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Lukoil Seeks Tax Relief as Oil Discounts Deepen – Izvestia

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Valentina Petrova / AP / TASS

Russia's largest privately owned oil producer Lukoil has asked the government for tax relief after a sharp fall in prices for Russian crude, which is trading at a discount of nearly 50% to global benchmarks, the pro-Kremlin daily Izvestia reported Monday.

Citing a letter sent by the U.S.-sanctioned company to the cabinet and the Energy Ministry, Izvestia said Lukoil has proposed changes to the fuel price damper mechanism to reduce its tax burden and potentially secure payments from the federal budget.

The damper mechanism, introduced in 2018 to stabilize domestic fuel prices, compensates oil companies when domestic fuel prices remain below international levels.

Companies are required to make additional payments to the state when domestic prices exceed global benchmarks.

According to Izvestia, Lukoil has asked for the formula to be revised so that the discount

applied to Russian crude for tax purposes is capped at $10-15 per barrel.

Without such changes, oil companies would be required to make payments rather than receive compensation.

With discounts on Russian oil exceeding $20 per barrel, oil producers are expected to pay around 13 billion rubles ($170 million) into the budget under the damper mechanism in December, the newspaper reported.

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The industry is concerned that the widening discount of Russia's Urals crude to Brent has pushed damper payments into what Lukoil described as "negative territory," the letter cited by Izvestia said.

Under the mechanism, the state paid oil companies 881 billion rubles ($11.5 billion) last year and 1.8 trillion rubles ($23.6 billion) the year before.

However, companies are now expected to transfer about 47 billion rubles ($616 million) to the budget in December and January due to lower prices for Urals crude, Dmitry Kasatkin, managing partner at Kasatkin Consulting, told Izvestia.

The shift comes as oil producers face a sharp drop in profits. Lukoil reported that its net profit fell by nearly half in the first half of 2025 to 287 billion rubles ($3.8 billion) from 590 billion rubles ($7.7 billion) a year earlier.

Rosneft, Russia's largest oil producer by output and exports, said its profit for January-September fell threefold to 277 billion rubles ($3.6 billion).

Winter has brought further pressure on the sector, with the average price of Urals crude falling to $39 per barrel in December and to $35-37 in January, its lowest level since the Covid-19 pandemic saw global oil markets suffer an unprecedented collapse.

Around half of Russia's oil production projects have become unprofitable, with companies losing about $5 per barrel sold, Reuters reported last month, citing industry sources.

Profitability is largely limited to fields that benefit from reduced mineral extraction tax (MET) rates, which account for more than 90% of Russia's oil and gas budget revenues, Reuters' sources said.

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