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Cutting the Cord

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Hungary's continued imports of Russian oil are a political choice, not a necessity. Despite full access to alternative supply routes and refineries capable of processing non-Russian crude, Hungary has deepened its dependence on Russian oil, turning a temporary EU exemption into a permanent loophole in the sanctions regime.

The current report shows that diversification is technically feasible and economically viable, while discounted Russian oil has boosted refinery profits and channeled tens of millions of euros each month to the Kremlin, without delivering lower fuel prices for Hungarian consumers. By actively entrenching Russian energy ties and using them to obstruct EU decision-making, Hungary is undermining European energy security and the credibility of EU sanctions.

Authors:
Martin Vladimirov, Director, Energy and Climate Program, Center for the Study of Democracy
Tsvetomir Nikolov, Analyst, Energy and Climate Program at Center for the Study of Democracy
Isaac Levi, Europe-Russia Policy & Energy Analysis Team Lead, Centre for Research on Energy and Clean Air
Luke Wickenden, Energy Analyst in the Europe-Russia Policy & Energy Analysis Team, Centre for Research on Energy and Clean Airy

Cover photo: Canva

ISBN: 978-954-477-553-7

Center for the Study of Democracy, 2026.

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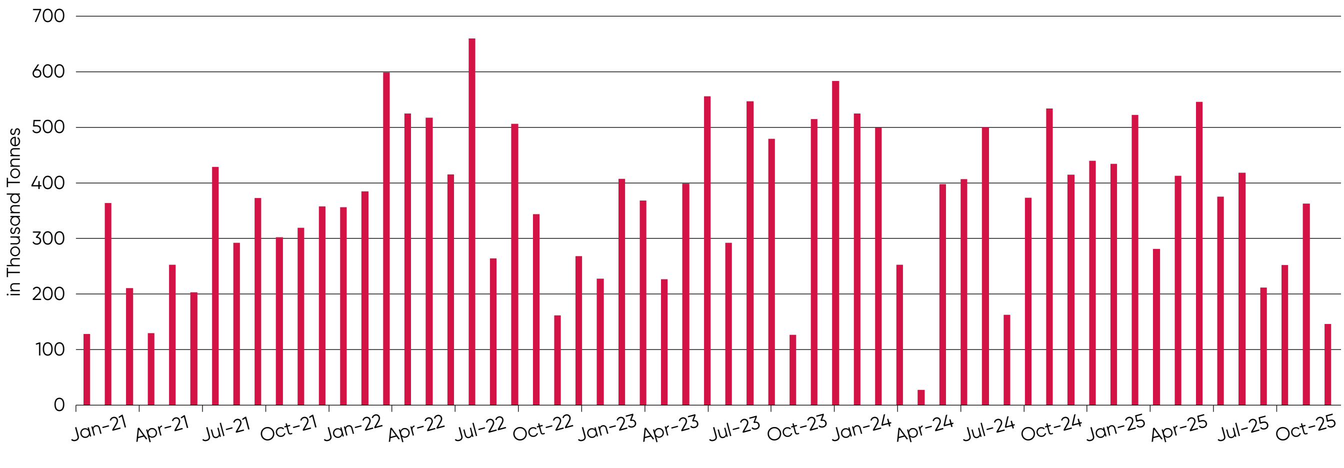
THE LOOPHOLE THAT FUELS THE WAR MACHINE

Hungary and Slovakia's continued reliance on Russian energy imports, particularly crude oil and gas, has undermined EU sanctions and strengthened Russia's economic and military power. The continued import of Russian energy into Hungary is not the result of technical or infrastructural constraints but part of the Kremlin Playbook in Europe for entrenching state capture networks of intermediaries in strategic economic sectors.

In June 2022, as part of its sixth sanctions package against Russia, the European Union granted Hungary, Slovakia, Czechia and Bulgaria a derogation from the ban on imports of Russian crude oil. The exemption allowed continued deliveries via the southern branch of the Druzhba pipeline beyond the general EU embargo on Russian oil, which entered into force in December 2022. The stated purpose of the derogation was to provide **temporary relief** to landlocked Member States and to give them **additional time to secure alternative supply routes** and reduce their reliance on Russian energy.

