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Gazprom's offer to Belarus - modernisation à la russe?

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On 22 November, the head of the Russian company Gazprom. Aleksei Miller, paid a visit to Belarus. He opened the upgraded Zapadnaya gas distribution station in Minsk and met members of the Belarusian government. In his talks with President Alyaksandr Lukashenka, Miller presented a comprehensive programme for modernising Belarus's gas infrastructure, which has belonged to Gazprom since its acquisition last year of 100% of Beltransgaz's shares.The aim of these investments will be to improve the functioning of the internal Belarusian pipeline network, and to increase its transit capacity to EU countries. The head of Gazprom announced that by the year 2017, gas transit via Belarus will increase by 30%, or about 15 billion m³ (this year's level of transit will be about 44.5 billion m³, which at present is the maximum possible level). On one hand, Miller's visit shows that Belarus can count on support and investment from Russia, primarily in those areas of the economy over which Russian companies have already taken full control. In exchange for the modernisation, Russia expects the sale of more of Belarus's strategic assets. On the other hand, the announcement of an increase in transit can be seen as an attempt to put pressure on Ukraine; Russia is seeking to gain control over the Ukrainian gas transit system, and to maintain Gazprom's current position on that country's natural gas supply market.

Modernisation in exchange for ownership

After Gazprom acquired 50% of Beltransgaz's shares in late 2011 (having acquired the first half of the company in the period 2007-2010), it announced a wide-ranging modernisation of the company; furthermore, by spring 2012 wages for the workers employed there had been tripled. Miller's current statements represent a continuation of the company's strategy of increasing both the infrastructure's potential and Beltransgaz's profitability. Gazprom plans to rebuild 35 gas distribution stations and compressor stations, and to expand existing underground gas tanks by 2015 (details of the project have not been given). The total cost of these investments is expected to be around US$3 billion. The aim of these projects is to increase the efficiency of the internal transmission network in Belarus, and to allow gas transit to the West to increase by 30%. Modernising the transit network in Belarus will ensure its continued usage, which will strengthen Belarus's position as a transit country and provide a stable income from the transmission charges. The talks also addressed the issue of modernising Gazprom's nitrogen plants in Grodno, a matter of importance for Minsk (Belarus hopes to acquire US$1.5-2 billion for this purpose). In addition, the head of Gazprom spoke of implementing several social projects in Minsk, including the construction of a large office and service complex, and another housing block for families with many children.

The Ukrainian context of the Russian offer

The announcement of the expansion of the gas transit system in Belarus should be seen in the context of the current relations between Russia and Ukraine. Kiev is currently in dispute with Moscow; the former has called for cuts to gas prices and raised the possibility of reducing the volume it receives. In order to obtain concessions from Russia, Ukraine has reduced the amount of contracted Russian gas it receives, and has taken steps to diversify its supplies. Ukraine is the largest consumer of Russian gas, so it is important for Russia to maintain its dominance on the Ukrainian gas market. At the same time, Gazprom aspires to take control over the Ukrainian gas transit system. Most of the Russian gas transited to European customers runs through Ukraine; it amounts to about 100 billion m³ of gas annually, which makes Ukraine US$3.2 billion every year.

Conclusions

Gazprom's purchase of Beltransgaz represents the first successful takeover by Russia of one of several strategic Belarusian enterprises in the petrochemical, gas, machine-building, metallurgical and food industries. In connection with this, the Russian company's activities also – beyond its natural desire to maximise its profits – constitute a political demonstration to the Belarusian authorities. Moscow has offered a modernisation programme to Belarus; in exchange for allowing Russian capital to enter the country, this modernisation will provide technological and financial support, as well as reduced energy prices. The sale of the pipeline network has effectively determined the two countries' relationship in the area of gas, as is made clear by examining the prices for Russian gas; this year Belarus paid about US$165 per 1000 m³, and next year it will pay around US$185. This is Gazprom's lowest price for any of its foreign customers. Moreover, the salary increases already made in Beltransgaz and the social projects announced are a demonstration to the Belarusian public of the specific benefits of Russian investment in Belarus. Ultimately, the Russian offer is a form of pressure on Minsk, aimed at accelerating the process of increasing Moscow's control over the Belarusian economy. The Russian government is aware of Belarus's difficult economic situation, and hopes that, as with the pipelines, Lukashenka will decide to sell more of his country's assets, including the oil industry. However, the size of the oil supply for next year and the basis for the sale of petroleum products are still under negotiation – and under dispute.

For technical reasons, it is in fact impossible to increase gas transit via Belarus by 30%. Nor will investing in the expansion of the transit system in Belarus be profitable, for economic reasons; such a move would also provide competition to the planned South Stream gas pipeline and the next two Nord Stream pipelines. Meanwhile, both gas production in Russia and demand for gas in Europe are falling. The investment in Belarus also cannot be implemented without the development by Poland of its gas transmission infrastructure.

Therefore, the announcement that Russia will reduce its transit through Ukraine, to Belarus's gain, can only be seen as an attempt to put political pressure on Kiev. At the same time, Russia is demonstrating to Ukraine that participating in the integration projects which it proposes can have its benefits.