

Gas Supply Disruption

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Gas Supply Disruption: The Geopolitical and Economic Consequences for Europe

Context: On New Year's Day, Russian natural gas exports to Europe via Soviet-era pipelines through Ukraine were stopped as the transit agreement expired, with no agreement reached between Moscow and Kyiv. This marks the end of Russia's oldest gas route to Europe. The Ukrainian government justified its decision as necessary for national security amid the ongoing military conflict with Russia. Below is an overview of the key aspects surrounding this energy disruption.

Urengoy-Pomary-Uzhgorod Pipeline Overview:

- The **Urengoy-Pomary-Uzhgorod pipeline** has historically been a major route for transporting natural gas from **Siberia** to Europe.
- It passes through **Sudzha**, in Russia's **Kursk region**, which is currently under Ukrainian military control.
- The pipeline continues through **Ukraine** to **Slovakia**, from where it branches out to **Austria** and the **Czech Republic**.
- **Transdnistria**, a breakaway region of Moldova bordering Ukraine, also receives Russian gas via this route.

Decline in Russia's Gas Exports to Europe:

- Since Russia's **invasion of Ukraine** in **February 2022**, gas exports to Europe have significantly dropped.
- **Moscow's share** of the European gas market, which was **35%** before the conflict, has fallen to just **8%**.
- This reduction in exports has been accompanied by a sharp drop in **revenue** for both **Ukraine** and **Russia**.

Diminished Gas Transit via Ukraine:

- By **December 2024**, the **European Union** received fewer than **14 billion cubic meters (bcm)** of gas via Ukraine, compared to **65 bcm per year** in **2020**.
- Ukraine had earned between **\$800 million** and **\$1 billion** annually in **transit fees**, but this revenue has diminished due to the halted exports.
- **Russia**, through **Gazprom**, stands to lose nearly **\$5 billion** in sales from gas exports via Ukraine in **2024**.

Europe's Energy Diversification:

- In response to the loss of **Russian gas**, the **European Union** has diversified its energy sources, turning to **liquefied natural gas (LNG)** and **non-Russian pipeline imports**.
 - Major competitors like **Norway**, the **United States**, and **Qatar** have increased their market share, while Russia's dominance in Europe has waned.
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Impact on Russia and Gazprom:

- **Economic Losses:**
 - Ukraine faces an annual loss of up to **\$1 billion** in transit fees.
 - Gazprom is projected to lose around **\$5 billion** in gas sales from the halted pipeline exports.
 - **Decline in Gas Exports:**
 - Gas transit through Ukraine fell from **65 bcm** in **2020** to about **15 bcm** in **2023**.
 - **Market Share Collapse:**
 - Russia, which once controlled **35%** of the European gas market, has seen its market share diminish significantly due to the war and the suspension of gas exports.
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Impact on the EU:

- **Countries Affected:**
 - **Austria** and **Slovakia** were among the most reliant on Russian gas via Ukraine.
 - Austria relied heavily on this route, while Slovakia depended on it for about **two-thirds** of its gas needs (**3 bcm per year**).
 - Slovakia has stated that it can manage without Russian gas, as it has diversified its supply contracts.
 - **Market Impact:**
 - In **2022**, **European gas prices** reached **record highs**, but this is unlikely to happen again due to the significantly reduced volumes of Russian gas.
 - The EU has adjusted by importing more **LNG** and gas from **alternative pipelines**, mitigating the impact on gas prices.
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Alternatives and Adjustments:

- **Shutting Down Other Pipelines:**
 - The **Yamal-Europe pipeline**, which passed through **Belarus**, has been closed.
 - The **Nord Stream pipeline**, a key route for Russian gas to **Germany**, was severely damaged in **2022**.
- **Alternative Routes Still Operational:**
 - **TurkStream Pipeline:** This pipeline remains a crucial route for Russian gas exports, supplying **Turkey**, **Hungary**, and **Serbia**.

- **EU's Energy Shift:** EU countries have diversified their energy sources, with **Slovakia, Austria, and the Czech Republic** seeking gas from alternative suppliers like **Hungary, Austria, the Czech Republic, and Poland.**

- **Moldova's Challenges:**

- **Moldova**, which receives about **2 bcm** of gas annually from Russia via Ukraine, plans to cut its gas consumption by a third starting **January 1, 2025.**
- Moldova has diversified its energy sources and aims to reduce dependency on Russian gas.

Conclusion:

The cessation of **Russian gas exports** via Ukraine marks a significant shift in **European energy dynamics**. While this disruption presents challenges, especially for countries that were heavily reliant on Russian gas, it also highlights the **European Union's efforts** to reduce dependence on a single energy supplier. By diversifying energy sources and securing **alternative pipeline routes**, the EU has taken important steps toward **energy security**. Meanwhile, Russia's diminished role in the European gas market reflects the broader **geopolitical and economic consequences** of its ongoing conflict with Ukraine.

