

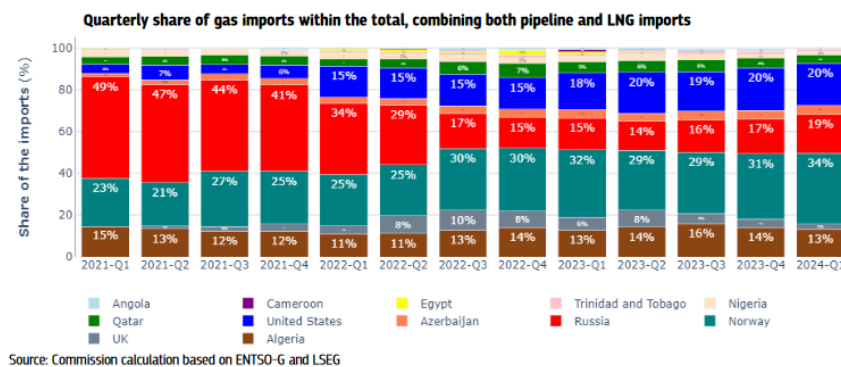
## European Energy Markets Transformed by War in Ukraine

America remains Europe's largest external energy [supplier](#), having surpassed Russia at the end of 2022 according to the July 31<sup>st</sup> EC Q1 2024 Quarterly report On European gas markets. US global LNG exports have [doubled](#) since 2019 according to the American Department of Energy. It progressed from zero to world leader in the past ten years based upon new horizontal drilling techniques, euphemistically known as "fracking."

European energy markets have been transformed by the war in Ukraine. This transformation has given Europe the policy space to respond strongly to the Russian invasion of Ukraine. Continued diversification away from Russian energy could provide additional diplomatic freedom. Expanding US LNG exports could provide the energy security Europe needs to bring a decisive end to the war in Ukraine, which has shown not only the weaknesses of the Russian military, but how dependent the Russian economy is on its oil and gas exports.

Should Europe be able to end all purchases of Russian energy due to an expansion of US energy purchases, then the Russian economy would come under significant pressure.

The response of global energy prices could initially be volatile. However, European energy supply sources are robust. Increasing



[Source: EC Quarterly Report on Gas Markets \(Q1 2024\)](#)

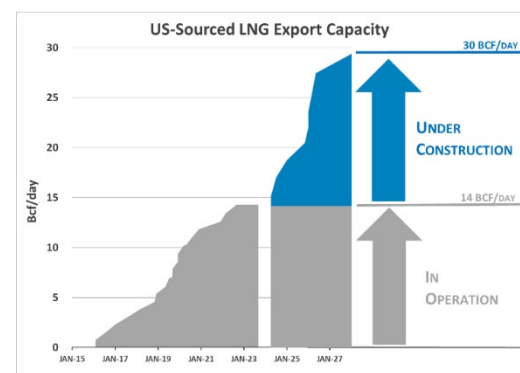
American capacity, as well as worldwide could reducing prices to Europe. China, India, and other purchasers of Russian energy would be incentivized to drive an even harder bargain with Russia, demanding steeper discounts than already enjoyed. This would in turn put additional economic pressure on Russia.

## Russian Energy Replacement Feasible

Natural gas imports to EU per Q1 EC energy [report](#) are steady with LNG having largely replaced pipeline gas from Russia, which accounted for the largest single European energy source before the Russian invasion of Ukraine.

LNG storage for winter in good shape in Europe. LNG port construction proceeding apace in Germany with floating storage regasification units (FSRU) operating at three ports in Germany, on schedule to [increase](#) to [six](#) by this winter. Eu gas storage levels had already reached [80%](#) by the second

week of July and are in good shape for the winter.



[Source: US Department of Energy](#)

Norway is the biggest [source](#) of energy now for European continent, supplying over half of its supply, with the US its biggest source of imports, and Russia now in third place, and only because it is supplying significant LNG to Europe. The US has significant [capacity](#) to expand however, and this opens new opportunities for European energy policy.

### **Europe in Driver's Seat**

Europe's energy future is in its own hands.

American export growth was paused by a White House executive [order](#) in January based upon climate concerns. The EU has the ability to affect a change in this US stance based upon the urgency of international security concerns.

The EU can negotiate an allied approach with the current US Administration focused on increasing energy security and shoring up Ukraine. This approach could not only be justified by the current Administration as consistent with current Ukrainian policy, but in the event of a change in American government it would in turn be supported by a Trump Administration that would be eager to increase energy exports. Combining new energy independence from Russia with new support for Ukraine has the potential to significantly increase European security. The current US Administration would welcome additional support to Ukraine. This would also preemptively allay pressure from any incoming Trump Administration to increase European defense spending.

### **Significant Improvement for European Strategic Posture**

The [arrival](#) of new western weapons systems such as the F16, when combined with the economic pressure on Russia, could lead to a more positive outcome for Ukraine. Additionally Europe could be in a position to achieve significant strategic gains not previously possible in return for a final settlement with Russia.

Europe will be in position to secure key security concessions from Moscow in return for any peace agreement that recognizes any relaxation of Russian sanctions during a final international settlement of the war. Chief among these may be correction of the historical injustice of ceding northern Prussia and the previous German territory of Königsberg to the Soviet Union during the Potsdam Conference by the western allies at the end of WWII. This consequential western strategic mistake has now enabled President Putin to station nuclear capable short range Iskander missiles in the Kaliningrad exclave within minutes of most European capitals. Should Europe have the will to make reversion of Kaliningrad a precondition for reversal of sanctions given the [end](#) of the Intermediate Nuclear Forces Treaty in 2019 and Putin's [announcement](#) last week that new intermediate missiles would be produced, with Kaliningrad as their most obvious intended base, they can secure a significant improvement for European strategic posture.