

Russia and Belarus reach agreement on oil and gas

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Since the beginning of the year, Russia and Belarus had been unable to reach an agreement concerning how much Belarus should pay for Russian gas and the conditions for co-operation in the oil sector. On 10 October a compromise was reached. The compromise envisages that the Belarusian government will cancel the 50% increase in charges for Russian oil transit (via the Druzhba oil pipeline) which they announced at the beginning of October, and will pay Gazprom back its debt of US\$300 million resulting from applying a unilaterally reduced price of Russian gas (from the contract price of US\$132 to around US\$80 for 1000 m³). In turn, in the coming months gas will be supplied at the contract price. These arrangements will be binding until at least the end of 2017. In turn, Russia will withdraw from its decision made in June this year to reduce oil supplies in the third and fourth quarters to Belarusian refineries by around 5 million tonnes and will compensate Belarus (as part of 'inter-budget compensations') for the losses resulting from higher costs of gas supplies.

Commentary

- The low gas prices and the favourable conditions of oil supplies from Russia are of key significance for the condition of the Belarusian economy, which has plunged into crisis. For this reason, Minsk – looking for ways to save money – concluded that being a member of the Eurasian Economic Union it has the right to be given the rates similar to those applicable in Russia (US\$70–80 per 1000 m³) and consistently refused to accept the price of US\$132 imposed by Gazprom. The reduction of oil supplies to Belarusian refineries turned out to be an even heavier burden for Belarus; as a result of this, the fall in GDP accelerated (GDP fell by 3% in August and by 2.7% in July this year).
- In the context of Belarus's economic problems, Alyaksandr Lukashenka in September publicly criticised Russia's policy towards Belarus and suggested that Minsk might limit its participation in Russian integration projects. At the same time, the Belarusian president unilaterally decided to increase the tariffs for Russian oil transit to the West, intending thus most likely to convince Russia to apply more preferential rules of oil and gas supplies.
- The deal struck on 10 October is in fact a success for Minsk. Russia, despite maintaining the higher gas price, agreed to subsidise supplies to Belarus. According to initial calculations, the value of gas subsidies for Minsk will reach US\$400 million this year, and may even rise to US\$800 million next year. It appears that Russia was not interested in

escalating the oil and gas dispute with Belarus. In turn, the adoption of the unclear mechanism of 'inter-budget compensations' instead of modifying the price formula in the contract is most likely linked to the Russian-Ukrainian gas dispute (if Russia had agreed to modify the formula for Belarus, this might adversely affect its negotiating position in the pending Russia-Ukraine arbitration proceedings in Stockholm). In turn, if Belarus maintained the higher transit tariff for the transport of Russian oil via the Druzhba oil pipeline, this would increase the costs of Russian exports to European recipients (Russian firms export a total of around 50 million tonnes of oil via this route, which accounts for almost a third of total Russian exports to Europe).