

Biden's incoherent energy-policy response to war in Ukraine



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OPINION

In mid-April, Secretary of Defense Lloyd Austin joined Secretary of State Antony Blinken in urging Ukraine to desist from attacking Russian oil refineries. Such attacks have disabled up to 15 percent of refinery capacity in Vladimir Putin's Russia, denting both its ability to earn

export income and to wage war against Ukraine. In an election year, the Biden administration's policy clearly values domestic fuel-price stability over helping Ukraine in its war for survival. The stated purpose of the US-led price cap and ban on Russian exports to the West

is to maintain Russia's supplies while reducing the income from its exports without causing a price spike by taking Russian oil off the world market. Biden's policy has harmed US interests while aiding major industrial competitors in China and India. These

huge economies are exploiting cheap Russian oil imports to build new refining capacity. Additionally, shifting oil refining to these countries has had negative environmental effects and weakened US industrial competitiveness.

There are better policies to maintain global price stability, starting with reversing the regulatory squeeze on US oil and gas production. Earlier in its tenure, the administration reduced the holdings of the US Strategic Petroleum Reserve by 43 percent, which limited Washington's ability to use these stocks to offset severe price spikes. The Biden team has also closed off the possibility of cooperation with longtime ally Saudi Arabia to keep prices stable by increasing the weight of human rights considerations in the relationship. US policy keeps Iranian oil on the market, leads to additional discounted sales to China, and helps finance the Iranian war machine.

The feeble attempt to slow Russia's oil production by limiting its ability to export crude oil at world prices has been a failure. While Russian exports to Europe have cratered, the breach was quickly filled by huge increases in sales to China and India after the war was unleashed. China's imports of Russian crude have ballooned from .63 million barrels per day (mbd) before the war to an average of 1.3 mbd in recent months. India's imports were negligible prior to the onset of the war, but now average more than 1.75 mbd. The typical price discount available to Chinese and Indian importers relative to Brent crude has ranged from \$37 per barrel to around \$12 or \$13 per barrel in recent months.

These emerging economic giants have



A worker stacks oil barrels at a filling station in Chennai, India, on February 24, 2022, the day Russian President Vladimir Putin launched a "special military operation" against Ukraine.
AFP

benefited from access to a large and steady supply of discounted Russian crude to build new refining capacity and become significant exporters of refined products such as diesel, jet fuel, and gasoline. In effect, Indian and, to a lesser extent, Chinese refiners transform blacklisted Russian crude into higher-value products to supply third markets. And the profits from this arbitrage are significant: The Indian Oil Corporation has more than doubled its profits since starting this trade, and its share price has increased by 178 percent. Indian refined-product exports to the European Union (EU) alone now

average over 360,000 barrels per day (bd). India can compete on price with US exporters due to lower input costs, including transportation. In early 2024, US refined-product exports to Europe fell by almost half, partly due to this competition.

It is also worth noting that America's North Atlantic Treaty Organization ally Turkey has contributed to keeping Russia's war economy from collapsing by increasing its imports of crude oil and refined products that were previously sold to Europe. It has, in turn, become a major exporter of refined products to the EU.

Below-market supplies of crude to China put wind in the sails of Beijing's manufacturing-export goliath, which has become the most important engine of growth in the Middle Kingdom. In sectors such as metals, cement, and chemicals, energy costs are a significant competitive factor. The cutoff of Russian oil and gas to European markets has redistributed exports to China, which has picked up the pace of purchases since the war began. In addition to crude imports, China is the beneficiary of stranded liquefied-natural-gas (LNG) sales, which previously had gone to Europe or other Western allies. Be-

cause the Biden administration has employed a freeze on permits for new US LNG export facilities and increased regulatory burdens on pipelines to get gas to existing facilities, Russian gas may partially displace US LNG supply to China in the medium term. In the short term, Qatar is the main beneficiary of the Biden freeze on new LNG facilities. Europe especially has eagerly signed contracts with Doha, which now plans to nearly double its LNG capacity in the next five to seven years. Some North African suppliers have also reached deals with European nations.

The US and EU price caps and embargoes on imports of Russian oil and gas have reduced the hard-dollar income from this major sector of the Russian economy — which normally accounts for 30 percent to 50 percent of Moscow's federal budget revenues — by \$30 to \$50 million per day. But overall production has not yet materially affected the Putin regime. Russia has accumulated more yuan and rupees to buy manufactured goods and war materials from China. Having access to less Russian crude and fewer Russian refined products would reduce the current advantages for the Chinese and Indian manufacturing and refining sectors, which increasingly compete with US producers on the world market.

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Can Franco-German relations be rekindled over Ukraine war?



