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The End of the Russian Gas Transit Era through Ukraine and its implications

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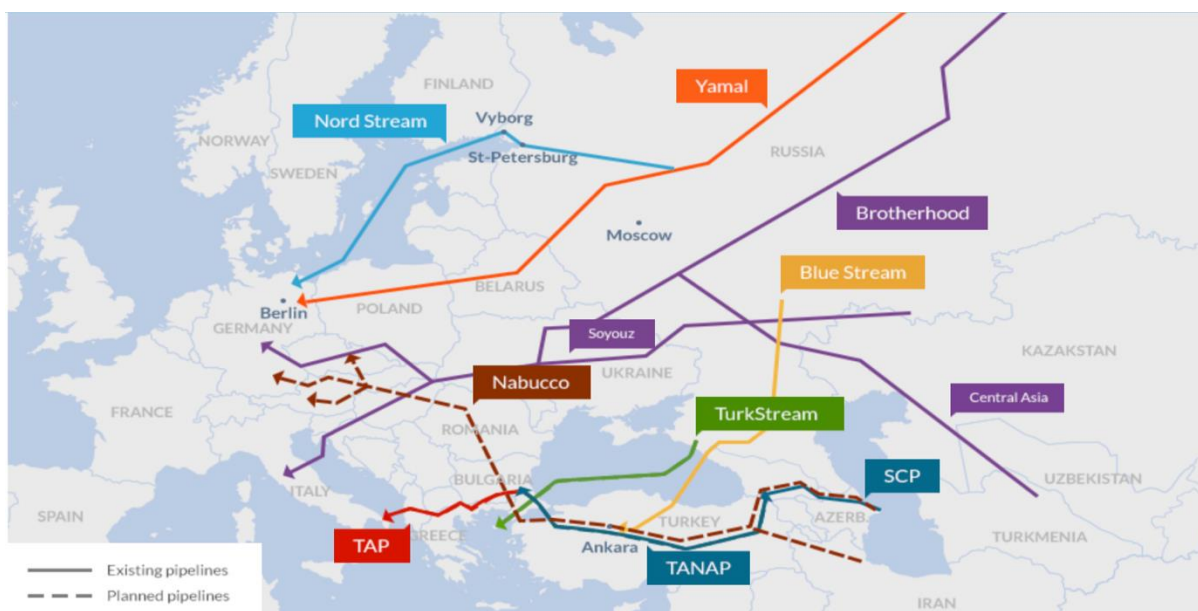
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The Start and End of Ukraine Gas Transit in EU

On January 1, 2025, the 50-year history of gas transit from Siberia through Ukraine to European countries came to an end. Interestingly, the first gas fields in the Soviet Union were initially developed in Ukraine. In the early days, gas from fields in Western Ukraine was supplied to Germany. Later, Western Siberian fields were connected to the transcontinental gas pipeline. Gas extraction began in Dashava, Lviv Oblast, Ukraine, in the 1920s, primarily for local consumption. During World War II, the Germans started constructing a gas pipeline from Dashava through Poland to Berlin but did not complete it¹.

Ukraine's first main gas pipeline, Dashava – Kyiv, built in 1948 with a diameter of 500 mm and a length of 509 km, was the most powerful and longest in Europe at that time². In the 1950s, gas pipelines were constructed, including the Dashava – Moscow and Dashava – Minsk – St. Petersburg routes. At that time, Ukraine's gas reserves amounted to approximately 30 billion cubic meters. Following the discovery of the Shebelinka field in Kharkiv Oblast, gas production in Ukraine peaked in 1973, reaching 68 billion cubic meters³.



¹ Bbc.com, *Как Украина в Россию газ поставляла ...*, April 11, 2012, Available at: https://www.bbc.com/ukrainian/ukraine_in_russian/2012/04/120411_ru_s_yaremiychuk_gas_int

² Naftogaz.com, *History of the oil and gas industry of Ukraine*, Available at: <https://www.naftogaz.com/en/history-of-the-industry>

³ Bbc.com, *Как Украина в Россию газ поставляла ...*, April 11, 2012, Available at: https://www.bbc.com/ukrainian/ukraine_in_russian/2012/04/120411_ru_s_yaremiychuk_gas_int

