Instytut Europy Środkowej

IEŚ Commentaries

No. 1176 (151/2024) | 31.07.2024

ISSN 2657-6996

Aleksandra Poznar, Michał Paszkowski

Ukraine has restricted crude oil transit via the southern branch of the Druzhba pipeline

In June 2024, the Ukrainian authorities expanded their list of sanctioned entities to include Lukoil, which supplies crude oil to MOL Group refineries. This led to the suspension of crude oil supplies in mid-July 2024 to the Bratislava (Slovakia) and Százhalombatta (Hungary) plants. Both plants, thanks to the derogations they received in 2022 for sanctions imposed by the European Union, were still able to import crude oil from Russia. However, Kyiv's unilateral decision to place Lukoil on its internal sanctions list has resulted in a reduction of crude oil transit through Ukraine. This situation is not, however, expected to adversely affect petroleum product availability in the region.

The specifics of crude oil supply to Slovakia and Hungary. In both countries, there are two refineries owned by the Hungarian company MOL, which import crude oil through the Druzhba pipeline (South Line). In Slovakia, the company operates under the name Slovnaft. The capacity of the Bratislava plant in Slovakia is 115,000 barrels per day, while the Százhalombatta plant in Hungary has a capacity of 160,000 barrels per day. These facilities have primarily used crude oil from the Russian Federation (Urals) for years.

Imports of crude oil from Russia account for about 90-100% of the processed crude oil in Slovakia. In Hungary, this figure is approximately 78%, with the remaining amount coming from Kazakhstan and Iraq (via supplies through Croatia). The Százhalombatta refinery, in addition to crude oil supplies from Russia, can also import crude oil via the Adria pipeline, which begins at the Omišalj terminal in Croatia. About 22% of the crude oil processed at the plant in 2023 was delivered via this route. As a result, the refinery in Hungary has two independent import channels (Russia and Croatia), with a preference for supply from Russia due to technological and infrastructure reasons. The Bratislava refinery is in a similar situation, also favouring crude oil supplies from Russia for logistical and infrastructural reasons. However, it can import crude oil from the south, via the same Omišalj oil terminal as Hungary, and then through the Adria and Šahy-Százhalombatta pipelines. The capacity of the Croatian terminal and pipelines is optimal for supplying crude oil to both the Százhalombatta and Bratislava refineries further inland.

Supplies to both refineries are based on commercial contracts with numerous crude oil trading companies in Russia. Sometimes, the plant has several independent contracts for importing crude oil from different exporters, with the crude oil supplied to the plant not varying, as the dominant grade traded in Russia is Urals. This is a crude oil from which a large amount of middle distillates (diesel and jet fuel) can be produced. To a lesser extent, light distillates such as gasoline are derived from this type of crude oil. The commodity purchased is a result of the emerging regional demand for fuels, where diesel is predominant. Consequently, although the Bratislava and Százhalombatta refineries are technologically capable of processing other types of crude oil, they prefer to purchase Russian oil to optimise the petroleum products produced.

Nature of sanctions against Russia. In the wake of the Russian Federation's full-scale attack on Ukraine in 2022, numerous EU sanctions were imposed on Russia, including those targeting the crude oil and petroleum products sector. The purpose of these various packages was, among other things, to reduce Russian revenues from crude oil, petroleum products, and natural gas exports. The sanctions in place prevent the delivery of Russian crude oil and petroleum products by sea to refineries in European Union countries. As part of the sanctions process, Slovakia and Hungary, among others, received a derogation (until the end of 2024) from the sanctions imposed, allowing them to import crude oil from Russia via the Druzhba pipeline (southern line).

At the end of June 2024, the Kyiv government tightened the national sanctions list and extended it to include the Russian company Lukoil. Earlier restrictions were more general such as preventing the company from participating in the privatisation of Ukraine's energy sector. Lukoil, under contracts with Slovnaft and MOL, supplies crude oil to the Bratislava and Százhalombatta refineries – a total of 80,000 barrels per day, or about 29% of the daily needs of both plants. According to the new sanctions, effective from 18 July 2024, UkrTransNafta is not allowed to transport crude oil owned by Lukoil but can still make deliveries for other exporters.

