Transatlantic Dialogue Center

RESTORATION OF RUSSIAN GAS TRANSIT THROUGH UKRAINE: POLITICAL, ECONOMIC AND GEOSTRATEGIC CONSEQUENCES

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Abbreviations

GTS – Gas Transmission System

LNG – Liquefied Natural Gas

UGSF – Underground Gas Storage Facilities

Executive Summary

This study focuses on the potential implications of resuming Russian natural gas transit through Ukraine – a scenario that is increasingly being discussed in the context of ongoing peace negotiations between Kyiv and Moscow. The study assesses whether such a move would be in line with Ukraine's national interests and Europe's broader energy security priorities.

Following the expiration of the gas transit agreement between Naftogaz, Ukraine's national energy company, and Russia's Gazprom at the end of 2019, Ukraine officially ceased the transit of Russian gas to the EU as of January 1, 2025. This decision marked a significant shift in the European energy landscape.

While the cessation of transit activities resulted in economic losses for Ukraine, it also led to a substantial weakening of the Russian Federation's position within the European energy market. This, in turn, diminished the Kremlin's capacity to utilize energy resources as a political instrument.

Geopolitical shifts: The ongoing Russian aggression against Ukraine, in conjunction with the European Union's (EU) endeavors to diversify its energy sources, has resulted in a significant decline in Russian gas imports. Specifically, Russian gas imports have decreased from 41% of the EU's supply in 2020 to just 9% in 2023. The termination of gas transit through Ukraine at the beginning of 2025 did not result in substantial disruption to the energy security of the European Union. However, it did result in the Russian Federation's loss of revenues from gas sales.

Economic impact for Ukraine: Termination of transit will cost Ukraine up to $1 billion a year in lost revenue. Additionally, gas reserves had fallen to just 0.7 billion cubic meters as of April 2025 due to a decline in domestic production resulting from Russian attacks, leading to escalating gas import costs for Ukraine.

Alternative gas transit scenarios: Scenarios involving the use of Azerbaijani gas, direct booking by European companies of transit capacities, or strategic cooperation on utilizing Ukraine's underground gas storage facilities are considered, but each faces technical, legal, or geopolitical obstacles.

Introduction

The transit of Russian gas through Ukraine has long been key to supplying Europe with energy and has played a crucial role in shaping the energy security of the European Union.

On January 1, 2025, Ukraine ceased the transit of Russian gas to Europe following the expiration of a five-year agreement between Ukrainian Naftogaz and Russian Gazprom.

In the context of the process of peaceful settlement between Ukraine and the Russian Federation through the mediation of the United States of America, the issue of resuming the transit of Russian gas becomes relevant. In light of the ongoing efforts to establish peace in Ukraine, there is a growing sentiment that gas transit through Ukraine may resume. Due to the divergent interests of the key stakeholders (Ukraine, EU, USA, and Russia), there is significant uncertainty regarding the future use of the Ukrainian Gas Transmission System (GTS) for gas transit.

The objective of this study is to conduct a thorough analysis of the issue of resuming Russian gas transit and determine if such a decision aligns with Ukraine's and its partners' strategic interests. It asserts that the resumption of transit operations could potentially compromise Europe's energy security and diminish Ukraine's standing in the ongoing conflict with Russia.

Geopolitical context

To objectively assess the prospects for resuming the transit of Russian gas through the territory of Ukraine, it is necessary to take into account the wider geopolitical context in Europe and the positions of key countries that shape energy and security policy on the continent.

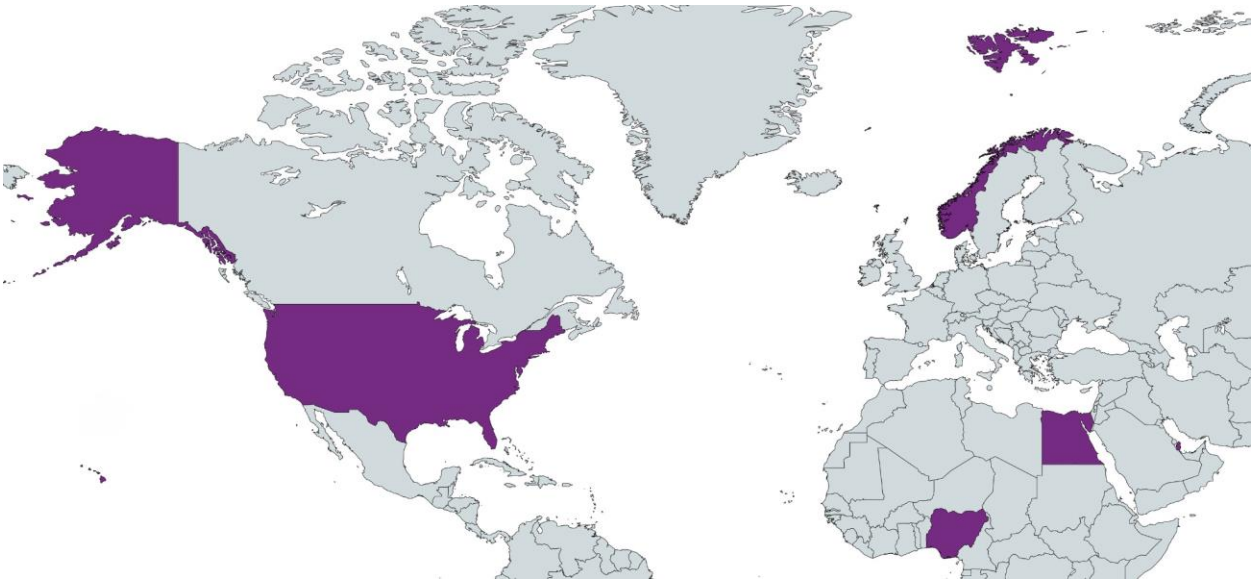
Until 2022, Ukraine's gas transmission system served as a major conduit for Russian gas exports to the European Union. For many years, it has provided transit with a volume of up to 90 billion cubic meters of gas annually, bringing more than a billion dollars of annual revenues to the budget of Ukraine. [33] However, even before the full-scale war, this system represented a persistent source of geopolitical instability. During the gas disputes of 2006 and 2009, the Kremlin cut off supplies, using it as a lever of influence on Kyiv in matters of pricing, debts, and transit conditions. These actions directly impacted the interests of European Union countries, including guaranteed access to energy resources, stable supplies during the winter period, and preventing the use of energy as a political tool in the region.

