Press release

EU sanctions loophole: Bulgarian refinery exploits exemption to send over EUR 1 billion in tax revenue to Russia

HELSINKI, 9 NOVEMBER 2023 – Europe's ban on Russian oil and the subsequent enforcement of a price cap was meant to choke Russia's revenue stream from oil, limiting their ability to fund the invasion of Ukraine. Despite the sanctions, there are still loopholes that allow Russian oil and oil products to flow into the EU, while euros flow into Putin's war chest.

Today, the Centre for Research on Energy and Clean Air (CREA), Global Witness and the Center for the Study of Democracy (CSD) have published an investigation revealing that Bulgaria's Burgas refinery, within EU borders, has sent an estimated EUR 1.13 billion in tax revenue to the Kremlin from its imports of Russian crude oil for the first ten months of 2023.

The EU's embargo on Russian oil, which came into effect in December 2022, provided an exemption to Bulgaria with the aim of ensuring the supply of petroleum products both domestically and to Ukraine. It was distinctly designed to prevent the exports of refined products to other EU countries or third countries.

While there are exceptions to the restrictions on exporting refined products, these exemptions are not designed to allow for exports to the EU. Despite that, CREA, Global Witness and CSD analysis of shipping and customs data shows that refined products from Burgas are still being sent to the EU. In the first ten months of 2023, Bulgaria was the fourth largest buyer of seaborne Russian crude oil, behind only India, China, and Turkey — proving a huge source of export revenues for Russia.

CREA, Global Witness and CSD's investigation shows that Bulgaria's largest refinery Neftochim Burgas — 99% owned and operated by Russian fuel giant Lukoil — is buying discounted Russian crude and selling refined products on the global market. The Burgas refinery has increased the proportion of crude oil it buys from Russia to 93% in the first ten months of 2023, rising from 70% prior to Russia's full scale invasion of Ukraine. Our analysis of Kpler data estimates that the refinery's seaborne exports of oil products alone are valued at EUR 984 million in 2023. Furthermore, the Kremlin benefits doubly from this trade — from the taxes levied on the Russian export of the crude bought by the Bulgarian refinery and from taxes paid by Lukoil from the exports of its petroleum products.

The investigation tracked the Seaexpress, a tanker operated by a Greek company, to expose the refinery's exploitation of the exemption. On 8 August, the ship loaded 40,000 tonnes of fuel oil from the Neftochim Burgas refinery, eventually unloading the cargo in Rotterdam 15 days later.

Burgas had not received any non-Russian crude for 21 days prior to the Seaexpress' loading its cargo. In the same period, the refinery received four shipments of Russian crude totalling over 340,000 tonnes. This has led CREA, Global Witness and CSD to believe that the fuel on the Seaexpress was almost certainly derived in part from Russian crude.

Under EU laws — which consider the principle of mass balance — Bulgaria's exports of refined products to the EU cannot exceed its imports of non-Russian oil. The potential violation of the exemption to sanctions that they have benefitted from can therefore only be scrutinised in February 2024, when a year's worth of import and export data can be reviewed.

Data from Eurostat shows that Bulgaria exported 304,000 tonnes of refined petroleum products to the EU between March and July 2023. During this same period, the refinery imported 2.1 million tonnes of Russian crude and only 216,000 tonnes of non-Russian crude.

We cannot exclude that some of these exports were produced by the two smaller refineries operating in Bulgaria, or the possibility that they were non-Russian refined products in transit. Some of the refined products exported to Romania — 52% of Bulgaria's exports to the EU — may also have been sent directly to Ukraine, which is permitted under the exemption.

"Whether or not Burgas ends up breaching the letter of the EU's Russian oil embargo, its actions undermine the spirit of the ban. Lukoil is guzzling Russian oil on EU soil, and selling oil products to Europe, contributing more than €1 billion to the Kremlin this year in the process. The EU should close the many loopholes in its ban on Russian oil and step-up investment in the clean energy transition," said Chris Lambin, senior data investigations advisor at Global Witness and co-author of the report.

However, considering Burgas's dominance in the Bulgarian refining sector, there is a clear possibility that it is violating the conditions of the exemption. Burgas has exported 1.7 million tonnes of oil products via sea channels to the world between December 2022 and

November 2023, further highlighting their role as a refining hub that facilitates an increase in global sales of Russian crude.

"*There is an urgent need to strengthen the implementation and enforcement of the oil sanctions by lifting the derogation given to landlocked Central European countries and Bulgaria as there are no technical or economic justifications for the exemptions. The derogation has been used as a backdoor for additional crude sales to the EU and the illegal shipment of final products to the rest of the member-states, Turkey and North Africa. The EU should also ban the transshipments of Russian oil products that arrive in EU ports which are then transported onwards to non-EU destinations,*" said Martin Vladimirov, Director of Energy and Climate Program at the Center for the Study of Democracy (CSD).

The Parliament of Bulgaria recently voted to allow the refinery to continue operations with Russian oil until 30 September 2024, after which the exception would be entirely lifted. With evidence directly implicating the refinery in boosting Kremlin coffers, it is imperative the exemptions be lifted now, and Lukoil be forced to sell its assets in the country. There is evidence of political and financial pressures having worked already in a previous similar case in Europe.

"Burgas' increased reliance on Russian crude oil highlights how loopholes in the sanctions are enabling a refining hub for Russian oil to operate within EU borders. Russian oil is fueling vehicles in the EU, and channelling funds to the Kremlin. Bulgaria's sanctions exemption must end and the Russian owned refinery sold to reduce financial flows that are used by Putin to wage war on Ukraine. The refinery has imported non-Russian crude oil previously, showing it has an alternative, and therefore must be banned from buying Russian oil," said Isaac Levi, Europe-Russia Policy & Energy Analysis Team Lead and co-author of the report.

The EU also must ensure tighter enforcement of sanctions, review the price cap urgently and consider abolishing the refining loophole currently exploited by Russia to export its oil on a global scale. The EU must extend sanctions to ban the importation of all Russian fossil fuels including LNG, pipeline oil and gas. These measures would significantly cut Russian revenue and constrain their finances used to wage their war on Ukraine.

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Note to editors

CREA's prior investigations have already revealed how Russia is using refineries across the world to refine and sell its oil. A second investigation has revealed the dominant role of the EU shipping industry in transporting the majority of Russian oil. The report also assesses the impact of the price cap in achieving its aim to limit Russia's oil export revenues.

All CREA publications can be found here.

About CREA

The Centre for Research on Energy and Clean Air (CREA) is an independent research organisation focused on revealing the trends, causes, and health impacts, as well as the solutions, to air pollution. CREA was founded in December 2019 in Helsinki and has staff in several Asian and European countries. The organisation's work is funded through philanthropic grants and revenue from commissioned research.

About Global Witness

Global Witness is an environmental advocacy group that investigates and campaigns against the companies at the heart of the climate crisis. The organisation was established in 1993 and has offices in London, Brussels, and Washington D.C.

About Centre for the Study of Democracy

The Centre for the Study of Democracy (CSD) is a public policy institute fostering the reform process in Europe through impact on policy and civil society. CSD's mission is "building bridges between scholars and policy-makers" and as an independent, interdisciplinary think tank focuses on policy development through dialogue and partnership.

About the data

CREA tracks fossil fuels exports from Russia using an array of different datasets. We use Kpler ship tracking data to estimate seaborne exports of fossil fuels from Russia to other countries. Please see information here on our data methodology.