particularly given the lack of destination clauses in at least some, if not most, US LNG export contracts. This will allow for more competition in the global market, putting downward pressure on prices and giving gas-importing nations more leverage with traditional suppliers.

While these are important long-term benefits for Europe, US gas will not provide a solution to the current crisis for at least three reasons. First, those US LNG terminals already approved will take years to come online, and the terminals still pending approval would not be available until after 2020.

Second, even in the longer term, while US LNG exports can increase European negotiating leverage, they will not free Europe from Russian gas, as much of the recent rhetoric has suggested. In our modeling, the amount of European gas imports from Russia is little changed by US LNG exports. That is not only because of long-term contract obligations, but also because Russian gas will likely remain the most economically competitive source of gas into European markets. Moreover, Russian supply is still needed as US LNG exports add much less to global gas supply on net than the gross quantity exported. Rising US gas exports will push down world prices and crowd out other higher cost sources of natural gas supply. Thus, in our modeling we find that 9 billion cubic feet per day (93 billion cubic meters per year) of gross US LNG exports results in only a 1.5 bcf/day (15.5 bcm) net addition to global natural gas supply.
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Third, while US LNG exports could have a meaningful impact on Russian gas revenue and on state-run Gazprom by lowering prices, gas revenue is a small share of the country’s overall export revenue and even smaller share of GDP. As such, the economic pain imposed on Russia by US LNG exports is unlikely to be significant enough to prompt a change in its foreign policy, particularly in the next few years.

While US LNG exports help support European energy security, there are even more important steps Europe can take itself to reduce Russian leverage. These include expanding pipeline and storage capacity, boosting domestic energy production, increasing energy efficiency, and continuing to promote an integrated, liberalized European energy market. Realistically such efforts should be aimed at reducing vulnerability to short-term Russian supply disruptions rather than attempting to eliminate Russian gas imports all together.