The European Union, aware of the vulnerability of such dependence, has gradually taken measures to diversify the sources of energy supply. Despite adopting a diversification back in the 2010s, progress in reducing dependence on Russian gas was limited [42]. The EU's efforts to open up new natural gas routes and suppliers have faced technical, political, and financial obstacles. For example, although the Southern Gas Corridor for imports from Azerbaijan was

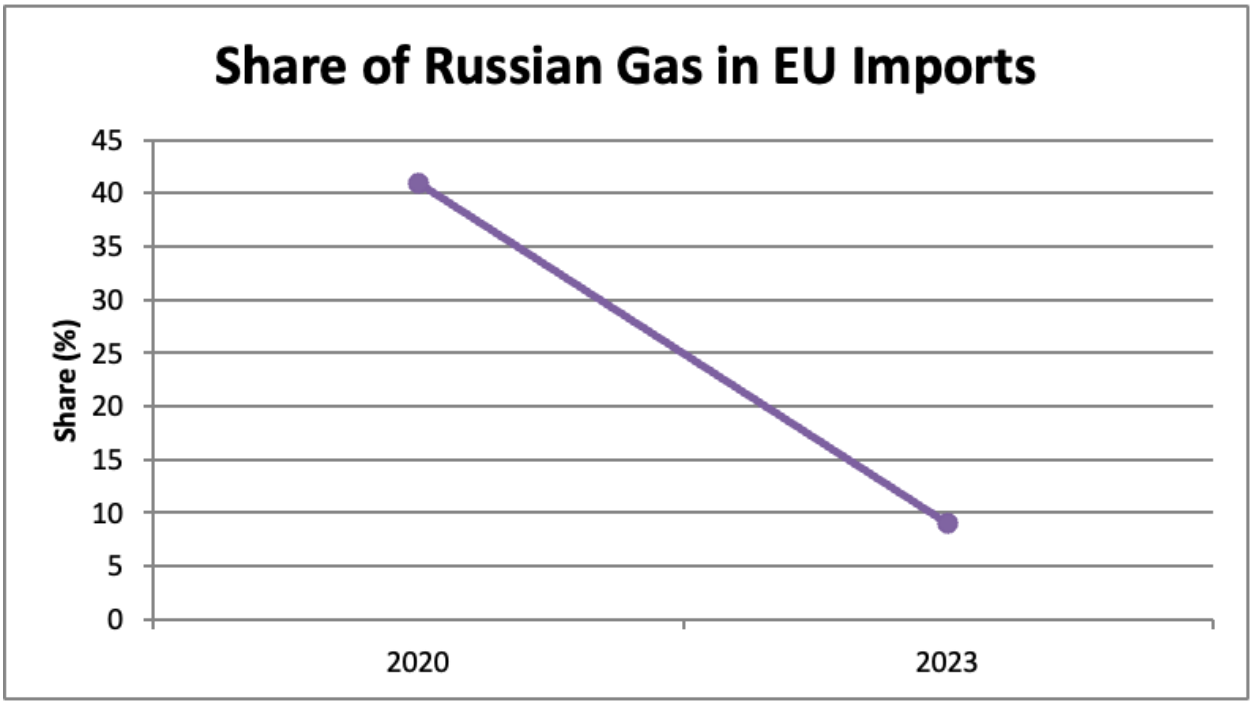
supported by the EU back in 2008, the actual launch of the Trans Adriatic Gas Pipeline took place only in December 2020 [43]. Supplies from Algeria through the Medgaz and TransMed gas pipelines remained stable, but their capacity did not allow for full compensation for Russian imports [44].

Projects for the development of liquefied natural gas (LNG) terminals have also been implemented, in particular, in Lithuania (terminal in Klaipeda, 2014), Poland (Swinoujscie, 2016), and Croatia (island of Krk, 2021). However, the level of use of LNG infrastructure remained relatively low, and the share of LNG in total EU gas imports was limited until 2022.

The most significant transformation occurred during the 2021-2022 period, when, in the context of the energy crisis and Russia's full-scale invasion of Ukraine, the EU significantly increased its efforts to reorient imports. Alternative sources included Qatar, the United States, Nigeria, and Egypt, in addition to increased supplies from Norway, which was already a major supplier. In response to these challenges, concerted efforts were made to enhance the infrastructure of natural gas transmission systems. This included the expeditious construction of new LNG terminals, particularly in Germany, the expansion of interconnectors, and the review of contracts with key suppliers.



These steps gave a noticeable result: the share of Russian gas in EU imports fell from 41% in 2020 to just 9% in 2023. At the same time, the share of transit through Ukraine fell to a historic low – up to 5% of total imports. The main consumers were Austria, Hungary, and Slovakia, where the share of Russian gas through Ukraine in 2024 ranged from 65% to 78% of gas imports, which corresponded to 12–22% of their total energy consumption [8].



The termination of transit on January 1, 2025, occurred amid the EU's relative preparedness. The filling rate of gas storage facilities in Europe was 71.8% at the beginning of the year – a quite acceptable indicator [8]. Gas prices rose to €51 per megawatt hour in January 2025 – moderately enough against the background of peak values of more than €300 in 2022, which emphasizes the declining role of the Ukrainian route in the EU energy balance.

