Belarus – Russia: Dependency or Addiction?

by Tatiana Manenok

Belarus is able to meet just 13-15 percent of its energy needs from its own reserves. Belarus’s basic fuel is natural gas imported from Russia. Its share in the structure of energy consumption is between 75 and 80 percent. In recent years, Belarusian refineries were processing some 22 million tonnes of oil, of which around 1.72 million tonnes were extracted from domestic resources. In addition, until 2010, Belarus exported 1.5 million tonnes of oil annually (primarily to Poland and Germany).

Not only Belarus is dependent on Russian energy supplies, since the Baltic States and several Central European countries are in a similar situation. However, Belarus is most vulnerable, because Russia is virtually the sole supplier of its energy.

Staying so dependent on Russia, Belarus has retained most of its Soviet industry. To keep it going, Belarus imports so much energy that only much richer countries can afford.

Cheap Oil

In recent years, about 30 to 33 percent of Belarusian exports were oil products, of which the country exported 15 million tonnes every year. Until 2009, this represented a third of the country’s foreign exchange receipts. Increasing exports translated in recent years into 2-3 percent of annual growth of Belarusian GDP.

This was possible due to the relationship with Russia, which provided Belarus with access to cheap energy. However, since 2007 Russian subsidies have begun to decrease gradually. Although in 2007-2009 the price of oil imported by Belarus included an additional customs duty, it was still lower by 150-170 dollars per tonne than the price Ukraine had to pay to Russia.

Until 2010, the rules of the game in the oil market were determined by the agreement from 12 January 2007. This provided that Belarus had to share with Russia its income from exported products made from Russian oil. Moscow thought it more profitable to take its share through special export duties, rather than from the money already paid to the Belarusian budget. Belarus
also makes good money on its own customs duties levied on its exported oil products. In 2008, revenue from these duties accounted for 57 percent of all export receipts.

The volume of crude-oil supplies from Russia to Belarus was determined in the material and energy balance statements of the Union State (of Russia and Belarus) on an annual basis. In 2004-2009, Belarus was receiving 21 million tons of oil annually on average.

In 2004-2006 the price for the oil delivered to Belarus was determined on the basis of world and corporate prices minus export duty. At that time, Belarus exported Russian oil-based products at minimal rates of export duties in order to create the most suitable conditions for the supply of oil from Russia. Losses due to underpriced customs duties were offset by payments from foreign receipts derived from the sale of oil products.

Under the 12 January 2007 agreement between the governments of the Russian Federation and Belarus concerning the export of oil and oil products, since 2007 oil supplies to Belarus were covered with privileged customs duties. These were calculated using set ratios (in 2007 – 0.293, in 2008 – 0.335, in 2009 – 0.356).

Russia did not make any other charges for the supplies of the raw material, applying a zero VAT rate, and the VAT – in accordance with the rules of payment of indirect taxes – was included in the Belarusian budget. Thereby, the total Russian subsidy amounted to 14-15 billion dollars in recent years:

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**Gas Drug**

In Belarus, the consumption of gas, which is the basic fuel, has been growing steadily and its share in the country’s fuel balance is approaching 80 percent. In 2000, the gas supply amounted to 16 billion cubic metres, and in recent years its consumption increased to 21 billion cubic metres. Most gas is consumed by the energy sector (85 percent of electricity is produced in gas-fired
power plants) and also in the chemical and petroleum industry (which consumes about 20 percent of gas), and in the manufacture of building materials. 11-12 percent of gas is consumed by retail customers.

Until 2007, Belarus was buying Russian gas at a price of 46.47 dollars per 1,000 cubic metres. Since January 2009 the price was determined based on the average entry price of 48 dollars per 1,000 cubic metres, which was still two times less than the average gas price in Europe. Russia has treated Belarus preferentially not only in terms of price. In 2009, Belarus was settling accounts for gas on average annual, instead of quarterly, prices.

In the nearest future, major changes in the supply of Russian gas cannot be expected. Over the next 8-10 years the country will depend on what is a monopoly supplier, Gazprom. Beltransgaz failed to find any alternative suppliers.

The Ukrainian method to mix the Central Asian and Russian gas cannot be applied in Belarus. For technical reasons, it is not possible to send Central Asian natural gas to Belarus. Each case would require the consent of Russia, which has the right to determine the rate of transit. Mixing Russian and Norwegian gas is infeasible, because the latter is much more expensive.

Currently, people pay only for 30 percent of the gas supplied under municipal services. This is much less than in 2006, when they paid for 40.6 percent.