Political consequences. In response to the extension of Ukrainian sanctions, Hungarian Foreign Minister Péter Szijjártó announced that Hungary and Slovakia had begun consultations with the EU on halting crude oil transit through Ukraine. He stressed that Ukraine's decision threatens the energy security of both countries and that Lukoil's withholding of supplies poses a threat to regional stability. Additionally, he stated that 'the Kyiv government's decision is unacceptable and incomprehensible from a country aspiring to EU membership'. Szijjártó warned that Ukraine's EU membership could face a veto from Slovakia and Hungary if the issue is not resolved. Prime Minister Robert Fico assured that temporary technical solutions have been applied in Slovakia, but pointed out that the real problem in the current situation is hostile action on the part of Ukraine, which is deliberately destabilising Slovakia and Hungary. The governments of R. Fico and V. Orbán have jointly asked the European Commission to initiate a consultation procedure, arguing that the Association Agreement between Ukraine and the European Union has been violated.

Slovak Prime Minister R. Fico immediately contacted his Ukrainian counterpart, Denys Shmyhal, in response to the sanctions announced by Ukraine. The communiqué issued after the conversation stated that Slovakia does not intend to 'be held hostage to Ukrainian-Russian relations'. Meanwhile, the head of Hungarian diplomacy announced the veto of 6.5 billion EUR from the European Peace Facility (EPF). These funds are available to EU member states for arms transfers to Ukraine. Hungary has been blocking the disbursement of EPF funds for several months. Unanimity among all EU member states is required to vote on further financial tranches.

Trilateral relations. The policy of R. Fico's government in Slovakia towards Ukraine is characterised by dualism – on the one hand, the authorities declare continued support for Ukraine through EU mechanisms, while on the other, they echo the narrative of their southern neighbour demanding peace (“IEŚ Commentaries”, no. 1087). Hungarian-Ukrainian relations, however, have long been shaped by the conflict over the rights of the Hungarian minority in Transcarpathia. Prime Minister V. Orbán has accused Ukraine of escalating the conflict, recruiting Transcarpathian Hungarians to the front, and deliberately sabotaging peace talks with Russia since the war began. This situation has not been altered by the Hungarian prime minister's visit to Kyiv (“IEŚ Commentaries”, no. 1159). Additionally, tense relations were exacerbated by V. Orbán's visit to Moscow and his meeting with Vladimir Putin as part of the 'Hungarian peace mission' (“IEŚ Commentaries”, no. 1160).

Conclusions

- A shortage of Lukoil-owned crude oil supplies could have short-term negative consequences for facilities in Hungary and Slovakia. An ad hoc solution will be the use of crude oil from accumulated stocks – both countries are members of the EU and the International Energy Agency, so they are prepared for such difficulties. This situation could result in Lukoil's place being taken by other crude oil suppliers trading Russian crude oil in the region.
- The existing system of crude oil and petroleum products stocks ensures the availability of crude oil for refineries, and thus also the availability of petroleum products at stations. The current situation of limited crude oil supplies will not necessarily force a change in Slovakia's and Hungary's approach to cooperation with Russia. However, it is a clear signal that both countries should develop a process of energy diversification.
- It should also be borne in mind that a reduction in production at refineries in Slovakia and Hungary could negatively impact fuel availability in Ukraine – both plants export manufactured products to that country as well (“IEŚ Commentaries”, no. 778). R. Fico has already announced that the Bratislava refinery will not supply diesel to Ukraine if supplies of Lukoil-sourced crude oil are not resumed.

- Ukrainian sanctions against Lukoil, resulting in the suspension of crude oil supplies to Hungary and Slovakia, present an opportunity for R. Fico and V. Orbán to pursue a strategic rapprochement in Hungarian-Slovak relations. Undoubtedly, the situation will also be used in the propaganda machines of both countries to discredit Ukrainian efforts to join the EU and to put pressure on the EU to achieve specific foreign and domestic policy goals.