At the same time, the most dramatic impact was on Moldova – in particular, on the Russian-controlled Transnistrian region of the Republic of Moldova, which was 70% dependent on subsidized Russian gas supplied through Ukraine. From January 1, 2025, this region was left without gas due to the lack of an alternative route. As a result, industrial production stopped, massive power outages began, and Moldova declared a state of emergency in the energy sector, introducing rationing. [8]

The halt of transit also dealt a significant blow to **Ukraine's** economic interests. In recent years, Naftogaz of Ukraine has consistently received revenues of more than $1 billion annually on the "send-or-pay" principle enshrined in the 2019 transit contract [34]. However, with the beginning of Russia's full-scale invasion, the situation has changed: since 2022, Gazprom has actually transferred only about $400 million per year [35]. This reduction was a result of Russia's manipulation of transit routes, specifically via the Sokhranivka entry point in Russian-occupied Luhansk, which the Ukrainian GTS operator refused to use, citing force majeure. Ukraine offered an alternative route through the Sudzha station, but Gazprom rejected it and used this as justification for reducing payments.

Consequently, Naftogaz sustained significant financial losses, amounting to hundreds of millions of dollars, and is currently pursuing recourse through international arbitration. However, even in the event of a favorable ruling, the repatriation of these funds before the conclusion of the war appears improbable. This imposes significant constraints on Ukraine's resource capacity, particularly in the context of mounting budgetary pressures and reliance on Western financial assistance.

Another important element of the Ukrainian energy infrastructure is the system of underground gas storage facilities – the largest in Europe. Previously, these storages were actively used for seasonal storage of gas, including transit gas. With the termination of transit, they lose a significant part of their economic function. Alternative logistical options, such as transporting gas from the Baumgarten hub in Austria to Ukraine and back, add approximately €50 per thousand cubic meters – costs that make the operation unprofitable for European companies.

Until recently, Ukraine imported minimal volumes of gas, covering domestic consumption mainly due to its own production, which became possible against the background of a decrease in demand due to the destruction of industry and energy infrastructure. However, the situation changed radically at the beginning of 2025. In February, Ukraine imported 511.8 million cubic meters of natural gas – the highest monthly figure since September 2023. Compared to January, the volume of imports increased 12 times [35]. The main reason was the reduction in domestic production as a result of massive Russian attacks on gas production infrastructure. In addition, the growth in demand was affected by cold weather and smaller stocks in storage facilities. The bulk of imports was carried out by Naftogaz Group and private companies. [17]

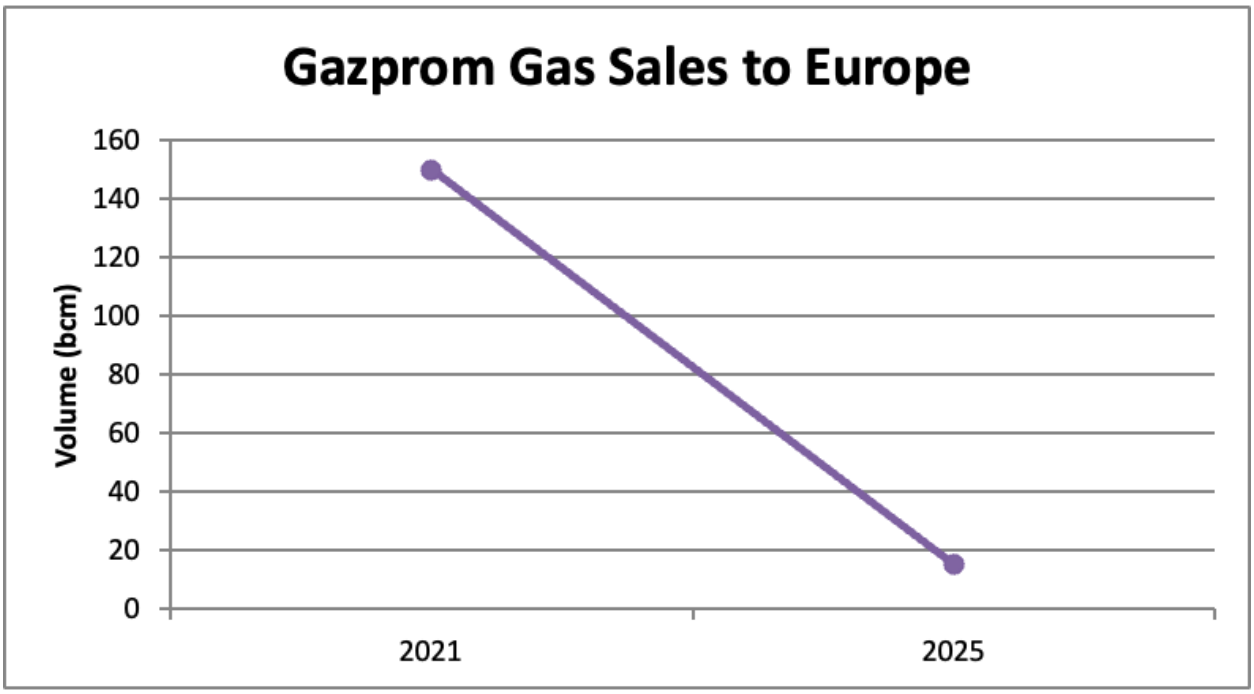
In previous years, Ukraine implemented a virtual reverse mechanism: European traders engaged in the commercial sale of gas to Ukraine, yet refrained from direct physical transportation, given the ongoing influx of Russian gas into the system. This development enabled significant cost savings in transportation expenses and facilitated the effective utilization of the Ukrainian GTS. In the event of transit termination, the efficacy of such a scheme is nullified. Should the need for gas importation from the European Union persist in Ukraine, the associated supply costs are likely to escalate. This is due to the necessity of physical transportation, both through Slovakia and within Ukraine, which incurs additional expenses.

Thus, Russia's aggressive actions – the use of energy as an instrument of pressure, manipulation of supply routes, non-performance of the contract and shelling of gas production infrastructure – as well as Ukraine's refusal to renegotiate a transit agreement with Gazprom within the framework of a five-year contract in 2019, caused by Russia's full-scale invasion, deprived Ukraine of an important source of income. This significantly complicated the further use of its gas transmission system and underground storage facilities. [36, 37, 38, 39, 40, 41]. ***This creates a need not just***

for adaptation, but for a complete rethinking of the role of the GTS in the new European energy architecture [9].

