

2023. The outlook for this year is bleak, with the German government slashing its GDP growth forecast from 1.3% to 0.2% in 2024. The former driver of its economic powerhouse, energy-intensive industry has been sputtering since Russia's attack and has turned into a serious thorn in the country's side. Germany's purchasing managers' index (PMI) for its construction sector has been declining since early 2022. Manufactur-

ing, meanwhile, has been in decline since mid-2023. "Germany's manufacturing sector has been mired in recession since around the middle of last year, and the latest PMI readings signal another contraction in the first quarter of 2024," Cyrus de la Rubia, chief economist at Hamburg Commercial Bank, wrote. "To make things worse, the downturn is very broadly based, encompassing capital goods as well as intermediate and con-

sumer goods," he added. It has ignited debates around whether Germany can once again be considered the "sick man of Europe," having previously shaken off its post-Cold War title in the 1990s. Deutsche Bank CEO Christian Sewing warned in September that Germany could become the sick man of Europe, citing spiraling energy costs and a shortage of skilled workers as some of the obstacles facing the country's economy.

The boss of Germany's central bank, Bundesbank, was forced to hit back at this unfortunate moniker, arguing that Europe as a whole was at risk of "getting sick," rather than Germany, in particular.

German businesses taking flight

RWE is one of several German businesses that appear to have had enough of Germany's flatlining industry. Analysis by FDI Markets shows

German companies almost tripled their investments in the US in 2023 to \$15.7 billion. The downturn of German industry was as much to blame for the flight of capital to the States and Joe Biden's Inflation Reduction Act (IRA), which offered strong subsidies to incoming businesses. Major carmakers like Volkswagen and Mercedes-Benz upped their commitments in the US. RWE, meanwhile, announced a new US arm called RWE Clean

Energy, after closing an acquisition for Con Edison Clean Energy Businesses. The group has set aside \$15 billion to invest in its US business. "You have a coherent and comprehensive policy in the US to incentivize getting manufacturing back into the country," RWE's Krebber told the FT. "Europe has the same intention, but not yet the right measures."

The article first appeared on Fortune.

France talks tough on Ukraine while gobbling up more Russian gas

By Victor Jack
Reporter

PERSPECTIVE

Put your money where your mouth is.

Such grumbling is percolating across Europe as new data reveals France quietly ramping up gas payments to Russia just as President Emmanuel Macron loudly positions himself as one of Ukraine's staunchest defenders.

In the first three months of this year, Russian liquefied natural gas deliveries to France grew more than to any other country in the EU compared to last year, according to data analyzed by the Centre for Research on Energy and Clean Air (CREA) think tank for POLITICO.

In all, Paris has paid over €600 million to the Kremlin for gas supplies since the start of the year, the data showed — leading to calls for France to clamp down on its rising purchases.

"It cannot be that France, on the one hand, says that we have to be harsh with Russia and on the other hand, is paying them off with big money," said a diplomat from one EU country, who like others for this story, was granted anonymity to speak candidly.

Paris' growing gas trade with Russia comes as Macron has sought to take a harder line in support of Kyiv two years after Moscow first launched its full-scale assault on its neighbor. Last month, the French leader refused to rule out sending troops to Ukraine and urged allies not to be "cowards" in defending Kyiv, marking a sharp turn from his previous calls not to "humiliate" Russian President Vladimir Putin.

France insists its gas buys are necessary to keep supplies flowing to households across Europe and that it's locked into a long-term agreement with Russia that is legally complex to escape. But critics said Paris could do more to reduce the bloc's purchases, arguing its inaction is partly down to resistance from France's national energy major TotalEnergies. In all cases, the imports expose the EU's flagging efforts to stamp out Russia's fossil fuel revenues — which account for almost half the Kremlin's budget — as Moscow finds increasingly creative ways to circumvent existing measures and EU sanctions stutter.

"This isn't an easy topic," a French energy ministry official conceded. "If we continue to pay for gas we do not import, there is no point," referring to long-term contracts that TotalEnergies has signed which force it to buy LNG from Russia.

French disconnection

Within months of Russia's full-scale assault on Ukraine in 2022, the EU presented a plan to end the bloc's reliance on Moscow's fossil imports by 2027.

So far, it's largely been successful. Though some in the EU continue to buy nuclear fuel and some pipeline oil and gas from Russia, the bloc has slashed its dependence on Moscow's gas by around two-thirds and imposed a blanket ban on coal and oil imports by sea.

But similar efforts to cut out



French President Emmanuel Macron (R) shakes hands with Ukrainian leader Volodymyr Zelenskyy during a news conference at the presidential Elysee Palace after signing a bilateral security agreement in Paris, France, on February 16, 2024. THIBAUT CAMUS/AFP

liquid natural gas, or LNG, have floundered. Although the fuel accounted for just five percent of the EU's gas consumption last year, EU countries paid Moscow more than €8 billion for its exports, according to a new report from CREA out Thursday. France is far from the only culprit. At least nine EU countries continue to buy Russian LNG, the shipping data showed. But Paris led the bloc in both absolute volumes imported in 2024 — 1.5 million tons in total — and the increase in purchases compared to the same period last year.

EU's Russian LNG addiction

EU countries continued buying Russia's liquefied natural gas after Moscow attacked Ukraine. Belgium, Spain, and the Netherlands — the three largest buyers of Moscow's LNG after France — have all indicated they would support steps to reduce these purchases but argue that everyone has to act together or it will be pointless. "The only way forward is ... a joint approach on how to reduce or how to ban imports," Spanish Energy Minister Teresa Ribera told reporters at an EU energy ministers' meeting last month. "We need it as soon as possible."

