

REPORT

# Ukraine Wants a Lend-Lease Plan for Energy to Escape Russian Chokehold

Russia blackmails its neighbors with energy. Kyiv needs a solution.

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Ukrainian energy officials are in a race against time to secure funding for natural gas imports to heat homes and power businesses this winter as Russia continues its grinding military offensive in the Donbas. Top energy executives from Ukraine are pitching Washington and other Western capitals on a raft of potential solutions to secure supplies to last through the upcoming winter and boost domestic production.

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This includes proposals to secure international financing to buy natural gas from major exporters in the Middle East and North Africa, developing alternative supply routes, and a possible “lend-lease” agreement with Washington to import U.S. liquefied natural gas (LNG).

As Ukraine's industry has shrunk due to the war and 7 million people have fled the country, demand for gas has actually decreased—but so too has the country's ability to pay for imports amid rising prices and a government shortfall of \$5 billion per month. Naftogaz CEO Yuriy Vitrenko, who was in Washington last week for meetings with the Biden administration, said Ukraine needs \$8 billion in financing to fund the import of 6 billion cubic meters of gas before the winter. Before the war, Ukraine consumed 30 billion cubic meters of gas per year, a third of which was imported. Some 90 percent of Ukrainian

homes are reliant on gas heating, and gas serves as a backup source of energy for many of the country's power plants.

Washington has committed almost \$54 billion in military, humanitarian, and economic aid to Ukraine and the wider region since Russian forces invaded in February. While discussions on support for the Ukrainian energy sector are in the early stages, Vitrenko acknowledged that the Biden administration had been "super helpful."

"They have a very clear mandate to provide necessary assistance to Ukraine. We want to structure it in a smart way so that there is no burden on the U.S. taxpayers," Vitrenko said.

The push from Ukraine for energy lifelines comes amid a broader effort by European governments to wind down their reliance on Russian energy imports. Despite sweeping global condemnation and devastating international sanctions, Europe is still reliant on Russian energy, a point of geopolitical leverage that Moscow holds over the West as well as a source of funding for its continued military invasion of Ukraine. Europe imports about 40 percent of its natural gas from Russia and a good part of its crude oil, as well. Europe is already facing a looming energy crisis as prices spike, gas storage facilities remain unfilled, and a skittish market braces for further supply disruptions from the war in Ukraine.

There's a broad fear, particularly among Eastern European governments, that Russia could disrupt or cut off gas exports to punish Western governments for supporting Ukraine and try to weaken European resolve. On Tuesday, Europe got a hint of more disruptions to come, as Russia's state-owned gas giant, Gazprom, announced it would cut its daily gas deliveries to Germany under its Nord Stream 1 pipeline by 40 percent, purportedly due to technical difficulties.

"Europe's very reliant on Russia for energy, but they're trying to reduce that reliance very quickly," said Emily Holland, a scholar at the U.S. Naval War College and an expert on European energy issues. "The next one to two years is going to be quite challenging for Europe in terms of trying to transition away from Russian gas."

Gazprom has already cut off gas supplies to Finland, Poland, and Bulgaria for refusing to pay for gas in rubles instead of euros or dollars—a policy Moscow put in place to try to keep the Russian currency from collapsing after launching

its invasion of Ukraine. Now top European Union leaders are working through contingency plans in the event of a full supply disruption.

Wealthier European countries can likely weather the storm in the interim, even if it's costly, but Ukraine, which faces harsher winters and severe economic constraints from the war, would be more vulnerable to any disruption in gas supplies.

"They're trying to shore up a way to get enough supplies from Western traders at prices they can afford because prices are through the roof and Ukraine's economy is in pretty bad shape," Holland said.

One of the new proposals floated by Ukrainian energy officials is to secure energy supplies under a lend-lease agreement, which would see the United States provide Ukraine with 6 billion cubic meters of LNG, delivered to terminals in Europe—Ukraine doesn't have any LNG terminals—before being shipped via pipeline to Ukraine. Kyiv would repay the United States in two years once domestic production of gas is ramped up.