Pic. 1; Natural Gas Pipeline System⁴

On February 1, 1970, the Gas-Pipes Agreement was signed, outlining the supply of natural gas to West Germany (FRG) over 20 years, with a minimum volume of 52.5 billion cubic meters, starting in October 1973. The agreement also included the delivery of 1.2 million tons of large-diameter pipes for gas pipelines in the USSR, financed by a credit line of 1.2 billion Deutsche Marks. In 1972, a transit gas pipeline was completed, connecting Ukraine to Germany via Slovakia and the Czech Republic. In Slovakia, the pipeline branched into two routes: one leading to Austria and the other to Italy. On October 1, 1973, amidst the global oil crisis, natural gas from Ukraine's Dashava field began flowing to West Germany. The Urengoy – Pomary – Uzhgorod gas pipeline, commissioned in 1983, was designed to transport natural gas from the Tyumen fields to Ukraine, starting from the Kursk region. The gas metering station is situated near the city of Sudzha, currently under the control of the Armed Forces of Ukraine. This pipeline was integrated with an existing gas pipeline system built in 1973, which facilitated the transit of gas from Ukraine to Europe⁵.

The more-than half-century history of natural gas supplies, first from Ukraine and then from Siberia, via transit through Ukraine, has come to an end. Russia's energy giant Gazprom said gas exports to Europe had been halted from 8am Moscow time (05:00 GMT) as the transit deal had expired⁶. "When (Russian President Vladimir - ed.) Putin was given power in Russia more than 25 years ago, the annual gas transit through Ukrainian territory to Europe amounted to more than 130 billion cubic meters. Today, Russian gas transit is zero. This is one of Moscow's biggest defeats,"⁷ - emphasized President of Ukraine Volodymyr Zelenskyy⁸.

Gaz Pipelines are energy weapon or economy and technology cooperation benefit?

The global community has not had a unanimous answer to this question more than half a century. Following the economic recovery driven by the U.S. Marshall Plan, German industries faced a growing demand for energy resources and initiated negotiations with Moscow for the supply of natural gas from Ukraine. Essentially, this marked a revival of a gas pipeline project originally conceived in the early 1940s.

⁴ Planete-energies.com, *Gas pipelines between Europe, Russia and Caucasia*, April 25, 2022, Available at: <https://www.planete-energies.com/en/media/infographic/gas-pipelines-between-europe-russia-and-caucasia>

⁵ Golosameriki.com, *Україна прекратила транзит російського газу через свою територію*, January 1, 2025, Available at: <https://www.golosameriki.com/a/ukraina-prekratila-tranzit-rossijskogo-gaza-cherez-svoju-territoriyu/7920767.html>

⁶ Aljazeera.com, *Russian gas supply to Europe via Ukraine halted after transit deal expires*, January 1, 2025, Available at: <https://www.aljazeera.com/news/2025/1/1/russian-gas-supply-to-europe-via-ukraine-halted-after-transit-deal-expires>

⁷ Newsukraine.rbc.ua, *Zelenskyy on cessation of Russian gas transit: This is one of Moscow's biggest defeats*, January 1, 2025, Available at: <https://newsukraine.rbc.ua/news/zelenskyy-on-cessation-of-russian-gas-transit-1735750558.html>

⁸ Ibid.

Soviets suffered from steel shortages and did not possess the technical ability to build the large-diameter pipes and compressors that were required for long-distance pipelines. The easiest way to overcome these technical obstacles was by forming partnerships with Western governments and companies⁹.

In 1960, a long-term agreement was signed for the supply of large diameter pipes, but in 1963, the contract was terminated due to the security interests of the allies. At least 40% of the Soviet Union's requirements for large-diameter pipes for the Seventh Five-Year Plan were purchased from West Germany and Sweden. Indeed, West Germany's economy in the 1960s depended more on the USSR as a customer for its steel pipes than it did as a source of energy. Soviet reliance on Western energy technology also included specialized equipment for oil tankers and, in some cases, entire ships.

The United States believed that Europe's deeper involvement in energy transactions with the Soviet Union was potentially dangerous. The US Senate held a series of secret hearings on the topic in July 1962, whereupon Senator Kenneth B. Keating famously exclaimed: "The Soviets are dumping oil at bargain prices throughout the world. This is not dumping for economic reasons but for political and military reasons. They are using oil to buy valuable machinery and know-how from the West in order to produce and distribute oil at a rapidly accelerating rate". Opponents argued that too much dependence on Soviet oil would leave Western countries susceptible to Communist political pressure¹⁰.

The threat of an energy weapon has emerged into international discourse in recent years¹¹. The use of transcontinental gas pipelines by Russia and the threat of their shutdown allowed European businesses to earn super-profits for many years, while governments were able to form social budgets thanks to gas revenues. Officials in Ukraine and other transit countries also received their share of shadow profits from gas transit.