Since the adoption of the crude oil ban, Hungary has failed to make meaningful progress in diversifying its supply. Russian crude oil has remained the dominant source for the Hungarian market, with annual import volumes through the Druzhba pipeline reaching around five million tonnes. Hungary's largest oil company, MOL, remains the **last buyer of Russian crude in Europe**, in clear contradiction with the intent of EU sanctions policy.

Figure 1. Hungary's Monthly Imports of Russian Crude Oil



Source: CSD Based on Eurostat Data.

The Hungarian government and its dominant refiner, MOL, have consistently argued that ending imports of Russian crude would threaten supply security and lead to higher fuel prices. These claims have been used to justify the continued application of the derogation despite the availability of alternative supply routes via the Adria pipeline and despite repeated disruptions to the Druzhba system that have exposed the dependence on one source. This position has also been justified by claims that importing non-Russian crude via the Adria pipeline would impose excessive transit costs. However, comparative transit cost data indicate that the **mark-ups applied to non-Russian crude transported through Adria have remained lower** than those applied to Russian crude transiting Ukraine and Belarus, undermining the economic basis of this argument.

Developments elsewhere in the region directly undermine these arguments. **Bulgaria terminated its derogation in 2024** and completed a rapid transition away from Russian crude oil. The end of Russian oil imports did not result in supply disruptions or increases in fuel prices. On the contrary, **fuel prices in Bulgaria remained stable and subsequently declined,** reaching among the lowest levels in the European Union. The Bulgarian experience demonstrates that phasing out Russian crude oil is technically feasible and economically manageable, even in markets previously characterised by high levels of dependence.

In Hungary's case, continued reliance on Russian crude has been reinforced by contractual arrangements with the second largest Russian oil company, Lukoil, the country's primary supplier. In 2025, following the introduction of US sanctions against Lukoil, Hungary sought and obtained a specific exemption allowing continued crude deliveries under existing contracts. This derogation shielded Hungary from the immediate effects of the sanctions and further reduced incentives to replace Russian crude with alternative supplies.

Since 2024, Hungary has increasingly **leveraged its dependence on Russian oil in EU decision-making.** Budapest has repeatedly threatened to block or delay the renewal and strengthening of EU sanctions against Russia, explicitly linking its consent to the preservation of Russian energy flows. In January 2025, Hungary's refusal to support the extension of sanctions raised the risk of unfreezing more than USD 200 billion in Russian assets held within the EU. Throughout 2025 and into early 2026, the Hungarian government continued to challenge EU measures aimed at phasing out Russian energy, framing them as violations of national sovereignty while pursuing legal action at the European level.

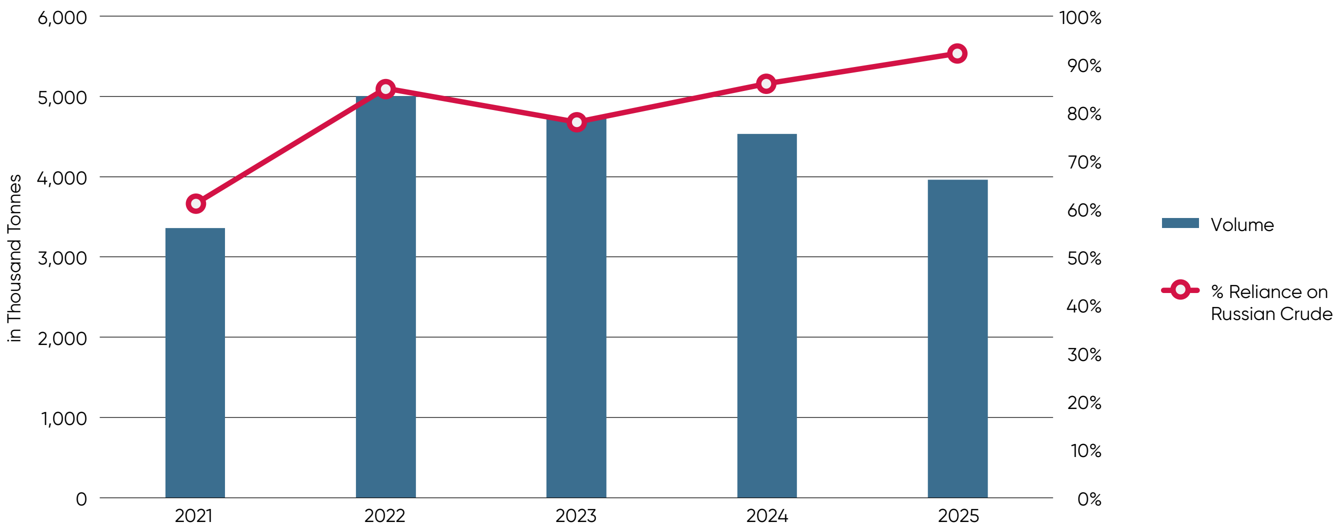
At the same time, Hungary has taken steps that further entrench Russian crude oil in its energy system. These include plans to expand the infrastructure connected to the Druzhba pipeline, initiatives to facilitate the onward transit of Russian oil beyond Hungary's borders, and negotiations involving assets linked to sanctioned Russian oil companies. Rather than preparing for a gradual exit from Russian supplies, these actions point to a deliberate strategy to preserve long-term access to Russian crude.

