

Problems of refineries in Ukraine

Last week, the Supreme Administrative Court judgement passed a ruling confirming the mysterious Livela company's right to the untaxed import of crude oil and fuels. This company is most likely linked to politicians belonging to the Party of Regions. The Court's judgement may form the basis for the resumption of the company's activities; it has led to multi-billion losses for the Ukrainian budget and harmed the profitability of the oil processing industry.

Livela is a daughter company of the secretive Taystra firm; it has been operating on the basis of an outdated Ukrainian law from 1992 on the protection of foreign investments, which exempts companies with foreign capital from the payment of taxes (customs duties, VAT and excise duties). Although the act expired in 2003, the next year Taystra managed to obtain a judgement from the Court which preserved its tax breaks. Livela worked actively from August to November 2010 to rapidly monopolise the market for fuel imports (resulting in an 80% market share). In December, in connection with a investigation by the anti-monopoly committee, Livela ceased its imports.

The losses to the Ukrainian budget amounted to approximately 3 billion hryvnia (US\$375m). The import of cheap fuels has caused a decline in the profitability of refineries in Ukraine; the LUKoil refinery in Odessa suspended production in October. On 15 January, the Executive Director of TNK-BP in Ukraine announced that if the Government does not take measures to protect the Ukrainian petroleum industry, production in the group's refineries in Lysychansk will cease .

It is not known who benefits from Taystra's activities, but it is clear that it must be supported at the highest level of the Party of Regions (some sources suggest that the first Deputy Prime Minister Andriy Kluyev is involved). If Livela resumes importing fuels, this could lead to the rapid bankruptcy of the already unprofitable Ukrainian oil-refining industry.

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