President Volodymyr Zelenskyy said the end of gas transit through Ukraine to Europe was "one of Moscow's biggest defeats" and urged the U.S. to supply more gas to Europe¹². The more there is on the market from Europe's real partners, the faster we

⁹ Connolly D., Lee J., "Pipeline Politics between Europe and Russia: A Historical Review from the Cold War to the Post-Cold War", *The Korean Journal of International Studies*, Vol.14, No.1, 2016, pp.105-129.

¹⁰ Ibid.

¹¹ Esakova N., *European Energy Security: Analysing the EU-Russia Energy Security Regime in Terms of Interdependence Theory*, (Wiesbaden: Springer, 2012), p.280.

¹² Planete-energies.com, *Gas pipelines between Europe, Russia and Caucasia*, April 25, 2022, Available at: <https://www.planete-energies.com/en/media/infographic/gas-pipelines-between-europe-russia-and-caucasia>

will overcome the last negative consequences of European energy dependence on Russia"¹³.

European Gas Market Transformation

By the end of 2024, Ukrainian transit of Russian gas to Europe had fallen to 15 billion cubic meters: 13 billion cubic meters were directed to Slovakia and onward to the EU, while 2 billion cubic meters went to Moldova. Europe now faces the task of addressing this shortfall, either by increasing purchases of liquefied natural gas (LNG) or by cutting overall consumption. Ukraine shut off the gas flow immediately after the expiration of the five-year contract between Naftogaz and Gazprom, cutting Moscow off from an estimated \$5–7 billion in annual revenue. The European Union had prepared for this scenario in advance by developing alternative supply routes and infrastructure for liquefied natural gas (LNG) imports, ensuring the stability of energy supply in the region¹⁴.

The primary affected countries are Slovakia and Moldova, but most notably Transnistria, which relied on heavily subsidized natural gas from the Russian Federation, including for generating and selling electricity abroad. While for Slovakia and Moldova, these issues primarily translate into increased costs, for the residents of Transnistria, they result in real household difficulties during the heating season. Transnistria, suffering from rolling blackouts, is hoping for the prompt resumption of gas supplies as humanitarian aid from Russia. According to reports, Moscow and Tiraspol are exploring the possibility of gas deliveries not through the alternative "Turkish Stream" pipeline, as previously planned, but by purchasing gas on the European spot market through an intermediary company. The costs, in this case, are expected to be covered by the Russian budget. Under this arrangement, gas purchases are tentatively planned from January to April, at a volume of approximately 3 million cubic meters per day. According to estimates, this could cost around \$164 million¹⁵.

Slovakia, meanwhile, is losing approximately 200 million euros annually in revenue due to the cessation of gas transit and will need to procure gas from alternative sources at higher prices. However, the impact is somewhat mitigated by the country's reliance on two nuclear power plants as its main electricity sources. Gas is

¹³ Reuters.com, *Russian gas era in Europe ends as Ukraine stops transit*, January 1, 2025, Available at: <https://www.reuters.com/business/energy/russia-halts-gas-exports-europe-via-ukraine-2025-01-01/>

¹⁴ Newsukraine.rbc.ua, *Zelensky on cessation of Russian gas transit: This is one of Moscow's biggest defeats*, January 1, 2025, Available at: <https://newsukraine.rbc.ua/news/zelensky-on-cessation-of-russian-gas-transit-1735750558.html>

¹⁵ Biz.nv.ua, *Антиукраинская картинка не получилась. России придется заплатить за газ для Приднестровья — росСМИ*, January 16, 2025, Available at: <https://biz.nv.ua/markets/pridnestrove-poluchit-gaz-s-evropeyskogo-rynka-spotov-50482041.html>

primarily used for peak electricity generation, exports, industrial applications, public utilities, and heating¹⁶.

According to Gas Infrastructure Europe (GIE), gas storage facilities across the EU are currently 85% full, about 10 percentage points lower than at the same time last year. This raises concerns for the upcoming winter, noted Commerzbank analyst Barbara Lambrecht, as cold weather is depleting stockpiles faster than during the past two relatively mild winters. In response, the European Commission (EC) recently raised its target for gas reserves, a move that could drive prices higher.

