As the standoff between Russia and Ukraine drags on, there are increasing calls to use U.S. oil and gas exports to weaken Vladimir Putin’s hand. There’s something to this, but it’s likely to be a lot less powerful than most pundits seem to think.

Europe imports about thirty percent of its natural gas from Russia. Russia could, in principle, cut off some or all of that supply. That prospect presumably makes European leaders less willing to take strong positions against Russia in its confrontation with Ukraine. People have argued that boosting U.S. natural gas export capacity (or, more precisely, changing policy to make that more likely in the future) could do two things. First, in the current crisis, it could deter Putin from using the gas weapon, lest he encourage Europeans to make concerted efforts to shift their long-term gas procurement to the United States when that becomes possible in a few years. Second, in future crises, it could blunt the Russian gas weapon, since U.S. exports would be available to fill in for Russian supplies.

(You might have noticed that I haven’t said anything about oil. That’s because the idea that U.S. oil exports would give Europe some sort of special buffer is silly. The world oil market is pretty flexible, and U.S. exports would be a drop in an already large sea. To the extent that Europe is constrained in its ability to switch oil sources quickly, that’s because of infrastructure, something U.S. exports wouldn’t change.)
There are two essential things to keep in mind when thinking through the claims about natural gas exports.

First, decisions about whom to export to and import from are made by commercial entities, not by governments. When a U.S. analyst says, “we should tell Europe we’ll sell them our gas”, the first response should be, “who’s ‘we’”? (The second response should be, “who’s Europe?”) The U.S. government doesn’t get to sell gas to anyone; it can create a framework in which commercial entities can sell gas, but after that, it’s up to those businesses to decide where the gas goes. Similarly, “Europe” doesn’t buy gas – all sorts of European companies do, within European and national regulatory frameworks.

Second, surging natural gas into Europe to respond to a crisis requires that there be infrastructure in place that can accommodate that surge. In the case we’re talking about here, that means having a bunch of unused (or partly used) European natural gas import terminals that can suddenly absorb newly arrived U.S. supplies. And remember – back to the first point – these terminals will be built by private players.

So what does this all mean for the big strategic claims?

It is difficult to see how U.S. exports will substantially erode the long-run share of Russian gas in Europe. It is far more profitable for buyers of U.S. natural gas to ship it to Asia – where prices are far higher – than to Europe. (The exception is if European companies are willing to pay a hefty premium to get their gas from the United States – but remember, these are commercial entities, which makes it very difficult for them to do that.) There is, of course, a knock on effect from that, since if U.S. gas frees up other supplies that were destined for Asia, those supplies can potentially move into Europe instead. But Russia remains a relatively low-cost supplier into Europe, and can trim its prices to keep its market share. Moreover, unlike European gas companies, the big Russian players have much tighter ties with the state. If Moscow wants them to keep their share in the European market for strategic reasons, it may be able to make them do that. Russia would lose money – an important piece of geopolitical harm – but its leverage wouldn’t be slashed.

What about supplying gas to Europe in a crisis? Here the basic constraint is infrastructure. Gas demand is seasonal, so during some parts of the year, there may be underutilized LNG import terminals. [UPDATE 3/6: Moreover, with a weak European economy, there is currently a lot of unutilized European LNG import capacity year-round; whether that persists indefinitely remains to be seen. Even in the current case, though, Russian imports into Europe greatly exceed spare LNG import capacity.] Were Russia to cut gas supplies to Europe during a crisis, if prices rose high enough, those terminals could be used to surge in
some supplies. During other times (notably winter, when gas demand is most acute) the terminals will be fully utilized, making them unavailable to bring in new LNG supplies. The only way around that is to overbuild. This might happen by mistake, but unless European policymakers offer financial incentives, profit-seeking firms won’t do it on purpose.

There is one other wrinkle worth thinking about here. The United States is currently able to take a harder line against Russia than Europeans are in part because the U.S. economy is insulated from energy-related turmoil. Were the prospect of surging gas into Europe a real one, we’d be having all sorts of debates here about the economic fallout for the United States from escalation with Russia. [UPDATE 3/6: It’s worth distinguishing here between swinging U.S. gas from Asian to European customers, which wouldn’t affect the U.S. market, and boosting total U.S. exports, which would.] Ironically, while being more connected to European gas markets might give the United States more tools in a future crisis, it could also deter Washington from aggressively confronting Russia.

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