

Lukashenka agrees to make crucial concessions to Russia

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At a meeting of the High Council of the Union State of Russia and Belarus in Moscow on 25 November, representatives of both countries signed a contract on the supply and transit of natural gas in 2012-2014. The Russian government also decided to make a loan to Belarus of US\$10 billion for the construction of a nuclear power plant. Belarus agreed to sell a 50% stake in Beltransgaz, the company which owns the Belarusian pipeline network, to Russia's Gazprom (which already owns the other 50%). A week previously, during his visit to Moscow, President Alyaksandr Lukashenka signed the declaration by the presidents of Belarus, Russia and Kazakhstan to work to create a Eurasian Economic Union (EAEU) in 2015; on the same day, Russia's Sberbank made the \$1 billion loan to Belarus.

These agreements represent a serious increase in Russia's economic subsidies and direct credit support to Belarus. This is the Kremlin's response to concessions from Lukashenka, who – in the face of the crisis in relations with the West and the threat of the Belarusian economy's collapse – has agreed to support Russia's plans for integration in the area of the former Soviet Union, and has also agreed to his country's gas pipeline network being completely sold off. It seems that these agreements mark a turning point, and mean a fundamental increase in Russia's influence on the economy of Belarus. In the absence of prospects for economic recovery and a return to dialogue with the West, it will be extremely difficult for Lukashenka to inhibit the further expansion of Russian capital, which is tantamount to a significant reduction in the sovereignty of Belarus.

Russian preferences and Belarusian concessions

The agreement signed in Moscow on conditions for the supply and transit of Russian gas to Belarus in 2012-2014 provides for raw material prices to be reduced next year to an average of US\$165.60 per 1000 m³, which is about 40% less than the price in the fourth quarter of this year. According to the Russian government's assurances, this will allow Belarus to save about US\$2 billion dollars annually, and in turn from 2015, prices for Belarusian consumers should be adapted to tariffs for Russian domestic customers (although this was unlikely to have been written in the contract). The parties also agreed on a rate for gas transit through Belarusian territory, of US\$2 for transporting 1000 m³ over a 100-km stretch of pipeline (this year the figure was US\$1.90). An intergovernmental agreement was also concluded to grant a loan to build a Belarusian nuclear power station in the Grodno region, amounting to US\$10 billion to be repaid within fifteen years. Meanwhile on 28 November, Gazprom deferred to next year Belarus's debt for its incomplete repayment of charges for gas supplied in the third and fourth quarters of this year, which come to more than US\$100 million. Meanwhile,

the Eurasian Economic Community Anti-Crisis Fund (which is controlled by the Russian Federation) said that after meeting several technical criteria, Belarus will receive US\$440 million before the end of this year, as the second tranche of a three-year loan of US\$3 billion which was granted in June.

Belarus also agreed to sign a contract to sell a 50% stake in Beltransgaz to Russia's Gazprom, which already owns half the shares in that company. In order to guarantee its company's profitability, the buyer secured a mark-up of a minimum US\$15.90 per 1000 m³ of gas sold on Belarusian territory, as well as a reduction of income tax for Beltransgaz from 24% to 18%.

Previously in Moscow, on 18 November, Lukashenka signed a package of agreements on integration within the Common Economic Space (CES) of Russia, Belarus and Kazakhstan, including a declaration by the three countries' presidents of their undertaking to create a Eurasian Economic Union by 2015. On the same day, an agreement was signed in Minsk under which Russia's Sberbank loaned the Belarusian potash company Bielkaliy US\$1 billion against the collateral of shares in a Belarusian enterprise (probably a 51% stake in the Naftan refinery at Novopolotsk).

Minsk's interests

Alyaksandr Lukashenka – who is struggling with the growing economic crisis, and has blocked off the option of support from the West – is now condemned to close cooperation with Russia. So, lacking any viable alternatives, he has decided to make concessions to Moscow. His full support of Russia's integration plans and the sale of his country's gas pipeline network are the cost of a discounted price for energy import from Russia, which are needed to sustain a Belarusian economic model threatened with collapse. The Belarusian president is aware that in the current situation, only meeting Russian expectations can prevent him from having to make comprehensive reforms (which would be risky for the stability of the system), and allow him to continue costly social policies aimed at countering potential explosions of social discontent. At the same time, Lukashenka remains focused on maintaining as much independence from the Kremlin as possible.

Moscow's interests

Moscow wants Minsk to remain within its sphere of exclusive influence; this is why it has been trying to attach Belarus to itself by creating instruments of control over the different spheres of the state's functioning (from politics, through issues of security and defence, up to the economy). Although Lukashenka is unpopular in Moscow, and is often criticised by politicians in Russia, he is currently the best guarantor of Moscow's interests, and can therefore count on its help. At the same time, the Kremlin – in the context of the Russian parliamentary and presidential elections – wants to demonstrate the progress it has made in implementing its projects for integration in the post-Soviet area, and also to avoid the destabilisation of Belarus. Such a turn of events could be badly received by Russian public opinion, and could make it necessary for the Russian government to get involved in resolving a crisis. The acquisition of Beltransgaz is an important step in Moscow's efforts to

seize control of strategic assets in the Belarusian economy, in order to wield direct influence on Belarus. Moreover Russia, by paying a high price for its Belarusian assets, may also want demonstrate to its potential partners (especially Ukraine) that participating in its integration initiatives can pay off for them as well.

Consequences

- In the short term, Lukashenka has been granted the significant funding he needs to maintain the system (whose stability is at risk), and to keep control of the internal situation. However in the long term, the agreement signed this November has seriously strengthened Belarus's dependence on Russia, and at the same time has reduced Minsk's chances – which were already pretty slim – of improving its relations with the West. In this way, the importance of Russia as Belarus's key political and economic partner has finally been confirmed.
- Minsk's weakening position makes Russian assistance increasingly expensive. The example of the loan from Sberbank indicates that Lukashenka is being forced to enter into risky agreements, which in the long run may increase his dependence on Moscow even further, and force him to make more concessions.
- The acquisition of full control over the Belarusian gas pipeline system gives Russia the possibility to directly affect the functioning of the Belarusian economy (by regulating the prices and distribution of gas for domestic consumers), which is dependent on the supply and price of Russian gas. The Kremlin will use this instrument to put pressure on the Belarusian government, including by acquiring other strategic assets (such as petrochemical and machinery plants, as well as the food industries).

Aware of the threat posed by Moscow's growing influence, the Belarusian president may block the process of economic integration within the CES, and also evade the privatisation of other entities which are attractive to Russia. This may mean that tensions in Russian-Belarusian relations may arise over the next year. But after these recent agreements, Minsk's position will become weaker. Therefore, Russia's control over the Belarusian economy will grow, which may severely limit Belarus's political independence.

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