

Analysis

The Crisis in Russian-Belarusian Relations

By Oleg Aleksandrov, Moscow

Summary

The dispute over oil and gas prices between Belarus and Russia at the turn of the year has caused a serious deterioration in relations between the two countries. The result has been further delays in the already moribund efforts to create a Union state. Instead, Russia chose to end its subsidies to Belarus and demanded higher prices for its energy supplies and a 50 percent share in the Belarus gas pipeline monopoly Beltransgaz. Belarus has sought to move away from its close relationship with Russia, but has few options because of its poor relations with the West and lack of bilateral ties to other CIS countries.

Deteriorating Relations

Beginning in the middle of 2006, Russian-Belarusian relations began to deteriorate. Despite the obvious successes achieved in the military-political and economic spheres, including the growth of trade, which nearly reached \$20 billion in 2006, there were three areas of conflict:

- Finalizing the Constitutional Act creating a Union state and the timeline for its implementation;
- Adopting a single currency for use in both countries; and
- Raising the price for Russian energy sold to Belarus beginning in January 2007.

The reassessment called into question the previous format of Russian-Belarusian relations, which emphasized the political aspects of the relationship, coordination of foreign policies, and military cooperation, which was important to both sides given the threat posed by NATO's eastward expansion and the US's plans to base ballistic missile defense systems in Central and Eastern Europe. The economic situation also played an important role. It is obvious that Russian energy exports through Belarus remain one of the most significant channels for Russia to send its energy to West European customers: Russia exports approximately 80 million tons of oil and 22 billion cubic meters of gas through Belarus each year. These factors increased Belarus's strategic importance as a key ally for Russia in the CIS and guaranteed President Aleksandr Lukashenka Moscow's support during the 2006 presidential elections.

Failure to Create a Unified State

Minsk long defended the idea of making Russia and Belarus political equals within the framework of the proposed Union state uniting the two countries, however Moscow secured a proportional approach in the formation of the union's political institutions. This compromise was reflected in the text of the Constitutional Act, which envisioned the forma-

tion of a House of Representatives with 28 members from Belarus and 75 from Russia and a House of the Union, with 36 members from each country.

However, the Constitutional Act establishing the new state, drafted and approved during 2005-2006, was never put to a referendum. The two sides failed to agree on the introduction of the Russian ruble as a joint currency for the Union since Belarus interpreted such a step as undermining its sovereignty. The two countries also have not been able to harmonize their customs laws and, as a result, are planning to enter the World Trade Organization as separate entities.

All this shows that the two countries have completely different ideas about the creation of the proposed union state and in their foreign policies toward each other. Minsk's position in forming the new state is based on two principles: preserving Belarus's sovereignty by not simply becoming a part of Russia and preserving the current socio-economic model for developing the country, which Lukashenka himself recently called "socialist." Moscow has not agreed with these conditions and has instead proposed two possible scenarios for Minsk.

The first scenario envisioned the introduction of a single currency, the formation of supranational institutions of power, and the introduction of unified prices for energy in exchange for allowing Russian big business to operate inside Belarus. Ultimately, the realization of this plan would lead to the absorption of Belarus into Russia.

The second scenario moved far more slowly, so that the harmonization of the two countries' economic and customs laws would precede the formation of the Union state's political institutions. Interestingly, in discussing the design of the new state, the two sides never discussed the Chinese experience of creating "one state with two systems."

The foreign policy approaches of Moscow and Minsk during the last seven years have gradually diverged: while Russia drew closer to the European

Union, Belarus practically had no contact with the west. Relations between Minsk and Brussels, established in 1995 with an Agreement on Partnership and Cooperation, collapsed a year later because the European Union refused to recognize the results of the referendum which dramatically increased the powers of the Belarusian president. These differences in dealing with the West made it difficult for the two countries to agree on a common foreign policy within the framework of the Union state.

Russia Takes a New Line Toward Belarus

During Putin's second term in office, Russia began to adopt a new approach toward Belarus. It drew on the second scenario which sought to deideologize the bilateral relationship and place it purely on the principles of a market economy. Thus, Belarus lost its status as the main foreign policy ally of Russia in the CIS and became merely one of Russia's partners in the post-Soviet space. Lukashenka strongly opposed Moscow's new course, as he made clear in numerous interviews in which he criticized Russia for betraying the principle of equal rights, and announced that he would not allow Belarus to be swallowed up by Russia. Commenting on President Putin's policy toward the republics of the former USSR, Lukashenka called on Russia to "reject its superpower mentality and tendency to view us as a younger brother."

The change in Russia's foreign policy course toward Belarus explains the Russian leadership's lack of interest in signing the Constitutional Act before the two countries worked out their economic relations. The main point of conflict was Russia's refusal to continue its hidden subsidies to the Belarusian economy through below-market energy prices. The size of this subsidy was \$3.5 billion a year. Lukashenka claimed that this was how much money his country lost when Russia raised the price for gas by \$2.5 billion and the price for oil by \$1 billion. Later, in an interview with Reuters, Lukashenka claimed that the loss was even greater, \$5 billion, or 10 percent of the Belarusian economy.

Russia reached a new agreement on gas prices with Belarus on December 31, 2006. According to the new contract, Belarus could purchase Russian gas for \$100 a thousand cubic meters (tcm). In 2006, the price had been \$46.68 per tcm. Then Belarus charged Russia a tariff of 75 cents per tcm for transporting Russian gas across 100 km of Beltransgaz pipelines and 46 cents for transporting gas through Gazprom's Yamal-Europa pipeline on Belarusian territory.