Despite the serious losses of Ukraine – both financial and infrastructural — **the Russian Federation** itself suffered the greatest losses from the termination of transit of the Ukrainian GTS.

In 2021, Europe was the main sales market for Gazprom – more than 150 billion cubic meters of gas were supplied to the EU countries alone. After the outbreak of a full-scale war and the imposition of sanctions in 2022, this volume decreased sharply. As of 2025, Russian pipeline exports are only 78 billion cubic meters: 38 to China, 25 to Turkey and only 15 to Europe through the Turkish Stream.



Transit through Ukraine, which previously provided another 15 billion cubic meters annually, has been completely stopped. Thus, total losses account for more than 80% of pre-war exports to the EU. This significantly weakened Russia's position in the European gas market. And although the lost Ukrainian route is no longer critical in the current export structure, it leaves Russia increasingly dependent on individual partners and limits the possibilities for maneuvering in supply [42, 43, 44].

Furthermore, a portion of the "lost" gas persists in flowing into the Russian-controlled Transnistrian region of the Republic of Moldova, operating under conditions that have historically lacked transparency and have likely yielded substantial financial benefits for this particular client.

Consequently, Russian gas exits the Russian Federation without a guarantee of payment, exacerbating Gazprom's financial losses.

According to the company's reporting for the nine months of 2024, these changes led to a decrease in revenues from gas sales by about 10%, and profits by almost 50% [45]. In 2025, the situation is partially balanced by the growth of supplies to China, but it will not be possible to fully compensate for the loss of the European market. Although Gazprom will save on non-payment of export duty for lost supplies – and this is about 30% of the sale price – this saving will not cover the total losses, because production costs will only slightly decrease, and profits have almost halved.

All this emphasizes that despite the official rhetoric about "reorienting to the East", ***it was Russia – and, in particular, Gazprom – that paid the highest price for stopping gas transit through the Ukrainian GTS.*** [10]

Interests of other countries

Beyond Ukraine, there are other major geopolitical players who are not interested in restoring Russian gas supplies to Europe. Among them, the **United States of America** plays a key role. The United States not only actively supports reducing the EU's dependence on Russian energy but has also emerged as a principal beneficiary of the new energy landscape. In 2023, American LNG accounted for 45% of the EU's gas imports. This increase in exports was one of the factors shifting global trade routes — a significant part of the LNG, which previously went to Asia, was redirected to Europe, contributing to a two- to fourfold increase in LNG traffic through the Panama Canal during certain periods.

A sharp decrease in the supply of Russian gas to the EU through the Ukrainian route increased demand for American LNG, which not only stimulated domestic production in the United States but also strengthened its leverage over European energy policy [46].

The European Union is working to increase purchases of American LNG through a "demand aggregation" mechanism, whereby gas requests from member states are pooled to improve collective bargaining power. This allows the EU to increase its bargaining power in the global gas market. The United States uses this to strengthen its trade and economic position, and the European Union, in turn, is interested in reducing dependence on Russian gas after the outbreak of the war in Ukraine. [11] Dependence on Russian energy carriers poses a security challenge not only in the context of aggression against Ukraine, but also because of the possibility of political pressure, energy blackmail, and potential destabilization of the energy systems of individual EU countries. This is especially true for players who are still storing or even increasing imports of Russian gas. Efforts to phase out Russian gas imports are part of a broader strategy aimed at eliminating such dependence and strengthening the EU's strategic autonomy. [17]

After the EU's active efforts to diversify energy supply sources and significantly reduce dependence on Russian gas, an important aspect is the position of European leaders, which is vividly demonstrated by former Vice-Chancellor of Germany Robert Habeck. He categorically rejects the possibility of resuming the transit of Russian gas through gas pipelines such as Nord Stream, which would be a step back in Europe's strategic course. Habeck stressed that discussion of such an idea is unacceptable as long as Russia continues its aggression against Ukraine, and pointed to the risks of returning to energy dependence on Moscow. In addition, **Germany** and other European countries are actively switching to alternative sources of energy supply, among which gas from Norway occupies a special place. This position reflects an attempt to preserve the progress made over the past three years in abandoning Russian energy carriers and reducing financial flows that could support the war in Ukraine. [12]

However, against the background of the general rejection of Russian gas in Europe, there are countries that are moving in the opposite direction.

One such country is **Hungary**, whose position is radically different from that of most European leaders.

Hungary, led by Prime Minister Viktor Orbán, continues to capitalize on the economic opportunities presented by Europe’s energy crisis. His motto, "Never lose a good business opportunity," has become a kind of guide for the country's government, which continues to actively cooperate with Russia in the energy sector despite the pan-European policy of abandoning Russian energy resources.

In 2021, Hungary concluded an agreement with Russia that ensures the supply of 4.5 billion cubic meters of gas through the Turkish Stream gas pipeline for 15 years [36]. This gas pipeline allows Hungary to bypass the territory of Ukraine, reducing the risks of energy disruptions due to geopolitical problems, and ensures the stability of energy supply.

However, Hungary stands to gain even more from a unique cooperative scheme with Russia. In an effort to align with prevailing market conditions within the regional context, Gazprom offered additional gas at discounted rates under a flexible pricing scheme, allowing Hungary to secure more favorable terms than those in its long-term contract. Concurrently, Hungarian gas traders profit from the resale of gas, while the government accrues additional revenue through taxation. The implementation of such a scheme has the potential to yield substantial benefits for all participants. The Russian Federation stands to benefit from the sale of its excess natural gas, while the Republic of Hungary secures a reliable and lucrative supply.

An important component of this benefit is that for Hungary, purchasing gas from other sources is much more expensive due to its geographical location. The country is in the middle of Europe, and transporting gas from other regions, such as Norway or Qatar, requires significant additional costs. Russian gas comes through direct gas pipelines, which avoids high transportation costs

and ensures the stability of supplies. Thus, the Hungarian economy benefits not only from discounts on gas but also from minimizing the cost of its transportation. [13]

The situation with Slovakia and the government of pro-Russian Prime Minister Robert Fico is very similar.

