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Ukraine War Illustrates Importance Of American Energy Dominance

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Ukrainian servicemen get ready to repel an attack in Ukraine's Lugansk region on February 24, 2022. ... [+] AFP VIA GETTY IMAGES

The year-old war in Ukraine has had far-reaching impacts on energy markets over the past year, redrawing the global map of oil and gas flows and creating a new boom market for U.S. producers.

Europe has shown that it can live without Russian oil and gas, reducing Russian imports to below 20% of total consumption. The EU primarily has the United States to thank for the flexibility to achieve that rapid transition without throwing the continent's economy into chaos.

U.S. exports of crude oil, refined products, and liquefied natural gas (LNG) have been critical to the success of Europe's effort to wean itself off Russian energy – a transition that is nearly complete.

U.S. LNG shipments to European ports more than doubled in 2022 from 2021, accounting for more than half of Europe's imported LNG. Those shipments helped the region weather a 54% plunge in piped gas shipments from Russia – and made the United States the world's largest LNG exporter.

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U.S. LNG exporters boosted shipments to the EU to more than 55 billion cubic meters in 2022, a 150% increase from 2021 levels, according to the Institute for Energy Economics and Financial Analysis.

U.S. LNG exports increased last year even though one of the country's top export facilities, Freeport LNG, was knocked offline after an accident last summer, making America's contribution to global supplies all that more impressive.

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The story for oil is similar. U.S. crude exports to Europe increased roughly 70% from the previous year, reaching 1.75 million barrels daily. That helped Europe reduce its dependence on Russian oil from importing approximately 2.3 million barrels a day before the kickoff of the war against Ukraine to a proverbial trickle today. Moscow now must ship its oil to China and India at a 40% discount instead of piping it directly into European homes.

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The dramatic rewiring of the global oil and gas markets would not have been possible if America had not built itself into an energy powerhouse during the last 15 years. Without the American shale boom of the previous decades, Europe would be at the mercy of the OPEC+ cartel, which still counts Russia as a critical member.



Many lessons can be taken from Russia's war on Ukraine, but perhaps the most crucial is that energy security – and the blessings of America's energy abundance – should not be taken for granted.

And while energy prices have fallen, this is no time to become complacent. Continued fears about the possible onset of a global recession and a mild winter help explain the recent retreat in oil and gas prices, but supply constraints remain a genuine concern.

Energy supplies are a global commodity. The analogy of a giant bathtub is often used to explain how a reduction of energy supply anywhere in the world reduces the amount available on the market and increases competition – and the price – for that supply everywhere.

Moscow recently announced a 500,000-barrel-per-day production cut to take effect next month. Removing those barrels from the market will increase the price of oil. There are also concerns about the impact of years of underinvestment by oil and gas companies in the United States on supply. Goldman Sachs is warning clients of potential commodity shortages later this year, including in energy where it sees Brent rising to \$105 a barrel and LNG rising to \$55 per million Btu.

That poses a potentially massive problem to the global economy, which is still grappling with high inflation and has not seen demand fully return to pre-pandemic levels. The importance of abundant U.S. energy resources has come to the forefront over the past year on the world stage as a calming, balancing force for markets rudely jolted by geopolitical unrest.

It's why the previous administration pursued an "energy dominance" agenda – to ensure Americans were insulated from shocks to the energy market and help address global supply crises when they arise.

The Biden administration continues to treat the domestic oil and gas industry as the villain in recent events, accusing it of price-gouging, war profiteering, and, ironically, underinvesting in exploration and development of new supply despite federal policies that thwart domestic production at every turn. President Biden remains committed to a "Keep It In The Ground" strategy despite his rhetoric against high energy prices.

The approach of Biden and his Democratic coalition on Capitol Hill to leasing federal lands and waters, permitting new pipelines, general reform of the federal permitting system, or any initiative that discourages domestic production continues to frustrate U.S. energy security goals.

Biden continues to double down on the energy transition, a decision that may pay off in the long run. In the immediate future, though, America – and the world – will continue to depend on oil and gas to run their economies. Until tanks run on solar power, petroleum will continue to define energy security – and energy security is national security.

After the bloody events of the past year, Americans should take heart in North America's resource abundance. Still, they should be equally concerned about the direction of U.S. energy policy and the unnecessary risk it poses to the nation.

Because while no one denies that a transition to a lower carbon economy is underway, it will take decades to accomplish. In the meantime, America must maintain its status as an energy superpower capable of rescuing its allies – or the entire global energy market – in turbulent times.

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