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Ukraine: limited prospects for Azerbaijan to fill the gap left by Russian natural gas

As of January 1, 2025, the five-year Russian-Ukrainian agreement from 2019 on the transit of Russian natural gas through Ukraine will expire. This will significantly impact the availability and price of natural gas in Europe during the upcoming heating season. While Azerbaijan could potentially help fill the gap left by Russian supplies, the chances of this are limited. Implementing such a scenario would require numerous political and technical decisions, all of which are highly uncertain in the context of the current war.

The role of Ukraine as a transit hub. For years, Ukraine has played a crucial role in the European energy market due to its strategic position as a transit country. Its transmission system, capable of transporting up to 110 billion cubic meters (bcm) of natural gas annually, along with its underground storage facilities (["IEŚ Commentaries" no. 930](#)), has facilitated the flow of Russian gas to Europe. However, Russia's foreign economic policy has aimed to reduce Ukraine's role as a transit country, with projects like Nord Stream 1, Nord Stream 2, and TurkStream/Balkan Stream. These developments have gradually decreased the volume of gas transported through Ukraine. Delays in the completion of Nord Stream 2 led to the extension of the transit agreement between Russia and Ukraine in December 2019 for another five years.

This agreement is set to expire on 31 December 2024. Despite Russia's full-scale invasion of Ukraine in February 2022, gas transit has continued, generating an estimated 450 million USD per year for Ukraine from the transport of around 14 bcm. This is only about 35% of Gazprom's obligations to GTSOU (Gas Transmission System Operator of Ukraine) under the agreement, as the Russian company likely only pays for the capacity it uses rather than the full 40 bcm stipulated in the 2019 deal. Currently, natural gas supplies to Europe primarily depend on long-term contracts between Gazprom and companies like Slovakia's SPP (Slovenský plynárenský priemysel) and Austria's OMV (Österreichische Mineralölverwaltung), which expire in 2029 and 2040, respectively. If the transit agreement is not renewed, Gazprom will be forced to halt deliveries to Slovakia and Austria, compromising the energy security of these countries.

The role of Azerbaijan in natural gas supplies via Ukraine. In 2024, several European leaders expressed the need to maintain natural gas transit through Ukraine. In May, Slovak Prime Minister Robert Fico announced that discussions with Azerbaijan about gas supplies to Europe via Ukraine had taken place. Azerbaijan confirmed these talks in June, and by July, both Ukrainian President Volodymyr Zelenskyy and German Vice Chancellor Robert Habeck acknowledged that this possibility was under consideration. These discussions emphasised maintaining Ukraine's transit role in Europe while limiting Russia's revenue from energy exports.

As the expiry of the transit agreement approaches, some suggest that Azerbaijan could step in to fill the supply gap. However, Azerbaijan's ability to increase gas production is limited, though it could redirect some supplies for export by 2025. In 2023, Azerbaijan produced approximately 47.4 bcm of natural gas, with 25.6 bcm used domestically (split between injection into oil fields and consumption), leaving about 21.8 bcm or 46% for exports. By early 2025, Azerbaijan may be able to allocate an additional 2-3 bcm for export, sourced from several areas: (1) a reduced contract between Azerbaijan Gas Supply Company (AGSC) and Turkey's BOTAS; (2) a renewed swap deal with Turkmenistan; (3) increased output from the Shah Deniz field; (4) early production at the Absheron field; and (5) expanded production at the Umid field.



How this gas could reach Ukraine remains uncertain. Two potential routes involve the use of Russian infrastructure. The first option would require Azerbaijan's SOCAR to reserve transmission capacity at both the Azerbaijani-Russian and Ukrainian-Russian borders, paying Gazprom for the transit service through Russia to the Sudzha metering station. The second option would involve a swap agreement between SOCAR and Gazprom, with Azerbaijani gas reaching the Russian border while Gazprom delivers an equivalent amount at the Ukrainian border. Both options involve complex political and logistical risks, as they require cooperation between multiple entities.

Conclusions

- The end of the Russian-Ukrainian transit agreement in 2024 will have significant consequences for Europe's energy landscape, especially for countries like Slovakia and Austria, which rely on contracts with Gazprom. The suspension of transit through Ukraine will force these countries to reassess their energy policies and look for new supply routes. Slovakia, for instance, could leverage its connection to Poland via the Strachocina-Veľké Kapušany interconnector (["IEŚ Commentaries", no. 655](#)). Key factors will include the availability of gas from alternative sources, capacity at import terminals in Świnoujście and Klaipėda, and transmission possibilities via Poland and the GIPL pipeline.
- For Ukraine, maintaining a transit role and partnering with Azerbaijan offers potential financial benefits. During wartime, revenue from energy resource transit (gas and oil) is a crucial source of income for the state budget. However, politically, this could be a challenging path. Ukraine has repeatedly stated that it will not transport Russian gas, yet if the Azerbaijani scenario were implemented, the gas reaching Ukraine would likely still be Russian in origin. This issue is further complicated by Ukraine's ongoing military operations in the Kursk region, where the Sudzha metering station is located (["IEŚ Commentaries", no. 1183](#)).
- Legally, maintaining gas transit through Ukraine to facilitate supplies from Azerbaijan would also be highly complex, requiring agreements between all involved parties. In the absence of political negotiations, it remains unclear whether such an arrangement could be realised. At the very least, it would require an extension of the interconnection agreement between Ukraine's gas transmission operator (GTSOU) and Gazprom.
- While continuing gas transit through Ukraine using Russian infrastructure would ensure Gazprom's profits from an Azerbaijani-Ukrainian exchange, it would also raise significant image concerns in Europe. Nevertheless, companies in Slovakia and Austria appear to be the most supportive of such a solution.