Russian gas supplies to Belarus are not determined at arm’s length, but on the basis of negotiated preferential terms. Russian waives its export duty (about 30 percent). Consequently, in recent years Poland was buying gas from Russia at an average price about $200 higher for 1,000 cubic meters than Belarus.

Russian subsidies to the gas sold to Belarus over 2004-2008 amounted to 15-16 billion dollars.

**Nuclear Power Plant**

Belarus cannot accomplish the ambitious project to build its own nuclear power plant without the financial assistance of Russia. According to Belarusian estimates, the minimum cost of the project is 9 billion dollars. In June 2009, the government of Belarus made an official request to the Russian government for a loan of 9 billion dollars to equip a nuclear power plant and to build an appropriate infrastructure for its construction and operation.
By the end of 2009, the Belarus’s foreign debt has risen to 14 percent of GDP. According to Belarusian law, a level of indebtedness in excess of 20 percent of GDP is considered to be dangerous. Despite the large increase in foreign debt, for the last two years Belarus spent little to repay it – less than 100 million USD annually.

Meanwhile, according to IMF specialists, as early as 2012, spending on debt service will amount to 644.8 million USD, in 2013 – 1,739 million USD, and in 2014 – 1,222.7 million USD. These expenses will become a significant burden on the budget. According to the IMF, in 2013 Belarus will have to spend 13.5 percent of its international currency reserves to repay the debt, which is equivalent to 3.2 percent of exports and 2.1 percent of GDP.

The situation will further deteriorate also because of spending on other debts of the country that is bound to increase. According to the IMF, in 2009 the spending on debts totalled to 0.5 billion USD and would stay on that level for the next two years. However, as early as in 2012 it will increase to 1.4 billion USD. In 2013, Belarus will have to pay out as much as 2.9 billion USD. Debt servicing will become a serious problem for the Belarusian government.

Belarusian authorities have long hesitated about which company should build the power plant. They were choosing from among the Russian AtomStroyExport, Franco-German Areva, and US-Japanese Westinghouse-Toshiba. However, in the end, the negotiations proved to be fictitious, because the Belarusian government has picked AtomStroyExport. As Yakov Keningsberg, the Chairman of the Radiation Defence Commission at the Belarusian Council of Ministers explained, the main advantage of the Russian option was “a community of culture and language”.

“The whole documentation is kept in Russian language, specialists communicate in Russian, internships are conducted in Russian power plants. Only imagine what would happen if we chose a project by Areva of France. The staff on all levels, from construction workers to operators, to the managers would have to be fluent in French. Only imagine what would happen if someone, because of a linguistic misunderstanding, would carry out an order incorrectly. Besides, the Russian reactors are much like all the others. All this considered, the decision is right”, Keningsberg said.

Actually, the decisive factor behind the choice was the Russian commitment to credit the construction project. Usually, in carrying out Rosatom’s projects abroad, the Russian government gives a loan of up to 85 percent of the costs. However, due to the fact that Russia and Belarus form a union (the Union State of Russia and Belarus), until recently Russia was prepared to consider granting a loan to cover 100 percent of the power plant construction costs.
The Russian side refuses to fund the infrastructure of the future power plant. Partners also disagree about the terms of the loan provision. Minsk wanted to sign a contract in the first quarter of 2010. The Russians want to approve the loan only after signing a contract to build the power plant.

**The Russian Market**

More than half of Belarus' exports are sold into the EU market. Belarusians sell there 14.5 billion USD worth of goods (the whole export amounts to 23 billion USD), and maintain a positive trade balance. It would seem that this balance should encourage Belarus to integrate with the world economy, a precondition for joining the WTO.

However, excellent figures for Belarusian exports to Europe are mainly the result of the boom in oil products and potassium fertilizers.

Over the past 10 years, diversification of the Belarusian exports has declined. Belarus exports primarily natural raw materials, low-processed goods, capital-intensive products and products with a high input of skilled labour. Exports of natural raw materials to countries outside the CIS has increased since 1999 from 22 to 62.7 percent, while other exports decreased. The proportion of products with high input of skilled labour in the Belarusian export basket has been decreasing as well. They can not compete in Western markets, and they fare less and less well in the CIS markets.

Belarus is firmly attached to the Russian market, although it earns on trade with Russia less than on exports outside the CIS. The share of products exported to Russia is more than 40 percent. For many Belarusian exports, Russia is the primary market. These include: footwear – 93.6% of exports, meat – 99.9%, TV sets – 96.9%, road construction machinery – 82.8%, metallurgical equipment, fish, internal combustion engines, refrigerators, furniture, etc.