"We won't be able to move away from fossil fuels for a long time," stated former European Central Bank (ECB) President Mario Draghi in a report on Europe's competitiveness published in September. "While energy prices have dropped significantly from their peak, companies in the EU still face electricity costs two to three times higher than in the US, with natural gas prices being four to five times higher," the report highlighted. Currently, gas prices in the EU are nearly five times those in the US¹⁷.

We very much hope for an increase in the supply of American gas to Europe, as President Trump has already mentioned¹⁸- as President Volodymyr Zelenskyy stated, the United States is indeed actively increasing natural gas production and its maritime deliveries, particularly to Europe.

The early winter cold snaps prompted Europe to boost its liquefied natural gas imports to a near one-year high in December, with arrivals of American LNG also at their highest since January 2024. European LNG imports jumped in December to an 11-month high at 10.89 million metric tons, according to data from commodity analysts Kpler, cited by Reuters columnist Clyde Russell. Since 2022, U.S. LNG has played an increasingly bigger role in meeting part of European gas demand after Russia cut off deliveries to most of its EU customers in the wake of the Russian invasion of Ukraine.

Norway has replaced Russia as Europe's top pipeline natural gas supplier, while the U.S. has delivered at least half of the LNG that European countries import¹⁹.

¹⁶ Carnegieendowment.org, *What the End of Ukraine Gas Transit Means for Kyiv, Moscow, and Europe*, January 15, 2025, Available at: <https://carnegieendowment.org/russia-eurasia/politika/2025/01/russia-ukraine-europe-gas-transit?lang=en>

¹⁷ Aktuality.sk, *Cena plynu naďalej trápí európsky priemysel, hrozí nám cenový šok*, December 7, 2024, Available at: <https://www.aktuality.sk/clanok/UHzvWaX/cena-plynu-nadalej-trapi-europsky-priemysel-hrozi-nam-cenovy-sok/>

¹⁸ Link to the post: https://t.me/V_Zelenskiy_official/12885

¹⁹ Oilprice.com, *U.S. LNG Wins Big as Europe Boosts Overseas Gas Imports*, January 8, 2025, Available at: <https://oilprice.com/Energy/Natural-Gas/US-LNG-Wins-Big-As-Europe-Boosts-Overseas-Gas-Imports.html>

Ukraine and the EU gas perspectives

The expert noted that the halt of gas transit was not unexpected for us, as the Russians had stopped transit back in 2006 and 2009. "We had already begun preparing to live without transit. We managed to restructure our system in such a way that gas could be transported not only from east to west but also in the opposite direction—from the west, where our storage facilities are, to the east, where we have a significant number of consumers. Therefore, the system was fully prepared... There is enough gas available, and there will be no 'rolling blackouts.' Ukraine extracts enough gas, we have sufficient gas in our storage facilities, so there will be no problems with gas supply to the population". This opinion was expressed by Serhiy Makohon, the former General Director of LLC 'Gas Transmission System Operator of Ukraine' (2019-2022), in an interview with Ukrainian Radio.²⁰

In recent years, Naftogaz Ukrainy has reported over \$1 billion in gas transit revenues, based on a "ship-or-pay" obligation outlined in a 2019 contract with Gazprom, which committed to transporting a specified volume of gas through Ukraine. However, the reality has been different. Gazprom only paid around \$400 million for the reduced volumes shipped through Ukraine. The Russian company managed to evade the "ship-or-pay" requirement by nominating gas volumes to be transported via the Sokhranovka metering station on a pipeline entering Ukraine through the Luhansk region, which was captured by Russia in February 2022. As a result, Ukraine's gas transmission system operator had to reject this gas, citing *force majeure*, and proposed relocating the nominated volumes to the Sudzha station on a different pipeline. Gazprom, however, used this incident as a justification to lower its "ship-or-pay" obligations accordingly²¹.

Ukraine boasts the largest gas storage facilities in Europe, but its revenue is now likely to suffer due to their inactivity. Transporting gas to storage from Baumgarten in Austria and back would incur a round-trip cost of approximately 50 euros per 1,000 cubic meters, making the operation economically unviable.

The war has severely impacted Ukrainian industry, but consumption can largely be met by domestic production. Therefore, import costs from Europe are not the most urgent concern for Kyiv at this time. The future of utilizing the gas transport system for domestic transit and the potential construction of LNG terminals on the Black Sea near Odessa remains uncertain and will depend on achieving a just and sustainable peace.

