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## Lukoil plans to sell its refinery in Bulgaria

**For years, companies from the Russian Federation have been acquiring attractive energy assets around the world, including in Central European countries. The introduction of EU sanctions following Russia's full-scale aggression against Ukraine has restricted the operations of some of these companies. This is the situation with the Burgas refinery in Bulgaria, owned by the Russian company Lukoil. The company is currently looking for a buyer willing to purchase these assets, with companies from Azerbaijan and Kazakhstan among those in the circle of interest. The government in Sofia is also raising the issue internationally.**

**Characteristics of the Burgas refinery.** Bulgaria has one refinery in Burgas, owned by the Russian oil company Lukoil through Lukoil Neftohim Burgas. It is the largest (a capacity of 196,000 barrels per day) and most modern plant of its kind in the Balkans. The Burgas refinery supplies the domestic and regional liquid fuel market and also exports liquid fuels by sea (the port of Rosenets on the Black Sea is used for sea operations – importing crude oil to the plant and exporting products). In technological terms, it is a semi-complex refinery with a high yield of light and middle distillates (91%), so, high-margin products. The plant is capable of importing and processing various grades of crude oil, but in order to optimize operating facilities, the best feedstock is crude oil from the Russian Federation (Urals) or comparable grades<sup>1</sup>, including from Iraq, Iran, or Saudi Arabia.

**Restrictions on refinery operations.** The Russian-Ukrainian war has resulted in numerous sanctions being imposed on a number of Russian assets in Europe, including Central Europe, significantly restricting the operations of some companies. As part of the sixth package of sanctions, a ban on crude oil imports by sea from Russia was imposed, but Bulgaria managed to obtain appropriate derogations for these provisions ("IEŚ Commentaries", no. 707). Under the negotiated solutions, the Burgas plant was originally allowed to buy crude oil by sea from the Russian Federation until the end of 2024. However, until now, the owner of the refinery has not taken any steps to change the refinery's crude oil processing structure and has even maximized supplies from the Russian Federation. This kind of attitude of the plant's owner caused the Sofia government to take steps to force Lukoil to seek new directions for crude oil supplies. As a result, the government took the following decisions: first, in September 2023, it revoked the license granted to Lukoil in 2011 for 35 years for operational control of the Rosenets oil terminal. Under the new regulations, the terminal can still be operated by Lukoil but must pay a special fee to Bulgaria. Second, a 60% tax on profits was imposed on the refinery. Third, a ban has been imposed on the export of liquid fuels produced at the Burgas refinery from crude oil processed from the Russian Federation (effective 1 January 2024). Fourth, the derogation period for importing crude oil from Russia by sea was shortened from the end of 2024 to 29 February 2024. Under these conditions, Lukoil has taken steps to import KEBCO-grade crude oil from Kazakhstan, with the most likely being crude oil from the Russian Federation with identical physical and chemical properties to Urals grade ("[IEŚ Commentaries](#)", no. 1000). The increasingly difficult market for the Russians in Bulgaria eventually prompted Lukoil to take steps to sell the Burgas plant.

**Potential buyers.** It has been reported by the media that companies from Azerbaijan (SOCAR), Kazakhstan (KazMunayGas), and the US are among those currently interested in acquiring the Burgas refinery. It is also indicated that the refinery is of interest to US millionaire Michael Karsch, who is linked to Kiril Petkov, the former Bulgarian prime minister. At the same time, in February 2024, the subject of the sale of the refinery was raised by Asen Vasilev, Bulgaria's finance minister, during talks with representatives of the US administration in

<sup>1</sup> On the crude oil sector of Central European countries, see M. Paszkowski, *Przemysł rafineryjny w państwach Europy Środkowej: uwarunkowania, wyzwania, perspektywy*, „Prace IEŚ”, no. 4, Lublin 2022.

Washington. On the one hand, Lukoil, as the owner, is taking steps to sell its assets, while on the other hand, the Bulgarian government is also trying to interest potential partners in the purchase. Ultimately, the Russian company will decide which entity is most likely to take over the entire stake after Lukoil. The topic does not appear to have led to the nationalization of the Russian company by the government, in a situation where a potential buyer would be viewed negatively in Sofia.