**Prospects for Energy Independence from Russia**

According to its energy security policy, already in 2010 Belarus should have about 4.3 million tonnes of oil from sources outside Russia, which is about 20 percent of the oil processed in Belarusian refineries over the recent years. Minsk started to search for diversification options after its relations with Russia deteriorated in 2007, when the latter decided to curtail the subsidies to Belarus and introduced new rules for oil supply.
Diversification was addressed by President Alexander Lukashenko in a message to the Belarusian people and the National Assembly. “The country’s economy cannot depend on one supplier”, he declared, “it’s too risky these days”.

“Many in Russia ask why Lukashenko would have to import oil from Azerbaijan, Iran, Venezuela, once Russia’s is much easier to bring in. This is not the point. We need extra sources to buy the commodity we need, no matter from whom’, the President explained.

He added that the primary factor in seeking these additional sources should be economic considerations. “We don’t need prices that are too high”, Lukashenko said.

Oil-industry experts thought carefully how to supply “alternative” oil to Belarusian refineries by 2007. They put forward to transport the oil by tankers (about 100,000 tonnes per delivery). The Belneftekhim (BNK) holding company also wanted to try transporting oil by rail through the Baltic States – to work out a scheme for the supply of this strategic raw product in the event of “force majeure”.

The oil would be delivered to the Latvian port of Ventspils, and then by rail to Belarus. Afterwards it was released that it will not be the Venezuela’s “heavy” oil, because it was unsuitable for processing in Belarusian refineries. The company was going to buy Libyan oil, which it wanted to mix with the Russian oil during processing.

However, this idea failed both in 2007 and even two years later. Officials would always stress that diversification of oil supplies would only occur in “economic distress”. As one might guess, in that period there was no such need.

In March 2010, during his visit to Caracas, President Lukashenko announced sensational deliveries of Venezuelan oil to Belarus. But for the time being, a contract was concluded for the delivery of only a trial batch of 80,000 tonnes of oil, with the possibility of expanding exports to four million tonnes.

Lukashenko called the supply of Venezuelan oil a priority. He stressed that that year Belarus should bring the maximum quantity of Venezuelan oil, i.e., four million tonnes, and in the following year to increase its imports to ten million tonnes. “Ten million tonnes is the first step to the independence of our state. We should pursue it regardless of price. I should be informed of the risk of this plan not being implemented”, he demanded.
It is not known, how much the Venezuelan oil would cost. Lukashenko will probably seek preferential conditions during his talks with Chavez. Even then, though, the delivery of that product to Belarus will be very expensive. The oil will have to be carried by rail tankers from Odessa to the Mozyr refinery. This, according to preliminary estimates, could cost up to 65 USD per tonne, which is more expensive than transporting oil from Venezuela to the Ukrainian port.

Lukashenko insisted that his government provided the possibility of transporting this oil from the port by pipelines. Railroads should be used only in exceptional circumstances. “Set up the boots and start right away: Klaipeda, Ventspils, Odessa, Odessa-Brody – which way you think is appropriate” – Lukashenko stressed. He insisted that the pipeline transport be started as early as this year.

In the meantime, the trial batch of Venezuelan oil will be provided to the Belarusian BNK holding company, which is due to develop oil deliveries from Odessa to Mozyr. In the future, there are plans to establish a Venezuelan-Belarusian joint venture, with 75 percent of shares for the Venezuelan state company PDVSA, and 25 percent for BNK.

These is an option to optimize the supply of the Venezuelan oil through the Odessa-Brody pipeline which currently pumps oil in the opposite direction. This oil pipeline was planned by Ukraine and the European Union as a route alternative to Russian supplies. This should send the light Caspian oil to Europe. Its first segment, which is 674 km long, was opened in 2001, but stayed inactive until 2004, because the plans for supplies to Europe failed. Since 2004, the pipeline started sending the Russian oil to Odessa, where it was being reloaded onto tankers.

The intermediate pumping station belonging to the Belarusian section of the “Friendship” oil pipeline allows cheap transport of oil in the opposite direction. For this purpose, one of the oil pipelines of the Odessa-Brody corridor will be assigned.

The EU’s Eastern Partnership programme, which includes Belarus, Azerbaijan, Georgia, Moldova, Armenia and Ukraine, provides for connecting the participant states to the European energy security system.

The supply of the Caspian oil will be sourced by a joint venture, Sarmatia. However, it is doubtful that Belarus would accede to that project in the near future, as it risked losing 6.3 million tonnes of cheaper Russian oil. In January, Lukashenko was warned about such scenario by Russian President Dmitry Medvedev. “We expect the Belarusian side not to embark on competitive action towards the supplies from Russia, such as the supplies of oil to the Ukraine’s Kremenchuk
refinery, taken from its Russian owner as a result of an illegal takeover, or participation in the ‘Sarmatia’ project”, he wrote in a letter addressed to Lukashenko.