²⁰ Ukr.radio, "Україна видобуває та має в сховищах достатньо газу, тому проблем із газопостачанням населенню не буде" — Макогон, January 10, 2025, Available at: <https://ukr.radio/news.html?newsID=106271>

²¹ Carnegieendowment.org, *What the End of Ukraine Gas Transit Means for Kyiv, Moscow, and Europe*, January 15, 2025, Available at: <https://carnegieendowment.org/russia-eurasia/politika/2025/01/russia-ukraine-europe-gas-transit?lang=en>

The EU-Azerbaijan energy cooperation

Diversification of gas supply sources and routes is crucial for long-term energy security. As the Ukraine transit route was cut, the EU supported alternative gas sources (LNG and pipeline gas) from reliable partners such as US, Qatar, Norway and Azerbaijan. It should be emphasized that the EU and Azerbaijan signed a new Memorandum of Understanding on a Strategic Partnership in the Field of Energy in 2022, and in accordance with this document, Azerbaijan will supply 20 billion cubic metres of gas to the EU annually by 2027²², which will contribute to the diversification objectives. It should be emphasized that based on already strengthened energy cooperation, Azerbaijan is increasing deliveries of gas to Europe, from 8.1 billion cubic metres in 2021 to 12.9 billion cubic meters of gas in 2024. Some 42.8 bcm of gas have been supplied to Europe through the TAP to date, since December 31, 2020. Azerbaijan has gas supply contracts with ten European states, namely, Italy, Greece, Bulgaria, Romania, Hungary, Serbia, Slovenia, Croatia, North Macedonia (a memorandum), and Slovakia²³.

Moreover, as stated in the MoU signed between the parties, the EU and Azerbaijan will cooperate and support the development and deployment of renewable energy generation and transmission capacity. Towards this end, the country has strengthened ties with global energy companies such as ACWA Power, BP, TEPCO, and Masdar. For example, in 2023 Azerbaijan opened the 230-MW Garadagh photovoltaic station constructed by the UAE-based Masdar. The goal is to increase the share of renewables in the energy system's installed capacity to 30% by 2030. However, given the current pace at which green energy is developing, this will rise to 32.6% by 2027 and 35% by 2030. Today, it is very obvious that Azerbaijan supports green transition both on the national and regional levels. ²⁴ A 1,155-kilometer-long Black Sea submarine cable (BSSC) that will link the power grids of Azerbaijan, Georgia, and later Central Asia with Europe, creates a strong basis for the "Green Energy Corridor" in the South Caucasus as well as supports the EU's climate goals. It is worth noting that COP29, hosted by Azerbaijan in Baku last year, supports energy transition and deployment of renewable energy resources in the country. Important documents have been signed within COP29 between SOCAR Green LLC, the UAE Masdar company, the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB), and the Asian Infrastructure Investment Bank (AIIB) for the financing of two solar energy projects in Azerbaijan. The total cost of the Bilasuvar (445 MW) and Neftchala (315 MW) solar energy projects, being

²² Ec.europa.eu, *EU and Azerbaijan enhance bilateral relations, including energy cooperation*, July 18, 2022, Available at: https://ec.europa.eu/commission/presscorner/detail/en/ip_22_4550

²³ Interfax.com, *Azerbaijani gas export to Europe grows 9.3% to 12.9 bcm in 2024 - energy minister*, January 9, 2025, Available at: <https://interfax.com/newsroom/top-stories/108958/>

²⁴ Interfax.com, *Azerbaijan plans to commission 7 GW of renewable energy capacity by 2030 - ministry*, September 18, 2024, Available at: <https://interfax.com/newsroom/top-stories/105936/>

financed by EBRD, ADB, and AIIB, will amount to \$670 million. The plants, commissioning of which is expected in 2027, are projected to generate more than 1.7 billion kilowatt-hours of green energy annually, saving 380 million cubic meters of natural gas per year and reducing carbon emissions by 830,000 tons.²⁵

Export of Azerbaijani gas to Europe through Ukraine

After the end of the Russian gas transit era through Ukraine, now one of the most debated topics is possible export of the Azerbaijani gas to Europe through Ukraine. The loud public discussions about the possibility of using the Ukrainian segment of the transcontinental gas transportation system to supply Azerbaijani gas to the European Union began in the fall of 2024 after the speech of the President of Azerbaijan. Ilham Aliyev addressed session on "Azerbaijan's Role in the New Geopolitical Environment" at International Cernobbio Forum, where he stated: "What I can say now to the audience that we have been approached by Russia, Ukraine and European institutions in order to facilitate with the continuation of the gas transit through Ukraine"²⁶. The statement caused a significant reaction in Ukrainian media, with concerns that under the formal name of Azerbaijani gas, the transportation of Russian gas could continue after the expiration of the five-year contract.