At the same gathering, Lithuania even proposed a total ban on Russian LNG, but Paris has

largely stayed mum on taking action.

In fact, French Economy Minister Bruno Le Maire has defended Paris' ongoing purchases. Ending France's reliance on Moscow's gas should be done "gradually to avoid a too-brutal impact on the market" and price spikes, he told lawmakers this month.

That muted reaction isn't convincing energy researchers, who are skeptical of claims that shunning Russian gas would roil the markets.

Instead, argued Phuc-Vinh Nguyen, an energy analyst at the Paris-based Jacques Delors Institute, the French government simply has "no interest in being vocal about that" since it "contradicts" Macron's renewed push to help Ukraine. "It's shameful for them."

A French Economy Ministry spokesperson told POLITICO the Russian gas increase was partly due to strikes that "strongly disrupted" normal flows last year.

Paris also "regularly discusses" efforts to reduce Russian fossil fuel imports with its EU allies, the spokesperson added, arguing a "high level" of gas travels through France and helps supply other countries like Italy.

The government is "studying the possibilities of alternative supplies ... without endangering European energy security," the spokesperson added, emphasizing Paris supports a full phaseout by 2027.

house" and one of France's largest firms, "Total is very, very attentively listened to" in government, said Nguyen. That reluctance can also be seen elsewhere.

In the Netherlands, where TotalEnergies is also bound by a long-term contract with Yamal LNG, the government has sent several requests asking the firm to voluntarily reduce its imports since 2022, according to one Dutch official.

But "they never responded to us," the official said.

A spokesperson for TotalEnergies declined to comment on its discussions with the Dutch government but told POLITICO the company complies with EU laws and "does not do any lobbying against sanctions."

The spokesperson also indicated the firm had not sold its

places like the US, said Aura Sabadus, a senior gas market analyst at the ICIS market intelligence firm, even if an "immediate" LNG ban "may lift prices."

No liquid luck

The debate comes as the European Commission, the EU's executive, begins preparations for yet another sanctions package against Russia, its 14th. But LNG is unlikely to feature in that package, despite repeated requests from the Baltic countries and Poland. Hungary has historically opposed measures on gas, and all 27 EU members must approve sanctions.

"I doubt we'd get unanimity on that one," conceded one senior European Commission official. Still, EU countries will soon be able to legally ban Russian firms from buying capacity in their LNG terminals, the official added.

But untangling long-term contracts with Russian firms is another knotty issue for the EU.

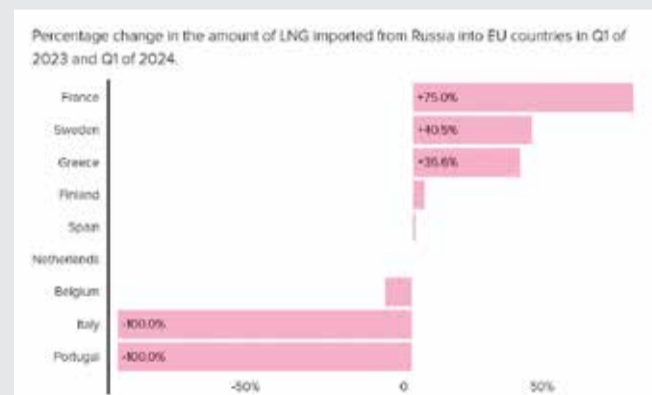
These agreements often force energy firms to pay for a fixed amount of gas even if they still stop buying physical cargoes from Russia, said Doug Wood, who chairs the gas committee at the European Federation of Energy Traders lobby.

Still, Wood agreed energy firms could reduce Russian gas imports to this minimum limit. Alternatively, EU governments could impose a price cap on Russian LNG imports, CREA's report suggested. An EU price cap set at €17 per megawatt-hour could slash Moscow's LNG earnings by around a third based on last year's figures, the analysis found.

Fundamentally, however, any solution will require joint action — at least from the EU's largest importing nations — so that Russian gas flows aren't just re-routed, Wood said. That would require France to step in and help.

"So, we're going to see now over time: is [France's increasingly strong support for Ukraine] a solid rhetoric or a hollow one?" said the EU diplomat. "It's very hard for me to see that France still keeps mum ... they have to come up with something."

The article first appeared on POLITICO.



Percentage change in the amount of LNG imported from Russia into EU countries in Q1 of 2023 and Q1 of 2024. KPLER

Total blockage?

But embarrassment isn't the only reason France is holding back from reducing its Russian gas imports.

French energy giant TotalEnergies holds a 20 percent stake in the Yamal LNG project, which operates a liquefaction plant in northwestern Siberia that's majority-owned by Russian private energy firm Novatek. Under a long-term contract, the French firm is forced to keep buying at least 4 million tons of LNG from the facility each year until 2032.

The firm's CEO Patrick Pouyanné has publicly called an EU ban on Russian LNG "unreasonable" before 2025 or 2026, when new LNG projects come online worldwide including in the US.

And as an "energy power-

Yamal LNG stake to help protect Europe's energy supply, arguing that "on the global LNG market, supplies remain tight." France's economy ministry said the Russian LNG "issue is neither about TotalEnergies' contract or activities, but about the opportunity and risks of imposing new sanctions for the entire European Union." But experts aren't buying it. Nguyen, the analyst, laid out a multi-tiered argument. One, alternative imports do exist. Two, the French industry is now consistently using less gas since 2022. And three, national storage levels are higher than last year's. Taken together, that lowers the risks of supply shortages.

At the EU level, too, the bloc could replace its Russian imports with deliveries from