The conditions that initially justified Hungary's exemption from the EU ban on Russian crude oil no longer apply. Maintaining Hungary's exemption has therefore become a **political and commercial choice rather than a technical necessity**, with direct consequences for the coherence, credibility and effectiveness of the EU's sanctions regime. The full decoupling from Russian energy in the region is not only feasible but essential for long-term energy security in Europe.

RUSSIAN CRUDE OIL AT ANY COST

Hungary's reliance on Russian crude oil has deepened since the introduction of the exemption from the EU ban on Russian oil Whereas in 2021 Russian crude accounted for 61% of Hungary's total crude oil imports, by 2025 this share had risen to 92.29%, effectively locking the country into near-total dependence on a single supplier. This shift cannot be attributed to rising crude demand or temporary supply pressures. Over the same period, Hungary's total crude oil imports declined, falling from 4.53 million tonnes in 2024 to 3.96 million tonnes in 2025, indicating that lower import volumes were accommodated almost entirely through an increased concentration of Russian supply.

Figure 2. Hungary's Russian Crude Oil Imports by Year



Source: CSD Based on Eurostat Data.

Hungary is connected both to the Druzhba pipeline, which delivers exclusively Russian crude via Ukraine, and to the **Adria pipeline**, operated by the Croatian state-owned company JANAF, which is capable of supplying non-Russian crude from the Adriatic coast. Despite repeated claims that diversification through Adria is commercially prohibitive due to excessive transit fees, transit-related mark-ups for non-Russian crude imported via the Adria pipeline have been lower than those applied to Russian crude delivered through the Druzhba system, while also avoiding the elevated geopolitical and operational risks associated with pipeline routes crossing a war zone.

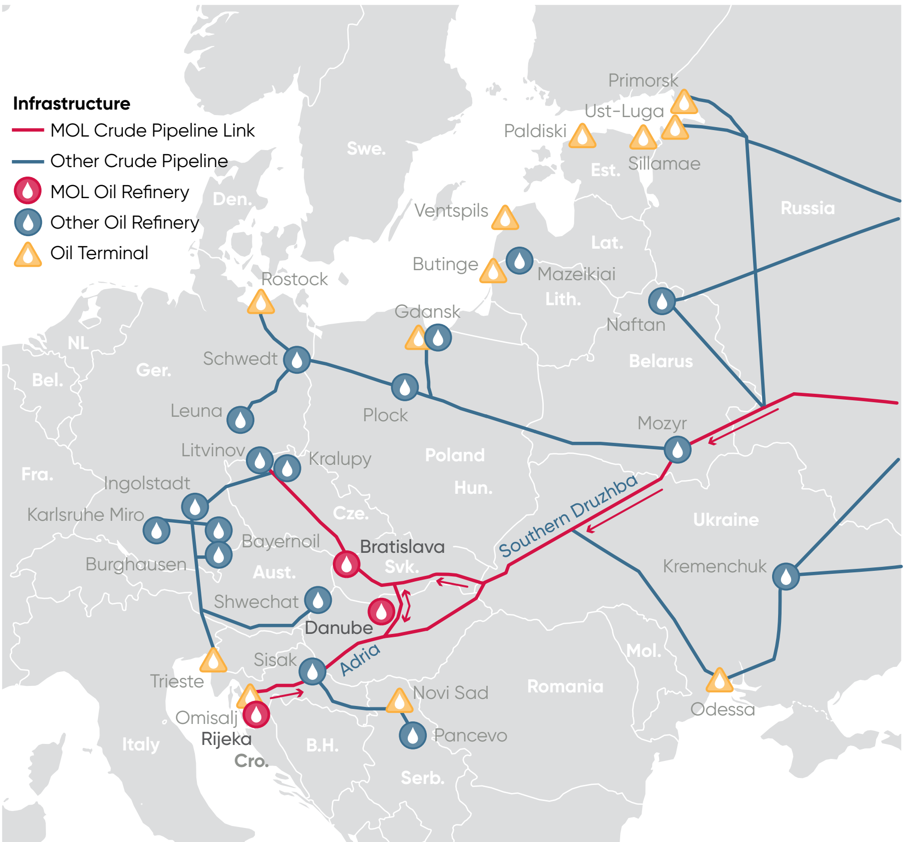
In 2024, Hungary paid a monthly average transit fee of EUR 12.22 per tonne for non-Russian crude imported via the Adria pipeline, corresponding to a 1.6% markup between the CIF price at the Omišalj importing terminal in Croatia and the price paid by the final user in Hungary. By contrast, Russian crude delivered through Druzhba in 2024 incurred EUR 21 per tonne for deliveries to end users in Hungary and Slovakia, representing an average markup of 4.5%. In addition, Russian crude transiting Belarus generated an estimated EUR 10.4 million in transit revenues, as exporters paid state-owned Belarusian pipeline operators EUR 2.16 per tonne, equivalent to an additional 0.46% markup on the price of Russian crude delivered to Hungary. Transit fees are significantly lower for non-Russian crude transported via the Adria pipeline, which carries far lower energy-security risks because it does not pass through a war zone.

