

### **THE IMPACT OF CHINESE TARIFFS ON US LNG EXPORTS**

- China recently announced that it would impose further tariffs on \$60 billion of US imports in retaliation to the latest tariffs on \$200 billion of Chinese goods, effective from 24 September. These measures include a 10 per cent tariff on LNG shipments from the US.

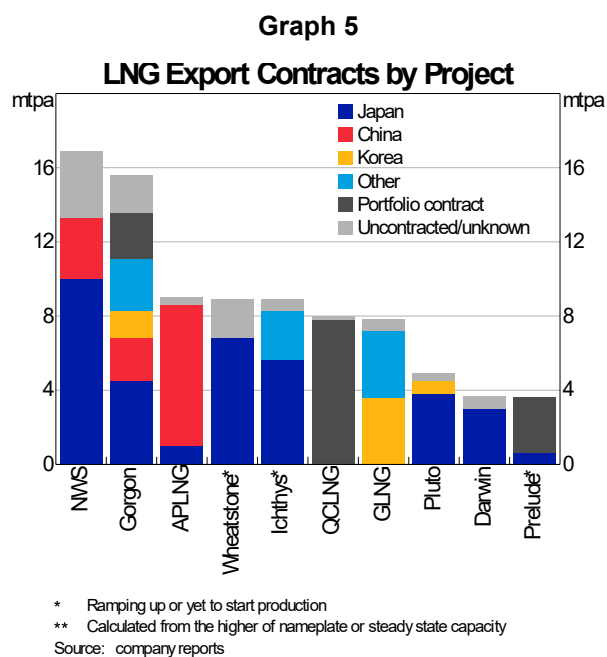
## Opportunities for Australia

- China is Australia's second largest export market for LNG, accounting for around one-third of LNG exports in 2017-18. China has long-term purchase agreements with three Australian LNG projects and China has also invested heavily in gas projects in Australia (Graph 5). Prices for Australia's contracted LNG exports are generally linked to oil prices.
- There appears to be limited upside risk to Australian LNG exports from Chinese tariffs on imported US LNG.

- Tariffs on US LNG exports into China are likely to result in a reshuffling of LNG import destinations in Asia, rather than an increase in demand for Australian LNG exports. If LNG demand in the region is

sufficient to absorb current LNG import volumes (which elevated Asian LNG prices indicates) then US LNG exports will go to countries where tariffs do not apply (thanks to destination flexibility) and spot cargoes from other countries such as Australia will shift from these countries to China.<sup>7</sup>

- In the event that tariffs on US LNG exports into China result in greater demand for LNG exports from Australia, there appears to be limited ability for Australian producers to increase their supply into the spot market. Most production facilities in Australia are already operating at near-nameplate capacity and those that aren't (mainly the east coast projects) are constrained by other factors such as domestic gas supply concerns. In any case, only a small share of existing Australian LNG production capacity (around 15 per cent) is available for spot sales (uncontracted; Graph 5). In terms of new LNG production capacity, the completion of the two remaining construction projects would increase spot cargo capacity by around only ½ Mtpa in 2019. While Woodside is planning to build additional capacity of 4–5 Mtpa at its Pluto LNG plant in WA, very long lead times on gas projects means this project is not expected to start production until 2023/2024.



