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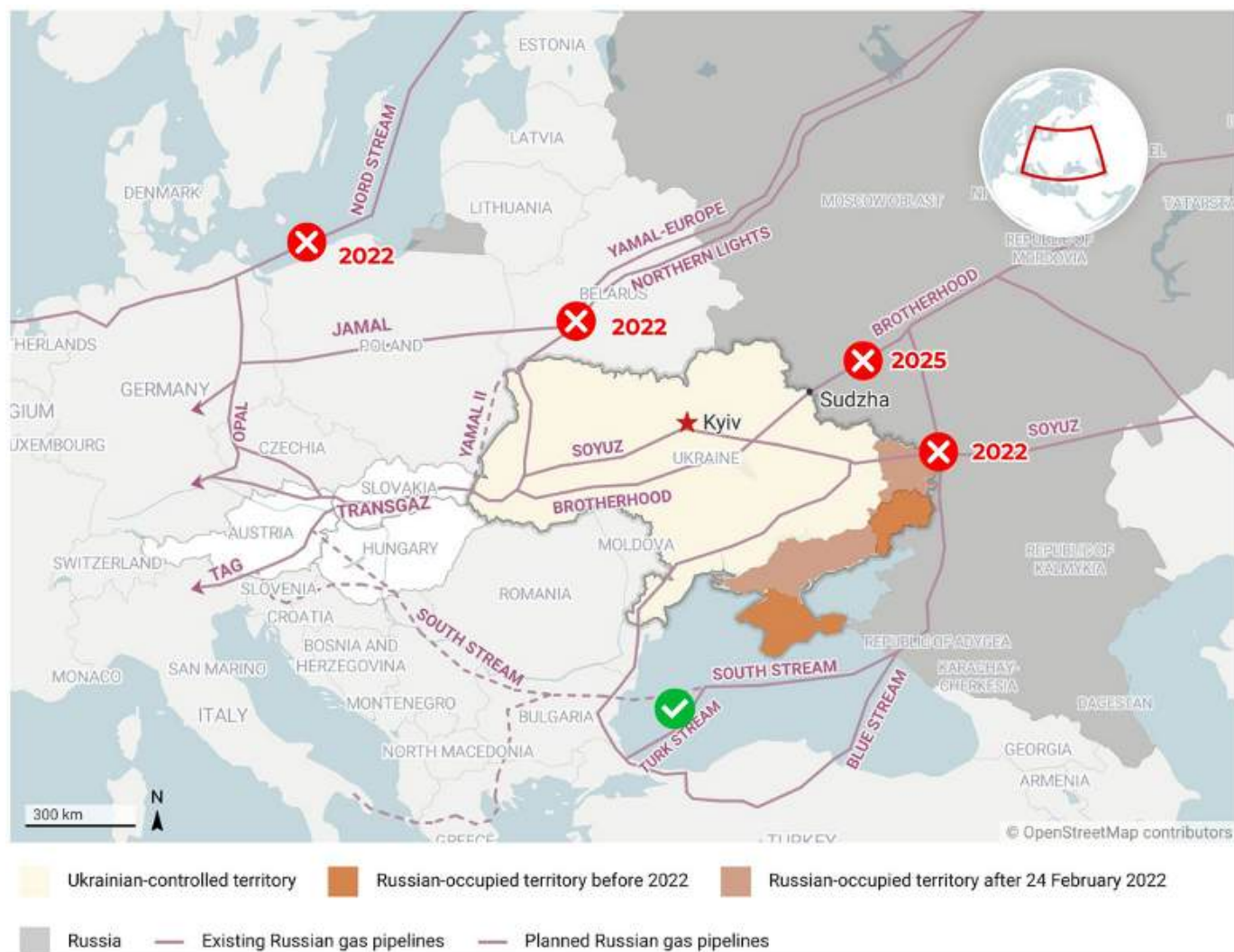
# Breaking the Link: Costs and Benefits of Shutting Down Europe's Last Gas Pipeline from Russia

Ukraine's decision to halt Russian gas transit from January 1<sup>st</sup>, 2025, marks the end of decades of direct gas links between Europe and Russia. The EU is unlikely to face significant short-to-mid-term impacts, as Russian pipeline gas imports have already dropped sixfold since Russia's full-scale invasion of Ukraine. However, uneven exposure to this shock has already created internal tensions within the EU. Further, increased reliance on liquefied natural gas may also slow the green transition. In the region, Moldova faces severe supply challenges and Ukraine will lose transit revenues. Targeted support and stronger cooperation within the EU and with neighboring countries, especially EU candidates, will be essential. In turn, the halt will make Russia face not only financial but also geopolitical losses.