During the meeting of President Ilham Aliyev with President Volodymyr Zelensky at the World Economic Forum Annual Meeting 2025 in Davos, the leaders exchanged views on cooperation in the energy sector. After Davos meeting the domestic Ukrainian discussion about the potential use of the Ukrainian gas transportation system resumed.

Also, the statement of Ukrainian President Zelenskyy during his meeting with the President of Moldova, two leaders underlined that "There is gas, there are supply routes from Azerbaijan. The main thing is to have the political will to work for the benefit of your people, not to cooperate with Moscow for some shadow pocket, as some characters in Eastern Europe do"²⁷. Maintaining Ukraine's transcontinental gas transportation system for domestic needs requires significant expenditures, which are further complicated by reliance on foreign aid and loans amidst the large-scale aggression of the Russian Federation and the challenging situation in the energy

²⁵ Minenergy.gov.az, *Financing Agreements for 760MW of Solar Projects were signed*, November 16, 2024, Available at: <https://minenergy.gov.az/en/xeberler-arxivi/00411>

²⁶ President.az, *Ilham Aliyev addressed session on "Azerbaijan's role in the new geopolitical environment" at International Cernobbio Forum*, September 6, 2024, Available at: <https://president.az/en/articles/view/66804>

²⁷ President.gov.ua, *Volodymyr Zelenskyy: Together, Ukraine and Moldova Can Ensure Energy Stability and Normal Electricity Production for the Next 10 Years*, January 25, 2025, Available at: <https://www.president.gov.ua/en/news/volodimir-zelenskij-ukrayina-i-moldova-razom-mozhut-zabezpec-95709>

system for the third consecutive year. However, signing a new gas transit agreement involving gas owned by Russia carries high political costs for Ukraine's leadership, potentially threatening domestic political stability. A potential resolution to this dilemma might be suggested by a new initiative from the European Union. The European Commission will continue talks with Ukraine regarding natural gas supplies to Europe and will include Hungary and Slovakia in these discussions, according to a statement shared by an EU diplomat. "The Commission is ready to continue discussions with Ukraine on the supply to Europe through the gas pipeline system in Ukraine," the statement said. "The Commission is ready to associate Hungary in the process along with Slovakia"²⁸. As a candidate for European Union membership, and with several aid programs suspended by the new administration of U.S. President Donald Trump, Ukraine may find it challenging to decline the proposed negotiations.

Concluding Remarks

Ukraine emphasizes its readiness to act again as a transit country. However, to resume gas supplies to Europe through Ukraine, Azerbaijan also needs to reach an agreement with Russia. This remains a highly complex issue, where all involved parties must demonstrate political will to ensure the success of an economic deal.

In the meantime, the Armenian propagandists and supporters in the West are trying to accuse Azerbaijan of delivering Russian natural gas to Europe. However, the Azerbaijani government and EU officials confirmed that only Azerbaijani gas was being exported to European markets via the Southern Gas Corridor. Tim McPhie, spokesperson for Climate Action and Energy at the European Commission noted that "The Southern Gas Corridor, which supplies the EU markets, is only connected to Azerbaijani gas fields, not to the broader Azerbaijani national gas system. So, the Southern Gas Corridor does not transport Russian gas to the EU"²⁹.

Now, when the transit of Azerbaijani gas to Europe through Ukraine is on the agenda, Azerbaijan faces again accusations, while it was the European initiative to make the Russian gas flow through Ukraine. Therefore, Azerbaijan prefers exporting its gas via the Southern Gas Corridor (SGC) and using the interconnectors to expand the geography of its gas export. Currently, Azerbaijan supplies natural gas to ten European countries, including eight EU member states, using the SGC and interconnectors. Summing up, it should be underlined that Azerbaijani gas can be

²⁸ Reuters.com, *EU Commission says it will continue gas supply talks with Ukraine*, January 27, 2025, Available at: <https://www.reuters.com/world/europe/eu-commission-says-it-will-continue-gas-supply-talks-with-ukraine-2025-01-27/>

²⁹Europe rejects baseless claims on Baku: Azerbaijani gas origins are very clear, 26 Nov. 2024, available at: <https://en.trend.az/business/3975120.html>

delivered to more European countries with additional infrastructure investment, and that is Azerbaijan's preference.

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