Slovakia, under the government of pro-Russian Prime Minister Robert Fico, expressed strong opposition to Ukraine's decision to end transit. Fico's government accused Kyiv of harming Slovakia by refusing to extend the agreement, which caused a loss of gas transit revenues and increased costs for alternative supplies. Fico estimated the country's economic losses to be €500 million and threatened to limit both commercial electricity supplies to Ukraine and emergency aid [14]. At the same time, Ukraine argues that the termination of transit deprives Russia of important revenues and is part of a strategy to counter aggression. However, Slovakia's dependence on Russian gas undoubtedly increases political tensions in relations with Ukraine and other European partners.

Finally, in order to fully understand the specifics of Russian gas supply to Europe through a single operating pipeline, it is also important to take into account Turkey's position.

Turkey is pursuing its long-standing ambition of becoming a regional energy hub, despite lacking significant domestic hydrocarbon reserves.

With the beginning of Russia's full-scale invasion of Ukraine, Turkey has received new opportunities for the development of its gas hub. After Europe significantly reduced its imports of Russian gas, Turkey became strategically important for securing alternative supplies. In the second half of 2022, Russian President Vladimir Putin expressed support for the Turkish gas project, seeing it as a way to supply gas to Europe through Turkey, in particular to the Western Balkans.

For Turkey, this project is beneficial because it allows you to control gas flows and set your own conditions for re-export. With the increase in gas production from new fields in the Black Sea, Turkey will be able to reduce its dependence on imported gas, which will allow the export to the European market of gas residues that are not used for domestic consumption.

Turkey has already taken concrete steps towards the implementation of its energy hub by concluding several agreements with neighboring countries. In January 2023, a contract was signed with **Bulgaria** (1.5 billion cubic meters/year), and in August of the same year, an agreement with Hungary on supply (0.3 billion cubic meters/year). These agreements testify to Turkey's desire to consolidate its role in the European energy market, despite political and technical difficulties [15].

Impact of the geopolitical context on the negotiation process

Potential negotiations on the resumption of Russian gas exports to the EU could become a pivotal element of any peace settlement of the war in Ukraine, but this process entails significant geopolitical contradictions and economic risks. Support for the idea of resuming Russian gas supplies from Hungary and Slovakia [40, 41] indicates the desire to reduce energy prices, which has become critical for Europe due to high energy costs. This could also be an incentive for Moscow to sit down at the negotiating table, as the resumption of gas exports will significantly increase Russia's revenues, which were lost due to the cessation of transit through Ukraine.

However, the resumption of Russian gas supplies is causing a serious negative reaction among the Baltic countries, Poland, and Italy, which are actively working to reduce dependence on Russian energy resources [42, 43]. Particularly vulnerable are the Baltic countries, which, due to their proximity to the Russian Federation, feel threatened by the latter's security and understand that economic stabilization through the restoration of revenues can contribute to the further arming of the country and the restoration of the conflict. For example, Lithuania completely abandoned Russian gas in 2022 [44]. However, the lack of consensus on Russian gas creates significant tension between EU member states, as lower energy costs can be achieved by stabilizing Moscow's revenues, which in turn can contribute to the continuation of the conflict.

Given these factors, it can be assumed that any negotiations on the resumption of Russian gas supply will strongly depend on the geopolitical situation and energy needs of Europe. In the event of a peace agreement, the issue of energy supplies from Russia to the EU will become an important part of discussions on long-term stability and the restoration of economic ties between Ukraine, Russia, and the European Union. [16]

Positions of key stakeholders

The European Commission, along with the majority of EU member states, was prepared for Ukraine’s decision not to extend the transit agreement with Russia. This aligns with the EU’s REPowerEU target to phase out Russian gas imports by 2027 [1]. However, some individual countries, including Hungary, remain skeptical about this approach. In addition, some EU member states, including Slovakia, Austria, the Czech Republic, Hungary, Croatia, Slovenia, and Italy, still rely, to varying degrees, on Russian gas transiting through Ukraine. For some of these countries, retaining the ability to import gas from Russia through Ukrainian pipelines is cost-effective; others, such as Slovakia, continue to benefit financially from transit. For example, Slovak Prime Minister Robert Fico demands that Ukraine resume gas transit [2].

The United States supports the end of Russian gas transit through Ukraine, viewing it as a step toward reducing European dependence on Russian energy. President Donald Trump has emphasized a commercial interest in promoting American LNG exports to Europe [3, 4].

Ukraine does not currently exclude the possibility of resuming Russian gas supplies after the end of the war. In addition, the resumption of transit can be economically beneficial for the country not only because of the transit fee, but also because now Ukraine is forced to cover its own gas deficit due to expensive imports from Poland, Slovakia, and Hungary [5].

Russia is interested in resuming gas transit to Europe through Ukraine [6]. It is currently taking steps to include the issue of gas transit in future peace talks. To do this, Russia sent attacks on the gas sector of Ukraine. This happens at a very unusual time, as the heating season is coming to an end. Accordingly, these actions by Moscow are part of a broader strategy to make gas transit an important item on the agenda of peace negotiations [7].

Political consequences

According to Ukraine's Minister of Energy, Herman Halushchenko, the decision to stop the transit of Russian gas through the GTS of Ukraine is due to national security interests [18]. Ukrainian President Volodymyr Zelenskyi called the move “one of Moscow's biggest defeats,” viewing it as part of a broader struggle to weaken Russian influence in Europe [19]. The termination of gas transit gave Ukraine the opportunity to eliminate one of the mechanisms of Russia's political influence.

Ukraine has achieved a number of political advantages with this pragmatic step. In particular, the termination of transit made it impossible for the Russian Federation to use it as a lever of political influence. This, for example, partially contributed to the general trend of a decrease in the level of trust in Orban's government party – Fidesz – to a record low over the past 10 years (36% as of April 18, 2025) and had a significant impact on political stability in the state [20]. Currently, Hungary has tense relations with Ukraine; the Orban government regularly blocks and slows down decisions on the provision of military and financial assistance from the EU. Accordingly, provided that the current political course is maintained, Hungary will continue to slow down the process of Ukraine's accession to NATO and the EU. Thus, ***the termination of transit contributes to the elimination of the old system of dependencies***, in which the Russian Federation used energy resources as an instrument of political influence, in particular to support friendly regimes, such as in Hungary.