HUNGARY'S OIL IMPORTS BANKROLL THE KREMLIN AND MOL

Hungary's imports of Russian crude in 2025, sent EUR 85.8 million per month in Mineral Extraction Tax revenues to the Kremlin, used to finance Russia's full-scale invasion of Ukraine. MOL's imports of Russian crude generated almost twice as much money for the Kremlin in tax revenues as the savings that the company gained from buying discounted Russian crude, which have averaged around EUR 47.3 million per month.

Throughout 2025, Russian crude imported into Hungary was consistently priced below the Brent benchmark, with prices ranging between EUR 354 and EUR 490 per tonne compared to average Brent prices of approximately EUR 402 to EUR 554 per tonne. Although narrower than the extreme discounts observed in 2022, the resulting price differential of 6.9% to 12.0%, equivalent to USD 4.16 to USD 8.69 per barrel, remained sufficiently large to provide a continuous commercial incentive to prioritise Russian crude over alternative supplies. Between January 2024 and August 2025, this translated into an average discount of around 20% relative to non-Russian crude.

Figure 3. Crude Oil Pipelines and Refineries across Central and Eastern Europe



Source: S&P Global Commodity Insights.

The discount on the Russian oil imports did not translate into lower fuel prices for consumers. In 2025, average weekly pre-tax fuel prices were 18% higher in Hungary than in neighbouring Czechia for gasoline and 10% higher for diesel. Similarly, in Slovakia, pre-tax fuel prices were 6% and 7% higher than in Czechia for gasoline and diesel, respectively. The prices in Czechia were lower even as the country ended its imports of Russian oil on 17 April, 2025.

The economic rents created by this discount accrued primarily to the refining sector, and in particular to MOL, which owns and operates all Hungary and Slovakia's refineries, and exercises full control over the country's crude slate. By processing predominantly discounted Russian crude while selling refined products at prices aligned with regional market levels, MOL's operating income rose 30% above pre-invasion levels, underscoring how discounted feedstock continued to support margins even as broader market conditions became less favourable.

PHASING OUT RUSSIAN OIL: A QUESTION OF POLITICAL WILL

Hungary can diversify its crude oil supply by using its alternative pipeline routes. **JANAF can fully meet MOL's needs** by supplying non-Russian crude through the Adria pipeline, which has a pipeline transport capacity of **14.4 million tonnes per year**—enough to cover all Hungarian and Slovak refinery demand. Capacity tests undertaken in September 2025 confirmed ample available throughput for diversified, non-Russian supplies. JANAF made a statement that lower flow rates reflected decreased MOL demand, and not lack of capacity.

