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Hungarian-Slovak Dispute with Ukraine: Suspension of Lukoil Oil Supplies

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Following Ukraine's decision on 24 June to extend sanctions on the Russian oil company Lukoil, including the transit of oil through Ukrainian territory, the company suspended deliveries via the southern branch of the Druzhba pipeline, which supplies crude oil to Slovakia, Hungary, and the Czech Republic. The issue of Lukoil's supply disruptions was first disclosed by Hungary's Foreign Minister Péter Szijjártó on 16 July after his conversation with his Russian counterpart Sergey Lavrov.

In the following days, Hungarian and Slovak authorities publicised the suspension of Lukoil's oil supplies, severely criticising Ukraine for blocking the transit and accusing it of breaching the EU association agreement. Slovak Prime Minister Robert Fico noted that Kyiv's actions impact the member states – Slovakia, Hungary, and partly the Czech Republic – more than Russia. On 22 July, both countries jointly approached the European Commission, requesting mediation to resolve the dispute over the Ukrainian transit ban. The Commission announced it would investigate the matter but also emphasised that it does not see an immediate threat to the security of oil supplies to the EU. On 23 July, Hungary's foreign minister announced that until Kyiv resolves the issue of Lukoil's crude oil transit, Budapest would block the disbursement of €6.5 billion from the European Peace Facility (EPF), which refinances military supplies from member states to Ukraine. Notably, Hungary has been blocking subsequent tranches for over a year.

Ukrtransnafta – the pipeline operator in Ukraine – issued a statement saying that "oil transportation to European countries is proceeding as planned in accordance with orders received from European customers". Meanwhile, Oleksiy Chernyshov, head of Naftogaz, its parent company, stated that the volumes of crude oil transits in July are comparable with those in previous months, though they do not include crude oil from Lukoil.

The Russians responded to Ukraine's actions succinctly. On 22 July, at a press conference, Kremlin spokesman Dmitry Peskov stated that "although the situation is quite critical for our customers, it is in no way dependent on us" when asked about potential efforts to unblock Lukoil's oil transit. He expressed doubt about the possibility of contacting Ukrainian companies, as he believes Kyiv's decision is political in nature, and Moscow does not engage in dialogue with the Ukrainian authorities. The next day, Deputy Prime Minister for Energy Alexander Novak stated that Russian oil deliveries to Slovakia and Hungary via the southern branch of the Druzhba pipeline are being conducted, and efforts are underway to ensure their continuation.