On January 1<sup>st</sup>, 2025, Ukraine halted the transit of Russian gas to Europe following the expiration of a five-year agreement between Russian Gazprom and Ukrainian Naftogaz, marking a major shift in Europe’s energy landscape. This decision ended decades of reliance on Ukrainian pipelines for

Russian gas (see Figure 1). Despite Ukraine announcing its intent not to renew the agreement well in advance (Corbeau, 2023), uncertainty lingered **until the contract’s final days**. Similarly, the broader implications remain uncertain. This policy brief explores the short-, mid-, and long-term effects of this change on the region.

Figure 1. Russian pipeline network to Europe, 2022-2025



Source: Euromaidan Press

## A “Political” Pipeline

The Ukrainian transit route has long been a key corridor for direct gas deliveries to Europe, playing a crucial role in shaping the EU energy security policy. However, this route has also been the site of major disruptions, particularly during the 2006 and 2009 gas disputes between Russia and Ukraine. These incidents exposed Europe’s

reliance on transit routes and its vulnerability to geopolitical conflicts, prompting political responses despite the relatively localized impact. To address these vulnerabilities, the EU introduced measures aimed at diversifying energy sources and strengthening internal energy markets (see, e.g., Le Coq and Paltseva, 2012). Early efforts focused primarily on improving the internal energy market’s efficiency while

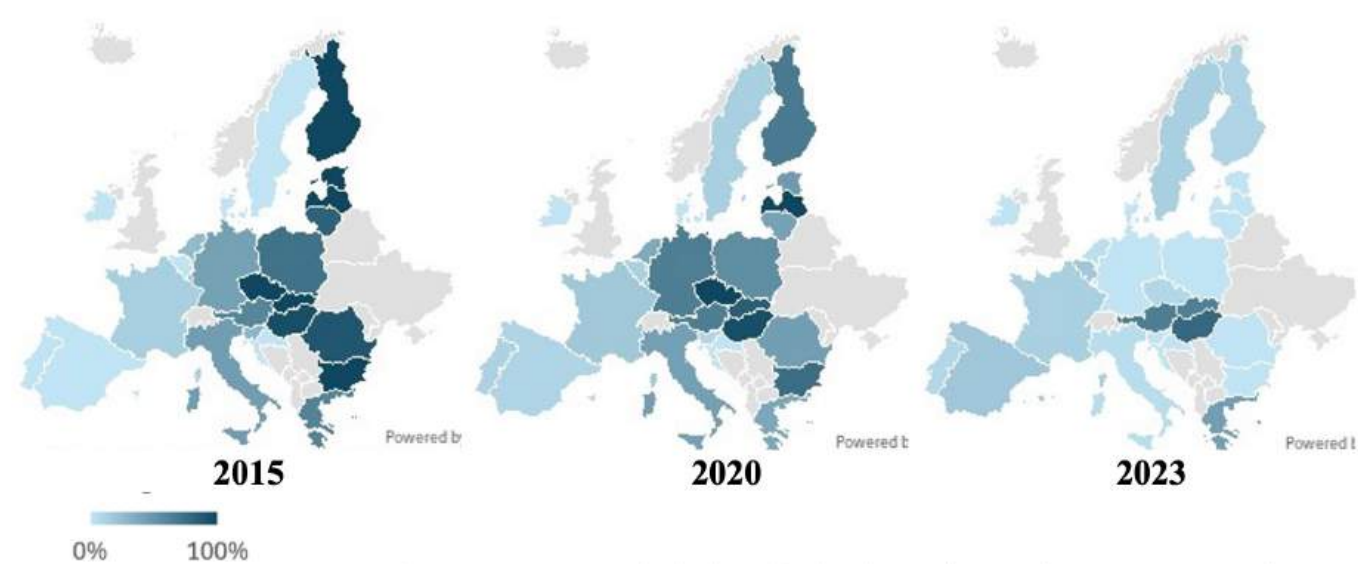


diversification advanced slowly. This changed drastically during the gas crisis that began in mid-2021 and escalated with Russia’s full-scale invasion of Ukraine in February 2022. These events forced the EU to alter its gas import strategy, driving further investments in liquefied natural gas (LNG) infrastructure and new pipelines, such as the **Southern Gas Corridor** enabling gas imports from Azerbaijan (see e.g., **Regulation (EU) 2022/1032** and **Regulation (EU) 2024/1789**).