It is important that the termination of gas transit will not affect Ukraine-EU relations, since it has not caused significant damage to the interests of the European Union. The consequences of the termination for European energy security are manageable, as member states prepared for it and took care of alternative sources in advance. On the eve of the termination of transit, Europe's gas storage facilities were filled by 73.55% [21]. In addition, given the European Union's goal of ending dependence on Russian fossil fuels by 2027, this decision could accelerate Europe's transition to green energy sources. In the long term, this step may accelerate Europe's complete rejection of Russian energy carriers and thereby reduce Russia's ability to use energy exports as an

instrument of political coercion, which will increasingly weaken Russia's influence on the world stage.

Potentially, there is also an important long-term consequence – ***the deepening of the integration of the Ukrainian gas system into the European market***. Of course, most of the GTS of Ukraine will no longer be used, but the main focus in the future is likely to be on the use of the huge capacity of Ukrainian gas storage facilities to ensure energy stability in Europe. The GTS of Ukraine is very valuable in the context of transforming Ukraine, which has the largest gas storage facilities in Europe, into a gas hub.

Ukraine hosts the largest underground gas storage facilities in Europe, with a total capacity of 30.95 bcm – the third-largest globally. Roughly 10 bcm can be offered to EU partners. Having provided its own needs, the country is able to offer European partners about 10 billion cubic meters for gas storage. 80% of Ukrainian storage facilities are located in the western regions, which provides convenient logistics for the EU countries. In addition, such facilities have significant geographical advantages in terms of security: they are located at a considerable distance from the combat zone and are located at a depth of 400 to 2,000 meters, which complicates their destruction even under conditions of active shelling. The use of Ukrainian UGSF also opens up attractive economic opportunities. European companies can buy gas in the summer at lower prices, store it in Ukraine, and in winter – use or sell it, taking into account seasonal price increases, making a profit on the price difference [51].

After the loss of the European market, the Russian Federation is stepping up its efforts to reorient gas exports to the East. Russia is looking for opportunities in another key market: Asia, particularly China, where gas demand is growing faster than in Europe. Currently, Asia consumes 32% of the total volume of Russian gas exports, of which 73% is accounted for by China [22]. These shares are expected to grow in the coming years. Russia is building its new gas strategy around the Power of Siberia pipeline. It is planned that gas exports to China by this pipeline should reach 38 billion cubic meters per year by the end of 2025, with a potential increase of another 10 billion cubic meters through the Far East network [23].

It is worth emphasizing that this step of Russia regarding the reorientation of exports to the east is situational. Compared to other well-known exporters in the region, Russia is a relative newcomer entering an already busy market. In turn, increasing gas supplies from the Russian Federation to the PRC will not solve the strategic problems of Russian energy exports, since China has a wide range of gas sources, including domestic production and imports from Central and East Asia, as well as from LNG exporting countries such as the United States, Australia, and Qatar. In addition, China's energy security objectives focus on a diversified import portfolio [22].

In conclusion, Ukraine’s decision to terminate Russian gas transit was politically motivated, with both practical and symbolic implications. Despite economic losses of up to $1 billion annually, the move aligns with broader national security objectives.

Economic consequences

Despite the halt in the transit of Russian gas, Ukraine successfully passed the heating season of 2024-2025 due to the accumulated 12.2 billion cubic meters in underground gas storage facilities (UGS). However, stopping transit will have long-term economic consequences.

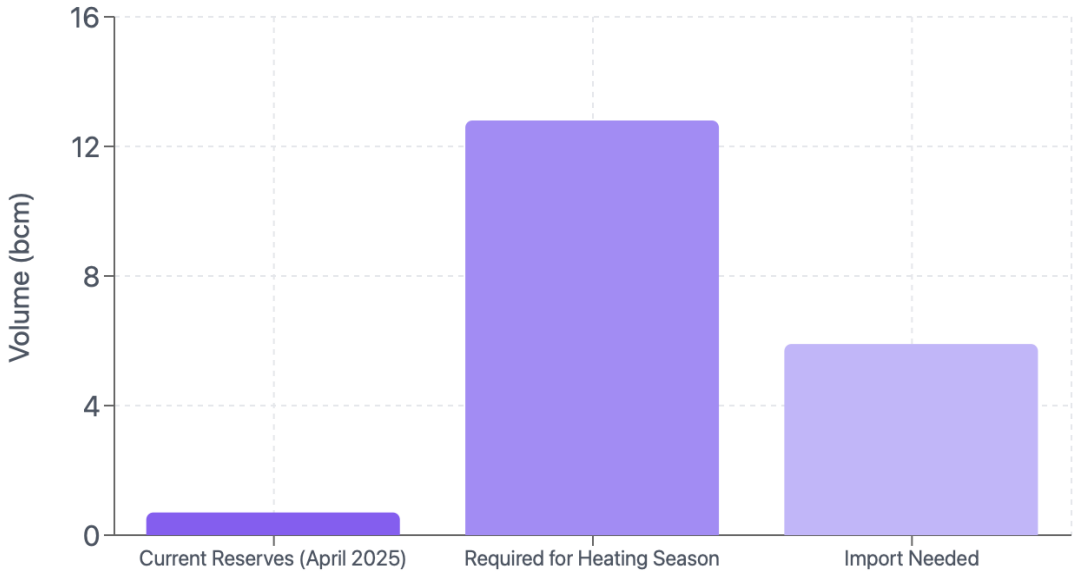
Losing transit country status is expected to cost Ukraine around $7 billion in revenue, though a portion was previously used to service the GTS. In the event of non-renewal of the contract, the financial burden is transferred to domestic consumers. Tariffs for gas and its transportation are likely to increase for both households and businesses. The primary responsibility will fall upon Naftogaz, along with the GTS operator, which has received its allocated share of revenues.