Given the ongoing process and the media reports, it is possible to observe that each of the potential players appearing in the public space would affect the domestic and regional liquid fuel markets differently as well as the refinery's crude oil supply in different ways. Of the entities that have emerged as buyers, the most likely scenario involves the sale of the refinery to KazMunayGas of Kazakhstan. This type of solution may be favoured by Lukoil, as it would guarantee the supply of crude oil from the Russian Federation (as KEBCO grade), especially given the close Russian-Kazakh political-business ties, which include the trade of KEBCO grade crude oil to various refineries around the world, therefore, this is precisely the solution that Lukoil may advocate. At the same time, taking into account the peculiarities of the oil market, another likely solution could be the sale of the plant to SOCAR of Azerbaijan, which has extensive logistics, trades in crude oil and liquid fuels, and owns a refinery in Turkey (["IEŚ Commentaries", no. 937](#)). It seems that under these circumstances, SOCAR would be able to secure crude oil supplies from directions other than the Russian Federation. Also, an acceptable scenario could be the sale of the plant to financial institutions (e.g., an investment bank) in partnership with a crude oil and liquid fuel entity that would formally manage the refinery. Consequently, it does not seem that a sale of the plant to US entities would take place as it will be a matter of concern to ensure the proper operation of the refinery, including guaranteeing the supply of crude oil, given the numerous logistical challenges posed by the plant's location (crude oil from Russia, Kazakhstan, and Azerbaijan is mainly traded in the region, and supplies from other directions affect the logistics and ultimately the price of imported grades).

## Conclusions

- The Burgas refinery is in an increasingly difficult situation, both for internal and international reasons. Restrictions imposed by the Sofia government mean that the profit from crude oil processing is burdened with a high tax, and the logistics of supply are complicated by the inability to import crude oil from the Russian Federation. The solution, but only in the short term, seems to be importing KEBCO grade crude oil from Kazakhstan (most likely from Russia). In addition, the operation of the plant is affected by the international situation, including the availability of alternative grades. Indeed, the main problem is Iraq's failure to export crude oil from the Kurdistan region<sup>2</sup> as well as the longer time and, therefore, more complicated logistics of importing grades from other regions (deliveries from Russia's Black Sea terminals take several days, while those from the Middle East can take as long as 25-30 days). Such alternatives affect the cost of operating refineries. A certain solution would be the construction of the Burgas-Alexandropolis pipeline (["IEŚ Commentaries", no. 808](#)), but the construction of a new trunk line is uncertain and lengthy. It seems that the government will not take steps to build the pipeline as long as the refinery is owned by a company from the Russian Federation.
- The race for Russian assets in Bulgaria has only just begun, and it is currently difficult to indicate which option Lukoil will choose. Of course, the government in Sofia may also have its preferences, but the final decision will rest with the Russians. At present, the emerging potential buyers could affect state security in different ways. The most likely choice seems to be KazMunayGas. However, taking into account the regional liquid fuel market, SOCAR is also in play, which would guarantee the availability of crude oil as well as the transparency of investment and trade activities. At the same time, this type of solution may be supported behind the scenes by the government, as there would then be a strengthening of business

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<sup>2</sup> Crude oil exports were halted on March 25, 2023, following an International Chamber of Commerce (ICC) arbitration ruling, which ordered Turkey to pay Iraq \$1.5 billion in damages for unauthorized crude oil exports conducted by the Kurdistan Region government between 2014 and 2018. According to the Baghdad government's position, all crude oil produced in Iraq is the sole responsibility of the state-owned company SOMO, which was not involved in the Kurdistan Region's crude oil sales process.

relations along the Baku-Sofia line. Cooperation between the two countries concerns not only the crude oil sector but especially the natural gas sector (["IEŚ Commentaries", no. 864](#)). For the government in Sofia, cooperation with Kazakhstan may be problematic due to its ties with the Russian Federation. In contrast, other solutions may be troublesome primarily in terms of guarantees of crude oil supplies (millionaire Michael Karsch or potential investors from the US).