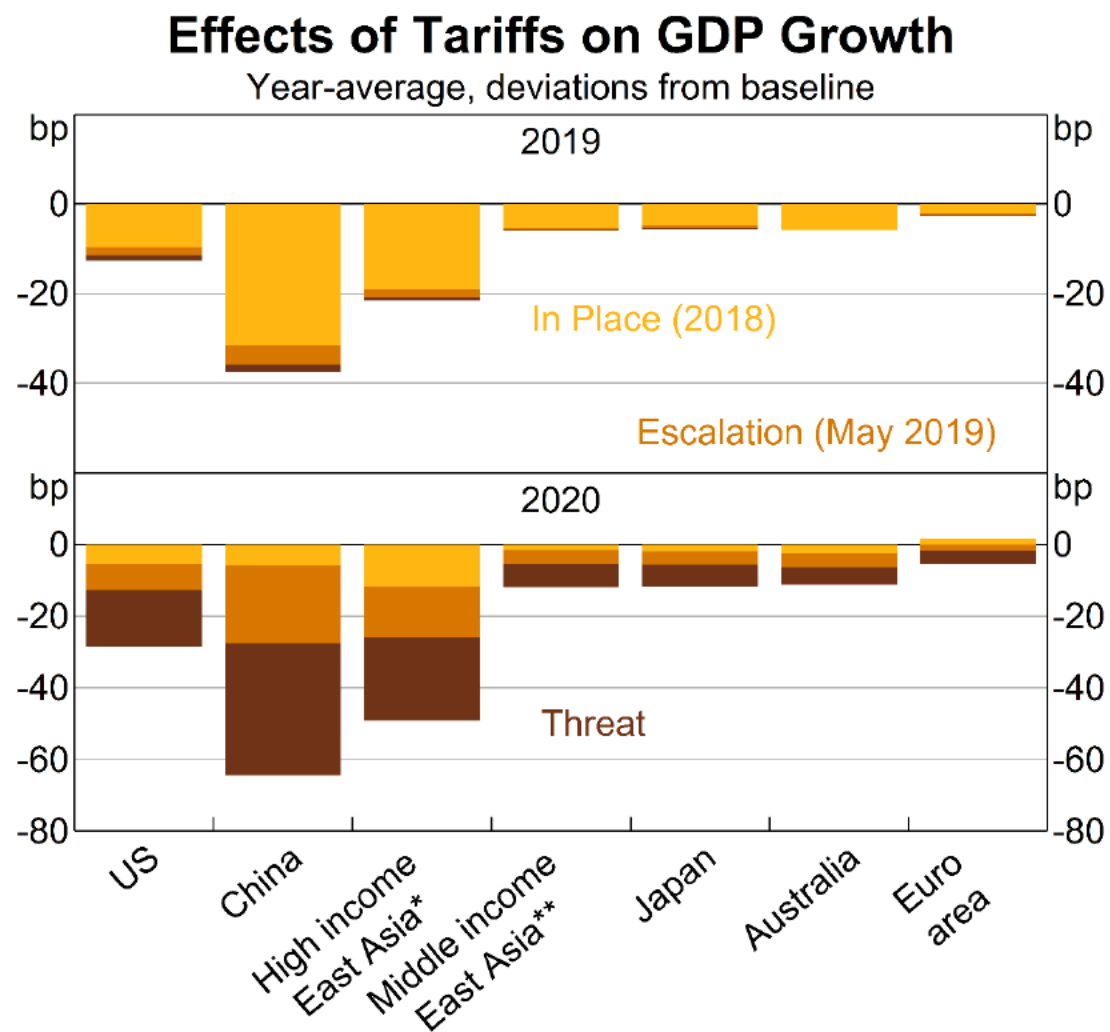
<sup>7</sup> The majority of Australia's LNG export contracts do not allow destination flexibility and hence only spot cargoes can be diverted.



# World Forecast Meeting

July 2019

# Tariff scenarios



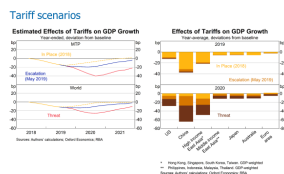
\* Hong Kong, Singapore, South Korea, Taiwan. GDP-weighted

\*\* Philippines, Indonesia, Malaysia, Thailand. GDP-weighted

Sources: Authors' calculations; Oxford Economics; RBA

## **World forecast Meeting – 16 July 2019**

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## Tariff scenarios

To inform our forecast revisions, we have done a scenario analysis using the Oxford model to quantify the impact of the escalation in trade disputes.

The graphs here show the effects of 3 scenarios:

- the first shows the effects of tariffs introduced in late 2018
- the second (in blue) quantifies the effects of the additional tariff increases that happened in May this year
- and the third looks at the potential economic impact of the US imposing tariffs on all Chinese imports as it has threaten

Overall, the effects are estimated to be negative but small. MTP growth is estimated to fall by about 20 basis points in 2019 and 2020, with most of the effects dissipating by 2021.

The tariff increases introduced in late 2018 are estimated to have their negative peak effects in the current quarter. The effects of the escalation of the trade dispute in May 2019 are expected to add to this, increasing the size and persistence of the fall in GDP growth. The impact on global growth is relatively modest.

From a country perspective, the economies most affected are China, some high-income economies in east Asia and the United States. Spillovers to other economies including the euro area, Japan and Australia are very limited.

A more dramatic escalation in trade disputes could lead to a much larger negative impact, as shown in the brown bars on the graph.

This analysis has an **important limitation** to keep in mind: the model does not account for the structure of global supply chains or the potential for trade diversion. These factors would have offsetting impacts and the net effect of an increase in bilateral tariffs could be larger or smaller depending on the extent to which trade diversion occurs.

## PARLIAMENTARY BRIEFING – AUGUST 2019 – TRADE AND TECHNOLOGY DISPUTES

US-China trade and technology disputes escalated in May, further escalation is main risk to global growth

To date, US tariffs have increased from close to 0 to 25 per cent on about half of imports from China, and US has imposed restrictions on exports to China of advanced technology (semiconductors integrated circuits).

High levels of uncertainty on trade policy weighing on global trade, investment and manufacturing

Likely only small direct impact of the higher tariffs that are in place: negative effects concentrated in the US, China and high-income east Asia. Most economies have much larger exposure to Chinese domestic demand than Chinese exports to US.

Some low cost economies may benefit from trade diversion, e.g. Vietnamese exports to the US and FDI from China into Vietnam picked-up considerably this year.

