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Adding Fuel to the Fire: How Ukraine's Weaponization of Energy Threatens Europe

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The ban on the transit of oil from Lukoil through Ukraine has sparked backlash. The loss will have a serious impact on oil supplies, fuel prices and, by extension, many other areas—not only in Hungary and Slovakia but also in the broader region. Although Ukraine aims to punish Lukoil, the countries that will feel the effects of the ban the most are precisely those who provide Ukraine with raw materials or electricity when needed. Kyiv, which is fighting for its EU accession, is doing the same thing it accuses Moscow of doing: using energy as a weapon and a tool of influence. In the long term, Kyiv is only complicating its own situation, alienating potential partners in its European path.

Ukraine's Place in Regional Energy Distribution

Russia's economy depends heavily on hydrocarbon exports. The Russian Federation has been a cheap and reliable supplier of oil and gas to Europe since the Soviet era, thanks to its extensive pipeline system. After the collapse of the Soviet Union, 90 percent of the oil and gas pipelines to Europe passed through Ukraine. Thanks to the pipelines and the transit of Russian hydrocarbons through Ukraine, Ukraine earned substantial revenues, and Russia was able to meet the needs of its customers without building new pipelines. Ukraine's geostrategic location allowed it to capitalize on the opportunity to transfer oil and natural gas from Russia, which was eager to sell, toward European countries eager to buy through the pipelines on its territory.

The economies of those at both ends of the pipelines grew, but Ukraine's geopolitical advantage also became a curse, as those interested in controlling the pipelines crossing its territory sought to gain political influence in Kyiv. It is now clear that Moscow lost this battle for influence. In recognition of this, natural gas transit routes between Russia and Europe were redirected to bypass Ukraine, but oil continued to flow to Europe through the Friendship Pipeline.

After the annexation of Crimea and the outbreak of the conflict in the Donbas, Russia was subjected to sanctions, and buyers of Russian hydrocarbons were criticized for buying from an aggressor that uses its energy resources as a weapon and has leverage to advance its interests. With the outbreak of the Russo-Ukrainian war, sanctions were imposed on Russian oil, but countries such as Hungary and Slovakia were exempted because of their economies' direct exposure to Russian hydrocarbon imports.

Recent events suggest that Putin's energy "weaponization" tactics are now also being used by Kyiv. On July 17, it was reported that Ukrainian sanctions against the Russian oil company Lukoil, which has been subject to sanctions in Ukraine since 2018, had been expanded. Lukoil and its subsidiaries were completely banned from transporting oil through in Ukrainian pipelines. The move was met with disapproval from Budapest and Bratislava in particular, because the vast majority of both countries' oil imports pass through Ukrainian pipelines. While the sanctions do not apply to other Russian oil companies such as Rosneft or Tatneft, the fact that Ukraine is taking such unilateral step is a worrying sign, as there is no guarantee that it will not do the same to other companies.

Meeting Hungary's Energy Demands

MOL's oil refinery in Százhalombatta processes 8.1 million tonnes of oil per year, of which roughly 4.2 million tonnes come from the Friendship Pipeline, and of which 2 million tonnes are supplied by Lukoil. Another 2.4 million tonnes reach MOL's refinery through the Trans Adriatic Pipeline, which is supplemented by a further 0.8 million tonnes of domestic production. Accordingly, the loss of oil from Lukoil's can be made up for by Hungary—albeit with considerable effort. For Slovakia, the Russian oil represents 95 percent of crude imports, with an annual processing volume of 6.1 million tonnes.

According to an assessment carried out by MOL, if the Friendship Pipeline was closed, the Trans Adriatic Pipeline would be the only supply option. So, even if MOL could buy oil similar to Russian crude, getting it to refineries would be difficult. The amount of oil coming through the Adriatic is not sufficient, because while the Trans Adriatic Pipeline transports 30 kilotonnes of oil per day, the total oil demand of MOL Danube Refinery and Slovnaft is 36 kilotonnes per day. Whatever the type of oil, these refineries would therefore receive 6 kilotonnes less oil per day. At the same time, the refining of crude oil is a complex process. The type of the oil is important, as the refining process is adapted to the type of oil. According to MOL, if a Russian embargo is implemented, there will be a trial period for adapting the existing refining process, which will involve many technological risks. An alternative to the Russian oil blend would have to be found, which is risky both because of the technical limitations and because the quality of the alternative oil could be different. These factors mean that an embargo would cause a significant loss of production.

Unintended Consequences: How Ukraine's Embargo Threatens Regional Stability

MOL has a significant market share in the Central and Eastern Europe (CEE) region. Its share is above 40 percent in Hungary, Slovakia and Croatia, 20–40 percent in the Czech Republic and Bosnia and Herzegovina, and 10–20 percent in Austria, Slovenia, Romania, Montenegro and Serbia. Taking into account MOL's market share and the fact that the vast majority of products leaving MOL's refineries are diesel and gasoline fuels, it can be assumed that if the loss of oil import persisted in the long term, it would lead to supply disruptions throughout the region. This could drive up prices because of both reduced supply and market turmoil.