A reconsideration of the original concept on how to use the Odessa-Brody oil pipeline is possible, but probably not until 2012, when the Russian oil pipeline BTS-2 is launched. Experts point out that BTS-2 will replace the 60-years old ‘Friendship’ oil pipeline. This may cut out supplies to such countries as Hungary, Slovakia and the Czech Republic. Then the Odessa-Brody would remain the only route to supply oil from the Black Sea.

In February 2010, at a conference of the Belarusian Institute for Strategic Studies entitled “Belarus’ Path to Europe”, Russia’s former Deputy Minister of Energy and also the head of the Institute of Energy Policy Vladimir Milov said that within two years the situation in the energy sector would change dramatically.

In his view, this is related to the launching of BTS-2. “The closure of the ‘Friendship’ oil pipeline is a strategic decision. Oil transported through this route will be sent in new directions. Oil pumped through BTS-2 will be now supplied to Gdansk and Ukrainian ports. This change will also affect Belarus”, Milov said.

In his view, Belarus may suffer the fate of Lithuania, which – having sold its refinery to a Polish company – has been left without Russian oil. The new situation will create another opportunity for Russia to exert pressure on Belarus. “Russia will use its oil arguments in order to persuade Belarus to accept new concessions. If it refuses to succumb to Russia, Belarus will be partially or totally isolated from oil supplies”, Milov predicted.

Belarus is aware that sooner or later it will have to buy energy at world prices. Besides, the threat of Russian oil deficit is always there, if Russia succeeds in implementing its oil projects and creates alternative routes to transport this product further. For this reason, Minsk has been frantically looking for new suppliers of oil.

However, the deals with Chavez are uncertain. It is doubtful that these will succeed. They seem to be rather a demonstration against Moscow which in 2010 started to supply oil to Belarus on new, less favourable terms. Only 6.3 million tonnes of oil for domestic purposes are exempted from the customs duty, and all the rest is covered by the standard Russian customs duty.

Public Awareness of Energy Dependency
The Belarusian public learns about the Russian-Belarusian oil business via state TV and radio. Independent media in Belarus have a very small range. Any problem in this area is broadly covered not only by the Belarusian president, but also by analysts and state officials.

Any comments always assume one thing: Belarus and Russia are building the Union State, have signed an agreement that stipulates equal terms for all actors in both countries, which should also include the same prices for energy. Because neither party has withdrawn from this agreement, the Belarusian authorities still refer to the union rhetoric.

Reliable information about gas and oil dependency is negligible. The available figures do not give a clear picture of the relations between the two countries in this field. Since when Gazprom owns 50 percent of Beltransgaz’s shares, reliable information has been even more difficult to get. Officials cite trade secrets. It is not known, for example, how much exactly Russian gas is transported via Belarusian pipes.

At the Belneftekhim holding company, you can learn almost nothing about the work of its affiliates. The company demands official questions from the editorial office, but these remain mostly unanswered. Recently, the company has even ceased to organize press conferences, and therefore it is difficult to find out any details about the supply of Venezuelan oil to Belarus. It is difficult to analyze the merits of these supplies when we know neither the price, nor the terms under which this oil should be shipped.

The Opposition, NGOs and Government about the Problem of Energy Dependency

Opposition is very interested in the issue of Belarus’s energy dependency, and has organized many round tables and conferences on this topic. However, since experts and representatives of independent media participate in them, such events do not reach the broader society.

There is one noteworthy organization with a proactive attitude - the “Ekodom” association, which opposes the construction of the nuclear power plant. In February, “Ekodom” reported that it ordered a societal, environment-centred review of the project. Its results were to be delivered to the Environment Ministry, so that they could be taken into consideration in formulating the government’s environmental analysis of the project.

In February, experts who worked on the analysis commissioned by Ekodom gathered in Minsk on a public meeting to criticize the power plant project selected by the Belarusian Government as harmful from the environmental, as well as economic, technical and other perspectives.
Then, the group of experts met the managers planning to build the nuclear power plant, as well as Deputy Ministers for energy and environment to hear how their conclusions will be presented to the Government authorities. Obviously, Ekodom’s position will not affect the Belarusian authorities’ decision to build the power plant, but their activity is commendable.

**Tatiana Manenok** was born in a small forest village in 1959. Graduated from journalist studies at the Belarusian State University, she worked for several Belarusian newspapers and magazines. She has been working for the *Belarusy i Rynok* weekly since its inception in 1991. She is particularly interested in privatization, investment, logistics and energy. The author is particularly sensitive about the Belarusian-Russian relations, as she believes they are of great importance for the future of the country and its independence.