By Amandine Hess
Journalist

PERSPECTIVE

Paris and Berlin are at loggerheads over military aid to Ukraine. But can the two European powerhouses unify behind Kyiv?
At a conference on Ukraine in Paris at the end of February 2024, French

President Emmanuel Macron did not rule out putting boots on the ground in Ukraine.
The announcement didn't go down well across the Rhine.
A few hours later, Germany's Olaf

Scholz answered "Europe and NATO will not send any soldiers to Ukraine."
Macron's statement was "a red line for Germany", which fears being passed off as "warmonger" in the

eyes of Vladimir Putin, according to Dr. Carolyn Moser, director of a research group at Heidelberg's Max Planck Institute of International Law and holder of the Alfred Grosser Chair at Sciences Po.

During the same conference, the French leader did not miss the opportunity to recall that "many, around this table, were only considering sending sleeping bags and helmets" to Ukraine. It was a jibe at Berlin, which announced at the end of January 2022 it would send 5,000 helmets to Kyiv — but not arms. One month later Russian tanks rolled across the border. The situation has changed a lot since then.

After the United States, Germany is now the second largest contributor of aid to Ukraine.

According to the Kiel Institute, Germany has committed to providing €17 billion in aid for Kyiv when France has only promised €1.8bn.

"France was less hesitant to deliver heavy weapons, but it made it much less public. And until now, it hesitates to say exactly what it delivered and to what extent. It justifies it by the fact that it could then reveal defence secrets," said expert Moser.

Lack of communication is also a source of tension between Berlin and Paris. Faced with Russia's full-scale assault on Ukraine, Scholz announced at the end of February 2022 an envelope of €100bn to modernise the German army.

France regrets not having been informed beforehand.

Another thorn in the side of the Franco-German relationship is the European Sky Shield Initiative.

Initiated by Germany, the project, which includes 21 NATO countries but does not include France, consists of German (IRIS-T), American (PATRIOT), and Israeli (Arrow-3) systems. These dissonances already existed before Moscow's assault on Ukraine. In 2017, Macron made a speech at the Sorbonne, calling for an overhaul of European defence — it fell on deaf ears across the Rhine.

The French and German visions of European defence differ fundamentally on one point: the role of NATO. "While France aspires to a certain autonomy, Germany prefers a transatlantic approach," explains Moser.

Series of disagreements

Defence is just part of a series of long-standing disagreements between Paris and Berlin.

Energy has historically been a major divide between the two. While France depends on nuclear power — providing around 70% of its electricity — Germany shut down its last nuclear power plant in 2023.

The war in Ukraine is now bringing the energy issue back on the table because Germany, a major consumer of Russian gas, must seek supplies elsewhere.

Another thorn in the Franco-German relations is the free trade agreement between the EU and Mercosur, the South American trade bloc.

"For Germany, free trade is essential because its economy is very depen-

dent on exports... The opening rate of the German economy is 87%. It is considerable. France is only 60%," says Jacques-Pierre Gougeon, research director at the Institute for International and Strategic Relations (IRIS).

While Berlin is pushing for this free trade agreement, Paris believes its "environmental standards are insufficient," he explains.

Contested leadership?

The war in Ukraine has upset the distribution of roles and power relationships between the couple.

"There was a sort of tacit division of roles between a more leading France on defence issues, strategic issues, and then Germany on economic issues. And it is clear that this balance is now weakened with German ambitions on defence issues," says Gaspard Schnitzler, research director at the IRIS.

Franco-German relations have been relegated to the background for Berlin, which increasingly has its eyes on the East.

In his speech in Prague in August 2022, Scholz called for the enlargement of the European Union to include the countries of the Western Balkans, Ukraine, and Moldova.

"Undeniably, Europe's centre of gravity will shift to the East," explains research director Schnitzler.

Experts say the balance of power is far from being redistributed, however.



French President Emmanuel Macron (L) and German Chancellor Olaf Scholz
CLEMENS BILAN/EPA-EFE

"Germany and France alone account for 48% of euro area GDP, 32% of the EU population, and 31% of the EU budget. So, we can't do without," adds Jacques-Pierre Gougeon.

How to relaunch Franco-German engine?

Several ways have been suggested by observers to get the Franco-German tandem back on track.

For expert Moser, the pair must communicate better.

Gougeon pleads for opening the Franco-German relationship to other part-

ners, in particular Poland in the framework of the Weimar Triangle.

Schnitzler recommends carrying out existing projects such as the main ground combat system (MGCS) and the future combat air system (SCAF).

Macron will visit Germany for an official state visit later this month where the two leaders are expected to discuss, among other things, priorities for the next EU mandate ahead of the European elections scheduled for June 6-9.

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