Commentary

- Kyiv's decision to extend sanctions aligns with its policy of tightening measures against entities supporting Russian aggression against Ukraine. Currently, various restrictions apply to nearly 7,000 legal entities, the vast majority from Russia. The 24 June package targets, besides Lukoil, 365 enterprises, mostly Russian. All have been banned from transiting goods through Ukraine for 10 years. This resolution was adopted on the day the sanctions imposed on Lukoil in 2021 (a ban on capital outflow) expired, before the July visits of Prime Minister Viktor Orbán to Moscow and Beijing.
- Lukoil was previously the largest supplier of oil from Russia to Slovakia and Hungary, accounting for about 40% of Russian crude oil supplies to these countries and meeting about 30% of their demand. Although they can temporarily source oil from other Russian suppliers and the total volume of supplies did not decrease in the first month after Ukraine imposed sanctions on the company, authorities in Budapest and Bratislava claim that this is only a temporary solution, and supplies in the longer term are jeopardised. Hungary and Slovakia have a 90-day strategic reserve of crude oil, as required by EU regulations. The issue was publicised several weeks after Kyiv extended the restrictions, suggesting that neither country managed to reach an agreement with either the Ukrainian or Russian side (it is unknown whether this issue was raised during Orbán's visits to Kyiv and Moscow in early July). Ukraine appears determined to maintain the restrictions, and Russia – although interested in continuing oil deliveries to Hungary and Slovakia – is unlikely to facilitate the replacement of Lukoil's supplies with those from other sources.
- The Czech Republic, Slovakia, and Hungary benefit from the fact that EU sanctions – neither those from 2022 nor subsequent ones – have not targeted the export of Russian crude oil flowing through the southern branch of the Druzhba pipeline. This exemption was intended to give these three landlocked countries time to gradually reduce their dependence on Russian oil imports (the EU's declared goal from 2022 is to completely stop importing raw materials from Russia by 2027). Significant diversification progress has so far been achieved only by Prague; after completing the expansion of the connection to the oil terminal in Italy, it plans to stop importing Russian oil by 2025. Bratislava has reduced its dependence from 100% in 2021 to 67–75% in the first half of this year, while Budapest has maintained the pre-invasion level of imports (at about 70%). Both Slovakia and Hungary have an alternative supply route to Druzhba – the Adria (JANAF) pipeline, connecting refineries in the capitals of both countries to the oil terminal in Omišalj, Croatia. Currently, deliveries of non-Russian oil through this route account for about one-third of their imports, although the pipeline's capacity would be sufficient to replace Lukoil's oil and almost fully supply both refineries. However, Slovakia and Hungary accuse the Croatian side of applying high transit fees, questioning the profitability of importing crude oil through this route. It is also unclear to what extent the works announced in 2022 to adapt facilities to process non-Russian grades of oil have been completed.
- The sluggish diversification efforts of Slovakia, and especially Hungary, are primarily due to a lack of political will and immediate economic benefits. Despite the Russian invasion of Ukraine, Budapest has maintained close energy cooperation with Moscow in the fields of nuclear energy and resource imports. The MOL company benefits from importing

cheaper oil from Russia (due to sanctions, Russia must sell it at a discount to Brent crude; depending on market conditions, the discount has ranged from $5 to $30 per barrel) – enjoying high revenues and an advantage over regional competitors. The Hungarian budget also benefits from the windfall tax on the company's excess profits. The situation is similar in Slovakia – the Slovnaft company, part of the MOL group, recorded record profits in the 2022–2023 fiscal year, resulting in additional state revenue. Budapest appears to consider importing Russian oil in the long term and also plans to strengthen its transit role by extending the Druzhba pipeline from Hungary to Serbia.

- The issue of Lukoil supply disruptions does not affect the Czech Republic, despite its continued import of Russian crude. This is because it sources oil from other Russian companies, and the pipeline operator Mero has not recorded a decline in Druzhba deliveries. The TAL pipeline, connecting Czech refineries to the Italian terminal in Trieste, is currently being expanded. It already provides half of the alternative supplies to Russian oil, and upon completion of the works, it will be able to cover the entire import (see: '*The TAL is expanding: the Czech Republic is gaining independence from Russian oil supplies*'). From 2021 to 2023, the Czech Republic increased the share of crude transported by Druzhba from 49% in 2021 to 56–58% in the following two years. In the first half of this year, it decreased to 40%, the lowest in at least 15 years. Only the larger of the two Czech refineries, in Litvínov, still processes Russian oil. Nevertheless, the owner of both facilities, the Orlen group, announced in autumn 2023 that this refinery had also gained full capacity to process lighter (non-Russian) grades of crude oil. Meanwhile, Prague emphasises its determination to abandon Russian oil as soon as possible, that is, after the modernisation of the TAL pipeline is completed.
- Lukoil supplies about half of the 14 million tonnes of oil (data for 2023) annually transported through the southern branch of the Druzhba pipeline from Russia to Slovakia, Hungary, and the Czech Republic. This represents just under 6% of the entire Russian export of crude oil. Moscow's passive – at least publicly – stance towards the challenge posed by the consequences of Ukrainian restrictions is likely due to its interest in exacerbating disputes among EU and NATO members over their stance on Ukraine and sanctions on Russia. The Kremlin may particularly hope that Budapest and Bratislava will increasingly sabotage EU and NATO support for Ukraine as a form of retaliation. It also anticipates that seeking solutions to the issue might lead to discussions on partially easing the sanctions regime, especially regarding critical imports from Russia.