Furthermore, Hungary could access non-Russian crude by reviving the **Odessa–Brody pipeline**, which would bring seaborne oil from global suppliers via the Black Sea. If rehabilitated, it could feed into the Druzhba pipeline, giving Hungary an alternative to Russian pipeline oil that would financially benefit Ukraine. Hungary has previously shown interest in revitalising this pipeline, conditional on financial and political support from the EU. The Odessa–Brody pipeline is reported to have a capacity of 14.5 million tonnes per year, which could fully meet the domestic consumption of Slovakia and Hungary.

In addition to the alternative pipeline routes, MOL has acknowledged that its refineries are technically capable of **processing non-Russian crude**. In public statements, Zsolt Huff, Managing Director of Downstream Production at MOL, confirmed that the company's refineries can operate without Russian oil. MOL's own operational history demonstrates that such a transition is feasible. The company began testing alternatives to Russian crude as early as 2015 and has repeatedly operated without Russian supply during disruptions to the Druzhba pipeline. In April 2019, contamination of the pipeline with organic chlorides led to a suspension of deliveries that lasted until June. During this period, Hungary increased imports of non-Russian crude via the Adria pipeline, reducing its reliance on Russian oil to 48%.

Although Central and Eastern European refineries have historically processed more sour Russian crude, this does not prevent adaptation to the processing of other crude blends. This flexibility is illustrated by the NIS refinery in Serbia, owned by Gazprom Neft, which switched from Russian to Iraqi crude without major disruption after Croatia's temporary exemption from the EU oil ban expired in 2023. Chemical analysis of the Lukoil-owned refinery in Burgas similarly shows the capacity to process 24 different crude blends, including Norwegian, Saudi and Guyanese grades.

The technical characteristics of MOL's refineries further support this adaptability. The Bratislava refinery has a Nelson complexity index of 11.5, while the Danube refinery's index stands at 10.6. Refineries with an index above 10 are considered highly flexible, capable of processing a wide range of crude qualities and producing higher value-added products.

WHAT'S NEXT?

In early May 2025, the European Commission published a revised Roadmap to fully eliminate the EU dependence on Russian energy by the end of 2027. The Roadmap explicitly states that **Central Europe already possesses the necessary alternative pipeline infrastructure** to diversify away from Russian crude oil. It calls on Hungary and Slovakia to adopt concrete national plans to phase out Russian oil imports through targeted infrastructure upgrades, accelerated refinery adaptation and closer regional coordination to remove remaining bottlenecks. Despite these recommendations, Hungary has continued to oppose measures aimed at ending its reliance on Russian crude and announced it will appeal the EU phaseout plan in the European Court of Justice. Hungary's position has remained consistent even as the U.S. has reiterated on a number of occasions that European countries must cease the imports of Russian energy.

There are no technical or economic reasons to maintain the exemption from the EU ban on the imports of Russian oil to Central Europe. Hence, the finalised REPowerEU Regulation (Regulation (EU) 2017/1938) must be extended to also end Hungary and Slovakia's unnecessary reliance on Russian crude transported via the Druzhba pipeline. The Council of the EU should pass the proposed legislation by the European Commission to ban Hungary and Slovakia's imports of Russian crude as soon as possible. To secure the transition process, the EU should set legally binding targets mandating the two member-states to cut their Russian crude imports gradually each quarter and fully phase out their Russian dependence by the end of 2026.

In addition, MOL should allow its long-term agreement with Lukoil for the **delivery of crude oil via the Druzhba pipeline to expire at the end of 2026.** Any extension of the supply contract should be viewed as a Hungarian strategy to create long-term dependence on Russia in the region.

To dispel any doubts about the lack of competitiveness of alternative supply routes, the EU should launch an independent audit of JANAF transit fees, and introduce an EU-backed **arbitration framework for resolving payment disputes** with JANAF. This would encourage flows through the non-Russian crude oil supplying pipeline and resolve claims from the Hungarian buyers that the Croatian company JANAF is an unreliable and unverified supplier.

The **EU should prohibit the transit of Russian crude oil through Hungary destined for the Pancevo refinery in Serbia**, particularly in light of MOL's anticipated acquisition from GazpromNeft. If Hungary secures an exemption to continue sending Russian crude to the Western Balkans via its joint pipeline project with Serbia, it would create a major sanctions evasion loophole, undermining the EU's Russian oil phaseout.