"They were surprised to hear such an idea, but it was well received," Vitrenko said.

The U.S. Energy Department referred *Foreign Policy* to the National Security Council when asked for comment on the proposals. A spokesperson for the White House said, "We remain committed to Ukraine's energy security and will continue to work closely with the government to identify effective solutions."

The first Lend-Lease Act, passed during World War II, enabled the U.S. president to sell or lease military hardware to countries deemed critical to U.S. national security. The legislation was also used to send items ancillary to the war effort, such as blankets, boots, and food. A similar law, providing for the lease of weapons to Ukraine and allies in Eastern Europe, was signed by President Joe Biden in early May—a model that Ukrainian officials and energy executives are hoping to replicate on the energy front.

Another proposal Ukraine is exploring is to secure funding from the U.S. International Development Finance Corp. (DFC), a U.S. government development bank, to help pay for gas in the short term as global gas supplies tighten and prices increase. Pooja Jhunjunwala, a spokesperson for the DFC, declined to comment on ongoing discussions with Ukraine but said "DFC is

working within our statutory authority to help address Ukraine's and Europe's unprecedented energy crisis and erode Russia's domination of European energy supplies, by seeking to support energy and energy related infrastructure investments."

Ukraine has already secured similar help from the EU, however. On Tuesday, the European Bank for Reconstruction and Development (EBRD) announced that it would lend up to 300 million euros (\$312 million) to help compensate Ukraine for disruptions to its domestic gas production caused by the war.

Naftogaz "will use the initial €50 million tranche disbursed by the EBRD for emergency gas purchases, which are urgently needed to prepare Ukraine's gas system for the next heating season," EBRD said in a statement.

Moscow's renewed invasion has also fueled efforts to boost domestic gas production in Ukraine. In Canada, Washington, and Houston, Ukrainian energy executives are seeking to woo their Western counterparts to invest in Ukraine and help the country tap further natural gas deposits through horizontal drilling as the war has precipitated a shift away from Russian energy.

The war has also placed a renewed emphasis on the potential of renewable energy in Ukraine. "There are some pilot projects that we managed to do during the war," Vitrenko said. In May, construction was completed on a hydroelectric plant in the western Ukrainian city of Lviv, which is projected to replace an estimated 800,000 cubic meters of gas annually, enough to power several hundred households.

"Ukraine is really positioned to be a monumental clean energy exporter into Europe and can contribute significantly to the European Green Deal and meeting its climate goals," said Olga Khakova, the deputy director for European energy security at the Atlantic Council's Global Energy Center.

The Biden administration banned imports of Russian oil in March, while the latest round of EU sanctions is projected to reduce imports of Russian oil by 90 percent, with a view to depriving Russian President Vladimir Putin of energy revenues to fund the war. Reaching a similar agreement on Russian gas is expected to be an uphill, and potentially elusive, battle.

While Europe is securing gas from other suppliers, including LNG from the United States, it's not possible to do so at the volumes it would need to completely replace Russia's supplies, said Alex Munton, the director of global gas services at the Rapidan Energy Group, an energy research firm.

Munton also said it's unclear whether the natural gas industry can keep up the current pace of LNG production to continue exporting to Europe at current volumes. Demand in Asia could go up, further boosting prices and diverting some volumes away from Europe, while U.S. domestic LNG production, primarily based in the Gulf of Mexico, could be interrupted by severe weather during the upcoming hurricane season. A fire at a major U.S. LNG terminal in Texas last week is also expected to squeeze exports to Europe as the site will be offline until at least September.

"There's a false sense of security in Europe," Munton said. "The last five months, where Europe has had a relatively smooth path in being able to access the LNG volumes it's needed, is not the most reliable basis for estimating how things are going to unfold over the next five to six months."

All of this spells trouble for Kyiv, even months away from the onset of winter, absent an intervention from Washington and its allies in Europe.

"Even if Russia doesn't cut off gas supplies to Europe, there's still going to be an energy crisis with gas in Europe," Holland said. "Ukraine needs to prepare for a very difficult winter."

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