

Russia provokes a new gas conflict with Belarus

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A small gas debt that Belarus owes is a pretext for Russia to pursue its political and economic goals oriented towards both Minsk and the West.

On 21 June Gazprom reduced supplies of gas to Belarus by 15% and in the following two days the supplies were decreased by another 45%. The official reason for it was the Belarusian authorities avoiding paying off the debt for this year's gas supplies which, according to Russia, reached USD 192 million in the first four months. Hasty and inadequate actions by Moscow indicate that this relatively insignificant debt is only a pretext used by the Kremlin to pursue its political and economic goals in relations with Minsk. Russia's immediate objective is to make Belarus ratify the Customs Code of the Customs Union (already accepted by the union's two other members – Russia and Kazakhstan) and to force the country to sell off strategic assets (among them two refineries and Beltransgaz shares). Despite strong statements and antagonistic actions taken by the two sides on 23 June Belarus paid its gas debt. However, this is just a temporary solution. Another, much more serious confrontation in relations between Minsk and Moscow can be expected towards the end of the year.

The unfolding of the conflict

In May the spokesman for Gazprom Sergei Kuprianov announced that since the beginning of this year Belarus had been paying a fixed price of USD 150 for 1000 m³ despite the fact that as stipulated in the Russian-Belarusian gas contract the price of gas is subject to change every quarter (in the first quarter this year it stood at USD 169, in the second quarter – USD 184). Due to these changes over four months this year a debt estimated by Russia at USD 192 million has accumulated. Minsk refused to pay the debt off and referred to the last year's practice of paying the due amount calculated on the basis of the average price of gas. On 15 June the Russian President Dmitri Medvedev issued an ultimatum in which he demanded that Belarus pay off the entire amount by 21 June under the threat of a reduction in gas supplies proportionate to the amount of debt.

On 19 June both sides began talks in which the Belarusian authorities raised the issue of Russia's debt for the transit of gas through the territory of Belarus to the West that amounted to USD 217 million (later in the statement made by Alexander Lukashenka the amount of USD 260 million was mentioned). Although the Russian Deputy Prime Minister Igor Sechin denied that there was a debt, on 21 June Gazprom's spokesman Sergei Kuprianov confirmed this information and accused the Belarusian authorities of blocking formal procedures that regulated payments. According to unconfirmed information from

certain sources a conflict over the transit tariff could be at the root of the problem. Gazprom pays USD 1.45 for the transit of 1000 m³ over a distance of 100 km while Belarus is demanding USD 1.88. At the same time a proposal presented by Belarus that it would pay off in goods was rejected. Given the lack of agreement, on 21 June Russia reduced the gas supplies by 15% as it had announced in the ultimatum; in the following days supplies were further reduced by 45%, which resulted in a total reduction of 60%.

In response on 22 June Alexander Lukashenka issued an order to stop the transit of gas to Europe (approximately 20% of Russian gas exports is transported through Belarus) should Gazprom not pay off the debt for the transit. On 23 June the Lithuanian gas operator Lietuvos Dujos announced a 30% fall in gas supplies to Lithuania and the Kaliningrad district. At the same time Belarus paid the due amount for gas supplied in May at the price of USD 184 for 1000 m³, according to the rate fixed for the second quarter this year. However Russia demanded an immediate payment of the debt. In the afternoon 23 June Belarus paid USD 187 million, which covers almost the whole sum demanded by Gazprom (USD 192 million). At the same time Minsk issued the ultimatum to Russia requesting the payment of USD 260 million for the gas transit. In response on 24 June Gazprom paid USD 228 million, which however is less than USD 260 million demanded by Belarus.

The core of the conflict

Belarus's relatively small debt of to Gazprom indicates that the conflict was provoked by the Kremlin intentionally. In previous years (among them in 2007) Minsk delayed repayments many times and its debt exceeded the current USD 200 million. It appears that the decision to reduce gas supplies already in June this year was prepared in a rush, which is indicated by the fact that initially part of Gazprom's management did not know about the company's debt for the transit through Belarusian territory. Russia's measures taken at short notice and radical in their consequences clearly show that the issue of the gas debt is merely a pretext and not the real subject of contention. It seems that Russia is currently seeking to achieve at least three objectives.

The Kremlin's first immediate goal is to urge Belarus to ratify the Customs Code of the Customs Union. Belarus is making its participation in this structure conditional on the lifting of taxes on oil and oil-based products. This project has great political and economic importance for Russia and the blocking of the union by Minsk can lead to a spectacular failure of the structure pushed for by Russia (its launch is scheduled for 5 July in Astana).

Secondly, Moscow, aware of Belarus's deteriorating financial condition, is signalling that it expects Belarus to observe the gas contract and does not intend to restore the earlier economic subsidies (supplies of cheaper gas and untaxed oil). Russia's actions are therefore aimed at exhorting Minsk to sell off assets strategic to the Belarusian economy to Russian companies – among them two refineries and the control package of Beltransgaz shares (Gazprom acquired 50% of its shares in 2007-2010).

Thirdly, Russia once again is trying to prove that Belarus is unreliable as a transit country and a trading partner and thus taint Belarus's reputation in the West even more. Therefore Russia is clearly attempting to internationalise this conflict, particularly in relations with the EU. It cannot either be ruled out that through this Moscow intends to prove to European recipients of gas that it is necessary to build the Nord Stream and South Stream gas

pipelines that bypass transit countries.

Forecast

Despite the fact that the two parties partially regulated their debts, which decreased tensions, it is only a temporary solution and does not settle the source of contention between them. Both Russia and Belarus have their own interpretations of the conditions of gas supply and transit. Russian arguments in the conflict with Belarus were too weak to help achieve all the objectives Russia has set and enjoy a propaganda success. It seems probable that Lukashenka will eventually take a decision about Belarus joining the customs union, out of fear that Belarus's access to the Russian market will be blocked. Another, more important confrontation between Minsk and Moscow can be expected most likely towards the end of the year, when the two parties will be determining the conditions of gas and oil cooperation for 2011.