Additionally, the two countries agreed on a four-year plan to raise the price of Russian energy to

market levels. A key part of the deal was Belarus's agreement to sell Russia 50 percent of the stock in Beltransgaz, the Belarusian gas pipeline monopoly. In the course of bilateral negotiations, Gazprom agreed to Beltransgaz's valuation of \$5 billion and agreed to pay half of this price over the course of four years. The cost of transporting Russian gas also rose to \$1.45.

A week after the gas dispute was resolved, the two countries came into conflict over the price of oil. This conflict started when Belarus tried to compensate for its losses on the gas deal by increasing the customs duties on the transport of Russian oil across Belarus to \$45 for one ton. Following negotiations, Russia agreed to reduce the export customs for oil delivered to Belarus from \$180 to \$53 per ton in exchange for Belarus dropping its customs duties on oil. Also Belarus agreed to drop a host of limitations on several Russian companies. Overall, the increase in energy prices increased Belarus's trade deficit with Russia, which was \$6.2 billion in 2006.

The Costs of the Conflict

Thus, the gas and oil conflicts between Russia and Belarus could be seen as the realization of Russia's decision to place its relations with the former Soviet republics on market terms. This new policy came with several political and economic costs. The main political cost is the freezing of the creation of the Union state for the next 2-3 years. This situation could lead to the further weakening of Russia's position in the CIS and the gradual rejection by Belarus of its one-sided pro-Russian orientation. Thanks to the energy conflict, the two sides might give up on their military cooperation. For example, the creation of a Russian-Belarusian anti-missile defense, discussed as recently as November 2006, has been postponed. For Minsk, the current conflict with Moscow has weakened the political position of President Lukashenka and caused a drop in the energy-intensive sectors of the Belarusian economy.

Belarus's foreign policy flexibility in the medium term is limited by the dual dependency of the republic's economy on Russia and the European Union, which is Minsk's second most important partner. However, a break in Russian-Belarusian relations is unlikely given the West's refusal to recognize the regime of Aleksandr Lukashenka and its lack of strong bilateral relations with the other members of the CIS. Lukashenka has sought to normalize relations with the EU given his growing conflict with Russia. Nevertheless, he continues to criticize the EU as he has done in the past.

The economic costs to Russia of the conflict are the drop in trade between the two countries and the

delay of plans to harmonize their customs relations. Russia had planned to sign an agreement on creating a customs union of countries entering the Eurasian Economic Association. It had been assumed that the agreement would allow for harmonizing the foreign policies of the participant states. For its part, Belarus had lobbied for the idea of creating a general energy market in the framework of the association, allowing all participants equal access to the energy supplies of the new inter-state alliance.

Belarus Tries to Move Away from Russia

As a sign that it planned to change its energy policy, Belarus increased contacts with Ukraine and Azerbaijan with the intention of creating a “Black Sea-Baltic oil collector,” which would weaken Belarus’s dependence on Russian energy and move Belarus’s interests closer to those of other transit states such as Ukraine, Poland, and the Baltic countries.

Recently, Belarus has taken other moves to distance itself from a close partnership with Russia by adopting foreign policy initiatives outside the post-Soviet space. For example, Minsk has signed a contract with Venezuela to jointly develop a Venezuelan oil deposit. It has strengthened ties with China, which named Minsk a strategic partner, opened a credit line of \$1 billion a year, and signed a number of promising agreements with Belarusian defense enterprises. During his visit to China in December 2005, Lukashenka announced his readiness to represent the interests of China in Europe. Apparently, Belarus hopes to establish long-term military collaboration with Beijing as the US is strengthening its presence in Europe.

In response, Russia has sought to reduce its dependence on the transit countries, including Belarus, by utilizing the Nordic Pipeline and increasing Russia’s ability to export energy through its north-western ports. In particular, the Russian oil pipeline monopoly Transneft has ordered an increase in the capacity of the Primorsk port by 50 million tons. Russia plans

to reduce flows through the Druzhba pipeline by constructing the new BTS-2 pipeline to Primorsk. On February 5, the Transneft leader adopted a decision to build an oil pipeline around Belarus at an estimated cost of \$2.5 billion.

Beginning February 15, Belarus increased by 30 percent the cost of Russian oil transit. Now sending one ton from the Russian border in the direction of Poland and Germany is \$2.60 and in the direction of Ukraine \$1.14. According to the Belarusian Economics Ministry, this move was not an attempt to raise energy prices, but merely a long-planned reevaluation of the previous tariffs established in 1996.

A major influence on Minsk’s foreign policy is Belarus’s growing dependence on the expanding European Union, which makes up a third of the country’s trade. In a new turn, the Belarusian leadership is trying to improve the image of the country in Europe. During the course of the energy conflict with Russia, Lukashenka made a number of announcements about the role that Belarus could play in combating illegal migration, blocking the arrival of illegal migrants on EU territory. Lukashenka also pointed out that Europe was dependent on Belarus because of its role in transporting energy and other freight.

However, Europe’s failure to recognize the results of Belarus’s 2006 presidential election is a major obstacle for normalizing relations. Another obstacle is Lukashenka himself since he sees no need to democratize the country’s political system. Nevertheless, the EU could offer Minsk attractive forms of cooperation in the future. These could include good neighborliness, equal partnership, joint responsibility and transparency, as envisioned in the Wider Europe-Neighbors concept proposed by the EU in spring 2003 as a platform for relations with its new eastern and southern neighbors. Belarus could also be included in the Northern Dimension project. However, relations with Russia, as Belarus’s most important partner, will determine Belarus’s foreign policy in the near term.

About the author

Dr. Oleg Aleksandrov is a senior lecturer at the Moscow State Institute for International Relations.