A separate risk is the reduction of gas volumes in the system: for the stable operation of the GTS, it is necessary to maintain a minimum of 27 million cubic meters per day. In the absence of transit, these volumes will have to be covered by the purchase of imported gas, which is more expensive, especially in conditions of limited financial resources. Ukraine continues to rely heavily on international financial assistance to maintain its energy balance [30].

Moreover, the loss of the transit role also increases the vulnerability of Ukraine's energy infrastructure to further Russian attacks. The Russians no longer need to maintain the integrity of the main gas pipelines. This engenders further hazards to energy security, particularly in circumstances of severely diminished reserves and constrained resources for their replenishment [24].

Ukraine faces serious risks due to low gas reserves in storage facilities and the need for significant imports to cover needs for the next heating season. As of April 2025, reserves in underground storage facilities have decreased to a critically low level – only 0.7 billion cubic meters, which is 2.22% of the total capacity [25]. For a stable passage of the heating season, it is necessary to accumulate at least 12.8 billion cubic meters of gas, of which 5.5-6.3 billion cubic meters will have to be imported. This import will cost Ukraine $2.5-3 billion [26]. import will cost Ukraine $2.5-3 billion [26]. Minister of Energy of Ukraine Herman Halushchenko said that as of June 2025, 2.9 billion cubic meters of gas have already been contracted [50].

Gas Volumes (billion cubic meters)



Key Indicators

Current Reserves
0.7 bcm
2.22% of total capacity

Requirements for the heating season
12.8 bcm
Minimum for stable heating season

Required Import
5.5-6.3 bcm
To reach target level

Import Costs
2.5-3 billion USD
Estimated total cost

Therefore, the state of Ukraine will continue to be dependent on the procurement of natural gas from foreign entities. This dependency increases the risks to energy security and creates an additional financial burden on the state budget. In the absence of adequate funding and a diminished level of domestic production, the country may be compelled to explore alternative financing options or to augment its external assistance to ensure the security of its gas reserves. This has led to an increased reliance on external support, particularly in light of the shift in the European gas market structure following a decrease in Russian supplies.

By 2022, Gazprom supplied about 150-155 billion cubic meters of gas to the EU annually, of which 90 billion cubic meters were transported through the Ukrainian gas transportation system in 2019. After the start of the full-scale invasion, Europe gradually abandoned Russian gas, replacing it partially with liquefied natural gas (LNG) supplied by tankers. Taking into account LNG, Russia provides only 15% of gas supplies to Europe, 30% is supplied by Norway, and 19% by the United States. The EU is actively moving towards the goal of complete abandonment of Russian gas by 2027 [27].

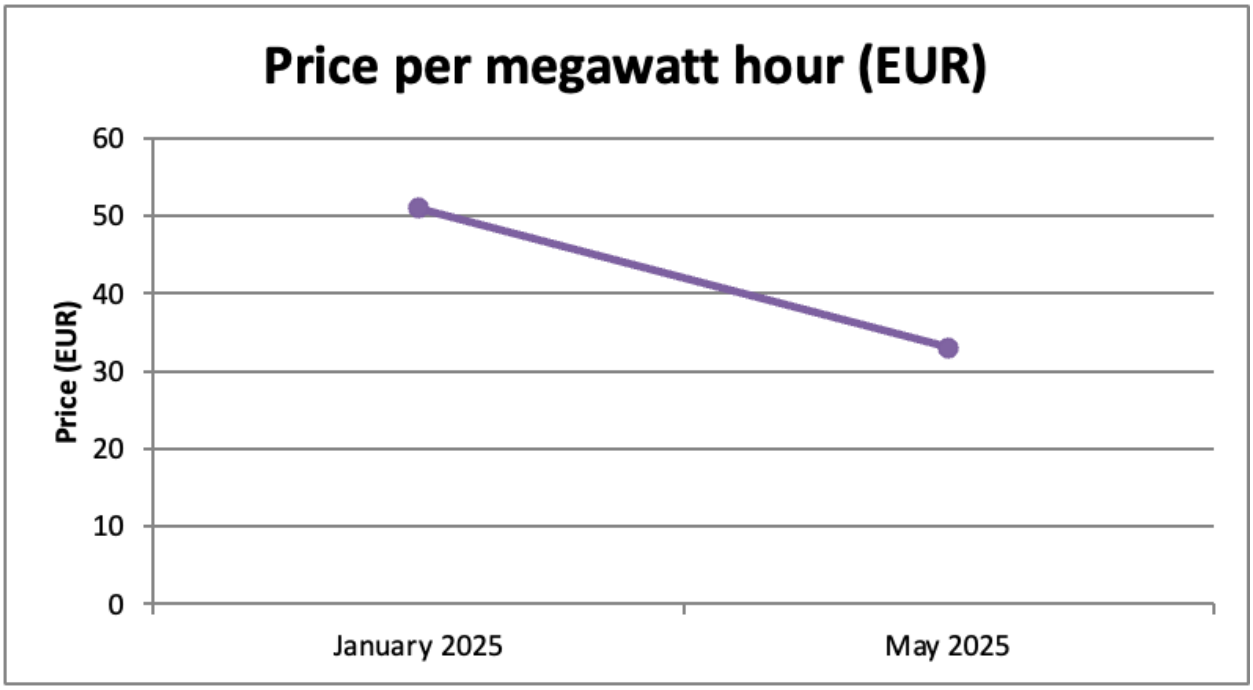
Notwithstanding the diversification of supplies, certain countries continue to exhibit a heightened degree of reliance on Ukrainian transit, namely Hungary, Slovakia, the Czech Republic, and Austria. However, following the termination of Russian gas transit through Ukraine, these countries encountered novel challenges in the EU gas markets. In January 2025, European gas prices spiked to €51/MWh — the highest level since October 2023. This represents the most substantial rise in gas prices since October 2023. The primary factor contributing to this increase is the current lack of alternative supply routes, which has led to a substantial increase in the cost of gas [28].