If the embargo does happen, the necessary quantity and quality of oil will have to be obtained to prevent long-term disruptions. Even if this oil was secured, however, it would be secured at a premium and with delivery delays. This would still lead to a short-term disruptions: According to MOL's calculations, the Danube Refinery's production would fall by around 20 percent, while Slovnaft's production would fall by 30 percent. This would clearly cause fuel shortages not only in Hungary and Slovakia but also throughout the region.

Hence the Ukrainian sanctions seem to fly in the face of overall strategy in the European Union. News reports suggest that the sanctions will cause energy shortages and spiraling prices in Hungary, but these ideas rest on a misunderstanding of how energy markets work. The Hungarian oil company MOL exports substantial amounts of energy to the surrounding region—meaning that the entire market will be impacted. As refining capacity falls, domestic consumption in Hungary will be prioritized and countries like Slovakia, Croatia, the Czech Republic, Bosnia and Herzegovina, Austria, Slovenia, Romania, Montenegro and Serbia will have to bid for oil in other segments of the market. This will drive up overall European energy costs and squeeze consumers across the continent.

Despite criticism towards Ukraine, and the Hungarian and Slovakian requests for a judicial investigation by the EU Commission, several press outlets have reported that the volume of oil flowing through the Friendship Pipeline has not changed since the sanctions against Lukoil were imposed. Slovakia, in contrast, has reported that Slovnaft has lost 31 thousand tonnes. For Hungary, there was no loss of oil imports in June. Nevertheless, Lukoil will not send any oil through the Ukrainian transit system for July, so a total of 350–400 thousand tonnes of Lukoil volumes will fall out of the system that month, representing 25–30 percent of the Hungarian crude oil refined and 35–40 percent of the Slovakian crude oil. Hungary has strategic oil reserves that would last for 90 days in the event of a full embargo. If an embargo is imposed, “only” the shortfall will have to be made up, giving more time for maneuvers and legal action. Even so, the situation is worrying, and a solution is needed as soon as possible.

In the international press and in Hungarian media, the statements of Inna Sovsun, a member of the Holos (Voice) party and a member of the Ukrainian Parliament’s energy committee, gained widespread attention. Sovsun justifies the sanctions against Lukoil as a realistic step that gives substance to the sanctions on Russian oil, since the sale of Russian pipeline oil provides Moscow with revenue to finance its war efforts. The exception granted to Hungary and Slovakia was, in the Ukrainian, but rather in the Sovsun, reading, meant to provide a transitional period to be used for energy diversification. That this did not happen is not Ukraine’s fault. Ukraine is not sanctioning Hungary or Slovakia, but a Russian company. There has also been outrage at the suggestion that the move could be used to persuade Hungary, which has been acting like a black sheep, to change its policy on Ukraine to a more supportive stance like that of the other EU Member States, rather than setting a “bad example” as Slovakia is already doing.

Sovsun’s position, however, is not the official position of Ukraine, and her message is intended for a domestic audience rather than an international one. Within Ukraine, Kyiv has often been criticized for being too lenient towards Hungarian demands, which has damaged its national interests, but also the national ethos. Many see Budapest as holding the key to Ukraine’s EU integration during the six months of its EU presidency, with the power to open or close the door. To start the integration process as soon as possible, Ukraine is forced to make compromises. There has even been a marked change in the rhetoric on ending the war and negotiating with Russia. In this light, Sovsun’s statements can be seen as a kind of response, as Ukraine now seems to finally have a tool of pressure in its hands.

Mistreating EU Allies Endangers Ukraine’s Accession Path

Of course, if we are to use the rhetoric of the West in the past, this tool is nothing other than the weaponization of energy. Weaponizing energy is Putin's tactic, and Kyiv, which by its admission is fighting to defend the Western world, should not be in the least inclined to resort to using such means against Western countries. It does not make sense for a country aspiring to EU membership to treat EU Member States in such a way, especially when the success of its accession candidacy will depend on the approval of these same Member States.

Ukraine’s move is risky, and although it may seem bold from a domestic political standpoint, objectively, it is rather suicidal. It is important to bear in mind that the oil that flows through the Friendship Pipeline to Slovakia and Hungary is also the same fuel destined for Ukraine, as Slovakia accounts for more than 10 percent of Ukraine’s diesel imports. The oil that flows through the pipeline is also an important element of the power generation industry as oil-based lubricants are crucial in the use of gas and steam turbines. The electricity generated on the Hungarian powerplants is exported to Ukraine to mitigate the power outages and it stands for more than 40% of the Ukrainian energy import.

The Ukrainian move not only puts at risk countries such as Hungary and Slovakia that do not directly support Ukraine with arms (although the Slovak government does not interfere in arms sales by Slovak arms manufacturers, most of which end up in Ukraine), but also countries that openly support Ukraine with arms, including the Czech Republic, Croatia and Austria, in which MOL has a stake. If Ukrainian oil transit is disrupted, the effect envisaged by Sovsun could prove counterproductive. While the calculation is that the Hungarian and Slovak governments can be made into scapegoats that “provoked” the sanctions (in the case of Hungary, in part because of the prime minister's trips to Moscow and Beijing), Ukraine could also antagonize several other European states. So far, only the Slovakian president has indicated that, while they remain patient with Ukraine for the time being, if Ukraine does not reverse this decision, Slovakia will retaliate.