Analyses OSW

CENTRE FOR EASTERN STUDIES 2.02.2011 www.osw.waw.pl

Russian refinery in Ukraine suspends production

On 31 January, the board of the Russian firm TNK-BP decided to halt production in its refinery in Lysychansk, the second largest in Ukraine. Lukoil took the same step with its refinery in Odessa last autumn. The decision by TNK-BP demonstrates the difficult situation which refineries in Ukraine are facing; but above all, this move should be seen as a means of putting pressure on the Ukrainian government to introduce a protective customs duty on the import of fuel from abroad, with which Ukrainian plants cannot compete.

The Lysychansk refinery announced that it would cease production for the first quarter of 2011, although this period may be extended. Investment plans associated with modernising the refinery (US$160 million) were frozen. During the first three quarters of 2010, the Russian company suffered losses of US$59 million in Ukraine. Similar results have been seen in all refineries in Ukraine. These losses have resulted from the difficulty Ukrainian refineries have in competing with those in Belarus and Russia, which receive cheaper oil. In 2010, the situation was worsened by the import of untaxed fuel by the Livela company.

The decision by TNK-BP is most likely an attempt to put pressure on the Ukrainian government's inter-ministerial commission for international trade, which first met on 31 January, and whose function is to examine the legitimacy of duties on the import of gasoline (€130 per tonne) and oil (€80 per tonne). This has been urgently requested by the Ministry of Energy under Yuri Boyko, but opposed by Deputy Prime Minister Andriy Kluyev's Ministry of Economic Development, which supports the fuel importers. The possible introduction of tax duties would improve the condition of the Ukrainian refineries, but it would also increase the price of petrol. <smat>