



The Cambridge Security Initiative

GAS DEAL ‘CONCESSIONS’ PLAY TO EUROPEAN PRO-RUSSIA LOBBY

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Kyiv and Moscow have conditionally agreed to a [five-year](#) natural gas transit deal. Ukraine (and the mediating European Union (EU)) had wanted [7–10 years](#) but Russia offered 1–3. Subject to political approval of yet-unknown terms, both sides will sign a contract before the current one ends on 31 December. Commercial interests guided Moscow’s apparent concessions, certainly. But their intended audience was the European pro-Russia lobby—crucial, for example, in delivering the Nord Stream (NS) 2 gas pipeline directly connecting Russia to Germany next year, bypassing Ukraine.

That the unexpected talks breakthrough happened on 19 December was unlikely a coincidence. During his popular end-of-year [press conference](#) earlier that day, Vladimir Putin indicated a major change in Moscow’s position. Discussing a 2018 arbitration decision that Gazprom owed Ukraine’s Naftogaz [£1.97 billion](#) over contract disputes, the president said Russia hoped for a reasonable negotiated outcome for all. The position until then had been that any new deal was [impossible](#) unless Kyiv dropped legal claims worth [£17 billion](#) against Gazprom.

That the unexpected breakthrough happened in Berlin was also unlikely a coincidence. It was the first time that [transit talks](#) happened there, with Germany and the EU eager to showcase their influence. Moscow was looking to repair bilateral tensions, after a [suspected veteran](#) of Russia’s Federal Security Service assassinated former Chechen commander Zelimkhan Khangoshvili in Berlin last August. Germany expelled two Russian [intelligence officers](#), souring Moscow’s ties with the country it sees as the key to [dominating Europe](#)—including with energy.

For transit fees to make Ukrainian pipelines economically viable, Kyiv needs at least [40 billion](#) cubic metres (bcm) of Russian natural gas going west every year. Until pipelines like NS2 are fully online, Russia needs to send [at least 46](#) (but more likely 52–90) bcm/year via Ukraine, to help meet estimated European demand of 171–212 bcm/year. One estimate puts Russia’s losses in any transit suspension at [seven times](#) Ukraine’s. Even a three-month disruption could cost EU consumers an extra [£3.5 billion](#), so everyone affected will be relieved to have this new deal.

OUTLOOK

In the near term, Moscow will continue its ‘charm offensive’: exchanging more prisoners with Ukraine and returning its property; talking up compromise in the Donbas; and now making apparent concessions on gas. Russia plays to European eagerness to appease, painting itself as a reasonable and reliable partner. Moscow will keep exploiting transatlantic divisions on NS2—

especially over new [U.S. sanctions](#) that Germany and the EU oppose—and likely seek to turn those divisions into a weakening or removal of post-Crimea EU sanctions.

In the medium term, Russia will have to balance how much Ukraine transit it cuts: too much, and supplies to the [pro-Moscow](#) areas in the south-east of that country would suffer. The new deal buys both Russia and Ukraine time to diversify: in Russia's case, by finishing new pipelines to supply Europe and bypass its neighbour; in Ukraine's case, by finding alternative energy and revenue sources as demand for Ukrainian transit [drops sharply](#) by 2025.