As a result, despite the significant burden of soaring energy prices and investment costs, the

EU has made remarkable progress in reducing its reliance on Russian piped gas. Indeed, the share of Russian natural gas (both pipeline and LNG) in total EU gas imports, which increased 35 percent in 2015 to 41 percent in 2020, dropped to just 9 percent by 2023. However, the progress was non-uniform among member states (see Figure 2). In turn, by 2024, Russian gas via Ukraine accounted for just 5 percent of EU’s gas supply, with significant reliance limited to Austria, Hungary, and Slovakia (where it still made up between 65 percent and 78 percent of imports, and, between 12 percent and 22 percent of total energy consumption).

Figure 2. Share of Russian pipeline and LNG gas in total gas imports across the EU



Source: Eurostat, 2024. The gas imports include data for both pipeline and LNG imports. The 2024 gas imports data was unavailable at the time of writing this brief. However, several EU member states further decreased their consumption of Russian gas in 2024. For example, while Sweden and Finland were importing Russian LNG both in 2020 and 2023, possibly for re-export, as shown in Figure 1, they both **stopped this practice from June 2024**. Further, Austrian data on imports from Russia is not available from Eurostat, and is, instead, compiled from Eurogas, IMF, and Austrian government data.

## The Immediate Impact of the Transit Stop

The EU’s reduced reliance on Russian gas has significantly softened the immediate impact of the transit halt. Gas prices showed only a slight reaction, with no clear evidence linking the transit stop to price changes. Even if one would attribute

the cumulative gas price increase over 2024 to the expectations of the pipeline shutdown only, the effect was much smaller than during the 2021 gas crisis or the sharp price spikes of 2022, as illustrated in Figure 3. Ample storage levels – **71.8% as of January 01, 2025**, well within acceptable levels for this time of the year – have further limited the immediate impact.



Figure 3. EU gas prices, 2021-2025



Source: <https://tradingeconomics.com/commodity/eu-natural-gas>

Effectively, the only part of the region facing an immediate and significant impact due to the termination of the gas transit deal has been Moldova. The pro-Russian separatist region of Transnistria, previously fully reliant on subsidized Russian gas via Ukraine and representing 70 percent of Moldovan gas consumption, has been cut off since January 1, 2025, due to the lack of alternative routes. This has also significantly affected the right-bank-of-Dniester Moldova as 80 percent of its electricity supply was previously provided by the Russian gas-based MGRES plant in Transnistria (Anisimova, 2024). In response, Chisinau declared a state of emergency in the energy sector, introducing energy-saving measures and rationing. In turn, Transnistria halted most industrial production and faced widespread blackouts (Kieff, 2025).

## The Mid-Term Costs and Benefits for Involved Parties

In the mid-term, the impact will likely broaden and take various forms. Moldova, Ukraine, and Europe are expected to face primarily financial consequences, while Russia will also bear significant geopolitical costs.

Moldova will continue to be the most affected country. Russia could attempt to reroute gas to Transnistria via Turkstream and reversed flow on the Trans-Balkan pipeline. However, since this route briefly passes through Ukraine before reaching Moldova, it would require a transit agreement, an unlikely scenario under current conditions.

Alternatively, the Trans-Balkan route could be used to import gas from Azerbaijan or LNG from Turkey and Greece (Halser and Skaug, 2024). However, this would require political will from both Moldova and Transnistria, and involve substantial costs, likely unaffordable





singlehandedly for Moldova or Transnistria, especially as the latter has long received Russian gas for free. Financial, as well as infrastructural support from the EU could help address these challenges.