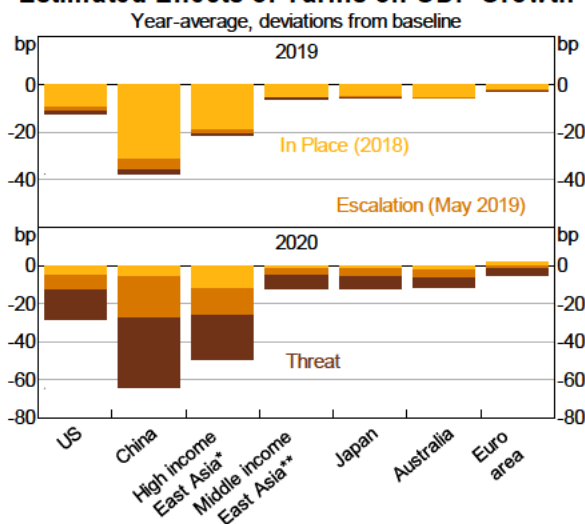
Chinese policy stimulus likely to offset some of the negative effects on China.

Effect on Australia ambiguous; direct effects likely very small and may see stronger exports/prices for bulk commodities on Chinese stimulus.

Concerning increase in willingness to use tariffs/trade restrictions to address political disputes. US threatened tariffs on Mexico and Guatemala (immigration); Japanese export controls on Korea (wartime reparations).

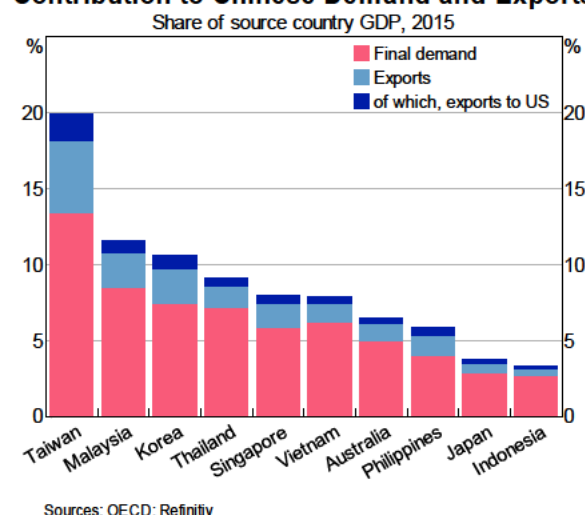
Technology disputes could slow down technological development and productivity growth

**Estimated Effects of Tariffs on GDP Growth**



\* Hong Kong, Singapore, South Korea, Taiwan. GDP-weighted  
 \*\* Philippines, Indonesia, Malaysia, Thailand. GDP-weighted  
 Sources: Nodari and Taylor (2019); Oxford Economics; RBA

**Contribution to Chinese Demand and Exports**



Sources: OECD; Refinitiv

Overseas Economies

31 July 2019

## US TRADE PROTECTIONISM

Trade **protectionism risks remain high and have increased uncertainty** about the global growth outlook.

**Little direct effect on Australia to date.** Australian exports of aluminium and steel to the US have been exempted from US tariff measures.

- But: Australia benefits from open, inclusive, rules-based international system; a material weakening in global growth would affect Australian trade; and China is Australia's largest trading partner.



**From:** CAGLIARINI, Adam

**Sent:** Monday, 12 August 2019 3:21 PM

**To:** ELLIS, Luci ; ROBERTS, Ivan ; SPEARRITT, Morgan

**Subject:** RE: journalist background  
[SEC=UNCLASSIFIED]

Hi Luci,

Here are a few of my thoughts:

1. There may be some short-term upside, particularly if China stops buying agricultural goods from the US and if more Chinese tourists choose Australia over the US. But if they do strike a deal that involves purchase agreements, that could be detrimental to Australia (and other countries). It won't just be Ag either, these purchase agreements are likely to extend to LNG and other goods and services (it is unlikely that iron ore and coal will be affected though). So I wouldn't get too comfortable – there are longer-term downside risks. The upside is the resolution of uncertainty which would be helpful for everyone (including policy makers).
2. There are obviously other things that happen in that scenario (i.e. exchange rate movements) that might offset the effect. The question is how Australia is able to diversify its export markets and indications based on what is happening with coal suggest we are starting to diversify slowly. The issue is the distortions such purchase agreements will impose on the global trading system as we and other countries seek markets further afield for our goods. It could increase the cost of shipping, which means consumers and producers will face higher costs.

Happy to add more if you needed.

Adam.

**From:** ELLIS, Luci

**Sent:**

**To:** ROBERTS, Ivan CAGLIARINI, Adam ; SPEARRITT, Morgan

**Subject:** Fwd: journalist background

Hi all

Please see below. I've offered some time between 10:30 and 2pm. If there's anything specific you think I should say to him, please let me know.

Best regards

L

Sent from my iPhone

Begin forwarded message:

**From:**

**Date:**

**To:** "ELLIS, Luci"

**Subject:** Greetings

Hi Luci,

Can I chat to you about the trade fight U.S-China. We are wondering if it poses any opportunities for Australia. I thought the China liaison might be throwing up some interesting things on this front.

Hope you are well.