The loss of Russian supplies may accelerate the depletion of gas reserves in storage facilities. Europe's gas reserves are already declining at the fastest rate since 2021. Although Europe is unlikely to run out of gas during the winter of 2025-2026 due to available reserves and alternative supplies, the problem of replenishing storage facilities before the next heating season remains relevant. Projected gas prices in the summer of 2025 exceed projected prices during the winter of 2025-2026, which will make it difficult to replenish reserves before the start of the heating season [29].

Nevertheless, the short-term economic losses incurred due to elevated gas prices are negligible when juxtaposed with the political dividends and long-term economic stability that have been reaped. The EU's strategic shift away from reliance on Russian gas has been identified as a key factor in enhancing energy security, mitigating geopolitical risks, and fostering stable development prospects.

In general, although immediately after the cessation of Russian gas transit through Ukraine, gas prices in Europe increased significantly (€51 per megawatt hour), in early May they decreased to €33 per megawatt hour [32]. This clearly confirms that the termination of transit did not cause

significant financial losses, and in addition, it also brought Europe one step closer to complete abandonment of Russian gas.



Possible scenarios

It is apparent that only two scenarios are possible: the restoration or non-restoration of transit. The prospect of restoring Russian gas transit through Ukraine's GTS appears improbable, as neither Ukraine nor the majority of EU countries demonstrate a clear interest in such a restoration. Nevertheless, it is imperative to acknowledge the efforts of US President Donald Trump, who has expressed a strong commitment to the prompt conclusion of a peace agreement between Russia and Ukraine. In the context of potential agreements, Russia may endeavor to maintain or at least safeguard its gas sales to Europe, a market that has historically been its most significant.

European Energy Commissioner Dan Jorgensen has stated that the EU will not resume imports after any potential deal is concluded [35]. Accordingly, **the most likely development is not the resumption of transit.**

Although in this case there will be challenges both for Ukraine and for Europe, for which plans to completely abandon Russian gas are a rather difficult task, Ukraine and the EU member states are ready for this step. On May 6, 2025, the European Commission published a roadmap for phasing out imports of Russian oil and gas [33], and in June 2025, the European Commission plans to propose legislative measures to ban imports of Russian pipeline gas and LNG under existing contracts by the end of 2027 [34]. The EU executive will also propose to ban the

conclusion of new Russian gas purchase agreements and existing spot contracts until the end of 2025 [35]. Of course, such member states as Slovakia and Hungary strongly opposed the proposed ban [36]. However, the proposal of the European Commission requires only a qualified majority in the European Parliament for approval, which means that these two states will not be able to block it [35].

In fact, for the EU, the priority at the moment is not to restore the transit of Russian gas, but to further diversify the sources of supply. The strategic goal is to minimize any form of dependence on the Russian Federation. Accordingly, there is a benefit for Ukraine in this context, as the more diversified the sources and supply routes, the less vulnerable Europe becomes to external pressure. And this logic will work in favor of Ukraine in the negotiation process.

At the same time, potential mechanisms that could at least partially preserve transit through Ukraine without Russia's direct participation are still being discussed

Scenario 1

One of the scenarios for the continuation of gas transit from Russia through Ukraine is the conclusion of direct contracts between European companies for the supply of gas with both Gazprom and the Ukrainian side. In this case, European companies "take" gas on the Russian-Ukrainian border and independently agree with Kyiv on its further transportation to the west [31]. Such a scheme avoids direct Russian control over transit through Ukraine, but requires significant changes in contracts and supply mechanisms.

Scenario 2

Another scenario is the purchase by European companies of Azerbaijani gas, which is transported through Russia and Ukraine to Europe [31]. However, there is currently no direct gas pipeline from Azerbaijan to Ukraine, which complicates this option. In this case, Baku will act as an intermediary, buying gas from Russia, concluding a transit agreement with Ukraine and selling it to Europe as Azerbaijani. However, such a scheme carries geopolitical risks, given Azerbaijan's close political ties with Russia.

Scenario 3

The third scenario is the storage of gas in Ukrainian underground storages (UGS), which can be used if necessary by gas owners. Ukraine made this proposal to both Azerbaijan and Slovakia. Under this mechanism, Azerbaijan can pump gas into underground gas storage facilities in Ukraine and sell it on the European market, depending on demand. Slovakia can buy gas at the border, store it in Ukraine and use it as needed. However, such a scheme is legally considered not a transit, but a re-export of gas from Ukraine, which gives certain advantages in terms of reducing geopolitical risks. [31]

Conclusions

The termination of Russian gas transit via Ukraine as of January 1, 2025, was foremost a strategic and political decision, with profound implications for Europe's energy landscape. Despite the loss of revenues for Ukraine and the increase in the cost of gas imports, this step strengthened its subjectivity, reduced dependence on the Russian Federation and contributed to the destruction of the energy blackmail system that had been formed by the Kremlin for years.

The consequences for the European Union were limited due to the systematic preparation for this scenario: diversification of sources, expansion of LNG infrastructure, establishment of imports from the United States, Norway and Qatar made it possible to compensate for the decrease in supplies from the Russian Federation. At the same time, the countries of Central Europe, in particular Hungary and Slovakia, continue to demonstrate dependence on Russian gas, which complicates the development of a unified position within the EU.

For Russia, the ramifications were particularly profound: exports of natural gas to the European Union declined by over 80%, leading to a substantial diminution in Gazprom's profits. Concurrently, the company's political clout over Europe underwent a notable curtailment. The Kremlin's aspiration to resume gas transit through Ukraine is currently regarded as a component of a prospective package of peace negotiations.

Despite this, the resumption of transit is unlikely. The European Commission plans to completely stop importing Russian pipeline gas by 2027, with relevant legislative initiatives. Ukraine is increasingly integrating into the European energy space, reorienting the use of its infrastructure, primarily gas storage facilities, to ensure the stability of the European market.

Consequently, the primary challenge in the forthcoming years will pertain less to the resumption of transit and more to the effective transformation of Ukraine's role within the evolving energy architecture of Europe.