Ukraine faces an annual loss of transit fees due to the halted agreement amounting to approximately \$450 million/year. Formally, the loss should have been around \$1.2 billion annually but Russia paid only for 15 bcm/a of gas transit since 2022, instead of 40 bcm/a under the ship-or-pay transit agreement, citing Ukraine's refusal to transit gas via the Russia-occupied Sokhranivka entry point. This dispute is in international arbitration but is unlikely to be resolved before the war ends (see Reley, 2025). The absence of a transit gas flow could also undermine the competitiveness of Ukraine's gas storage services for the EU (Ukraine's Naftogaz has Europe's largest underground facilities with a **capacity** of 30.9bcm, 10bcm of which is available to foreign traders.)

At the same time, the option of renewing the transit agreement could boost Ukraine's leverage in future talks with Russia. However, this leverage weakens with the EU's ability to cope with its remaining reliance on Russian gas – greater diversification in EU imports would reduce the importance of Russian pipelines and, consequently, Ukraine's bargaining position.

Europe's mid-term impact from the transit halt will be non-uniform, with Austria, Slovakia, and Hungary facing the highest energy bill increases. However, the effect is expected to be limited due to its well-connected internal energy market, which can absorb shocks and distribute shortages across member states. The shortage is likely to be compensated by increased LNG purchases, which would somewhat increase gas prices due to the current LNG market rigidity. However, with LNG supply capacity increasing already in 2025 and projected to grow by 40 percent by 2028 without a matching rise in demand (IEEFA, 2024), the price increase is not going to last long.

However, the EU may also face a political cost. Expectations of price increases and Slovakia's loss of transit fees could strain the EU unity, as differing energy dependencies risk deepening intra-EU tensions and complicating policy coordination (see, e.g., [here](#) and [here](#)). This underscores the importance of Europe's "one voice" energy policy, which has gained momentum in recent years.

Russia faces significant financial and geopolitical losses from the transit halt. Financially, it risks losing approximately \$6.5 billion annually in revenue at current prices (Keliauskaitė and Zachmann, 2024) unless flows are redirected. While temporary price increases – for the sales of Russian gas via Turkstream, and Russian LNG exports to Europe, could offset some of these losses – these are not going to last.

The greater impact lies in Russia's diminished geopolitical leverage. Historically, Russia has used gas as a political tool, leveraging its dominant position and access to multiple pipeline routes to exert influence over transit countries and dependent nations. This influence would now be lost. Further, with the loss of a Ukrainian transit, Russia's pipeline connection to EU gas markets now relies solely on Turkey, increasing its dependency on Turkey and potentially altering its alliance dynamics due to higher transit costs. Additionally, as Azerbaijani gas emerges as a viable alternative for Europe, Russia's bargaining power in its geopolitical relations with Azerbaijan is likely to weaken further. This erosion of influence marks a significant shift in Russia's regional energy strategy.

## Long-Term Effects: Increased Dependence on LNG and the Green Transition

The halt of the Russian gas transit is facilitating the implementation of the **RePowerEU** goal of fully eliminating EU Russian fossil fuels dependency by 2027. However, its long-term effects, particularly



on the timing and success of the green transition, warrant attention. Natural gas is widely considered a transitional fuel, essential for maintaining energy reliability in an energy system relying heavily on intermittent renewables. For the green transition to succeed, it is critical to avoid infrastructure lock-ins, displacement of low-carbon technologies, and the creation of stranded assets.

The shift from Russian gas to the LNG market will likely require substantial infrastructure investments in the EU and LNG-producing countries, increasing the risk of long-term dependency. Geopolitical dynamics add further complexity – e.g., the U.S., which supplied **50 percent of Europe's LNG in 2023**, has advocated for long-term purchasing agreements that could delay green technology adoption and extend the EU's reliance on fossil fuels. This is already a reality as some EU member states have signed **long-term gas contracts with Qatar**, lasting beyond 2050, which may hinder efforts to accelerate the green transition.

## Conclusion

The impact of the gas transit halt varies depending on whether it is seen from a short-, medium-, or long-term perspective. While all parties involved face losses, the impact of the halt on the EU is drastically different from what it could have been a few years ago due to the dramatic efforts undertaken in the last few years. Further, there are also potential benefits to consider. Notably, the EU has the opportunity to play a crucial role in reducing the economic and political burdens on neighboring countries, particularly those seeking EU membership. By offering targeted financial support and promoting deeper cooperation, the EU can help these nations manage the challenges posed by the halt. In turn, the halt will imply not

only financial but also geopolitical losses for Russia.

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